

EMPIRE ELECTRIC ASSOCIATION

Echoes of the Empire

JUNE 2019



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Being a cooperative is more than just our business model. It's how we approach working together. We share knowledge, listen, collaborate and solve problems together.

Let your voice be heard on June 20th, we are listening!

2019 ANNUAL MEETING REPORT TO THE MEMBERS

FROM DAVID SITTON, PRESIDENT
AND JOSH DELLINGER, GENERAL MANAGER



DAVID SITTON



JOSH DELLINGER

Financials

Empire Electric Association's financial position continues to remain strong. In 2018, we comfortably met our loan covenants and we returned a significant amount of capital credits to our members. All of this was accomplished without increasing rates.

Capital credits are the return on the investments EEA's members make in the cooperative. Members invest in the cooperative by paying for electric service. Any revenue left after all operating expenses are paid is not distributed to investors, like it is with for-profit utilities, but is instead allocated back to our members as capital credits. EEA retains capital credits for a number of years to ensure our equity remains strong enough to secure low-interest financing. Each year EEA's board of directors considers the financial health of the cooperative and decides the amount of capital credits to retire. We are presently on a 20-year retirement cycle. We returned over \$2 million in capital credits to our membership in 2018. In its history, EEA has returned over \$28 million in capital credits.

Power Supply

EEA is one of 43 electric cooperatives that purchases power from Tri-State Generation and Transmission Association. Just as our members are owners of EEA, EEA is a member-owner of Tri-State. Tri-State's core business is generating and transmitting large amounts of power over a multistate area, while EEA's core business is distributing power to homes and businesses in our local service territory.

Purchased power accounts for approximately 80% of Empire's annual costs, so we are naturally extremely concerned about Tri-State's rates. Tri-State did not implement a rate increase in 2019 and its financial forecast shows stable rates for at least the next three years. This is good news for us and our members. We appreciate Tri-State's efforts to manage costs in a challenging power supply environment and encourage them to continue their efforts in maintaining stable rates.

Rates

Organizational efficiency is a high priority for EEA's board and staff. We recognize that our members trust us with managing the cooperative and it is our duty to be good stewards of what has been entrusted to us. We have made efforts toward gaining efficiencies and such efforts resulted in stable rates for 2018 even though labor and material costs continued to increase. We are pleased to report that rates also remained stable for 2019. We will continue to make efforts toward becoming more efficient while not sacrificing safety, customer service or system reliability.

Electric System

Tri-State initiated a transmission system asset transfer program back in 2009. This

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Board of Directors



David Sitton, president, district 6*



John Porter, vice president, district 7



Jerry Fetterman, sec./treas., district 1



William C. Bauer, director, district 3



J. Kent Lindsay, director, district 5*



William K. Mollenkopf, director, district 4



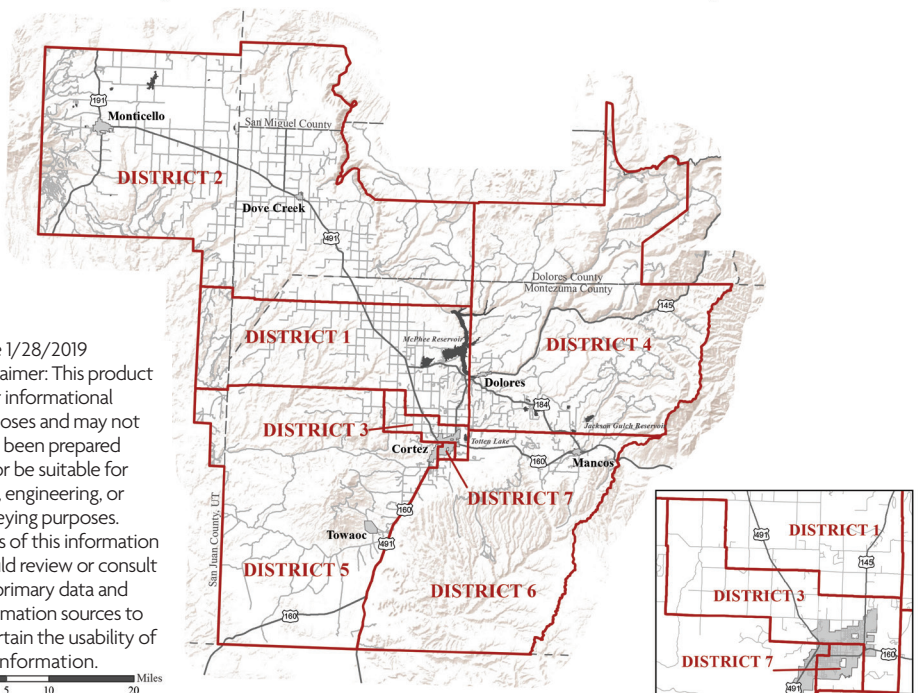
District 2, open*

***Directors for Districts 2, 5 and 6 are on the ballot this year.**

BE SURE TO MARK YOUR CALENDAR!
Empire Electric's Annual Meeting
 801 N Broadway, Calvin Denton Room
Thursday, June 20th
 Registration 4:30 pm
 Meeting begins at 5:30 pm

Come and meet Tri-State's Power and try out the Virtual Reality Goggles.

Empire Electric Association Board Districts Map



Business Profile

Year Organized	1939
Power Supplier	Tri-State Generation and Transmission Association, Inc. Westminster, Colorado
Service Territory	Empire Electric's 3,410-square-mile service territory includes all of Montezuma County and parts of Dolores and San Miguel counties in Colorado and part of San Juan County in Utah
Work Force	56 full-time employees, 52 in Montezuma County, 2 in Dolores County and 2 in San Juan County, Utah
Annual Payroll	\$4,901,029
Total Plant in Service	\$92,390,755
Total Assets	\$123,092,364
Transmission System	137 miles of high-voltage transmission line
Distribution System	1,338 miles of overhead distribution line, 409 miles of underground distribution line and 20 substations
Annual Revenue	\$73,558,253
Operating Margin	\$1,388,146
Total Margin	\$3,895,195
Annual kWh Sales	807,722,144 kilowatt-hours (kWh)
Types of Service	Farm, ranches, irrigation, residential, light industrial, oil and gas pumping and a large carbon dioxide extraction project

System Statistics

	2008	2018
Total active services as of 12/31	15,692	16,232
Total miles of line	1,918	1,884
Total kWh purchased	591,171,371	818,709,566
Total kWh sold	577,602,677	807,722,144
Average monthly kWh usage for residential class	685	665
Average monthly billing for residential class	85.91	104.78
System peak demand kW	87,974	113,484
Month of peak	December	December
Number of full-time employees	64	56
Total margins	6,760,663	3,895,195
Cost per kWh purchased	7.716 ¢	8.815 ¢
Cost per kWh sold	7.898 ¢	8.935 ¢
Revenue per kWh sold	8.116 ¢	9.107 ¢
Capital credits retired		
Empire	\$78,429	\$1,228,358
G&T	\$54,954	\$917,724
TOTAL	\$133,383	\$2,146,082

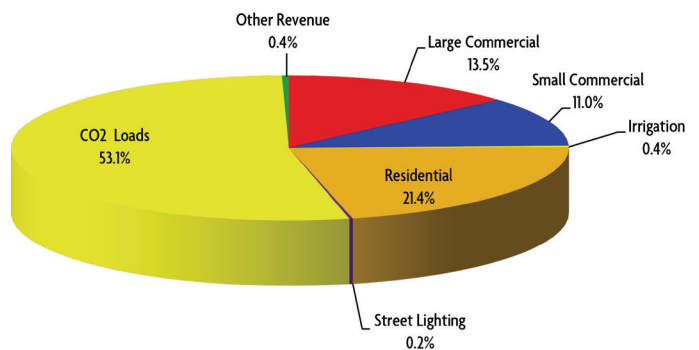
Taxes

Property Taxes	
Montezuma County	\$658,258
Dolores County	\$54,312
San Miguel County	\$3,152
San Juan County, Utah	\$53,544
Ute Mtn Ute Possessory Tax	-0-
Franchise Taxes Paid to Cities and Towns	\$725,077
Sales Tax	\$752,021
Payroll Taxes	\$373,581
Other Taxes	\$2,599
Total 2018 Tax Obligations	\$2,622,544

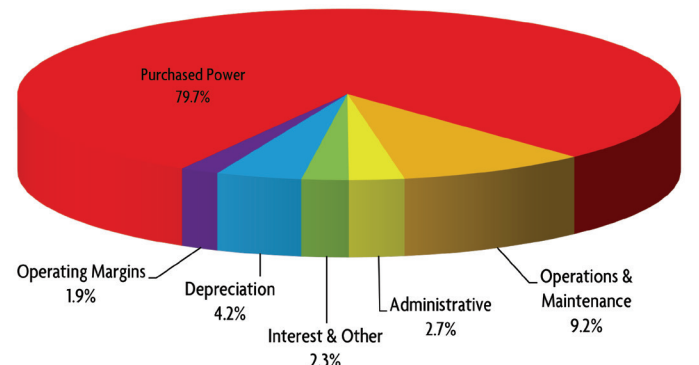
Statement of Operations

	2018	2017
Operating Revenue		
Residential	\$15,741,463	\$15,453,081
Irrigation	265,788	263,066
Small Commercial	8,086,548	7,876,284
Large Commercial	9,921,611	10,017,669
CO2 Loads	39,073,376	42,760,375
Street Lighting	171,553	170,936
Other Revenue	297,912	330,610
Total Operating Revenue	\$73,558,251	\$76,872,021
Expenditures		
Purchased Power	\$58,650,233	\$62,063,465
Operations & Maintenance	6,762,480	6,630,966
Administrative & General	1,960,420	1,850,698
Depreciation & Amortization	3,082,895	3,166,896
Interest & Other Deductions	1,714,077	1,756,137
Total Expenditures	\$72,170,105	\$75,468,162
Margins		
Operating Margins	\$1,388,146	\$1,403,859
Nonoperating Margins	126,678	-2,098,569
G&T and Other Capital Credits	2,380,371	3,428,972
Net Margins	\$3,895,195	\$2,734,262

Where Empire's 2018 Revenue Came From



Where Empire's 2018 Revenue Went



REPORT TO THE MEMBERS

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program was intended to equalize the positions of the Tri-State member systems and decrease cross subsidizations. Some of Tri-State's members owned transmission assets while others relied solely on Tri-State's transmission system. The ones that owned assets were responsible for operating and maintenance costs, while Tri-State was responsible for all transmission costs associated with serving systems that did not own such assets. This created a situation in which the Tri-State members who owned transmission assets were subsidizing those who did not. Tri-State recognized this and, in order to remedy the situation, offered to acquire transmission assets from its members. EEA completed its asset transfer to Tri-State in late 2018. Tri-State has now assumed operations and maintenance responsibility of those assets.

EEA has aggressively pursued a solar project for our land near Totten Lake for the past two years. Thus far no vendor has been able to provide pricing that will benefit the cooperative. With what has been proposed to date, the project would end up costing EEA members money. We remain hopeful that a vendor will eventually offer pricing that will provide financial benefit to our members.

Regarding growth, EEA added a net total of 74 services in 2018. This corresponds to a modest 0.4% growth, which is typical of what we have experienced over the past 15 years.

EEA remains committed to providing reliable electric service to its membership. The average outage time per consumer in 2018 was 1.14 hours, which corresponds to 99.99% reliability. Empire continues to proactively mitigate potential outages through our tree-trimming and system

maintenance programs, and we work to reduce outage times through system improvements. In 2018, we continued to make improvements that allowed us to use alternative feeds should there be a problem with the normal feed into an area. We cannot backfeed every area of our system, but we can backfeed large portions, and we continue to work toward increasing our capabilities.

EEA also remains committed to safety. We have worked extremely hard to develop and maintain a culture of safety in an industry that is inherently hazardous. There were six personal injury reports in 2018, one of which resulted in a lost-time accident. We continue to strive for zero future incidents.

Community Involvement and Member Services

EEA recently launched its Power Advantage program. Members who enroll in this program do not receive a normal monthly bill but instead prepay for electricity. Power Advantage members receive daily updates of their energy usage and account balance. They decide when they want to put more money on their account. When a member leaves EEA with an unpaid bill, the rest of the members have to pick up those costs. EEA charges deposits to guard against that risk. However, paying for electricity in advance mitigates the risk of a member leaving the cooperative with bad debt. Thus, no deposits are required for those who enroll in the Power Advantage program.

Empire exists to serve its membership and one way we do that is by giving back to the communities we serve. Every year Empire makes significant contributions to community causes. We gave approximately \$150,000 through donations and sponsorships to support community causes in 2018. Of the money we donated, over \$47,000 went toward scholarships. Scholarships

and other educational donations are funded from unclaimed capital credits and do not affect rates or capital credit allocations for current members.

Another way Empire serves its membership is through energy efficiency programs. Empire partners with Tri-State to administer several programs that provide rebates for energy-efficient products. Over \$233,000 in rebates were paid to our members in 2018. Please visit our website, give us a call or stop by our office if you are interested in learning more about our energy efficiency program.

Thanks Again

The electric utility industry has experienced rapid change recently. Emerging technologies, natural resource discoveries, government policies and other factors have significantly affected the energy industry in recent years and will likely continue to do so into the near future. EEA has not only dealt with these outside forces, we have also dealt with significant internal change. Like many electric utilities, EEA has recently dealt with higher-than-normal retirements. Retirements often set off a chain reaction of employee transitions, including promotions and new hires. Twenty-one of our 57 employees were hired in the past five years. Of our 57 employees, 37 have been in their present position for five years or less. We are only as good as our employees and we have a great workforce here at EEA that has embraced new roles and responsibilities amid vast internal and external change. They will continue to work hard to safely, responsibly and reliably meet the electrical energy needs of our member-owners in southwestern Colorado and southeastern Utah.

Thank you for your continued support. This is your electric utility and we hope you are proud of it. 2018 marked Empire's 79th year in business, and we look forward to continuing to serve you for many years to come.