



# ANNUAL REPORT



# Contents

- 03. CEO and Board President's Message
- 04. Corporate Strategy
- 05. Board of Directors
- 06. About Us
- 07. Hydropower Flows Here
- 08. Summary of the Year
- 10. Stats and Financials
- 12. 2018 Accomplishments



*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.*

# CEO & Board President's Message



**Y**our cooperative saw a strong year in 2018 and our financial health remains solid. We have continued our investments in our infrastructure, the communities we serve and our commitment to the safety of our employees and the public.

Additionally, we have a strong equity position, which as a member-owned cooperative allowed your board of directors to approve the largest capital credit retirement in our 30-year history, returning \$6 million back to our member-owners. Our strong financial health is the foundation that keeps your rates competitive.

We continue to maintain and upgrade our infrastructure to ensure our system reliability and ability to meet current and future system demands. In 2018 we increased capacity of our substations at industrial parks in La Grande and Baker City bolstering our reliability, preparing for future economic growth and supporting our communities' efforts in economic development.

With a vision to drive our member satisfaction into the top tier nationally, we've continued to focus on core services such as rates, policies, system reliability, member engagement and service. Within the annual report, you will see areas of strategic focus where we've made changes to meet member demand and expectations.

OTEC continues to prioritize the support of the communities we serve. To help achieve that goal we remain involved with local charitable organizations. Since we are owned by our members, we strive to support each of our communities' efforts to remain healthy and sustainable as

we move into the future. In partnership with the Rippey Family Foundation, OTEC added an exciting new opportunity for our children last year, Dolly Parton's Imagination Library, a program that gives free books to children between birth and 5 years of age and focuses on early childhood literacy. Thanks to the countless volunteers in our local communities, 47% of the eligible children in our territory are now receiving books on a monthly basis.

The safety of our employees and the public remains the highest priority for us. Though OTEC has a strong safety record, we are in the process of launching the Rural Electric Safety Accreditation Program, which will help OTEC drive to nationally set standards and ongoing evaluation and improvement through our regional and national cooperative partners. Along with setting and maintaining high safety standards internally, we continue to reach out and educate the general public and our emergency responders through hands-on training, safety messaging and safety videos.

We work with over 900 cooperatives nationally to keep our nation's rural communities safe, strong and vibrant. Our goal is to be known as your electric provider of choice, not your only choice.

Thanks to you, OTEC has accomplished a great deal over the last 30 years. We look forward to another 30 years, of serving you, our member-owners within our communities.

*Austin Bingaman*  
G. Austin Bingaman, Board President

*Les Penning*  
Les Penning, CEO

# Corporate Strategy

## Culture of ownership, accountability, innovation and collaboration

In 2018, OTEC launched a new business strategy, driven by a vision set by the cooperative's board of directors to be in the top tier of member satisfaction for electric cooperatives nationwide by 2022. As part of the strategy development, OTEC met with dozens of community and industry partners and leaders, focused on innovation, advanced technology changes to the electrical industries, renewables, and assessed the political landscape that may be driving future changes. In addition, OTEC reviewed member surveys that revealed additional perspectives and needs of our member-owners in the 22 communities we serve throughout our four-county territory.

At the end of this process, OTEC's Board of Directors and management team reaffirmed that our primary focus is member satisfaction, growth and innovation without ignoring our promise to deliver reliable electric services at competitive rates. To accomplish this, we were strategic and selective about the 2018 initiatives accomplished

and focused on projects that aligned with and supported our vision. With this vision and a plan in place, our strategic actions can be reviewed and updated annually to ensure we continue to move our vision forward.

Our strategy, and all we do, is built on a solid foundation and guided by our core values.

improve value and overall satisfaction of our member-owners. Focused strategic successes increase our ability to meet and/or exceed our members' expectations through safety performance, competitive rates, reliable electric service and healthy communities.

In the end, this year we developed a robust strategic process that will grow and

### *Commitment to community/members*

*Reliability*

*Safety*

*Economic stewardship*

*Integrity*

*Adaptability*

### *Commitment to employees*

Within this annual report, you will learn of many major strategic accomplishments for 2018, which were designed to

change your electric cooperative as the needs and expectations of our member-owners change as well.

# Board of Directors

George Galloway  
Position 1 - Union County



Aletha Bonebrake  
Position 2 - Baker County



Robert Cargill  
Position 3 - Harney County



Austin Bingaman  
President  
Position 4 - Union County



Wayne Overton  
Secretary & Treasurer  
Position 5 - Baker County



Gary Miller  
Position 6 - Grant County



Greg Howard  
Position 7 - Union County



David Baum  
Position 8 - Union County



Charlene Chase  
Vice President  
Position 9 - Baker County



# About Us

With just 700 pennies a brighter future began.

**T**he creation of Oregon Trail Electric Cooperative more than 30 years ago began with a small group of local leadership who displayed the courage, leadership and perseverance reminiscent of the Oregon Trail pioneers who traversed the region more than a century prior.

But, they did it—finding the required 700 charter members from Baker, Grant, Union and Harney counties. These founding members, 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.

During the last three decades, membership grew from its humble beginnings of 700 members and \$7 in equity, with a \$48 million loan, to more than 22,800 members and equity topping \$72 million and \$161 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. OTEC has approximately the same number of employees as in the beginning.

The coming years look as bright and exciting today as they did to OTEC's founders.

Today, OTEC has more technology to help keep up with the ever-growing expectations of the cooperative's member-owners and their busy lifestyles.

OTEC continually seeks to add or change programs and services to ensure that our member-owner's needs are met and that each contact with OTEC is a positive one. After all, OTEC is putting our power and our people to work for you, our member-owners.





# 90%

of the energy in falling water is converted into electrical energy by hydropower

## HYDRO POWER FLOWS HERE

# 7 million

acres of farm land is irrigated with water from the Columbia River dams

# 97%

Carbon-free

# 19 billion

dollars have been invested in the Columbia River Federal Hydro System throughout the years

# 60

dams operate to comprise the Columbia River Basin Hydro System

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

The system of dams on the Columbia and Snake rivers produce more than 22,000 megawatts of clean, carbon-free electricity every year. Oregon Trail Electric Cooperative receives 100 percent of its power from the Bonneville Power Administration, with 97 percent being carbon-free, the majority of which comes from 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.

# Our Summary

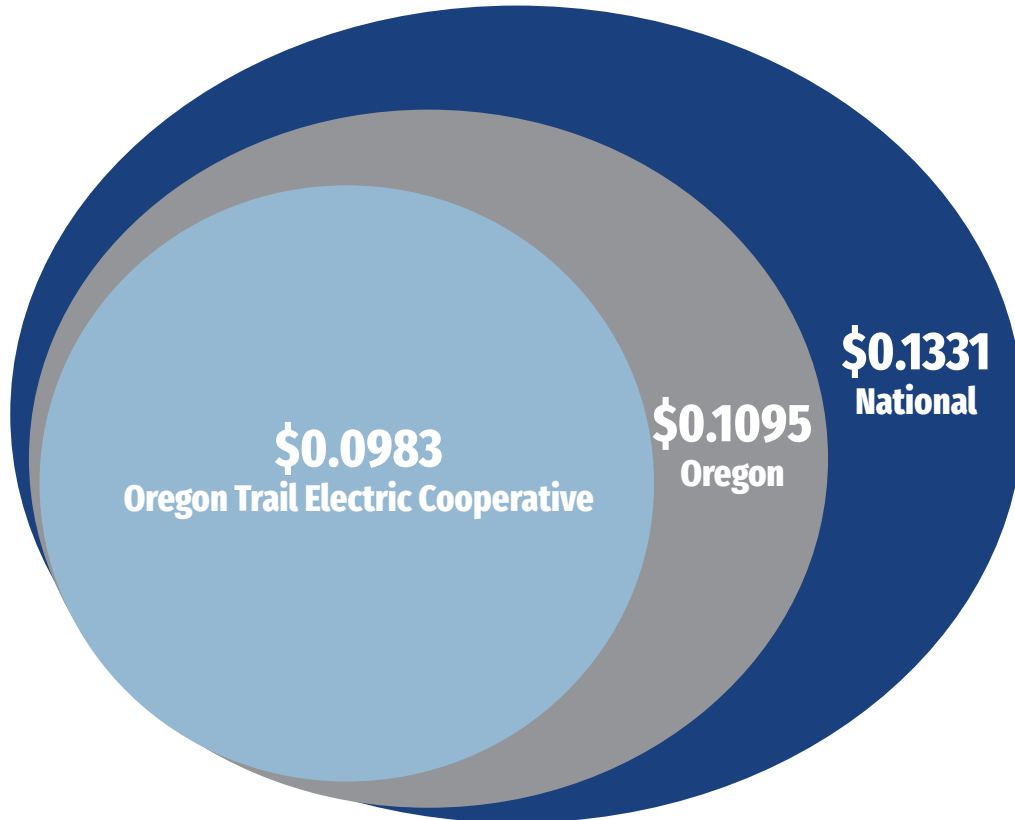
# of the Year



# RATES & RELIABILITY

“ OTEC has continued to outperform both state and national markets for value delivered to our member-owners. ”

Anthony Bailey, CFO



**Residential Electric Rate (Total Cost of Energy Provided in Cents/kWh)**

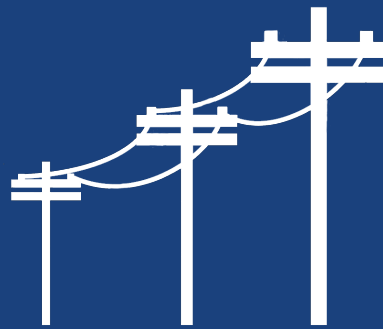
Source: US Energy Information Administration for Oregon and National rates

99.96%  
reliability



# Over 31,000

businesses, homes, schools,  
churches, farms, and irrigation  
systems are served by OTEC



# 6,734 sq miles

of service territory

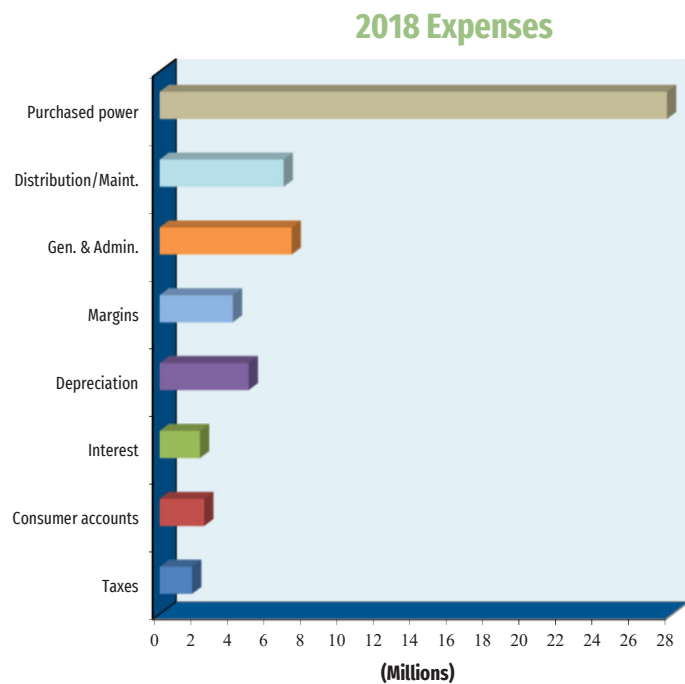
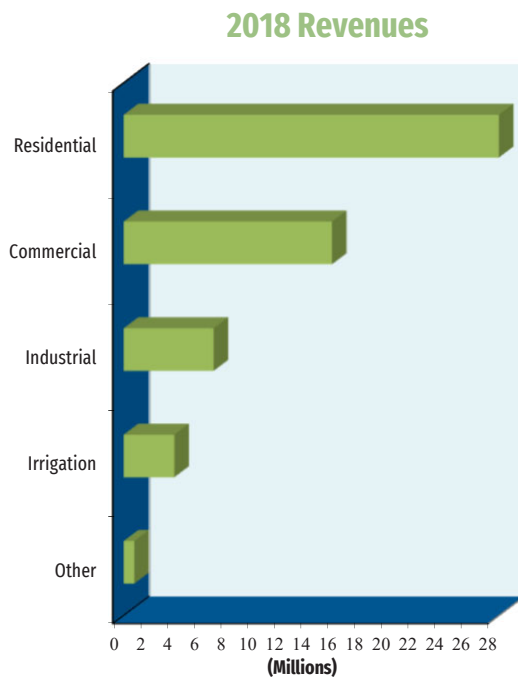


# 22 communities

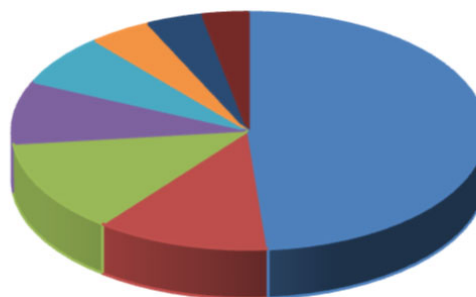
and surrounding rural communities  
make up our cooperative family

# Statement of Revenues and Expenses

|                                       | 2018                | 2017                |
|---------------------------------------|---------------------|---------------------|
| <b>Total revenues</b>                 | <b>\$56,957,815</b> | <b>\$56,016,818</b> |
| <b>Operating expenses</b>             |                     |                     |
| Cost of purchased power               | 27,727,213          | 27,475,859          |
| Distribution expenses                 | 6,772,939           | 7,023,974           |
| Consumer accounts expense             | 2,433,127           | 2,326,185           |
| Administrative and general expenses   | 7,206,446           | 6,867,174           |
| Depreciation and amortization expense | 4,855,717           | 4,768,474           |
| Taxes                                 | 1,770,323           | 1,848,256           |
| Interest expense                      | 2,201,698           | 2,279,064           |
| <b>Total cost of electric service</b> | <b>52,967,463</b>   | <b>52,588,986</b>   |
| <b>Patronage capital or margins</b>   | <b>\$3,990,352</b>  | <b>\$3,427,832</b>  |



## How Your Co-op Dollar Was Spent in 2018



- Purchased power: 48.7¢
- Distribution/maintenance: 11.9¢
- General and administrative: 12.7¢
- Depreciation: 8.5¢
- Margins: 7.0¢
- Consumer accounts : 4.3¢

# OTEC Balance Sheet

| Assets                                | 2018                  | 2017                  |
|---------------------------------------|-----------------------|-----------------------|
| <b>Utility plant (net)</b>            | \$103,729,831         | \$102,942,377         |
| Other property and investments        | 8,006,321             | 7,735,820             |
| Total utility plant and investments   | 111,736,152           | 110,678,197           |
| <b>Current assets</b>                 |                       |                       |
| Cash - General fund                   | 8,749,285             | 9,623,249             |
| Notes and accounts receivable (net)   | 6,613,437             | 6,409,002             |
| Material and supplies - electric      | 2,874,440             | 2,808,380             |
| Other current and accrued assets      | 557,483               | 535,683               |
| Total current assets                  | 18,794,645            | 19,376,314            |
| <b>Deferred debits</b>                | 2,327,447             | 2,837,604             |
| <b>Total assets</b>                   | <b>\$ 132,858,244</b> | <b>\$ 132,892,115</b> |
| <b>Equities and Liabilities</b>       | <b>2018</b>           | <b>2017</b>           |
| <b>Equities and margins</b>           |                       |                       |
| Memberships                           | \$ 229                | \$ 228                |
| Patronage capital                     | 71,070,989            | 73,100,099            |
| Other equities                        | 1,717,637             | 1,625,279             |
| Total equities and margins            | 72,788,855            | 74,725,606            |
| <b>Long-term debt</b>                 |                       |                       |
| Mortgage notes                        | 45,682,413            | 44,857,785            |
| Other long-term liabilities           | 857,007               | 799,283               |
| Total long-term debt                  | 46,539,420            | 45,657,068            |
| <b>Current liabilities</b>            |                       |                       |
| Notes and accounts payable            | 7,369,526             | 7,059,593             |
| Other current and accrued liabilities | 5,537,570             | 4,970,400             |
| Total current liabilities             | 12,907,096            | 12,029,993            |
| <b>Deferred credits</b>               | 622,873               | 479,448               |
| <b>Total equities and liabilities</b> | <b>\$ 132,858,244</b> | <b>\$ 132,892,115</b> |

For 2018, OTEC's net margin was \$4 million, the largest margin the cooperative has had since 2013. Because a cooperative is not like the for-profit utilities where dividends go to shareholders, OTEC's margins go back to its members in the form of capital credits. Because this margin was in excess of what is needed to operate the cooperative, OTEC's Board of Directors approved the largest capital credit retirement in OTEC history. OTEC returned slightly over \$6 million to our members. OTEC has come a long way from its humble beginnings in 1988 with a 2018 ending equity of \$72 million and outstanding debt of \$45 million loan. Presently, OTEC has more than \$161 million in electric plant that is used to serve our members.

- Anthony Bailey, CFO

# 2018 Accomplishments



## Line extension policy

Revision of the line extension policy included the elimination of certain fees, addition of line extension loan program, line share program and ease construction costs up front.

Through these revisions the Board of Directors wanted to ensure we simplified the process, eased financial burden on our membership and directed focus to improve overall member satisfaction.



## Scholarship programs

In 2018, Launched trade school scholarships in addition to our current program that helps focus support on workforce development needs in our communities. With the addition of the trade school scholarships, OTEC awarded over \$140k in scholarships to high school seniors, returning college students, lineman college and trade school attendees.



## Credit card fees

Removed \$2 credit card convenience fee and increased the transaction cap from \$200 to \$1,000.



## Increasing capacity and reliability

OTEC made substation upgrades in Baker, Union and Grant counties. The \$1.3 million in infrastructure upgrades were aimed at increasing capacity, reliability and supporting current and future load growth needs.



### Books for children

Launched Dolly Parton's Imagination Library program in Baker, Grant, Harney, and Union counties. OTEC is the first electric cooperative in the nation to take a leading role in delivering Imagination Library to its citizens in the four counties the cooperative serves. In its first year, 47% of eligible children registered in the four counties, and 10,352 books were mailed.



### Focus on safety

Adopted the Rural Electric Safety Achievement Program and Commitment to Zero Contacts programs in order to help maintain a high standard of safety for our employees, member-owners, communities and businesses within the cooperative.



### A Touchstone Energy Cooperative

Became a member-owner of Touchstone Energy, gaining access to a wealth of member engagement resources, advertising and communications campaigns, employee educational opportunities, business development programs.



### Energy efficiency

New incentives were added to bring member value for wood stove replacement, heat pump water heaters, storage water heaters, heat pumps, clothes dryers, ranges, dishwashers and air conditioners. An additional incentive was added for purchasing energy efficient products locally.



**OREGON TRAIL ELECTRIC COOPERATIVE**  
**CELEBRATING 30 YEARS OF SERVICE TO OUR MEMBERS**



4005 23rd St.  
Baker City, OR 97814  
541.523.3616

567 W. Pierce St.  
Burns, OR 97720  
541.573.2666

400 Patterson Bridge Rd.  
John Day, OR 97845  
541.575.0161

2408 Cove Ave.  
La Grande, OR 97850  
541.963.3155



**OTEC.COOP**