

# Annual Report 2017



pa ulding putnam  
ELECTRIC COOPERATIVE, INC

Your Touchstone Energy® Cooperative



# Report from the CEO & Chairman of the Board



*Pictured left to right CEO George Carter & Chairman Dr. John Saxton*

The year of 2017 was outstanding for the cooperative. We continued with our outstanding safety record, which means all our employees are dedicated to working safely and going home to their families each day. Operating margins improved from the prior year and expenses were maintained at below peer levels. Plant investment continued to be strong as the cooperative rebuilt or replaced 30 miles of old line. During the year, the Ottoville Substation was completely rebuilt as was the entire Miller City service area. These improvements will provide long-term reliability while at the same time preparing the system for future growth.

Upgrading utility plant has been a prime focus for several years. The standard life expectancy for poles, wires, and other hardware is typically thirty (30) years. This does not count system growth which may cause facilities to be upgraded sooner. The cooperative has nearly 1,700 miles of utility lines. A 30-year cycle would indicate replacement of 56 miles every year just to keep up. However, lines don't all age the same, area growth is different, and priorities change over time; this means a systematic rotation and replacement schedule is necessary to address the critical areas. We maintain a study which looks at age, number of members and loading, outage history, and type of wire to determine which areas or lines are rebuilt each year. Allowing us to better allocate financial resources to higher priority areas – instead of just replacing the oldest lines. Some of the oldest lines are still operating in fine order and there is no need to replace them. Each year the cooperative spends between \$5 and \$6 million to upgrade these facilities.

Part of the upgrades include major projects like substation rebuilds. In 2017, the Ottoville substation was totally rebuilt. This rebuild alone cost more than \$1 million. In rebuilding, the substation service will be improved and the station should meet our needs for a long time into the future.

Another major project was in Miller City. This project entailed rebuilding and replacing all the facilities located in the town. Most of the services were over 40 years old. Instead of doing a piece-meal job of fixing things here and there, it was decided a full rebuild was the most cost-effective way to address the serious aging problem.

A major part of our maintenance program is right-of-way clearing – cutting trees and brush away from the power lines. Trees continue to be a major source of power outages; dead ashtrees compound the problem. During the year, our tree removal contractors cut 371 miles of right-of-way. Making it the largest single maintenance expense the cooperative incurs. It is also the most necessary of programs. Continuing to address our trees and maintaining proper clearance from the electric lines will provide greater reliability in years to come.

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*Rebuilding lines, upgrading substations and trimming trees addresses the most important parts of our mission statement.*

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Rebuilding lines, upgrading substations and trimming trees addresses the most important parts of our mission statement. Providing “quality electric service” and providing “superior customer service” are two quotes from our mission statement. If we do not provide a high degree of reliability, we are not meeting those two items in our mission statement. In 2013, members experienced over 600 outage minutes. Which is equal to each member out of power for over 10 hours! This was not quality electric service and it wasn't providing superior customer service. However, in the few years since and through a lot of hard work and financial investment we have greatly improved reliability. In fact, during 2017, members experienced just over 1 hour of electric interruption. The cooperative went from over 10 hours of outage time to just over 1

hour, a tremendous improvement. By comparison, in 2013 we were one of the worst in the State of Ohio for service reliability. Today, we stand as one of the best, in fact we are now in the top 5 for the least outage hours in the State.

Another component of our mission statement is “sustainable energy solutions”. We addressed that important issue by installing our first Community Solar project in Paulding. The program was rolled out and was quickly over-subscribed. Our project included 279 solar panels that members could purchase the output from and pay for the cost. Members interested in solar energy could enjoy the green benefits while other members were not asked to subsidize the cost. This program speaks directly to the cooperative model. Members coming together to support a project, paying the cost and not placing the burden on other members. We will be working with Buckeye Power if future Community Solar projects can be developed in our service territory allowing more members to enjoy the sustainable energy solutions afforded by this program.

The final piece of our mission statement is “fair and reasonable rates”. For a long-time, we have touted the cooperative as a low-cost energy provider. Even with all the improvements, Paulding Putnam

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continues to be one of the lowest cost electric providers in both states we serve. In fact, during a 2016 financial ratio study by a national organization, Paulding Putnam ranked 23rd out of the 25 cooperatives in Ohio for residential rates. For small commercial rates, we fared better at 24th out of 25 cooperatives. Finally, for large industrial rates, we ranked 17th out of 22 cooperatives (not all Ohio cooperatives have large industrial members). Paulding Putnam continues to be one of the lowest cost providers.

Maintaining low rates while continuing to improve our system and reduce outage times is tough to balance. This year we conducted a cost of service study (COSS). The COSS is used to verify all rate classes are paying their fair share of the cost to operate the electric system. The COSS looks at each type of service the cooperative provides and determines the cost incurred by each class. For instance, residential members have smaller services (transformers, meters, etc.) than a commercial or industrial customer may have. Obviously, it takes a much larger service to provide electricity to a factory than it does a single-family home. The COSS helps identify all those cost differences. The COSS also identifies how different member classes use power. Again, large industrial users are very different from residential users.

Following the COSS, it was determined a small rate adjustment was needed. Over the past several years, changes in how our wholesale supplier billed the cooperative also changed. The COSS helped identify rate changes to match the wholesale billing changes. Overall, the changes were very small. The Board of Trustees approved a revenue increase of 2.75% along with changes to the monthly service charge and changes to many demand and energy rates for those members billed under demand rates. These new rates will allow the cooperative to more accurately recover the costs of wholesale power purchases from Buckeye Power.

Increasing rates is never an easy decision for the board. That is why we do a COSS to insure we have accurate information to base decisions on. This increase, which goes into effect in March 2018, will be the first increase in four years. The increase will add just over \$3 to each residential member’s bill. Although this is a slight adjustment in rates, we are sensitive to the members. Maintaining fair and

reasonable rates is a priority for the cooperative. Maintaining our system and insuring a high degree of reliability is also a priority. By blending these two priorities, we can maintain a high functioning, financially sound cooperative that meets all its mission goals.

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*Maintaining our system and insuring a high degree of reliability is also a priority.*

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In reviewing of the financial operating reports, the cooperative is in very good financial shape. Operating margins (money left over after all expenses which is used to invest in utility plant) were very good at just over \$2.5 million. This was down slightly from 2016, but was ahead of budget. Expenses were slightly ahead of budget for the year. Capital credits received from Buckeye Power exceeded budget and the prior year and totaled \$1.8 million. Combining the operating margins and the Buckeye Power patronage, total margins for 2017 exceeded \$4 million. Utility plant investment continued as was stated earlier in the report; total plant now exceeds \$95 million. Cash flow and cash balances have improved and no additional loan funds were advanced during the year. Overall, the cooperative maintained very high financial ratios.

It is a great honor to serve the membership. We had an outstanding 2017 with excellent financial performance and outstanding reliability. On behalf of all the cooperative trustees and employees, we thank you for your continued support and patronage. We thank you for the great year we had in 2017 and look forward to meeting your needs and our mission goals in 2018.

# Treasurer's Report

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Total utility plant now exceeds \$90 million, with total assets nearly \$92 million at year-end. Financial ratios remain strong!

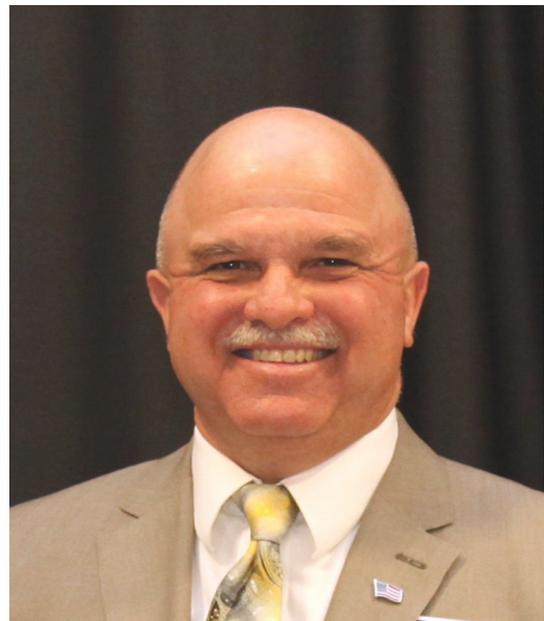
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Financially, 2017 was a very good year for your cooperative. Over \$6 million was invested in utility plant (pole, wires, transformers, etc.) to improve your electric service. Improvements are evident in reduced outage time for all of us.

Total utility plant now exceeds \$90 million, with total assets nearly \$92 million at year-end. Financial ratios remain strong, showing the cooperative to be in good financial shape. The members equity percentage is 63% (equity to assets) and our debt to plant ratio is a modest 29%.

Margins, the amount of funds left-over after all expenses have been paid, were \$2.3 million; this is down slightly from last year. We did receive a larger than expected capital credit allocation from our wholesale power supplier, Buckeye Power, of about \$1.8 million, increasing our total margins to just over \$4.3 million.

Members received the largest return of capital credits in the coops history in 2017 as over \$1.5 million was returned to members. One of the Seven Cooperative Principles is Members Economic Participation. Each of us as members contributes a share of the capital it takes to operate the cooperative. Capital is collected on our monthly electric bills and is used to grow our utility plant – it is not used to pay expenses. Over time the funds are paid back as capital credit retirements. It is important to remember that without this member capital, additional long-term debt would be needed to operate the cooperative.



**Jay Dangler Secretary-Treasurer**

Controlling expenses is a vital part of operating the cooperative. Total operating expenses, less power costs, were \$4.9 million; an increase of 2% from 2016. The total operating cost was slightly more than 1.4 cents per kilowatt hour. For comparison, the average for cooperatives in the State is nearly double that number.

One of the hardest decisions your board of trustees makes is to increase rates. It's been four years since the cooperative increased rates. In March 2018, rates will be increasing by 2.75% or a little more than \$3 per month. Two main reasons for this increase are increases to wholesale power costs and increases to investment in our utility plant (maintenance and capital improvements). Again, a difficult decision, but your board of trustees firmly believes continued plant improvements are important to long-term reliability and stable rates.

The audited financial report may be viewed at the cooperative office, during normal business hours.

Paulding Putnam Electric Cooperative, Inc.

Balance Sheet (AUDITED)

December 31, 2017

Assets:

Plant Property and Investments:

Total Plant	\$ 90,252,356.46
Construction work in progress	\$ 561,003.04
Accumulated Depreciation	\$ (24,675,913.95)
<b>Net Plant</b>	<b>\$ 66,137,445.55</b>

Investments:

Invest. in Assoc. Org. - Patronage Capital Associated Organization	\$ 15,727,939.25
	\$ 2,345,943.49
<b>Total Plant and Investments</b>	<b>\$ 84,211,328.29</b>

Current Assets and Debits:

Cash	\$ 1,410,380.44
Temporary Investments/Special Deposits	\$ 2,276,656.31
Receivables	\$ 2,520,373.68
Merchandise Inventory	\$ 507,504.46
Other Current Assets	\$ 240,056.19
<b>Total Current Assets and Debits</b>	<b>\$ 6,954,971.08</b>

Deferred Debits	\$ 521,176.77
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<b>Total Assets and Debits</b>	<b>\$ 91,687,476.14</b>
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Liabilities and Equity

Current Liabilities and Credits:

Accounts Payable	\$ 3,063,208.00
Short-term Notes Payable	\$ 1,932,839.95
Consumer Deposits	\$ 205,810.00
Other and Accrued	\$ 1,684,375.67
<b>Total Current Liabilities and Credits</b>	<b>\$ 6,886,233.62</b>

Noncurrent Liabilities and Credits:

Long-term Debt	\$ 26,861,197.27
Deferred Liabilities and Credits	\$ 335,692.73

<b>Total Liabilities and Credits</b>	<b>\$ 34,083,123.62</b>
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Equity:

Operating Margins Prior/Other	\$ 5,254,641.10
Memberships	\$ 73,743.00
Patronage Capital	\$ 52,275,968.42
<b>Total Equity</b>	<b>\$ 57,604,352.52</b>

<b>Total Liability and Equity</b>	<b>\$ 91,687,476.14</b>
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Paulding Putnam Electric Cooperative, Inc.

Statement of Operations

For the Year Ending December 31, 2017

Revenue:

Sales of Electricity	\$ 38,178,434.24
Interest Income	\$ 122,410.10
Other Income	\$ 2,651.69
Capital Credits	\$ 1,907,367.75
<b>Total Revenue</b>	<b>\$ 40,210,863.78</b>

Expenses:

Cost of Purchased Electric	\$ 25,679,197.23
Cost of Maintenance on Lines, Poles, Rights-of-Ways, etc.	\$ 2,215,734.94
Cost of Billing and Consumer Records	\$ 493,179.86
Cost of Member Services	\$ 504,190.30
Cost of Administration and Office Operations	\$ 1,747,145.28
Depreciation Expense	\$ 2,893,632.45
Business Taxes	\$ 1,079,158.52
Interest on Long-Term Debt	\$ 1,158,585.56
Interest on Current Debt	\$ 75,927.50
<b>Total Expenses</b>	<b>\$ 35,846,751.64</b>

<b>Net Patronage Capital or Margins</b>	<b>\$ 4,364,112.14</b>
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A complete copy of the Audit Report as presented by the firm of Bashore Reineck Stoller & Waterman, Inc., certified public accountants of Paulding, Ohio, will be available for examination at the cooperative's office during normal business hours

## ANNUAL MEETING MINUTES PAULDING PUTNAM ELECTRIC COOPERATIVE, ANNUAL MEETING OF THE MEMBERSHIP March 18, 2017

The 80th Annual Meeting was held at Paulding Putnam Electric Cooperative, Inc. headquarters building, Paulding, Ohio. Dr. John Saxton, Board Chairman, called the meeting to order at 10:00 a.m. Chairman Saxton led the membership in the Pledge of Allegiance. The National Anthem was played and Mr. Peter Niagu offered the invocation.

Chairman Saxton noted the meeting notice had been mailed to all members on February 27, 2017 and this notice contained the meeting agenda. He asked if there were any objections to him 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.

Chairman Saxton noted the minutes to the meeting held on March 19, 2016 had been mailed to all members in the recent issue of Cooperative Living and Electric Consumer magazines and were included in the materials given at registration. He asked if there were any objections to him 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.

Mr. Hayden gave 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 & Waterman and was available for review at the Cooperative's office. Mr. 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 which had changed significantly during his tenure on the board. He noted the growth in plant and the reduction in outage hours.

Dr. John Saxton gave the Chairman's Report. The Chairman discussed the cooperative's history. He showed videos of the cooperative creation and history. The Chairman showed several graphs and discussed how the Cooperative keeps costs and expenses low for the membership. He highlighted the average residential rate for Ohio cooperatives was \$0.1307 per kilowatt hour, while Paulding Putnam's rate was only \$0.118 per kilowatt-hour. Chairman Saxton thanked retiring Board Trustees Gary Hayden and Gerald Sorg. He presented each retiring Trustee with a commemorative meter lamp. Each retiring trustee took a few moments to thank the membership and reflect on their service.

Chairman Saxton introduced special guest speaker Patrick O'Loughlin, President & CEO of Buckeye Power. Mr. O'Loughlin took a few moments to discuss the status of generation and wholesale power within the Buckeye Power system.

Mr. Carter gave the CEO Report. The CEO discussed the history of the Rural Electrification Administration (REA). He related the mission of the REA to the Cooperative's mission today and how Paulding Putnam was meeting the mission today. He explained how many procedures have been updated, but they are still based on the original cooperative mission of improving rural families' lives. Following Mr. Carter's remarks, he answered several questions from the audience.

Scholarship winners were announced:

<b>Touchstone Energy</b>		
Gabrielle Gudakunst	Wayne Trace H.S.	\$550
<b>At-Large</b>		
Kelsey Miller	Continental H.S.	\$550
<b>Third Place</b>		
Claire Westrick	Miller City H.S.	\$550
Griffin Morman	Fort Jennings H.S.	\$550
<b>Second Place</b>		
Katie Fuetter	Ottawa-Glandorf H.S.	\$650
Troy Ricker	Fort Jennings H.S.	\$650
<b>First Place</b>		
Jordan Drummelsmith	Miller City H.S.	\$800
Maggie Wilson	Antwerp H.S.	\$800

Makenna Ricker from Miller City High School and Alex Hoehn from Ottawa-Glandorf High School representing Paulding Putnam Electric Cooperative, Inc. at the National Cooperative Youth Tour spoke about their 2016 experiences in Washington D.C. The 2017 Youth Tour attendees were announced:

Abigail Schroeder	Miller City H.S.
Chloe Lammers	Miller City H.S.

Cooperative Attorney Norman Cook was called upon to present the Trustee election results. Three (3) Districts (1, 6, and 9) were up for election: Trustee Dr. John Saxton (District 6) was re-elected by affirmation. Joseph Kohnen (District 1) was elected by majority vote. Dr. Ronald Black (District 9) was elected by majority vote. Cooperative Attorney Norman Cook noted the elections were conducted by an independent third party and the Election Committee had met on March 9, 2017 to receive the certified results.

There being no further business to come before the meeting, on a motion duly made and seconded the Chairman declared the meeting adjourned.

Approved by Membership  
Attest: Jay Dangler, Secretary/Treasurer

### *Congrats: 30 years of service at Paulding Putnam Electric*



Lineman Russell Rager



Lineman Jeff Ferris

# Committed to Community and the World!



Paulding Putnam Electric Co-op (PPEC) was awarded with the National Co-op Purpose Award on February 28, 2018 for their fundraising efforts with Honor Flight in 2016. The co-op was recognized at the National Rural Electric Cooperative Association's (NRECA) 2018 Annual Meeting held in Nashville, TN. The national award recognizes cooperatives for meaningful contributions to the community and exemplifying the purpose of cooperatives.

*(Pictured left to right: Honor Flight Committee Members, Erika Willitzer, Steve Kahle, Annette Schreiner, CEO)*



PPEC Linemen Zak Kauser and John McMaster, will be a part of the Ohio Electric Cooperatives' Project Ohio to electrify a small impoverished village in Guatemala.



PPEC employees took a Saturday in June 2017 and rebuilt dog kennels, landscaping, installed a new mailbox and painted at the Van Wert Humane Society in Van Wert, Ohio. *(Pictured left to right: Employees Todd Taylor and Ted Slusser.)*



# Meeting Agenda

1. Registration.....Starts at 9 a.m.
2. Call to Order.....Dr. John Saxton
3. Welcome/Pledge of Allegiance
4. Reading of the notice of meeting and proof of due publication of mailing thereof
5. Treasurer Report.....Jay Dangler
6. Chairman Report.....Dr. John Saxton
7. CEO Report.....George Carter
8. Scholarship and Youth Tour
9. Door Prizes
10. Adjournment/ Lunch