FREQUENTLY ASKED QUESTIONS REGARDING THE 2020 AMENDMENTS AND BYLAWS
AMENDMENT FREQUENTLY ASKED QUESTIONS

What is capital stock and when/why did the Cooperative stop issuing it to members?
The proposed amendments to the Bylaws remove language regarding capital stock because it is no longer issued by the Cooperative. Capital Stock was issued to members when they made an initial equity investment into the Cooperative when it was founded in 1937. This practice was discontinued, and all capital stock has been refunded.

Capital Stock should not be confused with Capital Credits. Capital Credits are a benefit of being a member that involves the allocation of excess revenue, called margins, based on how much power (total kilowatt hours) a member purchases each year. Margins are initially used by the Cooperative as capital to operate the business. The capital gives the Cooperative the means to create a reliable system and invest in infrastructure without taking out large, high-interest loans. When the organization's financial position permits and with consideration to rate fairness, Stearns Electric retires, or pays, a portion of these Capital Credits back to its members. Capital Credits will continue to be allocated and distributed.

What is the difference between a membership fee and the Cooperative's current administration fee for opening a new account?
The Cooperative historically charged a membership fee which was a one-time, equity investment by consumers to become a member. Membership fees were discontinued, and any remaining membership fees collected were refunded on or before February 29, 2000.

The Cooperative currently charges, and will continue to charge, a one-time administration fee ($25 administration fee for transfers; $50 administration fee for new construction) to members when they set up a new account with the Cooperative. This fee is designed to help recoup a portion of the costs associated with the processing of a member's application and service connection. A service connection is defined as any connection or reconnection which results in establishing a new account, or the transfer of an existing account, on the books of the Cooperative.

(Note: Neither the membership fee in the past, or the current administration fee impact the allocation or distribution of Capital Credits)

What are distributed energy resources and why does it need to be incorporated into the Bylaws?
Distributed energy resources is the term used when electricity is generated from sources, often renewable energy sources, near the point of use instead of centralized generation sources from power plants. With the increasing popularity of renewable energy and other distributed energy resources, it is necessary for the Cooperative to ensure that the connection and operation of member-owned equipment does not cause adverse impacts to the distribution system or the Cooperative's ability to safely, reliably and efficiently provide electric service to all members. Distributed energy resources are a major shift from the historically normal central distribution model where all generation feeds into the grid at specific points. Now, many generation sources can exist throughout the service territory. Specific details of connecting distributed energy resources will continue to be defined in Cooperative policies and those policies may change from time to time based on updates to federal and state regulations. This section of the proposed Bylaws includes language identifying the importance of safety, reliability and efficiency associated with connecting member equipment to the distribution system.
Is the incorporation of electronic communication new to the Bylaws?
Electronic communication was added to the Bylaws through an amendment in 2005 and has been utilized regularly to communicate with members since that time. The change in language simply takes the existing stand-alone statement and incorporates it into streamlined statement about allowed communication methods.

What is a designated voting representative, and have you always been able to select one?
A designated voting representative is the selection of an individual to represent a member that is a family farm corporation or business entity. Only these defined types of members are allowed to select a designated voting representative in order to ensure that the member's vote is in the hands of an individual that is most informed.

Why do the proposed amendments to the Bylaws allow for a range of director positions on the Board, instead of the fixed nine positions that currently exist?
This proposed change provides the Board of Directors flexibility for the future to adjust the size of the Board and district boundaries as necessary to maintain equitable representation for members in each district.

Does the Cooperative intend to adjust district territories or add/remove director positions?
No, the Cooperative does not intend to change the number of directors on the Board or rearrange district territories in the immediate future.

Why does the Cooperative need to secure the ability to adjust district sizes and/or the number of positions on the Board?
When the Cooperative reaches 35,000 members, MN State Statute 308A.313 requires Stearns Electric to review the size of each district and reapportion equally by the membership residing in or belonging to each district within 10% of one another.

At this time, the Cooperative has approximately 27,000 members. By adopting the proposed amendment, we will be positioned for this requirement when it arrives. In addition, it is good practice for the Cooperative to routinely examine the equity in representation for each district and this amendment provides the necessary flexibility to the Board of Directors to address equity in representation if they identify an issue.

Why do the proposed amendments to the Bylaws eliminate term limits for Directors?
Stearns Electric is one of very few Cooperatives in the state that have term limits for directors. While this practice has long been considered positive because of the turnover and addition of new perspectives to the Board over time, it also puts a limitation on directors. Rapid changes in the energy industry and increased demands of directors require Board members to have extensive knowledge and certifications. Eliminating term limits provides sufficient time to onboard new directors, complete in-depth training and education courses, and allows the Cooperative to benefit from Board member training and experience. While the term length of three years will remain intact, directors would be able to run for an unlimited number of terms.

How do the proposed amendments to the Bylaws change the nominations process?
This change simplifies the process for a member to run for a position on the Cooperative Board of Directors by eliminating a complicated committee process and replacing it with a more efficient and secure application.

The changes remove any potential for bias from involvement of existing Board members or Nominating Committee members. This update allows anyone interested in a Board position in their respective district to submit an application. If this individual meets the eligibility requirements outlined in the Cooperative
Bylaws, they will be added to the election ballot. The application is more efficient and mirrors how an individual would apply to run for office in a standard government election.

**Why is Stearns Electric reviewing the existing nominations process?**
The current nominations process requires the Board of Directors to appoint members to a committee, the Member Engagement Group, which selects a group of additional members to serve on the Nominations Committee. The Nominations Committee then oversees the nomination of candidates to the ballot. While the Cooperative does everything it can to reduce potential bias in all elections, there is an indirect link to incumbent directors through the Member Engagement Group. Removing the Nominations Committee and offering a direct application to the ballot eliminates all potential for bias.

**Who will review applications for candidacy under the new proposed application process for nomination?**
Applications received from members interested in running for a Board position will be reviewed by the Cooperative’s legal counsel to ensure candidates meet the requirements to run for director outlined in the Bylaws. The specific procedure for review, including a possible background check, will be outlined in a Board Policy if/when the amendments to the Bylaws are passed.

**Is electronic voting allowed in the existing Bylaws?**
Yes, the option to use electronic voting was added to the Bylaws in 2005, subject to the Board of Directors approval to implement. In the October 2018 Board Meeting, the Stearns Electric Board voted to allow the implementation of electronic voting for the 2019 Board of Directors election and all elections moving forward. The proposed amendment to the Bylaws regarding electronic voting simply takes the existing stand-alone statement and incorporates it into a streamlined statement about allowed voting methods.

**How were vacancies on the Board filled in the past?**
Vacancies in the past were filled by the existing Board of Directors. The proposed amendment would put that decision in the hands of the Cooperative’s members to vote on a replacement director.

**Why are you discontinuing Capital Credit retirements to those age 70 or older?**
While once common, distributing Capital Credit retirements to those age 70 or older, known as senior retirements, are now seen as a form of discrimination that is not permitted under federal and state law. Unfortunately, discontinuing senior retirements is necessary to protect the Cooperative from discrimination lawsuits.

**What is arbitration and why is it being added to the Bylaws?**
Arbitration often provides a speedier and less costly method to resolve disputes between a member and the Cooperative. The proposed amendment allows the member or the Cooperative to choose arbitration instead of a jury trial. Arbitration as a process to resolve disputes has long been recognized in Minnesota law and many cooperatives in Minnesota already have similar language adopted in their Bylaws. During arbitration, the disputing parties present their case to a neutral third party, who renders a decision. The Minnesota Rural Electric Association and the Cooperative’s insurance company aided in the development of the proposed amendment language.