Membership of Rolling Hills Electric, Inc. – Form 990 Information

Electric Rates

Political and media focus has been on rising electric rates in Kansas and Rolling Hills is equally interested in a solution. This is a complex issue driven by multiple factors including long term political decisions without thought of cost impact. The primary cause of the regional difference is the generation mix of fuel types, efforts to build transmission, and distribution density costs. While generation costs have stabilized over the last four years, transmission costs continue to climb. This is largely a result of the highway/byway cost allocation of transmission facilities to move wind energy out of the region. Kansas ratepayers are paying for transmission costs that largely benefit out of state wind developers.

In the meantime, electric cooperative rates have been stable or declining recently.

Kansas Electric Power Cooperative, Inc. (KEPCo) implemented a margin stabilization adjustment in 2011 which has returned over $100 million to member cooperatives. In addition, through various cost-control measures, KEPCo's wholesale rate to its members has decreased by 8.5 percent since 2012. These savings flow back to the membership through the Power Cost Adjustment.

The Value of Electricity

Rolling Hills is doing its best to set rates that are equitable, maintain a highly reliable system and provide value to all members. We assume the lights will come on when we flip the switch -- so the only time most people think about their utility is when the monthly bill arrives.

It is important to remember the utility bill reflects four weeks of heating and cooling comfort, refrigeration, lights, meal preparation, clothes washing, drying and ironing, television and other media entertainment, computer, internet and cell phone charging and all those other activities of modern life. Electricity has simplified household and professional chores and improved the quality of life…and our life expectancy.

Efforts to Enhance Efficient Operations

Rolling Hills is constantly working to find opportunities for cost saving and efficiency. Technology has enabled advanced metering and improved response to outages and customer service.

Consolidations can provide significant savings and currently two cooperatives in Kansas are in the process of a consolidation that is projected to save their members $9 million over 10 years.

Cooperatives in Kansas have been through a number of consolidations which has dropped the count of distribution co-ops headquartered in Kansas from 36 to 25 -- while retaining service to rural areas in 103 of 105 counties.

Rolling Hills is a product of consolidating three Cooperatives in 2002.

Short of a consolidation, several other cooperatives have established alliances for some administrative and operational services. Alliances come in many other forms as well with efficiency as a primary goal. One example of such a partnership is Kansas Electric Cooperatives (KEC), the statewide association for electric cooperatives. By pooling their resources through KEC, co-ops receive essential support in areas that are most effectively and efficiently done as a larger group. Among those benefits are legislative relations, tax and regulatory assistance, continuing education for employees and directors, safety training, youth outreach, communications, public relations, and mutual assistance when storms and other major outages occur.

Another demonstration of resource consolidation occurred when co-op administrators were having difficulty obtaining what they felt were equitable rates for power from large power companies. Their solution? Co-ops decided to generate and transmit their own electricity and formed Sunflower in 1957 to supply power to six distribution cooperatives in western Kansas. In 1975, KEPCo became the state's second generation and transmission cooperative and currently serves 16 cooperatives.

Electric co-ops across the nation have allied to form a national risk management company called Federated Rural Electric Insurance Exchange which writes property, liability workers' compensation and other insurance lines. Federated is headquartered in Shawnee, Kansas.

Cooperatives have also come together to create organizations that specialize in lending to rural electrics, group purchasing and maintenance of equipment, data processing, call centers and technology solutions that are all cost saving consolidations of resources.

Distributed Generation/Renewables

Electric cooperatives are leaders in integrating renewable energy into their overall fuel mix and accommodating those customers desiring renewable or distributed generation (DG) capability, including wind and solar. But, that does not mean renewable electric service is cost-free. Co-ops must be able to recover costs from DG customers connecting to the grid through the co-op system:

- Co-ops are required to serve all members in their territory during times of peak demand;
- Using the utility only as a "back up" still creates costs for the utility;
- Fixed costs for connecting DG remain relatively constant, even if an individual's energy purchases decline;
- DG customers make an individual choice to invest in private generation. That choice must not be subsidized by other customers.

Rolling Hills Trustees self-regulate their rate structures. They must be allowed to recover the cost of providing service across the system for any customer connected to their grid.

Executive Compensation (General Manager Pay)

- Cooperatives are income tax exempt entities which file the IRS Form 990.
- The Form 990 includes data on executive compensation.
- Co-ops must offer competitive pay to attract qualified employees.

For income tax purposes, most electric cooperatives in Kansas are tax exempt entities under I.R.C. 501(c)(12). Although they have no income tax liability, they still report their activities to the Internal Revenue Service on the IRS Form 990, *Return of Organization Exempt From Income Tax.* The form is intended to give the government and the public a picture of the organization's activities each year.

Part VII of this form lists compensation for current and former officers, directors, trustees, key employees, and up to five independent contractors receiving more than $100,000 in payment from the organization. This data is further detailed in Schedule J, Part II for key employees between reportable and estimated compensation.

The IRS 990 information is not a secret and can be found on-line. If there is a question about a Rolling Hills General Manager's salary, it is important to understand the full context of what is required to be reported. The 990 includes compensation commonly reported on W-2:

1. Base compensation
2. Bonus & incentive compensation
3. Other reportable compensation

The 990 also includes a column for Estimated Compensation (amounts that are not part of the employee's take-home pay). Those include:

1. Retirement and other deferred compensation which includes contributions to the employee's retirement or 401(k) plan plus the annual change in actuarial value of a defined benefit plan. This actuarial value can impact a 990 significantly.
2. Nontaxable benefits which can include health insurance, medical reimbursement programs, life insurance, disability benefits.

Although executive salaries make up a small portion of expenses, it can be a controversial topic. This may be even truer in the not-for-profit sector than in the for-profit sector. Some electric cooperative members may feel that money paid to executives unfairly increases electric rates.

Because cooperatives are not-for-profit, the public may perceive them as small operations. In fact, Rolling Hills Electric Cooperative records over $31 million in annual revenue, $122 million in total utility plant and 40 full-time employees. The median for cooperatives in Kansas is $21 million in revenue, $73 million in total utility plant and 32 employees. More than that, cooperatives are highly technical operations that require multiple professional skills. Not only must cooperative leaders have the expertise to manage the generation, transmission and distribution of electricity, they must be adept at finance, accounting, engineering, construction standards, disaster management, human resources, public relations, communications, and working with a board. Rolling Hills provides a competitive package while remaining in the lowest quartile for cooperative CEO compensation.

It is important to remember that the most critical asset of any organization is its people. In today's tight job market, electric cooperatives must offer competitive compensation packages in order to attract qualified employees.

There are 28 distribution cooperatives in Kansas and more than 900 in the country. Electric cooperative personnel have developed specialized skills that are easily transferrable to another cooperative here in Kansas or across the country.

Therefore, cooperatives consider the local labor market as well as annual compensation studies and other market data to compare compensation with similarly situated cooperatives on a state and national level. That helps the cooperative retain skilled personnel who could be recruited to higher paying geographical areas and/or larger cooperatives that may have more economic resources.

In addition, this past year Kansas Corporation Commission staff have reviewed the executive salaries at four electric cooperatives as part of their jurisdiction in transmission rate filings and expressly stated that they find the salaries to be just and reasonable.

No matter where you live, a safe and reliable electric supply is key to our quality of life and our economic opportunity. Rolling Hills takes that responsibility seriously and it requires skilled and dedicated staff throughout the organization.

Director Education and Per Diem

Rolling Hills is governed by a volunteer Board of Trustees that is elected by fellow members of the cooperative. Rolling Hills has 10 Trustees in the Cooperative who have been asked to dedicate their time and energy to the direction of the cooperative.

Trustees bring a variety of skills and experiences to the Board room. Education is a core tenet of the cooperative business model and on-going director education is encouraged to further enhance utility knowledge and board skills. Education sessions range from day-long courses that are part of a comprehensive certification program to webinars, online opportunities and industry updates that are provided at affiliated organization events. Rolling Hills endorsed director certification programs requires a minimum of 13 different full-day sessions to reach the top level. These courses are usually taught in conjunction with state or national meetings that are also important opportunities to keep current on a complicated and changing industry.

Trustees do receive compensation for their monthly Board meetings at the local level. Rolling Hills meets during times that could be productive for employed or self-employed individuals. Trustee compensation, often referred to as a per-diem, is paid for the day of the meeting. Trustees are not additionally compensated for the extensive work in advance of a Board meeting to study materials and be an effective representative of the membership. Trustees will also receive per-diem to fulfill education expectations and for other important industry meetings.

Rolling Hills Trustees are paid $400 per-diem for the day of a monthly Board meeting or to serve as a Delegate or Alternate Delegate to State, National affiliated organizations (KEC, KEPCo, NRECA etc.). Trustees are paid $200 per-diem for days of travel and for the day of training or other meetings in which the Board has authorized attendance. In all these instances, the Trustees are also reimbursed travel and other costs (meals, hotel, etc.).

The General Manager Compensation and Board Per-Diems reported on the Form 990 make up .9% of the cooperative's expenses.

You may request a copy of the Cooperative's 990 by contacting Rolling Hills Electric Cooperative, Inc.'s General Manager or Accounting Department at (785) 534-1601.