

# 2018 Annual Report

## To The Membership



**Eastern Maine**   
**Electric Cooperative**

A Touchstone Energy® Cooperative  
*The power of human connections®*



(207) 454-7555 P O Box 425 Calais ME 04619 [www.emec.com](http://www.emec.com) (800) 696-7444

# 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>John W. Larkin</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



# 2018 ANNUAL REPORT TO THE MEMBERSHIP

## OPERATIONAL DEVELOPMENTS

Eastern Maine Electric Co-op (EMEC) continued its conversion of the south circuit of the Ludlow substation from single- to three-phase power. When energized, the three-phase conversion will strengthen power quality for members in New Limerick, Linneus, Hodgdon, Cary, Amity, and Orient. By the end of 2019, crews expect to energize about ten miles of this three-phase conversion: from the substation, down the Drews Mill Road to the Oakfield Road, near Route 2A in Linneus. In future years, the three-phase conversion will continue along the Hodgdon Mills and Horseback Roads to Route 1 in Cary.



Co-op line crews are also converting a 2.6-mile section of the Ludlow Road circuit to three-phase power. Because other segments of the line have already been completed, the Co-op expects to energize three-phase power as far as the Moosebrook Road by early 2020. Among its other advantages, the upgrade and extension of this circuit will eventually make it possible to feed all Monticello EMEC members from the Ludlow substation, phasing out the Monticello metering point, which presently connects with another electric distribution utility.

Line crews continued the system-wide upgrade of the Cooperative's power-line-carrier (PLC) metering system. The upgraded system, known collectively as "TWACS"<sup>™</sup> (Two-Way Automated Communication System), will offer advantages for Co-op members as the deployment progresses. The new units transmit data more quickly over the power lines; meter readings that once took 27 hours to receive can now arrive in less than a minute.

Co-op members with the upgraded units can use the Co-op's account management portal, SmartHub<sup>1</sup>, to access more detailed information about how much electricity





they use and when they use it. As the upgrades continue, the system is also starting to provide the Co-op's dispatchers and linemen with faster detection and diagnosis of power outages.

Co-op employees upgraded the first meters in March of 2017, and as of July 2019, more than half of the EMEC system had been upgraded. EMEC expects to complete the upgrade by the year 2021. In the meantime, the 22-year-old Turtle™ system continues to function effectively, but it is no longer supported by the manufacturer, and no replacement units have been manufactured for several years.

EMEC will replace two of its bucket trucks in 2019, including one in the southern part of EMEC's system and one in the Stacyville/Patten area.

In Baileyville, crews will begin the reconstruction of the Summit Street line later in 2019.

## FINANCIAL DEVELOPMENTS

In March 2019, the Cooperative completed its first increase in base delivery rates since 2007. On that date, the monthly residential flat charge increased \$1.96 per month, which was the final step of a three-step increase. The per-kiloWatt-hour (kWh) billing line items were unaffected by this increase; the only change was to the monthly flat charge.

In 2018, the Co-op met the financial ratio requirements of its lenders, performing as follows. The Cooperative's 2018 TIER<sup>2</sup> was 1.63; its OTIER<sup>3</sup> was 1.15; and its MDSC<sup>4</sup> was 2.01.

EMEC ended 2018 with a positive net margin of \$592,737. This margin was allocated and recorded as capital credits<sup>5</sup> in the names of the Co-op members, based on

each member's contribution to revenue in 2018. The margin was then reinvested in the Cooperative, thereby lowering EMEC's costs by providing capital without borrowing from EMEC's lenders.

## OTHER DEVELOPMENTS

In April 2019, Eastern Maine Electric issued a \$450,000 general retirement of capital credits<sup>6</sup> 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.

Present EMEC members who received electric service prior to 2018<sup>7</sup> received their portion of the capital credit retirement on their April bills, through a credit line item labeled "Capital Credit Retirement." Because former members of the Cooperative no longer have active electric accounts, EMEC instead sent checks to their last known addresses.<sup>8</sup>

This was the first time Eastern Maine Electric issued a general retirement of capital credits, because the Cooperative had not previously been in a position to do so. Among other considerations, the Cooperative's lenders require EMEC to maintain a specified level of equity, but equity has grown slowly, due to the Cooperative's tight margins each year.

### ENDNOTES

1. The account manager SmartHub is available through a web browser or a downloadable application for smart phones and tablets.
2. 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.
3. 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.
4. 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.
5. Capital credits are a record of members' contingent equity interest in the Cooperative. Also known as patronage capital, it is allocated each year based on that 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.
6. Capital credits are recorded and retired by year, and this general retirement included a portion of the patronage capital from each of the allocation years through 2017.
7. Members who were connected after 2017 will receive capital credit retirements in the future, but the 2018 margin had not been allocated as capital credits yet in April 2019, when this general retirement was issued.
8. No check was mailed if a former member's portion of the general retirement totaled less than \$15.00. As future general retirements occur, checks will be sent to these members when their accumulated general retirements total \$15.00 or more.

# EASTERN MAINE ELECTRIC COOPERATIVE, INC.

## BALANCE SHEET

### FOR THE YEARS 2018 AND 2017

#### ASSETS

##### Utility Plant:

Electric plant in service - at cost	\$61,835,523	\$59,903,487
Construction work in progress	753,244	908,718
<b>Total Utility Plant:</b>	<b>62,588,767</b>	<b>60,812,205</b>
Less: Accumulated provisions for depreciation	35,566,758	34,105,569
<b>Net Utility Plant:</b>	<b>27,022,009</b>	<b>26,706,636</b>

##### Other Assets:

Other	1,034,156	172,851
Prepayments, excluding current portion	4,126,315	4,663,220
Investments in associated organizations	1,022,568	997,423
<b>Total Other Assets:</b>	<b>6,183,039</b>	<b>5,833,494</b>

##### Current Assets:

Cash and cash investments	6,377,501	5,384,653
Accounts receivable - net	952,227	1,035,235
Materials and supplies	697,004	706,707
Other current assets	150,786	116,986
Prepayments	1,120,000	1,210,000
<b>Total Current Assets:</b>	<b>9,297,518</b>	<b>8,453,581</b>

##### Deferred Debits:

	<b>4,607,030</b>	<b>4,966,075</b>
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##### Total Assets:

	<b>47,109,596</b>	<b>\$45,959,786</b>
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#### LIABILITIES & EQUITY

##### Equities:

Memberships	49,520	\$49,550
Patronage capital	13,560,991	12,983,382
<b>Total Margins &amp; Equities:</b>	<b>13,610,511</b>	<b>13,032,932</b>

##### Long Term Debt, Excluding Current Maturities:

Rural Utilities Service (RUS)	4,260,440	4,394,304
Cooperative Finance Corp. (CFC)	6,094,617	6,480,191
Federal Financing Bank (FFB)	12,195,027	11,252,567
<b>Total Long Term Debt:</b>	<b>22,550,084</b>	<b>22,127,062</b>

##### Current Liabilities:

Current maturities of long-term debt	871,000	871,000
Accounts payable	756,170	749,070
Consumer deposits	84,863	94,156
Accrued interest	60,462	150,936
Accrued expenses and other current liabilities	267,618	375,474

##### Total Current Liabilities:

	<b>2,040,113</b>	<b>2,240,636</b>
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##### Deferred Credits:

	<b>8,908,888</b>	<b>8,559,156</b>
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##### Total Liabilities & Equities:

	<b>47,109,596</b>	<b>\$45,959,786</b>
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# EASTERN MAINE ELECTRIC COOPERATIVE, INC.

## STATEMENT OF OPERATIONS

### FOR THE YEARS 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>Operating Revenues:</b>		
Residential	4,969,323	\$4,702,234
Seasonal	659,634	571,497
Commercial	2,647,920	2,585,945
Street Lighting and Public Auth.	209,521	204,587
Industrial & other	82,572	65,218
Other electric	658,620	735,105
<b>Total Operating Revenues:</b>	<b>9,227,590</b>	<b>8,864,586</b>
<b>Operating Expenses:</b>		
Purchased power	159,353	244,134
Transmission	135,329	49,375
Distribution, operation	1,832,948	1,714,301
Distribution, maintenance	1,048,155	840,625
Consumer accounts	905,034	925,542
Customer service & informational exp.	166,320	157,684
Administrative & general	1,737,812	1,814,076
Depreciation	1,956,338	1,829,988
Amortization, regulatory asset	249,643	249,643
Interest - long-term, net	917,263	860,810
Other interest and expenses	1,149	37,552
<b>Total Oper. Exp. Without Purchased Power:</b>	<b>8,949,991</b>	<b>8,479,596</b>
<b>Total Operating Expenses:</b>	<b>9,109,344</b>	<b>8,723,730</b>
<b>Operating Margins:</b>	<b>118,246</b>	<b>140,856</b>
<b>Nonoperating Margins:</b>		
Interest income	397,888	271,141
Patronage dividends	50,477	40,592
Other	26,126	5,674
<b>Nonoperating Margins:</b>	<b>474,491</b>	<b>317,407</b>
<b>Net Margins:</b>	<b>592,737</b>	<b>458,263</b>
 OTIER	 1.15	 1.18
TIER	1.63	1.52
MDSC (Average 2 of 3 highest)	2.01	2.01

**AUDIT REPORT:** The annual audit of records for the columns marked 2018 and 2017 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	2018	2017	2016	2015	2014
Average number of active accounts	12,648	12,644	12,611	12,563	12,577
Total miles of electric lines	1,758	1,758	1,751	1,748	1,741
Amount allocated for bad debts (% of retail rev.)	\$74,725	\$75,836	\$74,512	\$74,863	\$71,607
Bad debts written off (actual for year)	\$73,480	\$90,606	\$69,608	\$58,965	\$134,321

REVENUE & EXPENSE STATISTICS	2018	2017	2016	2015	2014
Average annual kWh/member (Res.)*	6,690	6,440	6,431	6,669	6,705
Average annual revenue/kWh (Res.)*	9.353	9.134	8.759	8.639	8.672
Avg. # of consumers per employee	372	372	371	370	370
Operations & maint./mile of line	\$1,639	\$1,453	\$1,412	\$1,446	\$1,579
Average number of employees	34	34	34	34	34
kWh losses	9.91%	10.50%	10.68%	9.42%	8.93%

\* Does not include seasonal sales

	KWH DELIVERED	% OF TOTAL DELIVERY	% CHANGE FROM 2017
Residential sales	53,132,914	56.4%	3.0%
Seasonal sales	3,133,864	3.3%	13.1%
Commercial sales	35,806,609	38.0%	2.1%
Street Lighting & Public Auth.	2,203,451	2.3%	2.2%
<b>Total Retail Delivery</b>	<b><u>94,276,838</u></b>	<b><u>100.0%</u></b>	<b><u>0.4 %</u></b>

