



VIGILANTE ELECTRIC COOPERATIVE

A Touchstone Energy® Cooperative 

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A Joint Message from Your Board President and General Manager

2018 Annual Meeting Report to Members

The cooperative annual meeting is the epitome of member participation and governance of your electric cooperative. The cooperative model of business involves member participation in selecting the governing board from the membership, ensuring those who are responsible for the organization are actual patronage providing members themselves. We hope you find the information provided here beneficial as you review your cooperative's operation.

Financial Strength

We are pleased to report that your cooperative had another strong financial year. Our net margins for calendar yearend were \$933,919. Total revenues for the year equaled \$13,459,979. Our largest expense is the wholesale power cost, which came to \$6,513,591. We ended the year with record sales of 170.3 million kWhs and experienced a line loss of 8.2 percent. Approximately 32 percent of our total sales for the year were for irrigation designated loads.

We added 212 new services to the membership in the last year. We ended the year with more than 2,709 miles of transmission and distribution line serving our members. At the close of 2017, we had 10,169 total services in place serving 5,631 memberships.

The total utility plant in service now stands at \$51,980,230, with an equity level of slightly more than 50 percent. Your cooperative became financially stronger in 2017, while keeping rates very low. Our financial well-being continues to be strengthened by our one-half ownership interest in Montana Energy Alliance, a propane distribution company.

As a not-for-profit entity, we allocate our excess margins back to members in relation to their patronage. We use those excess margins for several years to offset costs and then return them to the members. This is referred to as retirement of capital credits. We are happy to report that we retired \$822,174 of capital credits to the membership in 2017, and \$3.46 million has been retired in the last five years.

Wholesale and Retail Rates

As you may remember, we receive all of our wholesale power from the Bonneville Power Administration (BPA). We have wholesale rates, called tiered rates, and have crossed the threshold due to normal growth from Tier 1 into Tier 2. Tier 2 rates are more market-based, and therefore subject to market fluctuations, which we monitor closely. Although the amount of Tier 2 that we are purchasing now is relatively low, that number will continue to grow. Our

wholesale rates increased in October of this last year, and we will most likely see another rate increase in October 2019. On a positive note, during this current two-year rate period, which expires in September 2019, Tier 2 rates are slightly lower than Tier 1.

Our cost-of-service study indicated that we needed to increase our rates slightly to better balance the cooperative's expenditures for service. Starting January 1 of this year, we increased our base charge by \$3, and also combined the A and B single-phase rates to more closely adhere to our cost-of-service study parameters. We also implemented a minimum bill component to create a fairer rate balance for all rate payers. The irrigation and commercial rates also increased slightly. With a high percentage of irrigation load, we are very dependent on the weather for our total revenue picture. Our rate structure is intended to mitigate adverse effects on sales due to weather extremes. Even with the rate changes implemented January 1, 2018, we continue to have the lowest rates in the state, and are near the lowest rates in the country.

We have been approached by "data-mining" commercial speculators, and have been informed that our availability of power and rates are very attractive. We are also working with developers on expanding the irrigation-related acres east of Canyon Ferry Reservoir. Both of these engagements would be beneficial to your cooperative and would allow us to spread our fixed costs over a larger membership base, with the effect of lower rates.

Our Communities

One of the seven cooperative core principles that we operate under is concern for community. The board members and staff are committed to the success of the communities we live in. Take a look around. You will notice them participating in community foundations; in livestock, grain or rangeland organizations; coaching Boy Scouts or the local high school football teams, actively participating in organizations such as the Festival of Trees; or working the concession stand at school sporting events. They all contribute their time and talents to make the communities we live in better.

In addition, during the last three years, the cooperative has provided 53 scholarships totaling \$26,500 to member-



Rollie Miller
General Manager



Allen Martinell
President

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Vigilante Electric 2017 Financials

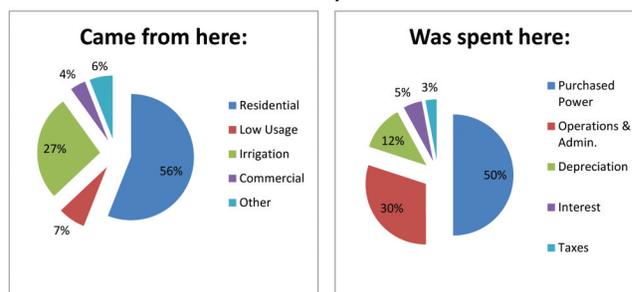
Balance Sheet

ASSETS	2017	2016
ELECTRIC PLANT:		
In Service - at cost	\$51,980,231	\$50,232,773
Construction Work in Progress	469,188	426,319
	<u>\$52,449,419</u>	<u>\$50,659,092</u>
Accumulated Depreciation	\$25,217,662	\$24,297,221
Net Utility Plant	<u>\$27,231,757</u>	<u>\$26,361,871</u>
INVESTMENTS:	\$2,255,222	\$2,235,247
CURRENT ASSETS:		
Cash - General Funds	\$138,572	\$185,741
Temporary Investments	7,831,864	5,220,406
Accounts Receivable	1,515,126	1,649,468
Materials & Supplies	1,250,669	1,302,288
Other Current & Accrued Assets	315,017	348,543
TOTAL ASSETS:	<u>\$40,538,226</u>	<u>\$37,303,564</u>
LIABILITIES		
MEMBERS EQUITIES:	\$19,093,720	\$18,858,954
LONG TERM DEBT:		
Rural Utilities Service	-\$2,656,691	-\$2,507,017
Federal Financing Bank	\$13,624,723	\$9,838,039
Other - NRUCFC & CoBank	\$7,821,972	\$8,382,859
	<u>\$18,790,004</u>	<u>\$15,713,881</u>
CURRENT LIABILITIES:		
Accounts Payable	\$645,976	\$780,682
Consumer Deposits	528,840	512,985
Other Current & Accrued Liabilities	1,479,685	1,437,062
TOTAL LIABILITIES:	<u>\$40,538,226</u>	<u>\$37,303,564</u>

Revenue and Expenses

	2017	2016
TOTAL OPERATING REVENUE	\$13,459,979	\$13,143,679
Nonoperating Revenues	671,657	540,065
OPERATING EXPENSES		
Power Purchased for Consumers	\$6,513,591	\$6,114,084
Operation and Maintenance	2,170,598	2,007,447
Consumer Accounting, Administration and General Operating Expenses	1,850,550	1,754,544
Depreciation of Plant	1,582,390	1,548,896
Interest on Long Term Debt	621,209	655,366
Property Taxes	459,379	428,935
TOTAL COST OF SERVICE	\$13,197,717	\$12,509,272
NET MARGIN	<u>\$933,919</u>	<u>\$1,174,472</u>

Your Co-op's Dollar



Operating Statistics

	2017	2016
Meters	10,169	10,059
Miles of Line	2,710	2,706
KWh Purchased	185,552,174	179,812,113
KWh Sold	170,315,751	165,485,502
Percent Line Loss	8.2%	7.9%
Members' Equity	\$19,093,720	\$18,858,954
Employees	25	25

Annual Report

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dependent youth, and funded seven high school students with week-long trips to Washington, D.C., to learn more about electric cooperatives. In 2017 we donated \$5,000 in support of the 10 local rural school districts in our service territory. We also have donated several thousand dollars over the years to local foundations such as the University of Montana-Western Foundation, the Broadwater Community Foundation and the Montana 4-H Foundation. All of these donations have come as a result of capital credits that have gone unclaimed for a period of five years. We all live in the communities we serve and strive to support them.

Accomplishments in 2017

The following are some of the accomplishments we as a board and management/staff team achieved in 2017:

- Secured a \$14.8 million United States Department of Agriculture Rural Development loan package;
- Completed a comprehensive system-wide overcurrent

protection sectionalizing study ensuring that all system breakers and fuses work together in a coordinated manner;

- Implemented the start of a social media platform by creating a Facebook page;
- Remodeled the front office area to enhance our ability to serve the membership;
- Completed a comprehensive 10 year financial forecast as part of the USDA loan approval process; and
- Completed numerous pole and line replacement projects. (The guys do an excellent job of not only keeping the lights on, but also upgrading and maintaining the system.)

We thank you for allowing us to serve you, the members of Vigilante Electric Cooperative. We are excited about the coming year and the challenges it will bring. As a company we will evolve normally, but will do our best to continue to keep the system in the best shape possible while keeping rates as low as possible. We are very optimistic about the future of Vigilante Electric Cooperative. The management and staff are here to serve you, the members, with clean, reliable and affordable power, now and into the future.

A Washington, D.C. Adventure Awaits



Each year the National Rural Electric Cooperatives Association hosts the Youth Tour to Washington, D.C. During this event, participants from across the country tour Washington's historic treasures, visit with their state's congressional delegation and participate in youth rallies and socials. This summer will be the sixteenth year that Vigilante Electric Cooperative will send representatives to the Youth Tour.

Starting on June 8th, two students from our service territory will embark on a one-of-a-kind experience. We would like to congratulate Blu Keim, a junior at Twin Bridges High School, and Macie Martinell, a sophomore at Lima High School.

Our two participants were selected based on an application and a short essay. This year's topic was, "Electric cooperatives offer various opportunities to young people, such as scholarships, job shadowing, electrical safety programs and sponsorships. What are some innovative ways your electric cooperative can connect with young people, especially with children and teens? Each participant's essay is featured below:

Social Switch

by Blu Keim

When considering this year's essay question: "What are some innovative ways your electric cooperative can connect with young people, especially with children and teens?" the first thing I thought of was social media. As a teenager, I use my social media to connect with people every day. Many companies, celebrities and other high-profile people, foundations and small businesses reach out to people through the use of social media such as Facebook, Twitter and Instagram. Take our president, Donald Trump, for example: he tweets about political problems and solutions, and is able to "interact" with the young adults of America, who use Twitter as a resource for everything from connecting with friends to getting information about world problems. In order for the co-op to remain relevant to the youth of America and want them to become interested and involved with the co-op, it is important that the co-op has not only a strong, but also appealing, social media presence.

Almost every one of my acquaintances has at least one social media account, whether it is Instagram, Twitter, Facebook or Snapchat. Most high school and college kids, as well as their parents, communicate through Snapchat. Many businesses, whether they are franchises such as Nike or Apple, or small, local businesses such as Main Street Market in Twin Bridges, use social media to appeal to the young adult eye by advertising their products on relevant social media sites.

Over the past decade, we have experienced a cultural revolution. Like it or not, media, particularly social media, plays a huge part in everybody's everyday lives. People get their news, their entertainment, see advertisements and communicate digitally. The best way for the co-op to connect with young people is to engage with them on their preferred platforms. Some easy ways for the co-op to build their social media presence would be through giveaways, such as every person who followed the co-op page and shared it with their friends would be entered to win a free ice-cream



Blu Keim

cone from Dairy Queen, or encouraging teens to share their Montana photos with the hashtag "#CoOpMT" and then the admin could share the best photo that week on the main page to cultivate a community on Instagram. Let's face it, few teens are going to pick up *Rural Montana* and thoroughly peruse it to see what the co-op has to offer them. Due to the disconnect between print media and digital or social media, young people might never even know about the amazing opportunities the co-op has in store for them.

Innovative Connections

By Macie Martinell

Vigilante Electric has done well in the past connecting with young children and teens. For example, they came to our school demonstrating what happens when someone touches a power line or anything that involves electricity, using a hot dog representing human flesh. Just that little demonstration had a lot of impact on all of us, showing what can happen. Twice a week I work with 7- and 8-year-olds in our school. This experience has shown me they learn best hands-on or watching something happen. For example, having them do an interactive activity involving their hands would help them understand the safety of electricity. They also have a short attention span, so even a quick, but impacting video or pictures would leave them with a lot more knowledge.

I have a little more perspective on how to connect with teenagers, since I am one. Since teenagers are always on social media, somehow getting the information out where they can see it would let them know the importance of electrical safety. Instagram, Facebook and Snapchat are all social medias that are used so often by teenagers. For example, if you put 15- to 20-second videos on social media showcasing different segments of the industry, I think my generation would learn a lot. Showing a clip of someone getting hurt, describing how that person was not safe and what they should have done correctly might be one example.

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Macie Martinell

D.C. Adventure

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Also, clips showing segments of the power industry might include a positive look at what is being done for the salmon migration in the northwest. Another example might be what a team of linemen face reinstating power during the night of a bad storm. The videos have to be short enough that the viewer watching has attentiveness because

they are not going to want to sit and watch something for more than a minute. Teenagers also really like the school demonstrations that Vigilante Electric shows. Doing more fun demonstrations would definitely interest our school, and I'm positive other schools would be as well.

The opportunity that Vigilante Electric has provided the youth of our area through the sponsorship of the Washington D.C. trip is incredible. Thank you for supporting and being such a positive asset to our community.

Agriculture Energy Efficiency

Vigilante Electric Cooperative recognizes the importance of energy efficiency and the savings it can provide to the agriculture industry. By improving irrigation system efficiencies, you are doing more than reducing costs. Irrigation system efficiency increases crop uniformity, decreases the amount of water and fertilizer required, and can potentially increase yield. In collaboration with Bonneville Power Administration (BPA), Vigilante Electric offers services and financial incentives for the following energy-efficiency measures.

Irrigation Hardware Upgrades

One of the easiest upgrades that can be made on an irrigation system is hardware. The components of an irrigation system wear out over time and/or become clogged with debris. New irrigation system hardware provides more uniform water application, reduces unnecessary irrigation and saves energy.

Irrigation System Analysis/Pump Testing

An irrigation system analysis and pump testing may identify opportunities to increase the efficiency of the delivery systems. These opportunities include low-pressure conversion for center pivots and laterals, reduction of friction losses in piping, and rebuilding pumps and trimming pump impellers.

Variable Frequency Drives (VFD)

VFDs are designed to adjust pump-motor speed to match your changing irrigation needs by controlling the frequency of the electrical power that's supplied to your motor. Even small speed adjustments using a VFD can create big energy savings, often as much as 10 to 20 percent. At the same time you'll get greater precision and tighter control over water distribution and pressure, and help the pump match flow requirements.

Pilot Project - Low Elevation Spray Application (LESA)

We are collaborating with BPA on a pilot project testing the feasibility of LESA in our service territory. LESA can provide more uniform irrigation application for all of your crops through the conversion of your center pivot irrigation system to lower sprinkler heads so they are closer to crops.

This greatly reduces water evaporation during irrigation, as well as reducing the overall pressure — and energy — required to efficiently water crops for a true low-pressure way to save.

Each program listed has requirements that must be met in order to receive an incentive. If you would like more information about these programs, please contact us at 683-2327 or (800) 221-8271.

DAYLIGHT SAVING TIME

Don't forget to spring forward on **March 11!** Set your clocks ahead by one hour.



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