



A Touchstone Energy® Cooperative 

2017 ANNUAL REPORT



Message from the CEO & Board President

This year your cooperative is celebrating 29 years since its founding in 1988. Although Oregon Trail Electric is a young cooperative in comparison with others, we have a lot to be proud of. As one of the largest cooperatives in the state, OTEC continues to work hard to keep rates competitive, power reliable and concern for community a priority.

Another thing that has not changed is OTEC's access to clean, renewable hydro-power through the Bonneville Power Administration. The BPA provides a great resource. However, in recent years, significant challenges have impacted and continue to threaten their historically competitive rate structure. Since power supply makes up almost 50 percent of OTEC's costs to our members, we have amplified our focus on mitigating the impacts of the specific challenges of the BPA as part of our strategy. Some of these major challenges include environmental pressure to remove the dams, collapsing secondary market sales and a court-ordered spill that forces more water to be pushed over the dams versus through the turbines.

With the advancements and innovation in technology, the energy industry has great opportunities and challenges. As you can see in the department overviews provided through-



out the annual report, we focused our efforts in 2017 on core business as well as crafting a new strategy to help address identified challenges, including member satisfaction, the economic state of the region and areas OTEC can impact in the support of growth.

As part of our strategy process, we had the opportunity to speak and listen to industry, community and political leaders across our territory. We engaged our member owners, and our employees and fostered conversa-

tions with industry experts across the nation to better understand the future environment we face and how it helps shape our strategy moving forward.

Our new vision for the cooperative has a direct focus on three primary areas: driving a high-level of member satisfaction, growth and innovation. OTEC serves 22 franchised communities. Throughout our conversations, it is clear each community has its own identity, challenges, opportunity and vision. Every community has its own path, yet it remains clear

clear everyone is working toward a healthy community through community growth, gradual or accelerated, that maintains their hometown charm, culture and authenticity.

To that point, OTEC has begun working toward our new vision that is built on a foundation of values that align with our members' voice. First and foremost is our value of safety — protecting our people and the public we serve. In addition, we are focused on key areas across the organization that impact our member satisfaction and growth. In 2017, we invested \$5 million in capital projects, adding to the \$100 million invested during the last 29 years.

We recently advanced more than a million dollars in capital projects that added substation capacity for two industrial parks for reliability and to support growth.

Additionally, we recently overhauled our line extension policy to help answer our members' call to to simplify the process, easing the financial burden and staying focused on our members' experience and satisfaction.

Your cooperative is on a journey in a new environment that is changing

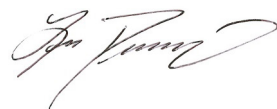
rapidly. With major shifts in regulations on the horizon, and new forms of renewable and carbon-free power generation advancing and emerging rapidly, historic stability of markets are in question.

Disruptive technology in solar options and advanced battery storage are driving new markets. There is a wave of new electric vehicles with tremendously improved performance characteristics that will emerge into the Northwest market, likely quicker than other parts of the country.

With all the challenges and opportunity, we must position the cooperative to meet our members' expectations and not lose focus on our core mission: "To safely provide reliable electric and related services that support the economy and the quality of life of OTEC members based on the cooperative principles."



G. Austin Bingaman, Board President



Les Penning, CEO & General Manager



About us

It took plenty of courage, leadership and perseverance 29 years ago for a small group of local residents to find support for a proposal that would form a locally owned, not-for-profit electric cooperative. But, they did it — finding the required 700 charter members from Baker, Grant, Union and Harney counties. These citizens, collecting a penny from each of their pockets, held fast to a big dream for a brighter future — one that included reliable electric service to their homes and businesses. In July 1987, Oregon Trail Electric Cooperative was officially formed.

On July 13, 1988, under the leadership of Peggi Timm, OTEC's first board president (pictured at right), a letter of intent to buy the existing electrical system from CP National was accepted, and the cooperative became a reality. One of the first courses of business for the new cooperative was to purchase 60 megawatts of wholesale power from the Bonneville Power Administration for 2.5 cents per kilowatt-hour and 20 megawatts of CPN contracted co-generation for 7.5 cents per kWh. The newly formed cooperative spent many of the following years repairing and upgrading a deteriorated distribution system.

During the last three decades, membership grew from its humble beginnings of 700 members and \$7 in equity, with a \$45.5 mil-



lion loan, to more than 22,800 members and equity topping \$74 million and \$158 million in gross plant. Yet the purpose and mission of the cooperative has remained the same. Reliable electric service, competitive electric rates, quality hometown service and innovative solutions are still OTEC's top business drivers. We continue to have a local presence in each of our four districts. Despite growth, OTEC has approximately the same number of employees (81) as in the beginning. The coming years

looks as bright and exciting today as they did to our founders.

Today, we have more technology to help us keep up with the ever-growing expectations of our member-owners and their busy lifestyles.

We continually seek, add or change our programs and services to ensure members' needs are met and that each and every contact with OTEC is a good one. After all, we are putting our power and our people to work for you, our members.

Member Services

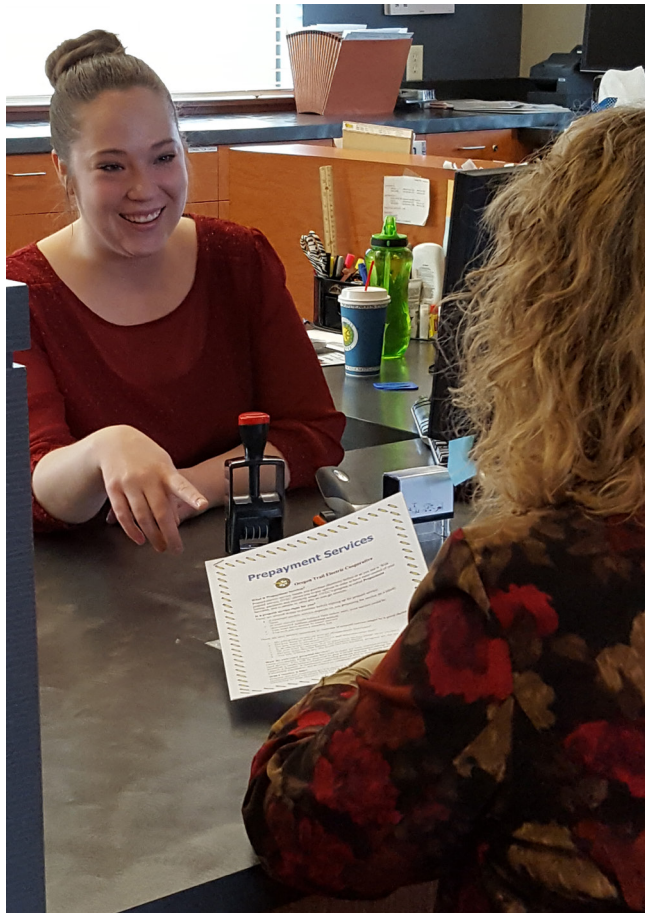
We take great pride in the service we provide to our members. Meeting your needs is our most important focus, all while doing so in accordance with the Seven Cooperative Principles.

Providing hometown service at competitive rates and offering the best innovative solutions remain as important today as 29 years ago.

Our commitment is reflected in a number of ways. OTEC's Member Services team focuses on how we can fit into our members' busy lives, making it easy and convenient to conduct business with our offices. We offer community payment kiosks, online and mobile access to billing information, a multitude of payment services and options, and a host of programs to help reduce electric bills.

OTEC employees are always ready to talk about how to use electrical equipment and products more efficiently, and can offer ways for you to save money through energy efficiency rebate programs.

Are you interested in the latest lighting products? Do you need a new heating system or new appliance in your home? Stop by the office, call or visit our website. We have solutions for you. The service provided comes from people you know who live in the communities



we serve.

A major achievement in 2017 was the installation of new telephone technology. It was important for us to select a system that would augment and complement the good hometown service members have come to expect. The benefits of improved call management — such

as eliminating busy signals, fewer call hang ups and transfers, and less delay moving callers quickly to the department or representative who could answer their question — are now being realized. Prior to this change, OTEC member service representatives received more than 5,500 calls a month. Following the automation, more than 1,500 member calls are being taken care of without members having to wait for an available representative. The new Interactive Voice Recognition phone system offers members 24/7 service. By phone, our members have access to an electronic self-service business center where routine types of services — such as making a payment, checking an account balance or setting up a payment plan — is readily available. This automated system adds a new level of convenience for our members and saves service representatives precious time that they can now spend helping members with complicated problems or assisting those who require more personal attention.

For 29 years, OTEC has strived to provide our members with the highest quality service. OTEC looks forward to the future as we continue to foster relationships in our communities in a effort to play an integral role in increasing the health and vitality of our rural communities.

Engineering and Operations

The way we deliver power has not changed much in the last 29 years, even though our equipment, tools and the way we address workplace safety has advanced. Technology has become a fundamental and essential extension of our labor resources.

In 2017, Oregon Trail Electric Cooperative added new technology that reduces paper service orders and improves crew access to online data to better analyze and manage power outages. Each of our crews now have an iPad with them in the field, offering near real-time mapping and location information that enhances OTEC's ability to diagnose, record actions taken and restore services quickly after a power outage.

In addition, installation of another value-added technology, System Control and Data Acquisition, began in 2017. Once fully deployed, the new SCADA software and field hardware will allow OTEC to monitor, gather and process equipment performance data right from the office, saving time by avoiding manual record keeping and conducting field inspections.

OTEC employees will be able to interact with remote sensors placed on critical facilities from around the system. The new technology will improve OTEC's outage response time, provide critical performance data and logs ahead of equipment failures, and add tools to analyze data



and make important decisions about equipment maintenance schedules and funding — all of which equates to greater efficiencies, control of costs and better service for our members.

Engineering and operations also completed

major capital improvements valued at more than \$5 million in 2017. This included replacement of transmission lines and structures, distribution extensions and replacements, substation upgrades and primary metering station rebuilds throughout the OTEC system.

Our 2017 safety record speaks volumes to OTEC's focus and ongoing priority of safety. We take great pride in the recognition and safety awards received for several years from outside evaluation entities such as the Northwest Public Power Association. We are proud of the culture of safety we have created to ensure our employees go home each night whole and well, and our members have the knowledge they need to work and play safely around our electric facilities.

Our 2017 goal of zero lost-time accidents was achieved and OTEC conducted 12 safety trainings around our communities throughout the year, demonstrating our commitment to safety.

Our aim to safely provide you with reliable electrical service at a competitive rate has not changed in the last 29 years. But the addition of new operational and engineering technologies and tools have helped us make better business decisions, improved the quality of member service provided, minimized added costs, and allowed us to keep pace with our members' growing expectations of system reliability.

Information Technology

Information Technology plays a vital role at Oregon Trail Electric Cooperative and has evolved significantly since the cooperative's founding 29 years ago. New technologies have transformed the way the cooperative and its members work, interact and communicate. These new digital technologies have helped OTEC keep costs down, while improving service to members in many ways.

In the early days of the cooperative, IT was used primarily to automate accounting and billing processes. Today, there are many ways technology is being leveraged to gain better operational efficiency, provide greater understanding of our members' needs and add new value to the service we provide.

Several enhancements have been made. A system was added that allows dispatch and operations personnel to find and quickly address problems with your electrical service. New data acquisition technology helps OTEC engineers design and maintain a more reliable distri-

bution grid. Installation of electronic meters allows us to read meters automatically from the office, while gathering detailed usage for members to view online to manage their electric bills. A smartphone app and an online portal — available through OTEC's website — give members access to pay their bill, set up a payment arrangement and check

their balance from any location at any time of day.

Technology is reshaping how we do business. However, with these new digital options come new risks.

Protecting our members' personal and financial information — as well as the electrical infrastructure that serves you — remains the cooperative's top priority.



In 2017, IT devoted extra time and resources toward continuing to identify and address potential areas of system vulnerability. We improved internal procedures for handling members' financial information, conducted extensive employee education and training, developed contingency plans in the event of a problem, and upgraded and added additional cybersecurity software.

For 29 years, OTEC has been a name our members can trust. We recognize this trust as our greatest asset. While new technologies will increase connectivity and convenience for our members, ongoing vigilance and focus are needed to keep up with innovative technologies that will continue to play an important role in shaping OTEC's future, while protecting our members' personal information and electrical infrastructure. That is why we are strongly committed to creating a permanent culture of safety and security throughout the organization.

2017 Annual Meeting of the Membership



Our mission is to safely provide reliable electric and related services that support the economy and the quality of life of OTEC members based on the cooperative principles.

OUR VALUES:

SAFETY

RELIABILITY

INTEGRITY

ECONOMIC STEWARDSHIP

ADAPTABILITY

COMMITMENT TO MEMBERS/COMMUNITY

COMMITMENT TO EMPLOYEES

Our vision is that by 2022, member satisfaction will be in the top 10 percent of cooperatives nationally by innovating and diversifying services to grow and provide added value to our members.

Our Safety Goal: Looking Forward

Create leaders
and coaches at
every level of the
organization

Square miles
of service territory

12K

Miles of
power lines

3K

Number of
OTEC members

23K

Capital credits
returned to members

\$2.95

in 2017

Total consumers
(meters)

31K

Number of
employees

81

Power cost
per \$1

49%

in 2017

Members per
line mile

11

ers

M

Scholarship
dollars awarded

\$130K

in 2017

Number of
scholarships
awarded

26

in 2017

Charitable
contributions
awarded

125

in 2017

Margins

6%

in 2017

Amount of dollars
awarded in scholarships

\$1.16M

since 2000

Charitable funds reinvested
in community improvement

\$27K

in 2017

Operational
cost per \$1

45%

in 2017

st

%

OTEC in the community

At Oregon Trail Electric Cooperative, we take pride in highlighting the value of cooperative membership by supporting our communities. Our employees volunteer many hours to civic and community organizations.

Also, we provide a variety of programs that benefit youth — from safety demonstrations to sponsoring youth activities across our four-county service territory. After all, our youth are our members in training.

Every year, OTEC seeks applications for two of the programs we are particularly proud of: the

Washington, D.C., Electric Cooperative Youth Tour and the OTEC Scholarship Program.

During the annual youth tour, more than 1,800 high school students from across the country descend on Washington, D.C., to learn about government, history and the role of electric cooperatives. OTEC sends four high school juniors — one from each of the four counties we serve — on the all-expenses-paid youth tour trip every year.

Each November, high school students, returning students and adults entering educational

and technical programs can apply for OTEC's annual scholarship program. OTEC awards 28 scholarships — two linemen scholarships and 26 academic scholarships. Each scholarship is \$5,000. Eight of the 26 academic scholarships are earmarked for returning college students.

Funding for all OTEC community programs come from unclaimed capital credits and their earnings. They do not affect electric rates.

OTEC sponsors Dolly Parton's Imagination Library



PROUD SPONSOR

OTEC, along with the James and Shirley Rippey Family Foundation, is proud to sponsor Dolly Parton's Imagination Library in Baker, Grant, Harney, and Union counties.



THE PROGRAM

Dolly Parton's Imagination Library is a free book-gifting program for children, birth until the month of their 5th birthday.



HELPING HANDS

The Imagination Library is run by the Dollywood Foundation in partnership with local nonprofits. OTEC is proud to join forces with more than 45 community partners — all united to help foster and grow this community literacy program.



LEADING ROLE

OTEC is the first electric cooperative in the nation to take a leading role in bringing the Imagination Library to all citizens in four counties.

Finance

Oregon Trail Electric Cooperative and our members had a good 2017. The cooperative posted net margins of \$3.4 million during the year. At the same time, our financial position allowed the cooperative's board of directors to authorize the retirement of \$2.95 million in capital credits back to our members in December 2017. That equates to distributing back to our members more than 85 percent of net margins earned during 2017.

During the year, we embarked on a goal to reduce system-wide inventory levels. We established minimum and maximum inventory levels for all materials, resulting in a decrease in our overall inventory level by more than \$1 million in 2017 — a success that is only possible through cooperation between departments throughout the cooperative. This effort frees up capital for other uses and reduces the possibility of maintaining outdated or obsolete inventory remaining. We continue to look for these types of initiatives that create efficiencies and position your cooperative to successfully navigate the ever-evolving utility industry.

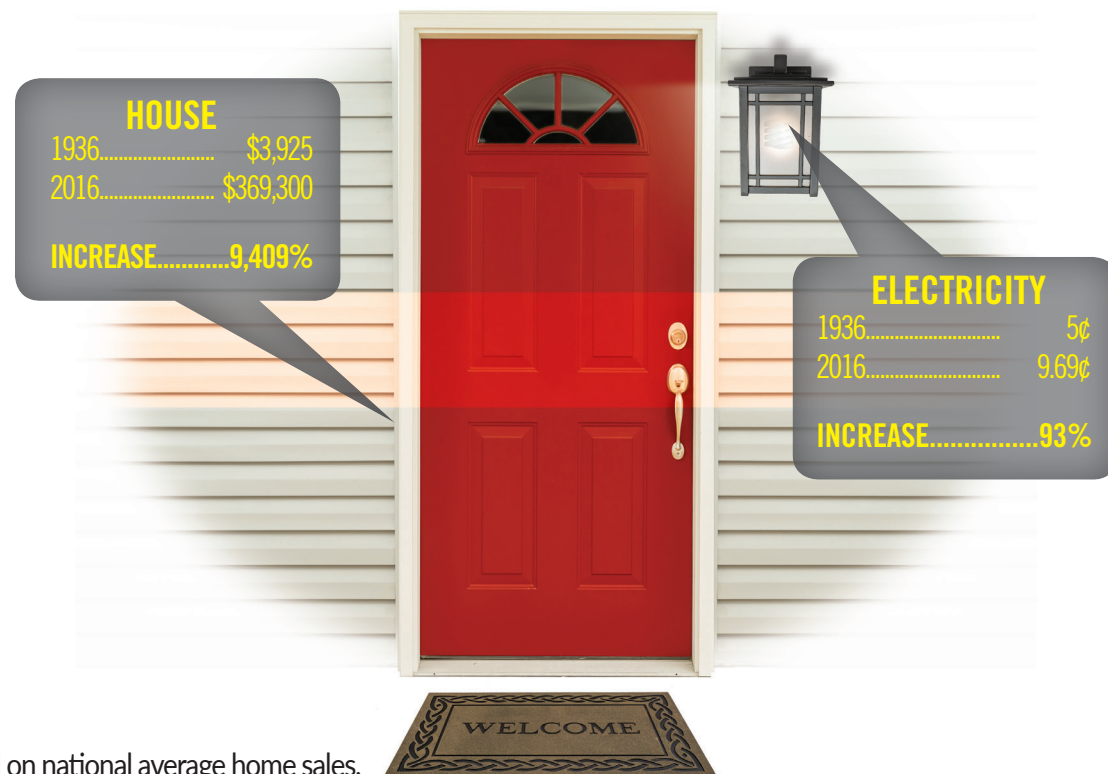
At the end of 2017, member equity in the system had grown to nearly \$75 million — a far cry from our humble beginnings 29 years ago of just 700 pennies (\$7). At the end of the year, OTEC's equity ratio was more than 56 percent.

This ratio, along with other financial measures, enables the cooperative to receive a half of 1 percent discount on our loans. Last year, this saved our member-owners \$151,250 in interest on long-term debt. During the last several years, with interest rates at record lows,

the cooperative has systematically borrowed funds to pay off older loans that carried higher interest rates. We continually look for ways to improve our stewardship of the electrical system you have entrusted us with.

It is truly our pleasure to be of service to you.

THERE'S SOMETHING TO BE SAID ABOUT STAYING IN THE SAME NEIGHBORHOOD.



Balance Sheet

Assets	2017	2016
Utility plant (net)	\$102,942,377	\$103,089,702
Other property and investments	7,735,820	7,670,925
Total utility plant and investments	\$110,678,197	\$110,760,627
Current assets		
Cash - General fund	\$9,623,249	\$8,213,509
Notes and accounts receivable (net)	6,409,002	6,673,224
Material and supplies - electric	2,808,380	3,824,775
Other current and accrued assets	535,683	548,323
Total current assets	\$19,376,314	\$19,259,831
Deferred debits	\$2,837,604	\$3,337,701
Total assets	\$132,892,115	\$133,358,159

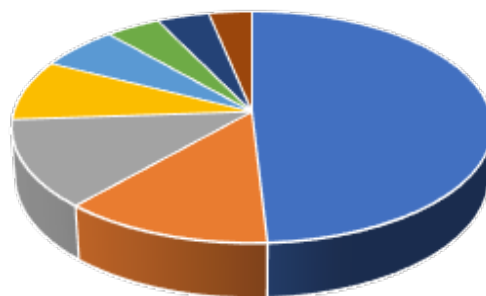
Balance Sheet

Equities and Liabilities	2017	2016
Equities and margins		
Memberships	\$228	\$227
Patronage capital	73,100,099	72,635,011
Other equities	1,625,279	1,539,992
Total equities and margins	<u>\$74,725,606</u>	<u>\$74,175,230</u>
Long-term debt		
Mortgage notes	\$44,857,785	\$45,812,956
Other long-term liabilities	799,283	940,022
Total long-term debt	<u>\$45,657,068</u>	<u>\$46,752,978</u>
Current liabilities		
Notes and accounts payable	\$7,059,593	\$6,862,480
Other current and accrued liabilities	4,970,400	4,579,704
Total current liabilities	<u>\$12,029,993</u>	<u>\$11,442,184</u>
Deferred credits	<u>\$479,448</u>	<u>\$987,767</u>
Total equities and liabilities	<u><u>\$132,892,115</u></u>	<u><u>\$133,358,159</u></u>

Statement of Revenues and Expenses

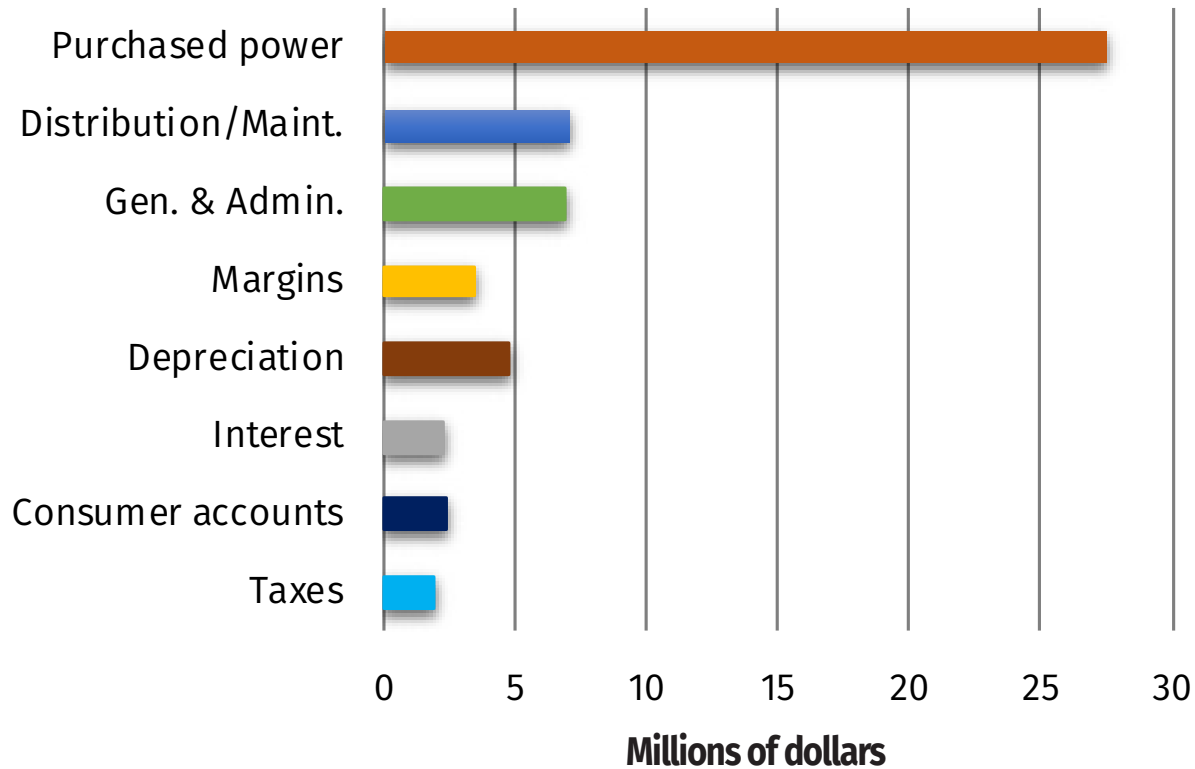
	2017	2016
Total revenues	\$56,016,818	\$54,113,754
Operating Expenses		
Cost of purchased power	\$27,475,859	\$26,390,667
Distribution expenses	\$7,023,974	\$6,645,169
Consumer accounts expense	\$2,326,185	\$2,395,368
Administrative and general expenses	\$6,867,174	\$6,757,278
Depreciation and amortization expense	\$4,768,474	\$4,607,109
Taxes	\$1,848,256	\$1,654,331
Interest expense	\$2,279,064	\$2,397,938
Total cost of electric service	\$52,588,986	\$50,847,860
Patronage capital or margins	\$3,427,832	\$3,265,894

***How a dollar
is spent at
OTEC***

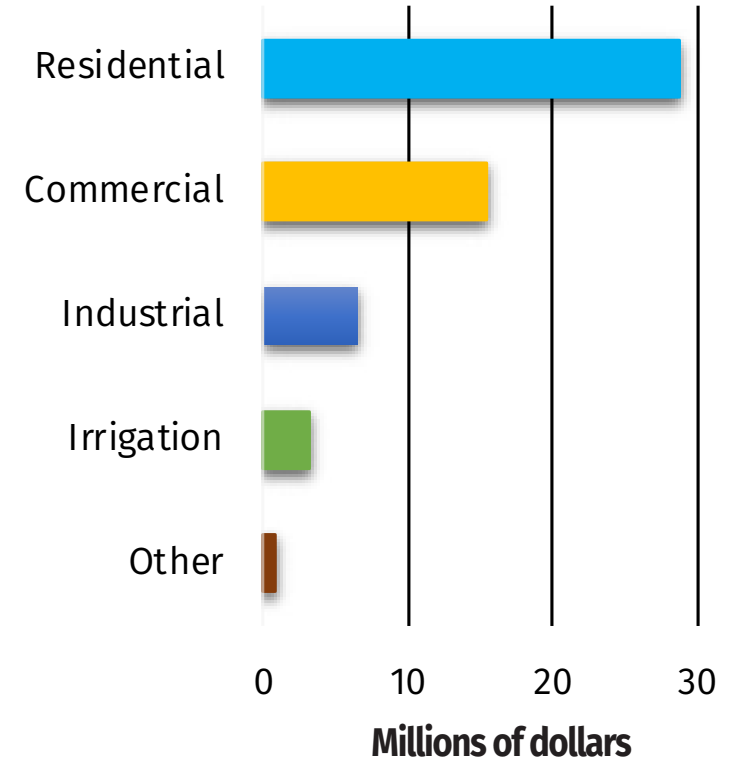


- Purchased power: 49.1¢
- Distribution/maintenance: 12.5¢
- General and administrative: 12.3¢
- Depreciation: 8.5¢
- Margins: 6.1¢
- Consumer accounts : 4.2¢
- Interest: 4.0¢
- Taxes: 3.1¢

2017 Expenses



2017 Revenues



The 2017 winter was unusually harsh, resulting in higher than expected revenues. Subsequently, OTEC was able to absorb a wholesale rate increase for the month of October, easing the burden on our members.

The Value of Your Membership

Electric cooperatives are driven by a common purpose. They exist for and because of members like you who take pride in their community, share common concerns for a better tomorrow and want a voice in how the business is run. That's an important differentiation from for-profit electric utilities that exist to increase the value for a small number of shareholders serving customers who have very little to no input on how the business operates.

Our members are the owners of Oregon Trail Electric Cooperative, and that equates to a

tangible value. The success of OTEC depends on a voluntary, but diverse, membership that is focused on meeting the common and basic economic needs of their community through reliable, competitively priced electric service. Thus, OTEC members get to enjoy the benefits of a company that is looking out for their best interests and the best interests of their communities. That's why OTEC is guided by seven business principles that are at the foundation of the extra value we deliver beyond electric service.

The Northwest gets more of its electricity from renewable resources than any other area of the country. In an average year, three-fourths of the region's electricity comes from falling water — hydropower — with a growing amount from wind power. Because it is fueled by water, the Northwest's hydro base does not produce air pollution, avoiding the greenhouse gas emissions of more than 10 million cars on the road. BPA has the cleanest power system in the nation.

Courtesy of "Together We Make A Difference," BPA, 2017

THE SEVEN COOPERATIVE PRINCIPLES
ONE VOLUNTARY AND OPEN MEMBERSHIP
TWO DEMOCRATIC MEMBER CONTROL
THREE MEMBERS' ECONOMIC PARTICIPATION

FOUR AUTONOMY AND INDEPENDENCE
AND INFORMATION **SIX** COOPERATION AMONG COOPERATIVES
SEVEN CONCERN FOR COMMUNITY
FIVE EDUCATION, TRAINING

© Ruralite

The Value of Hydropower

The system of dams on the Columbia and Snake rivers produce more than 22,000 megawatts of clean, carbon-free electricity every year. More than 94 percent of the power Oregon Trail Electric Cooperative receives from Bonneville Power Administration is carbon-free, 84.5 percent of which is hydroelectric. The dams were originally built to manage the power of the rivers and aid with flooding and agriculture needs. Today, the structures are a significant source of revenue for the region through the export of commercial cargo. An estimated \$20 billion of cargo annually moves down the Columbia and Snake rivers.

Hydro remains a valuable resource that helps keep Oregon and the Pacific Northwest clean, efficient and green.

About hydropower in the Pacific Northwest:

- The system consists of 31 dams and produces more than 22,000 megawatts of power annually.
- The system supports nearly 60 percent of homes and business in the Pacific Northwest.
- The system provides a power source for 15,000 miles of transmission lines.

Information source and to learn more about hydro, visit:

<https://www.bpa.gov/Hydroflowshere>

Did you know?

Without hydropower, the United States would have to burn an additional 121 million tons of coal, 27 million barrels of oil and 741 billion cubic feet of natural gas combined.



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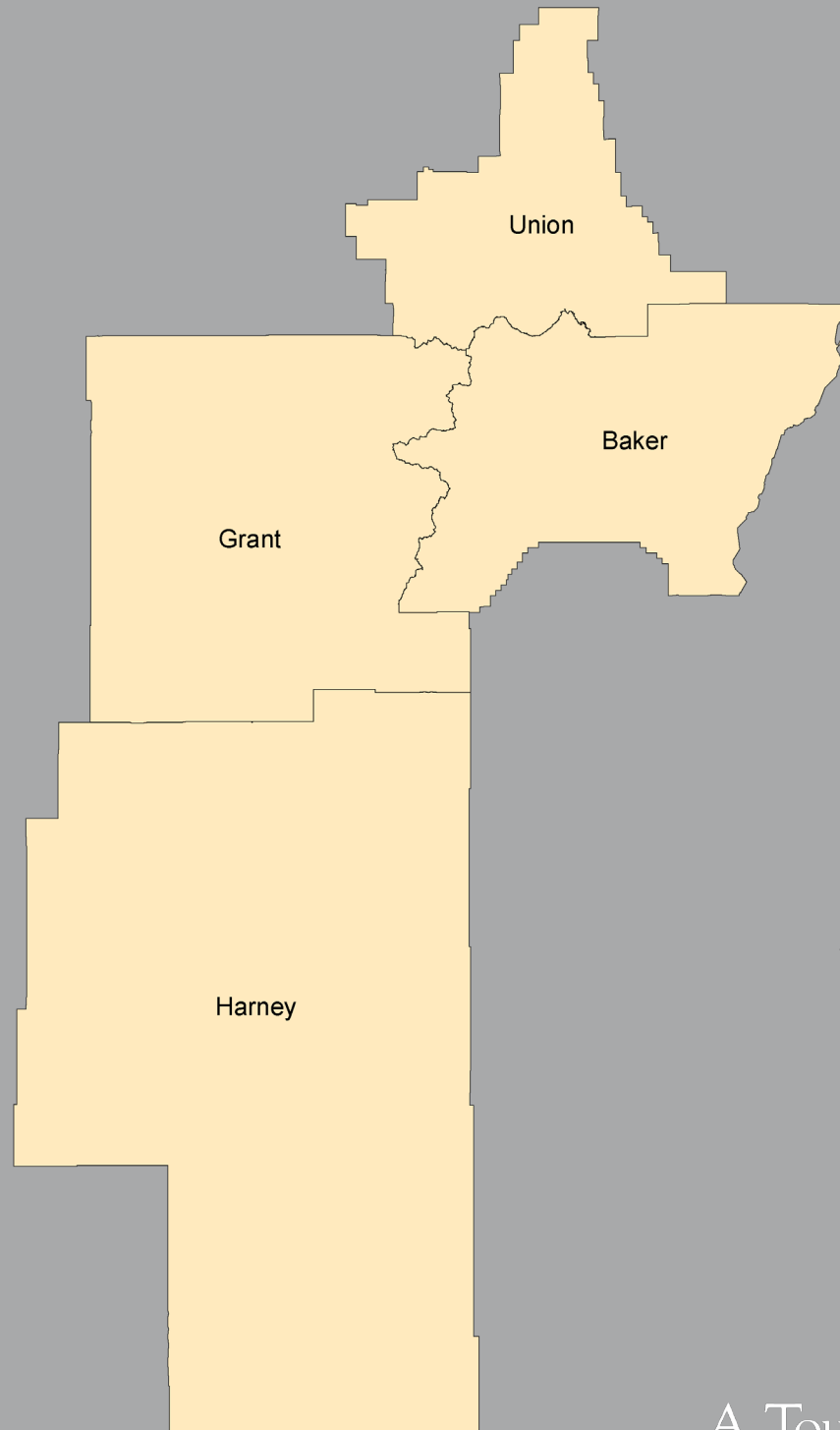
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