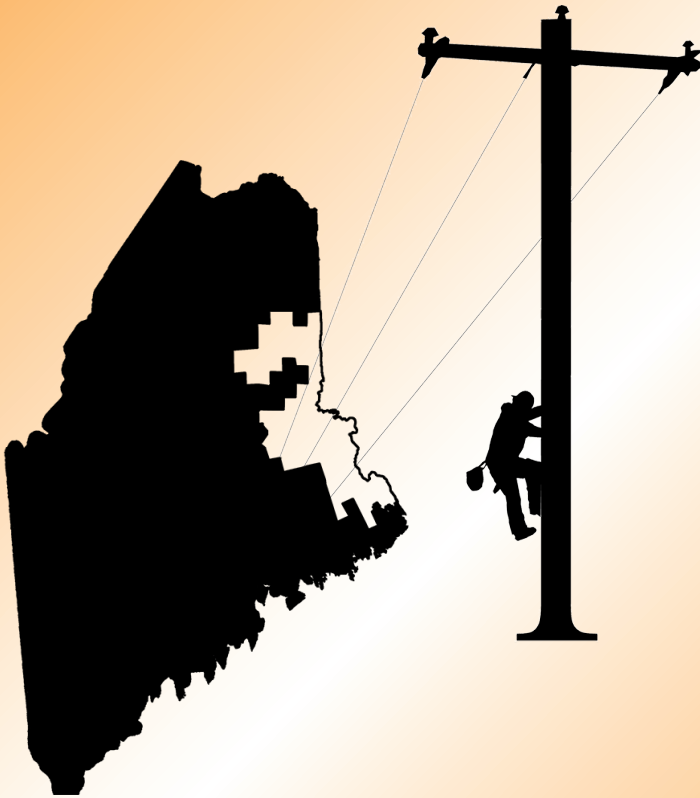


2015 Annual Report

To The Membership



www.emec.com

Eastern Maine Electric Cooperative, Inc.

(207) 454-7555 P O Box 425 Calais ME 04619 (800) 696-7444

Serving Eastern and Northern Maine For Over 75 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
ATTORNEY
AUDITOR:

Scott M. Hollowell
Daniel L. Lacasse
Berry, Dunn, McNeil & Parker, CPAs



Eastern Maine Electric Cooperative, Inc.

2015 REPORT

TO THE MEMBERSHIP

OPERATIONAL DEVELOPMENTS

Eastern Maine Electric Cooperatove (EMEC) added a new Houlton-based bucket truck to its fleet in May 2016, replacing a well-worn older unit first put in service in the year 2000. The new truck is an International Navistar 4400, and it is fitted with an Altec boom and bucket.

Progress continued on the present work plan, including the upgrade of the Woodland grid to 7.2 kiloVolt(kV). Line crews completed the constuction of a new line along Washington Street, as well as on Palm Street from Main Street to the water treatment plant.

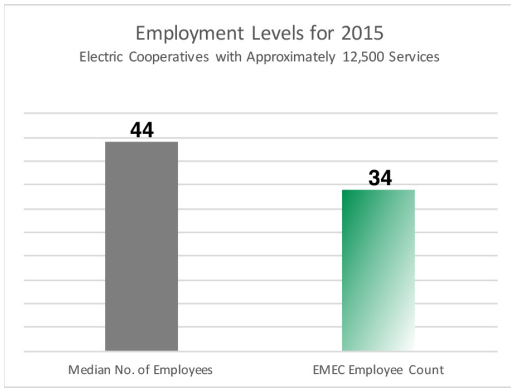
Work also continued on the single- to three-phase upgrade of the Ludlow substation's south circuit. In addition to improving reliability, this project will help balance the electric load at the Ludlow substation. Eventually, it will also allow the Co-op to transfer load between the Topsfield and Ludlow substations, providing redundant electrical connections.

Transmission-line outages affecting the Co-op's two northernmost substations have increased in the past two or three years, and they increased sharply in 2015. The 44 kV transmission line serving EMEC's Patten and Ludlow substations is owned by Emera Maine, the Halifax-based company that purchased Maine Public Service Company. Emera-transmission-related outage hours for the Patten substation doubled from approximately 14 hours in 2014 to over 28 hours in 2015. In most instances, outages affecting the Ludlow station were shorter in duration than those affecting the Patten substation, due to transmission line switching, which enabled earlier power restoration to Ludlow. During a four-hour planned outage on May 22, 2016, Emera made improvements to their line which should improve the reliability of their transmission line in the future.

Eastern Maine Electric made use of the May 22nd Emera outage to conduct scheduled maintenance and equipment upgrades at the Co-op's Patten substation.

STRATEGIC RESOURCE MANAGEMENT

The Cooperative's cost and equity management practices are designed to provide delivery¹ rate stability at the lowest cost consistent with sound



management practices. This philosophy is reflected in the strategic management of financial, operational and human resources.

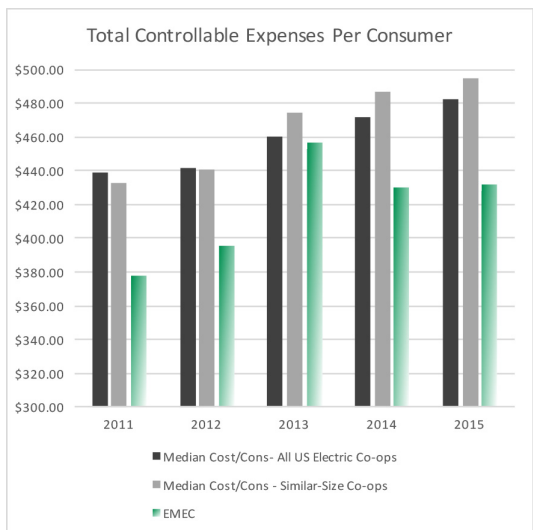
With regard to human resources, the Cooperative continued to rely on low employee turnover in 2015 to accomplish this utility’s mission with very tight staffing. The Cooperative’s employment strategy has been to

hire, train, and retain its employees, relying on the efficiencies of experience to accomplish the same work with fewer employees. Among electric cooperatives across the country serving similar numbers of consumers (approximately 12,500 consumers), the median staffing level is 44 employees. EMEC, on the other hand, employed an average of only 34 employees in 2015.

One comparison of efficiency used among electric co-ops is the “Total Controllable Expenses Per Consumer.” This ratio is measured in dollars per consumer and includes cost measures of operations, consumer accounting, member services, and general administrative costs. For electric cooperatives of similar size to EMEC, the median ratio was \$494 in 2015, and in the northeastern region, this cost is generally higher than the median. For EMEC it was \$431 per consumer in 2015.

Another example of strategic resource management includes right of way maintenance, which is generally a major consideration for Maine utilities. It is of special concern for Eastern Maine Electric, which serves the most rural service territory of the state with the most forest cover². The Cooperative spent approximately \$300,000 on contracted tree trimming, clearing, and spraying in 2015. This dollar figure, however, does not include the real value of costs avoided through Eastern Maine Electric’s ongoing and ground-breaking cooperation with local wood harvesters.

Normally, commercial wood harvesters avoid harvesting trees



close to power lines, leaving a strip of trees adjacent to power lines. This strip of trees is newly exposed to the wind, so it is weaker and more likely to be toppled during storms. EMEC's coordination with local harvesters allows the harvesters to safely cut down this strip of trees. The relationship provides logging companies with more product, while removing this threat to the power lines. It also helps save the Cooperative the cost of maintaining the power line right of way adjacent to commercial wood lots.

FINANCIAL DEVELOPMENTS

The Co-op earned a positive net margin of \$352,727 in 2015. Capital credit allocations resumed for 2015, but part of this margin must be used to offset the remainder of a negative 2013 net margin (net loss), which was due to severe storms that year. The Cooperative achieved the minimum financial ratios required by its lenders for 2015, including a TIER³ of 1.41, an OTIER⁴ of 1.11, and MDSC⁵ of 1.87. Part of the means by which the Co-op met these ratios was the recognition in 2015 of \$260,000 from the revenue deferral plan previously approved by the lenders.

This and other actions have allowed the Cooperative to maintain its base delivery rates without an increase for the past nine years. However, given existing cost pressures, a modest change in base delivery rates will be necessary in the near future.

Eastern Maine Electric Co-op's rate strategy has always focused on maintaining rate stability and margins at cost-efficient levels. Nevertheless, margins and equity levels must be sufficient to operate the Cooperative responsibly and to meet the minimum requirements of the Co-op's lenders.

ENDNOTES

- 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. According to the U.S.D.A.'s Forest Inventory and Analysis National Program, 85.8% of Maine is timberland, a higher percentage than any other state. <http://www.fia.fs.fed.us/>*
- 3. TIER (Times Interest Earned Ratio) measures the relationship between the margin and the interest expense on long-term debt. EMEC's lenders require the Co-op to meet a minimum average TIER of 1.25 on a two-out-of-three-year basis.*
- 4. OTIER (Operating Times Interest Earned Ratio) measures the relationship between the operating margin and the interest expense on long-term debt. EMEC's lenders require the Co-op to meet a minimum average OTIER of 1.10 on a two-out-of-three-year basis.*
- 5. MDSC (Modified Debt Service Coverage) ratio measures the relationship between the operation-related cash flow and debt service payments. EMEC's lenders require the Co-op to meet a minimum average MDSC of 1.35 on a two-out-of-three-year basis.*

EASTERN MAINE ELECTRIC COOPERATIVE, INC.
BALANCE SHEET
FOR THE YEARS 2015 AND 2014

ASSETS

	2015	2014
Utility Plant:		
Electric plant in service - at cost	\$56,037,543	\$54,404,549
Construction work in progress	647,802	840,920
Total Utility Plant	56,685,345	55,245,469
Less: Accumulated provisions for depreciation	31,570,208	30,099,297
Net Utility Plant	25,115,137	25,146,172
Other Assets:		
Other	351	351
Prepayments, excluding current portion	4,319,251	1,702,399
Investments in associated organizations	952,129	931,206
Total Other Assets	5,271,731	2,633,956
Current Assets:		
Cash and cash investments	555,909	2,099,093
Accounts receivable - net	1,171,936	1,111,068
Materials and supplies	654,013	681,427
Other current assets	114,070	126,276
Prepayments	865,000	952,000
Total Current Assets	3,360,928	4,969,864
Deferred Debits:	5,624,459	6,484,384
Total Assets	\$39,372,255	\$39,234,376

LIABILITIES & EQUITY

Equities:		
Memberships	\$49,765	\$49,610
Patronage Capital	12,781,434	12,441,741
Total Margins & Equities	12,831,198	12,491,351
Long Term Debt, excluding current maturities:		
Rural Utilities Service (RUS)	4,648,510	4,830,216
Cooperative Finance Corp. (CFC)	7,199,851	7,535,495
Federal Financing Bank (FFB)	9,978,671	7,489,112
Total Long Term Debt	21,827,032	19,854,823
Other non-current liabilities	53,300	667,700
Current Liabilities:		
Lines of credit	0	1,410,000
Current maturities of long-term debt	703,000	749,000
Accounts payable	813,500	793,679
Consumer deposits	85,834	79,481
Accrued interest	57,816	61,988
Accrued expenses and other current liabilities	343,809	242,337
Total Current Liabilities	2,003,959	3,336,485
Deferred Credits	2,656,765	2,884,017
Total Liabilities & Equities	\$39,372,255	\$39,234,376

EASTERN MAINE ELECTRIC COOPERATIVE, INC.
STATEMENT OF OPERATIONS
FOR THE YEARS 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues:		
Residential	\$4,650,956	\$4,703,932
Seasonal	498,664	502,938
Commercial	2,489,295	2,488,022
Street Lighting and Public Auth.	198,400	203,033
Industrial & Other	42,329	24,349
Other Electric	682,395	674,615
Total Operating Revenues	8,562,039	8,596,889
Operating Expenses:		
Purchased Power	188,832	236,393
Transmission	37,197	44,575
Distribution, operation	1,813,910	1,602,774
Distribution, maintenance	713,273	1,145,840
Consumer accounts	940,127	875,939
Customer service & informational exp.	199,563	156,647
Administrative & general	1,758,814	1,622,910
Depreciation	1,716,537	1,670,672
Amortization, regulatory asset	249,643	249,643
Interest - Long-term, net	848,495	879,252
Other interest and expenses	23,368	21,624
Total Oper. Exp. without Purchased Power	8,300,927	8,269,876
Total Operating Expenses	8,489,759	8,506,269
Net Operating Margins	72,280	90,620
Nonoperating Margins:		
Interest income	228,834	164,108
Patronage Dividends	45,614	43,114
Other	5,999	2,571
Net Nonoperating Margins	280,447	209,793
Net Margins	\$352,727	\$300,413
OTIER	1.11	1.12
TIER	1.41	1.33
MDSC	1.87	1.77

AUDIT REPORT: The annual audit of records for the columns marked 2015 and 2014 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

	2015	2014	2013	2012	2011
Average Number of Active Accounts	12,563	12,577	12,592	12,620	12,631
Total Miles of Electric Lines	1,748	1,741	1,737	1,736	1,724
Amount Allocated for Bad Debts (% of Retail Rev.)	\$74,863	\$71,607	\$72,326	\$74,680	\$72,018
Bad Debts Written Off (Actual for year)	\$58,965	\$134,321	\$96,001	\$104,931	\$90,361

REVENUE & EXPENSE STATISTICS

	2015	2014	2013	2012	2011
Average Annual kWh/Member (Res.)*	6,669	6,705	6,575	6,487	6,341
Average Annual Revenue/kWh (Res.)*	8.639	8.672	8.654	8.619	8.638
Avg. # of Consumers per Employee	370	370	360	371	383
Operations & Maint./Mile of Line	\$1,446	\$1,579	\$1,582	\$1,870	\$1,296
Average Number of Employees	34	34	35	34	33
kWh losses	9.42%	8.93%	9.98%	9.93%	10.09%

* Does not include seasonal sales

REVENUE CLASS SUMMARY

	KWH DELIVERED	% OF TOTAL DELIVERY	% CHANGE FROM 2014
Residential Sales	53,836,078	57.3%	-0.8%
Seasonal Sales	2,584,340	2.7%	-0.8%
Commercial Sales	35,396,793	37.7%	0.6%
Street Lighting & Public Auth.	2,189,856	2.3%	-3.3%
Total Retail Delivery	<u>94,007,067</u>	<u>100.0%</u>	<u>-0.3%</u>

