

2020 Annual Report



Eastern Maine Electric Cooperative

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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

R. SCOTT SKINNER - PRESIDENT

Zone 11

Ralph E. Staples, Vice President

Zone 9

Earl C. Hill, Jr., Secretary

Zone 4

John W. Larkin, Treasurer

Zone 7

Marshall W. Lucas

Zone 1

Dana R. Hatton

Zone 2

Lawrence E. Clark

Zone 3

John L. Gallant, Jr.

Zone 5

Vernon M. Wentworth

Zone 6

Timothy R. Peters

Zone 8

Virgil L. Farrar

Zone 10

CHIEF EXECUTIVE OFFICER

Scott M. Hallowell

ATTORNEY

James R. Wholly

AUDITOR

Berry, Dunn, McNeil & Parker, CPAs



2020 ANNUAL REPORT TO THE MEMBERSHIP

OPERATIONAL DEVELOPMENTS

The Cooperative anticipates completing the system-wide upgrade of its power-line-carrier (PLC) metering system by the end of 2021. Implementation began in March 2017, and most of the metering system had been upgraded as of July 1, 2021.

While Eastern Maine Electric has used power-line carrier metering for over 24 years, the upgraded system, known collectively as “TWACS”™ (Two-Way Automated Communication System), makes more effective use of the medium. More information can be sent in 60 seconds than used to be possible with a 24-hour sustained signal. This greater efficiency provides the Co-op’s dispatchers with much faster outage information, while also providing members with data on hourly energy use.

In Baileyville, linemen finished upgrading the power lines on Summit Street as part



of the ongoing reconstruction of the Baileyville delivery grid. In a related project, most of the Lamb Farm circuit has been upgraded to 7200 Volts from 2400 Volts, and the process should be completed by year-end. Once Broadway Street, the South Princeton Road, and the Maple Street neighborhood have been rebuilt, the entire Baileyville grid will have been upgraded from the 2400-Volt substation to the newer 7200-Volt new Woodland substation.

INVESTMENTS / PLANNING FOR THE FUTURE

A key component of the Eastern Maine Electric grid is its 69 kiloVolt (kV) transmission line. This line interconnects with New Brunswick Power (NB Power) in Calais, and it feeds power to the Cooperative's substations in Calais, Baileyville, Princeton, and Topsfield. Completed in the 1970s, the 40-mile line would cost tens of millions in inflation-adjusted dollars to build today.

In 2016, the Co-op began a series of periodic investments in this line, working outward from the US-Canada border. While this transmission line has held up well, these investments will maintain and improve the line for the future. Work will include shortening the spans between poles, replacing some poles, repairing woodpecker damage in others, and reconfiguring pole top assemblies. During the 2016 and 2020 transmission work projects, a total of nine structures were replaced, 37 pole tops were reconfigured, and 15 mid-span poles were added. This work was done with the line energized.

Another round of such improvements is scheduled during the upcoming winter season, when the Co-op plans to replace five H-structures and construct 19 new single-pole structures. This includes rebuilding a section of line between Route 191 and Route 1 in Calais.



EMEC Operations Center

When completed in summer of 2022, the pre-engineered metal structure will combine five Calais properties into one operation center. The Co-op's administrative offices will remain on Union Street. (Approximate Scale)

BARING STREET, CALAIS

Eastern Maine Electric's planning for the future has long included the construction of an operations center that would combine the Co-op's existing Calais-area operations facilities in one location. The facility will be located at the entrance to the Calais Industrial Park, on land bracketed by Whitlock Lane and Nields Street.

The new operations center will be an 80-by-212-foot pre-engineered metal building. It will house the Calais-area operations department, the truck fleet and mechanics, the bulk of the Co-op's materials storage, and the Co-op's dispatch center. This one facility will soon replace five existing ones in Calais:

- (i) a material warehouse and primary dispatch office on Steadman Street
- (ii) a rented garage on North Street used for vehicle storage, maintenance, and some dispatching
- (iii) a rented material and equipment storage space on Poorhouse Lane
- (iv) a pole yard and material storage on Poorhouse Lane
- (v) property on Customs Street used for material storage, as well as equipment testing and repair

Efficiencies in operations will be gained by consolidating the existing locations into one. The annual cost of the new facility will be similar to the cost of the existing facilities. The administrative headquarters for the Co-op will remain at the office building in downtown Calais.

Ground work on the new operations center was begun on July 19, 2021. The Co-op expects to complete construction during the summer of 2022.

Another long-planned and smaller relocation will take place later in 2021, when Eastern Maine Electric moves its Southern Aroostook garage and warehouse from a rented building in Houlton to a more convenient site owned by the Cooperative.

FINANCIAL DEVELOPMENTS

The price Eastern Maine Electric Cooperative's (EMEC's) members pay for electricity supply dropped 0.8 cents per kiloWatt-hour kWh) for energy used on or after November 1, 2020. The new Standard Offer Supply¹ contract for EMEC's members took effect on that date.

Under this new arrangement, Eastern Maine Electric Co-op has become the Standard Offer 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.

Since the deregulation of the Maine's electric industry in 2000, Eastern Maine Electric's members technically have purchased their supply of electricity from a third party provider, and most recently this was NB Power. The charges for both the supply (Standard Offer) and delivery of electricity continued to appear on Eastern Maine Electric's bills. As a delivery utility, the Co-op has provided billing and collection service for the third-party supplier.

Under the new contract, there were savings to be had for EMEC's members if the the Cooperative became the Standard Offer Provider, even though it is still NB Power who is providing EMEC with the supply. This change in role, however, means that the purchase and sale of the electricity supply now appear on the Co-op's financial statements. For this reason, the Co-op's total operating revenue and purchased power costs will be more than in prior years.

This change will not impact the Co-op's bottom line, because the supply expense and supply revenue are the same amount. Even before deregulation, the purchase and sale of electricity supply was a pass-through cost. Eastern Maine Electric's operational costs are primarily associated with building, maintaining, and improving the local electric grid.

The Cooperative monitors regional and national industry developments that may impact Co-op members, and advocates on behalf of its members in these developments.

For example, Eastern Maine Electric was an intervenor and active participant in Maine’s regulatory proceedings when the Canadian company Enmax purchased Emera Maine² and re-branded the company as Versant Power. As a regulatory condition of the purchase, Enmax was required to provide funds to credit the electric bills of low-income electric consumers, including those at Eastern Maine Electric. Low-income EMEC members had received approximately \$420,000 in assistance as of July 2021.

As part of the regulatory process, Eastern Maine Electric received \$373,000 from Enmax. Over a three-year period, these funds will be used to mitigate some of the transmission charges from Versant Power for Co-op members.³

In May of 2020, the Small Business Administration (SBA) clarified that electric cooperatives qualified for Payroll Protection Program (PPP) funding. Under this stimulus program, funds were loaned to qualifying employers seeking to retain employees during the pandemic. The program allowed for full forgiveness of a loan if a recipient maintained employment at pre-pandemic levels. After determining that the Cooperative would not be taking funds needed by other local businesses, Eastern Maine Electric applied for and received a \$600,000 loan. In March, 2021, the PPP loan was fully forgiven by the SBA.

In October 2020, Eastern Maine Electric issued a \$400,000 general retirement 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. Present EMEC members who received electric service prior to 2020 received their portion of the capital credit retirement as a credit on their October bills as a credit line item labeled “Capital Credit Retirement.” Because former members of the Cooperative no longer have active electric accounts, EMEC mailed checks to their last known addresses.

In response to the pandemic, the Rural Utilities Service, a financial lender to the Cooperative, waived the requirement that its electric cooperative borrowers achieve certain financial ratios for 2020. Eastern Maine Electric used that waiver to its strategic advantage, modifying a schedule of revenue deferrals and planned expenses to benefit financial ratios in future years. The Cooperative’s 2020 TIER⁴ was 1.10; its OTIER⁵ was 0.82; and its MDSC⁶ was 2.04.

The Cooperative ended 2020 with a positive net margin of \$75,558. This margin was allocated and recorded as capital credits in the names of the Co-op members, based on each member’s contribution to revenue in 2020. The margin was then reinvested in the Cooperative, thereby lowering EMEC’s costs by providing that capital without borrowing from EMEC’s lenders.

PANDEMIC IMPACT

The pandemic created many challenges for Maine businesses, including Eastern Maine Electric. During March, 2020, the Co-op’s office employees began to work from home, limiting the chances that one employee would spread COVID-19 to others. The Co-op provided employees with technology that allowed seamless access to the office computer and phone systems from home.

Even during these unprecedented times, the Co-op’s core mission of providing safe, reliable power could not be compromised. Needless to say, the linemen could not

work from home and still maintain the electric system and respond to outages. Safety protocols were put in place to limit their contact with each other and with the public as they performed these critical services.

In spring of 2021, the Cooperative's board of directors and staff assessed the risks and rewards of holding a 2021 Annual Meeting with a pandemic still under way. The difficult decision to cancel the 2021 meeting was made, due to concerns over having a large gathering of people in close proximity to each other.

The four regularly scheduled 2021 Zone Meetings were held as planned. At these much-smaller gatherings, community members in a zone meet to elect a representative to the Co-op's board of directors. The 2021 Zone Meetings were held as drive-through elections due to COVID-19 concerns.

In January 2020, Maine rejoined the Electric Cooperative Youth Tour, opening the application process for the first time in over 20 years. On March 13th, 2020, Emily Erskine of Woodland High School and Rowan Morris of Washington Academy were selected to represent Maine at the June 2020 event in Washington, D.C., which would have involved hundreds of students from electric cooperatives across the country.

For the first time in its 50-year history, however, the Youth Tour was cancelled in 2020 due to the COVID-19 pandemic. The 2021 event was also cancelled. In place of the cancelled event, Eastern Maine Electric is pleased to honor each of these two student leaders with a one-thousand-dollar scholarship. The Cooperative looks forward to sending student representatives to the Youth Tour in 2022. Students will be selected by entry and interview in a process to be announced in fall of 2021.

(The cover photo for the 2020 Annual Report was taken by EMEC Mechanic Mike Pottle and shows the view from Magurrewock Mountain in Calais looking toward Baring.)

ENDNOTES

1. "Standard Offer" is a default supply of electricity with guaranteed availability. Before deregulation, electric utilities were responsible for the generation and delivery of electricity in each service area. Each utility was obligated to provide power to all paid customers, because the utility was the only company allowed to sell power in that specific service territory. Electric restructuring split the industry into two parts. The utilities became "delivery companies," and other companies, known as Competitive Electricity Providers (CEPs), now directly sell customers the electricity. Delivery companies deliver the electricity and are responsible for the utility infrastructure. The delivery companies issue the bill for the delivery and electricity charges, but the amount of the electricity charges is forwarded to the CEP. Without safeguards, this would mean that some customers might not be able to get power from a third-party provider.
2. Emera Maine was a combination of two Maine utilities, formerly Bangor Hydro-Electric Company and Maine Public Service Company.
3. The Transmission Adjustment line item is a small, moderately fluctuating charge that covers costs associated with transmitting power from supply companies to EMEC's system. These include the costs of outside transmission service and third-party administration of the Northern Maine transmission system.
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 2020 AND 2019

ASSETS

Utility Plant:

	<u>2020</u>	<u>2019</u>
Electric plant in service - at cost	\$64,831,416	\$63,504,295
Construction work in progress	1,026,612	811,482
Total Utility Plant:	65,858,028	64,315,777
Less: Accumulated provisions for depreciation	37,274,830	36,387,850
Net Utility Plant:	28,583,198	27,927,927

Other Assets:

Other	1,840,989	1,561,987
Prepayments, excluding current portion	0	3,984,974
Investments in associated organizations	1,043,933	1,035,733
Total Other Assets:	2,884,922	6,582,694

Current Assets:

Cash and cash investments	6,676,935	4,984,712
Accounts receivable - net	1,344,240	1,520,185
Materials and supplies	731,912	693,028
Other current assets	194,243	170,037
Prepayments	6,143	1,120,000
Total Current Assets:	8,953,473	8,487,962

Deferred Debits:

	3,920,292	4,263,052
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Total Assets:

	\$44,341,885	\$47,261,635
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LIABILITIES & EQUITY

Equities:

Memberships	\$50,030	\$49,415
Patronage capital	14,006,241	14,291,430
Total Margins & Equities:	14,056,271	14,340,845

Long Term Debt, Excluding Current Maturities:

Rural Utilities Service (RUS)	1,470,397	4,118,696
Cooperative Finance Corp. (CFC)	5,278,699	5,698,061
Federal Financing Bank (FFB)	9,087,820	11,832,382
Total Long Term Debt:	15,836,916	21,649,139

Forgivable Debt	600,000	0
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Current Liabilities:

Current maturities of long-term debt	665,000	903,000
Line of credit	2,500,000	0
Accounts payable	680,356	817,824
Consumer deposits	136,947	137,789
Accrued interest	47,754	59,125
Accrued expenses and other current liabilities	339,627	232,289

Total Current Liabilities:	4,369,684	2,150,027
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Deferred Credits:

	9,479,014	9,121,624
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Total Liabilities & Equities:

	\$44,341,885	\$47,261,635
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EASTERN MAINE ELECTRIC COOPERATIVE, INC.
STATEMENT OF OPERATIONS
FOR THE YEARS 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Operating Revenues:		
Residential	\$5,859,304	\$5,275,841
Seasonal	798,311	706,251
Commercial	2,909,053	2,694,020
Street Lighting and Public Auth.	231,720	222,450
Industrial & other	144,024	90,467
Other electric	590,128	630,033
Total Operating Revenues:	10,532,541	9,619,062
Operating Expenses:		
Purchased power	1,050,858	259,120
Transmission	116,841	55,754
Distribution, operation	1,826,202	1,836,774
Distribution, maintenance	1,418,962	1,027,195
Consumer accounts	967,312	919,694
Customer service & informational exp.	196,500	181,277
Administrative & general	2,080,447	1,983,859
Depreciation	2,038,542	2,023,594
Amortization, regulatory asset	249,643	249,643
Interest - long-term, net	759,392	918,516
Other interest and expenses	23,667	2,408
Total Oper. Exp. Without Purchased Power:	9,677,508	9,198,714
Total Operating Expenses:	10,728,366	9,457,834
Net Operating Margins:	(195,825)	161,228
Nonoperating Margins:		
Interest income	212,963	408,895
Patronage dividends	26,692	32,062
Other	31,728	19,125
Net Nonoperating Margins:	271,383	460,082
Net Margins:	75,558	\$621,310
OTIER	0.82	1.19
TIER	1.10	1.66
MDSC (Average 2 of 3 highest)	2.04	2.10

AUDIT REPORT: The annual audit of records for the columns marked 2020 and 2019 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>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Average number of active accounts	12,722	12,637	12,648	12,644	12,611
Total miles of electric lines	1,766	1,764	1,758	1,758	1,751
Amount allocated for bad debts (% of retail rev.)	\$223,038	\$76,525	\$74,725	\$75,836	\$74,512
Bad debts written off (actual for year)	62,047	\$138,492	\$73,480	\$90,606	\$69,608

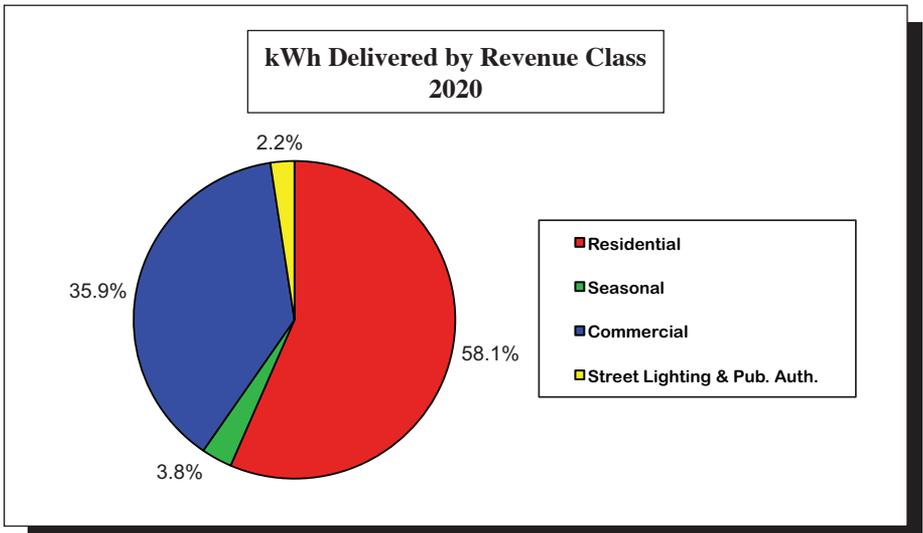
REVENUE & EXPENSE STATISTICS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Average annual kWh/member (Res.)*	6,916	6,748	6,690	6,440	6,431
Average annual revenue/kWh (Res.)*	10.655	9.859	9.353	9.134	8.759
Avg. # of consumers per employee	335	372	372	372	371
Operations & maint./mile of line	\$1,838	\$1,624	\$1,639	\$1,453	\$1,412
Average number of employees	38	36	34	34	34
kWh losses	9.30%	9.01%	9.91%	10.50%	10.68%

* Does not include seasonal sales

REVENUE CLASS SUMMARY

	KWH DELIVERED	% OF TOTAL DELIVERY	% CHANGE FROM 2019
Residential sales	54,992,442	58.1%	2.8%
Seasonal sales	3,577,109	3.8%	20.0%
Commercial sales	33,951,666	35.9%	-2.3%
Street Lighting & Public Auth.	2,112,899	2.2%	-7.0%
Total Retail Delivery	<u>94,634,116</u>	<u>100.0%</u>	<u>1.2%</u>



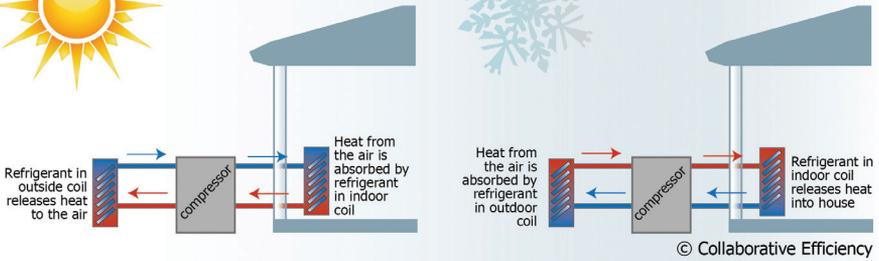
HOW AN AIR SOURCE HEAT PUMP WORKS



SUMMER



WINTER



Heat Pumps For the Triple Win

Cost Savings, Improved Technology, and Carbon Reduction

Whether the goal is to save money, modernize, or reduce carbon output, air-source heat pumps can be part of the solution. Energy and environmental experts agree that heat pumps are an important part of the country's energy strategy.

- Ductless air-source heat pumps are among the least expensive sources of home heat in Maine. (efficiencymaine.com/at-home/heating-cost-comparison)
- Newly manufactured units are able to provide heat at temperatures down to minus 15 degrees Fahrenheit.
- Forty percent of new homes in the US are constructed with heat pumps as the main source of heating and cooling.
- The sale of heat pumps in the US has increased by 50% since 2015, according to the Energy Information Administration (EIA)
- ISO-New England (The independent operator of the transmission grid serving most of New England) forecasts that the installation of air-source heat pumps in its region will quintuple by 2030.
- For new construction, the installation of air-source heat pumps is expected to increase **tenfold** in New England by 2030.
- Environmental experts have noted that heat pumps lower carbon output in every state.



Information about rebates and home energy loans available through Efficiency Maine are on the inside of this cover or at www.efficiencymaine.com/about-heat-pumps/

Heat Pump Rebates and Home Energy Loans Available Through Efficiency Maine

Low-Income Rebates Up to \$2400

Efficiency Maine offers low-income assistance for owner-occupied homes in the form of a \$2,000 rebate. Under this program, a second eligible heat pump can qualify for a \$400 rebate. To qualify, an applicant must either qualify for LIHEAP or meet the low-assessed home value caps, which are \$80,000 in Washington and Aroostook Counties, and \$90,000 in Penobscot County.

Residential Rebates Up to \$1,200

Efficiency Maine offers up to \$1,200 for Maine residents who are homeowners of any income, with \$800 rebates for the first Tier 2 rebate and \$400 rebates for the second Tier 2 unit.

Home Energy Loans for Heat Pumps

Even with borrowing costs, heat pumps can often provide immediate budget relief for Maine homeowners if they replace a more costly source of heat. Maine resident homeowners of any income are eligible for Efficiency Maine home energy loans of up to \$15,000, with no fees, and interest rates as low as 4.99% APR. (Subject to credit approval.)

Commercial Rebates Up to \$2,400

Businesses may receive rebates of \$1,600 per single-zone system, with a maximum of three systems for \$4,800. Visit www.energymaine.com/about-heat-pumps.

efficiencymaine.com/at-home/heating-cost-comparison/

🔍 ☆

Compare Home Heating Costs

Use this tool to estimate what your annual heating costs would be using different heating systems.

1. Look for the row that best describes your current heating system, then
2. Press the Increase or Decrease buttons until the Annual Cost approximates yours.
3. You can also modify price and efficiency assumptions.

This calculator is for comparison purposes only. Actual performance may vary. Default energy prices last updated: 7/16/2021.

\$.148

Ductless Heat Pump

☐

\$ 1,180

Electric (kWh)	\$ 148	Geothermal Heat Pump	☐	\$ 1,081
Firewood (cord)	\$ 275	Wood Stove	☐	\$ 1,169
Electric (kWh)	\$ 148	Ductless Heat Pump	☐	\$ 1,180
Natural Gas (therm)	\$ 1.41	Natural Gas Room Heater	☐	\$ 1,355
Natural Gas (therm)	\$ 1.41	Natural Gas Boiler	☐	\$ 1,562
Wood pellets (ton)	\$ 260	Pellet Stove	☐	\$ 1,712
Natural Gas (therm)	\$ 1.41	Natural Gas Furnace	☐	\$ 1,000