

# THE **POWER** OF **CO-OP** MEMBERSHIP

**2013**  
ANNUAL REPORT

- ▶ Membership
- ▶ **Everyday Value**
- ▶ The **Power of Electricity**
- ▶ Connections
- ▶ **Working Together** to Use **Energy Wisely**



## EXECUTIVE MESSAGE



**THE POWER OF CO-OP MEMBERSHIP.** Did you know you help power a community? Kootenai Electric Cooperative belongs to the members it serves. Electric cooperatives touch the lives of members every moment of every day, in both big and small ways. We are dedicated to providing reliable, affordable electricity and working for the benefit of the communities we serve.

2013 was a notable year for KEC as we marked the 75<sup>th</sup> year of providing service to our members. The Cooperative completed the year financially strong with revenues of \$35,869,811 and margins of \$3,478,436.

KEC closed more than \$10 million in capital projects aimed at extending new service to members, improving service to existing members and replacing equipment determined to be end of life.

Among these capital projects was the construction of the Julia Street Substation (Coeur d'Alene) and the groundbreaking of the Beck Road Substation (Post Falls). Both provide additional capacity to serve new load in the area surrounding them and increase service reliability to members. Each cost approximately \$3.5 million to construct.

Mid-year, KEC notified members of the need for a 9.6% rate increase driven by three main issues: the increased cost of wholesale power from the Bonneville Power Administration, the rising cost of building lines and substations to provide reliable power and higher internal costs. We understand the importance of keeping rates low and controlling our costs. Providing low cost power to you is something we are proud of and work very hard to protect.

Thank you for your membership in Kootenai Electric Cooperative and we look forward to another year of serving you.

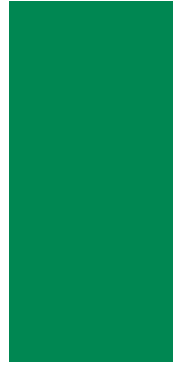
**Douglas A. Elliott**  
General Manager



**William R. Swick**  
Board Chair



# MEMBERSHIP



## EVERY MEMBER HAS A VOICE. MAKE SURE YOURS IS HEARD.

As an electric co-op member, you have a say in how the co-op is run. The KEC Board of Directors determines policy and direction of the Cooperative. The seven-member Board is elected by the KEC membership and spends approximately 60 days a year on Cooperative-related activities. Thank you to the Board for their dedication and service.

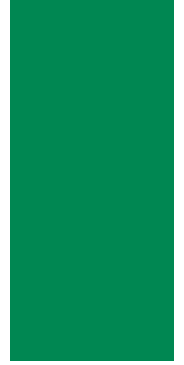
**Photo above (front to back, left to right): Jim Robbins; Douglas Elliott, General Manager; Terry LaLiberte, Vice Chair; Roger Tinkey, Secretary; Ron Bockstruck; Ed Gossett; Dave Pratt, Audit Committee Chair; and Bill Swick, Chair.**

### WHAT'S THE POWER OF CO-OP MEMBERSHIP?

KEC brings value to the lives of our members every day and these are just a few of the ways we do that:

- Membership—KEC belongs to the members we serve who have a say in how the Cooperative is run.
- Everyday value—Electricity is a great value, especially when you consider Idaho has some of the lowest electric rates in the nation.
- The power of electricity—Electricity is essential to everyday life and often taken for granted. We are doing all we can to keep power reliable and affordable.
- Connections—Co-op membership means more than just affordable electricity. Member benefits include the Co-op Connections® Card program and capital credits.
- Working together to use energy wisely—We all have a responsibility to use energy wisely. We offer a variety of tools and resources to help.

# YEAR IN REVIEW



## SYSTEM IMPROVEMENTS

We completed several important capital construction projects in our 4-year construction work plan. The goal of these projects was to rebuild and/or upgrade lines to improve service capacity, reliability and safety. Some of the more notable projects included upgrading seven miles of line in the Conklin Park area, 1.7 miles of line in the Plummer area and 1.3 miles of line in the Stateline area. The completion of these projects required an investment of nearly \$3 million and will continue to serve the Cooperative for years to come.

## MAINTENANCE AND RELIABILITY

In addition to upgrading existing lines and constructing new ones, KEC invested in maintaining those already in service. Annually, KEC invests approximately \$750,000 in our Vegetation Management Program. 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.

## ENERGY EFFICIENCY PROGRAMS

Energy efficiency remains an organizational objective and we offer a variety of tools and resources to help members use energy wisely. Through our energy conservation programs, \$615,339 was paid in 3,071 energy efficiency rebates to members. This accounts for 2,617,450 kilowatt-hours (kWh) in annual energy savings.

In addition, 440 members took advantage of KEC's SnapShot Home Energy Audit. Members participating in this program receive a report outlining the conservation measures most needed in their homes. This audit is offered to members at no cost.

## MEMBER SERVICES

Our Member Services Department also rolled out SmartHub, KEC's new online account access for members. Not only does it give members a user-friendly way to manage their KEC account and review electric use while online, there is also an app available for mobile devices (smartphones or tablets). We also redesigned our website ([www.kec.com](http://www.kec.com)) to make it more member-friendly. We hope you find these tools both helpful and simple to use.



# EVERYDAY VALUE



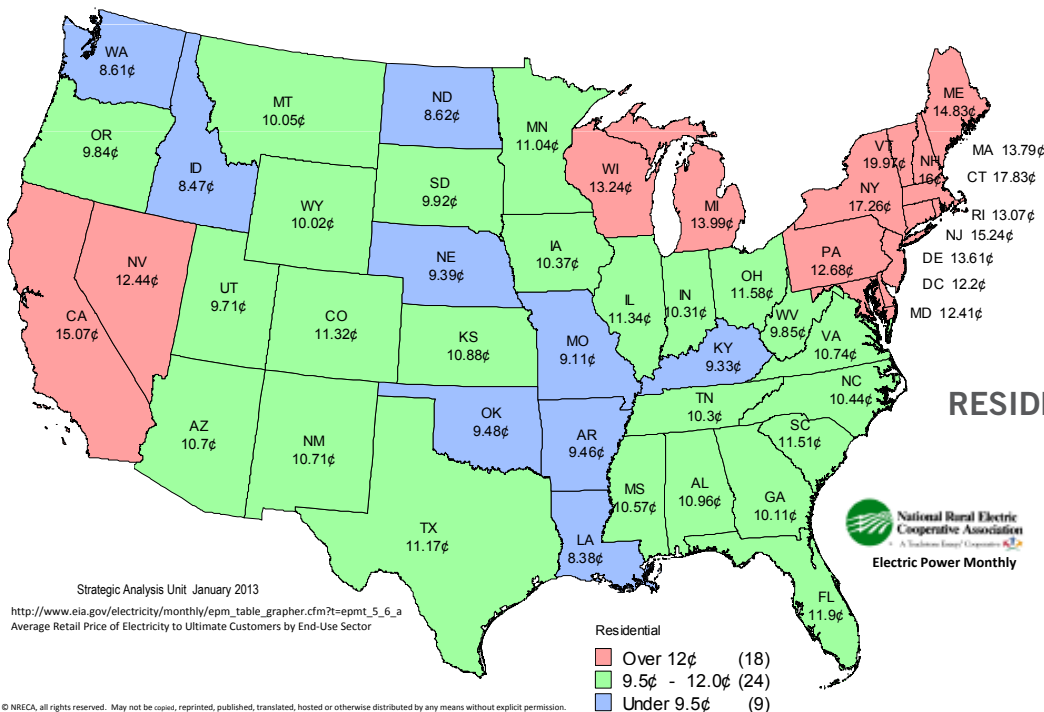
## ELECTRICITY REMAINS A GOOD VALUE IN THE NORTHWEST

We're pretty fortunate in North Idaho. The power we purchase from the Bonneville Power Administration (BPA) comes primarily from the Federal Columbia River Power System. As an electric cooperative, we have the coveted right to purchase power from the federal dams that harness its immense power. We pass that benefit along to you, our members. The map below shows just how valuable that benefit is. You'll see that Idaho's electric rates are among the very lowest in the nation.

Something else to consider: in the past 30 years, the amount of residential electricity used by appliances and electronics has increased from 17% to 31%. More homes than ever use major appliances and central air conditioning. Computers, DVRs and multiple televisions have become commonplace.

Clearly, our appetite for electricity shows no signs of slowing down. So the next time you flip a switch, use your toaster or run your washing machine, remember the value electricity holds.

KEC is looking out for you by working to keep electric bills affordable, controlling costs through innovation, and putting you, our members, first.



**RESIDENTIAL RATES FOR ALL UTILITIES**  
**U.S. AVERAGE 11.9¢**



Strategic Analysis Unit January 2013  
[http://www.eia.gov/electricity/monthly/epm\\_table\\_grapher.cfm?t=epmt\\_5\\_6\\_a](http://www.eia.gov/electricity/monthly/epm_table_grapher.cfm?t=epmt_5_6_a)  
 Average Retail Price of Electricity to Ultimate Customers by End-Use Sector

## MANAGEMENT DISCUSSION & ANALYSIS



This discussion and analysis is designed to provide an overview of Kootenai Electric Cooperative's financial activities for the year ended December 31, 2013. This supplementary information should be read in conjunction with the Cooperative's audited financial statements and footnote disclosures to the financial statements. 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, 2012 and 2013, the annual audit was conducted by Moss Adams, LLP.

KEC is a member-owned electric utility incorporated in 1938 to serve selected rural areas of North Idaho and Eastern Washington. The Cooperative is governed by an independent seven-member elected board of directors.

During 2013, operating revenues increased by \$1.9 million or 5.6% over the prior year for a total of \$35.9 million. The increase in revenue, 2013 over 2012, is driven primarily by our growth in members, a new rate structure taking effect with November billings and the weather throughout the year.

Our cost of power increased in 2013, by \$1.5 million, to a total of \$16.3 million. Over 96% of our power cost is the result of the energy we purchase from BPA, with the balance representing the cost of operating our Fighting Creek landfill gas generating plant. As a result of the BPA rate increase effective October 2013, we saw our cost of purchased power increase just over 5% on an annualized basis.

The cost of providing electric service to our members, which includes operations and maintenance costs, sales and member account costs, general and administrative costs, depreciation, interest and taxes, increased by \$501 thousand in 2013, or 3.1% over the prior year. This increase in expense levels was influenced mostly by an increase in activity related to our conservation program, depreciation expense related to new plant placed in service, consulting and legal fees associated with various regulatory proceedings and the mix of capital and maintenance work activity within our Operations and Engineering work groups. Margins decreased slightly by \$43.0 thousand or 1.2% over the prior year for a total of \$3.5 million.

**CONTINUED ON NEXT PAGE...**

# THE POWER OF ELECTRICITY



## ...MANAGEMENT DISCUSSION AND ANALYSIS CONTINUED.

Other elements of our financial performance during 2013 include:

- Introduced a new rate design and rates during November 2013.
- New connects were 525 in 2013 compared to 327 in 2012.
- Completed 21.3 miles of new distribution line.
- Served 23,812 meters at year end 2013.
- Demonstrated ongoing strength in our key financial ratios.
- Completed the Julia Street Substation.
- Made a \$3.7 million prepayment to our employee pension plan resulting in lower contributions in future years.
- Retired \$1.1 million in member capital credits during 2013.

*ZDR*

Terence D. Robinson CPA, MBA  
Manager of Finance & Accounting/CFO



## THE CALM BEFORE THE STORM IS NOTHING COMPARED TO THE CALM WE RESTORE AFTERWARDS.

KEC's line crews are committed to helping members weather any storm – before, during and after. We'd like to recognize all electric line crews for the services they perform around the clock in dangerous conditions to keep the power on and protect the public's safety.



# FINANCIAL STATEMENTS



## STATEMENTS OF OPERATIONS & COMPREHENSIVE INCOME

	2013	2012
<b>OPERATING REVENUE:</b>	<u>\$35,869,811</u>	<u>\$33,917,037</u>
<b>OPERATING EXPENSES:</b>		
COST OF POWER	16,300,616	14,833,412
DISTRIBUTION EXPENSE—OPERATIONS	1,434,422	1,684,913
DISTRIBUTION EXPENSE—MAINTENANCE	1,819,694	1,881,095
CONSUMER ACCOUNTS EXPENSE	1,193,901	1,184,515
SALES EXPENSE	695,549	376,498
ADMINISTRATION & GENERAL EXPENSE	3,414,352	3,192,910
DEPRECIATION & AMORTIZATION EXPENSE	4,179,884	3,990,820
TAX EXPENSE	<u>682,492</u>	<u>665,969</u>
TOTAL OPERATING EXPENSES	<u>29,720,910</u>	<u>27,810,132</u>
OPERATING MARGINS BEFORE INTEREST EXPENSE	6,148,901	6,106,905
INTEREST EXPENSE	<u>3,228,628</u>	<u>3,170,877</u>
NET OPERATING MARGINS	<u>2,920,273</u>	<u>2,936,028</u>
<b>NON-OPERATING MARGINS:</b>		
INTEREST INCOME	238,897	250,154
PATRONAGE CAPITAL CREDITS FROM OTHER COOPERATIVES	66,555	111,250
OTHER NON-OPERATING MARGINS	<u>252,711</u>	<u>223,999</u>
TOTAL NON-OPERATING MARGINS	558,163	585,403
NET MARGINS	<u>\$3,478,436</u>	<u>\$3,521,431</u>
<b>COMPREHENSIVE INCOME:</b>		
NET MARGINS	\$3,478,436	\$3,521,431
OTHER COMPREHENSIVE INCOME (LOSS)	<u>(313,500)</u>	<u>(463,300)</u>
TOTAL COMPREHENSIVE INCOME	<u>\$3,164,936</u>	<u>\$3,058,131</u>

## ASSETS

	2013	2012
<b>NONCURRENT ASSETS:</b>		
NET UTILITY PLANT	\$119,357,770	\$114,947,420
INVESTMENTS	1,171,594	1,149,254
NOTES RECEIVABLE	<u>427,433</u>	<u>471,694</u>
TOTAL NONCURRENT ASSETS	<u>120,956,797</u>	<u>116,568,368</u>
<b>CURRENT ASSETS:</b>		
CASH AND CASH EQUIVALENTS	283,829	1,265,711
ACCOUNTS RECEIVABLE, NET	5,065,528	4,137,059
MATERIALS & SUPPLIES INVENTORY	3,990,641	4,069,590
OTHER CURRENT ASSETS	<u>296,353</u>	<u>311,879</u>
TOTAL CURRENT ASSETS	<u>9,636,351</u>	<u>9,784,239</u>
DEFERRED CHARGES	<u>3,694,204</u>	<u>127,893</u>
TOTAL ASSETS	<u>\$134,287,352</u>	<u>\$126,480,500</u>

## AT A GLANCE: WHERE WE'VE BEEN AND WHERE WE ARE NOW

	Number of Meters	Operating Revenue	Miles of Line	kWh Sold (millions)
<b>2013</b>	23,812	\$35,869,810	1,999	425.4
<b>2012</b>	23,677	\$33,917,037	1,978	412.6
<b>2011</b>	22,999	\$32,769,696	1,965	427.6
<b>2010</b>	22,916	\$31,363,521	1,933	404.0
<b>2009</b>	22,789	\$30,246,021	1,910	422.0



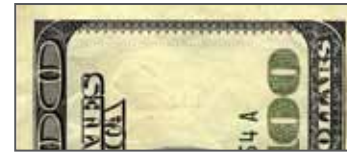
# FINANCIAL STATEMENTS



## EQUITIES & LIABILITIES

	2013	2012
<b>MEMBERS' EQUITY:</b>		
PATRONAGE CAPITAL	\$40,836,432	\$38,454,401
OTHER EQUITIES	6,507,883	5,093,243
ACCUMULATED OTHER COMPREHENSIVE INCOME	145,300	458,800
TOTAL MEMBERS' EQUITY	47,489,615	44,006,444
<b>NON-CURRENT LIABILITIES:</b>		
CAPITAL LEASE, LESS CURRENT PORTION	215,007	
LONG-TERM DEBT, DUE AFTER ONE YEAR	74,659,230	70,482,330
ASSET RETIREMENT OBLIGATION	142,000	142,000
POSTRETIREMENT BENEFIT OBLIGATION, DUE AFTER ONE YEAR	2,820,000	2,830,800
TOTAL NONCURRENT LIABILITIES	77,836,237	73,455,130
<b>CURRENT LIABILITIES:</b>		
CURRENT PORTION OF CAPITAL LEASE	19,395	
LONG-TERM DEBT, DUE WITHIN ONE YEAR	2,661,870	2,275,834
POSTRETIREMENT BENEFIT OBLIGATION, DUE WITHIN ONE YEAR	345,700	223,800
ACCOUNTS PAYABLE	2,838,008	2,238,028
INTEREST PAYABLE	46,688	48,594
PATRONAGE CAPITAL PAYABLE	966,421	2,162,701
CONSUMER DEPOSITS	465,595	513,766
VACATION PAYABLE	530,882	475,668
TAXES PAYABLE	672,761	653,426
OTHER CURRENT LIABILITIES	414,180	427,109
TOTAL CURRENT LIABILITIES	8,961,500	9,018,926
TOTAL LIABILITIES	86,797,737	82,474,056
TOTAL MEMBERS' EQUITY & LIABILITIES	<u>\$134,287,352</u>	<u>\$126,480,500</u>

## WHERE DOES YOUR MONEY GO?



Capital Credit  
Allocations  
\$10



Operating the  
Cooperative  
\$45



Purchasing  
& Producing  
Power  
\$45

## CONNECTIONS



## EVERYDAY SAVINGS

Last October I needed a crown and didn't have dental insurance, so I knew the bill would be high. I asked my husband, "What about the KEC discount card?" He said, "It doesn't hurt to ask." So I did, and Riverstone Dental Care gave me more than \$500 off my bill! Thank you, KEC. I love my Co-op Connections® Card.

**Janet Parker, KEC Member, Spirit Lake**

## THAT'S THE POWER OF CO-OP MEMBERSHIP

The Co-op Connections® Card is absolutely free for KEC members. Use your card to take advantage of these savings:

- **Local and National Discounts:** Great discounts nationally and from businesses in your community, including dining, shopping, automotive and much more. Visit [www.kec.com](http://www.kec.com) for a list of discounts and show your card to start saving.
- **Cash Back Mall:** Earn cash back on purchases of more than 300,000,000 products from more than 4,000 leading online merchants.

The following Healthy Savings Discounts:

- **Prescription Discount:** 10% to 85% discounts on most prescriptions at over 60,000 participating pharmacies including Costco, Walgreens, Walmart and more.
- **Dental Discount:** 20% to 40% discounts on dental care such as cleanings, x-rays, root canals, etc.
- **Vision Discount:** 10% to 60% discounts on eyeglasses, contact lenses, eye exams and LASIK.
- **Hearing Aid Discount:** 35% to 60% savings on hearing aids.

## WORKING TOGETHER TO USE ENERGY WISELY



**WE ARE ALL UP TO THE CHALLENGE.** When we work together, using energy wisely and saving money go hand in hand.

Why is using energy wisely so important? The power we purchase from BPA primarily comes from the Federal hydro facilities that operate in the Columbia River Basin. These hydro facilities have aged and the demand for electricity has grown. In short, more electricity is being used in the Pacific Northwest than can be produced by these facilities. To meet this growing demand, we must find ways to reduce the amount of power we consume. For this reason, BPA mandates conservation and, to fund it, they add a premium to the rates we pay to them. BPA makes the premium available to KEC in the form of a budget for energy conservation rebates and incentives.

KEC also recognizes that energy conservation is the best way for us to reduce how much power we buy from BPA and the best way for our members to reduce their power bills. For these reasons, we invest in energy conservation by self-funding half of our energy conservation budget and by educating our membership on ways they can conserve. Electricity saved through conservation costs about 45% less than the power KEC purchases from BPA. These savings really add up for our members and the Pacific Northwest. KEC offers the following rebates and incentives:

- Appliances
- Refrigerator/Freezer Recycling
- Heat Pump Systems
- Windows and Patio Doors
- Insulation
- Duct Sealing
- Energy Star Homes
- Various Commercial and Industrial Incentives
- Home Energy Audits

KEC also sells a variety of products to help you save energy, including CFL and LED light bulbs, Marathon Water Heaters, Convectair Heaters and In-Home Displays. Give us a call or visit our office to learn more.

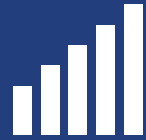
**Kootenai Electric Cooperative, Inc.**

2451 W. Dakota Ave.

Hayden, ID 83835


(208) 765-1200

www.kec.com




**FIND US ON:**

 [facebook.com/KootenaiElectric](https://facebook.com/KootenaiElectric)

 [@KootenaiEC](https://twitter.com/KootenaiEC)

 [youtube.com/KootenaiElectric](https://youtube.com/KootenaiElectric)

 [flickr.com/photos/kootenai\\_electric](https://flickr.com/photos/kootenai_electric)



**KEC.com**



**KootenaiElectric**  
COOPERATIVE

A Touchstone Energy® Cooperative 