



MINUTES

Northwest Open Access Network
September 11, 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 9:01 a.m. on September 11, 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); Curt Knapp (Pend Oreille PUD); Dale Knutson (Mason PUD No. 3); Tom Farmer (Mason PUD No. 3); Annette Creekpaum (Mason PUD No. 3); Jeff Hall (Benton PUD); Dave Spencer (NoaNet); Paul Harding (NoaNet); John Fryling (NoaNet); Rob Kopp (NoaNet); Phil Von Buchwaldt (Washington Trust Bank); Jim Rowland (NoaNet consultant); Cindy Zehnder (NoaNet consultant); Jason Davis (Energy Northwest); Jon Cohen (Energy Northwest); Don Cohen (Gordon Thomas Honeywell); Ryan Espegard (Gordon Thomas Honeywell) (arrived 10:35 a.m.).

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 August 14, 2019 were presented for approval.

Motion: Roger Wright moved, and Chris Folta seconded, approval of the minutes of August 14, 2019. The motion passed.

Approval of Payments for July 2019

NoaNet CFO Paul Harding commented on several items in the July 2019 payment approval form. Discussion followed.

Motion: Dean Kovacs moved, and Roger Wright seconded, approval of the expenses on the Payment Certification form for July 2019, dated July 31, 2019. The motion passed.

Financial Report

Paul Harding reviewed the financial reports for July. He stated that July was another good month for NoaNet, and he is expecting fourth quarter 2019 to be very favorable. Cash is in a good position, and all bank payments were made as required. Accounts receivable were 98% current. Accounts payable were slightly up from last year because of check-run timing. Cash flow increased from last year, and EBITDA improved. CEO Dave Spencer commented on several points, including noting that revenues have increased without increases in staff. He also stated that fourth quarter revenue is expected to increase significantly because of new business. Paul Harding stated that revenue was 99% budget-to-actual. Adjusted operating income (net of one-time items) was down from last year because of pension payments and payment for maintenance that had been deferred last year. Without those items, adjusted operating income was up significantly. There was discussion throughout. This included suggestions regarding break-outs of certain data in the future, and discussion of service level credits resulting from other parties' reliability issues, primarily non-Members.

Discussion of Preliminary 2020 Budget

Dave Spencer introduced the subject of the draft 2020 Budget. He noted that the proposed Budget has higher revenue and lower expenses than in the past, resulting in projected net operating income higher than had initially been anticipated earlier this year. He stated that this was because of additional business, as well as expense reductions in tail circuits and BPA fiber license costs. He summarized by stating that NoaNet is in good financial condition.



Paul Harding noted that the Budget includes funding of the pension at \$1.2 million in 2020, employee contributions to pension and health insurance, NoaNet funding its own capital expenses, and continuing to build reserves. Dave Spencer stated that the Budget includes a 0%-5% employee salary increase range, budgeted as a 5% overall increase in salary expense. He noted it had been 0%-3% the last two years based on cost-cutting NoaNet had implemented.

Discussion followed. This included that, during 2020, for some employees, the increase in salary will help ease the transition to employees contributing to benefits.

Mr. Spencer also noted that this is a draft Budget being presented for the first time, which will be discussed at subsequent Board meetings, with action contemplated in December.

Additional discussion included alternatives for uses of increased net revenues anticipated, which might include sales-driven capital (instead of additional bank financing), building reserves, and additional pension accruals. It was noted that the Board had directed Mr. Spencer to build reserves and fund sales-driven capital, which is what is reflected in the proposed Budget. It was also noted that the Board could change this prioritization if it wanted to. Discussion also included revenues and costs associated with Network Coordinated Services and the NOC, and their accounting treatment and appropriateness of charges. Staff will review those for additional Board discussion at a later meeting.

There were comments by several people on how solid the proposed Budget is being presented in the context of NoaNet's 20-year history. This included the significance of the Board being in the position of discussing alternative uses for anticipated increased net revenues.

Discussion of Strategic Planning Workshop Action Items

A. Individual Project Financing

Dave Spencer discussed individual project financing, where capital is needed to provide services in a specific Member's service area, as was done with Kitsap PUD in Bremerton. Mr. Spencer also noted Washington Trust Bank's intent to participate in financing individual projects. He noted that this would preserve Member financing for other purposes.

There was discussion of individual project financing by Members. Dave Spencer stated that compensation to Members could be either through revenue-sharing or a Member loan. Mr. Spencer also commented on the differences in various possible individual projects, emphasizing the NoaNet is willing to work with Members on these particulars. Suggestions were made on how to identify appropriate projects as early as possible, and in implementing them.



Phil Von Buchwaldt of Washington Trust Bank noted how promising the projections for 2020 appear at this time, compared with last year when Washington Trust Bank decided to pull back on additional financing. He stated that the bank is now willing to be involved in a specific project financing, but that the bank will also be expecting NoaNet to meet its projections. Mr. Von Buchwaldt also commented on helpful it had been for the bank to attend NoaNet Board meetings.

Dave Spencer concluded by noting that this discussion was intended to check-off this action item from the Strategic Planning Workshop action items and open discussions with Members on possible future Individual Project Financing opportunities.

B. Discussion of Possible Energy Northwest Proposal

Linda Gott summarized the history of the Energy Northwest proposal. She noted it had first been broached at the June Strategic Planning Workshop, followed by a meeting she and Dave Spencer had with Energy Northwest personnel. It was again discussed at the August NoaNet Board meeting, with Members indicating that they were interested in exploring this prospect further. She noted that, if this process proceeded it could lead to action early next year. Ms. Gott also stated that JP Morgan Chase is working with Energy Northwest on due diligence, which is underway. Dave Spencer recapped the August meeting discussion, stating that today's meeting is an opportunity for Member feedback.

Mr. Spencer then commented on the significant NoaNet staff time and effort required to comply with JP Morgan Chase's due diligence requests, including both data and site visits. There was a suggestion that NoaNet Members could assist in parts of this, particularly site visits. Mr. Spencer continued that staff is now as busy with NoaNet sales and provisioning business as it has ever been, and that the due diligence effort is having an impact in direct costs and opportunity costs as well as staff "discomfort" with the ongoing uncertainty of what NoaNet's future may be.

Discussion followed. The discussion indicated that, in August, there was expression of interest by those who spoke in exploring the Energy Northwest opportunity further and providing information to Energy Northwest to enable the potential transaction to be evaluated further. There were comments on the level of information required at this point, and its confidentiality. Dean Kovacs stated that the JP Morgan Chase due diligence list was scaled back from what it had been initially. He continued, however, that the data is needed to determine how much of a loan Energy Northwest could obtain to use in the transaction. He emphasized the need for employee compensation data and contract data. A suggestion was made about whether Moss Adams could assist NoaNet in this due diligence effort.

There were comments by various Board Members and Member Representatives. Several of the comments, primarily from Members with higher Percentage Interests in NoaNet, focused on the potential benefits of a transaction with Energy Northwest. Dave Spencer noted the importance of completing due diligence sooner rather than later, including the impacts of uncertainty on NoaNet's staff morale. He also stated that specific guidelines for providing different kinds of information might make sense. Dean Kovacs



responded that the sooner Energy Northwest receives the data requested, the sooner it can determine if the potential opportunity is worth pursuing. There was discussion of whether a task force of some Board Members and Member Representatives would make sense, particularly if analysis proceeds beyond due diligence.

Dave Spencer summarized various considerations the Members, as NoaNet's owners, would want to keep in mind during this whole process. These included: key motivations behind a possible Energy Northwest acquisition; timelines; decision process; risks and risk mitigation; pension funding; staff retention; valuation of the business, and, if so, by whom; future capital funding; mission and vision; financing structure with respect to Members; governance; legal and regulatory issues; due diligence management and funding; and public relations implications with respect to NoaNet customers, staff, legislators, government agencies, and Member ratepayers. After further discussion on these points, Mr. Spencer stated that he understood from the comments that due diligence will be his responsibility. He noted, however, that there is no funding in the Budget for this. The possibility of a Member assessment for this purpose was mentioned. Dave Spencer also raised the question of whether there are certain responsibilities of the Board and Members in evaluating a possible transaction that would not be appropriate for him as CEO to spearhead, as opposed to being a resource.

Discussion continued about whether a task force would make sense to structure due diligence, or at some later point in the process. Some who spoke felt that creating a task force at this point would not be necessary. Mr. Spencer questioned how to assuage staff angst at this point and encourage staff not to seek other employment in the interim.

Motion: Collin Willenbrock moved, and Ken Collins seconded, approval of NoaNet spending up to \$100,000 as an unbudgeted item to fund the information and data exchange needed for NoaNet to entertain the expression of interest by Energy Northwest, with the expectation for the NoaNet Board to make a decision by January 2020 regarding whether to proceed with evaluating a transaction. The motion passed 7-2 (with Dean Kovacs abstaining).

Discussion followed. Dean Kovacs stated that it had been Energy Northwest's hope to get a decision to move forward by October in order to manage public relations and other issues in the interim.

Roger Wright stated that he was concerned about the Budget impacts of spending \$100,000 if a transaction does not proceed. He also expressed concerns of Franklin PUD on whether the benefits Energy Northwest hopes for can be realized, and on the impacts an acquisition by Energy Northwest would have on NoaNet's mission and vision. He stated that he does not, at this point, favor the transaction, particularly when NoaNet's financial picture is beginning to look much better. Angela Bennink stated that Kitsap PUD looks at this possibility as a very positive one. Personnel from Mason PUD No. 3 also expressed support.



A question was raised about whether Energy Northwest could pay for part of the due diligence costs. Dean Kovacs said he could discuss this with Energy Northwest. Jeff Hall stated that, if necessary, he would encourage Benton PUD to support an assessment for the due diligence funding. Dave Spencer stated that he understood that he, as CEO, would put together a timeline, budget and other information necessary for due diligence, which could lead to consideration by the Board of a motion for an assessment or alternatives for that funding in the future.

Member Report

Ron Gadeberg reported on Okanogan PUD’s telecommunications activities. There was discussion throughout.

Operations and Marketing Report

Dave Spencer noted the significant monthly recurring sales and orders in progress. He also commented on NoaNet’s customer mix and the revenue impacts of larger customers. He then summarized business opportunities being pursued. He commented on preparing for the upcoming legislative session, and on activities on the Governor’s broadband program currently underway.

Next Meeting

The next Board meeting will be October 9, 2019 beginning at 9:00 a.m. at the NOC. Linda Gott stated she will not be able to attend that meeting in person so Vice President of the Board, Roger Wright, will chair the meeting.

Adjournment

There being no further business, the meeting of the Board of Directors adjourned at 12:52 p.m.

Respectfully submitted,

David H. Spencer
Chief Executive Officer

Attest:

Roger Wright
Vice President of the Board