

# Dear Members

For decades, the electric utility business was relatively predictable. The utility supplied all its customers with electricity and billed them once a month based on their usage. Each year, the utility served more customers and sold more electricity because population and demand were growing steadily. The steady growth in overall electric usage helped mitigate the impact of increasing costs. This was the business model that NHEC operated under for most of its 79-year history. More recently, those trends have changed.

Population and new construction in our service territory have leveled off. The impact of conservation and energy efficiency efforts, high regional electricity costs and the growth of member-sited energy resources such as solar panels have resulted in NHEC's electricity sales remaining essentially flat over the last decade. We have no reason to believe that these forces are going to abate anytime soon. In fact, it's entirely possible that the traditional core of NHEC's business—delivering electricity—could shrink in the coming years. At the same time, the cost of delivering electricity to our members and maintaining a modern electric distribution grid continue to rise. This pattern of increasing costs and flat or declining sales poses a challenge to maintaining the affordability of our rates. All electric utilities face this challenge, but it's especially concerning here in the Northeast, where energy costs can be particularly volatile. All this is happening at a time when our members, and electric customers throughout the country, are asking their utility to provide more services and allow them to connect to and use the distribution system in new and complex ways.

While many members continue to want NHEC to procure and deliver all their electricity, other members want us to deliver electricity that they buy from a competitive supplier. Still others want to generate their own electricity with on-site resources like solar photovoltaic arrays and rely on NHEC only for their residual or back-up electric needs. Others look forward to the day when they'll be able to sell their extra solar power to their friends and neighbors. The combination of new energy technology and NHEC's network of smart meters opens a variety of new opportunities for our members. Imagine, for instance, installing a battery that you charge when the cost of electricity is cheap so you can use that power later when electricity from the grid is more expensive. Clearly, a business model that began as a one-way street has become a network of electricity and information that flows in multiple directions.

Preparing to meet these diverse needs while remaining affordable led NHEC's board of directors and senior management to develop a vision supported by a comprehensive strategic plan that embraces these trends and begins to set the direction for the next 20 years or so, including setting aggressive goals for the next three to five years. We are confident that this planning will ensure the future sustainability of the cooperative.

## UNDERSTANDING YOUR NEEDS

At the heart of this strategic plan is an effort to understand our members' energy needs, expectations and behaviors and, by balancing this with new capabilities from developing technologies, determine how we can best serve our members.

As part of the strategic plan process, we opened new channels of communication with many of you. We conducted in-person interviews and reached out with phone and email surveys. We have also been hosting regular Telephone Town Hall Meetings to keep you informed and solicit your feedback. We are committed to an ongoing dialogue with you, and are focusing intently on making it easier and more convenient for you to interact with us.

## WE'VE ALREADY STARTED

While many elements of our strategic plan will take shape over a period of years, we've already made progress in 2017 on one important goal—"beneficial electrification," the transition from fossil fuel powered equipment like oil furnaces and gasoline engines to electric powered alternatives where that conversion would benefit our members through reduced costs. In 2017 we added 1.6 million kilowatt-hours of new electric load to our system from members who installed highly efficient electric heat pumps. We also conducted a pilot program that provided financial incentives to 42 members who purchased electric vehicles. In a related step that will reduce our dependence on high-priced grid power, we constructed a two megawatt solar project in Moultonborough—the state's largest solar array—that is providing enough electricity to supply 600 homes. We're well on our way to ensuring that the Co-op of the future is as strong as the Co-op of today and continues to serve our members well.

In closing, we'd like to recognize three long-time members of the NHEC Board of Directors who are stepping down from the Board this year after reaching their five-term (15 year) limit. With skill, passion and good humor, Chuck Braxton, Sharon Davis and Dave Talbot have demonstrated the best of the cooperative spirit. We're grateful for their service and thank them for their dedication to our co-op's mission over the years.



Steve Camerino, President/CEO



Joe Kwasnik, Board Chair

## 2017 Board of Directors

Joseph Kwasnik ..... Board Chair, Conway  
Thomas Mongeon ..... Vice Chair, Rumney  
Sharon Davis ..... Treasurer, Campton  
David Talbot ..... Assistant Treasurer, North Woodstock  
Joan Aubrey ..... Secretary, Jackson  
Charles Braxton ..... Meredith  
Kenneth Colburn ..... Holderness  
Carolyn Kedersha ..... Center Tuftonboro  
Georgie Thomas ..... Intervale  
Harry Viens ..... Center Harbor  
Leo Dwyer ..... Sandwich

## MISSION STATEMENT

Our mission is to provide our members the ability to access affordable, reliable electric service options that support and simplify their lives.

## VISION STATEMENT

Our members will have the energy they need, the information they want and a partner they can trust®.

Cover Image: NHEC Moultonborough Solar Project, the state's largest solar array, is online and producing 3.3 million kWh of clean, renewable energy per year.

2017

## ANNUAL REPORT TO MEMBERS

STRONG TODAY,  
**STRONGER TOMORROW**



# Financials

## Statement of Operations

	2017 (\$000)	2016 (\$000)
<b>ASSETS</b>		
Current Assets		
Cash & Cash Equivalents	\$12,118	\$9,235
Special Deposits	3,064	1,000
Receivables from Members – Energy Sales	13,968	12,529
Other Receivables	6,470	1,816
Material & Supplies Inventory	2,893	2,943
Prepayment & Other Current Assets	2,735	2,704
<b>Total Current Assets</b>	<b>41,248</b>	<b>30,227</b>
Utility Plant	374,184	358,446
Less: Depreciation	(170,195)	(159,923)
<b>Net Utility Plant</b>	<b>203,989</b>	<b>198,523</b>
Other Assets		
Temporary investments	1,000	3,000
Intangible assets	1,375	1,375
Non-utility property	274	283
Investments in Assoc. Organizations	11,563	11,418
<b>Total Other Assets</b>	<b>14,212</b>	<b>16,076</b>
Deferred Debits	10,062	7,233
<b>Total Assets</b>	<b>\$269,511</b>	<b>\$252,059</b>
<b>LIABILITIES &amp; EQUITY</b>		
Current Liabilities		
Lines of Credit	\$3,751	\$292
Accounts Payable	14,663	8,063
Accrued Liabilities	4,017	2,797
Member Deposits	1,842	1,820
Current Portion of Long-Term Obligations	6,127	6,327
<b>Total Current Liabilities</b>	<b>30,400</b>	<b>19,299</b>
Long-Term Obligations	104,231	105,335
Deferred Credits	6,792	6,143
Member Equity	128,088	121,282
<b>Total Liabilities &amp; Equity</b>	<b>\$269,511</b>	<b>\$252,059</b>

## Statement of Operations

	2017 (\$000)	2016 (\$000)
<b>Revenue</b>		
Operating Revenues	\$139,471	\$128,869
<b>Expenses</b>		
Cost of Power & Transmission	72,253	62,360
Operation & Maintenance	14,594	13,308
Customer, Admin. & General	19,911	19,160
Sales	2,063	2,002
Depreciation	12,252	11,918
Interest Expense & Other Ded.	4,569	4,832
Taxes	7,738	7,153
<b>Total Operating Expenses</b>	<b>133,379</b>	<b>120,733</b>
<b>Operating Margins</b>	<b>6,092</b>	<b>8,136</b>
<b>Non-Operating Margins</b>		
Interest Income & Patronage	665	602
Other	49	42
<b>Total Non-Operating Margins</b>	<b>714</b>	<b>644</b>
<b>Net Margins</b>	<b>\$6,806</b>	<b>\$8,780</b>

# Treasurer's Report

It is my pleasure to report to you the financial results of your cooperative for the year ending December 31, 2017. NHEC ended the year with positive net margins of \$6.8 million from our delivery service operations. This positive result was all the more significant given that NHEC encountered two major storms in 2017, Winter Storm Stella in March and the October wind storm, which cost more than \$6 million to restore. Fortunately, the impact of these costs was greatly mitigated by federal disaster assistance.

Member growth on our system continues to remain relatively flat, with only 373 new services added in 2017 and kilowatt hour sales (kWh) only marginally higher than 2016. The average monthly kWh consumption for our residential members increased by 1.28%, which is likely attributable to colder weather during the 2016-2017 winter period.

NHEC continues to make every effort to keep our operating costs down while improving service reliability. In 2017, investments were made to upgrade our substations with new environmental controls, relay/protection packages and reclosers. In addition, work continued on improving circuit reliability by increasing the number of automated sectionalizing devices on our distribution circuits. These devices help reduce the number of members affected by a given outage and enable us to locate system faults more quickly.

One challenge that NHEC continues to face in managing our costs is the increasing burden of property taxes assessed by the towns where our equipment is located. The local taxes we pay increased 7.5% in 2017, largely as a result of increases in the valuations these towns place on our equipment and other property used to provide service. NHEC is leading legislative efforts in Concord to address what we believe are unfair and inconsistent tax assessment practices by a

number of towns we serve. The costs imposed by these taxes are a direct pass-through to our members in the electric rates you pay.

Transmission services and wholesale power costs comprise 54% of all costs for members who buy Co-op Power from us, in addition to the delivery service we provide all members. In 2017, the cost of transmitting power from generators to our local distribution system increased by more than 10%. In addition, two important wholesale power cost components, the "capacity" payments to generators and the cost of compliance with the state's renewable energy portfolio statute, also increased significantly.

This past year, NHEC constructed New Hampshire's largest solar array, a 2 MW project in Moultonborough, using \$5 million in low interest funds from New Clean Renewable Energy Bonds issued by the U.S. Department of Treasury and loaned to NHEC by our lender, the National Rural Utilities Cooperative Finance Corporation. The output from this facility will be used to reduce the amount of energy and capacity we would otherwise need to buy from the New England regional power grid.

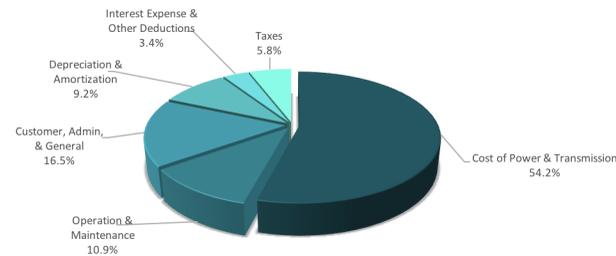
Overall, NHEC had a very strong year financially and this positive result provides continuing support for our efforts to ensure that NHEC has the equity capital to make the investments required to maintain and improve the distribution system that serves you.

Respectfully submitted,

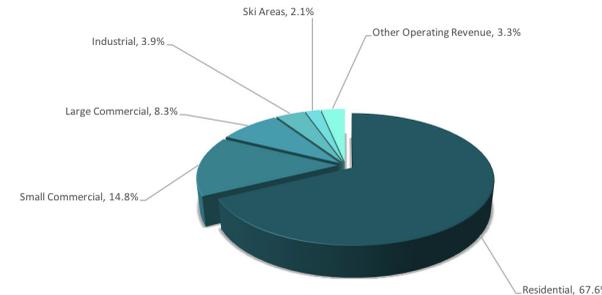


Sharon L. Davis, Treasurer

## Expenses by Category – 2017



## Operating Revenue – 2017



The annual audit of New Hampshire Electric Cooperative's records was made by BerryDunn, 100 Middle Street, Portland, ME 04104-1100 and reviewed by the Audit Committee of the Board of Directors of New Hampshire Electric Cooperative. Copies of the complete report are available by mail upon request, or online at [www.nhec.com](http://www.nhec.com).