
TRANSPARENCY AND GOVERNANCE

Our Commitments to You

Recently, the Cooperative was served with a subpoena from the Louisiana Public Service Commission (LPSC) to produce certain financial documents related to Board of Director expenses, and expenses related to our General Manager & CEO. We believe this subpoena may have been the result of our efforts to bring Broadband Internet service to our area. In the interest of transparency, we are providing our members with this same information and a thorough explanation of each item.

A LITTLE HISTORY

For several years, our members have asked the Co-op to help bring reliable, affordable, Broadband Internet service to our area. In response to these requests, we have conducted extensive research, including market analysis and technical analysis. In 2016, we began conducting multiple surveys to gauge the genuine interest in the project from members and non-members living in our service area. We also employed an experienced consulting firm to assist the Co-op in conducting a comprehensive feasibility study and help develop a business plan for providing fiber Internet service.

The consulting firm's study showed that the project would be feasible in our area and would provide a service that is not currently being met with true Broadband Internet availability. Most people in our area have a service that offers single-digit download speeds, and we are paying extremely high prices for those speeds, not to mention running out of data and paying overage charges! The basic package we plan to offer would download and upload at 50 megabytes per second, with no data limits, and would cost about \$60 per month. Providing fiber Internet service would not be a small undertaking, but we believe reliable, affordable Broadband Internet service is vital for growth in our area.

***Electric cooperatives across the country
are involved in providing fiber Internet service,
and not a single one has failed.***

Although we believe there may be Federal grant funds available to help with the project, we made sure we could secure financing for the project's \$82 million capital requirements. This financing would have been released in stages over approximately five years. We would have been able to build out parts of the fiber system and begin offering service in those areas immediately, making sure we met subscription goals along the way, ensuring the company's viability before continuing the project and incurring more debt. Since Claiborne Electric would be the guarantor of the project's debt, we needed approval for the project from the LPSC.

We approached our Commissioner's office with our feasibility study and business plan last year. We agreed with the Commissioner to submit our feasibility study and business plan for review by one of the LPSC's consultants, and we agreed to pay for the study. This consultant was hired in November at a bid price of approximately \$37,000 plus expenses. We expected to hear from the consultants promptly. We heard nothing in November nor in December. Finally, in late January, our CEO made direct contact with the consultants to inquire what the status of our study was. They had done no work on it to that date. He then asked for a meeting to "get the ball rolling." This meeting was held in mid-February of this year. A few weeks later, we reached out to the consultants again, asking what had been done. They informed us they needed the Cooperative to file another document with the LPSC before they could start. We did so, and their work

then began in earnest. By the end of March, we had received their first set of questions related to our plans.

In early May this year, the Co-op's regulatory attorney and our CEO met with several other Commissioners to make the same presentation made to our Commissioner. Some Commissioners had reservations about the financing option being proposed. In fact, the Chairman of the LPSC advised us to withdraw our application and seek another form of financing which would not leverage the assets of the Cooperative. We understand the Commissioners must act with due diligence as they strive to protect utility ratepayers. Management brought this recommendation to the Board for discussion.

The Board of Directors chose to accept the Chairman's recommendation, withdraw our application and pursue financing elsewhere. By withdrawing this request, we also stopped the meter running on the consultant. We had incurred approximately \$20,000 in bills from them at that point in time. By pulling the plug on the application, we avoided another possible \$20,000, taking into account the remaining estimated bills and other expenses associated with their review. We believe this was a prudent business decision.

WHY WOULD AN ELECTRIC COOPERATIVE WANT TO RUN AN INTERNET BUSINESS?

Bringing Broadband Internet service to rural America bears a striking resemblance to bringing electricity to the same places in the late 1930s. The large, for-profit, electric companies wouldn't extend their lines to the rural areas because it wasn't profitable, so the rural residents formed cooperatives that they owned. After 80 years, Claiborne Electric is still a member-owned, not-for-profit service organization that exists for one reason and one reason only...to meet the needs of our members!

Today, it isn't profitable for the large Internet companies to offer true Broadband Internet service to rural areas. The same way Co-ops brought lights to the rural areas in the late 1930s, we want to bring quality, affordable Internet service to the same areas today. Just like our electric service, we aren't in it for the profit. We are in it to meet a need for people who aren't being offered a good choice.

Electric cooperatives across the country are involved in providing fiber Internet service, and not a single one has failed.

Our CEO has extensive experience running subsidiary businesses at cooperatives, including an Internet subsidiary. Just prior to joining the team at Claiborne Electric, he ran an Internet Service Provider business with more than 100,000 subscribers. We have the capability to handle this project, and we want to provide this needed service.

We maintain our belief that the project can succeed. Our fear is that we do nothing. Our fear is that more years go by without this desperately needed service being available in our parishes. Our fear is that we continue to lose businesses and families from our area. Our fear is that we continue to lack the necessary business amenities for economic development.

THE SUBPOENA

The Subpoena recently received asked for financial documentation for the following items:

- 1) Details regarding expenditures for Claiborne Electric's Board of Directors in a specific account listed in our 2017 Formula Rate Plan Annual Report filing.
- 2) Details regarding the compensation levels and Co-op expenditures for each director in 2017.
- 3) Details regarding the compensation level and Co-op expenditures for CEO Mark Brown.
- 4) Claiborne Electric's 2017 and to-date 2018 expenditures for consultants and consulting services.
- 5) A list of designated users for each cooperative-owned creditcard.

No matter what the reason is for this subpoena, our Board of Directors takes this matter seriously. We provided this information to the Commission, and in the interest of transparency, we are providing it to you as well.

ANSWERS TO THE SUBPOENA QUESTIONS

1) Details regarding expenditures for Claiborne Electric's Board of Directors

In 2017, Claiborne Electric's Formula Rate Plan Annual Report showed a total of \$335,127.57 in expenses for Claiborne Electric's Board of Directors in the account referenced by the subpoena.

\$260,551.05 of that total is taxable compensation and benefits, including expense reimbursements. This amount includes per diem expenses, mileage reimbursements, and medical insurance, which accounts for more than \$190,000. **The only cash payments made to directors are for per diem disbursements, which totaled \$52,500.**

\$56,134.03 of the \$335,127.57 is for annual training and conferences, including training registrations, airfare, travel, etc.

The remaining \$18,442.49 includes liability insurance that the Cooperative would pay regardless of the presence of the Board of Directors. Removing the liability insurance, the true expense for directors in 2017 was \$316,685.08.

The nine members of Claiborne Electric's Board of Directors serve an invaluable role at the Co-op. They shape policy and manage the administration. Every decision they make directly impacts the employees of the Co-op and the members that receive electricity every month. In an industry that is ever-evolving, the need to stay current on a variety of educational topics is absolutely necessary. The men elected to these positions are educated businessmen, educators, bankers, business owners, and entrepreneurs. They are also members of the Cooperative. In 2017, the directors logged a total of 4,836 hours of work to Claiborne Electric's members.

Even though these numbers are appropriate for our industry, the Board of Directors is currently reviewing a Governance Task Force report issued by our national association, NRECA, and changes may be expected to the way directors are compensated at the Co-op. Dividing the 2017 true expenses for the Board of Directors over the number of kilowatt-hours used by the Co-op members results in a cost of \$0.000869 per kilowatt hour. That works out to approximately 96 cents per electric residential account each month. We believe the leadership provided by our Board of Directors is certainly worth 96 cents a month.

During the past 12 years, the Board has worked with management to accomplish the following:

- Reduce the workforce from 106 employees to 67 employees without a loss in productivity
- Reduce the line loss from 7.6% to 3.6% in 2017, saving the Cooperative’s members \$1 million per year
- Implement a comprehensive wage and salary plan to make sure the Co-op is offering competitive wage and benefit plans
- Implement a comprehensive policy manual
- Implement numerous Bylaw changes to enhance governance of the Cooperative
- Conduct strategic planning sessions with the Board and management team every three years to identify areas that need attention and create a plan of action
- Enhance the right-of-way program from \$1 million per year to \$3 million per year
- Increase the physical plant investment from \$67 million to over \$150 million
- Renegotiate all contracts the Co-op had in place, including the wholesale power agreement. The new wholesale power agreement is based on open market rates and keeps rates stable until 2025.
- Develop and implement a successful Operation Round Up program, which has donated nearly \$1.5 million to charitable organizations and individuals in our service area since 2007

2) Details regarding the compensation levels and Co-op expenditures for each director in 2017:

Directors Expenses	Insurance for directors	Per Diem paid	Education, Travel exp., Meals, & Reimb.	Totals
Elkins	\$ 21,456.12	\$ 3,250.00	\$ 1,089.95	\$ 25,796.07
Harmon	\$ 21,513.60	\$ 3,000.00	\$ 551.73	\$ 25,065.33
Noles	\$ 21,446.72	\$10,250.00	\$17,949.15	\$ 49,645.87
Perritt	\$ 21,447.05	\$ 9,750.00	\$11,830.98	\$ 43,028.03
Fincher	\$ 21,439.92	\$ 7,250.00	\$12,491.15	\$ 41,181.07
Killgore	\$ 30,836.76	\$ 3,750.00	\$ 4,460.95	\$ 39,047.71
Davidson	\$ 21,477.36	\$ 5,500.00	\$ 8,595.41	\$ 35,572.77
Sensley	\$ 30,836.76	\$ 4,000.00	\$ 7,421.18	\$ 42,257.94
Jones	\$ 219.00	\$ 5,750.00	\$ 9,269.27	\$ 15,238.27

Expenditures vary among Directors due to differences in health insurance coverage and the amount of continuing education and travel needed in any given year on behalf of the Co-op.

Your Board of Directors has now taken action to completely eliminate their health insurance benefits. They took this action in an effort to prevent anyone from using the benefit as a means to divide the Co-op and cause harm to the Co-op’s ultimate goal of providing excellent service to its members.

3) Details regarding the compensation level and Co-op expenditures for CEO Mark Brown:

Mark Brown's 2017 wage and salary - \$198,203.00

Mark Brown's 2017 benefits - \$62,693.00

Mark Brown's 2017 travel and meetings expense net of NRECA reimbursement - \$2,760.02

Claiborne Electric General Manager and CEO, Mark Brown, is responsible for the Co-op's approximately \$150 million of plant and assets, as well as more than \$50 million in annual revenues. He was hired after a national CEO search, and his salary and benefits are reasonable and customary for a Co-op the size of Claiborne Electric. His salary and benefits are set using the NRECA National Compensation Survey at the average of all electric cooperative CEOs across the nation.

We use this same survey as the basis for our entire wage and salary plan.

We continuously strive to pay competitive wages and provide benefits that will retain the best employees. We don't want to spend money training employees only for them to leave us for a better-paying position. This routinely happened in the past prior to implementing this system.

4) Claiborne Electric's 2017 and to-date 2018 expenditures for consultants and consulting services:

In 2017, Claiborne Electric spent a total of \$307,975.71 in consulting and outside services across every department in the Co-op. \$28,700.00 of those payments are related to the Co-op's Broadband project.

5) A list of designated users for each Cooperative-owned credit card:

Mark Brown, CEO

William Dye, CFO

Candy Hicks, Office Manager

Stacy Jones, Office Manager

George Upshaw, Line Supervisor

Stephen Faulk, Line Supervisor

Daniel Kimbell, Engineer

Tea' Heard, Executive Secretary

Joey White, Marketing Director

EmmaLee Tingle, Public Relations

The employees of Claiborne Electric with a Co-op-owned credit card are members of management or employees with authority to make frequent purchases on behalf of the Cooperative. Members of the Board of Directors do not use Cooperative-owned credit cards.

GOVERNANCE

Your Board of Directors serves on the Board not because of any benefits, but because of a deep love for the Cooperative and its mission. The Board is committed to transparency, including a thorough review of the Co-op's Bylaws, governance practices, and policies. As member-owners of Claiborne Electric, your opinion is of great importance to us. Your comments and suggestions are always welcome.

WHERE DO WE GO FROM HERE?

Claiborne Electric Cooperative remains committed to bringing Broadband Internet services to its members and to others living within our area. We are in current discussions with other financing institutions, and we hope to find a viable solution to finance this venture soon.

Our members have expressed a great deal of support for this fiber Internet project, and we cannot thank you enough. Our sincere hope is to announce to you soon that we have the financing in place to begin the build-out of a truly reliable and affordable Internet system for the rural residents of this area. It is urgently needed, and we are doing our best to make it a reality.



www.our.coop

12525 Hwy 9
Homer, LA 71040
318.927.3504
800.929.3504

301 E. Franklin
Farmerville, LA 71241
318.368.3011
800.361.3011

A Touchstone Energy[®] Cooperative 
The power of human connections[®]