

GRAYSON MANAGEMENT AUDIT ACTION PLAN BY RECOMMENDATION STATUS UPDATE – 10/09/20220

Overview

Pursuant to PSC Case 2018-00272, a management audit was ordered by the Kentucky Public Service Commission for Grayson RECC. Case 2019-00101 was opened to handle the proceedings of the audit. Vantage Energy Consulting was selected to conduct the audit. Through data requests, interviews, on-site visits, and other communications, Vantage formulated a report which was submitted on February 4th, 2020. Three overall conclusions/suggestions were formulated along with 20 recommendations. An action plan was developed by Grayson and approved by Vantage and the Kentucky PSC to address these recommendations.

Overall Conclusions

In response to Vantage's overall conclusions, Grayson has begun to address each of them through a variety of means.

As suggested by Vantage through its first overall conclusion and Recommendation VI R-1, Grayson has continued to explore opportunities presented to them in regards to a merger. Grayson feels that this would be an extreme measure and undertaking, but does remain open to benefits that a merger could provide to its members. Exploring shared services and changes through the recommendations listed in the accepted action plan remain Grayson's focus as a way to better serve its members.

As explained in each update of the 20 recommendations listed in this report, Grayson remains fully committed to addressing and improving on each recommendation. Circumstances out of Grayson's control, the Covid-19 pandemic and change in management, may have hindered and delayed portions of the action plan's implementation steps, however, Grayson continues to move forward and achieve each of the goals and steps of the recommendations.

A change in management has led to addressing the third conclusion from Vantage. Former President & CEO Carol Fraley stepped away from the cooperative in March, with Kyle Clevenger serving as Interim President & CEO until May 5th when Bradley Cherry was selected as the replacement. While the change has provided some difficulty in achieving the goals set forth in the action plan on the initial aggressive timeline, the commitment remains in achieving the objectives set forth. Changes in philosophies and expectations take time to implement, but the overall goals remain the same.

Recommendations

Each recommendation below contains a status update in regards to achievements realized in addressing the recommendations based on the selected implementation plan. As stated earlier, some recommendations and their implementation steps were impacted by: being too aggressive in the timeline, covid-19 pandemic, and the change in responsibilities due to management change. While these may have delayed complete implementation, it does not affect the commitment towards each of these recommendations by Grayson.

Supporting documents have been attached for each recommendation as appropriate.

GRAYSON MANAGEMENT AUDIT ACTION PLAN BY RECOMMENDATION 03/24/20

The following are the actual action plans for each recommendation made.

RECOMMENDATION – II-R1

II-R1 Develop or purchase a financial model that provides detailed and actionable information on Grayson’s financial picture. (Priority: Medium)

In order to manage its business and prevent recurring financial difficulties it is crucial that Grayson develop the tools and processes to enable visibility into and management of their finances.

Currently, Grayson is exploring a financial model, which is provided by National Rural Utilities Cooperative Finance Corporation (“CFC”). This model is certainly a step forward but does not provide the monthly management information that is necessary to manage Grayson’s finances.

Grayson needs to develop a financial model that tracks all expenses on a monthly basis and ties directly to the CFC, and can provide the basis for at least a four-year plan. This model does not need to be elaborate or expensive. The model could be developed in-house.

UTILITY RESPONSE

A. Discussion of Recommendation

Grayson understands that clear and relevant data is necessary for the Grayson BOD to make informed decisions that affect the financials and financial state of the cooperative. The more information the directors have and how their decisions affect the financial status of the cooperative in the short and long term, the more likely those decisions made will benefit the financial status of the company for the near future and ensure financial and strategic obligations are met.

B. Improvement Proposed by Cooperative

An increase understanding of how decisions made by the Board of Directors affect the financial status of the cooperative should be a direct improvement of implementing the steps listed in this recommendation. Increased awareness of the long-term effects on strategic and financial goals for the extended future should also be realized.

IMPLEMENTATION STEPS (Filled Out By Company)

Recommendation No.	Implementation Steps	Start Date	Complete Date
II R-1	Management and Accounting staff meet to discuss relevant information that should be included in reporting to board.	Current	April 2020
	Meet with staff of other cooperatives to discuss information and tools used to communicate financial information to their management and staff	Current	Ongoing
	Develop an overview of current and new information to be presented to BOD at monthly/quarterly/yearly meetings.	April 2020	May 2020
	Present information to the Board for their review	May 2020	June 2020
	Assemble a team to develop and implement model that incorporates all relevant information. (Utilizing CFC models plus any additional developed models to assure that the revised model and inputs meet the requirements in this recommendation)	Current	August 2020
	Refine models as needed. Share with KPSC Staff to assure it meets the intent of this recommendation.	Current	Ongoing
	Utilize models and outputs to communicate financial standing of cooperative and the effects of decisions made by the Grayson BOD.	August 2020	Ongoing

Status Update:

Discussions were completed in regards to relevant financial information that should be presented to the board on a monthly/quarterly/annual basis for their review. Contacts from other cooperatives throughout the state, colleagues from cooperatives around the US, supporting agencies such as CFC and NRECA, auditors, and others were utilized for attaining ideas and information. Financial information that was consistent from all groups included:

- Balance Sheet
- Statement of Operations
- Margins

- Revenue
- Expenses
- Financial Metrics
 - TIER/OTIER
 - DSC/MDSC
 - Interest Rates
 - Equity
- Budget
- Long-Term Debt

A majority of these items were already provided to our board on a monthly or quarterly basis.

However, a concerted effort has been made to incorporate discussions of each of these items at monthly board meetings. As discussed in a subsequent recommendation, a report dedicated to TIER has been utilized at board meetings, with the expectations of expanding it to other financial metrics on a monthly basis.

Monthly and YTD budget comparisons are provided to board members monthly and quarterly, allowing for timely review and the ability to make decisions as necessary if budget constraints exist.

While these simplified discussions/reports/models are a good tool to communicate information on their own, it lacks the ability to project in the future. Because of this, Grayson has begun to utilize CFC's Compass program. This financial forecasting tool provides a basis to project long-term financial impacts based on historical and inputted data.

A copy of the first attempt at utilizing the Compass program for future projections has been included as Exhibit A. This tool will be incorporated into the financial discussions during board meetings and how decisions made by the board can affect the financial future of Grayson RECC. The current forecast has its limitations as historical data is used from the past three years. Included in that period was 2017 when financials were disrupted by a billing cycle change, eliminating 20 days of revenue and negatively affecting ratios and data. Grayson feels that once 2020 data becomes available and is utilized in the forecast, a more accurate picture will be described.

There are other limitations, however, with this tool and projecting on a scenario basis. Because of this and the desire for a more in depth budget process, Grayson plans to utilize CFC's BudgetPro program in its 2021 budget process. This software has the capability of improving Grayson's budget process, as well as allowing for scenario planning. This scenario planning option will allow for discussions on what happens if Grayson decides to do x, y, or z and project the financial impacts on the budget. When linked together with Compass, this can provide a more thorough analysis on the affects each decision has on Grayson's budget and financials.

Next Steps:

- Continue to review financial metrics with the board at monthly meetings
- Develop additional spreadsheets and reports that communicate necessary financial information to the board for their business decisions
- Model the effects of key decisions the board will make and how they affect the financial future of the cooperative.
- Research and utilize additional programs necessary to manage and communicate data to staff and board members.

RECOMMENDATION – II-R2

II-R2 Identify a regulatory liaison and communicate to the KPSC. (Priority: Low)

Provide clarity as to the formal means of communicating between company and regulatory bodies. A single point of communication will enable management employees, BOD members and others to be able to reach out with questions to a single point.

A. Discussion of Recommendation

Grayson should select and establish a point of contact to communicate with the Kentucky Public Service Commission and all other relevant agencies.

B. Improvement Proposed by Cooperative

This would assist in reducing the likelihood of information not reaching the intended parties and increase the efficiency of information being passed between Grayson, the Kentucky PSC and relevant agencies.

C. Discussion of Cost/Benefit Analysis

There should be no cost associated with this recommendation. Reduce information not reaching intended parties. Improved communication and ability to discuss important issues that affect the cooperative and its members.

VIII. IMPLEMENTATION STEPS (Filled Out By Company)

Recommendation No.	Implementation Steps	Start Date	Completion Date
II R-2	Select an employee to serve as point of contact with Kentucky PSC and other agencies.	March 2020	March 2020
	Communicate to Kentucky PSC and other agencies.	March 2020	April 2020

Status Update:

In March of 2020, Bradley Cherry was named the regulatory liaison and point of contact for all regulatory agencies. All relevant agencies have been notified.

Next Steps:

Grayson considers this recommendation Complete.

RECOMMENDATION – II-R3

II-R3 Improve process for evaluating and determining causes of outages. **(Priority: Medium)**

Additional forensic or root cause analysis is warranted in evaluating outages. This evaluation is needed, because knowing the cause of outages is essential for setting budgets and establishing priorities.

VII. UTILITY RESPONSE (Filled Out By Company)

A. Discussion of Recommendation

Grayson should improve their outage documentation and analysis. A more thorough investigation should be completed when the reason for an outage is not obvious.

B. Improvement Proposed by Cooperative

Outage information and documentation should improve. This would allow for analysis that is more thorough and the opportunity to improve operation efficiencies and a reduction in overtime.

C. Discussion of Cost/Benefit Analysis

Implementing the proposed actions in response to the recommendation should incur little to no cost. The benefit for the Cooperative and its members would include the opportunity for a reduction in outages, leading to a reduction in overtime and reduction in maintenance expenses.

VIII. IMPLEMENTATION STEPS (Filled Out By Company)

Recommendation No.	Implementation Steps	Start Date	Completion Date
II R-3	Form a team to discuss the issue and best practices on reporting the information. Team Members should include: <ul style="list-style-type: none">• Manager of Operations• Assistant Manager of Operations• Division Assistant of Operations	April 2020	April 2020

	<ul style="list-style-type: none"> • Manager of Technical Services • GIS Technician • Maintenance leadman(men) 		
	Develop a plan that includes: <ul style="list-style-type: none"> • How information should be reported • What information should be reported • What to look for when cause is not apparent • Frequency and details of reporting • Other relevant information. 	April 2020	May 2020
	Conduct a safety meeting with employees discussing developed plan	May/June 2020	May/June 2020
	Set up periodic meetings to discuss reports from outage information and develop any necessary steps needed to address problem areas	June 2020	Ongoing
	Communicate plans, procedures, results, and changes to BOD, PSC, and EKPC as necessary.	June 2020	Ongoing

Status Update:

In April, Grayson’s Manager and Assistant Manager of Operations, GIS Technical, Division Assistant of Operations, Manager of Technical Services and a Maintenance Leadman met to discuss outages and their causes. The meeting focused on the reporting of outages and their causes. From discussions, the following was documented:

- Outages were to be reported and closed, with cause codes and equipment damaged, to Division Assistant of Operations during normal business hours and with CRC after hours.
- The use of unknown cause code should be utilized minimally when all efforts have been exhausted in determining a cause

- To better assist in determining outages when a reason is not apparent, the following suggestions were made to communicate to all employees
 - Spend extra time looking for clues and causes for the cause of an outage
 - Ride line out if clues are not present at initial site
 - If outage is a repeat, install fault finders to assist in determining repeated cause.
- Emphasis is to be placed on two causes: 431 – Trees off ROW and 600 – Small Animal.

The results of the meeting held in April were communicated in an informal safety meeting (due to Covid-19) to all operations employees in May. Our Division Assistant in Operations is also reminding them periodically during call-ins and reporting.

From initial reporting, animal tree guards have been identified as an increasing need for use. Grayson is currently looking at the best option to address the issue. A trial test is being conducted on utilizing either precut guards or providing a roll of guard on each truck to be cut and used as needed.

Please see Exhibit B for a comparison of outages and causes of outages for Grayson RECC.

Next Steps:

- Continue communication to operations employees of importance of consistent and accurate reporting
- Analyze and compare changes in cost code reporting and utilize information in operations planning, especially during budget period
- Monitor effectiveness of animal guards and most efficient product
- Address issue of off right-of-way trees.

RECOMMENDATION – II-R4

II-R4 Develop a formal procedure for the tracking and resolution of complaints. **(Priority: Medium)**

The process currently used by Grayson RECC is dependent on the experience of current personnel at the Cooperative. In this arrangement, there is always the concern that a change in personnel could change the process. In order to have an equitable and consistent treatment of complaints a formal procedure is needed. The function should be centralized in one area to assign tracking numbers and maintain the files, including all documentation associated with the resolution of the complaint. The procedure should identify the personnel that need to be involved in the resolution of the complaint. The procedure should also specify the time for resolution in order to ensure the timely resolution of the complaint. The procedure should specify how a complaint will ultimately be resolved if there is no clear resolution by the assigned department.

VII. UTILITY RESPONSE (Filled Out By Company)

A. Discussion of Recommendation

Implementing a formal procedure to consistently track complaints and resolutions is warranted. Most complaints are received from the KSPC in the form of an inquiry. Other complaints that are received will be treated with the same formal procedure.

B. Improvement Proposed by Cooperative

Tracking of all complaints will involve all employees but will be streamlined through staff and ultimately through the Member Services Supervisor.

1. Complaint forms are available to all employees to document any issues.
2. All complaints will be filed, numbered and entered into a database.
3. All materials, background information and any pertinent information will be filed together with the original complaint form.
4. Notes will be added to the complaint form as information is received.
5. When the complaint is deemed resolved it will be noted in the file along with the resolution of the complaint.
6. The complaint file will be located in the Member Services Department.

C. Discussion of Cost/Benefit Analysis

Cost to implement the plan in this recommendation would be minimal.

Benefits to this change in procedure would be the following:

1. Ease of reviewing information on an open or resolved complaint.
2. Having information concerning complaints and resolutions organized in a centralized location.

VIII. IMPLEMENTATION STEPS (Filled Out By Company)

Recommendation No.	Implementation Steps	Start Date	Completion Date
II R-4	Select internal team to implement this procedure.	March 2020	March 2020
	Prepare a procedure for complaint tracking and resolution	March 2020	On-going
	Identify point of contact for implementing procedure.	March 2020	March 2020
	Communicate new procedure to BOD, Kentucky PSC and EKPC, as appropriate.	April 2020	April 2020

Status Update:

Beginning in March, Kim Bush (Executive Assistant/Previous Member Services Manager) and Sherry Conley (Member Services Supervisor) began meeting and discussing a new procedure for complaint tracking and resolution. They utilized their own experiences as well as those from other cooperatives to formulate a new means of tracking and resolving complaints.

From their discussions, a process of handling and documenting all complaints from a shared excel spreadsheet was developed. Please see Exhibit C

Kim and Sherry discussed the procedure and spreadsheet at a May staff meeting as well as the May Board Meeting. Members of the Board of Directors addressed no concerns.

A copy of the complaints remain in the supervision of Member Services Supervisor as well as being accessible in a restricted file.

Next Steps:

Grayson considers this request complete with the expectation that all complaints will continue to be documented.

RECOMMENDATION – II-R5

II-R5 As the opportunities arise, Grayson should strive to include more diversity on its Board. (Priority: High)

Currently, the Board of Directors (“BOD”) consists of all white males. As opportunities arise, Grayson should encourage and actively support a more diverse Board but with the priority of ultimately engaging the most qualified individuals. The more diverse views will lead to better understanding of the views of all of its members.

A. Discussion of Recommendation

Grayson should encourage a more diverse Board; however, the focus should be on ensuring the most qualified individuals are representing the Members.

B. Improvement Proposed by Cooperative

Grayson intends to implement this recommendation fully permitted by Grayson’s Board Policies and Bylaws. Article IV of Grayson’s Bylaws sets forth the procedure for electing members to the Board of Directors. Any member meeting the qualifications under Article IV, Section 3 may make a written declaration of his/her intent to seek a seat on the Board of Directors. The qualifications are inclusive and do not disqualify any member based on a member’s gender, religion, race, color, creed, age, national origin, familial status or disability. Female members have declared an intent to seek a seat on the Board of Directors in the past. Those members did not receive sufficient votes. Grayson will examine its election process and determine ways to encourage diversity on the Board. The Directors will continue to seek ways to encourage diversity on its Board. The Board should be a representation of its membership.

Forming a Member Advisory Council has also been discussed as a way of increasing diversity. Because this council would be appointed and not elected, the

opportunities of increasing diversity and views outside of the Board would substantially increase.

C. Discussion of Cost/Benefit Analysis

Cost of implementing this recommendation would be limited to training for any new board member who would be elected. If a Member Advisory Council was formed, minimum costs could be associated with it. Without specific details on the council, calculating costs currently would not be feasible.

New ideas and experience would be the top potential benefits of diversity to the board through new/additional board members.

VIII. IMPLEMENTATION STEPS (Filled Out By Company)

Recommendation No.	Implementation Steps	Start Date	Completion Date
II R-5	Discuss feasibility and details of potential Member Advisory Council	May 2020	July 2020
	Continually review policies/procedures/activities that would encourage diversity on Board	April 2020	Ongoing
	Continue to Provide training to all board members to increase knowledge base and differing points of view	April 2020	Ongoing

Status Update:

Discussions were conducted in May at a special board meeting on the feasibility of a Member Advisory Council. Pros and Cons were discussed, including what the ideal size, location, frequency, and selection of members would look like. The Board asked

President and CEO Bradley Cherry to research what other cooperatives had a Member Advisory Council and how they utilized the group.

From the research, Mr. Cherry reported that of three cooperatives that were contacted, two utilized a Member Advisory Council while the third did not. There were mixed reviews in regards to the Member Advisory Council. While most felt it was a good way to interact with the membership, it was very difficult to have members commit to a meeting and share information. Most members were members that were already active in other community groups and often times new information and ideas were not generated. The time and preparation that was put into the organization and execution of council meetings often exceeded the benefits and ideas that resulted.

The report was presented to the full Board at the May Board meeting. Even though there was concerns on the benefits of having a Member Advisory Council, the ideas of being able to select a group that met the diversity concerns of Vantage and the opportunity to get outside views and ideas remained a benefit that could be achieved at a minimal cost.

Due to Covid-19 restrictions and concerns, the Board decided to postpone any implementation of a Member Advisory Council at the time. As restrictions and concerns ease, the topic will be revisited.

Training

Due to restrictions with Covid-19, off site training opportunities have been cancelled and/or postponed. Opportunities for virtual training have taken place and will continue to be an option for board members. These restrictions have resulted in a savings on board expenses due to a reduction in travel. Please see Recommendation II-R7 for data.

Next Steps

- Revisit the idea of a Member Advisory Council at a later date when restrictions and concerns from Covid-19 are eased.
- Continue training opportunities with board members, encouraging them to achieve or retain their director's certification with NRECA

RECOMMENDATION – II-R6

II-R6 Create a more transparent process of governance. (Priority: High)

There seems to be some pressure within rural cooperatives to have an understanding of the decision-making processes and the budgetary impact of those processes on the members of the cooperative. Grayson, with its significant focus on caring for its employees, should extend that to more fully engage all the members by having open board meetings so the membership can see how the Directors are responsible and accountable for the decisions they make. This process could inspire others to pursue membership on the Board and expand the diversity and experience of the Board members.

Vantage recommends that BOD meetings be open, except where confidential information, contracts or compensation are discussed.

A. Discussion of Recommendation

Allowing open meetings, allowing input from Members to Board of Directors and making key information from Board Meetings easily available to the public would allow for a greater transparency of the Board's governance. Increasing available information would allow the Members a better understanding of the decision making process and how these decisions affect the financials of the Cooperative. Transparency could also inspire others to pursue membership on the Board and expand the diversity and experience.

B. Improvement Proposed by Cooperative

Grayson already has measures in place that would increase the transparency of governance and provide important information to its members. Grayson has an open meeting policy, which allows members to attend Board meetings. Members may attend a meeting by completing a form identifying themselves and stating the reason they wish to appear. The Board will permit attendance if the applicant is in fact a member and has a valid reason to appear. This policy is efficient and effective for the members. It permits Grayson's staff to contact the member in advance to address their concerns prior to the meeting. If staff resolves the concern, it saves the member time and expense of appearing before the Board. If the issue cannot be resolved, staff will inform the member of the next scheduled meeting.

Board Briefs are published in *Kentucky Living* magazine and on social media. Grayson also hosts an annual meeting every May whereby members can meet Grayson's staff,

management, directors and attorney. Members from other stakeholders are present at the annual meeting.

Increasing the availability and broadcasting it to members through all of its communication avenues, would greatly increase a transparent environment of governance. Grayson intends to create more transparency by publishing Board Briefs on its website in addition to posting on social media and in *Kentucky Living*. Grayson will implement this recommendation by conducting Strategic Planning Session meetings open to the public. Strategic Planning Sessions would permit all members to attend and express opinions and make suggestions to the Directors. Such meetings are a more efficient way to create transparency. This policy will give members the opportunity to address the Board and management on issues most important rather than attending meetings where other topics may be given primary focus and priority.

C. Discussion of Cost/Benefit Analysis

Strategic planning sessions with members could have additional costs to the coop. Increasing communication across all channels currently being used should have no incremental costs.

As discussed above, the benefits of increased transparency could lead to increased participations and understanding from the membership, as well as the ability to benefit from new and diverse ideas.

VIII. IMPLEMENTATION STEPS (Filled Out By Company)

Recommendation No.	Implementation Steps	Start Date	Completion Date
II R-6	Publicize through communication channels opportunities to review information from Co-Op	May 2020	Ongoing
	Publish Board Briefs Monthly	January 2020	Ongoing
	Periodic Strategic Planning and Discussion Meetings in rotating locations throughout service territory	Fall 2020	Ongoing

Status Update:

Grayson has begun to take a more proactive approach to utilizing communication tools to promote information to its members. One improvement that we have incorporated into our operations is the utilization of graphics and messaging templates provided by KEC and EKPC and promoting them to our membership through our social media platforms, most notably Facebook. These templates focus on key conditions that are currently affecting cooperatives as well as key areas directly related to cooperatives and their business model. Examples of these graphics are attached as Exhibit D.

Grayson has also continued to publish Board Briefs in the monthly issues of Kentucky Living as well as on their Facebook and website. These board briefs are derived from information in the previous month’s board meeting. Financial, operational, safety and other information are key components of the board briefs. Examples are attached as Exhibit E.

As described in the previous recommendation pertaining to the Member Advisory Council, the plans for periodic strategic planning and discussion meetings in rotating locations has been postponed due to concerns and restrictions from Covid-19

Next Steps:

- Continue Board Briefs and social media communications to our membership.
- Discussion of rotating strategic membership meetings as pandemic concerns and restrictions are eased.

RECOMMENDATION – II-R7

II-R7 Directors’ fees and expenses should be carefully monitored and managed jointly by both the Board and Grayson management. (Priority: Medium)

Grayson’s financial challenges are real, and the Board has an opportunity to serve as real leaders in the community and Cooperative by establishing pay guidelines for itself that model the reality of the economics of the service territory. At a minimum, they should consider re-instituting the original per diem and reducing the cash in lieu of health care to the \$3250/year that employees receive. Since the majority of the members have been on the board for many years and attendance at training sessions has long since diminished, the miscellaneous expenses should be scrutinized and substantive limitations put in place.

VII. UTILITY RESPONSE (Filled Out By Company)

A. Discussion of Recommendation

Grayson Board has a fiscal responsibility to ensure that they take an initiative in controlling and maintaining expenses. This includes managing their own expenses and ensuring they are doing everything they can to control their costs and keep them to a minimum.

B. Improvement Proposed by Cooperative

Grayson Board will continue to monitor and analyze their costs to make certain that they are in line with industry standards. Board will review monthly and year to date expenses during monthly Board Meetings as well as travel and meeting requirements. Board will also discuss on an annual basis any changes that need to be made to expense policy.

C. Discussion of Cost/Benefit Analysis

Cost and Benefits would be dependent on any changes made to Board Policy on expenses and compensation. Any increase in board membership, training, and/or participation could lead to an increase in cost to the Cooperative.

VIII. IMPLEMENTATION STEPS (Filled Out By Company)

Recommendation No.	Implementation Steps	Start Date	Completion Date
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II R-7	Continue to Monitor and Review Director Expenses on a Monthly Basis at Board Meeting	April 2020	Ongoing
	Discuss on an Annual Basis any changes necessary to Director Compensation and Expense Policy	November	December
	Continue to Report to Kentucky PSC Director Expenses through required yearly reports	December	March

Status Update:

Grayson has continued at each board meeting to discuss and approve all director expenses. Grayson’s board also approves all meetings that are to be attended. Expenses have been less than budgeted as well as less than compared to the previous year, due mostly to the restrictions and cancellations as result of the Covid-19 pandemic.

An updated list of directors expenses for the year, as well as how they compare to the budgeted expenses is included for your review. Please see Exhibit K

Next Steps:

The Board will continue to approve all meetings and expenses for board members at the monthly Board meeting. Comparisons and YTD totals will be available for their review and discussion.

The Board will also review the Director Compensation and Expense Policy during the budget process, likely at the December board meeting. Any changes to the policy would take effect with the new year. Topics to discuss could include the suggestion from Vantage in changing the per diem amount to reflect previous amounts with an inclusion of health insurance costs as well as how to budget for educational traveling purposes with the pandemic still in place.

RECOMMENDATION – //R8

//R8 Increase involvement by the Board in the strategic planning process with a focus on actions that have an impact on TIER. (Priority: High)

The Strategic Planning section of this audit report discusses in detail a planning process focused primarily on Times Interest Earned Ratio (“TIER”). The Board’s involvement in that process could be accomplished by including an additional agenda item for the monthly Board meetings or preferably a quarterly or six-month meeting devoted entirely to strategic planning. Specifically, the strategic planning sessions should focus on financial and operational goals and the detailed steps to accomplish those goals.

VII. UTILITY RESPONSE (Filled Out By Company)

A. Discussion of Recommendation

Grayson agrees to increase involvement by the Board in the strategic planning process with a focus on actions that have an impact on TIER. Also, a major focus area that Grayson will address is the development and implementation of a strategic plan. Within the strategic plan, financial and operational goals and objectives will be well defined along with specific and clear steps to achieve these outcomes.

B. Improvement Proposed by Cooperative

Defined financial, operational and strategic goals and objectives will give the Board of Directors and Management a guideline to the expectations and needed results in order to achieve the outcomes desired by the Cooperative. By having defined goals and objectives, decisions on what needs to be done and how to accomplish this will guide decision makers into the best decisions necessary for the Cooperative.

C. Discussion of Cost/Benefit Analysis

The cost in the development of a strategic plan would be minimal as CFC offers the service to its borrowing members free of charge. Benefits would be tied directly to the decisions made to achieve the defined goals and objectives contained in the strategic

plan. Increased efficiency, reduction of expenses, increase in margins are all possibilities in execution of a well-defined strategic plan.

VIII. IMPLEMENTATION STEPS (Filled Out By Company)

Recommendation No.	Implementation Steps	Start Date	Completion Date
II R-8	Schedule a strategic planning session.	March 2020	March 2020 (Completed)
	Preliminary discussions on key issues and information that need to be included in the strategic plan. (Board of Directors, Management, Staff)	July 2020	September 2020
	Strategic Planning Session resulting in a formal Strategic Plan Document	September 2020	October 2020
	Implementation of Strategic Plan and periodic discussions with staff and board of progress	October 2020	Ongoing
	Communication with PSC of Strategic Plan and results of Implementation	October 2020	Ongoing

Status Update:

In March, a strategic planning session was scheduled for the end of September and CFC would serve as the facilitator. CFC was chosen as the facilitator due to expertise in the cooperative financial world and with their ability to relate to Grayson’s needs of becoming more strategic and planning in relations to its financials, and in particular TIER.

Preliminary discussions were conducted with CFC facilitators, board chair Harold Dupuy and Interim President & CEO Bradley Cherry in August. Key points and ideas were discussed to ensure that the strategic planning session was beneficial to all participating parties. A survey was sent out and completed by all board members and key staff at Grayson. The results of the survey were compiled and were used as facilitating points during the strategic planning session.

The strategic planning session was held at Greenbo Lake State Resort Park on September 29th and 30th. Participants included: Six Board Members, Attorney, President & CEO, Executive Assistant, Manager and Assistant Manager of Operations, Manager of Technical Services, GIS Technician, and Member Services Supervisor.

During the session, discussions were held on emerging trends in the cooperative industry, a focus on Grayson's mission statement, a SWOT analysis in reference to Grayson, and discussions of goals that Grayson had in the short and long term. Through the brainstorming and discussion, CFC will be developing and presenting a formal strategic plan for Grayson to review, modify, and approve.

During the strategic planning process, a focus was made on the financial stability of Grayson and how to achieve their non-financial goals while still being financially responsible to its members.

Next Steps

- Review, modify, and approve the strategic plan constructed and submitted to Grayson from CFC.
- Utilize the strategic plan as a tool in the operations and planning of Grayson RECC and all decisions made.
- Continue to review and modify, as necessary, the strategic goals set forth and discuss on a periodic basis at future board meetings.

RECOMMENDATION – II-R9

II-R9 **The Board of Directors should take the lead in meaningful cost savings measures, to assure Grayson’s members have affordable electricity now and in the future. (Priority: Medium)**

The Board, with input from management, should be the driver in streamlining Grayson’s operations and reducing costs to make it competitive. This is an experienced BOD and it has adequate current and historical information needed to make meaningful changes. The Board should work with the management team to move forward with bold plans that reduce costs and assure financial stability.

VII. UTILITY RESPONSE (Filled Out By Company)

A. Discussion of Recommendation

The Board and Management must work together to understand and realize that cost saving measures are essential to the success of the cooperative. Tough decisions will have to be made to ensure that safe, affordable, and reliable power continues to be delivered to our members. An integral part of the understanding and cost analysis resides in the budget. A concentrated effort should be made to ensure that the budget meets the needs of the cooperative and is adhered to as closely as possible.

B. Improvement Proposed by Cooperative

Periodic reviews of the budget will identify decisions that need to be made to ensure that Grayson meets its requirements to its lenders and to its members. Decisions made and how they affect the budget are integral to the bottom line and financial health of the cooperative.

C. Discussion of Cost/Benefit Analysis

Cost benefits would be determined on a case by case basis as each decision would have a financial impact on the bottom line.

VIII. IMPLEMENTATION STEPS (Filled Out By Company)

Recommendation No.	Implementation Steps	Start Date	Completion Date
II R-9	Prioritize capital and operational budget items to assist in decision making if mitigation steps are needed in adjusting the budget	May 2020	June 2020
	Review Budget with Board Committee addressing any significant variance and discuss any possible modifications needed	June 2020	Ongoing (Quarterly or as Needed)

Status Update:

As part of the June staff meeting, capital and operational budget items were reviewed and prioritized on a 1-3 scale, with 1 being the highest priority. This was presented to the Board of Directors at the subsequent board meeting and will continuously be reviewed on a quarterly basis with the quarterly budget update. A copy of the report has been included as Exhibit L.

Many items have been postponed until at least 2021, due to concerns and necessity. These items highlighted in green in the exhibit will be discussed during the 2021 budget process and will be subject to approval.

Covid-19 has also played a part in delaying and postponement of items. As the pandemic continues and evolves, additional adjustments may be necessary in regards to the capital and operational items. These are and will be discussed with the full board as needed.

Next Steps:

Grayson will continue to monitor the budget and financial status of the cooperative and will utilize this information to recommend any changes to the capital and operational items listed in the budget.

This will be an ongoing project not only in the current budget but in subsequent budgets as well.

Grayson feels that this recommendation is complete, with the understanding that the implemented process continues through current year and subsequent years.

RECOMMENDATION – III-R1

III-R1 Initiate a new strategic plan that includes re-defining Grayson’s primary mission “To Maintain a TIER of 1.25 or Greater” along with other key operational targets. (Priority: High)

All other business attributes such as safety, reliability, and customer service should be defined as strategic goals that support the TIER based mission. Since this strategic plan focuses on financial issues, it can probably be performed with little or no outside support costs.

Each major Expense and Capital budget initiative should be evaluated and ranked in terms of priority, based on benefit/cost, risk of not achieving strategic goals and impacts on TIER computation. An illustrative prioritization scheme would identify Priority 1 projects as having the highest priority and must be performed regardless of TIER impact. Priority 2 projects are generally necessary however can be deferred or other lower cost solutions be substituted even at the risk that it does not achieve the same benefit-cost ratio. Finally, Priority 3 projects must be deferred until the TIER is projected to equal or exceed 1.25.

VII. UTILITY RESPONSE (Filled Out By Company)

A. Discussion of Recommendation

Recommendation II R-8 should support this recommendation. Step 3 of this recommendation should be implemented.

B. Improvement Proposed by Cooperative

Recommendation II R-8 should support this recommendation.

C. Discussion of Cost/Benefit Analysis

Please see Recommendation II R-8 for additional support for implementation for this recommendation.

VIII. IMPLEMENTATION STEPS (Filled Out By Company)

Recommendation No.	Implementation Steps	Start Date	Completion Date
II R-8	Schedule a strategic planning session.	March 2020	March 2020 (Completed)
	Preliminary discussions on key issues and information that need to be	July 2020	September 2020

	included in the strategic plan. (Board of Directors, Management, Staff)		
	Strategic Planning Session resulting in a formal Strategic Plan Document	September 2020	October 2020
	Implementation of Strategic Plan and periodic discussions with staff and board of progress	October 2020	Ongoing
	Communication with PSC of Strategic Plan and results of Implementation	October 2020	Ongoing

Status Update:

Please see Recommendation II R-8.

Grayson believes this recommendation should be closed and monitored in combination with Request II R-8

RECOMMENDATION – III-R2

III-R2 Review the TIER status report and certify that Grayson’s TIER will equal or exceed 1.25 at each monthly board meeting for the following 12-month period. (Priority: Medium)

If the current month or forecasted 12-month TIER fall below 1.25, the Board will require, from management, by the next monthly meeting an action plan to consider the deferment or substitution of Priority 3 and if necessary, Priority 2 expenditures and capital projects in order to achieve the 1.25 target TIER. If after three consecutive months, the Board still cannot certify that the projected TIER will equal or exceed 1.25, the KPSC should be notified by letter from the Grayson CEO and Board Chairman that the TIER is either currently or projected to be below 1.25 during the course of the proceeding 12-month period. In this letter, Grayson should detail the steps taken pursuant to the strategic plan to mitigate the decline in the TIER.

VII. UTILITY RESPONSE (Filled Out By Company)

A. Discussion of Recommendation

Communication of TIER and its end of the year forecast are key discussions that need to be had with the BOD on a routine basis. When forecasted models show that TIER could be compromised, discussions and decisions need to be made to help alleviate the situation.

B. Improvement Proposed by Cooperative

Grayson will expand on its current model used to communicate to the Board on a monthly basis. This model will communicate expected and actual TIER on a monthly basis as well as projections on year end TIER. Based on projections and the model, action can be taken to assist in boosting TIER by reducing expenses and purchases to help reach financial goals and requirements.

C. Discussion of Cost/Benefit Analysis

There should be no costs in developing and implementing the model discussed in this recommendation.

VIII. IMPLEMENTATION STEPS (Filled Out By Company)

Recommendation No.	Implementation Steps	Start Date	Completion Date
	Develop Model that communicates monthly	April 2020	April 2020

III R-2	projected and actual TIER, along with Year End Projected Tier		
	Prioritize budgeted projects and capital expenditures	April 2020	April 2020
	Present Results monthly to BOD during Financial discussion	April 2020	Ongoing
	Review prioritized list of projects and expenditures if necessary and make appropriate decisions that will assist in achieving TIER	April 2020	Ongoing
	If TIER is projected to be below required target for 3 consecutive months, communicate with PSC action plan moving forward	April 2020	Ongoing

Status Update:

Beginning in March, a model was developed and presented monthly to the board members that presented TIER and OTIER metrics on a monthly, year-to-date, rolling 12-month, and projected year-end figure. The model utilized actual and budgeted numbers to project the metrics. Each month, the model was updated and discussed.

Multiple scenarios have been presented to the board each month and as additional scenarios become necessary, the model can be adjusted to present these situations. Currently, the board is presented each month with a scenario that follows the current budget, the current budget with the outcome of not utilizing the major storm portion of the budget (approximately 500K dollars for the year or \$41,667 per month), as well as a model that portrays the effect of loss revenue generated from late fees being suspended due to Covid-19.

Copies of the models have been included in Exhibit G

Next Steps:

Grayson will continue to utilize these models as well as any other scenarios that may be developed. If projections necessitate, discussions and decisions can be made on the status of capital projects based on TIER and OTIER projections. These decisions would coordinate with the prioritized list of budgeted items in Recommendation II R-9, Exhibit F

We will also look at expanding the model to include other financial metrics in the future, including DSC and MDSC, equity, and statistics deemed appropriate by the financial department and board of directors.

RECOMMENDATION – IV-R1

IV-R1 Establish an annual process to determine appropriate pay increases for non-union employees that is equitable, defensible, and transparent. (Priority: Low)

Vantage recognizes that a compensation study is expensive; however, it is beneficial to create a program that will serve the system for some time into the future. While Vantage does not recommend a below-market pay structure or program that would foster an employee exodus to greener pay pastures, it is concerning that Grayson lacks a formal documented process that governs employee promotion through the pay ranges that could lead to pay levels that exceed current market rates. Coupled with the lack of transparency in the Board's decisions and minutes, the process provides no opportunity for the members of Grayson to be certain that all employees are treated equitably and in a fiscally-responsibly manner.

VII. UTILITY RESPONSE (Filled Out By Company)

A. Discussion of Recommendation

A formal documented process is needed to ensure that proper discussion and decisions are made when determining pay increases.

B. Improvement Proposed by Cooperative

Grayson will develop a formal plan on how it addresses annual salary increases. Through the plan, Grayson will develop and utilize an improved evaluation process that could tie to annual salary increases. Grayson will also review national and regional data when developing its yearly increase proposal through publications released. Grayson will make every attempt to utilize information from similar jobs outside of the utility field as well.

C. Discussion of Cost/Benefit Analysis

Costs of implementing the recommendation should be minimal as it will be completed in house. Minimal costs could include the costs of industry and national data relevant to developing pay increase proposals.

Ensuring equitable treatment of employees while safeguarding the financial health of the cooperative are benefits that can be obtained by implementing the recommendation.

VIII. IMPLEMENTATION STEPS (Filled Out By Company)

Recommendation No.	Implementation Steps	Start Date	Completion Date
IV R-1	Research and communicate with other cooperatives on their process and policy regarding salary increases	April 2020	June 2020
	Develop a draft policy that discusses proposed process in determining salary increases	June 2020	July 2020
	Present to Board Committee for input and changes.	August 2020	August 2020
	Finalize policy and present to Board for Approval	September 2020	September 2020
	Review and present proposal for pay increases	October Yearly	November Yearly

Status Update:

Grayson is in the beginning stages of addressing Recommendation IV-R1. With changes in management and job responsibilities along with staffing issues related to Covid, this recommendation is behind on implementation.

Next Steps:

With the benefit administration duties changing responsibility from Bradley Cherry to Sherry Buckler, both Bradley and Sherry will be working on this recommendation.

Informal requests to other cooperatives in regards to wage increases will take place the beginning of October. These will be taken into consideration as well as philosophies from Bradley and Sherry to present a recommendation to the Board on the process for Wage and Salary increases for 2021 year.

Feedback from the board at the October board meeting will assist in developing a formalized plan on conducting wage increases. Based on the board’s recommendation and the formal wage and salary plan that was completed by NRECA in 2017, along with the budget process, proposals for wage increases in 2021 will be recommended in November and voted on in December.

A formal plan based on these recommendations will be constructed and subsequently approved. This plan will be reviewed annually.

RECOMMENDATION – IV-R2

IV-R2 Accelerate and amplify Grayson’s plan for employee contributions for health care. (Priority: Medium)

Research conducted by the Kaiser Family Foundation indicated that the typical employee contribution for health care across industries was 20%.¹ Grayson could restructure their health care plan to include an employee contribution closer to the market but combine it with a choice of plans that employees can select based on their personal needs. Additionally, Grayson could consider adding dental and vision benefits at no cost to employees. These, with appropriate benefit limitations, are lower cost items that can offset employees’ out-of-pocket expenses for medical services. There may also be ways to reduce costs through creating/participating in pools with other cooperatives or organizations. Small business organizations frequently offer health care options for members. Options should be explored with their benefits consultant. Employees could be solicited for input prior to any decision.

VII. UTILITY RESPONSE (Filled Out By Company)

A. Discussion of Recommendation

Grayson should look into increasing its contribution towards medical insurance, as well as different plans and options within their current plans.

B. Improvement Proposed by Cooperative

Grayson will meet with their benefit provider and other providers to look into opportunities of reducing costs. This is tentatively scheduled for March 31st. This could include offering tiered levels of coverage. A committee would be formed where discussions would take place on options that are available and cost sharing suggestions for the cooperative and its employees. Cost sharing ideas could be a targeted percentage to achieve over x number of years and/or capping the costs and increases covered by the cooperative. A proposal would then be drafted to present to the board for their review and/or approval.

C. Discussion of Cost/Benefit Analysis

A reduction of health care costs would be realized through increased contributions and/or change in plans. Employees could also benefit in the offering of tiered coverage as well as different coverages.

¹ Kaiser Family Foundation research; Wall Street Journal source. 2019

VIII. IMPLEMENTATION STEPS (Filled Out By Company)

Recommendation No.	Implementation Steps	Start Date	Completion Date
IV R-2	Meet with Benefit Administrator to discuss options in regards to coverage and tiered services	March 2020	April 2020
	Form a committee of employees to discuss offerings	April 2020	May 2020
	Develop a proposal to present to BOD committee	May 2020	June 2020
	Finalize proposal and present to board for Approval	July 2020	August 2020
	Review on Yearly Basis	July	August

Status Update:

On April 1st, a conference call was held between Bradley Cherry and Ben Tiernan, Grayson’s Field Service Representative from NRECA. During the conference call, a request was made to quote the cost of the following changes to Grayson’s Benefit Plans:

- Retirement Plan
 - 2.0 Benefit level to:
 - 1.8 Benefit Level
 - 1.7 Benefit Level
 - 1.5 Benefit Level
 - Increasing Retirement Age to 65
 - Increasing Retirement Age to 65 And Reducing benefit levels to above
 - Switching to a 401K Plan Only
- Health Care Plan
 - Suggested Cost Saving changes to our current plan
 - Tiered Coverage
- Other Benefit Changes that may be recommended

Retirement Plan

Mr. Tiernan was able to provide the requested figures, which are attached in Exhibit H. Switching to a 401K only plan, however, provided compliance and feasibility hurdles due to reduce contributions toward the RS Plan and funding requirements associated with it. While the 401K only plan was dismissed, additional analysis was conducted on reducing the RS plan benefit level.

At the August staff meeting, Bradley Cherry presented analysis on what potential cost savings could be realized by changing the benefit level from a 2.0 benefit to a reduced benefit, as well as increasing the retirement age. (See Exhibit H) Through discussions, staff recommended that reducing the benefit level of all new hires from 2.0 to 1.7 while keeping the retirement age at 62. This recommendation was supported with the facts that within the next 5 years, 33% of the office workforce would be eligible for retirement and jumping to 56% within the next 10 years. By switching from a 2.0 to 1.7 benefit level for new hires, the cooperative could potentially save up to \$21,852 per year within the next two years if eligible retirements take place. This number would substantially grow as more retirements took place.

The proposal was submitted to the board in August and was tabled until September, in which it was voted to reduce the benefit level of new hires from a 2.0 level to a 1.7 level. This would currently only apply to office employees, as any change would have to be negotiated with the union to modify their contract.

Health Care Plan

Mr. Tiernan stated that Grayson currently utilizes the most cost effective plan that NRECA offers and any other potential savings for Grayson would have to come from its employee contribution. He also confirmed that NRECA does not offer tiered coverage for options other than single and family.

Grayson was contacted by a KREC representative, Patrick Morrison, to discuss joining the KREC plan, a self-funded plan by members of the EKPC cooperative group. Mr. Morrison was asked and provided a preliminary quote for premiums under their plan. Please see the attached rates in Exhibit I.

Discussion among staff members were concerns of coverage levels and network coverage under a new plan. All were comfortable with the current plan and they felt that most employees would rather contribute a higher percentage towards their health insurance rather than switching insurance companies.

Analysis was initially completed to determine what kind of cost savings could be recognized from the plan. Based on assumptions of coverage and potential tiered choices, saving appeared to reach upward of \$240,000.

To follow up, other cooperatives covered under the plan were contacted to discuss operations of the plan and any unknown information that may be relevant in decision on whether to join. Through these discussions, the following was identified as possible adverse conditions that could affect the benefit of switching

- Restrictions on who could be covered. (Not all spouses and those that could receive coverage elsewhere were excluded from eligibility)
- Surcharges if funding levels did not meet the level of claims submitted.
 - 10% up to 30% if the 5-year average was a negative, regardless of current situation
- Ability to charge an assessment of 1 to 2 months premium based on funding levels for the entire group.

Based on these possibilities and the assumptions that these surcharges and assessments were real possibilities as the reality of Grayson being a relative unhealthy group that is covered, savings could be reduced from \$240,000 to \$48,267.38 if no assessments were added. A single assessment of a month's premium in addition to the 30% penalty would lead to a cost increase in coverage of \$19,449.

This information was presented to the board in September, along with concerns that any change to medical benefits would likely be limited to office employees, as the union would be expected to balk at these changes until the negotiation of the contract. With these concerns and the unlikelihood that the group would take only a percentage of Grayson's workforce, the board voted to keep NRECA's medical coverage for the 2021 year. A contribution percentage has yet to be determined for 2021. This will be discussed during the budget process.

Health Care Contributions

An initial plan set forth in 2019 called for contributions of 3% beginning in 2020 and increasing by 3% each year until reaching 12%. These contributions were for non-union employees.

Through discussions beginning in May, the union agreed to amend their contract to begin contributions toward health care premiums. It was agreed that contributions would begin at \$12 per week (approximately 3%) and increase each year by \$12 for the next three years. There would be no adjustments based on premium increases. This contribution would increase savings by an additional \$13,104 per year, up to \$52,416 at the end of year 4.

While the total contribution may not reach the 12% level at the end of the 4-year period with premium increases, any contribution should be received as a cost reduction benefit and an effort by the union to mitigate cost, outside of opening a negotiated contract.

Next Steps:

Grayson will continue to review its benefits each year and will continuously search for new avenues of coverage and cost savings.

Grayson will also discuss contribution levels and determine the appropriate target goal for employee contributions.

RECOMMENDATION – IV-R3

IV-R3 Develop an appropriate path to reduce the ongoing pension and post-retirement healthcare liabilities. (Priority: Medium)

Grayson should develop a strategy and implementation plan to rein in the future costs of retirees. This should be a two-fold effort that includes a longer service requirement for pension eligibility as well as including a requirement of retiree contributions for health care. Caps on health care costs, caps on percentage increases absorbed by Grayson, different contributions for pre-Medicare and supplemental insurance, as well as other market benchmarked strategies should be considered. Vantage is aware this is a difficult process, but the ongoing, increasing cost burden to the Cooperative members warrants serious discussions with the unions and Board.

VII. UTILITY RESPONSE (Filled Out By Company)

A. Discussion of Recommendation

Grayson's current and future pension and post-retirement health care costs are an expense that can greatly affect the financial position of the cooperative. Controls should be developed to assist in monitoring and regulating these expenses to ensure they are comparable to others in the industry as well as safeguarding the financial status of the cooperative.

B. Improvement Proposed by Cooperative

Grayson plans on meeting with their benefits administrators of their plans to discuss all options offered. A committee of employees and management could discuss options that were present and develop a proposal(s) that could be presented to the board for their review.

C. Discussion of Cost/Benefit Analysis

Cost savings should be realized by any change in the benefit plans. These could possibly be offset by any requirements of Grayson's current plans.

VIII. IMPLEMENTATION STEPS (Filled Out By Company)

Recommendation No.	Implementation Steps	Start Date	Completion Date
IV R-3	BOD established committee meets with Benefit Administrator to discuss options in	March 2020	April 2020

	regard to coverages and options available		
	Form a committee of employees to discuss offering changes	April 2020	May 2020
	Develop a proposal to present to BOD committee	May 2020	June 2020
	Finalize proposal and present to board for approval	July 2020	August 2020
	Review on Yearly Basis	July	August

Status Update:

While the majority of the focus has been on employee health care and retirement costs, Grayson did reach out for additional options on retiree health care coverage. Based on feedback, the current plan offered was again the best option.

Grayson will realize a savings this year of approximately 11.2%, mainly due to a Covid-19 credit that Humana will be providing. Grayson will also see an increase in the retiree contribution from 3% to a minimum of 6%. The contribution percentage will match the contribution percentage of active employees.

Based on these assumptions, retiree cost of insurance could show a savings of a minimum of \$21,449.70.

An additional savings will be realized as Grayson’s former attorney and spouse will no longer be provided medical insurance.

RECOMMENDATION – V-R1

V-R1 Grayson should establish a Disaster Recovery location. (Priority: Medium)

Grayson needs to establish a location or locations from which they can operate in the event of a disaster. It needs to be:

- Scalable
- Within the service territory.
- Part of a plan
- Does not need to be a one size fits all (systems and customer service locations can be different).

VII. UTILITY RESPONSE (Filled Out By Company)

A. Discussion of Recommendation

Grayson realizes that the importance of having a disaster recovery location would be a necessity if a disaster would strike our current location. Being able to quickly get back to our everyday tasks in a facility that would be large enough to accommodate us would be our goal.

B. Improvement Proposed by Cooperative

Grayson is currently working with a several businesses in regards of having a location in our service territory or just outside our service territory that will accommodate our employees and give us an easy transition for us to maintain our daily business in case of a disaster that could occur at our current location at any given time.

C. Discussion of Cost/Benefit Analysis

Currently in our discussion with several businesses that we have contacted there is no cost to the cooperative to implement a disaster recovery plan at their locations. However, a study will have to be done by the staff once we determine the location and the number of employees that will be involved in the relocation of the office to determine what the disaster recovery plan could cost.

VIII. IMPLEMENTATION STEPS (Filled Out By Company)

Recommendation No.	Implementation Steps	Start Date	Completion Date
V-R1	Gathering information on locations and business willing to accommodate the cooperative for disaster relief.	Current	April 2020
	Meet with IT staff departments in other cooperatives to see how their disaster recovery plans are implemented.	Current	On going
	Meet with Staff to complete a disaster recovery plan that best fits our business needs.	May 2020	August 2020

Status Update:

Robert Brown has completed a first step draft of a disaster recovery plan that describes the assumptions made, types of disasters that could affect the cooperative, estimated recovery time for Grayson to become functional again, locations of disaster recovery sites, employees responsible and an initial step by step guide to initiate the plan.

While the disaster recovery plan is in the beginning stages and simple at this point, it does provide a documented procedure to begin if a disaster was to occur.

Please see a copy of the Disaster Recovery Plan attached as Exhibit J.

Next Steps:

Grayson will continue to work towards expanding its Disaster Recovery Plan. Grayson will utilize suggestions received from its current Operations Audit and feedback from the Liberty group to assist in including details relevant to the Disaster Recovery Plan.

Grayson will also continue to talk to the relevant groups involved with the DRP, including: first responders, technology vendors and providers, off site location personnel and other parties relevant to the DRP. Feedback and suggestions from these parties will be incorporated into the disaster recovery plan as needed.

RECOMMENDATION – V-R2

V-R2 Grayson should explore opportunities for shared purchasing and consolidations of processes with other Distribution Cooperatives. (Priority: Medium)

At a minimum, the following areas should be explored:

- Purchasing, materials (all of the supply chain)
- Information Technology
- Training
- Service Call outs using bordering Distribution Cooperatives

None of these opportunities require an actual merger to achieve savings. All can be cooperative arrangements. Also, there is no need for all sharing to be accomplished with any one entity.

VII. UTILITY RESPONSE (Filled Out By Company)

A. Discussion of Recommendation

Grayson should continue to explore all opportunities of shared services with other Cooperatives. These do not have to be limited by any certain area, nor do they require any type of merger to achieve.

B. Improvement Proposed by Cooperative

Management and staff will continue to brainstorm and explore different opportunities for shared services. They will, together with Recommendation VI R-1, incorporate any options that become available. Regular discussion will be had on subject at appropriate meetings.

C. Discussion of Cost/Benefit Analysis

Benefits and costs will be directly tied to any type of opportunity that is put into place.

VIII. IMPLEMENTATION STEPS (Filled Out By Company)

Recommendation No.	Implementation Steps	Start Date	Completion Date
	Grayson Staff would continue to brainstorm and explore any opportunities	April 2020	Ongoing

V-R2	for shared service. Discussions had regularly at staff meetings.		
	As opportunities are presented, Grayson will evaluate and implement opportunities that are beneficial	April 2020	Ongoing
	Update Board of Directors and PSC as needed	April 2020	Ongoing

Status Update:

Grayson has continued to discuss on a monthly basis during staff meetings, opportunities to share procedures and purchasing opportunities with other cooperatives.

Grayson continues to participate and purchase transformers and poles through KEC statewide association. This participation has allowed us to receive the best price possible on poles and transformers, as well as the ability to receive capital credits from UUS based on our participation.

Grayson also participates in the statewide safety program, which provides safety training to all of the cooperatives once a month. They also provide online safety classes for all employees to participate in and facilitate our biennial First Aid & CPR training.

One area that has arisen and was discussed in an earlier recommendation was the possibility of sharing a Professional Engineer (PE). With the current PE that Grayson utilizes set to retire at the end of the year; this would be a perfect opportunity to explore this option. Discussion and analyzing this possibility are preliminary and will be thoroughly explored in the upcoming months.

Next Steps

- Discuss and analyze the sharing of a Professional Engineer (PE) with another cooperative or group.

- Continue regular discussion and analyzation of any opportunities that are presented to share services or processes with other cooperatives or groups.

RECOMMENDATION – V-R3

V-R3 Grayson should explore alternative means of obtaining the necessary IT skill sets. (Priority: Medium)

Some alternatives might include:

- Position sharing with another Cooperative.
- Remote access
- Outsourcing

See also consolidation recommendation

VII. UTILITY RESPONSE (Filled Out By Company)

A. Discussion of Recommendation

The Management Audit report states, “Grayson should explore alternative means of obtaining the necessary IT skill sets.” and “Some alternatives might include: Position sharing with another Cooperative, Remote access and Outsourcing”.

Grayson RECC understands that outsourcing or sharing services with other cooperatives could be a cost saving measure especially in the area of benefits.

B. Improvement Proposed by Cooperative

Grayson RECC will look closely at the cost benefits of employing an IT company for both cost saving, added expertise.

C. Discussion of Cost/Benefit Analysis

An IT Help Desk and/or Remote management service would give us a resource with more expertise than we would possibly have in our multitasking environment.

Outsourced IT services would have an expertise we would not necessarily since they work with a variety of business environments thus giving us an insight into the changing world of IT that we wouldn't necessarily be privy too.

Guidance from an expert resource could prevent unforeseen expenses down the road through industry trend implementations, providing knowledge of network weaknesses, developing end-of-life replacement plans on equipment we currently haven't been notified of by the manufacture, utilization of other off-sight services we may not yet be aware of.

Grayson RECC has moved forward, following the loss of our key IT employee, and contracted an IT company to provide remote monitoring and maintenance of our servers and network as well as provide a Help Desk for employees. This change proves to have saved the Cooperative around \$46,000 a year in IT expenses.

VIII. IMPLEMENTATION STEPS (Filled Out By Company)

Recommendation No.	Implementation Steps	Start Date	Completion Date
<p style="text-align: center;">V R-3</p>	<p>Grayson RECC signed a contract with Netgain Technologies in Lexington, KY July 30, 2019 for their Remote IT Services. This includes:</p> <ul style="list-style-type: none"> -Helpdesk -Remote Engineering - Remediation Services, -- Workstation management, -Workstation installation -Proactive Server -Maintenance services -Network monitoring -Vendor management -Off-site data backup -Backup monitoring -Backup Testing -Warranties, maintenance & licensing management -Antivirus verification and updates -Progress Reports & business planning, including Cyber Risk Profile -Development of new solutions via Providers Network Operation Center 	<p>August 1, 2019</p>	<p>Ongoing</p>
	<p>Continue to look for cost saving opportunities</p>		

Status Update:

Grayson has continued to utilize Netgain Technologies as their main IT support. Netgain has been exceptional in assisting in managing Grayson's technology portfolio and troubleshooting issues in the office. As stated in the initial action plan, Netgain has been utilized to replace an employee who left the cooperative in 2019. Taking into account wages and benefits, the cost savings from utilizing Netgain rather than replacing an employee has accumulated to around \$46,000.

Netgain continues to assist and expand their service and knowledge for our technology portfolio. Grayson feels that this is the best option moving forward as Netgain will be able to provide the service and planning needed for maintaining our network, while allowing the technology staff at the cooperative to assist with onsite support of Information Systems (IS) and Information Technologies (IT)

Next Steps:

Grayson will continue to work with Netgain to expand the coverage and assistance as needed, as well as look for other opportunities to reduce cost or expand coverage as necessary.

Grayson feels that this recommendation is complete, outside of a normal annual review of processes and procedures.

RECOMMENDATION – V-R4

V-R4 Explore opportunities to improve or control costs in line operations. (Priority: High)

Grayson should explore opportunities to better manage costs in the line area including:

- Reduced line crew sizes
- Performing hot work with internal resources
- Reducing overtime
- Better balancing in-house and contractor use

None of these opportunities can be fully realized before the next negotiated contract with the line crew bargaining unit; however, data can be gathered, and analysis performed before that time. At a minimum:

- Perform and document an informal survey of other East Kentucky Power Cooperative (EKPC) distribution cooperatives as to their policies regarding line crew size, hot work and overtime.
- Research available studies on these same topics from industry sources such as NRECA, Touchtone, EKPC and others.

VII. UTILITY RESPONSE (Filled Out By Company)

A. Discussion of Recommendation

Grayson should explore all opportunities to assist in reducing operating expenses.

B. Improvement Proposed by Cooperative

Grayson would form an operations committee to research and evaluate all opportunities to improve its line operations. From the committee, a plan would be developed to address the opportunities that can be achieved and the results associated with them.

C. Discussion of Cost/Benefit Analysis

Costs of implementing the recommendation would be dependent on the opportunities addressed. Additional training and tools may be needed to achieve the changes suggested.

Benefits would be tied directly to a reduction in maintenance and operational costs as well as the opportunity for better service and increased efficiency.

VIII. IMPLEMENTATION STEPS (Filled Out By Company)

Recommendation No.	Implementation Steps	Start Date	Completion Date
V-R4	Form a committee to discuss line operations and opportunities to improve. Members would include: <ul style="list-style-type: none"> • Manager of Operations • Assistant Manager of Operations • GIS Technician • Engineering • Maintenance Leadman • Construction Leadman 	April 2020	June 2020
	Discuss with other members of the cooperative community their practices and how they compare to ours	April 2020	June 2020
	Develop a list of opportunities that could be addressed	June 2020	July 2020
	Prioritize list and begin discussing implementation	July 2020	August 2020
	Propose to BOD for their approval	September 2020	October 2020

Status Update:

In May, Grayson’s Manager and Assistant Manager of Operations, GIS Technician and representatives of the Engineering, Maintenance, and Construction Leadman met to discuss line operations and opportunities to work more cost effective and efficient.

Discussions from their meeting focused on the following topics with outcomes listed:

- **Hot Work** – All parties agreed that beginning to utilize hot work in daily operations would be an opportunity that would increase efficiency and cost effectiveness of work. There would be details that would have to be addressed in order to certify

employees to work lines hot from the Union group. Process to address these issues has started. An analysis of initial cost to start working lines hot will be conducted when requirements from union organization are obtained.

- Overtime Issues – Discussed in Recommendation V-R5. Process of overtime approval for after hour work and additional men/crew when needed on call outs would continue with approval needed from Manager or Assistant Manager of Operations.
- Contractor Use – Grayson should have the opportunity to reduce the utilization of its contractors when Grayson’s crews are able to work lines hot. This should reduce the hours and expense of contract crew. Grayson also has been more open in allowing contractors to suspend work at Grayson and travelling to complete storm work for other utilities. This has saved Grayson approximately \$26,578 to date and is expected to increase by end of the year.
- Truck Use – The group suggested that there were occasions that equipment was being taken to job sites that was not necessary. This was communicated to all employees and crews are being more cognizant on needs of their jobs and leaving unnecessary vehicles and equipment at the office.

Next Steps

- Analyze the cost savings that can be utilized from working lines hot by Grayson’s crew versus a contractor when all information is presented, factoring in upfront startup costs for Grayson and determining what would be appropriate for Grayson to pursue.
- Analyze costs at end of year to represent any cost savings from utilization of trucks and equipment at job sites.
- Analyze contractor costs with budgeted costs to determine any cost savings for Grayson under change in utilization.
- Continue to meet periodically with team and management to discuss any additional issues that could be addressed

RECOMMENDATION – V-R5

V-R5 Explore opportunities to reduce overtime. (Priority: Medium)

The current procedure which permits some overtime decisions to be made by the field crew itself is not within industry standards. While the rationale makes sense, a more focused control should be instituted. Proper planning can help to determine manpower needs and hours necessary to complete any assignment. Better planning regarding parts carried and bucket truck inventory can also help facilitate more efficient work.

VII. UTILITY RESPONSE (Filled Out By Company)

A. Discussion of Recommendation

Grayson should analyze and make recommendations to assist in reducing the amount of overtime and expense related to overtime work.

B. Improvement Proposed by Cooperative

Grayson will analyze their overtime hours and develop a plan that could assist in reducing these hours and expenses. Evaluating maintenance zones, scheduling, and other procedures implemented would all be discussed in the overtime plan.

C. Discussion of Cost/Benefit Analysis

A reduction of overtime would directly reduce the overtime expense of the cooperative. A negative benefit of reducing overtime could be sacrificing service to our members as outage times could increase when reducing overtime hours.

VIII. IMPLEMENTATION STEPS (Filled Out By Company)

Recommendation No.	Implementation Steps	Start Date	Completion Date
V-R5	Complete overtime analysis and discuss with staff and board each month	May 2020	Ongoing
	Develop a plan to discuss overtime issues and any trends noticed through analysis and discussion	May 2020	June 2020
	Implement changes to procedures that would	July 2020	Ongoing

	reduce overtime expenses		
	Compare overtime expense and outage time to realize any savings/benefits	July 2020	Ongoing

Status Update:

The following steps have been implemented or sustained to address overtime hours and controlling/reducing hours for efficiency

- Overtime hours are reported to the board each month
- Quarterly, overtime hours are summarized and presented to the board
- Abnormalities in overtime hours will be explained and discussed during board meeting.
- Overtime hours resulting from a job continuing at the end of a working day must be approved by the Manager or Assistant Manager of Operations beforehand
- Additional use of a crew during maintenance overtime work must be approved by the Manager or Assistant Manager of Operations
- Starting process of documenting and differentiating between maintenance overtime hours and work order over time hours
- In conjunction with Recommendation II-R3, the steps taken to address repeated outages should have a correlation with reduction in overtime

As shown by Exhibit K, overtime hours through September of 2020 are 396 less than budgeted and 661 less than 2019. Overtime costs for the year total \$183,360, which is \$43,721 less than the 2019 total of \$227,081 through the end of September.

Next Steps

- Continue to analyze data and through board discussion, develop additional guidelines in addressing overtime hours and costs
- Monitor overtime costs and address any situations in which non-storm related hours are negatively effecting expenses
- Ensure that any reduction in overtime hours and costs is not a detriment to the service provided to our members

RECOMMENDATION – VI-R1

VI-R1 Explore potential merger opportunities with both adjacent utilities and other nearby utilities should they arise. (Priority: Medium)

While mergers may be difficult, there have been successful Kentucky cooperative mergers in the recent past. Grayson, unless it merges, will continue to find it difficult to reduce costs significantly and expand operational flexibility by a significant degree. Therefore, Grayson is faced with a paradox: Even though a merger is unlikely, though not impossible, the achieved efficiencies and cost savings would be of value to both merging utilities' customers.

Grayson should pursue a two-part strategy. First, if no merger be possible, a plan should be developed that reviews all cost categories and determine if there is potential for combining processes with other cooperatives; then develop plans and action steps to actively pursue any opportunities for cost savings or operational enhancements through joint processes; and finally report the results to the Commission every 6 months.

Second, investigate opportunities for merger, including minimization of restraints. Explore a merger with another EKPC cooperative that is not contiguous. Determine whether the service territory can be split between two or more coops. Does the near term retirement of the Grayson's CEO provide a window for merger opportunities?

VII. UTILITY RESPONSE (Filled Out By Company)

A. Discussion of Recommendation

Grayson should, at a minimum, begin discussions on the possibilities of a merger with another cooperative. Through these discussions, cost saving and shared service opportunities could arise.

B. Improvement Proposed by Cooperative

Operational and Financial improvements would be realized through any merger or shared service agreements. A more stable cooperative and the ability to continue to operate and provide safe, affordable, and reliable power to our members could also be achieved.

C. Discussion of Cost/Benefit Analysis

Costs of seeking a merger or shared service agreement should be minimal. Further pursuit of a merger if a qualified candidate emerged could increase the costs as studies would need to be completed to determine the feasibility of such. Calculation of the short and long term benefits from a numbers perspective would have to be realized through a

study, but operationally, as discussed above, the results could be beneficial to all parties involved.

VIII. IMPLEMENTATION STEPS (Filled Out By Company)

Recommendation No.	Implementation Steps	Start Date	Completion Date
VI R-1	Committee Assigned to Discuss Merger Opportunities	March 2020	March 2020
	Merger Committee will Research and Develop Criteria to Assist with Merger discussions. Included will be discussions with individuals and groups that have experience with mergers.	April 2020	June 2020
	Documentation presented to full Board on how Mergers will be discussed and evaluated.	June 2020	June 2020
	Review Periodically and as needed to BOD and PSC progress towards a merger and/or shared services	June 2020	Ongoing (Every 3-6 Months)

Status Update:

On May 5th, at a special board meeting, Grayson met with a sister rural electric cooperative for an informal discussion related to a merger. No financials were discussed and both parties left with an understanding that discussions were left open to be resumed at any time.

On May 14th, the board again met in special session to discuss the action plans. During this session, it was voted that a merger committee would consist of the full board, President & CEO, and legal counsel. The Board also discussed the meeting with a fellow cooperative and felt at that time; talks of a merger were premature and were confident that changes and improvements at the cooperative would be a major step towards solidifying the operations and financials of Grayson.

Grayson has not completed formal documentation to date that would address how the committee would discuss and evaluate potential mergers. As part of the strategic

planning session that was just completed, CFC has offered to assist Grayson in developing criteria to discuss and evaluate merger opportunities. CFC has also discussed the availability of services that they provide that could complete a financial analysis of a merger if the opportunity was presented.

Grayson also has the services available from Mr. Jim Adkins to evaluate and perform a feasibility study on a merger should an opportunity present itself.

Next Steps

- Complete a formal plan that details the members of the committee that would be involved in a potential merger evaluation and what steps that would entail. This would be completed with information and assistance from CFC as well as Mr. Adkins and NRECA.
- Continue to monitor for opportunities that would be beneficial for Grayson and a subsequent utility in a merger or shared services.