

OPALCO Broadband Study

Summary Findings

January 18, 2013

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How Big?



In Terms of our Plant Assets

	A.	B.	C.
	Audited Year End 12/31/2011	Unaudited Year End 12/31/2012	Change (B - A)
1 ASSETS			
2 UTILITY PLANT, at cost			
3 Electric plant in service (3200, 3201, 3202, 3203 & 3206)	\$ 79,769,777	\$ 82,840,443	\$ 3,070,667
4 Construction work in progress (3204)	1,859,540	1,425,010	(434,531)
5	81,629,317	84,265,453	2,636,136
6 Less accumulated depreciation and amortization (3300)	32,376,495	34,055,559	1,679,064
7 Net utility plant	49,252,822	50,209,894	957,072
8 OTHER PROPERTY AND INVESTMENT, at cost			
9 Non-utility property (3205 & 3207)	250,533	317,280	66,747
10 Less accumulated depreciation (3301 & 3302)	56,131	64,426	8,296
11	194,402	252,854	58,452
12 Investments in associated organizations (2900)	908,190	929,141	20,950
13 Other property and investments	1,102,592	1,181,995	79,402
14 CURRENT ASSETS			
15 Cash and cash equivalents (2000)	2,049,721	2,091,466	41,745
16 Cash and cash equivalents - board designated (2001)	2,004,674	2,002,236	(2,438)
17 Accounts receivable, less doubtful accts allowance 18 (2300, 2301, 2302 & 2303)	2,690,548	2,388,170	(302,378)
19 Interest receivable (2304)	6,495	6,848	354
20 Materials and supplies (2500)	1,333,658	1,502,931	169,273
21 Prepaid expenses (2600)	103,649	115,232	11,583
22 Total current assets	8,188,745	8,106,883	(81,861)
23 DEFERRED CHARGES (3400)	-	-	-
24 Total assets	\$ 58,544,159	\$ 59,498,772	\$ 954,613

Comparing consumer broadband build out to our Utility Plant Assets

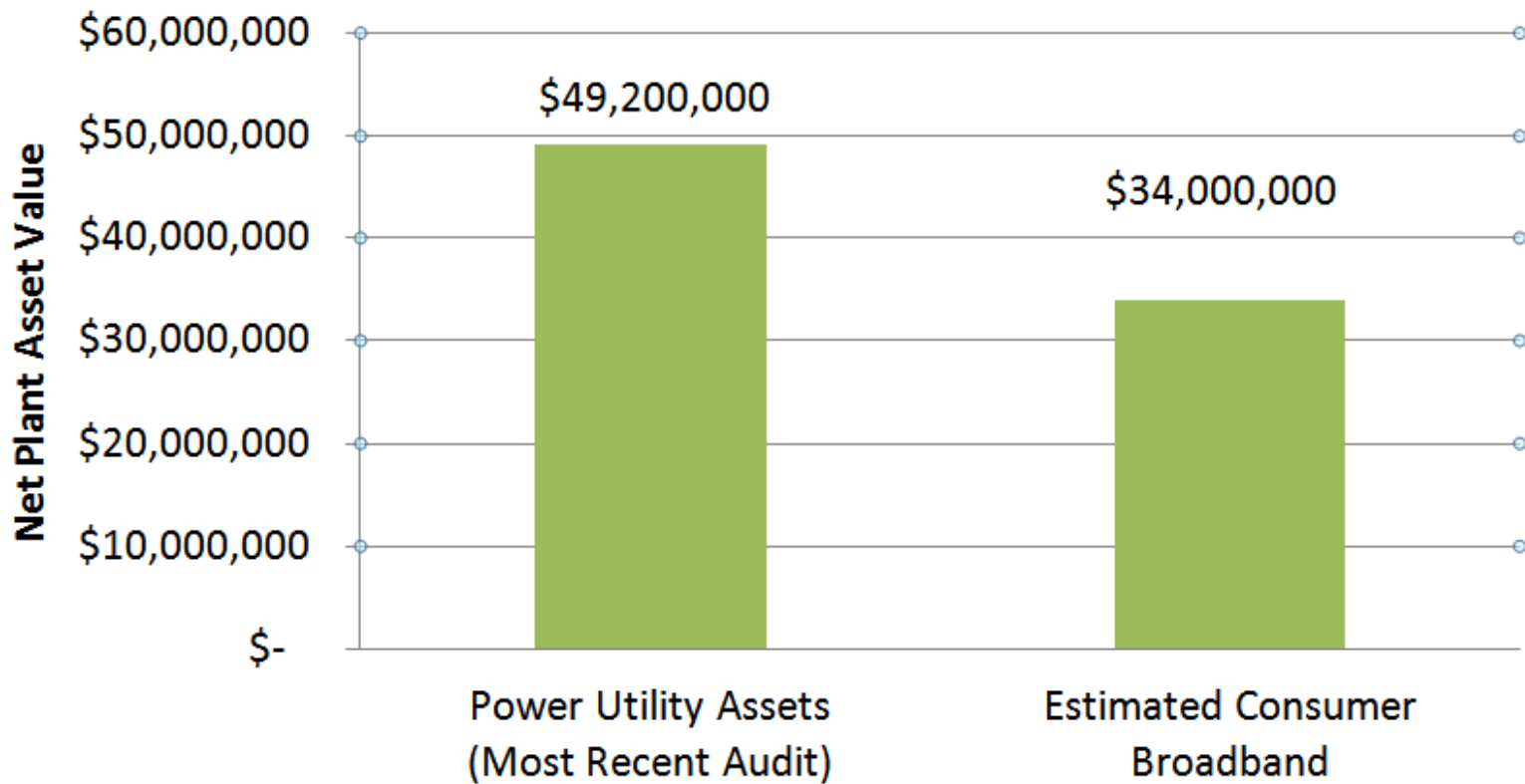
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Power Utility vs Consumer Broadband

Net Plant Asset Comparison



This is no little side business

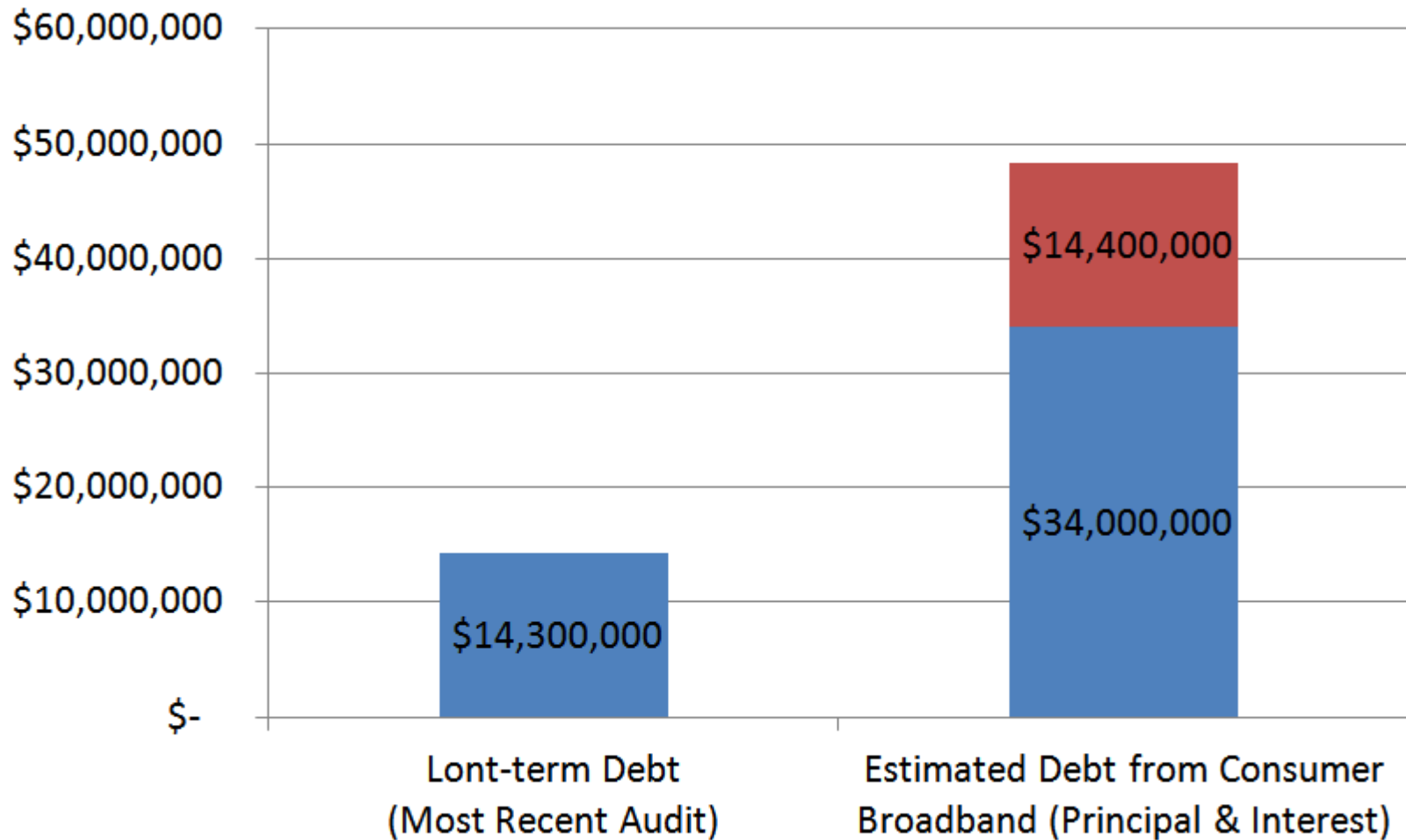
Broadband net plant assets will represent a **70% increase** in our **net plant assets**.

This comes with increased operating and maintenance costs to run the new broadband plant assets.

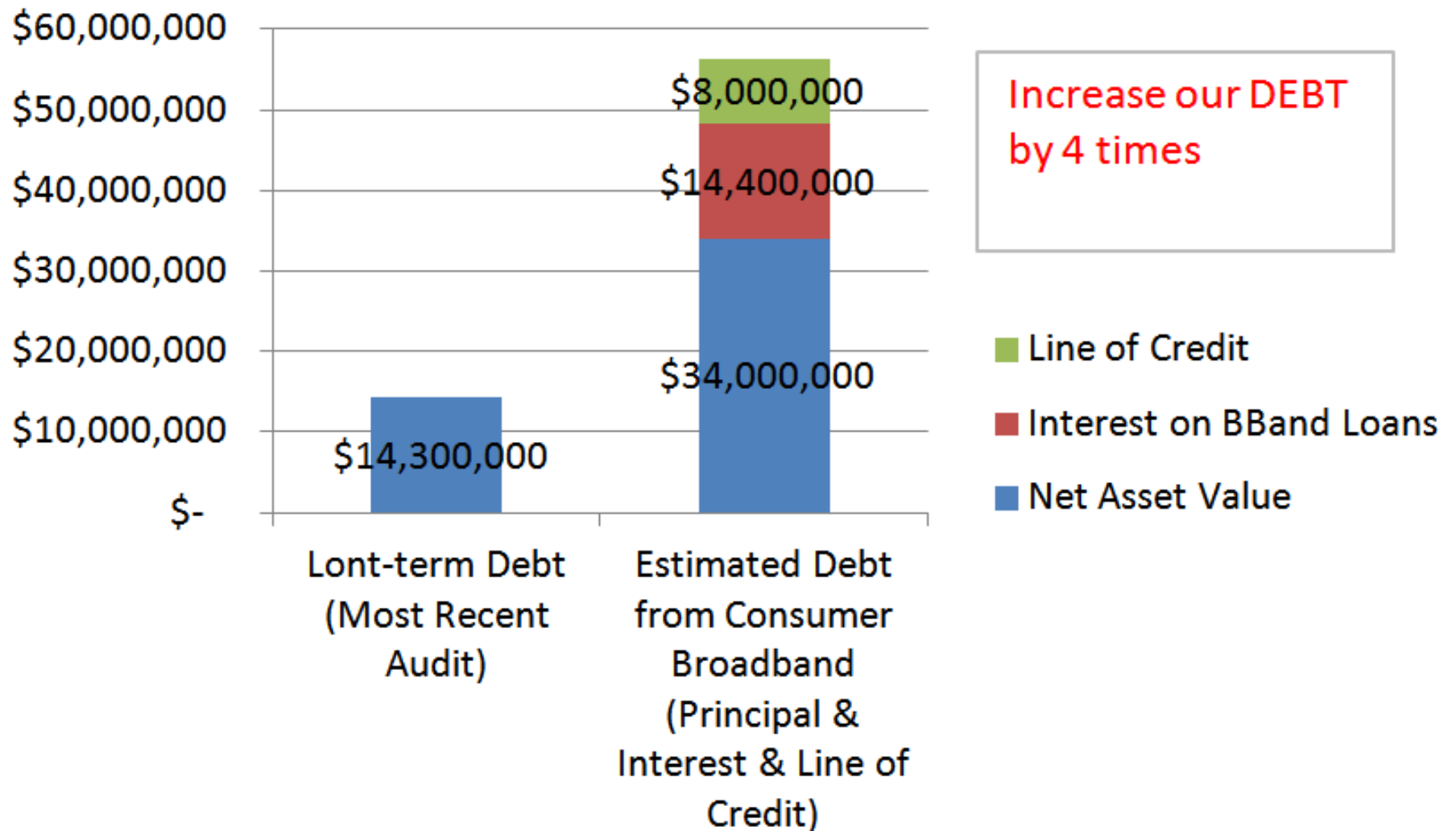
In Terms of our Increased Debt

	A.	B.	C.
	Audited Year End 12/31/2011	Unaudited Year End 12/31/2012	Change (B - A)
25	EQUITIES, MARGINS, AND LIABILITIES		
26	EQUITIES AND MARGINS		
27	\$ 60,505	\$ 54,800	\$ (5,705)
28	37,836,072	37,473,607	(362,464)
29	3,158,271	3,643,203	484,931
30	41,054,848	41,171,610	116,762
31	LONG-TERM DEBT, less current maturities		
32	11,514,336	12,792,011	1,277,676
33	2,803,987	2,693,387	(110,600)
34	14,318,323	15,485,398	1,167,075
35	CURRENT LIABILITIES		
36	1,548,452	1,297,200	(251,253)
37	67,922	77,002	9,080
38	937,927	854,196	(83,731)
39	491,649	456,254	(35,395)
40	3,045,949	2,684,651	(361,298)
41	125,039	157,113	32,073
42	\$ 58,544,159	\$ 59,498,772	\$ 954,613

How large is that?



Wait there's more DEBT for Broadband!



Won't this affect my energy rates?

Only if the revenues from Broadband do not match or exceed the costs each year.

The Op Ex is \$7 MM per year. So revenue must be at least \$7 MM for us to not lose money on consumer broadband. Otherwise, the owners are responsible to make up the revenue shortfall in their energy bills.

But we have a risk management plan
right?

I have been repeatedly told that I can not have any insights into the fixed and variable portions of the \$7 MM Op Ex.

I was told last month that the board will have a 3rd party review the financial plan, but owners will not get to see this plan.

Financial Risk Management

Financial Burden on OPALCO

The implementation of this system would require a major commitment of capital by OPALCO. Prudent financial management dictates that we must have confidence that this capital expenditure can be recovered. OPALCO's Board of Directors has decided that the system can only be built after a sufficient portion of our membership has agreed to fund its construction and subscribe to the service. The details of this plan to manage financial risk are described in the Conclusion section below.

¹ <http://www.who.int/mediacentre/factsheets/fs304/en/index.html>

Where's the risk management plan?

Conclusion

Building a network of this magnitude requires a long term investment and commitment by the OPALCO member community. OPALCO is the only realistic option for building a county-wide broadband network and delivering the associated community benefits; no other company or entity is likely to make it happen. Over time, DSL will fail to meet the increasing demands of the community, and our small population does not provide adequate financial incentive for companies like CenturyLink to address these needs.

The cooperative model is an effective way to address the problem. Cooperatives serve their communities through member participation and democratic control. Co-op members actively participate in setting policies and making decisions. Together, we work toward the sustainable development of our community, and all members benefit.

This is a unique time: interest rates are at historic lows, and OPALCO's ability to secure favorable financing rates provides the fortunate financial climate that can support such a large investment. OPALCO's leadership in building, operating and maintaining a 21st century broadband network will take advantage of these low cost funding mechanisms and build a network that can increase energy efficiency, improve prospects for economic development, and provide San Juan County with better access to essential services.

OPALCO's Board of Directors recognizes these critically important needs in our community and is in favor of proceeding to build and operate a hybrid broadband system—but, will do so only if the membership demonstrates its commitment to supporting it, through both the membership-wide cooperative infrastructure fee and through subscribing to the broadband service.

The Board's Responsibility

Fulfill a fiduciary responsibility to owners and adequately inform them about the structure of the costs, what the financial risks are, and how those risks will be managed.

Ideally, they should provide owners with the opportunity to examine the business plan or some subset.

OPALCO's response

We can't reveal vendor specific information that is contained in the business plan and it would take too much effort to redact.

If this is so, then the business plan is not properly focused and non-technically savvy members of the board may not be able to make a sound decision.

What is the board doing instead?

The board is asking owner's to pre-subscribe to the vaporware consumer broadband product.

It is not telling us about the financial risks.

They want us to think like consumers, not like owners.