



EMEC ANNUAL REPORT 2002

Eastern Maine Electric Cooperative, Inc.

P O Box 425 Calais, ME 04619

(207) 454-7555 (800) 696-7444

www.emec.com

Proudly Serving Eastern Maine since 1940

Eastern Maine Electric Cooperative, Inc.

P.O. Box 425 Calais, ME 04619

(800) 696-7444 (207) 454-7555

Fax# (207)454-8376

www.emec.com

DIRECTORS

| | |
|---|---------|
| FRANK D. JONES - PRESIDENT | Zone 5 |
| Albert W. Hartford, Vice President | Zone 3 |
| Ralph L. Butterfield, Secretary | Zone 7 |
| R. Scott Skinner, Treasurer | Zone 11 |
| Kathryn F. Mekelburg | Zone 1 |
| Bruce P. Bailey (election Oct. 7, 2003) | Zone 2 |
| Vacant (election Nov. 4, 2003) | Zone 4 |
| Vernon M. Wentworth | Zone 6 |
| Wallace H. Lindahl (election Oct. 21, 2003) | Zone 8 |
| Ralph E. Staples | Zone 9 |
| Beverly D. Clark | Zone 10 |

CHIEF EXECUTIVE OFFICER

James L. Dean, III

ATTORNEY

Daniel L. Lacasse

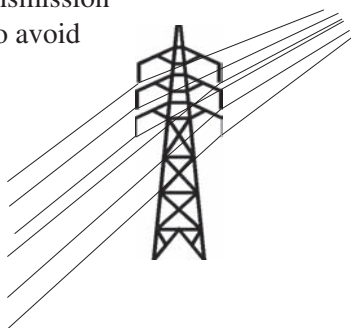
AUDITOR

Berry, Dunn, McNeil & Parker, CPAs

2002 REPORT TO THE MEMBERS

Industry Developments

Cascading power failures across the Northeast on August 14, 2003 apparently began with power transmission problems in the Ohio area. In response to voltage fluctuations within the international transmission grid, numerous power generators went offline to avoid damaging their equipment. As more generators shut down, the system became unstable, and outages spread. Safeguards designed to prevent widespread outages did not stop the largest outage in North American history. Fifty million people in the United States and Canada were plunged into darkness, some of them for as long as three days. (New England and the Atlantic Provinces were spared.)



One outcome of these outages was to draw attention to the same kinds of transmission grid problems mentioned in last year's EMEC annual report. As the 2001 report said, few new transmission lines have been built in the past twenty years, but the energy industry has continued to grow in generation capacity. Market uncertainty and environmental concerns had discouraged the construction of new transmission lines, but the need for improved cross-regional market access was expected to make transmission construction an increasingly important issue. The northeast power outage of 2003 drove this point home.

Regional Updates

345 kV Transmission Line

New Brunswick Power (NB Power) said in May 2003 that it will continue with its plans to build a second 345 kV transmission line to the Maine border, despite uncertainties about the construction of the American line intended to connect with it. The new line would strengthen the ties between Maine and the Maritimes, allowing for the flow of electricity in both directions.

EMEC Operational Developments

The summer of 2002 proved to be a bad year for lightning in Southern Aroostook County. EMEC members in the Patten and Houlton areas faced several outages due to lightning-related problems on Maine Public Service Company's transmission lines.



On November 7, 2002, the substation transformer failed at EMEC's Salmon Falls substation in Calais, putting the area from Calais to Perry to Cooper in the dark. EMEC began to restore power thirteen hours later, after the Co-op's 21-ton, 7 MVA spare transformer was brought from Woodland on a flatbed truck. A 50-ton crane was used to install the transformer. A new 35-ton, 10 MVA transformer is scheduled for installation on September 7, 2003. Contingency plans for spare transformers were made with neighboring utilities until the replacement unit could be delivered.

In other operational news, the Co-op has stepped up its contract right of way maintenance program, spending approximately eighty percent more on trimming, clearing and spraying in 2003 than in 2002. Total right of way expense for 2003 is expected to be near \$225,000.

Field testing of transformers for polychlorinated biphenols (PCBs) continues, as EMEC continues the removal of all PCB transformers from service. PCBs were used for decades to lubricate and cool transformers, motors, and other electrical equipment, but manufacturers stopped producing them after health risks were discovered. Although current regulations set a timeline in which only the PCB transformers in certain locations must be removed, EMEC has chosen to replace all PCB transformers as they are identified.

Looking ahead, the Co-op has begun preparation of a new 4-year work plan and a revised long-range plan for the system.

EMEC Financial Developments

The Cooperative's lenders use two financial ratios as their chief measures of the Cooperative's financial progress. The first of these ratios is the Times Interest Earned Ratio (TIER), which is a measure of the relationship between margin and interest expense. The second ratio is the Debt Service Coverage

Ratio (DSC), which is a measure of the Cooperative's ability to generate funds sufficient to cover its debt service payments. A ratio of 1.00 for DSC means that the Co-op has just enough cash after meeting its operating expenses to make its debt service payments.

EMEC's TIER for 2002 was 1.65, and the DSC was 1.00 for the third year in a row. The DSC would not meet the normal minimum required by the lenders (1.25 for both ratios). The lenders, however, waived EMEC's ratio requirements down to 1.00 for both ratios through 2004, while the Seabrook-related debt is being paid. Afterward, the Co-op's lenders will restore the requirements that it meet the standard minimum TIER and DSC ratios of 1.25.

Standard Offer Rate to Drop

At the end of 2002, EMEC conducted a competitive bid process for the Standard Offer supply contract for its members. EMEC members will pay about a penny less per kiloWatt-hour (kWh) under a new contract signed with WPS Energy Services, Inc., the company that currently sells power to EMEC's customers. The cost of electricity supply used after February 29, 2004 will drop to 5.79 cents per kWh from 6.751 cents per kWh. For a member who uses 500 kiloWatt-hours per month, for instance, the savings would be approximately \$4.80 per month.

Energy Assistance Program

In winter 2001-2002, the Co-op began offering low-income residential assistance as part of a statewide legislative initiative. Total payments to EMEC members through the program for 2003 were \$169,510. The State of Maine will reimburse the Co-op for \$95,548 of that amount.

Energy Conservation Funding

Under a separate program, the Maine Public Utilities Commission has required conservation assessments from the state's delivery utilities for the purpose of funding energy conservation programs. A new line item on EMEC's August bills, labeled "Eng. Conservation Assessment," reflects this per-kiloWatt-hour charge.

Currently this charge is \$0.0006 per kiloWatt-hour for EMEC customers. For a member who used 500 kiloWatt-hours per month, for example, the new charge would be thirty cents per month. Funds collected under this new line item will be forwarded to the Maine Public Utilities Commission.

EASTERN MAINE ELECTRIC COOPERATIVE, INC.
BALANCE SHEET
FOR THE YEARS 2003 AND 2002

ASSETS

| | <u>2003</u> | <u>2002</u> |
|---|---------------------|---------------------|
| Utility Plant: | | |
| Electric plant in service - at cost | \$35,709,106 | \$34,349,886 |
| Construction work in progress | 562,894 | 739,134 |
| Total Utility Plant | 36,272,000 | 35,089,020 |
| Less: Accumulated provisions for depreciation | 17,856,620 | 17,039,132 |
| Net Utility Plant | 18,413,380 | 18,049,888 |
| Other Assets: | | |
| Deferred charges | 69,743 | 29,911 |
| Non-utility property | 701 | 701 |
| Investments in associated organizations | 840,736 | 961,957 |
| Note receivable | 503,125 | 678,125 |
| Total Other Assets | 1,414,305 | 1,670,694 |
| Current Assets: | | |
| Cash - general | 69,038 | 172,025 |
| Accounts receivable - net | 1,012,779 | 1,147,291 |
| Materials and supplies | 333,489 | 319,131 |
| Current portion of investments in assoc. organizations | 132,106 | 811,973 |
| Current portion of notes receivable | 87,500 | 87,500 |
| Other current assets | 2,987 | 2,638 |
| Total Current Assets | 1,637,899 | 2,453,058 |
| Deferred Debits: | | |
| Regulatory asset, net of amortization of \$7,052,415 in 2003 and \$6,303,486 in 2002 | 7,926,163 | 8,675,092 |
| Total Assets | \$29,391,747 | \$30,848,732 |
| LIABILITIES & EQUITY | | |
| Equities: | | |
| Memberships | \$ 48,480 | \$ 48,275 |
| Patronage capital (members' ownership) | 8,933,730 | 8,835,267 |
| Total Margins & Equities | 8,982,210 | 8,883,542 |
| Long Term Debt, excluding current maturities: | | |
| Rural Utilities Service (RUS) | 8,854,618 | 9,327,504 |
| Cooperative Finance Corp. (CFC) | 2,290,907 | 3,847,385 |
| Federal Financing Bank (FFB) | 1,615,141 | 1,041,403 |
| Rural Business - Cooperative Service | 503,125 | 590,621 |
| Total Long Term Debt | 13,263,791 | 14,806,913 |
| Obligations under capital leases, excluding current maturities | 0 | 22,033 |
| Other non-current liabilities | 344,000 | 226,000 |
| Current Liabilities: | | |
| Current maturities of obligations under capital leases | 22,033 | 25,379 |
| Notes payable - line of credit | 3,020,914 | 2,829,669 |
| Current maturities of long-term debt | 2,140,631 | 2,530,880 |
| Accounts payable | 766,109 | 850,225 |
| Consumer deposits | 58,063 | 71,592 |
| Accrued interest | 44,706 | 69,956 |
| Other current and accrued liabilities | 219,361 | 176,737 |
| Total Current Liabilities | 6,271,817 | 6,780,438 |
| Deferred Credits | 529,929 | 355,806 |
| Total Liabilities & Equities | \$29,391,747 | \$30,848,732 |

EASTERN MAINE ELECTRIC COOPERATIVE, INC.
STATEMENT OF OPERATIONS
FOR THE YEARS 2003 AND 2002

| | <u>2003</u> | <u>2002</u> |
|--|-------------------------|--------------------------|
| Operating Revenues: | | |
| Residential | \$ 3,869,153 | \$ 3,727,326 |
| Seasonal | 379,241 | 372,299 |
| Commercial | 1,910,098 | 1,894,391 |
| Street Lighting and Public Auth. | 189,970 | 187,923 |
| Industrial & Other | 19,058 | 1,639,337 |
| Other Electric | 344,164 | 367,834 |
| Total Operating Revenues | <u>6,711,684</u> | <u>8,189,110</u> |
| Operating Expenses: | | |
| Purchased Power | <u>129,850</u> | <u>1,582,708</u> |
| Transmission | 48,988 | 58,886 |
| Distribution, operation | 1,306,257 | 1,138,316 |
| Distribution, maintenance | 505,193 | 401,072 |
| Consumer accounts | 630,191 | 608,135 |
| Customer service & informational exp. | 103,133 | 122,381 |
| Administrative & general | 1,130,952 | 1,063,933 |
| Depreciation | 1,314,916 | 1,192,201 |
| Amortization, regulatory asset | 748,929 | 748,929 |
| Interest - Long-term | 662,498 | 733,333 |
| Other interest and expenses | 89,759 | 128,295 |
| Total Oper. Exp. without Purchase Power | <u>6,540,816</u> | <u>6,195,481</u> |
| Total Operating Expenses | <u>6,670,666</u> | <u>7,778,189</u> |
| Operating Margins | <u>41,018</u> | <u>410,921</u> |
| Patronage dividends | 37,186 | 43,267 |
| Net Operating Margins | <u>78,204</u> | <u>454,188</u> |
| Nonoperating Margins: | | |
| Interest income | 19,693 | 19,727 |
| Other | 1,566 | 2,061 |
| Net Nonoperating Margins | <u>21,259</u> | <u>21,788</u> |
| Net Margins | <u>\$ 99,463</u> | <u>\$ 475,976</u> |
| | | |
| T.I.E.R. | 1.15 | 1.65 |
| D.S.C. | 1.00 | 1.00 |

AUDIT REPORT: The annual audit of records for the columns marked 2003 and 2002 were made by Berry, Dunn, McNeil & Parker, CPA's, 100 Middle Street, Portland, ME 04101. Copies of the audit report are on file with the Maine Public Utilities Commission, Augusta, Maine; the Rural Utilities Service, Washington, D.C.; and are available for inspection at the Cooperative's offices in Calais, Maine.

FIVE YEAR COMPARISONS

GENERAL STATISTICS

| | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| Average Number of Active Accounts | 12,075 | 11,990 | 11,887 | 11,769 | 11,741 |
| Total Miles of Electric Lines | 1,637 | 1,627 | 1,620 | 1,605 | 1,583 |
| Amount Allocated for Bad Debts (% Retail Billings) | \$60,049 | \$58,162 | \$72,933 | \$48,567 | \$53,183 |
| Bad Debts Written Off (Actual for year) | \$75,033 | \$74,800 | \$69,908 | \$66,520 | \$62,865 |

REVENUE & EXPENSE STATISTICS

| | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| Average Annual kWh/Member (Res.)* | 6,419 | 6,194 | 6,171 | 6,276 | 6,233 |
| Average Annual Rev. (cents/kWh) (Res.)* | 7.387 | 7.372 | 7.390 | 8.188 | 12.423 |
| Avg. # of Consumers per Employee | 355 | 353 | 350 | 346 | 345 |
| Operations & Maint./Mile of Line | \$1,107 | \$946 | \$856 | \$787 | \$703 |
| Average Number of Employees | 34 | 34 | 34 | 34 | 34 |
| Consumer Accounts Exp. as % of Rev. | 9.39% | 7.43% | 8.17% | 7.18% | 4.74% |
| A&G Expense as % of Rev. | 16.85% | 12.99% | 13.80% | 10.46% | 7.65% |
| kWh losses | 9.78% | 8.34% | 8.20% | 9.62% | 9.11% |

*Does not include seasonal sales.

Note: In accordance with electric restructuring (deregulation), the Cooperative stopped purchasing and reselling electricity effective March 1, 2000. This change may distort statistical comparisons with previous years.

REVENUE CLASS SUMMARY

| | KWH DELIVERED | PERCENTAGE OF TOTAL DEL. | % INCREASE (DECREASE) OVER 2001 |
|--------------------------------|----------------------|---------------------------------|--|
| Residential Delivery | 52,376,441 | 58.5% | 3.6% |
| Seasonal Delivery | 2,262,131 | 2.5% | 1.7% |
| Commercial Delivery | 31,621,776 | 35.3% | (0.2%) |
| Street Lighting & Public Auth. | <u>2,622,886</u> | <u>2.2%</u> | <u>0.1%</u> |
| Total Retail Delivery | 88,915,126 | 99.3% | 2.1% |
| Industrial & Other Delivery | <u>646,000</u> | <u>0.7%</u> | <u>(97.9%)</u> |
| Totals | 89,561,126 | 100% | (24.3%) |

**kWh Delivered
by Revenue Class
2003**

