

FreeState

Electric Cooperative, Inc.

Your Touchstone Energy® Cooperative



FREESTATE ELECTRIC
COOPERATIVE, INC.

The Outlet

FreeState Electric Cooperative, Inc.

Board of Trustees

Larry Butel
Overbrook

Don Montgomery
Burlingame

Bill Conley
Delia

Jeanine Murphy
Leavenworth

Rob Sage
Maple Hill

Ralph Phillips
Mayetta

Matthew Turecek
Valley Falls

Mark Wulfkuhle
Berryton

Harlan Hunt
Meriden

Staff

Steve Foss
Chief Executive Officer

Christopher Parr
Assistant General Manager

District Offices

McLouth Office
P.O. Box 70
McLouth, KS 66054-0070

Topeka Office
1100 SW Auburn Rd.
Topeka, KS 66615

Office Hours:
Monday-Friday, 7:30 a.m.-4 p.m.

Member Notice

If you are experiencing a hardship related to **COVID-19** please call our offices at 800-794-1989, Monday through Friday 7:30 a.m. to 4 p.m. to discuss options for payment.

FROM THE CEO

Working Together and Starting Recovery

These past months have been anything but normal. For everyone.

I wanted to take a moment to discuss how we're planning on moving forward as we continue to work through the COVID-19 global pandemic. It is far from over, but we are slowly seeing things return and it will likely continue in that direction. We understand and anticipate it may be a bit longer until we are back to what we consider normal.

I want to reiterate that FreeState is taking care of our employees, so they can take care of you. We are following state guidelines and look to our health care community for guidance as we work through this unprecedented time. We are an essential service, and we take that role seriously. Even though our staff is distanced, they are committed to helping our members because power is vital as we work and learn from home.

As we head into the summer our priority is maintaining the quality, reliability and stability of the services we provide. We are preparing for severe weather by making certain we have access to the materials and labor needed to respond to weather events that are common this time of year.

Not only are we looking at how we outwardly distribute power, but we are also taking comprehensive looks at revenue requirements and our 10-year financial forecast. The board of trustees and management have been looking at ways to balance

the downward trend in sales and the impact of rising costs and a struggling economy around us.

On Pages 16B and 16C we continue with our promise of financial transparency. We want our members to be aware of where we are, where we need to be, and how we're working behind the scenes to maintain financial security with minimal effect on our members — because the impact of this pandemic has been overwhelming for all of us.

As we look at what to do next, it's important all of our members know that your co-op has taken measures to mitigate costs. We're cutting back on all expenditures and we've worked to evaluate all of our expenses. We are reducing the costs we can control but many costs associated with distributing electricity are outside of our control.

Please know that we will continue to do what we can to help those directly impacted by COVID-19. If you have a hardship, please call us so we can review your options.

AS ALWAYS, WE ARE HERE TO HELP. IF YOU HAVE QUESTIONS ABOUT THIS CONTENT OR YOUR MEMBERSHIP, WE ENCOURAGE YOU TO CONTACT US AT 800-794-1989 OR EMAIL CUSTOMERSERVICE@FREESTATE.COOP.



Steve Foss

FINANCIAL TRANSPARENCY

Small Adjustment Big Future Impact

Trustees review financial adjustments and table actions amid pandemic

Small steps. The FreeState Board of Trustees is proposing small steps to make a significant impact on the cooperative's revenue to meet future lending requirements. Just not right now.

The board of trustees understands that now is not the time to make any adjustments due to the ongoing COVID-19 pandemic. That is why the nine trustees made the decision to table any adjustment to the Electric Service Charge (ESC), the fixed charge every member pays to the cooperative monthly.

The board did discuss a plan that will be implemented at a later date. The plan is to make small incremental adjustments to the ESC. The small steps will prevent having to make one significant change at a later date.

The ESC is a fixed amount per rate class that provides revenue for the cooperative to cover the cost of materials like poles, wire, transformers and other infrastructure items. It also includes operation and maintenance costs.

"The board diligently calculated all possibilities," said **JEANINE MURPHY**, board president. "We looked at many scenarios because we wanted to hold off as long as we could because we know that this is not the best time to make these adjustments during a global pandemic."

"But, the fact of the matter is that we must do something very soon," Murphy added. "If we don't act in the near future, we'll have to make even bigger changes later and if we are going to have to adjust, we want to make small incremental adjustments to help minimize the financial impact to our members."

"It is not doom and gloom, by any means," said **STEVE FOSS, CEO**. "This is a necessary measure for us. Because we must maintain financial security and we need to look at all avenues to do that without

raising kilowatt-hour rates, and if we can do that with small incremental adjustments to the electric service charge, then that's what we will do."

The proposed adjustment is not a rate change. Your cooperative has kept costs consistent for years. Members have not seen any adjustment since 2010 (East District, previously LJEC) and 2012 (West District, previously Kaw Valley). For a decade there have been no changes, but neighbors powered by the investor-owned utility have seen 39 rate changes in that same amount of time.

"No changes to rates or service charges for a decade is quite an accomplishment," Foss added. "But things are changing. Costs are rising."

Financial Factors are Changing

Cooperative revenue has been on the decline. It's a trend that does not seem to be changing.

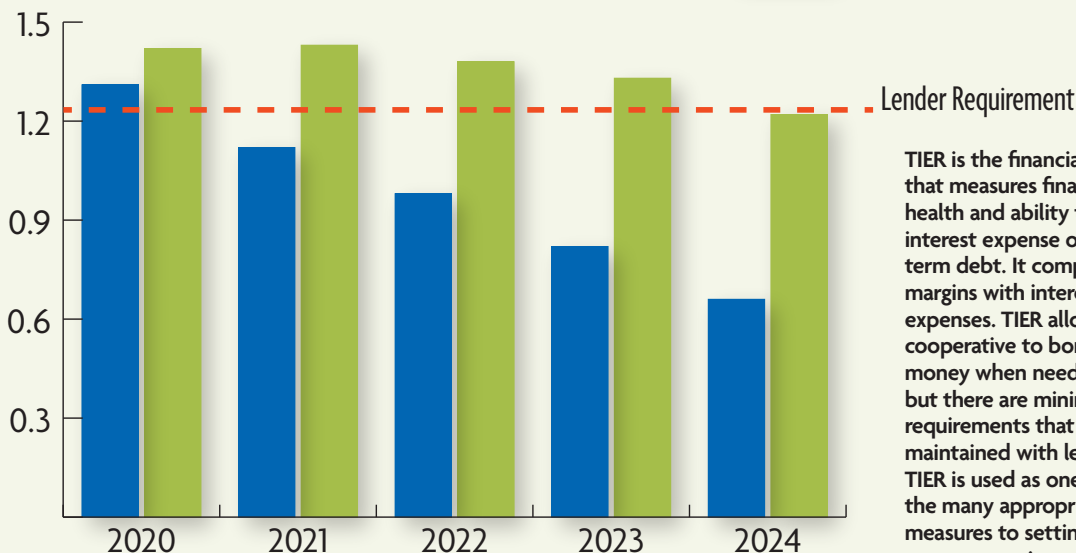
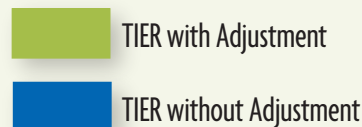
"There are many factors that contribute to the decreased revenue," Foss said. "Weather is a factor, energy efficiency is a factor, and renewable options for our members have increased significantly. These are great for our members, but we have seen an overall drop in revenue and our financial forecasts are telling us we need to act now to maintain stability and keep pushing that costly cost of service study out as far as possible."

The proposal for the ESC adjustment comes after the Revenue Requirement Study FreeState entered in March. **JILL TAGGART**, finance manager, led the study to determine what exactly was needed in order to meet the revenue requirements from lenders and the USDA Rural Utilities Service.

"Cooperative finances can be complex," said Taggart.

The costs of a typical distribution cooperative like FreeState are put into areas identified

TIER Ratio



TIER is the financial ratio that measures financial health and ability to meet interest expense on long-term debt. It compares margins with interest expenses. TIER allows the cooperative to borrow money when needed, but there are minimum requirements that must be maintained with lenders. TIER is used as one of the many appropriate measures to setting revenue requirement.

as operation and maintenance (O&M), overhead, and capital costs. There are also many factors that make up the cost structure like line density, or members per mile of line, service territory, labor costs and the infrastructure supply chain.

“One ratio we focus on is TIER,” said Taggart. “It is our financial ratio that measures our financial health and ability to meet our interest expense on long-term debt. It compares our margins with interest expenses.”

“This is what allows the cooperative to borrow money when needed,” Taggart added. “We have minimum requirements that must be maintained with our lenders, so consequently TIER is used as one of the many appropriate measures to setting revenue requirement.”

The decrease in revenue and the financial forecasts are showing that will change if actions are not taken.

Recovering from the Pandemic

“The goal is stability in a time of uncertainty,” said Foss. “Right now, we know things are uncertain, there is more unknown than known as we look at recovering from the pandemic economically.”

“The pandemic response has impacted everyone,” Foss added. “When businesses aren’t able to

operate, they don’t use electricity; when schools are closed, they don’t use electricity — that all contributes to a decline in sales and we know that is something we have to account for.”

Foss also added that FreeState did not disconnect accounts for non-payment until June 1, and no penalties or late fees were assessed during that time.

“We just don’t know what economic recovery looks like, and we don’t want to put any added pressure on our members,” said Foss. “But we do want to remind our members that bills are not going to disappear, we’re just allowing more time for members to get payment to us.”

“We wanted to go ahead and talk about this plan and to make sure our members were prepared and that we were up front and transparent about the financial standing of the cooperative,” Foss added. “We will not make any adjustments until we are able to fully communicate, but we wanted our members to be aware of what is on the table for the near future.”

Members facing financial hardships due to lack of work or illness associated with the pandemic, or as a result of state and county orders for citizens to stay home for extended periods of time are encouraged to call the office at 800-794-1989 to discuss options for assistance.

Trustee Election RESULTS

Board members will remain consistent after member voting results announced.

FreeState Electric Cooperative members recently voted to retain four incumbents following the annual trustee voting that began on April 1 and ended on April 17, 2020.

All members are qualified to vote for the trustees who represent them. The trustees and cooperative bylaws are the governing directives of the cooperative. Out of the 15,228 ballots mailed, 2,252 FreeState members cast votes for an approximate 15% return, which is higher than the 2019 election.

JEANINE MURPHY, RALPH PHILLIPS, LARRY BUTEL and **DON MONTGOMERY**, all incumbents, received the most member votes and will serve the cooperative members for another term.

Murphy, Leavenworth, has served as the cooperative board president since 2017. She will serve another three-year term while Phillips, Mayetta, will serve a two-year term.

"Mr. Phillips will serve a two-year term because of the way our trustee numbers are set up," said Steve Foss, CEO. "In 2019, we reduced our board to nine members after two retirements, and that put us on an uneven rotation. By Ralph [Phillips] serving only a two-year term that will get us back on a rotation of three, three, and three."

"Three board members every three years will be elected to three-year terms," Foss added.

Butel, Overbrook, and Montgomery, Burlingame, will both serve three-year terms. Butel has served as board treasurer since 2017, and Montgomery has served as board secretary since 2017.

"Part of the cooperative difference is the ability to choose your own governance," said Foss. "Trustees are members, and they are elected by members to not only represent them but make decisions that govern the cooperative."

"We thank each member who cast a vote and took time to participate in this very important process," Foss added.

ASK Matt

Energy Use Coordinator **MATT LAMBERT** will answer questions about energy efficiency, renewables, co-op programs, and everything in between. Email Matt your question at askmatt@freestate.coop.



DEAR MATT,
MY SUMMER ELECTRIC BILLS SEEM EXTREME. HOW CAN I GET AHEAD OF IT THIS YEAR AND NOT HAVE A HIGH ELECTRIC BILL?

Summer electric bills stand out as the highest electric bills we get all year. Kansas summers can get extremely hot, and that means electricity bills increase. About half of the energy your home uses is heating and cooling. Consider having an HVAC professional come out and perform routine maintenance. Maintenance can help efficiency and save money.

CLEAN YOUR OUTDOOR CONDENSER UNIT. Dirt and other debris can clog the unit and prevent the exchange of air. You can do this yourself with a hose but shut your breaker off first to be safe. Be careful to control the pressure and not damage any components. If you have a window unit, you can clean the outside of these units, as well.

CLEAR AIRFLOW. A rule of thumb is two feet around the unit that should be clear. Tall weeds and brush can also impede airflow, so make sure there is a clear area around the AC unit. Also, keep the vents inside your home open and clear of debris. Take time to take the covers off and vacuum them out to ensure proper airflow.

STOP AIRFLOW. Fill gaps and cracks around windows or other spots air can escape. Air sealing is vital to keeping cooler air in and warm air out.

CHANGE YOUR FILTERS. Check your filters regularly. You can change it monthly during months of heavy use. A dirty air filter can add a 10% cost increase due to lagging efficiency.

SHADE. Keep the sun from shining in and heating your home. The easiest way to help insulate is to pull drapes or shades. Radiant heat can heat a room! And, don't forget to close storm windows when you start your AC. Make sure both windows are closed tightly.

SET THE TEMP. Keep your AC set a few degrees warmer, especially if you are not at home. Work toward 78 degrees. You may find that the warmer temperature is tolerable.

CEILING FANS. Help circulate air with a fast-moving ceiling fan turning counterclockwise to blow air downward to cool people in the room. Using a ceiling fan can create a 4-degree wind chill effect. Ceiling fans cool people, not rooms, so shut them off when nobody is in the room.

USE THE SUN AND WIND. Drying laundry takes approximately \$0.50 per load, and when the dryer is running, it produces more heat for the AC to control. If possible, install a clothesline and avoid using the dryer. Instead, use the breeze and sun to dry a load of laundry.

Maintenance, conservation, and lifestyle can be combined to help you control the impact of extreme weather on your bill.