

Your Trusted Energy Partner

2016 ANNUAL
REPORT



 **KootenaiElectric**
COOPERATIVE
A Touchstone Energy® Cooperative 

Year In Review

We invested \$6.45 million in our electrical system in 2016 and completed several important capital construction projects in our work plan. The goal of the work plan is to rebuild and/or upgrade lines to improve service, reliability and safety. Notable projects are listed below.

- Rebuilt 3.5 miles of overhead line along Ramsey Road between Highway 54 and Brunner Road. This was the Cooperative's first project energized using ductile iron poles.
- Rebuilt two miles of overhead line feeding the Medimont community.
- Rebuilt one mile of three-phase overhead line in the Black Lake area.
- Designed 4.6 miles of underground line in the Worley area. This project will be completed in 2017.

- Designed a new feeder out of the Athol Substation. This project will be completed in 2017.
- Installed a new voltage regulator bank near the Coeur d'Alene Place subdivision.
- Implemented a voltage control demand response system which will save KEC approximately \$200,000 per year on our wholesale power bill.



422 million
kWh SOLD



26,014
METERS



946
NEW SERVICES



\$40,277,960
OPERATING REVENUE



Our Mission

Provide our member-owners exceptional service and dependable electric power at competitive rates.

Executive Message

We're not your typical electric company. We're a local, not-for-profit electric cooperative. We don't have customers, we have members. Membership is a powerful thing. It means we are owned by you—our members. It means you have an energy partner you can trust to look out for you.

KEC had a great number of accomplishments in 2016. The Cooperative completed the year financially strong with revenues of \$40,277,960 and margins of \$4,055,266. We retired \$586,266 in capital credits originally allocated to members in 1988.

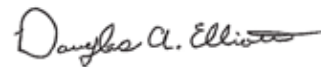
We also upgraded our Outage Management System. Our old system was developed in-house, had become difficult to support and could no longer effectively manage our system. Our new system is integrated with our customer information system, is used by cooperatives across the nation and responds to outages much faster. Then, following member feedback, we made additional changes which provide better information to members experiencing an outage.

KEC began converting about 50 miles of our oldest, most difficult to access and outage-prone overhead lines to underground. KEC was approved for a grant awarded by FEMA for this conversion following the


2015 wind and snow storms. This is a monumental job that will take more than a year to complete; however, it will greatly improve reliability, reduce maintenance costs and be safer for our linemen.

In October 2016, a 4.5% increase to total revenues was implemented, driven by two main issues: the increased cost of wholesale power from the Bonneville Power Administration and changes in the utility industry which make it necessary for KEC to more fully recover our fixed costs. We understand the importance of keeping rates low and work hard to control our costs. Providing low cost power to you is something we are proud of and work very hard to protect.

We hope you view KEC as your trusted energy partner and want to be your first stop whenever you have a question about energy efficiency, renewables or other information about your Cooperative. Thank you for your membership in Kootenai Electric Cooperative and we look forward to another year of serving you.



Douglas A. Elliott
General Manager



William R. Swick
Board Chair

Board of Directors & General Manager



TIM MEYER
District One



JIM ROBBINS
District Two



TODD HOFFMAN
District Three



DAVE BOBBITT
Audit Committee Chair
District Four



BILL SWICK
Chair
District Five



TERRY LALIBERTE
Vice Chair
District At-Large



ROGER TINKEY
Secretary
District At-Large



DOUG ELLIOTT
General Manager/CEO

Knowledge is as powerful as electricity.

You pay your KEC bill every month and more than likely you think to yourself, “That’s done.”

But the truth is we’re more than just a utility provider that you pay each month. We’re also a valuable energy resource. Sharing our energy expertise with you is another way we’re looking out for you. Providing technical support, answering your questions about power quality, and producing and using energy efficiently are some of the ways your Cooperative answers to you.

KEC offers a variety of tools and resources to help members use energy wisely. This includes providing members with our free Snapshot Home Energy Assessment. We conducted more than 300 assessments in 2016 and to date nearly 1,300 members have benefited from this program.

KEC’s rebate program provides incentives to members on a variety of appliances and products to help them save energy. In 2016, \$856,636 in rebates were paid out to our members.

Together, these energy efficiency programs helped



our members achieve 3,860,289 kilowatt-hours in energy savings in 2016.

KEC employees are committed to providing members with information, resources and services that are as reliable and useful as the electricity we supply.

For example, Dr. Timothy Casey of Liberty Lake, Washington, has been a KEC member for 12 years. During that time he's worked with KEC on a few projects, including energy efficiency upgrades and a line extension for a new water well. KEC Energy Services Administrator Scott Mayfield provided

technical support to Dr. Casey on the energy efficiency incentives available for the purchase of a heat pump and heat pump water heater for his home.

"KEC is a great organization," said Dr. Casey. "It's one of those organizations where you feel like when you call them they're smiling on the other end."

Photo above (from left): KEC Energy Services Administrator Scott Mayfield and KEC member Dr. Timothy Casey.



All of our lines are member service lines.

**Some employees help deliver electricity.
Others deliver information. All must
deliver our mission.**

At KEC, we are always looking for ways to make our services more efficient and valuable. Each and every KEC employee is involved in providing our members with exceptional service. Whether it's our crews who are committed to keeping the lights on or our engineering staff responsible for designing our electrical system, each has a role in member service.

In 2016, KEC member service representatives worked with members by taking more than 46,000 phone calls and 5,053 requests for change of service.

Our Vegetation Management program offers another valuable service to members. This program protects the reliability of our electric system by focusing on the identification and removal of hazardous trees as well as the pruning of vegetation that interferes with our distribution lines. Every year, KEC clears some 325 miles of power line easements and spends more than \$850,000 doing so. Even with all these efforts, trees remain the largest cause of power outages.



That's why KEC Right-of-Way Specialist Kurt Lyon is available to work with members to ensure a safe and reliable electrical system. Over the years he's been in regular contact with employees at Camp Four Echoes in Worley. The Girl Scout camp has found Kurt to be very helpful when it comes to maintaining the vegetation around the power lines on its 220 forested acres.

"Our camp has thousands of trees," said Lani Nachtshiem of the Girl Scouts of Eastern Washington and Northern Idaho. "We had a tree that was on a power line and we called Kurt. The next day he was

out and looked at it. Within two or three days the tree was taken care of."

Photo above (from left): Lani Nachtshiem of the Girl Scouts of Eastern Washington and Northern Idaho and KEC Right-of-Way Specialist Kurt Lyon at Camp Four Echoes.

Energy that's renewable. Information that's reliable.

When it comes to renewable energy, we are here to answer your questions about options in our area.

Four years ago we built an educational solar array on the Kootenai Technical Education Campus (KTEC) in Rathdrum. Since then our industry has changed and we are changing with it. Advancements in technology are now making it increasingly feasible for homes and businesses to produce some or all of their power locally and store it for future use.

One way this is occurring is through member- and community-owned solar projects.

Historically, our power grid has been used to deliver power to members. Now the grid is becoming a two-way street. With more members showing interest in renewable energy, particularly solar power, KEC staff are available to help. We can provide technical support and answer questions about system sizing and how much energy you should expect to receive from your renewable project, as well as how to safely connect it to the grid.



We've even taken it a step further and now offer 4-kW solar kits for purchase through the Cooperative. The kits are installed, owned and maintained by members and will be connected behind their meter.

In late 2017 we will also begin construction of a community solar project. KEC will build and operate the solar array, and shares will be offered to members on a subscription basis.

Don Crawford, KEC Assistant Manager of Member Services, has worked to bring these renewable

options offered to members. "You can trust KEC to provide you with the latest information on renewable energy," said Crawford. "We're here to support our members as they consider new technologies."

Photo above: KEC Assistant Manager of Member Services Don Crawford at the KTEC solar array.

Management Discussion & Analysis

The discussion and analysis which follows below is intended to provide our members an overview of Kootenai Electric Cooperative's financial activities for the year ended December 31, 2016.

This information should be read in conjunction with the Cooperative's audited financial statements and integral footnote disclosures. The financial presentation included in this report is summary information only, derived from the Cooperative's audited financial statements. The Cooperative's audited financial statements and footnote disclosures, including the auditor's opinion, are available for review at the Cooperative's offices. For the years ended December 31, 2015 and 2016, the annual audit was conducted by Moss Adams, LLP.

Kootenai Electric Cooperative (KEC) is a member-owned electric utility incorporated in 1938 to serve selected rural areas of North Idaho and Eastern

Washington. The Cooperative operates on a not-for-profit basis under the United States internal revenue code and is governed by an independent seven-member elected board of directors.

During 2016, operating revenue increased by \$911 thousand over the prior year for a total of \$40.3 million. The increase in revenue, 2016 over 2015, was driven by the growth in our member count, a cold snap during December and an increase in rates effective with the October 2016 billings. A disproportionate share of our annual revenue is represented by sales during the winter months. Changes in weather patterns greatly affect those results.

Our cost of power increased approximately 4.6% in 2016 to a total of \$18.3 million, primarily the result of weather driven demand, adding new member connections and a Bonneville Power Administration (BPA) rate increase effective October 2015. Over

96% of our power cost was the result of the energy we purchased from BPA, with the balance representing the cost of operating our Fighting Creek Landfill Gas generating plant and contractual purchases from Northwest Energy Supply Cooperative.

The cost of providing electric service to our members, which includes the Cooperative's operating expenses, depreciation and interest costs, increased by 7% over the prior year. This is mostly because the Cooperative's Board of Directors determined that the large cost associated with restoring service following the November 2015 wind storm and December 2015 snow storm would be removed from expenses and placed in a regulatory asset. This regulatory asset will be amortized to expenses over a ten year period, thereby reducing the immediate impact on service rates. Any funds received from the federal government through the FEMA funding process in which we are participating will be used to reduce the amount of the regulatory

asset. Through the first quarter of 2017 the Cooperative has received \$2.3 million in FEMA grants which has reduced the regulatory asset by approximately 93% to \$170 thousand.

During 2016, the Cooperative's margins decreased by \$648 thousand or 14% over the prior year producing a total margin of \$4.1 million. As a Cooperative operating on a not-for-profit tax basis, it is important to understand that these are not profits but rather member patronage. In the normal course of time, the Cooperative's margins will be allocated to each member's individual capital credit account. The allocation of 2016 margins, once completed, along with the accumulated unpaid capital credits for all prior years, represents a member's investment in KEC.



Terence D. Robinson CPA, MBA

Manager of Finance & Accounting/CFO

Financial Statements

Statements of Operations & Comprehensive Income

	2016	2015
OPERATING REVENUE:	<u>\$40,277,960</u>	<u>\$39,366,896</u>
OPERATING EXPENSES:		
Cost of Power	18,254,578	17,455,518
Distribution Expense-Operations	1,478,019	1,543,171
Distribution Expense-Maintenance	2,691,178	2,292,239
Consumer Accounts Expense	1,428,984	1,254,548
Sales Expense	341,043	355,942
Administration & General Expense	3,923,444	3,530,242
Depreciation & Amortization Expense	4,816,670	4,637,662
Tax Expense	<u>764,736</u>	<u>752,908</u>
Total Operating Expenses	<u>33,698,652</u>	<u>31,822,230</u>
Operating Margins Before Interest Expense	6,579,308	7,544,666
Interest Expense	<u>3,531,169</u>	<u>3,365,720</u>
Net Operating Margins	<u>3,048,139</u>	<u>4,178,946</u>
NON-OPERATING MARGINS:		
Interest Income	31,850	28,122
Patronage Capital Credits From Other Cooperatives	811,141	402,309
Other Non-Operating Margins	<u>164,136</u>	<u>93,590</u>
Total Non-Operating Margins	<u>1,007,127</u>	<u>524,021</u>
Net Margins	<u>\$4,055,266</u>	<u>\$4,702,967</u>
COMPREHENSIVE INCOME:		
Net Margins	\$4,055,266	\$4,702,967
Other Comprehensive Loss	<u>(177,100)</u>	<u>(17,300)</u>
Total Comprehensive Income	<u>\$3,878,166</u>	<u>\$4,685,667</u>

Assets

NONCURRENT ASSETS:	2016	2015
Net Utility Plant	\$134,751,609	\$128,896,435
Investments	1,674,400	1,377,266
Notes Receivable	506,773	400,265
Regulatory Asset	<u>2,327,196</u>	<u>2,330,906</u>
Total Noncurrent Assets	<u>139,259,978</u>	<u>133,004,872</u>
CURRENT ASSETS:		
Cash & Cash Equivalents	251,896	1,382,586
Accounts Receivable, Net	5,492,749	5,341,936
Materials & Supplies Inventory	4,914,642	4,905,955
Other Current Assets	<u>332,191</u>	<u>301,968</u>
Total Current Assets	<u>10,991,478</u>	<u>11,932,445</u>
Deferred Charges	<u>6,859,689</u>	<u>7,353,295</u>
Total Assets	<u>\$157,111,145</u>	<u>\$152,290,612</u>

Members' Equity & Liabilities

MEMBERS' EQUITY:	2016	2015
Patronage Capital	\$47,657,200	\$46,143,881
Other Equities	11,266,649	9,412,184
Accumulated Other Comprehensive Income	<u>(66,400)</u>	<u>110,700</u>
Total Members' Equity	<u>58,857,449</u>	<u>55,666,765</u>
NONCURRENT LIABILITIES:		
Capital Lease, Less Current Portion	151,028	173,366
Long-Term Debt, Due After One Year	84,515,285	82,108,007
Asset Retirement Obligation	171,820	156,200
Other Retirement Benefits	211,820	-
Postretirement Benefit Obligation, Due After One Year	<u>2,486,400</u>	<u>2,445,300</u>
Total Noncurrent Liabilities	<u>87,536,399</u>	<u>84,882,873</u>
CURRENT LIABILITIES:		
Current Portion of Capital Lease	22,399	21,311
Long-Term Debt, Due Within One Year	3,423,377	3,213,681
Postretirement Benefit Obligation, Due Within One Year	212,100	307,200
Accounts Payable	2,919,839	3,647,028
Interest Payable	304,797	283,840
Patronage Capital Payable	586,266	651,184
Consumer Deposits	623,595	687,604
Vacation Payable	616,574	581,179
Taxes Payable	850,403	842,986
Other Current Liabilities	<u>1,158,007</u>	<u>1,504,961</u>
Total Current Liabilities	<u>10,717,297</u>	<u>11,740,974</u>
Total Liabilities	<u>98,253,696</u>	<u>96,623,847</u>
Total Members' Equity & Liabilities	<u>\$157,111,145</u>	<u>\$152,290,612</u>

Kootenai Electric Cooperative

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