

EMEC Annual Report

2022



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EASTERN MAINE ELECTRIC COOPERATIVE, INC.

Eastern Maine Electric Co-op is a nonprofit utility built by and belonging to the communities it serves in Aroostook, Penobscot, and Washington Counties, on Maine’s Eastern Border with Canada. The primary goal of a rural electric cooperative is to deliver reliable, safe electricity at the lowest cost consistent with sound management.

BOARD OF DIRECTORS

<i>R. SCOTT SKINNER - PRESIDENT</i>	<i>Zone 11</i>
<i>Ralph E. Staples, Vice President</i>	<i>Zone 9</i>
<i>Earl C. Hill, Jr., Secretary</i>	<i>Zone 4</i>
<i>John W. Larkin, Treasurer</i>	<i>Zone 7</i>
<i>David W. Johnson</i>	<i>Zone 1</i>
<i>Dana R. Hatton</i>	<i>Zone 2</i>
<i>Lawrence E. Clark</i>	<i>Zone 3</i>
<i>John L. Gallant, Jr.</i>	<i>Zone 5</i>
<i>John C. Leighton</i>	<i>Zone 6</i>
<i>Timothy R. Peters</i>	<i>Zone 8</i>
<i>David A. Harbison</i>	<i>Zone 10</i>

CHIEF EXECUTIVE OFFICER	Scott M. Hallowell
ATTORNEY	James R. Wholly
AUDITOR	BerryDunn



2022 ANNUAL REPORT TO THE MEMBERSHIP

OPERATIONAL DEVELOPMENTS

December 2022 Storms

In December, 2022, two major storms struck Maine within a week of each other, with each causing widespread power outages across the state. This was the first time in memory that two major weather events occurred within less than a week of each other.

On December 17th, a storm of heavy, wet snow began, causing outages across Eastern Maine Electric’s delivery area. The heavy snowfall casued damage in hundreds of locations, making repair progress painfully slow. The worst of the local damage was from the Route 6 corridor northward. Over the next four days, the Co-op’s crews worked with mutual aid and other contract crews, restoring power to the last occupied buildings late on December 20th.

Less than three days later, on the morning of December 23rd, Winter Storm Elliot brought wind gusts of up to 65 miles per hour to New England and the Maritime provinces. Over 300,000 Maine homes and businesses were without power at one point or another. Despite some challenging setbacks, EMEC’s linemen were able to restore power to all occupied

and accessible homes by sunset Christmas Eve. As the Co-op’s linemen headed home for the holiday, other utilities in the surrounding region were predicting two to seven more days of repairs.

Preparation for storms like those in December are never-ending for Eastern Maine Electric Co-op, and a major component of those preparations is aggressive power-line right of way maintenance. Trees and branches are a major source of line damage for electric utilities, and this is especially true in Maine, which is by far the country’s most tree-shaded state.¹ In addition to right-of-way clearing performed in 2022 by Co-op employees, EMEC spent over \$525,000 with contractors to cut, clear, and spray in the power line rights of way.

Route 9 Line Extension for FirstNet

In spring of 2023, Eastern Maine Electric extended a single-phase power line approximately five miles along Route 9 through Day Block Township into Township 30. The line now serves two cell phone towers that are part of the First Responders Network (FirstNet). The five-mile line extension was funded by the Washington County government, in support of that nationwide initiative.

FirstNet is the nationwide public safety broadband network, which gives preemptive priority to public safety data and communication. The new towers were intended to eliminate the last emergency services communication “dark spots” on Route 9, closing the gaps in coverage along that vital travel artery.



LED Streetlights

Eastern Maine Electric’s line crews continued the long-term project of replacing the service territory’s mercury vapor and high-pressure sodium street lights with LED lights. As of June, 2023, approximately 58% of the street lights systemwide had been replaced. This does not include residential security lights, which are being replaced as the old units fail.

Operations Center Completed

In early fall of 2022, construction of the Co-op’s new 17,000-square-foot operations center on Diconzo Avenue in the Calais Industrial Park was substantially completed. The pre-engineered metal building now consolidates the functions of five previously occupied properties. The building now houses equipment, materials, garage, warehouse, and dispatch center. EMEC has smaller storage and operation facilities in other parts of its territory, but for the Co-op’s southern region, everything but the administrative headquarters is now housed at the new building.

EMEC \$250 HEAT PUMP REBATE

In December 2021, Eastern Maine Electric Co-op began offering a limited-time \$250 heat pump rebate on top of the rebates offered by the State of Maine. The rebate was available to Co-op members for installed heat pumps within the Cooperative’s delivery

territory, providing they met the requirements for the State’s rebate program. The rebate was to remain available until either December 23, 2023 or when 300 rebates had been awarded, whichever came first. In June of 2023, with six months remaining in the rebate window, 74 rebates remained available.

ELECTRIC CO-OP YOUTH TOUR



In March, the Cooperative selected two area high school students to take part in the 2023 Electric Co-op Youth Tour of Washington, D. C. From June 15-22, 2023, the Cooperative covered all expenses for the two outstanding students, who were among nearly 1,700 students from 44 states. The student delegates visited numerous monuments and museums, learned about the federal government, and met their elected legislators. Emerson Morris of Washington Academy and Mzzzz Vasington of Lee Academy were the first two students sent by Maine on the Tour in 25 years.

INDUSTRY DEVELOPMENTS

2021-23 Residential Standard Offer Prices				
(in cents/kWh)				
Utility	2021	2022	2023	2021-2023 Increase
EMEC	5.90 ¢	5.90 ¢	5.90 ¢	0.0%
CMP	6.45 ¢	11.81 ¢	17.63 ¢	173.3%
Versant (BHD)	6.19 ¢	11.68 ¢	16.44 ¢	165.6%
Versant (MPD)	6.03 ¢	11.08 ¢	14.88 ¢	146.8%

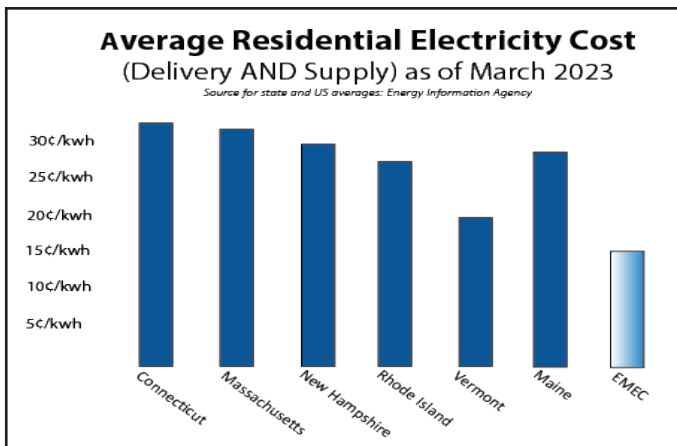
Standard Offer Supply Prices

Electricity supply costs for most of Maine soared even higher in 2023, shattering previous records for a second year in a row. For members of the Cooperative, however, the Standard Offer² Supply price remained at 5.9 cents, the same price it has been since fall of 2020. In 2020, when fuel prices were substantially lower, the Co-op entered into a long-term Standard-Offer supply contract³ with New Brunswick Power (NB Power).

The above chart compares Standard Offer residential rates for EMEC and the state’s larger utilities for 2021, 2022, and 2023.

Maine is not alone in seeing these historic increases. Rising electricity supply prices have had a major impact on the overall cost of electricity in New England. The graph to the right compares average residential rates per kilowatt-hour (kwh) for EMEC and the New England states as of March, 2023. These are total costs, including delivery AND electricity supply.

Eastern Maine Electric hopes the energy markets will have settled out before the present Standard Offer supply contract with NB Power expires at the end of October in 2025. The Co-op continues to monitor the energy markets, seeking the best price possible for after existing contract expires.



FINANCIAL DEVELOPMENTS

The cost impact of the December 2022 winter storms totaled approximately \$348,000, all of which were unexpected expenses that impacted the bottom line.

The Cooperative ended 2022 with a positive net positive margin of \$318,354. The Cooperative's 2022 financial ratios were: TIER⁴ of 1.41; OTIER⁵ of 1.25; and MDSC⁶ of 2.68.

In October 2022, Eastern Maine Electric issued \$200,000 in general retirements of capital credits to present and past Co-op members. The process of retiring capital credits is very similar to that of issuing a dividend at a for-profit company. An electric cooperative converts a small portion of its equity to an asset (cash) and distributes that to the members based on each member's contribution to revenue in the relevant allocation years.

Endnotes

- 1 According to USDA Forest Service, 89% of maine's geography is tree-shaded, 6% higher than New Hampshire, the second-most-tree-shaded state. USDA Forest Service. FIA Annual Report 2016: p. 71. https://www.fs.usda.gov/sites/default/files/fs_media/fs_document/publication-15817-usda-forest-service-fia-annual-report-508.pdf.
- 2 "Standard Offer" is a default supply of electricity with guaranteed availability. Delivery utilities like EMEC issue the bill for both the delivery and electricity charges, but the amount collected for electricity supply charges is forwarded to the supply provider. Without Standard Offer as a guaranteed supply, some consumers might not be able to get electricity supply at all.
- 3 Under the 2020 Standard Offer arrangement, Eastern Maine Electric Co-op became the Standard Offer supply provider. Instead of NB Power selling electric supply directly to each member of the Cooperative, the Co-op is now purchasing and selling the power to the members. This administrative change offered a chance to help lower supply costs for Co-op members, who will notice no difference other than the lower supply rate. The Cooperative's bottom line will not be impacted, because power purchase is a pass-through cost.
- 4 TIER (Times Interest Earned Ratio) measures the relationship between the margin and the interest expense on long-term debt. EMEC's lenders require the Co-op to meet a minimum average TIER of 1.25 on a two-out-of-three-year basis.
- 5 OTIER (Operating Times Interest Earned Ratio). measures the relationship between the operating margin and the interest expense on long-term debt. EMEC's lenders require the Co-op to meet a minimum average OTIER of 1.10 on a two-out-of-three-year basis.
- 6 MDSC (Modified Debt Service Coverage) ratio measures the relationship between the operation-related cash flow and debt service payments. EMEC's lenders require the Co-op to meet a minimum average MDSC of 1.35 on a two-out-of-three-year basis.

EASTERN MAINE ELECTRIC COOPERATIVE, INC.
BALANCE SHEET
FOR THE YEARS 2022 AND 2021

ASSETS

	<u>2022</u>	<u>2021</u>
Utility Plant:		
Electric plant in service - at cost	\$73,966,012	\$67,507,642
Construction work in progress	440,530	2,153,867
Total Utility Plant	74,406,54	69,661,509
Less: Accumulated provisions for depreciation	39,475,525	38,752,217
Net Utility Plant:	34,931,017	30,909,292
Other Assets:		
Other	2,920,918	2,507,173
Investments in associated organizations	1,033,666	1,041,466
Total Other Assets:	3,954,584	3,548,639
Current Assets:		
Cash and cash investments	7,090,998	8,560,103
Accounts receivable - net	1,471,984	1,519,105
Materials and supplies	1,462,031	1,085,310
Other current assets	352,985	276,009
Prepayments	6,399	6,330
Total Current Assets:	10,384,397	11,446,857
Deferred Debits:	3,235,945	3,577,530
Total Assets:	\$52,505,943	\$49,482,318

LIABILITIES & EQUITY

Equities:		
Memberships	\$50,820	\$50,655
Patronage capital	14,750,628	14,641,096
Total Margins & Equities:	14,801,448	14,691,751
Long Term Debt, excluding current maturities:		
Rural Utilities Service (RUS)	1,352,715	1,412,921
Cooperative Finance Corp. (CFC)	4,450,486	4,865,125
Federal Financing Bank (FFB)	17,849,470	16,023,484
Total Long Term Debt:	23,652,671	22,301,530
Current Liabilities:		
Current maturities of long-term debt	949,000	673,000
Line of credit	925,000	0
Accounts payable	1,269,510	1,163,971
Consumer deposits	183,678	174,042
Accrued interest	181,868	42,581
Accrued expenses and other current liabilities	408,517	343,487
Total Current Liabilities:	3,917,573	2,397,081
Deferred Credits:	10,134,251	10,091,956
Total Liabilities & Equities:	\$52,505,943	\$49,482,318

EASTERN MAINE ELECTRIC COOPERATIVE, INC.

STATEMENT OF OPERATIONS

FOR THE YEARS 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Operating Revenues:		
Residential	\$9,357,799	\$8,941,175
Seasonal	1,171,038	1,111,681
Commercial	4,953,376	4,712,225
Street Lighting and Public Auth.	350,731	356,430
Industrial & other	172,650	178,512
Other electric	<u>680,863</u>	<u>432,877</u>
Total Operating Revenues:	16,686,457	15,732,899
Operating Expenses:		
Purchased power	6,374,192	6,158,018
Transmission	<u>229,303</u>	<u>176,798</u>
Distribution, operation	1,926,805	1,979,893
Distribution, maintenance	1,399,499	1,105,616
Consumer accounts	856,605	844,532
Customer service & informational exp.	174,914	178,697
Administrative & general	2,364,247	2,144,308
Depreciation	2,227,101	2,062,880
Amortization, regulatory asset	249,643	249,643
Interest - long-term, net	737,346	661,707
Other interest and expenses	<u>8,565</u>	<u>10,378</u>
Total Oper. Exp. Without Purchased Power:	10,174,028	9,414,452
Total Operating Expenses:	16,548,220	15,572,470
Net Operating Margins:	138,237	160,429
Nonoperating Margins:		
Debt forgiveness	0	600,000
Interest income	129,617	33,065
Patronage dividends	43,559	46,727
Other	<u>6,941</u>	<u>6,179</u>
Net Nonoperating Margins:	180,117	685,971
Net Margins:	\$318,354	\$846,400
OTIER	1.25	1.30
TIER	1.41	2.23
MDSC (Average 2 of 3 highest)	2.68	2.39

AUDIT REPORT: the annual audit of records for the columns marked 2022 and 2021 were made by BerryDunn, 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>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Average number of active accounts	12,995	12,864	12,722	12,637	12,648
Total miles of electric lines	1,781	1,772	1,766	1,764	1,758
Amount allocated for bad debts (% of retail rev.)	\$79,698	\$76,234	\$223,038	\$76,525	\$74,725
Bad debts written off (actual for year)	\$63,563	\$94,409	\$62,047	\$138,492	\$73,480

REVENUE & EXPENSE STATISTICS

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Average annual kWh/member (residential)	7,290	7,023	6,916	6,748	6,690
Average annual billing/kWh(residential)*	16.089	15.942	16.564	16.559	16.055
Avg. # of consumers per employee	371	368	335	372	372
Operations & maint./mile of line	\$1,868	\$1,742	\$1,838	\$1,624	\$1,639
Average number of employees	35	35	38	36	34
kWh losses	9.27%	9.90%	9.30%	9.01%	9.91%

* Includes standard offer electricity supply

REVENUE CLASS SUMMARY

	<u>KWH DELIVERED</u>	<u>% OF TOTAL DELIVERY</u>	<u>% CHANGE FROM 2021</u>
Residential sales	58,161,131	58.2%	3.7%
Seasonal sales	4,622,580	4.6%	6.3%
Commercial sales	35,168,643	35.2%	4.0%
Street Lighting & Public Auth.	<u>2,046,976</u>	<u>2.0%</u>	<u>-7.2%</u>
Total Retail Delivery	<u>99,999,330</u>	<u>100.0%</u>	<u>3.7%</u>

