



MINUTES

Northwest Open Access Network
August 14, 2019

NoaNet Network Operations Center
422 W. Riverside, Suite 408
Spokane, Washington 99201

The meeting of the Board of Directors of Northwest Open Access Network ("NoaNet") commenced at 9:05 a.m. on August 14, 2019.

Present

The following Board members were in attendance:

Ron Gadeberg	(Okanogan PUD)
Chris Folta	(Benton PUD)
Roger Wright	(Franklin PUD)
Angela Bennink	(Kitsap PUD)
Colin Willenbrock	(Pend Oreille PUD)
Linda Gott	(Mason PUD No. 3)
Ken Collins	(Jefferson PUD)
Steve Schopfer	(Clallam PUD)
Dean Kovacs	(Energy Northwest)
Jason Dunsmoor	(Pacific PUD)

Also present were: Ben Hooper (Franklin PUD); Brian Johnson (Franklin PUD); Rick Larson (Pend Oreille PUD); Sarah Holderman (Pend Oreille PUD); Dale Knutson (Mason PUD No. 3); Tom Farmer (Mason PUD No. 3); Annette Creekpau (Mason PUD No. 3); Jeff Hall (Benton PUD); Jim Civilla (Kitsap PUD); Bob Hunter (Kitsap PUD); Jim Waddell (Clallam PUD); Will Purser (Energy Northwest); Dave Spencer (NoaNet); Paul Harding (NoaNet); John Fryling (NoaNet); Chris Walker (NoaNet); Craig Nelsen (NoaNet); Rich Nall (NoaNet); Duane Ball (NoaNet); Phil Von Buchwaldt (Washington Trust Bank); Jim Rowland (NoaNet consultant); Cindy Zehnder (NoaNet consultant); Matt Doumit (NoaNet consultant); Brent Ridge (Energy Northwest); John Irvan (Energy Northwest); Tim Nies (Energy Northwest); Angel Rains (Energy Northwest); Don Cohen (Gordon Thomas Honeywell); Ryan Espegard (Gordon Thomas Honeywell).

Some of those present attended by video conference or speaker phone.



Preliminary Remarks

President of the Board Linda Gott welcomed those present. There were introductions around the room.

Approval of Minutes

The minutes of the Board of Directors meeting of June 12, 2019 were presented for approval.

Motion: Angela Bennink moved, and Chris Folta seconded, approval of the minutes of June 12, 2019. The motion passed.

Approval of Payments for May and June 2019

NoaNet CFO Paul Harding commented on several items in the May and June 2019 payment approval forms. Discussion followed.

Motion: Roger Wright moved, and Angela Bennink seconded, approval of the expenses on the Payment Certification forms for May and June 2019, dated May 31, 2019 and June 30, 2019, respectively. The motion passed.

Financial Report

Paul Harding reviewed the financial reports for June. He stated that cash is above last year. Accounts receivable are 98% current, and accounts payable are up from last year because of check-run timing. EBITDA is up significantly from last year, showing a positive trend. Budget-to-actual figures were: revenue 98%; expenses 97%. Mr. Harding also provided a status report on NoaNet's lines of credit. Adjusted operating income (net of one-time items) is down slightly because of resumed pension payments and postponed maintenance payments that had now been made. NoaNet's bank covenants were met. There was a 29% increase in operating income, demonstrating slow, but steady, improvement in revenue. Based on discussions between NoaNet and BPA, the BPA lease payments will be decreasing significantly over the term of the extended lease for the next ten years. There was discussion throughout.

Approval of 2019 Line of Credit Capital Project

CEO Dave Spencer described the standard process NoaNet goes through in funding capital projects, including Board approval. He noted that the first project funded by the 2019 Member line of credit was approved by the Board in June. Mr. Spencer described the second project to be funded by the Member line of credit and recommended approval by the Board. This funding would complete the use of the 2019 Member line of credit.



Motion: Angela Bennink moved, and Roger Wright seconded, approval of the second project on the 2019 Member line of credit in the amount of \$665,000, as presented to the Board.

Discussion followed. This included the timing of Member payments on the two approved projects and the need for capital to be able to meet customer project demands in the future.

The motion passed (with Pend Oreille PUD and Okanogan PUD abstaining because they had not participated in the Member funding).

Approval of Minutes of June 27-28, 2019 Strategic Planning Workshop

The Minutes of the June 27-28, 2019 Strategic Planning Workshop were presented for approval.

Motion: Roger Wright moved, and Linda Gott seconded, approval of the June 27-28, 2019 minutes. The motion passed.

There were comments on how useful the meeting had been and how well the minutes captured what had occurred.

Review of Strategic Planning Workshop Action Items

Dave Spencer summarized the key components of the Strategic Planning Workshop as follows: 1) reaffirmation of the Strategic Plan and NoaNet's public purpose, including a recognition of the difference between NoaNet and private sector communications providers; 2) discussion of financing options (preferably no Member guarantees, although Members would consider guarantees if necessary; a five-year financing; and consideration of projects benefiting the community in a specific Member's service area); and 3) discussion of ownership options (e.g., leveling out ownership interests, and changing the basis of Board of Directors voting to percentage interests). Guidelines on projects benefiting a specific Member's service area will be discussed within the next few months. Different ownership options will be considered further as well.

Mr. Spencer then summarized action items that came out of the Strategic Planning Workshop and the status of each. Discussion followed on several ownership options.

Energy Northwest's Presentation On NoaNet Ownership Issues

Linda Gott introduced this subject. She noted that most of the discussion would be in open session, with the possibility of executive session discussion on price. Ms. Gott also stated that because of her position on the Energy Northwest Executive Board, Dale Knutson and Annette Creekpaum would be speaking for Mason PUD No. 3.



Dave Spencer stated that this action item had resulted from the Strategic Planning Workshop and comments by Dean Kovacs about potential changes in the Energy Northwest ownership relationship with NoaNet. He stressed the importance of confidentiality of the discussion.

Mr. Spencer described potential opportunities for NoaNet from a change in Energy Northwest's ownership. This included Energy Northwest being a public entity, increased access to capital, Energy Northwest staff expertise in certain areas, and potential cost reductions because of economies of scale. He noted the detailed Energy Northwest due diligence underway and the substantial NoaNet staff time commitment required for this.

Brent Ridge, Energy Northwest Vice President Corporate Services and Chief Financial Officer, described Energy Northwest's interest in exploring this subject and the potential synergies between NoaNet and Energy Northwest. He described the benefits that some sort of merger would bring to both NoaNet and Energy Northwest, including access to Energy Northwest capital for ongoing expenses and cost reductions. Mr. Ridge commented on how Energy Northwest would, similar to what it has done in its own operations, deal with staff reductions, primarily through attrition over time, and resulting in lower employee turnover overall. He stated that employee costs for staff who would transition to Energy Northwest are being reviewed as part of Energy Northwest's due diligence, along with the impacts of attrition.

Mr. Ridge noted the wide variation in NoaNet's perceived value, with a significant difference between a potential public, versus private, purchase. He stated that Energy Northwest would not be able to pursue a transaction based on a private purchase valuation.

Mr. Ridge commented on NoaNet's need for capital and how Energy Northwest could reduce that recurring stress. He summarized the three potential benefits from some sort of change in ownership with respect to Energy Northwest as: 1) NoaNet Member risk mitigation; 2) lower costs; and 3) access to capital. He also noted the benefit to Energy Northwest from NoaNet staff skill sets and cost reductions.

There was discussion throughout.

John Irvan, Energy Northwest Treasury and Financial Services Manager, summarized the Energy Northwest due diligence process, the potential schedule for a transaction, and the possible structuring of an acquisition of NoaNet by Energy Northwest. Mr. Irvan commented on the need for Member credit to provide funds for an immediate buy-out. He stated that other potential models were a buy-out over time, and ownership by Energy Northwest of at least 51% of NoaNet, with some Members remaining. He noted that another possible model would involve a transfer of oversight to Energy Northwest, but with an actual transaction involving Member pay-outs being delayed until a future date. He also stated that Energy Northwest is open to other potential structures as well.



Executive Session

An executive session was convened at 11:36 a.m. to discuss the price of a potential sale to Energy Northwest and any legal issues relating to that. The executive session was anticipated to last approximately 30 minutes. At 12:05 p.m., the executive session was extended for an additional 10 minutes. The executive session concluded at 12:15 p.m. No action was taken during the executive session.

Member Report

Because of the time spent on previous agenda items, the Okanogan PUD Member report was deferred until the September Board meeting.

Operations and Marketing Report

The operations and marketing report was very abbreviated because of the length of time spent on previous agenda items. Dave Spencer commented on NoaNet's high level of reliability compared to that of private companies.

Next Meeting

The next Board meeting will be September 11, 2019 beginning at 9:00 a.m. at the NOC.

Adjournment

There being no further business, the meeting of the Board of Directors adjourned at 12:18 p.m.

Respectfully submitted,

David H. Spencer
Chief Executive Officer

Attest:

Linda Gott
President of the Board