

2017 Annual Report To The Membership



Eastern Maine 
Electric Cooperative

A Touchstone Energy[®] Cooperative 
The power of human connections[®]

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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>Wallace H. Lindahl, Secretary</i>	<i>Zone 8</i>
<i>Earl C. Hill, Jr., Treasurer</i>	<i>Zone 4</i>
<i>Marshall W. Lucas</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>Vernon M. Wentworth</i>	<i>Zone 6</i>
<i>James W. Bala</i>	<i>Zone 7</i>
<i>Virgil L. Farrar</i>	<i>Zone 10</i>

CHIEF EXECUTIVE OFFICER
ATTORNEY
AUDITOR

Scott M. Hallowell
James R. Wholly
Berry, Dunn, McNeil & Parker, CPAs



2017 ANNUAL REPORT TO THE MEMBERSHIP

OPERATIONAL DEVELOPMENTS

This summer (2018), Eastern Maine Electric will inspect its 40-mile 69 kiloVolt (kV) transmission line, which runs from Calais to Topsfield. The inspection marks the next stage of construction work on the transmission line. The first stage was completed in 2016, when the Cooperative undertook a maintenance and improvement project on the 13-mile segment of the transmission line between Calais and Baileyville. Eight poles were replaced, twenty-six existing structures were reconfigured, and thirteen additional poles were added between existing poles to shorten the wire spans. The work has further storm-hardened the line against icing and heavy, wet snow.

The transmission-line inspection this summer will help identify any new work that may be needed in the near future, as well as further work for the years ahead. The 69 kV line is

considered to be in good shape overall, but since it was built over 50 years ago, the Co-op expects further investment to become necessary in the years ahead.

In addition to regular system operations work and the construction of new line extensions, linemen made progress on some of the long-term projects outlined in the current construction work plan. One such project is the conversion of the Ludlow substation’s south circuit to three-phase power. The project will further improve power quality for members served from that circuit.

In 2017, approximately one mile of line on the County Road (Route 2) was converted to three-phase power. In preparation for additional three-phase conversion, right of way tree clearing was performed along the Hodgdon Mills Road. An additional 4.5 miles in Linneus and Hodgdon had already been converted in 2016.

Other long-term progress was made in various parts of the system. In Baileyville, line crews continued the reconstruction of the delivery grid in town. They set new poles and reconnected the 4th Avenue circuit near Woodland Elementary School. In Calais, crews have completed more than half of the reconstruction and



upgrade of the Hardscrabble Road line; new poles have been set, and the line is being reconnected with larger-gauge wire. In Meddybemps, the main power line serving Stone Road and its side roads has been moved roadside to minimize outages and improve repair access.

As discussed in the 2016 report, the Cooperative began updating its power-line-carrier (PLC) metering system in March of 2017 to a system known as “TWACS”™ (Two-Way Automated Communication System). The 20-year-old Turtle™ system continues to work effectively, but it is no longer supported by the manufacture.

Like the Turtle system, TWACS uses the power lines to transmit meter data to the Cooperative, and it does so at a much faster speed. As the system-wide update continues, the faster data speed will open new possibilities, like faster detection and diagnosis of outages.

The Cooperative has continued its innovative program of working with logging harvesters clearing lots adjacent to power lines. In that situation, logging harvesters often leave a “beauty strip” of trees next to the line in an effort to avoid the cost of dropping a tree on the line itself. With the surrounding trees gone, however, the remaining trees are more vulnerable to storms, and so they present a greater threat to the power lines than before.



To address this, EMEC has encouraged logging companies to notify the Co-op when harvesting near power lines. The Cooperative then coordinates with the harvesters for clearing trees that would otherwise be left behind to potentially threaten the power lines. The benefits of this collaboration are considerable to all concerned. The harvesters benefit by being able to harvest more trees. The Co-op saves tree-clearing cost, eliminates the threat from beauty strips, and ends up with wider tree clearance than a standard power line right of way. Most importantly, the Co-op’s members benefit from greater reliability.

FINANCIAL DEVELOPMENTS

Eastern Maine Electric Cooperative (EMEC) ended 2017 with a net margin of \$458,263. This which was a substantial improvement over 2016, when Co-op ended the year with a negative net margin (net loss). If EMEC has a negative margin, the main cause is usually the cost of major storms. In 2016, however, one of the causes was unusually mild weather. The first four months of 2016 were warmer than normal, resulting in drops in electricity deliveries and revenue. Meanwhile, operational costs had risen steadily for ten years, while the Co-op’s base delivery rates had remained unchanged since 2007. As a result, the impact of a warm winter and spring was enough to help push the Co-op’s statement of operations into a net loss.

EMEC reinvested the \$458,263 margin from 2017 into the electric system, but \$242,684 was applied against the negative net margin from 2016. The remaining 2017 margin, \$215,399 was allocated to the membership as capital credits.

On March 1, 2017, the Cooperative began implementation of its first increase in the base delivery rates since 2007. On that date, the monthly flat charge increased \$1.96 per month as part of a three-step increase. The flat charge increased by the same amount in March of 2018, and it will do so again in March 2019. Unlike previous rate changes, the per-kWh line items are unaffected; the only change is to the monthly flat charge.

Unlike in 2016, the Co-op met the financial ratio requirements of its lenders in 2017, performing as follows. The Cooperative's 2017 TIER² was 1.52; its OTIER³ was 1.18; and its MDSC⁴ was 2.01.

The Standard Offer Supply¹ in EMEC's delivery territory dropped in price by about a penny per kWh on November 1, 2017, from 7.695 ¢/kWh to 6.7 ¢/kWh. For a residential member using 500 kWhs per month, the savings are approximately \$4.97 per month. The Standard Offer Supply contract with NB Power goes through October 2020.

OTHER DEVELOPMENTS

The Co-op resolved its breach-of-contract lawsuit against First Wind Holdings, LLC and four of its former subsidiaries. In November 2016, a jury at the Maine Business and Consumer Court had found in favor of Eastern Maine Electric Cooperative. The defendants appealed and lost, and then appealed to the Maine Supreme Court. The Co-op and the defendants reached a settlement, and in December 2017, the Co-op received proceeds from the settlement of approximately \$6 million.

The breached contract had included terms under which EMEC would have earned transmission-related revenue over the 45-year contract period. This would have mitigated operational costs and helped stabilize base delivery rates well into the future. With this in mind, the Co-op plans to use the settlement in the same manner. EMEC received approval from the Rural Utilities Service to recognize a portion of revenue and margin from the settlement over the course of many years, rather than all at once. This will allow the Co-op to help offset some new operational costs expected in the years ahead, as well as to delay and help lessen future base delivery rate increases. The end result will be longer-term base delivery rate stability for the Co-op's members.

ENDNOTES

- 1. In Maine's deregulated electricity market, EMEC provides the delivery service by which Co-op members receive electricity, which they have purchased from a third-party supplier. The supply costs billed by Eastern Maine Electric are forwarded to the supply company. "Standard Offer Supply" is the default supply of electricity awarded for specified contract periods following a bidding process.*
- 2. Capital credits are a representation of ownership interest based on each year's margin and each Co-op member's proportionate contribution to operational revenue. When there is a negative margin in a given year, no capital credits are allocated until the negative margin has been offset by positive margins in subsequent years.*
- 3. 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.*
- 4. 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.*
- 5. 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 2017 AND 2016

ASSETS

Utility Plant:

	<u>2017</u>	<u>2016</u>
Electric plant in service - at cost	\$59,903,487	\$58,002,786
Construction work in progress	908,718	828,547
Total Utility Plant:	<u>60,812,205</u>	<u>58,831,333</u>
Less: Accumulated provisions for depreciation	34,105,569	32,737,154
Net Utility Plant:	<u>26,706,636</u>	<u>26,094,179</u>

Other Assets:

Other	172,851	351
Prepayments, excluding current portion	4,663,220	3,603,125
Investments in associated organizations	997,423	975,203
Total Other Assets:	<u>5,833,494</u>	<u>4,578,679</u>

Current Assets:

Cash and cash investments	5,384,653	327,615
Accounts receivable - net	1,035,235	1,189,669
Materials and supplies	706,707	720,109
Other current assets	116,986	103,874
Prepayments	1,210,000	959,000
Total Current Assets:	<u>8,453,581</u>	<u>3,300,267</u>

Deferred Debits:

	4,966,075	5,394,734
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Total Assets:

	<u>\$45,959,786</u>	<u>\$39,367,859</u>
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LIABILITIES & EQUITY

Equities:

Memberships	\$49,550	\$49,665
Patronage capital	12,983,382	12,533,101
Total Margins & Equities:	<u>13,032,932</u>	<u>12,582,766</u>

Long Term Debt, Excluding Current Maturities:

Rural Utilities Service (RUS)	4,394,304	4,524,853
Cooperative Finance Corp. (CFC)	6,480,191	6,848,063
Federal Financing Bank (FFB)	11,252,567	9,725,646
Total Long Term Debt:	<u>22,127,062</u>	<u>21,098,562</u>

Other Non-Current Liabilities:

	0	44,800
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Current Liabilities:

Lines of credit	0	750,000
Current maturities of long-term debt	871,000	729,000
Accounts payable	749,070	1,031,897
Consumer deposits	94,156	78,069
Accrued interest	150,936	157,809
Accrued expenses and other current liabilities	375,474	231,044

Total Current Liabilities:

	<u>2,240,636</u>	<u>2,977,819</u>
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Deferred Credits:

	8,559,156	2,663,912
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Total Liabilities & Equities:

	<u>\$45,959,786</u>	<u>\$39,367,859</u>
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EASTERN MAINE ELECTRIC COOPERATIVE, INC.
STATEMENT OF OPERATIONS
FOR THE YEARS 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
Residential	\$4,702,234	\$4,509,508
Seasonal	571,497	526,349
Commercial	2,585,945	2,493,399
Street Lighting and Public Auth.	204,587	201,887
Industrial & other	65,218	42,077
Other electric	735,105	426,829
Total Operating Revenues:	8,864,586	8,200,049
Operating Expenses:		
Purchased power	244,134	207,028
Transmission	49,375	95,204
Distribution, operation	1,714,301	1,717,929
Distribution, maintenance	840,625	754,524
Consumer accounts	925,542	883,953
Customer service & informational exp.	157,684	165,556
Administrative & general	1,814,076	2,056,115
Depreciation	1,829,988	1,749,039
Amortization, regulatory asset	249,643	249,643
Interest - long-term, net	860,810	894,178
Other interest and expenses	37,552	5,363
Total Oper. Exp. Without Purchased Power:	8,479,596	8,571,504
Total Operating Expenses:	8,723,730	8,778,532
Operating Margins:	140,856	(578,483)
Nonoperating Margins:		
Interest income	271,141	278,461
Patronage dividends	40,592	49,458
Other	5,674	7,700
Nonoperating Margins:	317,407	335,619
Net Margins:	458,263	(\$242,864)
OTIER	1.18	0.40
TIER	1.52	0.74
MDSC (Average 2 of 3 highest)	2.01	1.87

AUDIT REPORT: The annual audit of records for the columns marked 2017 and 2016 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

	2017	2016	2015	2014	2013
Average number of active accounts	12,644	12,611	12,563	12,577	12,592
Total miles of electric lines	1,758	1,751	1,748	1,741	1,737
Amount allocated for bad debts (% of retail rev.)	\$75,836	\$74,512	\$74,863	\$71,607	\$72,326
Bad debts written off (actual for year)	\$90,606	\$69,608	\$58,965	\$134,321	\$96,001

REVENUE & EXPENSE STATISTICS

	2017	2016	2015	2014	2013
Average annual kWh/member (Res.)*	6,440	6,431	6,669	6,705	6,575
Average Annual Revenue/kWh (Res.)*	9.134	8.759	8.639	8.672	8.654
Avg. # of consumers per employee	372	371	370	370	360
Operations & maint./mile of line	\$1,453	\$1,412	\$1,446	\$1,579	\$1,869
Average number of employees	34	34	34	34	35
kWh losses	10.50%	10.68%	9.42%	8.93%	9.98%

* Does not include seasonal sales

REVENUE CLASS SUMMARY

	KWH DELIVERED	% OF TOTAL DELIVERY	% CHANGE FROM 2016
Residential sales	51,478,852	56.3%	0.0%
Seasonal sales	2,769,977	3.0%	-1.3%
Commercial sales	35,081,456	38.3%	1.2%
Street Lighting & Public Auth.	2,156,404	2.4%	-1.2%
Total Retail Delivery	<u>91,486,689</u>	<u>100.0%</u>	<u>0.4 %</u>

**kWh Delivered by Revenue Class
2017**

