

Updated Director’s Report

Section 26 (1) Inquiry (under the Rural Utilities Act) into the Affairs of
Tomahawk Rural Electrification Association

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EXECUTIVE SUMMARY

An inquiry into the affairs of the Tomahawk Rural Electrification Association (the “Association”) was initiated in July 2015 as a result of a petition submitted to the Director from Association members. The investigation into the affairs of the Association, which included a review by MNP LLP, resulted in a Director’s report, dated July 13, 2016. The report led to a decision by the Minister under section 27(1) of the RUA in October 2016 that it appeared the affairs of the Association had been mismanaged, had not been conducted in accordance with co-operative principles, and had been conducted on an unsound basis. In December 2016, the Association’s Board (the “Board”) submitted a response to the Minister regarding the 2016 Director’s Report and subsequently met with the Minister on January 30, 2017.

On April 13, 2017 the Minister instructed the Director to update his report to reconcile the differences between the 2016 Director’s Report and the submission from the Board. Below are the three areas the Minister asked the Director to focus on in the updated report and the Director’s findings:

1. The Board’s demonstrated transparency of communication with membership (to be evaluated as affairs related to co-operative principles)

Director’s updated findings:

- *Over the last year the Board made considerable improvements in communication, and the current Board is demonstrating a strong willingness to communicate with membership in a transparent manner.*

2. The Board’s demonstrated ability to govern in a democratic manner by providing membership the opportunity for input on the direction of their Association (to be evaluated as affairs related to co-operative principles)

Director’s updated findings:

- *The Board has taken steps to improve its ability to govern in a democratic manner specifically as it relates to maintaining an up-to-date membership register, implementing a reasonable process to provide members access to the register and running an orderly and transparent 2017 AGM which gave members the opportunity to provide input on the direction of their Association.*

3. The Board’s demonstrated ability to provide all board directors with information required for decision making and the opportunity to participate in decision making internally as well as the ability of the Board to speak with one voice externally (to be evaluated as affairs related to governance on a sound basis)

Director’s updated findings:

- *The current Board has demonstrated a commitment to the implementation of various processes (e.g. electronic information sharing, director binders, Board review of communications, establishment of committees with reporting requirements) to improve information sharing and increase the opportunity for Board directors to participate in decision making.*

It is the Director’s opinion when taken together the steps taken by the Board, over the last year, are positioning the Association to conduct its affairs in accordance with cooperative principles and on a sound basis. To maintain the progress it has made, the Board is encouraged to continue improving its policies and practices related to ensuring transparent communication with its members, governing in a democratic manner and operating with good governance (which includes the Board speaking with one voice externally).

BACKGROUND

The Association is established under the *Rural Utilities Act* (RUA). The business of the Association is managed by a board of directors. The authority and power of the directors is defined in the RUA and regulations.

An inquiry into the affairs of the Association was initiated in July 2015 as a result of a petition submitted to the Director from Tomahawk REA members. Section 26 of the RUA provides the Director authority to decide to conduct an inquiry. The Director's inquiry took into account the role of the Association's board in controlling and managing the Association in accordance with the principles stated in section 27 of the RUA.

The investigation into the affairs of the Association, which included a review by MNP LLP, resulted in a Director's report, dated July 13, 2016. The report led to a decision by the Minister under section 27(1) of the RUA in October 2016 that it appeared the affairs of the Association had been mismanaged, had not been conducted in accordance with co-operative principles, and had been conducted on an unsound basis.

In his October 4, 2016 letter of decision to the Association, the Minister decided that the conditions under Section 27(1) of the RUA had been met and there were grounds to take discretionary steps under Section 27 (2) of the RUA. However, the Minister deferred his decision subject to the Association agreeing to improve its policies and practices to ensure the affairs of the Association are not mismanaged, are conducted in accordance with co-operative principles, and are not being conducted on an unsound basis. The Minister also offered assistance to Association through a grant to improve the Association's governance and transparency practices for the betterment of the Association.

In December 2016, the Minister provided the Board the opportunity to provide a written response to the concerns raised in the 2016 Director's Report. In January 2017, the Minister met with the Board to review their submission, listen to their concerns with the 2016 Director's Report and ask clarifying questions.

The Minister granted assistance by providing two contractors to assist the Association with its upcoming 2017 AGM. On April 13, 2017 the Minister instructed the Director to update his report to reconcile the differences between the 2016 Director's Report and the submission of the board. The updated Director's Report is to focus on:

1. The Board's demonstrated transparency of communication with membership (to be evaluated as affairs related to co-operative principles);
2. The Board's demonstrated ability to govern in a democratic manner by providing membership the opportunity for input on the direction of their Association (to be evaluated as affairs related to co-operative principles); and

3. The Board's demonstrated ability to provide all board directors with information required for decision making and the opportunity to participate in decision making internally as well as the ability of the Board to speak with one voice externally (to be evaluated as affairs related to governance on a sound basis).

On April 20, 2017 the Association held its 2017 AGM where 3 new directors were elected to the Association's board.

METHODOLOGY

In updating the Director's Report, the following processes were conducted:

1. Review of Documentation

- 2016 Director's Report and the Association's Response to the Minister
- *Appendix C* - Written Report from Patrick Knoll (Contractor hired to Chair Association's 2017 AGM) regarding his insights on the Board's internal governance, planning process and transparency to membership
- *Appendix D* - Written Report from Michelle Tetreault (Contractor hired to assist with communication and organization of the Association's 2017 AGM) regarding her insights on the Board's internal governance, and transparency as it relates to addressing the concerns of membership at the AGM
- *Appendix E* – Board Meeting Minutes (March 24, 2016 to June 27, 2017)

2. *Appendix F* - Interviews of Consultants and Board Members (Past and Current)

- Michelle Tetreault (Contractor) – May 9, 2017
- Patrick Knoll (Contractor) – May 24, 2017
- Cheryl Thomas (Chair) – May 29, 2017
- Mike Kos (Director)- May 29, 2017
- Edward Machuk (Director) - May 30, 2017
- Eldon Greanya (Former Director) - May 30, 2017
- Clint Schwalbe (Former Chair) - May 31, 2017
- Sherry Buttrey (Director) – June 1, 2017
- Cindy Iverson (Director) – June 1, 2017
- Dave Rodgers (Director) - June 2, 2017
- Eric Pisceke (Former Director) - June 2, 2017
- Wayne Tournour (Vice Chair) – June 8, 2017

Note: Although requested by the Minister as part of the process to update the Director's Report, interviews with members were not conducted by the Director. Given the Association director election results at the 2017 AGM (i.e. change of 3 Directors), it was determined that not enough time has passed to adequately document the new Board's transparency of communications arising from any communication between the Board and members. However, the Director or staff in the Rural Utilities Section of AF did have the opportunity to talk to 6 members who had telephoned the Director or the office after the 2017 AGM. All members talked to indicated that it was too early to provide comments on communication with the new Board.

3. *Appendix G* - Supplemental Questions

- New Membership Register Request Policy and query related to recent complaints from members.

FINDINGS

Focus Area #1 The Board's demonstrated **transparency of communication with membership** (to be evaluated as affairs related to co-operative principles)

<p>Findings – Director's Report July 2016:</p> <p>The Board made a systemic choice not to communicate with its membership in a transparent manner.</p> <p>The Director's findings took into account the collective effect of the issues identified below:</p> <ul style="list-style-type: none">• The Board appears to have failed to provide their membership with all information on the proposed amalgamation with Equis in a timely manner. Documents were also withheld prior to the general meeting to vote on the amalgamation and only given at the meeting.• The Board did not inform the membership that a Joint Venture (JV) Agreement with Equis was being contemplated.• The Board did not appear to conduct the 2016 AGM in a transparent manner.	<p>Findings – Updated Director's Report July 2017:</p> <p>Over the last year the Board made considerable improvements in communication, and the current Board is demonstrating a strong willingness to communicate with membership in a transparent manner.</p> <p>The Director's updated findings take into account the following observations:</p> <ul style="list-style-type: none">• The Board began sending out a quarterly newsletter to members in 2015. The frequency of the newsletter was increased to monthly in October 2016. The newsletter highlights topical issues and events; however, the quality and relevancy of information contained in the newsletter could be improved. The current board has not yet issued a newsletter, but the first one is scheduled to be published in mid-July 2017.• In October 2016, the Board set up a dedicated phone number to better handle and direct calls/enquires from members. Members feel more comfortable contacting the REA through a dedicated phone rather than personal phone numbers as was the process in the past.• The Board "demonstrated a full and complete willingness to communicate in a transparent manner with membership, before and during the Association's 2017 AGM" (Pat Knoll, PRP, Parliamentarian). This view is supported by Michelle Tetreault's report and interview responses provided by all Board directors. All Board directors indicated that the assistance provided by the consultants contracted by Agriculture and Forestry definitely helped improve the communication to members prior to the AGM and contributed to an orderly and well run 2017 AGM. They also acknowledged the value of this type of expertise and commented on how the Association would benefit by considering similar expertise to help prepare and run future special general meetings and/or AGMs.• The new Board has implemented or plans to implement the following to improve communications with membership:<ul style="list-style-type: none">○ Rented office space in Drayton Valley which will house the Association's administration staff and serve as a location for members to visit if they have questions.○ The Board is taking steps to review its various agreements with advisors to ensure correct information about the Association and its members is shared.
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Focus Area #2

The Board's demonstrated ability to **govern in a democratic manner** by providing membership the opportunity for input on the direction of their Association (to be evaluated as affairs related to co-operative principles)

<p>Findings – Director’s Report July 2016:</p> <p>The Board’s practice of non-transparent communication and the negative effect of those actions limited membership’s ability to assert democratic control over their co-operative.</p> <p>The Director’s findings took into account the collective effect of the issues identified below:</p> <ul style="list-style-type: none">• Restricted access to the membership register, as well as the failure to maintain that register, limited membership’s ability to communicate with each other as well as their ability to organize.• The \$500 fee to request a copy of the membership register was not considered to be a “reasonable” fee to charge. This action was considered to represent an attempt by the Board to limit a member’s access to the membership register and their ability to communicate with the rest of the membership.• The petitioning membership as well as one member of the Board indicated that the Association’s 2016 AGM was governed in an undemocratic manner.	<p>Findings – Updated Director’s Report July 2017:</p> <p>The Board has taken steps to improve its ability to govern in a democratic manner specifically as it relates to maintaining an up-to-date membership register, implementing a reasonable process to provide members access to the register and running an orderly and transparent 2017 AGM which gave members the opportunity to provide input on the direction of their Association.</p> <p>The Director’s updated findings take into account the following observations::</p> <ul style="list-style-type: none">• The Board has taken steps to correct inaccuracies in the membership register. This included working with Equus, their DSO provider, to update and maintain membership information. Considerable updates to the membership register were also done through the Association’s 2017 AGM which saw many new or renewal members sign contracts in the month prior to the AGM or at the AGM. Based on meeting minutes, the new Board is taking additional steps to gather additional member information and verify information• In 2016, the Board decided to reduce the fee to request a copy of the membership register from \$500 to \$75. In June 2017, the Board approved a further fee reduction to \$50 and implemented a formal request process (i.e. submission of a “Membership Register Request Form and Acknowledgement”).• By all accounts the Association’s 2017 AGM was an orderly and well run event. The Board “demonstrated a full and complete willingness to allow membership input into the direction on the Association, before and during the 2017 AGM” (Pat Knoll, PRP, Parliamentarian). Michelle Tetreault reported that “The Chair conducted a fair meeting and (Board) members were able to answer questions in an open and transparent fashion. Motions were posed from various parties and proper debate was heard before motions were brought to a vote.” The above opinions are supported by interview responses provided by all Board directors, and personal observation by the Acting Director, Rural Utilities, who was in attendance at the 2017 AGM. .• The new Board has implemented or plans to implement the following to enhance the opportunity for input from membership on the direction of their Association:<ul style="list-style-type: none">○ Providing time prior to the start of board meetings for members to attend and express concerns or discuss topics of interest.○ Establishing various member comprised committees to increase membership engagement and sharing of ideas/information.
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Focus Area #3

The Board's demonstrated ability to provide all board directors with information required for decision making and the opportunity to participate in decision making internally as well as the ability of the Board to speak with one voice externally (to be evaluated as affairs related to governance on a sound basis)

<p>Findings – Director's Report July 2016:</p> <p>The apparent dysfunction of the Board, at the time of the report (2016-17), both harmed and destabilized the co-operative.</p> <p>The Director's findings took into account the collective effect of the issues identified below:</p> <ul style="list-style-type: none">• The MNP report stated that the Board appeared to be excluding dissenting members.• The MNP report indicated that some Board directors were excluded from decision making as well as being denied access to various agreements and the Membership Register.• The Board was not able to resolve disputes between its members and function as a unified governing body.	<p>Findings – Updated Director's Report July 2017:</p> <p>The current Board has demonstrated a commitment to the implementation of various processes (e.g. electronic information sharing, director binders, board review of communications, establishment of committees with reporting requirements) to improve information sharing and increase the opportunity for Board directors to participate in decision making.</p> <p>The Director's updated findings take into account the following observations:</p> <ul style="list-style-type: none">• The new Board has implemented or plans to implement the following to enhance board governance and the opportunity for Board directors to participate in decision making:<ul style="list-style-type: none">○ Implemented an electronic (email) process to distribute information to Board directors, collect feedback and cast votes, if required, before the next board meeting. All Board directors indicated, that to date, this system is working well and they feel they have the information and opportunity to effectively participate in decision making. The new board has also indicated a willingness to accommodate one Board director who is uncomfortable with emails with an alternative way to communicate information and facilitate participation in the discussion and decision making process.○ The JV agreement with Equus was shared and discussed with all Board directors at the June 1, 2017 board meeting.○ All Board communication materials to members or correspondence from the Board will be reviewed by all Board directors (via email or at Board meetings) to gather input and enhance awareness.○ Commitment to put together and maintain information binders for each Board director. The binders, which will be maintained by the Association's administration staff, will include background information on key items/areas of discussion at Board meetings.○ Establishment of various committees (Policy, Governance, DSO Relationship, Operations) with a requirement to provide reports at Board meetings. The Policy Committee had its first meeting on July 5, 2017.○ Seeking independent legal, financial and communication advice in its review of various agreements, valuation assessment and development of communication materials.• In early 2017, 5 of the 7 Board directors participated in a training session on board governance. Those who participated found the session helpful, but thought any future training should be provided by someone familiar with REAs. All current Board directors felt additional board governance training would be useful (especially with 3 new Board directors) and indicated a strong willingness to participate. The Board is currently working with the Alberta Federation of REAs to find a trainer familiar with REAs.
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CONCLUSION

It is the Directors opinion that the Board has taken several steps over the last year to demonstrate and improve its ability:

- to communicate with members in a transparent manner;
- to govern in a democratic manner by providing membership the opportunity for input on the direction of their Association; and
- to provide all Board directors with information required for decision making and the opportunity to participate in decision making internally.

Taken collectively, the steps taken by the Board are positioning the Association to conduct its affairs in accordance with cooperative principles and on a sound basis. To maintain the progress it has made, the Tomahawk REA Board is encouraged to continue improving its policies and practices related to ensuring transparent communication with its members, governing in a democratic manner and operating with good governance (which includes the Board speaking with one voice externally).