



pa ulding putnam
ELECTRIC COOPERATIVE, INC
Your Touchstone Energy® Cooperative 

Annual Report *2015*





George Carter CEO and General Manager ~ Dr. John Saxton President, Board of Trustees

INTRODUCTION

The year of 2015 may have been one of the best years in the Cooperative's 79 year history. Safety, margin growth, outage reduction and controlling our operating expenses all highlighted this year. The cooperative continues to grow and meet its budget projections for both kilowatt hour purchases and sales. It was truly a great year for the cooperative and its employees.

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SAFETY

Our employees are the key to the cooperative's success. Without dedicated, committed employees with the highest integrity we would not meet our goals. This was demonstrated during the 2015 National Safety Achievement on-site inspection. For the third time, the cooperative was awarded with the National Achievement. This is the highest award given by our National Association and requires the commitment of every employee. The inspection team spent three (3) days on-site and had high praise for our employees, their safety knowledge and their overall commitment to safety. The cooperative is committed to safety and the safety of every employee.

FINANCIAL

Margins (revenues less all expenses) exceeded \$3.5 million. This amount was reinvested in our electric plant and no additional long-term debt was utilized during 2015. In fact, while the electric plant grew, the cooperative actually reduced total debt (long-term & short-term) by about \$3.5 million. The increase in margins was accomplished without a general rate increase during the year. Purchased power cost, the largest single expense, was reduced by approximately \$1.5 million. This reduction came in two (2) parts; first was a reduction in kilowatt hours due to the mild summer and the second was a cost savings of \$870,000 as a result of the Wabash Valley Power Association buy-out.

***Wabash Valley Contract
Buyout Saves Co-op Over
\$870,000 in 2015***

In 2015, the cooperative purchased all electric requirements from Buckeye Power. The contract with Wabash Valley Power Association ended on December 31, 2014. The cooperative paid, over a ten-year buy-out period, approximately \$1.2 million

to exit the Wabash Valley contract early. The resulting savings of over \$870,000 in 2015 will allow for a full payback of the cost in less than two years. This cost savings was passed directly back to members with a reduction in the Wholesale Power Cost Adjustment (WPCA) on the monthly bill.

CONSTRUCTION

The cooperative continued to progress on an aggressive electric line upgrade program in 2015. Older lines are less efficient and lead to more outages. While trees and animals account for most outages, older lines and poles are less resilient to weather conditions. Older copper wire and old poles cannot stand up to tree limbs and high winds like newer, heavier aluminum wire and new poles. We have seen the positive results of this rebuilding; member outages have been reduced. Each year the cooperative sets a goal for average outage minutes per member. In 2015 the goal was 100 minutes; the actual was 97 minutes per member.

Another method of reducing outages is through the building of stronger "tie-lines" between substations. Tie-lines are typically larger lines, built between two or more substations to allow for the transfer of electricity if one of the substations has a loss of power. The ability to transfer service between these substations allows for faster restoration times and reduced outage minutes to the membership. Larger lines cost more to build, however in the long run become more cost effective because service is restored quickly and at a lower cost.

A major project completed during the 2015 construction season was a new tie-line between three substations, Cecil, Fort Brown and Latty. This is a major area for the cooperative with not only a large residential base, but many large commercial members as well; this tie line will greatly improve service restoration times and reduce outages. Another completed project was in the Monroeville, Indiana area where our main line serving the entire area was upgraded and replaced. This new line will greatly improve service

to all the Monroeville area and will reduce future outages.

CONTROLLABLE EXPENSES

While the cooperative continues to invest in the electric facilities to improve service to the members, we are keenly aware of our operating costs as well. In 2015, controllable expenses increased at a rate of 2%; slightly below our budget for expenses. Since 2010, controllable expenses have been held to an average annual increase of 1.6%. We recognize that to remain rate competitive we must control expenses. The board and management as well as all employees, have been diligent in working to be as

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efficient as possible. Our employees are always aware that without cost control and cost awareness we will not be rate competitive

RATE COMPETIVENESS

In 2015, the cooperative met its objective for rate competitiveness. The cooperative did not have a rate increase in 2015. In recent surveys conducted by Buckeye Power, Paulding Putnam remains one of the lowest priced electric utilities in the two States we serve. We are lower than AEP Ohio, but continue to be slightly higher than Indiana Michigan Power. In

No Rate Increase in 2015

fact, a comparison to AEP Ohio shows that Paulding Putnam is just over 8%

lower, at our average usage of 1,300 kilowatt hours. As we continue to invest in the electric system, control costs and improve operations, we will continue to work for rate competitiveness with our neighboring utilities.

EMPLOYEES

We want to take the opportunity to thank all of the Paulding Putnam employees who work so hard every day to insure all members have an outstanding member experience. Whether it's answering your billing or energy question, helping with a new service or restoring that outage during a snow or rain storm; members

can count on the employees of Paulding

PPEC
employees receive safety excellence

Putnam Electric to provide world class member service.

Your electric cooperative worked hard this past year to provide you with safe, reliable electric service. We did not have a rate increase and still exceeded margin expectations. Our employees had another safe year and achieved safety excellence through the National Safety Achievement program. Operating costs were controlled and remained below normal inflation levels. All these add up to improved member service with competitive rates which is our goal every year.

Treasurer's Report

The Certified Public Accounting firm of Bashore, Reineck, Stoller & Waterman, CPA's of Paulding, Ohio recently completed their audit of the financial records of the cooperative for the period ending December 31, 2015. I am pleased to report that our CPA firm has issued an "Unqualified Opinion" regarding the financial operations of the cooperative. This means that all financial records were found to accurately represent the operations of the cooperative. Members may view a copy of the audit report at the cooperative's office during normal business hours.

Sales of electric energy to members decreased by 2% in 2015; due in large part to the mild summer weather. Total sales were 351 million kilowatt hours which was slightly ahead of budgeted projections of 347 million kilowatt hours.

Purchased power continues to be the most significant expense for the cooperative, accounting for over 65% of each member's bill. Total wholesale costs were \$24.3 million in 2015. Purchased kilowatt hours were 366 million compared to a budget number

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of 363 million; less than a 1% variance to budget.

Expenses, other than power costs, are called controllable expenses. Controllable expenses increased 2% from our prior year level, but were below budget levels. Higher distribution maintenance expenses were the reason for this cost increase. Since 2010, controllable expenses have increased at an annual rate of only 1.6%. This represents the board and management's commitment to containing cost increases which impact member rates.

Margins for the year were just over \$5.4 million (including the capital credits from our power supply G&T's) compared to \$2.8 million in 2014. The increase in margins resulted in a rate of return of just over 7%. This margin level is necessary to meet continued investment in electric facilities to serve our homes and businesses. The additional margins in 2015 allowed the cooperative to continue to invest in facilities to serve members,



Gary Hayden, Secretary-Treasurer

without increasing long-term debt to finance the plant growth.

Investment in our facilities continues to grow. Our total asset value has surpassed \$83.5 million; obviously our electric plant facilities make up the biggest majority of our asset value. Total electric plant now exceeds \$82 million. During 2015, the cooperative invested just over \$3.3 million in new electric plant. The cooperative continues to invest in rebuilding old and out dated lines. These investments are necessary to improve service to the members and to reduce outages.

The year of 2015 marked the first year the cooperative purchased all of its energy needs from a single Generation and Transmission provider, Buckeye Power. At yearend 2014, the cooperative ended its purchased power contract with Wabash Valley Power Association. In order to end the agreement early, the cooperative paid Wabash Valley \$1.2 million. By switching to Buckeye Power the cooperative realized lower purchase power cost. The financial impact of the change resulted in power cost savings of approximately \$870,000 in 2015; allowing the cooperative to have a less than 2-year payback on the Wabash Valley power contract buy-out.

The Cooperative continues to work to maintain fair and reasonable rates, while continuing to improve member service. Cooperative expenses have been controlled during the year due to the diligence of our employees and our desire to be as cost efficient as possible. The Board, management and all employees work hard to balance the need to improve facilities while keeping costs low and rates fair and reasonable.

ANNUAL MEETING MINUTES PAULDING PUTNAM ELECTRIC COOPERATIVE, ANNUAL MEETING OF THE MEMBERSHIP

MARCH 21, 2015

The meeting was held at Paulding Putnam Electric Cooperative headquarters, Paulding, Ohio. John Saxton, board president, called the meeting to order at 10 a.m. Saxton led the membership in the Pledge of Allegiance. The national anthem was played, and trustee Karl Koenig offered the invocation. Saxton noted that the meeting notice had been mailed to all members on Feb. 24, 2015, and the notice contained the meeting agenda. He asked if there were any objections to dispensing with the reading of the notice or if there were any changes to the meeting agenda; there were no objections and the agenda would stand as approved. Saxton noted that the minutes to the meeting held on March 15, 2014, had been mailed to all members in the recent issue of Country Living and Electric Consumer magazines and were included in the materials given at registration. He asked if there were any objections to dispensing with the reading of the minutes or if there were any changes to the minutes; there were no objections and the minutes would stand as approved.

Gary Hayden presented the treasurer's report. He stated his written report appeared in the hand-out, and a financial report was printed. He further stated the audited financial report was completed by the local firm of Bashore, Reineck, Stoller and Waterman, Inc. and was available for review at the cooperative's office. Hayden stated the cooperative had received a "clean" audit, which means the auditing firm found the financial reports accurately reflected the operations of the cooperative. The secretary/treasurer reviewed several financial statistics from the operating reports. He noted that the cooperative elected to realize the Wabash Valley Power Association buy-out amount of \$1.2 million at year-end 2014, instead of expensing the cost over the remaining twelve (12) years of the contract. This adjustment reduced year-end total margins to \$2.8 million.

Saxton presented the president's report. The president discussed how electric use is expanding around the world. Many parts of the world do

not have access to electricity, and these are the fastest growing areas for coal use and carbon dioxide emissions. Saxton stated, due to term limits, this would be Gerald Heitmeyer's last meeting as a trustee. He thanked Heitmeyer for his more than 17 years on the board of trustees. Heitmeyer was presented a thank you gift for his service. Heitmeyer thanked the board and the members in District 8 for electing him. He expressed that it was a great honor and pleasure to serve as a trustee.

George Carter, CEO/general manager of Paulding Putnam Electric Cooperative, gave the CEO report. He discussed changes coming to the electric utility industry, such as coal plants closing, additional renewable generation and legislative actions on the state and federal levels. He stated these changes could impact future reliability and affordability of electric service and rates. Following his remarks, Carter answered several questions from the audience.

Scholarship winners were announced:
Touchstone Energy:

Kayla Zuber, Wayne Trace High School -\$550
At large: Courtney Alt, Miller City High School-\$550
Third place: Erika Meyer, Miller City High School-\$550
Alexander Vail, Antwerp High School-\$550

Second place:

Makenzie Mansfield, Continental High School-\$650
Logan Roebke, Kalida High School-\$650

First place: Addison Baumle, Wayne Trace High School-\$800
Brad Recker, Ottawa-Glandorf High School-\$800

Jacob Ellerbrock, who represented Paulding Putnam on the national cooperative Youth Tour, spoke about his 2014 experiences in Washington, D.C., and the father of Kate Murphy read a letter from his daughter thanking the cooperative for sending her on Youth Tour. The 2015 Youth Tour attendees were announced:

Maggie Wilson, Antwerp High School
Megan Niese, Miller City High School

Attorney Norman Cook was called upon to present the trustee election results. Three (3) Districts (3, 7, and 8) were up for election: Trustee Timothy Derck (District 3) was re-elected by affirmation. An election was held in Districts 7 and 8. Trustee Kenneth Niese was re-elected (District 7) and Douglas Fortman was elected in District 8 to replace Gerald Heitmeyer. Cook noted the election committee had met on March 19, 2015, and counted all ballots.

With no further business to come before the meeting, on a motion duly made and seconded, the president declared the meeting adjourned.

Two Trustees Retire! Thank You for your Service to PPEC.



Thanks to Karl "Bud" Koenig (pictured right) and Ron Neiswander (pictured left) for your dedication and service to Paulding Putnam. Both served 15 years on the PPEC Board of Trustees.