

2013 ANNUAL REPORT

TURNING THE CORNER



Your Touchstone Energy® Cooperative



Blachly-Lane Electric Cooperative Board of Directors



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District No. 1**



**Director
Robert Sikes
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**Director
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District No. 4**



**Chairman
Cliff Kelley
District No. 5**

The Blachly-Lane board has used SWOT analysis during our strategic planning sessions. SWOT stands for strengths, weaknesses, opportunities and threats. I would like to use that format to talk about the state of our cooperative.

Strengths

- We are a cooperative. Our customers are our owners. We are guided by the seven cooperative principles.
- We have a dedicated team of employees who willingly go the extra mile to keep the lights on for our members. They have partnered with the board in

controlling costs and looking for ways to improve service to our members.

- Blachly-Lane's finances are healthy. Our current member equity is at 67 percent. Our last rate adjustment resulted in a 1 percent decrease for our residential customers. Through careful cost-control measures, we were able to absorb a double-digit increase in our wholesale power costs from the Bonneville Power Administration without raising rates for members.

- Our territory includes several large industrial customers that share the cost burden, helping to keep rates lower for our residential customers.

Weaknesses

- Blachly-Lane is a small utility with a large territory. Our service area is more than 380 square miles and we have about 3,500 meters. We have 6.89 customers per mile of line. Given that most of our territory is in rural/forested land, we have a lot of line and right-of-way maintenance costs to

be shared by a relatively small number of members.

- Due to the characteristics of our territory and limitations of land-use laws, our membership is unlikely to grow. Our membership has not increased or decreased during the last decade.

- Our size limits our ability to offer many programs and services our members want due to the cost burden that would create for a relatively small number of customers.

- The age of our system, which was founded in 1937, means maintenance and replacement costs are likely to increase as equipment and cable reaches its end of life.

Opportunities

- We are likely to experience additional load growth among our customers in the Highway 99 industrial corridor. This growth will help spread some of our consumption-based costs. It also is challenging because it will require planning and building infrastructure to

accommodate the additional load growth.

- As our wholesale power costs increase, we need to find ways to help members use electricity more efficiently so they can continue to enjoy the benefits that led to the founding of Blachly-Lane.

- We have a diverse membership. We need to create opportunities for more involvement, particularly by youth, in our cooperative. They are the future and are likely to challenge us to think in new ways about our cooperative.

Threats

- Distributed generation. Customer-owned generation—usually solar or wind—either reduces the member's need for purchased power or may even generate power. Blachly-Lane is required to purchase from the member. This is causing concern due to "stranded costs" for lines and equipment. Think of telephone companies losing customers to cell phones, yet they must maintain service for

Cliff Kelley *Chairman's Report*



Joe Jarvis *Manager's Report*

2013—Turning the Corner

2013 was a year of turning the corner for Blachly-Lane. A couple of large rate increases in previous years and an inadvertent oversubscription to wholesale power put the cooperative in a tough spot financially.

The board of directors and management did not want to subject the members to additional large rate increases, so an emergency austerity budget was adopted along with some permanent and temporary cost-saving actions. Going into 2013, the cooperative managed costs closely and adhered to tight margins for bare minimum debt service coverage.

Financial outcomes for the year proved stronger than expected through a combination of cost control and a robust year for operating revenue.

Operating revenue was \$355,456 higher than budgeted at \$12,566,570. Higher-than-expected electrical consumption resulted in higher-than-expected revenues. Electrical use for all customer classes for 2013 was 3.4 percent above budget, on average. Increased industrial activity and colder than normal

weather were the main causes of the increase in energy use.

The industrial class purchased almost 5 percent more energy from the cooperative than budgeted, which is a good sign of increased economic activity in that sector of our membership. Two new members contributed to the increased use in the industrial class: J.C. Biomethane and the new state of Oregon psychiatric hospital.

J.C. Biomethane produces power from digested food waste turned to methane gas. The gas fuels a reciprocating engine-driven generator. Blachly-Lane provides power to run the plant and transmits the generated electricity across its distribution lines to the Bonneville Power Administration at Blachly's Parker Substation. The power is sold to Portland General Electric.

Although the state psychiatric hospital is under construction, Blachly-Lane electricity has been used for construction power since the fall of 2012. The hospital is scheduled for late 2014 completion, with operations beginning in early 2015. The hospital brings many new jobs to our area and is a good addition to the cooperative.

Cost control was the other side of the equation. Total expenses were 6 percent under budget, resulting in net margins of \$797,096—well above the budget of \$177,574. The margins are all allocated back to the

members as capital credits.

Members' equity at year end 2013 was 65 percent compared to 63 percent at the end of 2012.

It was a cold and stormy winter. October, November and December were, respectively, 44 percent, 26 percent and 40 percent colder than the same months the previous year on a heating degree day basis, as measured at Mahlon Sweet Field. Heating degree days is a unit used by utilities and energy-efficiency professionals as an indication of the relative amount of heat needed to keep structures warm.

Blachly-Lane was slammed by two strong storms in December 2013 and February 2014. The earlier storm came in the form of heavy snow and rain, whereas the latter was an ice and freezing rain storm like we have not experienced for some time. The ice storm required the help of a crew from Central Lincoln PUD. It took six days to restore power to all of our members. Damages caused by ice buildup on trees and electrical structures were in the neighborhood of \$300,000.

There was plenty of good news during the year. A change to a different health insurance plan is expected to result in a 4.64 percent savings in premiums, and a change in our pension plan for new employees likely will save another 12 percent over the old plan.

As I've reported in Ruralite

magazine recently, our employees have been working hard to maintain a good safety record. This has resulted in a 41 percent decrease in workers compensation premiums.

I mentioned 2013 was a year for Blachly-Lane to turn the corner. Our cooperative is in a much stronger position than a few years ago. The combination of strong financial results the last two years and the end of the wholesale power oversubscription in October 2013 has allowed Blachly-Lane to absorb a large BPA rate increase for 2014 without raising rates.

We have restored operations and maintenance budgets to sustainable levels, returned employee compensation to a level competitive with our labor market and restored most of the member-related programs suspended in 2013.

Member equity has continued to build. Blachly-Lane is in a good position to finance future system improvements as new industrial loads materialize or as worn-out parts of the system need replacement. Financing system expansion for serving new load will be accompanied by a cost-recovery mechanism so growth will pay for itself.

The future looks bright for Blachly-Lane. There will always be challenges, but we are in a strong position to manage those, while capitalizing on the opportunities that are sure to come our way. ■

Chairman's Report continues.

the last customer on the line. We must be aware of this threat and take steps to ensure costs are shared according to

cooperative principles.

- Aging utility plant. This was mentioned earlier and bears repeating. We cannot put off maintenance required to maintain reliability. To quote a sign I

saw, "Deferred maintenance is planned neglect"

- The rumor mill. We have an open, transparent cooperative. You know who your board and management are.

We encourage you to check out stories and accusations you may hear, especially when they come from unknown sources. The reputation of your cooperative is at stake. ■

Blachly-Lane Electric Cooperative

Consolidated Balance Sheet

Year Ended December 31

	2013	2012	2011
Assets			
Net utility plant	\$13,471,438	\$13,024,971	\$12,760,082
Other assets and investments	1,480,326	1,510,277	1,365,751
Current assets	4,745,567	4,789,061	4,841,723
Total Assets	19,697,331	19,324,309	18,967,556
Equities and Liabilities			
Equities	12,867,517	12,161,558	11,806,497
Long-term debt	4,243,825	4,780,045	4,662,937
Current liabilities	1,982,879	2,007,691	2,125,534
Deferred credits	603,110	375,015	372,588
Total Equities and Liabilities	\$19,697,331	\$19,324,309	\$18,967,556

Consolidated Statement of Operations

Year Ended December 31

	2013	2012	2011
Operating revenues	\$12,566,570	\$11,604,896	\$10,500,597
Operating expenses	11,751,956	10,856,987	10,089,680
Operating margins	814,614	747,909	410,917
Nonoperating margins	(17,518)	216,531	161,009
Net margins	\$797,096	\$964,440	\$571,926

Consolidated Statement of Cash Flows

Year Ended December 31

	2013	2012	2011
Cash flows from operating activities	\$1,464,645	\$1,066,365	\$1,314,116
Cash flows from investing activities	(1,020,513)	(755,081)	(443,102)
Cash flows from financing activities	(845,669)	(423,313)	(1,007,612)
Change in Cash and Cash Equivalents	(401,537)	(112,029)	(136,598)
Cash and cash equivalents, beginning of year	2,732,266	2,844,295	2,980,893
Cash and cash equivalents, end of year	\$2,330,729	\$2,732,266	\$2,844,295

The presentation above is summary information only. The cooperative's audited financial statements, including footnote disclosure, are available at the cooperative's office.