

# 2016 Annual Report To The Membership



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

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

**Eastern Maine Electric Cooperative, Inc.**

(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 consumer-owned electric utility serving parts of Aroostook, Penobscot, and Washington Counties on Maine's Eastern Border with Canada. The primary goal of a rural electric cooperative is to provide quality electric service 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 W. Larkin</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



## 2016 ANNUAL REPORT TO THE MEMBERSHIP

On November 3, 2016, former director and long-time Co-op champion Hugh Libby passed away at a nursing home in Houlton. Hugh had served the Cooperative's members for the better part of seven decades, starting well before his town, Cary, even had electricity. He served on the EMEC board of directors for over twenty years, and after that, he served on every Zone 10 nominating committee until the one that met in 2016. Hugh was 99 years old.

On January 31, 2017, Co-op attorney Daniel L. Lacasse passed away after a brief illness. Dan had served the Co-op as legal counsel for 28 years. Most members will remember Dan as the meeting moderator (and announcer of prize winners) at the Cooperative's Annual Meetings, a role he enjoyed from 1994 to 2016.



*Contractors specializing in transmission line work are seen here reconfiguring a transmission structure on the 69 kV transmission line in October 2016. Such reconfigurations were done with the line energized, to minimize the number and length of planned transmission-line power outages.*

## OPERATIONAL DEVELOPMENTS

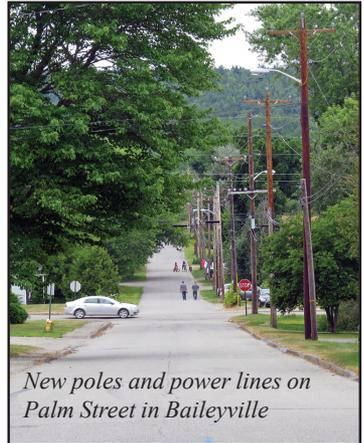
In Summer of 2016, the Cooperative undertook a maintenance and improvement project on the segment of its 69 kiloVolt (kV) transmission line that lies between the Salmon Falls Substation (Calais) and the Woodland Substation (Baileyville). Over a thirteen-mile stretch of the line, eight poles were replaced, twenty-six existing structures were reconfigured, and thirteen additional poles were added between existing poles to shorten the wire spans. The work will further storm-harden the line against icing and heavy, wet snow.

To minimize the number and length of planned transmission-line outages for this project, most of the work was done with the 69 kV lines energized.

In Baileyville, work continued on the reconstruction of the delivery grid in Woodland village. Since the last Annual Report, the work on Palm Street was completed, and the new 7.2 kV lines were connected to Woodland B Substation. The current phase of the longer-term Baileyville project includes rebuilding Washington and Summit Streets as well.

Considerable work was performed over the winter on the single- to three-phase upgrade of the south circuit from the Ludlow Substation. Approximately 4.5 miles of the circuit have now been converted to three-phase power in Ludlow and New Limerick.

In March 2017, the Cooperative began implementing a planned update of its power-line-carrier (PLC) metering system, replacing the 20-year-old “Turtle” automated readers, which are no longer supported by the manufacturer. The updated version, known as “TWACS” (Two-Way Automated Communication System), will bring a number of advantages for Co-op members as it is deployed over the next several years. Among



*New poles and power lines on Palm Street in Baileyville*



*EMEC linemen running wire to a new line extension across Route 1 in Perry.*

other things, the upgrade will eventually provide the Co-op with faster and more accurate information about outages during widespread storms. As with the older system, TWACS uses the power lines to transmit meter data to the Cooperative.

## **FINANCIAL DEVELOPMENTS**

The Co-op had a negative net margin of (\$242,864) for 2016, mostly as a result of two developments. First, Eastern Maine Electric was reaching the limits of its ability to cover its operational costs without an increase in base delivery rates. The Co-op's base delivery rates had not increased since 2007, while operational costs had risen over the period. The second major development affecting the margin was that kiloWatt-hour (kWh) deliveries were down dramatically in the first four months of 2016, due to an abnormally warm winter.

Even though EMEC always operates on leaner margins than most electric cooperatives, negative margins are unusual. This is the first time in memory that a negative margin was not primarily the result of major storm repair costs.

Given the negative margin for 2016, it is not surprising that the Cooperative did not meet two of the margin-related financial ratios required by its lenders. The lenders granted the Co-op waivers in this instance, in large part because a rate filing was already planned, and the filing would result in increased operational revenues starting in 2017. The Cooperative's 2016 TIER<sup>2</sup> was 0.74. Its OTIER<sup>3</sup> was 0.40, and its MDSC<sup>4</sup> was 1.74.

As a result of the negative margin, no capital credits were allocated<sup>5</sup> for 2016.

On the March 2017 electric bills, the Cooperative implemented its first increase in base delivery rates since 2007. EMEC had delayed this request for several years through the strategic management of financial, operational, and human resources. These measures also enabled the Co-op to implement a smaller rate adjustment, and to phase in that adjustment over a three-year period.

Unlike previous rate changes, the only increase was to the monthly minimum charges, which increased \$1.96 for the residential, seasonal and general service classes and twice that amount for the large commercial class. The monthly minimums for all rate classes will increase again by the same amounts in 2018 and 2019. The base delivery charge per kiloWatt-hour will remain the same for all rate classes. EMEC's minimum charges are on the very low end of the cost scale nationally, and that will remain the case after the three-year phase-in period is finished.

## OTHER DEVELOPMENTS

On November 18, 2016, a jury at the Maine Business and Consumer Court found in favor of Eastern Maine Electric Cooperative, in its lawsuit against five wind power companies: First Wind Holdings, LLC and four of its former subsidiaries<sup>6</sup>. The parties had entered into a contract for the Cooperative to purchase 12.54 miles of the transmission line connecting the wind companies' facilities to the electric grid. The contract included the detailed, agreed-to business terms. The wind companies had agreed to pay the Cooperative for the use of the line over a long-term period. They agreed that the payments would cover the Cooperative's cost of owning and operating the line, including all costs of repairs and upgrades, and a return on the Cooperative's investment in the line. The contract also required good faith negotiations to deliver and execute final documents with the agreed-to business terms.

The final documents were never executed, due to the failure of the wind companies to negotiate in good faith. As a result, EMEC filed a lawsuit for breach of contract. After four days of trial, the 9-member jury reached a unanimous decision after two hours of deliberation, finding that the wind companies had failed to negotiate in good faith. The decision awarded the Cooperative \$13.6 million, which was the net present value of the net income the Cooperative would have received from the wind farms' payments to use the transmission line.

As of this report, the wind companies have not paid any of the jury award amount. After the verdict, the wind companies filed motions to have the jury verdict reduced or dismissed. In April 2017, the Court denied all of these motions. The wind companies have since filed an appeal to the Maine Supreme Court. As of the writing of this report, it was expected that the case would be briefed and ready for consideration by the Maine Supreme Court near the end of 2017. A decision is expected in 2018.

### 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. 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 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.*
- 6. First Wind Holdings is now owned by Sun Edison. The four former subsidiaries (Evergreen Gen Lead, LLC; Evergreen Wind Power III, LLC; Stetson Holdings, LLC; and Stetson Wind, II, LLC) are now owned by TerraForm Power, Inc.*

**EASTERN MAINE ELECTRIC COOPERATIVE, INC.**  
**BALANCE SHEET**  
**FOR THE YEARS 2016 AND 2015**

**ASSETS**

**Utility Plant:**

Electric plant in service - at cost	\$58,002,786	\$56,037,543
Construction work in progress	828,547	647,802
<b>Total Utility Plant:</b>	<b>58,831,333</b>	<b>56,685,345</b>
Less: Accumulated provisions for depreciation	32,737,154	31,570,208
<b>Net Utility Plant:</b>	<b>26,094,179</b>	<b>25,115,137</b>

**Other Assets:**

Other	351	351
Prepayments, excluding current portion	3,603,125	4,319,251
Investments in associated organizations	975,203	952,129
<b>Total Other Assets:</b>	<b>4,578,679</b>	<b>5,271,731</b>

**Current Assets:**

Cash and cash investments	327,615	555,909
Accounts receivable - net	1,189,669	1,171,936
Materials and supplies	720,109	654,013
Other current assets	103,874	114,070
Prepayments	959,000	865,000
<b>Total Current Assets:</b>	<b>3,300,267</b>	<b>3,300,928</b>

**Deferred Debits:**

<b>5,394,734</b>	<b>5,624,459</b>
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**Total Assets:**

<b>\$39,367,859</b>	<b>\$39,372,255</b>
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**LIABILITIES & EQUITY**

**Equities:**

Memberships	\$49,665	\$49,765
Patronage Capital	12,533,101	12,781,434
<b>Total Margins &amp; Equities:</b>	<b>12,582,766</b>	<b>12,831,199</b>

**Long Term Debt, excluding current maturities:**

Rural Utilities Service (RUS)	4,524,853	4,648,510
Cooperative Finance Corp. (CFC)	6,848,063	7,199,851
Federal Financing Bank (FFB)	9,725,646	9,978,671
<b>Total Long Term Debt:</b>	<b>21,098,562</b>	<b>21,827,032</b>

**Other non-current liabilities:**

<b>44,800</b>	<b>53,300</b>
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**Current Liabilities:**

Lines of credit	750,000	0
Current maturities of long-term debt	729,000	703,000
Accounts payable	1,031,897	813,500
Consumer deposits	78,069	85,834
Accrued interest	157,809	57,816
Accrued expenses and other current liabilities	231,044	343,809

<b>Total Current Liabilities:</b>	<b>2,977,819</b>	<b>2,003,959</b>
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**Deferred Credits:**

<b>2,663,912</b>	<b>2,656,765</b>
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**Total Liabilities & Equities:**

<b>\$39,367,859</b>	<b>\$39,372,255</b>
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**EASTERN MAINE ELECTRIC COOPERATIVE, INC.**  
**STATEMENT OF OPERATIONS**  
**FOR THE YEARS 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating Revenues:</b>		
Residential	\$4,509,508	\$4,650,956
Seasonal	526,349	498,664
Commercial	2,493,399	2,489,295
Street Lighting and Public Auth.	201,887	198,400
Industrial & Other	42,077	42,329
Other Electric	426,829	682,395
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<b>Total Operating Revenues:</b>	<b>8,200,049</b>	<b>8,562,039</b>
<b>Operating Expenses:</b>		
Purchased Power	207,028	188,832
Transmission	95,204	37,197
Distribution, operation	1,717,929	1,813,910
Distribution, maintenance	754,524	713,273
Consumer accounts	883,953	940,127
Customer service & informational exp.	165,556	199,563
Administrative & general	2,056,115	1,758,814
Depreciation	1,749,039	1,716,537
Amortization, regulatory asset	249,643	249,643
Interest - Long-term, net	894,178	848,495
Other interest and expenses	5,363	23,368
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<b>Total Oper. Exp. without Purchased Power:</b>	<b>8,571,504</b>	<b>8,300,927</b>
<b>Total Operating Expenses:</b>	<b>8,778,532</b>	<b>8,489,759</b>
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<b>Operating Margins:</b>	<b>(578,483)</b>	<b>72,280</b>
<b>Nonoperating Margins:</b>		
Interest income	278,461	228,834
Patronage Dividends	49,458	45,614
Other	7,700	5,999
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<b>Nonoperating Margins:</b>	<b>335,619</b>	<b>280,447</b>
<b>Net Margins:</b>	<b>(\$242,864)</b>	<b>\$352,727</b>
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OTIER	0.40	1.11
TIER	0.74	1.41
MDSC	1.74	1.92

**AUDIT REPORT:** The annual audit of records for the columns marked 2016 and 2015 were made by Berry Dunn, McNeil & Parker, CPA's, 100 Middle Street, Portland, ME 04104. 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	2016	2015	2014	2013	2012
Average Number of Active Accounts	12,611	12,563	12,577	12,592	12,620
Total Miles of Electric Lines	1,751	1,748	1,741	1,737	1,736
Amount Allocated for Bad Debts (% of Retail Rev.)	\$74,512	\$74,863	\$71,607	\$72,326	\$74,680
Bad Debts Written Off (Actual for year)	\$69,608	\$58,965	\$134,321	\$96,001	\$104,931

REVENUE & EXPENSE STATISTICS	2016	2015	2014	2013	2012
Average Annual kWh/Member (Res.)*	6,431	6,669	6,705	6,575	6,487
Average Annual Revenue/kWh (Res.)*	8.759	8.639	8.672	8.654	8.619
Avg. # of Consumers per Employee	371	370	370	360	371
Operations & Maint./Mile of Line	\$1,412	\$1,446	\$1,579	\$1,869	\$1,375
Average Number of Employees	34	34	34	35	34
kWh losses	10.68%	9.42%	8.93%	9.98%	9.93%

\* Does not include seasonal sales

## REVENUE CLASS SUMMARY

	KWH DELIVERED	% OF TOTAL DELIVERY	% CHANGE FROM 2015
Residential Sales	51,486,079	56.5%	-4.4%
Seasonal Sales	2,806,166	3.1%	8.6%
Commercial Sales	34,676,956	38.0%	-2.0%
Street Lighting & Public Auth.	2,182,510	2.4%	-0.3%
<b>Total Retail Delivery</b>	<b><u>91,151,711</u></b>	<b><u>100.0%</u></b>	<b><u>-3.0%</u></b>

