2013 Annual Report
To The Membership

www.emec.com

Eastern Maine Electric Cooperative, Inc.
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Serving Eastern and Northern Maine For 74 Years

EASTERN MAINE ELECTRIC COOPERATIVE, INC.

Eastern Maine Electric Co-op is a nonprofit consumer-owned electric utility serving parts of Aroostook, Penobscot, and Washington Counties on Maine's Eastern Border with Canada. The primary goal of a rural electric cooperative is to provide quality electric service at the lowest cost consistent with sound management.

BOARD OF DIRECTORS

R. SCOTT SKINNER - PRESIDENT	Zone 11
Wallace H. Lindahl, Vice President	Zone 8
Ralph E. Staples, Secretary	Zone 9
Earl C. Hill, Jr., Treasurer	Zone 4
Marshall W. Lucas	Zone 1
Dana R. Hatton	Zone 2
Lawrence E. Clark	Zone 3
John W. Larkin	Zone 5
Vernon M. Wentworth	Zone 6
James W. Bala	Zone 7
Virgil L. Farrar	Zone 10

CHIEF EXECUTIVE OFFICER	Scott M. Hallowell
ATTORNEY	Daniel L. Lacasse
AUDITOR:	Berry, Dunn, McNeil & Parker, CPAs

Eastern Maine Electric Cooperative, Inc.

2013 REPORT TO THE MEMBERSHIP

Financial and operational progress continued forward in 2013, but a historic ice storm at the end of the year had significant financial implications for the Cooperative.

OPERATIONAL AND FINANCIAL DEVELOPMENTS

In 2013, the Cooperative received approval from the Rural Utilities Service for the 2013-2017 construction work plan. The new plan, a revision and continuation of the previous work plan, estimates approximately $6.4 million in capital expenditures for new construction, system improvements, and system upgrades over the work plan period. The Cooperative will continue upgrading the south circuit of the Ludlow substation from single- to three-phase power. This project will increase reliability, balance electric load, and further the long-range goal of enabling the transfer of electric load between the Ludlow and Topsfield substations.

To finance most of the costs of the work plan, the Cooperative applied and was approved for a 35-year, $5.9 million construction loan from the Federal Financing Bank. The loan was guaranteed by the Rural Utilities Service, which has the effect of lowering the Cooperative's borrowing costs.

Due to the capital-intensive nature of the electric industry, electric utilities borrow much of the money necessary for construction and system improvements. This industry practice has the benefit of spreading construction costs over the useful life of the related assets.

FUEL COST INCREASES

Eastern Maine Electric Co-op members are paying lower-than-market prices for third-party Standard Offer[1] electricity supply. Rising fuel prices, among other factors, have driven prices in the electricity market higher since the present Standard Offer price of 6.662 cents-per-kwh was secured in January 2013. Co-op members will continue to pay less than the market rates for several more months, but based on present market conditions, the Co-op expects a price increase when the present Standard Offer contract expires on February 28, 2015.

THE CHRISTMAS ICE STORM OF 2013

A major winter storm affected Maine and New Brunswick from December 21, 2013 until January 7, 2014. Nicknamed the "Christmas Ice Storm," the event began with periods of freezing rain on December 21st. The heaviest ice accumulation, however, arrived with a sustained period of freezing rain that began mid-morning on December 23rd.

In Eastern Maine Electric's delivery territory, significant freezing rain extended as far north as Danforth, with snow accumulations from there northward. While Greenland Cove, Forest City, and the Route 6 corridor were impacted by ice accumulation, the worst of the damage occurred in the area bounded loosely by Grand Lake Stream, Indian Township, Wesley, Marion, Perry, and Calais

Before the freezing rain was over, mutual aid crews were on their way to the Co-op's delivery territory from Madison Electric Works in central Maine, as well as four Massachusetts municipal utilities. Tree trimming crews were brought in to clear trees ahead of the line crews. A total of 24 additional contract and mutual aid crews, representing 48 men, were brought in to provide assistance to Eastern Maine Electric's 13 linemen.

As temperatures plummeted on Christmas Eve, a third of the Cooperative's members were still without power. Line crews continued to work through the holiday, restoring power to 2,545 services on Christmas Eve, and another 1,672 customers Christmas day.

Emergency repairs continued another six days, complicated by additional storm fronts moving through the area. The Co-op was able to start sending outside crews home on New Year's Eve, but this initial phase of repairs included only the completion of the work required to restore power to all occupied homes. Additional repairs and tree cutting associated with the storm would continue for the next few months.

FINANCIAL IMPACT OF THE STORMS

When a federal disaster is declared in a state, electric cooperatives qualify for partial reimbursement of disaster-related costs, because electric co-ops are private not-for-profit utilities. While the State of Maine did apply for a disaster declaration following the Christmas Ice Storm, the Federal Emergency Management Agency (FEMA) denied the request, saying that the state's eligible costs did not meet the $1.9-million damage threshold to qualify Maine for federal disaster assistance. In all, FEMA determined that there were only $1.2 million in eligible storm costs for Maine.

Eastern Maine Electric's 2013 costs associated with the storm were approximately $730,000, about 38% of the total amount required for a statewide disaster declaration for Maine, and about 60% of the state's $1.2 million of qualifying costs from the storm.

EMEC RESOLVES AGAINST REQUEST FOR STORM-RELATED RATE INCREASE

The Cooperative incurred approximately $730,000 in emergency costs from the Christmas Ice Storm for the fiscal year ending December 31, 2013. Contract-related storm costs totaling approximately $40,000 were also booked for 2014, because tree contractor assistance was needed for storm-related work during the first part of January.

As a direct result of the storm costs, the Cooperative could not meet the key financial ratios required by its lenders. The minimum ratio requirements are given below with EMEC's 2013 ratios for comparison.[2]

Financial Ratio	Lender Minimum	EMEC 2013
Operating Debt Service Coverage (ODSC)	**1.35**	**1.29**
Times Interest Earned Ratio (TIER)	**1.25**	**0.61**
Operating TIER (OTIER)	**1.10**	**0.38**

In any given year, borrower cooperatives must have met these lender requirements for at least two of the previous three years. If that does not happen, lenders may require the cooperative to implement a corrective plan. It was therefore necessary for EMEC to consider all options for managing the unexpected storm costs from December 2013 and January 2014.

One option for cost recovery was an emergency rate increase. Following unusually severe weather, utilities have been permitted to defer the storm-related costs until

subsequent years and to ask for a rate increase to cover them. For EMEC, the increase would have created a temporary rate "adder," which would have eventually disappeared from electric bills when the storm costs had been recovered. Such rate increases are often used by investor-owned utilities after such storms, because their stockholders expect profits, regardless of weather events or the potential impact on ratepayers.

Ultimately, the Board of Directors determined that the Co-op would not request an emergency rate increase, and the Co-op informed its lenders of its plan of action. The decision was based in part on the fact that the storm was historically unusual, both in its circumstances, and in the severity of damage. Equally important to the decision was the availability of short-term line-of-credit resources for mitigating the cash flow impact of the storm losses.

As a result of the Christmas Ice Storm, Eastern Maine Electric incurred a negative margin (net loss) of $363,640 for fiscal year 2013. This not only impacted the Cooperative's financial ratios, but it also lowered the Co-op's equity level by the amount of the negative margin. The decrease in equity will prevent the Co-op from allocating capital credits until this negative margin has been offset by positive margins in future years. Historically, the Co-op has leaned more toward the avoidance of up-front cost increases for its members than it has toward the growth of equity.

Eastern Maine Electric has a different set of priorities than investor-owned utilities with regard to rates, because electric co-ops are nonprofits and are owned by their customers. When deciding how to cope with the recent ice storm costs, the Co-op's objective was balancing the dictates of financial responsibility with the rate implications to the Cooperative's members.

Submitted to the Members
July 9, 2014

On Christmas night, the linemen and tree crews were greeted by this sign when they took a short break for a warm meal before heading back out to the lines. The Co-op is grateful to the organizations and individuals-- too numerous to mention by name-- whose acts of kindness that week gave the crews a taste of Christmas, as well as welcome reminders of why they work so hard.

Footnotes:

1 In Maine's deregulated electricity market, EMEC provides the delivery service by which Co-op members receive electricity they have purchased from a third-party supplier. The supply costs billed by Eastern Maine Electric are forwarded to the supply company. "Standard Offer Supply" is the default supply of electricity awarded for specified contract periods following a bidding process.

2 The ODSC measures the relationship between the operation-related cash flow available for debt service payments and the payments themselves. TIER measures the relationship between the margin and the interest expense on long-term debt. The OTIER measures the relationship between the operating margin and the interest expense on long-term debt.

Photo credits: Christmas Eve Lineman, front cover- Bob Black; Ice Tunnel, p.3- Chad Duff; Icy Tree Crews, p.4- Brent Delnicki; Other pictures, C. McAlpin.

EASTERN MAINE ELECTRIC COOPERATIVE, INC.
BALANCE SHEET
FOR THE YEARS 2013 AND 2012

ASSETS

	2013	2012
Utility Plant:		
Electric plant in service - at cost	$53,052,373	$52,263,236
Construction work in progress	695,455	441,043
Total Utility Plant	**53,747,828**	**52,704,279**
Less: Accumulated provisions for depreciation	28,628,675	27,407,347
Net Utility Plant	**25,119,153**	**25,296,932**
Other Assets:		
Other	351	351
Prepayments, excluding current portion	1,511,726	1,467,344
Investments in associated organizations	905,225	882,127
Total Other Assets	**2,417,302**	**2,349,822**
Current Assets:		
Cash and cash investments	317,902	204,514
Accounts receivable - net	1,214,797	1,154,199
Materials and supplies	653,332	701,415
Other current assets	99,093	24,871
Prepayments	1,014,000	936,000
Total Current Assets	**3,299,124**	**3,020,999**
Deferred Debits:	**6,389,101**	**5,883,426**
Total Assets	**$37,224,680**	**$36,551,179**

LIABILITIES & EQUITY

Equities:		
Memberships	$49,855	$50,000
Patronage Capital	12,145,114	12,514,545
Total Margins & Equities	**12,194,969**	**12,564,545**
Long Term Debt, excluding current maturities:		
Rural Utilities Service (RUS)	5,071,449	5,356,139
Cooperative Finance Corp. (CFC)	7,871,336	8,161,268
Federal Financing Bank (FFB)	7,674,905	5,402,521
Total Long Term Debt	**20,617,690**	**18,919,928**
Other non-current liabilities	**175,700**	**746,800**
Current Liabilities:		
Lines of credit	400,000	950,000
Current maturities of long-term debt	755,000	764,000
Accounts payable	1,263,531	919,690
Consumer deposits	75,535	74,467
Accrued interest	90,419	95,865
Accrued expenses and other current liabilities	353,635	244,903
Total Current Liabilities	**2,938,120**	**3,048,925**
Deferred Credits	**1,298,201**	**1,270,981**
Total Liabilities & Equities	**$37,224,680**	**$36,551,179**

EASTERN MAINE ELECTRIC COOPERATIVE, INC.
STATEMENT OF OPERATIONS
FOR THE YEARS 2013 AND 2012

	2013	2012
Operating Revenues:		
Residential	$4,626,067	$4,581,156
Seasonal	512,664	496,949
Commercial	2,433,631	2,387,100
Street Lighting and Public Auth.	201,832	197,438
Industrial & Other	50,147	72,791
Other Electric	419,551	415,001
Total Operating Revenues	**8,243,892**	**8,150,435**
Operating Expenses:		
Purchased Power	240,465	196,934
Transmission	33,396	34,755
Distribution, operation	1,758,688	1,602,075
Distribution, maintenance	1,487,829	785,515
Consumer accounts	922,098	912,185
Customer service & informational exp.	165,549	152,385
Administrative & general	1,410,390	1,534,286
Depreciation	1,611,605	1,589,558
Amortization, regulatory asset	249,643	249,643
Interest - Long-term	926,793	941,142
Other interest and expenses	22,549	25,758
Total Oper. Exp. without Purchased Power	**8,588,540**	**7,827,302**
Total Operating Expenses	**8,829,005**	**8,024,236**
Operating Margins	**(585,113)**	**126,199**
Patronage Dividends	47,205	42,036
Net Operating Margins	**(537,908)**	**168,235**
Nonoperating Margins:		
Interest income	155,499	145,978
Other	18,769	2,681
Net Nonoperating Margins	**174,268**	**148,659**
Net Margins	**($363,640)**	**$316,894**
T.I.E.R.	0.61	1.34
Operating D.S.C.	1.29	1.62

AUDIT REPORT: The annual audit of records for the columns marked 2013 and 2012 were made by Berry Dunn, McNeil & Parker, CPA's, 100 Middle Street, Portland, ME 04104. 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	2013	2012	2011	2010	2009
Average Number of Active Accounts	12,592	12,620	12,631	12,617	12,575
Total Miles of Electric Lines	1,737	1,736	1,724	1,724	1,714
Amount Allocated for Bad Debts (% of Retail Rev.)	$72,326	$74,680	$72,018	$28,679	$166,605
Bad Debts Written Off (Actual for year)	$96,001	$104,931	$90,361	$148,044	$103,432

REVENUE & EXPENSE STATISTICS	2013	2012	2011	2010	2009
Average Annual kWh/Member (Res.)	6,575	6,487	6,341	6,335	6,329
Average Annual Revenue/kWh (Res.)	8,654	8,619	8,638	8,590	8,562
Avg. # of Consumers per Employee	360	371	383	371	370
Operations & Maint./Mile of Line	$1,869	$1,375	$1,296	$1,433	$1,259
Average Number of Employees	35	34	33	34	34
kWh losses	9.98%	9.93%	10.09%	9.08%	9.43%

REVENUE CLASS SUMMARY

	KWH DELIVERED	PERCENTAGE OF TOTAL DEL.	%INCREASE (DECREASE) OVER 2012
Residential Sales	53,453,988	57.6%	0.6%
Seasonal Sales	2,735,478	2.9%	5.5%
Commercial Sales	34,372,486	37.0%	1.2%
Street Lighting & Public Auth.	2,273,503	2.5%	1.8%
Total Retail Delivery	**92,835,455**	**100.0%**	**1.0%**