



VIGILANTE ELECTRIC COOPERATIVE

A Touchstone Energy® Cooperative 

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OWNED BY THOSE WE SERVE

VIGILANTE ELECTRIC COOPERATIVE, INC.

Board President and Manager's Annual Report to Members

We are pleased to present this 2014 Annual Report to you, the members of Vigilante Electric Cooperative, as part of our annual meeting this year. It outlines the key core issues relevant to the operation of the cooperative.

Financials

Recently we have closed the books on year 2014, and we are happy to report that we had a very good year from a financial perspective. We sold more than 155 million kWh of energy, with total revenue of slightly more than \$12 million. Year-ending margins, which is the total revenue less expenses, that will be allocated back to the membership is approximately \$854,000. We added about 90 new services for the year, and we currently stand at 9,826 total services in place. At the end of 2014, we had more than \$48 million in total utility plant on the books, and had an equity level of well over 50 percent. We have more than 2,712 miles of power lines serving the membership. From a "miles of line" standpoint we are the fifth largest cooperative in the state. Your cooperative is very strong financially and we plan to keep it that way.

Rates

As mentioned above, we received over \$12 million in total revenue for 2014. Of that amount, 56 percent was received from residential accounts, while 26 percent came from irrigation services. The remaining 18% came from commercial and seasonal accounts, and other revenue sources. As indicated, we are highly reliant on the irrigation revenue, and thus the annual snowpack and water storage. We are what is called a "summer peaking" system due to the irrigation load, and are the only summer peaking system in the Western Montana group. Our residential retail rates remain the lowest in the state, and within the lowest one percent of the 815 cooperative systems polled across the country.

Power Supply

As you may know, we are served wholesale power over an integrated system by the Bonneville Power Administration (BPA). BPA is an entity of the U.S. Department of Energy, and thus is in a highly lobbied and regulated environment. The vast majority of the power generated by BPA is in the form of low-cost renewable hydro-power.

Every two years, BPA goes through a formal wholesale rate-setting process, and unfortunately this year we will see a wholesale electric rate increase in October. Preliminarily, it appears that we will see an increase in wholesale power in the 6 percent range. All things being equal, that translates to an approximate 3-4 percent retail rate increase. We are evaluating the impacts of this wholesale rate increase now, as well as ways to minimize the effects. We do not expect to

raise retail rates this year.

A significant amount of our communications with BPA is in response to special interest groups and their need to sue to remain viable. Approximately one-third of our wholesale power costs are for fish (salmon) mitigation activities. We feel strongly about the need to protect the fish habitat, but record salmon migration is occurring and thus sea lion, cormorant and tern depredation also are increasing. As a result this, quite simply, is a changing ecosystem, and subsequently fuels more lawsuits and more wholesale power costs to defend those actions.

Automated Meter Reading Project

As you may know, in 2014 the Board of Trustees, approved replacement of our entire meter-reading equipment. The existing equipment was installed more than 12 years ago, and we have recently been informed that the equipment is obsolete and would no longer be supported or serviced. Something needed to be done. To date we have replaced more than 4,000 of the approximately 9,800 meters with new meters. The communication technology is identical to the old meter-reading system, however, the meters and other components are state-of-the-art from a technological standpoint. The estimated cost of the project is slightly more than \$3 million, however, we expect to be at less than that at the completion, which is planned for mid-summer of this year. This new system is expected to last well into the future, and hopefully it will last as long as the prior system.

Concern for Community

One of the seven cooperative core principles that we operate under is Concern for Community. During the last slightly more than two years the cooperative has provided 43 scholarships, totaling \$36,500, to member dependent youth, three week-long trips to Washington D.C. for member-dependent high-school-age youth to learn more about electric cooperatives, \$25,000 in support of rural school districts in our service territory, more than \$16,000 to local foundations such as the University of Montana 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.

The Coming Year and Beyond

As we move to the future, we will be without one of the stalwart board members who has been a part of this cooperative for the last 54 years. Don Jones will be stepping down as board member representing the Wise River, Divide and Buxton areas. We certainly wish him well and appreciate his legacy, but also look forward to the new chapter in our history as you, the members, select his replacement at the annual meeting.

We thank you for allowing us to serve you, the members of Vigilante Electric Cooperative, and we hope to see you all at the annual meeting, where your governance function in your cooperative is fully demonstrated.



Rollie Miller
General Manager



Dean Peterson
Board President

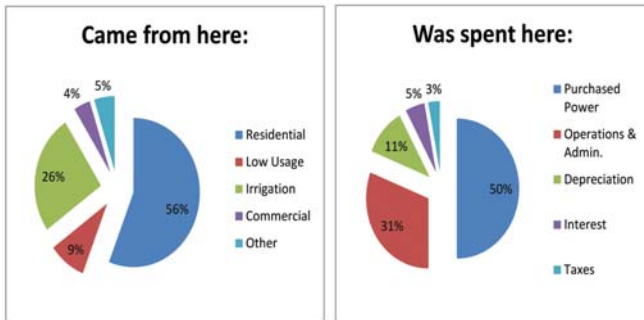
Balance Sheet

ASSETS	2014	2013
ELECTRIC PLANT:		
In Service - at cost	\$47,669,188	\$46,902,729
Construction Work in Progress	786,607	58,906
	<u>\$48,455,795</u>	<u>\$46,961,635</u>
Accumulated Depreciation	\$24,304,576	\$23,741,580
Net Utility Plant	<u>\$24,151,219</u>	<u>\$23,220,055</u>
INVESTMENTS:	\$2,173,517	\$2,150,193
CURRENT ASSETS:		
Cash - General Funds	\$197,136	\$150,234
Temporary Investments	5,435,566	4,615,557
Accounts Receivable	1,242,746	1,434,422
Materials & Supplies	1,769,464	1,247,037
Other Current & Accrued Assets	258,532	274,963
TOTAL ASSETS:	<u>\$35,228,180</u>	<u>\$33,092,461</u>
LIABILITIES		
MEMBERS EQUITIES:		
	\$17,711,414	\$17,113,375
LONG TERM DEBT:		
Rural Utilities Service	\$4,701,747	\$5,398,176
Federal Financing Bank	\$6,776,326	\$4,312,853
Other - NRUCFC & CoBank	\$3,561,264	\$4,033,073
	<u>\$15,039,337</u>	<u>\$13,744,102</u>
CURRENT LIABILITIES:		
Accounts Payable	\$653,755	\$592,822
Consumer Deposits	486,605	477,435
Other Current & Accrued Liabilities	1,337,069	1,164,727
TOTAL LIABILITIES:	<u>\$35,228,180</u>	<u>\$33,092,461</u>

Revenue and Expenses

	2014	2013
TOTAL OPERATING REVENUE	\$12,205,319	\$11,868,613
Nonoperating Revenues	521,538	568,567
OPERATING EXPENSES		
Power Purchased for Consumers	\$5,631,882	\$5,361,805
Operation and Maintenance	1,825,761	2,040,186
Consumer Accounting, Administration and General Operating Expenses	1,769,584	1,848,660
Depreciation of Plant	1,304,815	1,263,843
Interest on Long Term Debt	630,791	547,999
Property Taxes	389,259	387,665
TOTAL COST OF SERVICE	<u>\$11,552,092</u>	<u>\$11,450,158</u>
NET MARGIN	<u>\$1,174,765</u>	<u>\$987,022</u>

Your Co-op's Dollar



Getting to know the Vigilante Electric Cooperative Board

Name: Dean Hanson



Dean Hanson

Family: Married to Roselle, 37 years. We have two daughters, Jill and her husband Nick, and their son Nolan, live in Missoula. Jenelle and her husband Josh live in Dillon.

Occupation: Roselle and I have a ranch south of Whitehall, cow-calf and yearling operation.

Education: I attended the National College of Business in Rapid City, South Dakota, where I received a degree in ag. business.

District: I represent District # 2, which is Twin Bridges north to Waterloo and west of Whitehall

Years on the Board: 5 years

Position on Board: I am currently the vice chairman of the board.

Current challenges: Dealing with the rate cases every two years, keeping our power supply as affordable and reliable as we can.

Long term: Future rate cases and dealing with TIER 2 power. Water issues and federal mandates to increase green power, and the costs that go with them.

Hobbies: Roping, hunting, fishing, golf and skiing.

Trustees

President — *Dean Peterson*

Vice President — *Dean Hanson*

Secretary/Treasurer — *Sharon Lasich*

Tom Helm
Andy Johnson
Don Jones
Allen Martinell
Jim Petersen
Norm Tebay

General Manager — *Rollie Miller*

It's Been Quite a Journey

In all the years I have contributed articles to this publication, I have always found human interest stories to be the most fun to research, but the hardest to write. Finding a word or words to summarize one's career and/or accomplishments is a challenge. It is an even bigger challenge when you are trying to do it for someone like Don Jones.



Don Jones

As it has been announced, Don will be stepping away from the Board of Trustees of Vigilante Electric following our annual meeting on March 6. In reviewing Don's involvement with our organization and others, I was struck by many things but one thing in particular — his dedication. Anyone can merely sit on the board of an organization; it is entirely different to be actively engaged, working to improve that organization, and dedicating much of your life to it.

This will our 77th annual meeting, and Don will conclude his 54th year with our organization. To say that Don has been involved in much of our organization's history would be an understatement. Since Vigilante Electric Cooperative was founded we have had five general managers — Don has been a trustee for all five. Don represented Vigilante Electric as a trustee on the Montana Electric Cooperatives' Association (MECA) board for 30 years, and was a member of the MECA Executive Committee for 11.

While Don's demeanor is reserved and quiet, many of the people in our industry have taken notice. He has been honored twice by our statewide organization. In 1992, he received the Hard Riding Award, which is presented to a co-op trustee or employee who has demonstrated exceptional character and perseverance amidst extraordinary difficulties. In 2011, Don received the Cooperative Spirit Award, which recognizes personnel and trustees who embody the highest principles of cooperation; promote through daily example the cooperative ideal; and champion the ideal of harmony and solidarity among cooperatives.

What drives a man to give much of his time and energy to one organization? With Don it seems quite simple, and doesn't start with us. I think Don is a humble man who simply wants the best for his family, and this desire has translated into action. Vigilante Electric just happened to be one of the benefactors.

Don and his wife Liz have been married for 55 years, and have raised three children. Don served 25 years as a school board member, he has had a long association with 4-H and FFA, and for 25 years he was the livestock superintendent for the Beaverhead County Fair. Don and Liz have opened their home on many occasions to foreign students participating in the International Farm Youth Exchange Program.

Don and Liz manage a successful ranch operation outside Wise River, which has been in their family for more than 100 years, and their home for 55 years. Over the years they have been active in the Montana Stock Growers Association, Montana Hereford Association and Montana Wool Growers Association. He has received numerous awards, including the Montana Hereford Association "Commercial Hereford

Man of the Year" and the Beaverhead Chamber of Commerce Excellence in Agriculture award.

In paying tribute to Don, I contacted people in the industry that Don has served with and that know him much better than I. Last month I received gracious contributions from Mack McConnell and Allen Thiessen. This month the contributions are much closer to home.

Norm Tebay, Trustee Dist. #1 –
Cardwell, Three Forks, Whitehall

Don is always dedicated to the co-op, as well as to the ranch and his family. He served faithfully on the MECA board, as well as worked in the printing business for many years. He is a good friend, and I have learned much from him. He is always concerned about the cost to VEC when he attends a meeting out of town, and stays where the costs are lower, if at all possible.

He knows his district like the back of his hand, and can more than likely tell you when power was put in, and the difficulty of the install. He is the historian of the co-op, knowing what happened where and when.

Lastly, Don knows when enough is enough. He will be greatly missed on the board, but I know he will keep up on all the activities of VEC.

Good luck Don, and thank you soooo much for all your service.

Dean Peterson, Trustee Dist. #7 –
Big Hole, Grasshopper Valley, Current Board President

I have only been on the board with Don for six years, but have been acquainted with him most of my life. Don has been on VEC's board 53 of the 77 years that it has been an electric co-op. If any one thing symbolizes VEC, it is Don Jones. Sitting as the chair the past two years, several times I have looked at Don on the other end of the table and asked him for the history of the topic we are discussing. He always comes up with an accurate assessment of our discussion topic and its history that almost always brings the board together as one on our decision.

With Don retiring, the board will have to rely on directors with 30 to 35 years of experience. That is still pretty good, but losing 20 years of history and knowledge is a big deal, and Don can expect a few phone calls from me.

At Don's last district meeting, when he talked about his retirement and some of the things that he did as a VEC director, he stated that the job becomes a way of life. This made me really stop and think, realizing this was another one of Don's very accurate statements. Everything you do in your personal life, from family vacations to branding, tends to get scheduled around your job as a director.

Being a director takes a vast knowledge, hard work and dedication to the job. There has been no one who did this any better than Don. Don, we will miss you in the board room, and we wish you the best. Enjoy retirement, but please don't change your phone number. I promise that I won't wear it out, but I might make it ring!

Continued on page 6

Voluntary and Open Membership

Why this principle still applies to electric co-ops

By Adam Schwartz

When electric co-op members look at the seven co-op principles, many may question if they really live up to the first principle: Voluntary & Open Membership. It is a fair question. There is a two-part answer.

First, it is important to remember that when Vigilante Electric Cooperative was first being formed back in 1937, every potential member had the option to refuse service. While it may be hard to believe today, there are numerous stories from electric co-ops throughout the country where the farmer said, "No thanks. We are doing fine with kerosene." Of course, over time they changed their minds and eventually became members of the co-op.

Due to the incredible cost of offering electric service, the vast majority of people and businesses only have one choice if they want to connect to "the grid" and receive electricity. While that may change in the future due to rooftop solar or other generation sources, the best option for most people for safe, reliable and affordable power is from your electric co-op.

Today, electric co-ops focus on the second part of the principle, "Open Membership." All residents and businesses in the service territory of Vigilante Electric Cooperative are welcome to receive power. Co-ops continually strive to ensure that your membership has value to you, not just through the service of electricity, but by being an active part of our community.

Co-ops offer and welcome your participation in the governance of the organization through a democratically elected board of directors. As a locally owned and controlled utility, co-ops are in a better position to understand the needs of its members, and can be quicker to react to help ensure the membership receives the best service possible.

Members are welcome to suggest improvements to the co-op's operations and, unlike large investor-owned utilities often with millions of customers, you can be assured your ideas will actually be read by a real person in real time.

All co-ops, whether it is your credit union, farm co-op, telephone co-op or any other of the 29,000 co-ops that exist in the U.S. today, live by these seven co-op principles:

1. Voluntary and Open Membership
2. Democratic Member Control
3. Members' Economic Participation
4. Autonomy and Independence
5. Education, Training and Information
6. Cooperation Among Cooperatives
7. Concern for Community

By using all of these principles integrated together, Vigilante Electric Cooperative is able to serve your needs every day.

Adam Schwartz is the founder of The Cooperative Way a consulting firm that helps co-ops succeed. He is an author, speaker and a member-owner of the CDS Consulting Co-op. You can follow him on Twitter @adamcooperative or email him at aschwartz@thecooperativeway.coop.

Journey *Continued from page 5*

Dean Hanson, Trustee Dist. #2 –
Silver Star, Waterloo, currently Board Vice President

I don't have any stories to share about Don as I haven't served that long with him. However, he is a very dedicated board member who always said what he thought, and always put the members first. He prided himself in keeping the rates low. In the 50+ years that he served he always stepped up, not only for VEC but to the state level and MECA as well. I have always admired his dedication, honesty and integrity. It has been an honor to serve with him.

Jay Nelson, Former Trustee Dist. #7

I want to pay tribute to Don Jones (and Liz) for his many years as a Vigilante director. You can't credit a director for his service without giving credit to his wife for just getting him there.

Don was on the board when I got there, and was still there when I left — 41 years later. I think the job kind of grows on you. You have to stay to see what is going to happen next.

Having lived my first 24 years without electricity, I realize how important it is to have interested and dedicated people to supply and maintain it.

Over the years, Don has ably filled all the chairs on the Vigilante board many times. He also has represented Vigilante on the state boards for many years.

We have traveled many miles together to regional and national meetings to represent Vigilante. So hats off to Don for his many years of helping keep the lights on, and good luck on all future endeavors.

In 2011, when Don received the Cooperative Spirit Award, the presenter had this for his opening comment: "In politics they say that every administration should have at least one "Wise Man." Well, down at Vigilante and up here at MECA we have Don Jones from the town of Wise River, on the Wise River, near Wisdom, Montana. And he had the foresight to be married to Liz for at least one more year than he's been married to Vigilante Electric. You don't get any wiser than that."

The management and staff at Vigilante Electric will truly miss his dedication and wisdom, and we wish Don the best in the years to come.

Outage Notification Numbers

M-F 8 a.m. to 5 p.m.
683-2327 or (800) 221-8271

Dillon

After Hours Mon. - Thurs.
Dan Snellman.....683-6222
Gary Ferris683-6321
Cody Tarter925-3326
Charles Wharton 660-1878

Weekends

683-2327 or (800) 221-8271

Whitehall

After Hours and Weekends
Marty Simons287-3950
Chuck Romerio.....287-3144
John Moos266-3605

Townsend

After Hours and Weekends
John Moos266-3605
Justin Bair266-3351
Chase White459-3892
Marty Simons287-3950