

EMPIRE ELECTRIC ASSOCIATION

Echoes of the Empire

SEPTEMBER 2020

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The cooperative business model was made for times like these. Concern for community, democratic control, and economic participation are part of how we work together as a team to weather the storm.

Join us on October 8 for our annual meeting where we will celebrate as a community where people value each other!

2020 ANNUAL MEETING REPORT TO THE MEMBERS

FROM JOHN PORTER PRESIDENT
AND JOSH DELLINGER GENERAL MANAGER



JOHN PORTER



JOSH DELLINGER

Financials

The year 2019 started out as a strong financial year. The cold winter and cool spring led to above-forecast energy sales. The fourth quarter of 2019 was a different story. Short cold snaps led to high system demands (system peaks), but the overall mild weather led to below-forecast energy sales. Most of our rates are structured to recover demand costs through energy charges. Lower-than-expected energy sales coupled with higher-than-expected demand costs led to a fourth quarter operating loss. Thankfully, three strong quarters made up for the loss. Our overall operating margin was lower than we had budgeted, but high enough to ensure our financial ratios remained strong.

Regarding capital credits, EEA's board of directors voted to return over \$2.6 million to our members in 2019. In its history, EEA has returned over \$31 million in capital credits.

Rates

EEA's board and staff recognize that our members trust us to responsibly manage the cooperative. As stewards of what you have entrusted to us, we strive to provide reliable power and excellent member service at a fair price. Labor and material costs have continued to increase. In response, we have leveraged technology, strategic planning and innovation to gain efficiencies in other areas. Our efforts resulted in stable rates in 2019 and 2020.

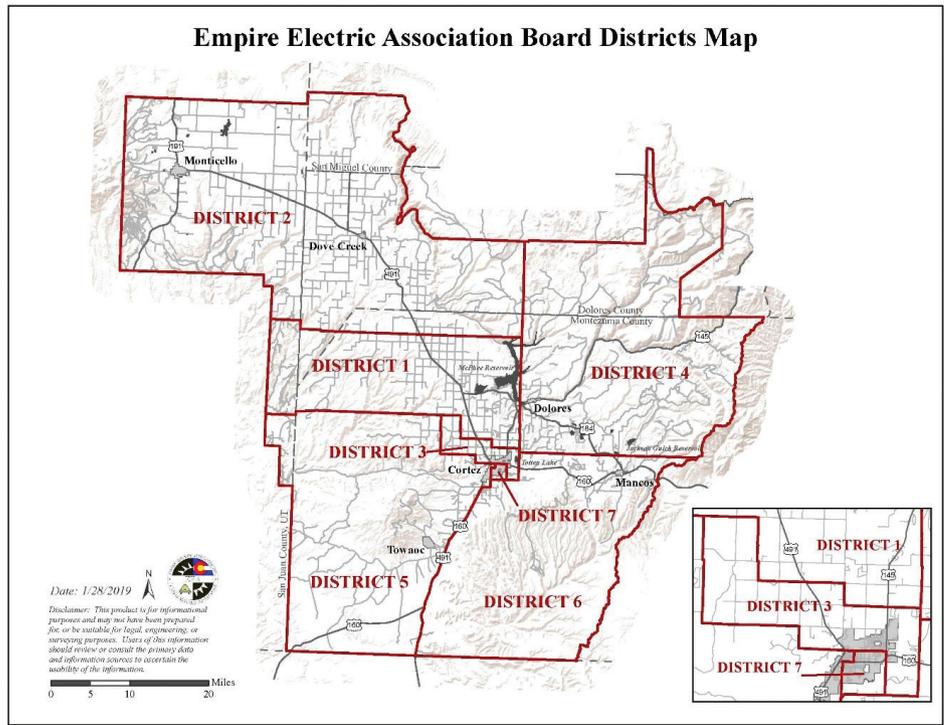
We have been discussing rate structures internally for the past few years. At its 2019 strategic planning session, the board set a goal to evaluate and propose rate structures that fairly recover costs from all members. Most of our present rates are traditional "two-part" rates that consist of a base charge and an energy charge. Such a structure has served EEA well for the past 80 years because most homes and small businesses had similar load profiles. However, the power industry is in the middle of rapid transformation.

With the expansion of distributed generation, battery storage, electric vehicles and other technologies, today's power industry looks quite different than it did even just a few years ago. A traditional two-part rate is no longer adequate to fairly serve the diverse load profiles we see among today's homes and small businesses. Two-part rates generally subsidize lower load factor loads at the expense of higher load factor loads. Additionally, a two-part rate structure does not align EEA's revenue stream with our operating costs. This misalignment was highlighted even more than normal during the fourth quarter of 2019 when we experienced high demand costs but low revenue from energy sales. EEA's staff and board are working to develop rate structure options that are fair for our members, that better align our costs with our revenue streams, and that give our members opportunity to save both themselves and the cooperative money.

As of now, the board has not decided to implement any changes. If the board does decide to make changes, we will certainly give the membership plenty of notice prior to such changes taking effect. In the meantime, if you have any questions about what we are thinking a structure may look like, please contact our member engagement team members and they will be happy to discuss options we have considered.

Power Supply

EEA is one of 42 distribution cooperatives that are member-owners of Tri-State Generation and Transmission Association. Tri-State generates large amounts of power and transmits it to EEA and the other distribution cooperatives. EEA then takes



the power and distributes it to the homes and businesses in our local communities. Purchased power accounts for approximately 80% of Empire’s annual costs, so we are naturally interested in Tri-State issues. This past year has been busy for Tri-State.

One item of interest is Tri-State’s Responsible Energy Plan (REP). Tri-State has closely watched renewable pricing over the past several years. Pricing fell significantly during that time as technology and processes developed. We appear to be near the bottom of the price curve, thus Tri-State has determined now is the appropriate time to aggressively pursue renewables. Under the REP, Tri-State plans to retire its coal-based generation plants in New Mexico and Colorado by 2030. It will replace that generation primarily with large-scale solar and wind projects, which will be scattered throughout the states it serves. One of those, the Dolores Canyon Solar Project, is planned for our service territory. By 2024, 50% of Tri-State’s energy sales will come from renewable resources. Additional information on the REP can be found at www.tristategroup.com/responsible-energy-plan.

Another important issue concerns regulation. Tri-State serves distribution cooperatives in four states (CO, NE, NM and WY). Historically, Tri-State’s board of directors has had full jurisdiction over Tri-State’s rates and the states respected the cooperative governance model. However, over the past decade, the individual states have become increasingly interested in regulating Tri-State. Sometimes an order by one state may benefit cooperatives in that state but harm cooperatives in the other states. In order to mitigate states competing for regulation, Tri-State recently sought and received regulation by the Federal Energy Regulatory Commission. FERC is an entity whose core business is regulating interstate energy commerce. FERC will regulate all of Tri-State’s rates and rate-related matters. The individual state commissions will maintain jurisdiction over Tri-State’s facilities.

Electric System

EEA continues to focus on reliability through tree-trimming, system maintenance programs and system improvements. In 2019, we continued to work toward

**NOTICE OF 2020 ANNUAL MEMBERSHIP MEETING
EMPIRE ELECTRIC ASSOCIATION, INC.**

The Annual Meeting of the members of Empire Electric Association, Inc., is scheduled to begin at 5:30 p.m. on Thursday, October 8, 2020. The meeting will be held at Empire’s Engineering & Operations Center at 23999 Road L.4, Cortez, Colorado. The location change has been made to allow for adequate social distancing. Directions to Empire’s Engineering & Operations Center can be found at www.eea.coop or by calling (970) 565-4444. The following business is scheduled to be transacted:

- I. Election of directors submitted by written petition pursuant to Article III Section 4 of the cooperative’s bylaws. One director is to be elected from the following districts:
DISTRICT NO. 4 [Four-year term]
DISTRICT NO. 7 [Four-year term]
(NOTE: Article III, Section 4 of Empire’s bylaws states, “Should there be only one nomination from each district open for election then no ballots will be mailed or cast and the candidate will be declared elected as a matter of law at the annual meeting or within five (5) days thereafter as provided by law.”)
- II. Voting upon proposed amendment to the Bylaws and Articles of Incorporation, if necessary
(NOTE: No Bylaw or Articles amendments are proposed.)
- III. Reports of Officers, Directors and Committees and action thereon
- IV. Any other business transacted which may properly come before the meeting or any adjournment thereof.

Jerry Fetterman, Secretary-Treasurer, Empire Electric Association, Inc.
PO Box K, Cortez, Colorado 81321

increasing our backfeeding capabilities. Backfeeding occurs when we use power from another part of our distribution system to serve an area due to the primary source being unavailable. Sometimes backfeeding is employed due to equipment failure, and other times it is used during scheduled maintenance. In either case, backfeeding reduces outage time for our members. We cannot backfeed every area of our system, but we can backfeed large portions and we continue to work toward increasing our capabilities. Our strong reliability numbers reflect our efforts. In 2018, our reliability was 99.99%. We were expecting a decrease in 2019 due to the exceptionally snowy and windy weather. We did see a slight drop, but not much: Our 2019 reliability was 99.98%. That means the average member had power available for 99.98% of the time last year. Our crews truly do a great job keeping the lights on for our members.

EEA remains committed to safety. We have worked hard to develop and maintain a culture of safety in an industry that is inherently hazardous. There were four personal injuries reported in 2019 and no lost-time accidents. We continue to strive for zero future incidents.

We made significant strides toward building a solar project on our land near Totten Lake in 2019. We established a relationship with a developer and completed a system impact study. We are hopeful the project will be completed in 2021.

Community Involvement and Member Services

EEA was expanding options for our members to do business with us remotely even before the COVID-19 pandemic hit. Our goal in this effort is to give our members options that are flexible and convenient for them. We were glad we already had such options in place when the pandemic forced us to do business remotely. Through our website, members can start, stop and transfer service; apply for the Green Power program; apply for energy efficiency rebates; pay bills; check account balances; and check power usage. Through our interactive voice response (IVR) phone system, members can check account balances and pay bills. Additionally, we recently installed a kiosk at our headquarters building

that allows members to check account balances and pay bills. The website, IVR and kiosk are all available 24 hours a day for your convenience. If you'd like to learn more about any of these options, please give us a call and our member services team will be happy to assist you.

EEA exists to serve its membership and one way we do that is by giving back to the communities we serve. Every year EEA makes significant contributions to community causes. We gave approximately \$175,000 through donations and sponsorships to support community causes in 2019. Of the money we donated, about \$61,000 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 EEA 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 \$321,000 in rebates were paid to our members in 2019. Visit our website or give us a call if you are interested in learning more about our energy efficiency program.

Thanks Again

Last year marked EEA's 80th year in business. It was a busy but relatively "normal" year for us. However, 2020 has brought challenges none of us were expecting. Who would have thought we would have to deal with the largest pandemic the world has seen in a century? Our entire operations seemingly changed overnight. The transition was not easy for our members or our employees. We wish to thank our members for continuing to be patient and flexible as we navigate these uncharted waters. We are also proud of the dedication and flexibility our employees continue to exhibit in both keeping the power on and providing excellent customer service during these challenging times. Whatever challenges come our way, EEA remains committed to safely, responsibly and reliably meeting the electrical energy needs of our member-owners.

Board of Directors



John Porter, President — District 7



David Sitton, Vice President — District 6



Jerry Fetterman, Treasurer — District 1



Robert Barry — District 2



William C. Bauer — District 3



Bill Mollenkopf — District 4



Kent Lindsay — District 5

2019 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	55 full-time employees: 51 in Montezuma County, 2 in Dolores County and 2 in San Juan County, Utah
Annual Payroll	\$5,118,003
Total Plant in Service	\$94,769,799
Total Assets	\$125,706,381
Transmission System	137 miles of high-voltage transmission line
Distribution System	1,340 miles of overhead distribution line, 411 miles of underground distribution line and 20 substations
Annual Revenue	\$75,678,565
Operating Margin	\$273,141
Total Margin	\$3,242,198
Annual kWh Sales	851,716,298 kilowatt-hours (kWh)
Types of Service	Farms, ranches, irrigation, residential, light industrial, oil and gas pumping, and a large carbon dioxide extraction project.

2019 System Statistics

	2009	2019
Total active services as of 12/31	15,689	16,404
Total miles of line	1,924	1,887
Total kWh purchased	617,650,143	862,945,907
Total kWh sold	606,228,412	851,716,298
Average monthly kWh usage for residential class	659	681
Average monthly billing for residential class	\$87.69	\$102.16
System peak demand kW	89,305	114,698
Month of peak	December	February
Number of full-time employees	59	55
Total margins	\$6,161,336	\$3,242,198
Cost per kWh purchased	7.927 ¢	8.738 ¢
Cost per kWh sold	8.076 ¢	8.853 ¢
Revenue per kWh sold	8.327 ¢	8.885 ¢
Capital credits retired		
Empire	\$749,191	\$1,260,910
G & T	\$4,684	\$1,378,309
TOTAL	\$753,875	\$2,639,219

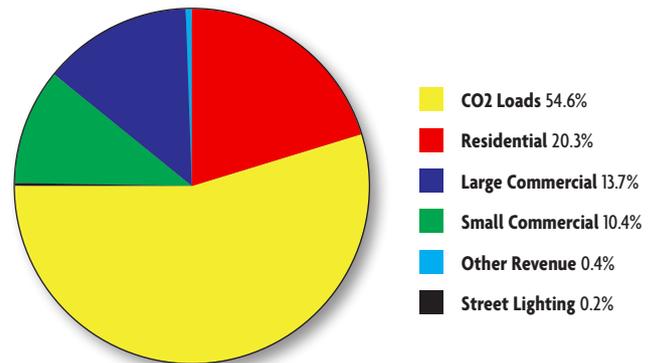
2019 Taxes

Property Taxes:	
Montezuma County	\$633,175
Dolores County	89,020
San Miguel County	3,262
San Juan County, Utah	53,488
Ute Mtn Ute Possessory Tax	0
Franchise Taxes Paid to Cities and Towns	723,861
Sales Tax	772,509
Payroll Taxes	388,612
Other Taxes	11
Total 2019 Tax Obligations	\$2,663,938

2019 Statement of Operations

	2019	2018
Operating Revenue		
Residential	\$15,393,172	\$15,741,463
Irrigation	280,913	265,788
Small Commercial	7,879,492	8,086,548
Large Commercial	10,340,179	9,921,611
CO2 Loads	41,285,721	39,073,376
Street Lighting	178,020	171,553
Other Revenue	321,068	297,912
Total Operating Revenue	\$75,678,565	\$73,558,251
Expenditures		
Purchased Power	61,711,363	58,650,233
Operations & Maintenance	6,812,044	6,762,480
Administrative & General	2,010,135	1,960,420
Depreciation & Amortization	3,213,168	3,082,895
Interest & Other Deductions	1,658,714	1,714,077
Total Expenditures	\$75,405,424	\$72,170,105
Margins		
Operating Margins	273,141	1,388,146
Nonoperating Margins	368,171	126,678
G&T and Other Capital Credits	2,600,886	2,380,371
Net Margins	\$3,242,198	\$3,895,195

Where Empire's 2019 Revenue Came From



Where Empire's 2019 Revenue Went

