

OPALCO

Board Meeting - March 2016

2015 Year End Financial Report Introduction

2015 Year End Results: Summary

TIER is back to a conservative 2.51

Equity % of Total Cap at healthy 53%

Revenue is on budget

Expenses reduced

OPALCO 2015 Year End Results: Statement of Operations

	A. Audited Year End 12/31/2011	B. Audited Year End 12/31/2012	C. Audited Year End 12/31/2013	D. Audited Year End 12/31/2014	E. Budget Year End 12/31/2015	F. Unaudited Year End 12/31/2015	G. Budget Variance (F - E)
OPERATING REVENUES							
Residential	\$ 15,759,594	\$ 14,861,010	\$ 15,598,797	\$ 15,913,325	\$ 17,714,009	\$ 17,694,706	(19,303)
Commercial	5,092,396	5,260,451	5,467,588	5,694,901	6,523,281	6,356,143	(167,138)
Other	317,208	296,764	364,892	420,798	459,851	531,069	71,218
Total operating revenue	21,169,199	20,418,225	21,431,278	22,029,025	24,697,141	24,581,918	(115,223)
OPERATING EXPENSES							
Cost of power	6,680,856	7,240,696	7,514,128	8,037,428	8,452,880	7,787,142	(665,738)
Transmission	51,964	126,986	70,117	92,874	95,459	179,264	83,805
Distribution - operations	2,348,360	2,805,586	2,968,003	2,961,250	3,462,037	3,391,150	(70,887)
Distribution - maintenance	1,417,386	1,518,742	1,669,524	1,778,516	1,862,557	1,713,924	(148,633)
Consumer accounts	835,247	809,149	853,211	898,198	1,000,006	893,766	(106,240)
General and administration							
Administration	2,385,483	2,799,833	2,718,889	2,822,439	3,060,993	2,950,777	(110,216)
Energy services	219,929	276,269	462,966	373,323	743,548	658,939	(84,608)
Subsidiary charges (RIC network mgt services)	-	-	-	-	-	29,100	29,100
Total general and administration	2,605,412	3,076,102	3,181,855	3,195,763	3,804,540	3,638,816	(165,724)
Depreciation and amortization	2,507,468	2,652,194	2,719,560	2,975,650	3,166,399	3,308,154	141,755
Taxes	869,518	832,220	930,482	961,815	1,038,446	1,046,626	8,180
Total operating expenses	17,316,211	19,061,677	19,906,881	20,901,493	22,882,324	21,958,841	(923,482)
Operating margins before fixed charges	3,852,988	1,356,548	1,524,397	1,127,532	1,814,817	2,623,077	808,260
FIXED CHARGES							
Interest on long-term debt	733,675	759,686	786,193	908,934	1,003,025	1,047,248	44,223
Other Interest	227,223	-	-	-	-	-	-
Total fixed charges	960,898	759,686	786,193	908,934	1,003,025	1,047,248	44,223
Operating margins after fixed charges	2,892,090	596,861	738,204	218,598	811,792	1,575,829	764,037
PATRONAGE CAPITAL CREDITS							
Net operating margins	2,934,652	637,277	776,252	286,451	868,265	1,659,437	791,172
NON-OPERATING MARGINS							
Interest income	33,196	32,228	33,261	32,130	34,165	27,983	(6,182)
Other income	32,609	21,995	46,893	23,458	21,933	12,787	(9,146)
Total Opalco non-operating margins	65,805	54,222	80,154	55,588	56,098	40,770	(15,329)
Fiber Optics Division (Island Network Department)							
IN Income	303,761	348,119	388,117	519,819	-	-	-
IN Expenses	169,562	225,095	273,006	739,907	-	-	-
Total Fiber Optics Division	134,199	123,024	115,111	(220,088)	-	-	-
Non-operating margins from Subsidiary							
Interest Income (RIC loan)	-	-	-	-	174,000	99,822	(74,178)
Other income (use of OPALCO backbone)	-	-	-	-	-	58,294	58,294
Total non-operating margins from Subsidiary	-	-	-	-	174,000	158,116	(15,884)
Net non-operating margins	200,004	177,246	195,265	(164,500)	230,098	198,886	(31,213)
NET MARGINS	\$ 3,134,656	\$ 814,524	\$ 971,518	\$ 121,951	\$ 1,098,363	\$ 1,858,322	759,959
TIER	5.27	2.07	2.24	1.13	1.92	2.51	
Equity % of Total Cap	73.5%	72.1%	69.5%	61.3%	52.7%	53.3%	

2015 Year End Unaudited Financial Report
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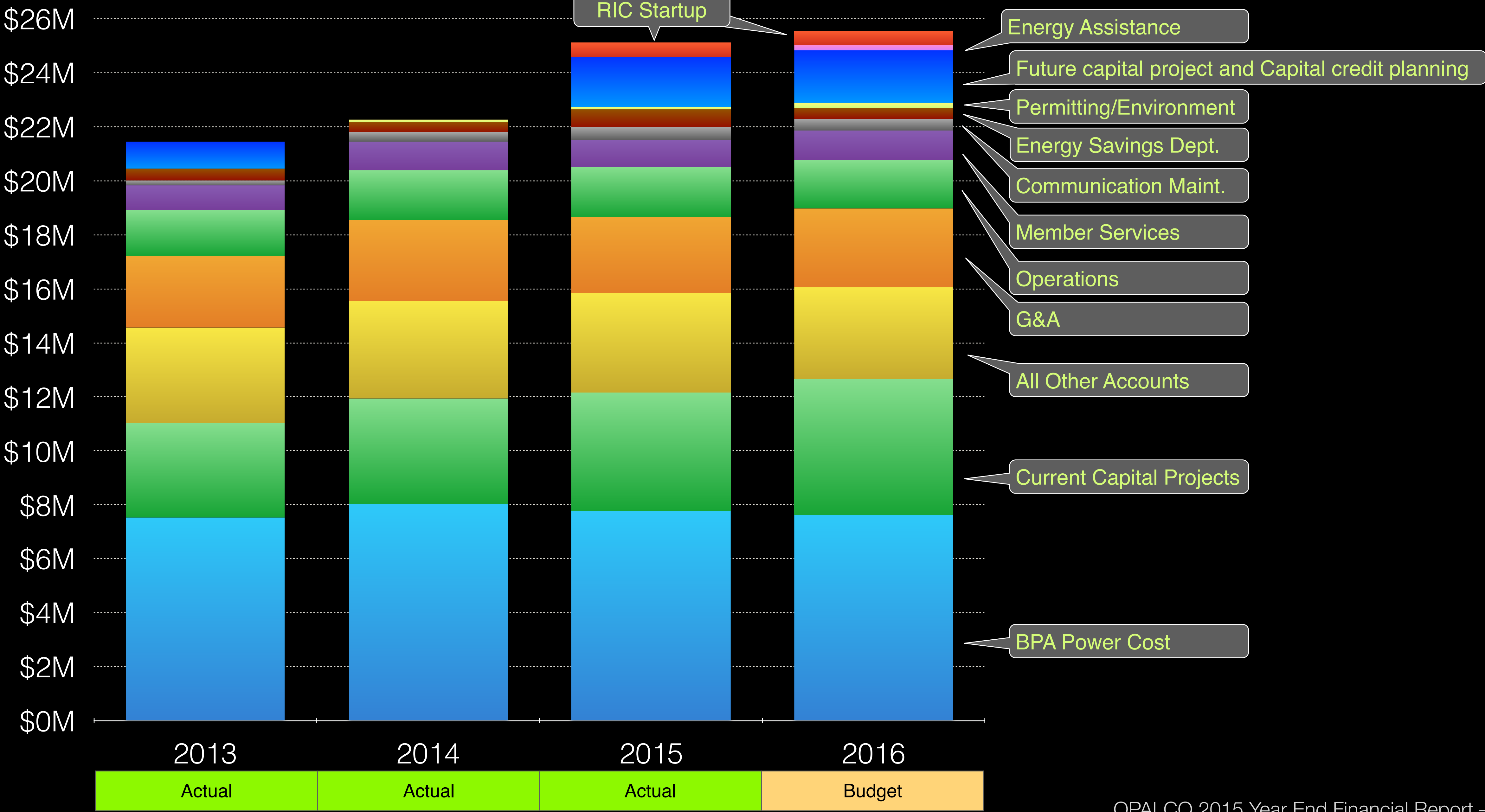


Headline

- Beginning of year: Budget revenue was down big
- Mid-year: Invoked revenue recovery add-on
- End of year: Budget revenue down, but budget expenses down more.

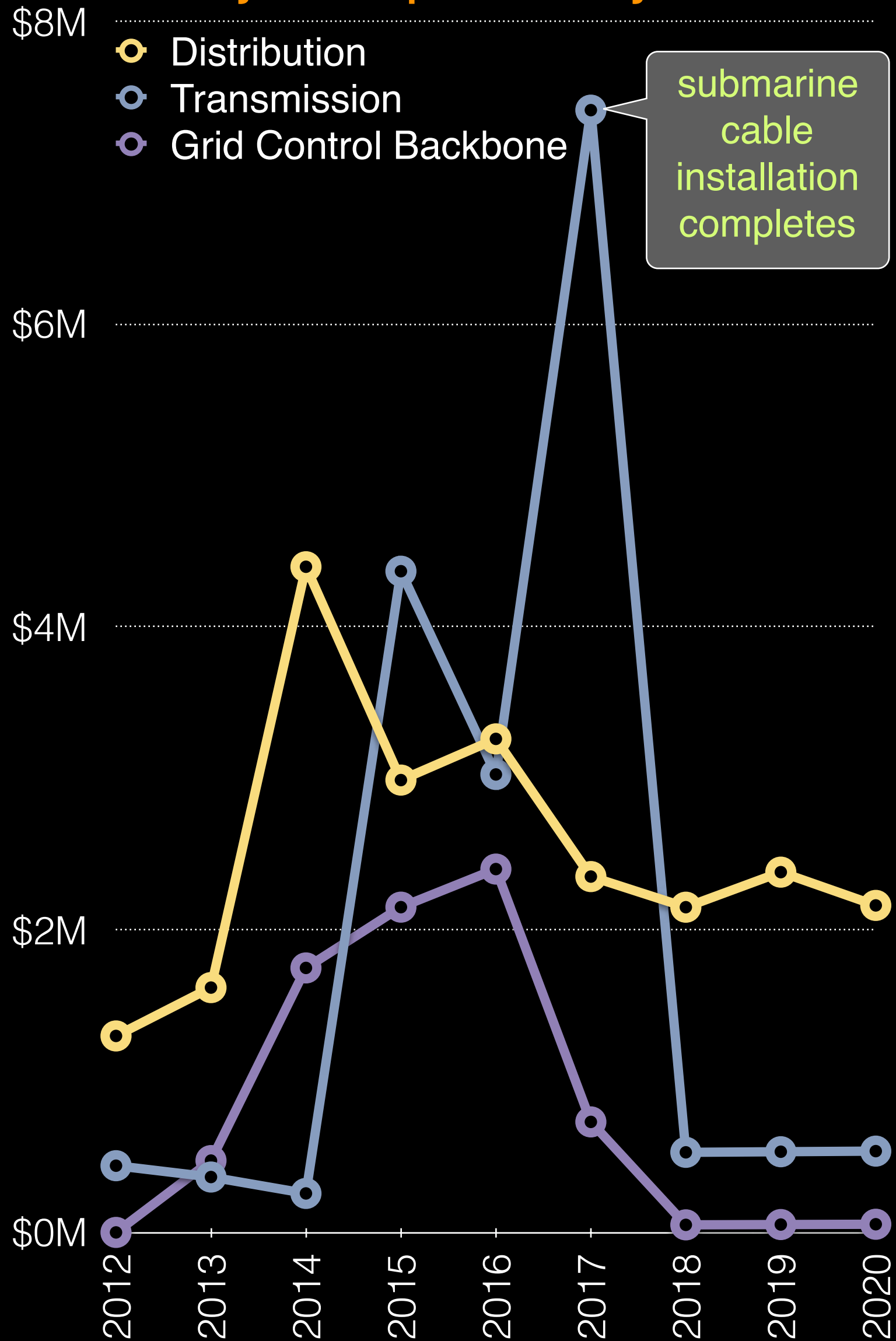
Net Margin: \$759,959

OPALCO Revenue Allocation

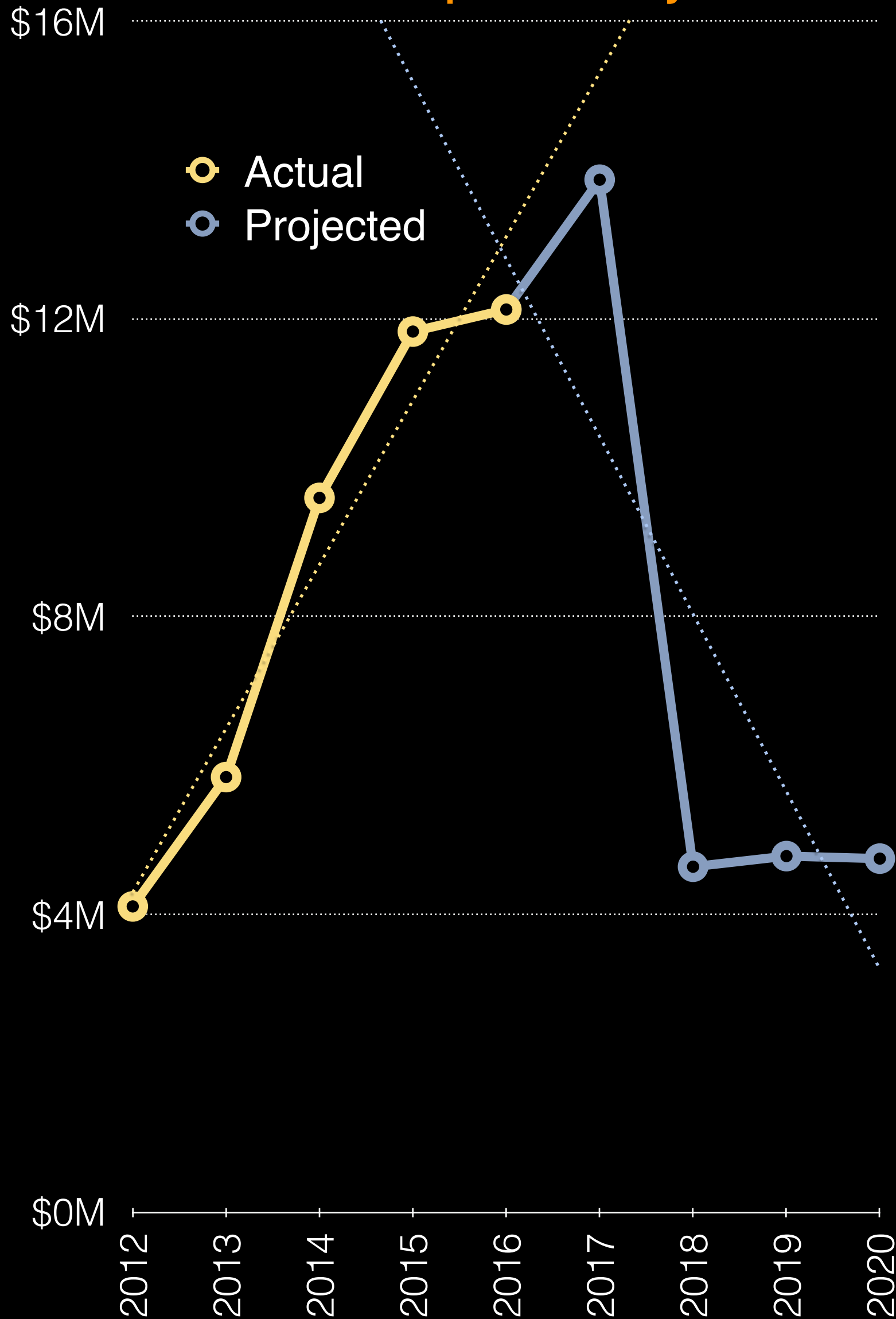


2016 Budget: Capital Projects

Major Capital Projects



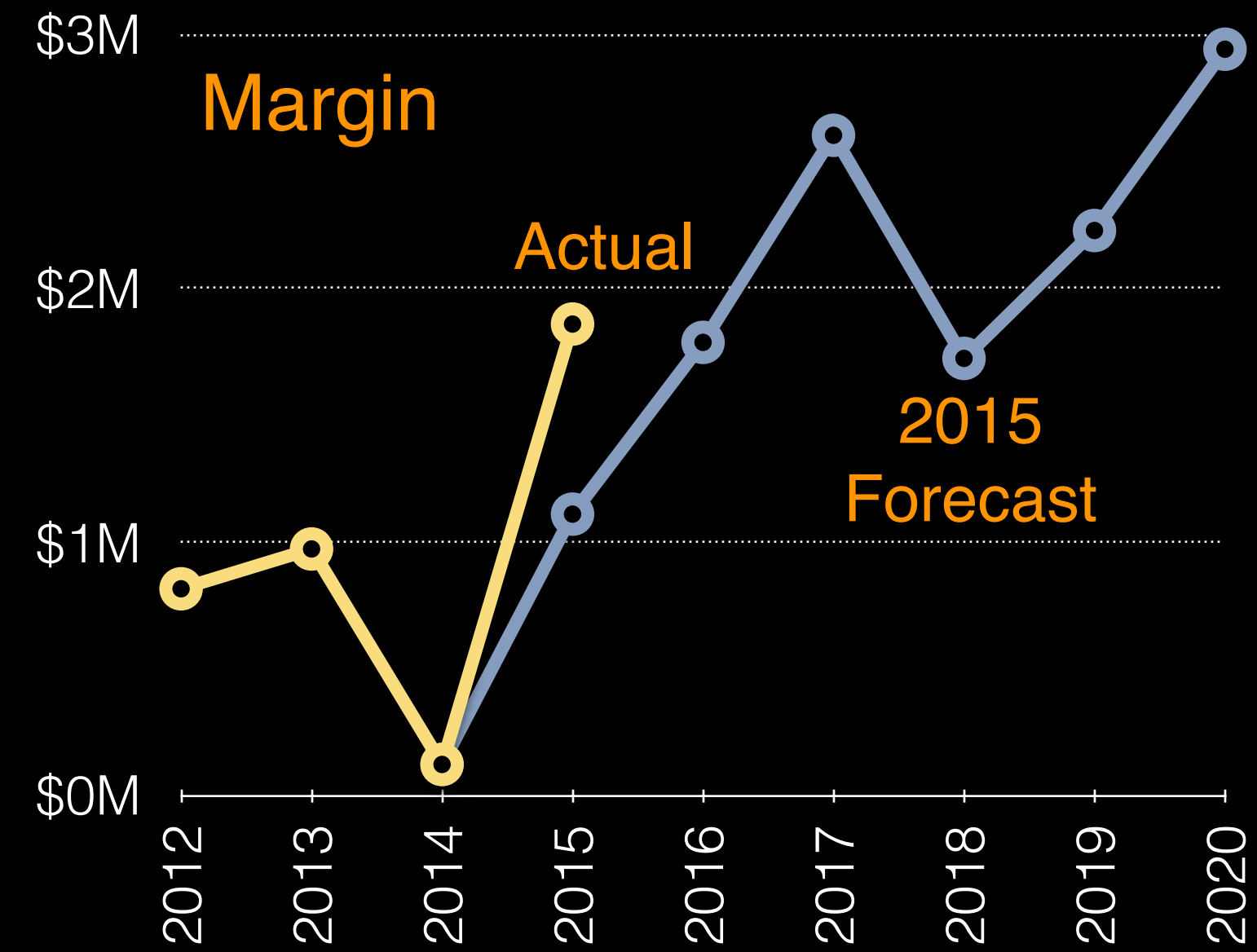
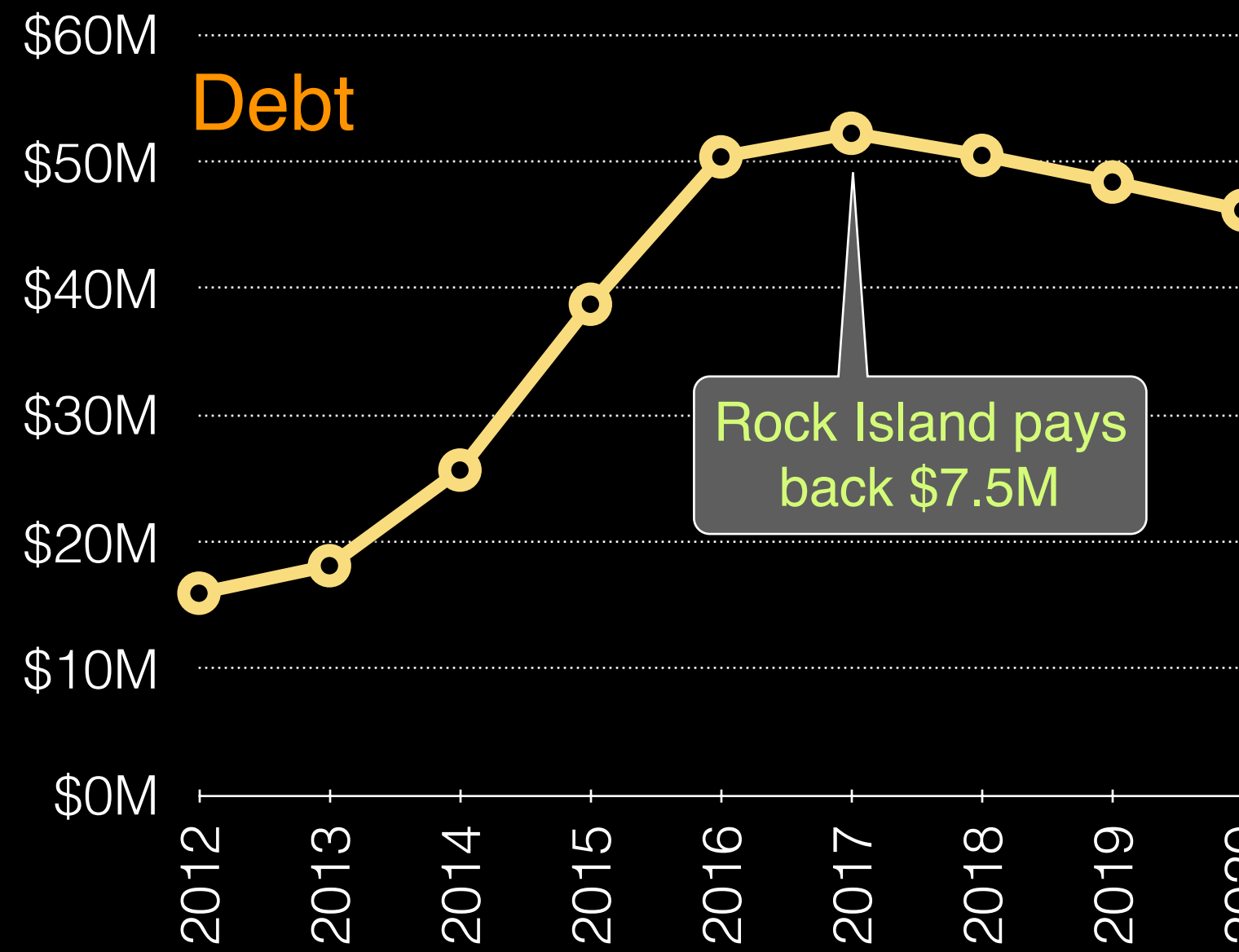
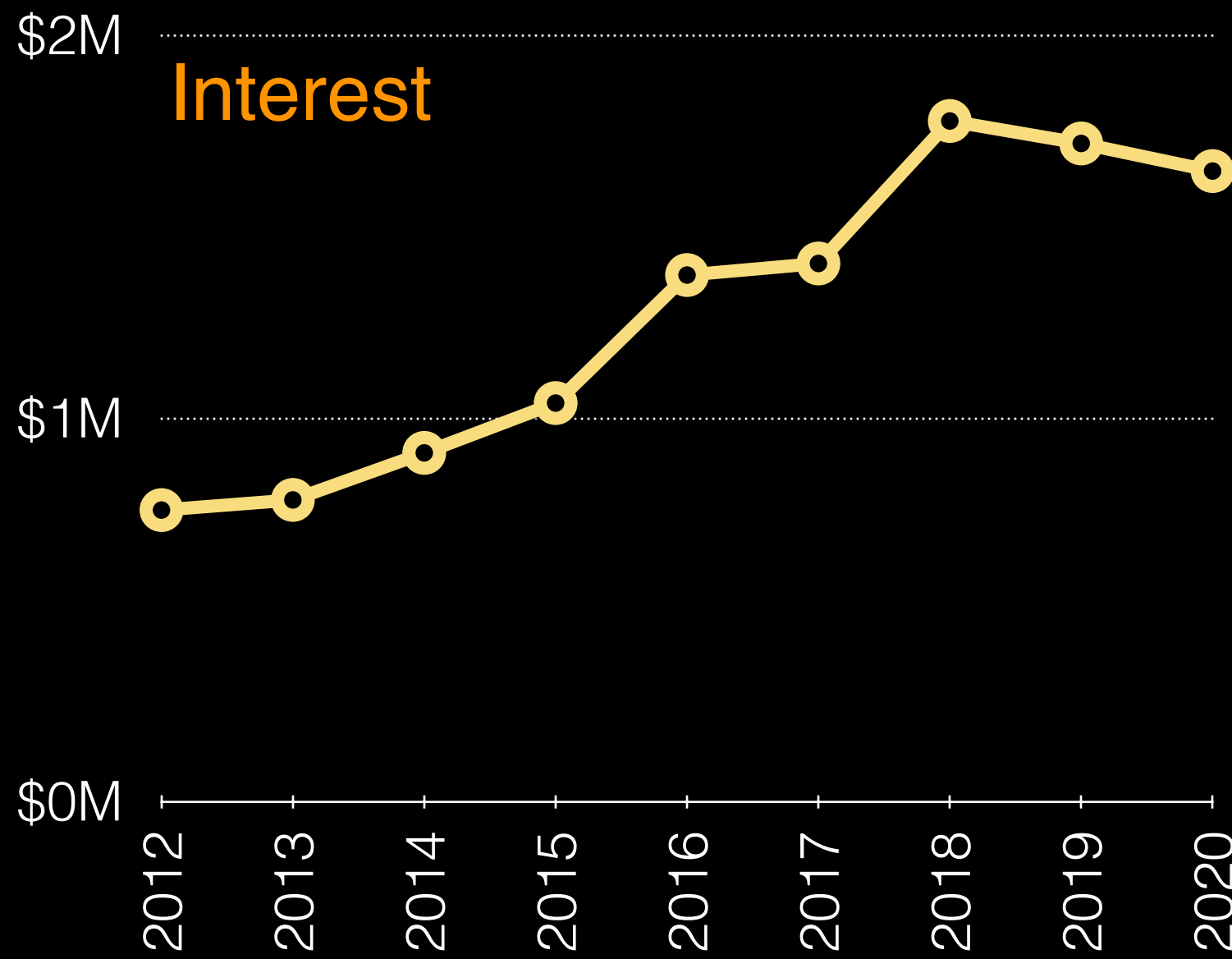
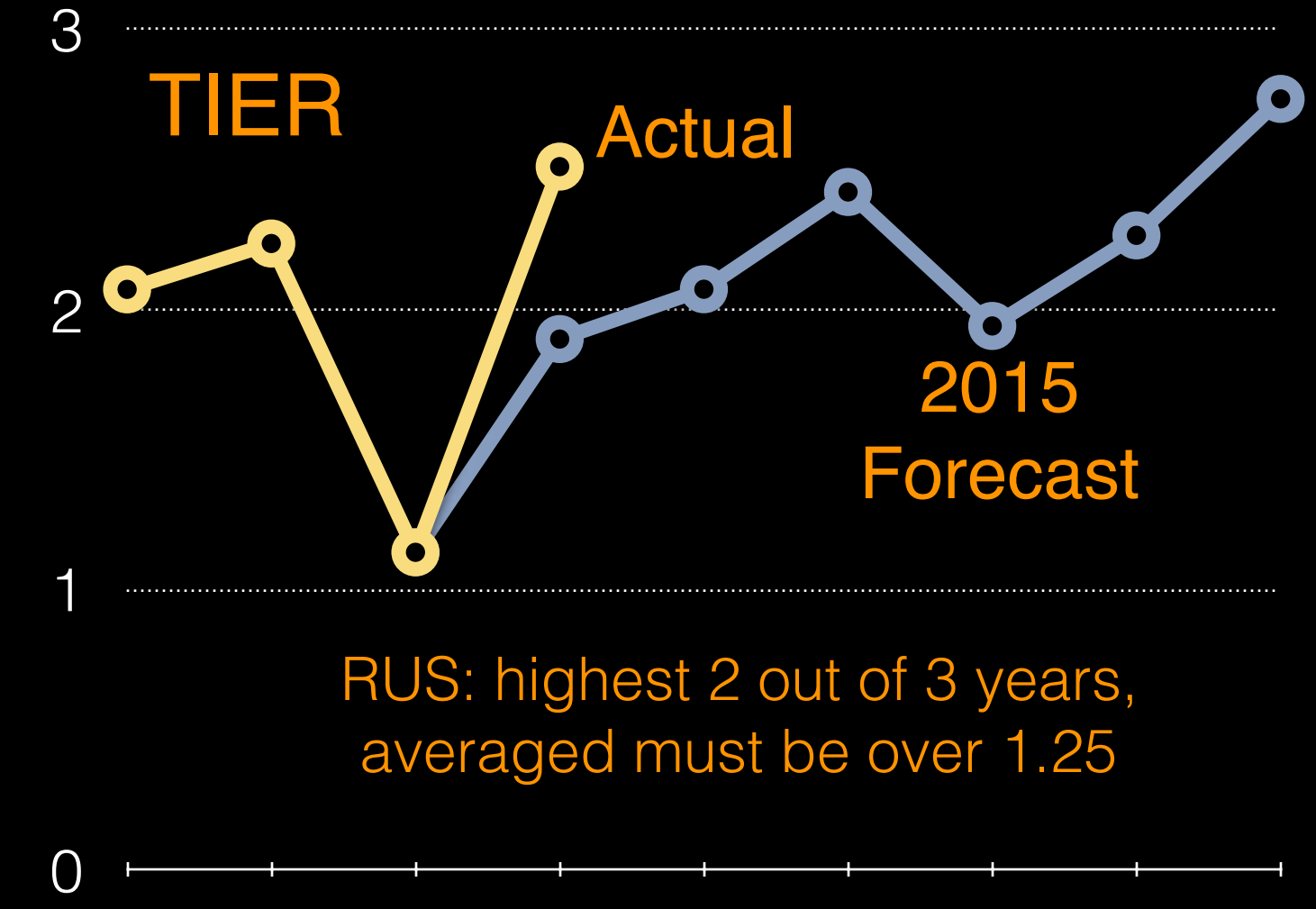
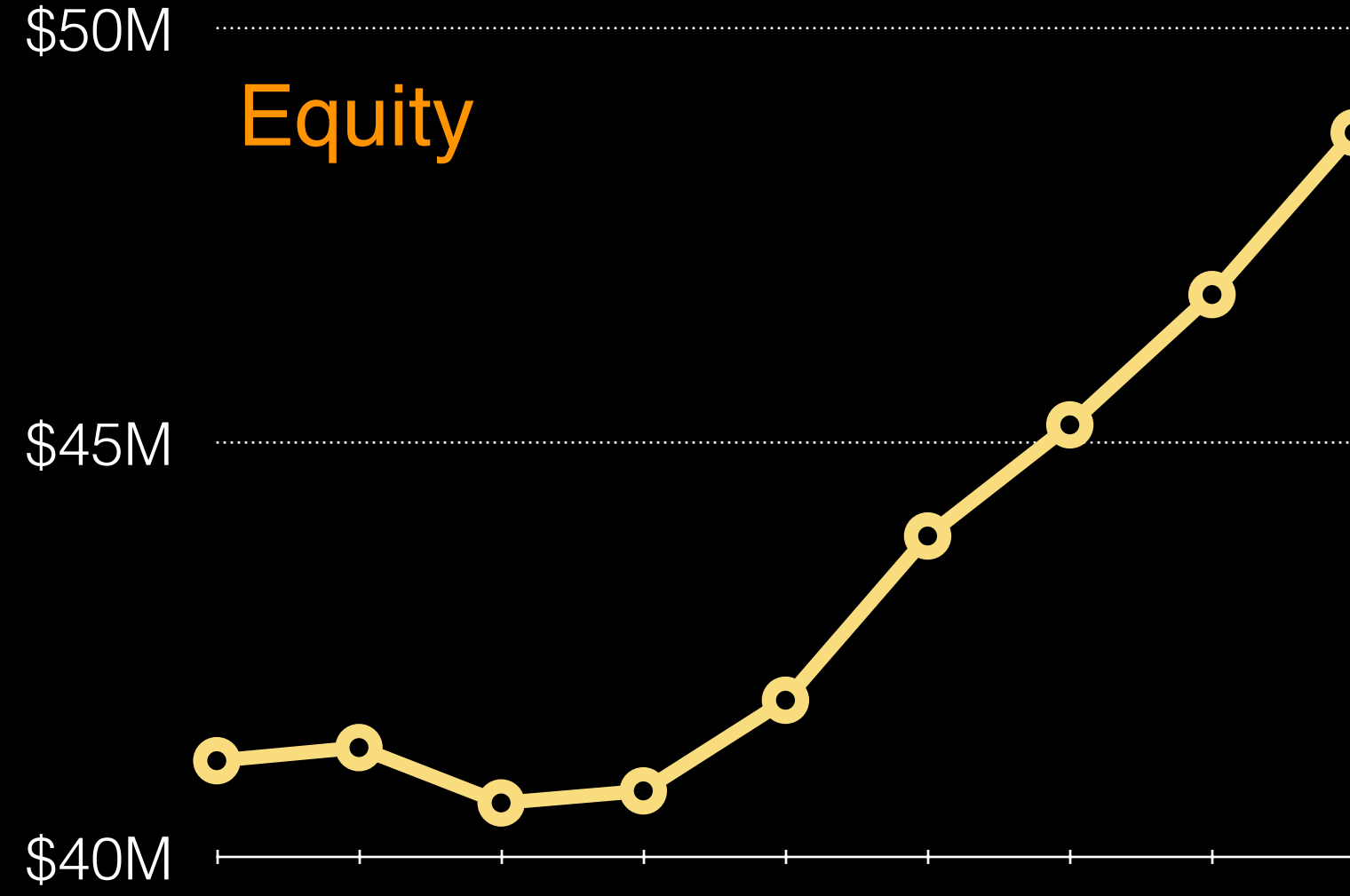
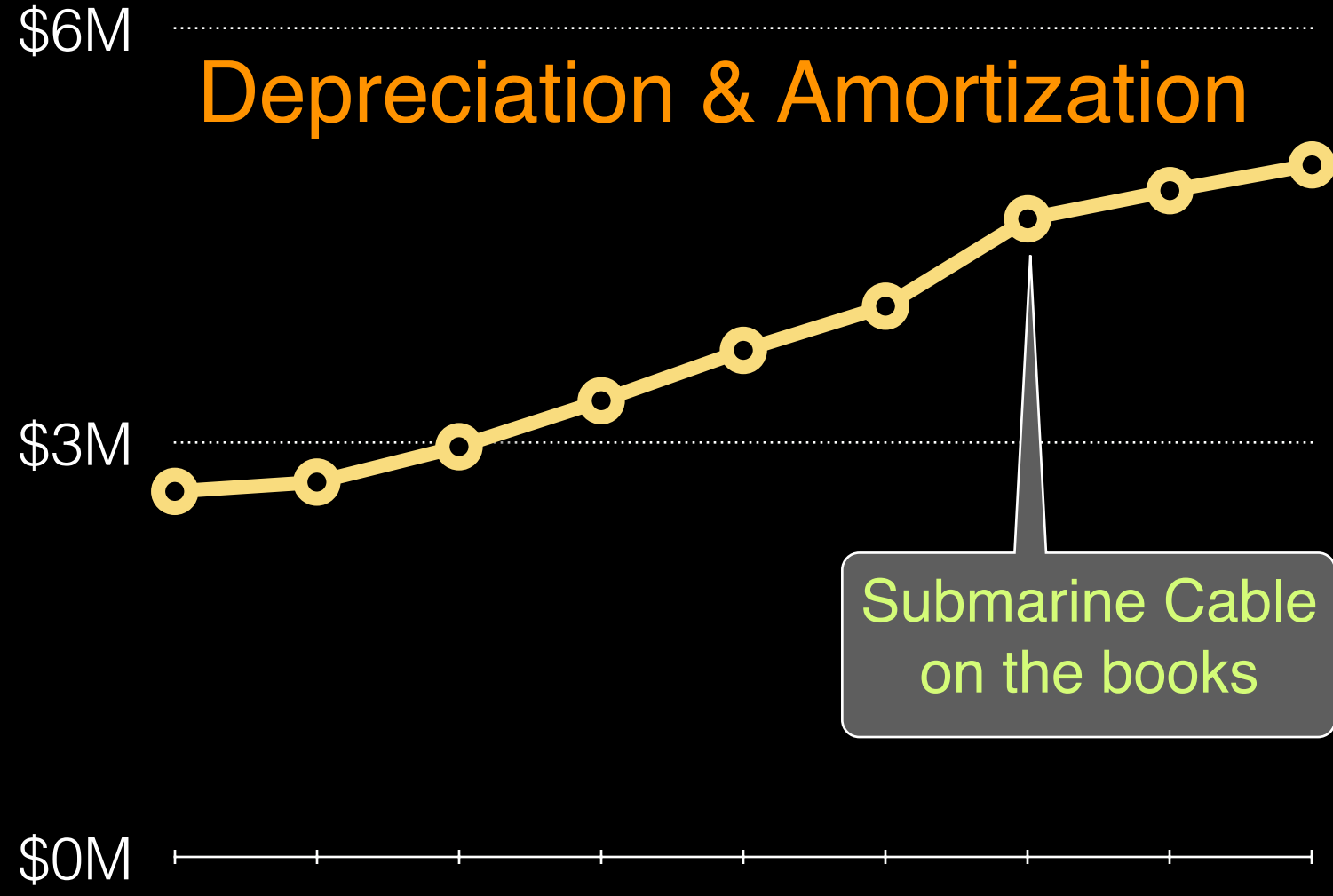
Total Capital Projects



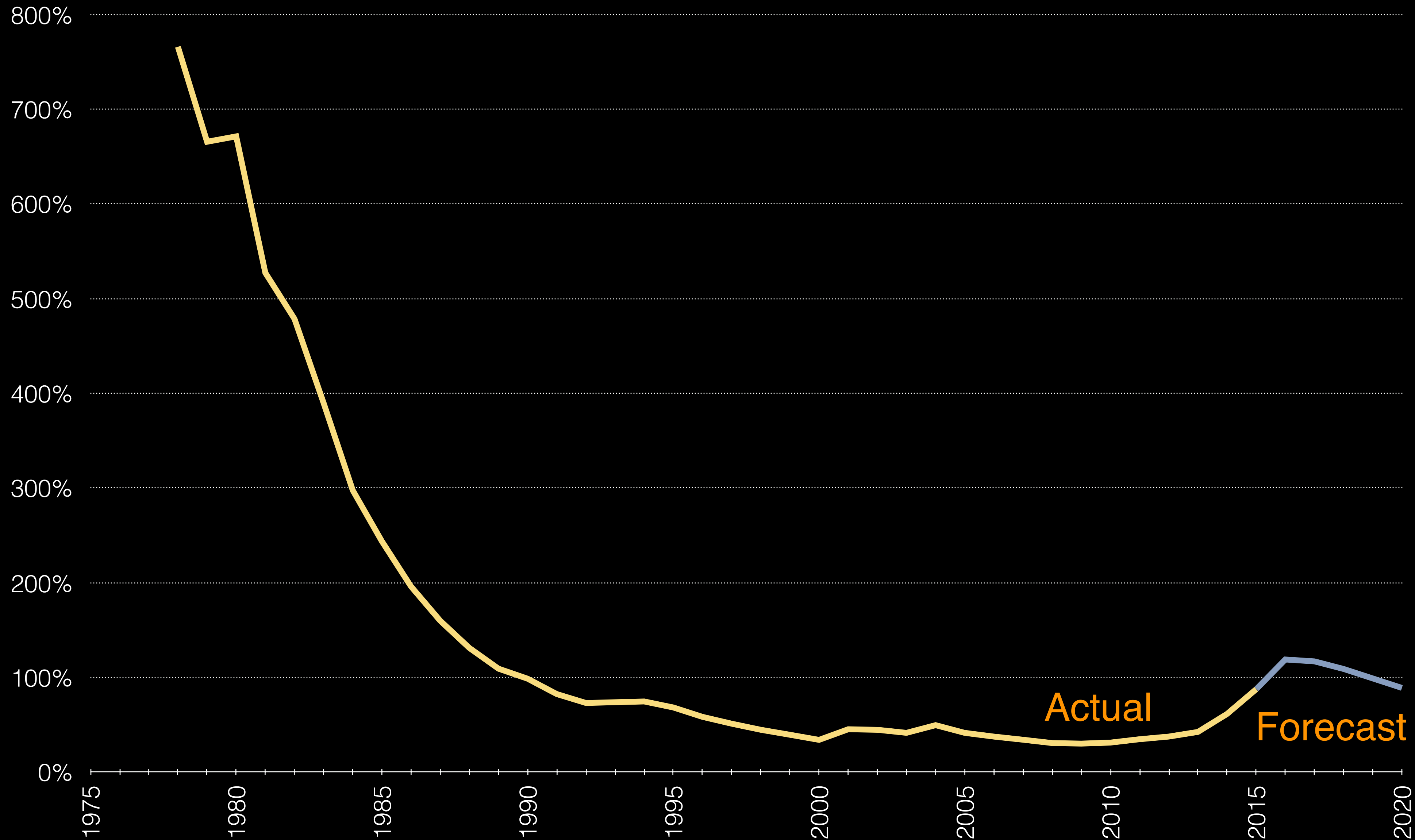
Headline

- Transmission: peak is Lopez San Juan submarine cable
- Distribution: Normal undergrounding to improve reliability
- Grid Control Backbone: Expansion to improve
 - reliability
 - field communications
 - preparing for intermittent local renewable energy resources

2016 Budget: Financial Metrics



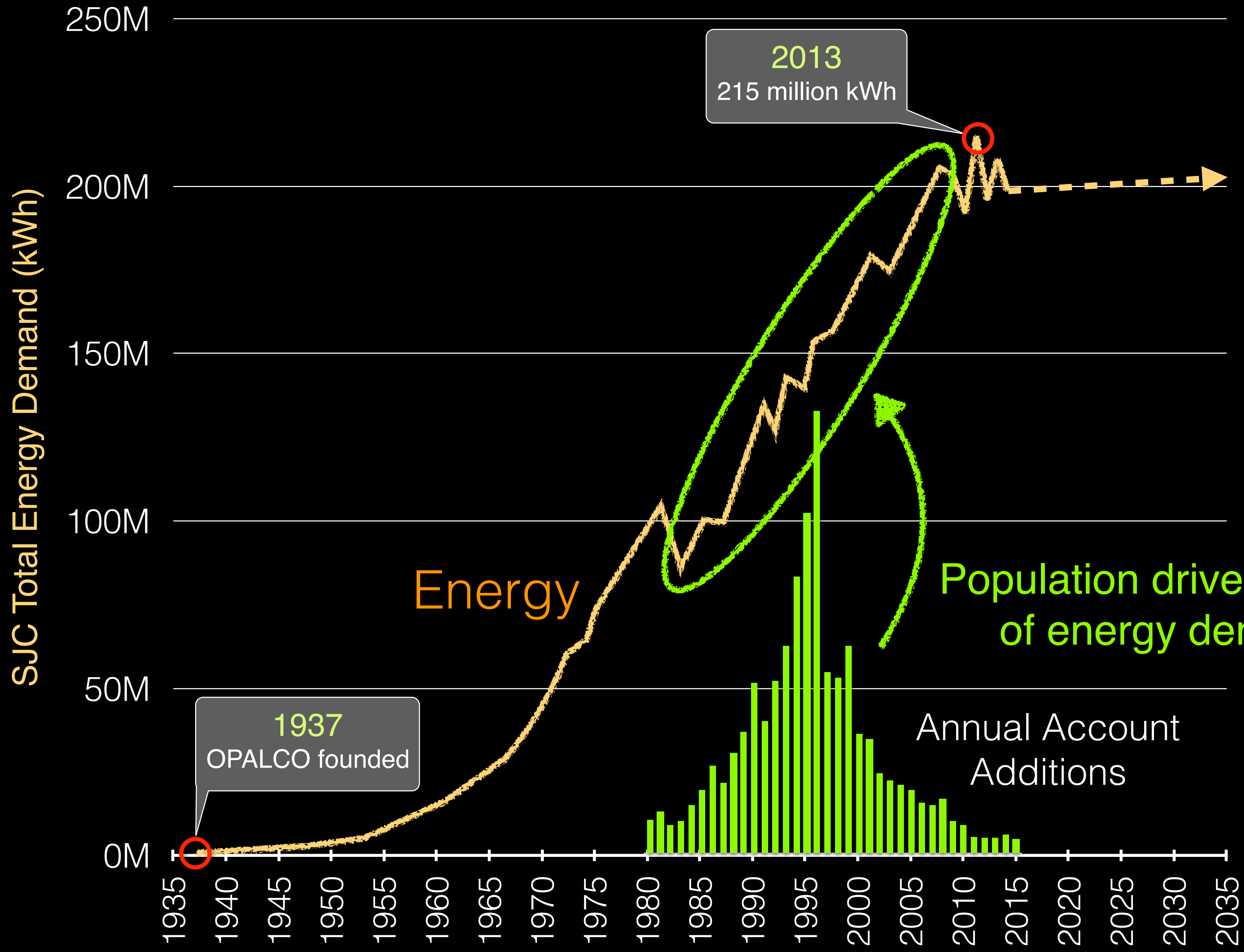
Debt Equity Ratio



Annual Account Additions



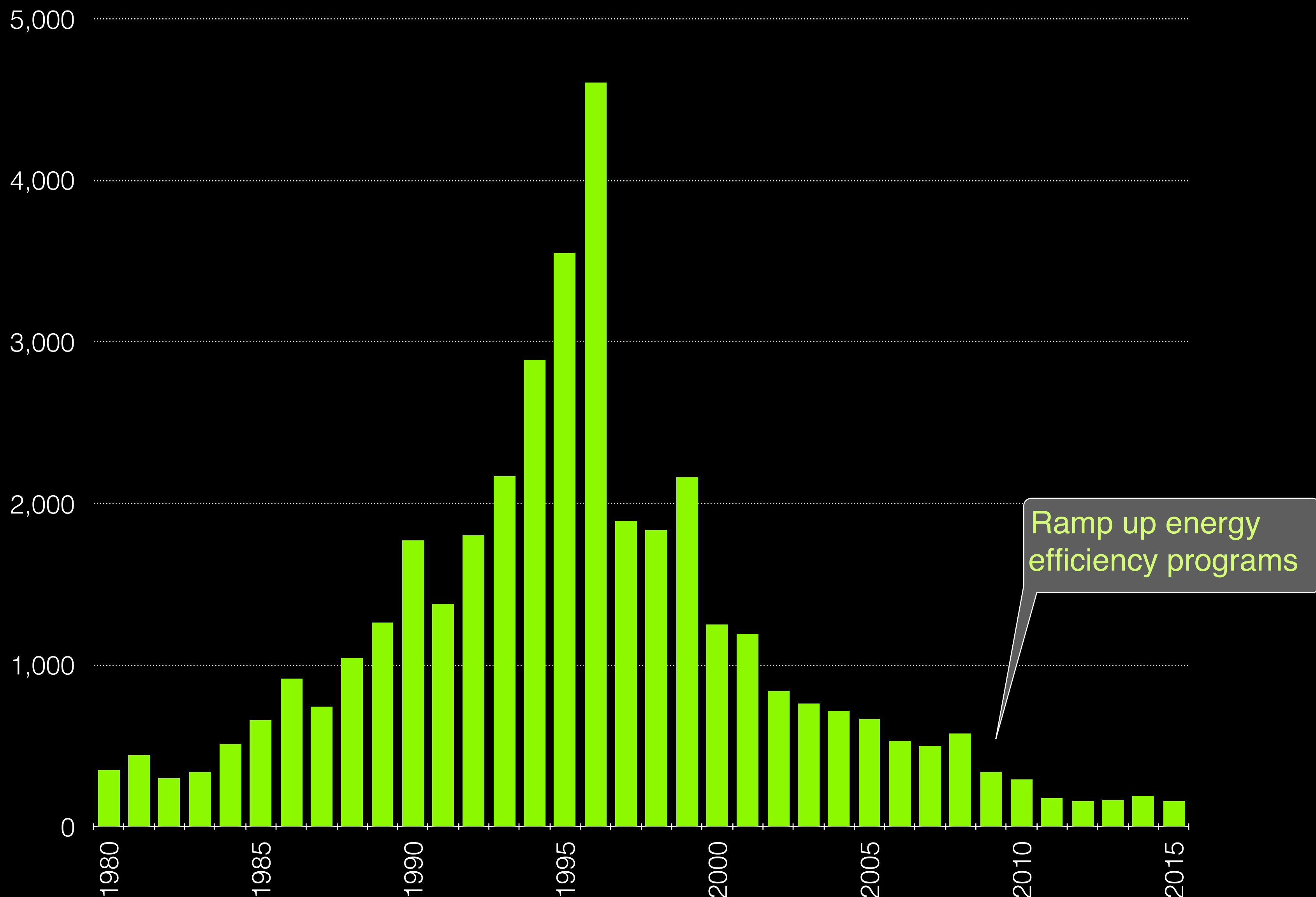
OPALCO Energy Demand



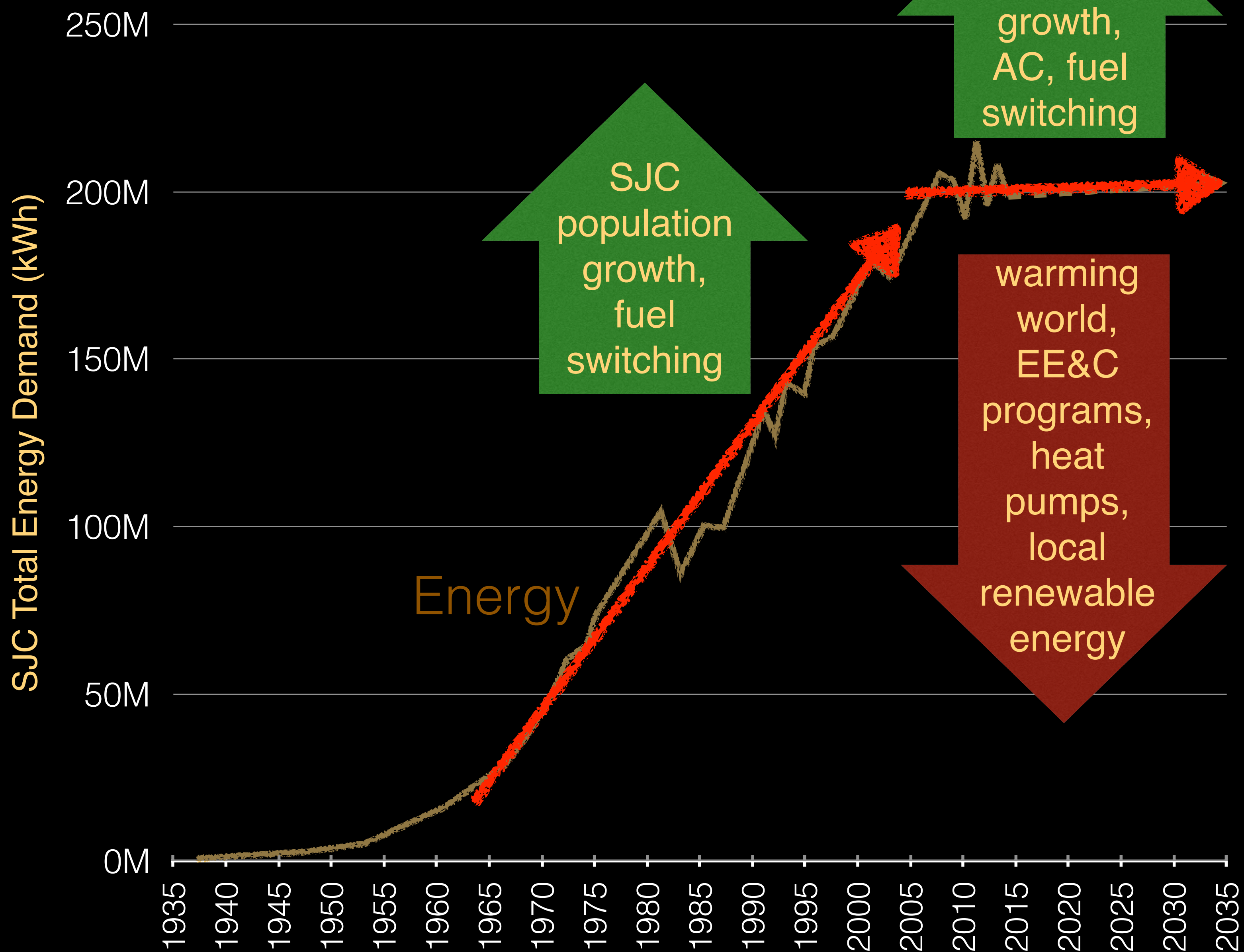
Headline

- Exponential growth in 20th Century
- Transitioning to low growth in 21st Century

Annual Account Additions



OPALCO Energy Demand

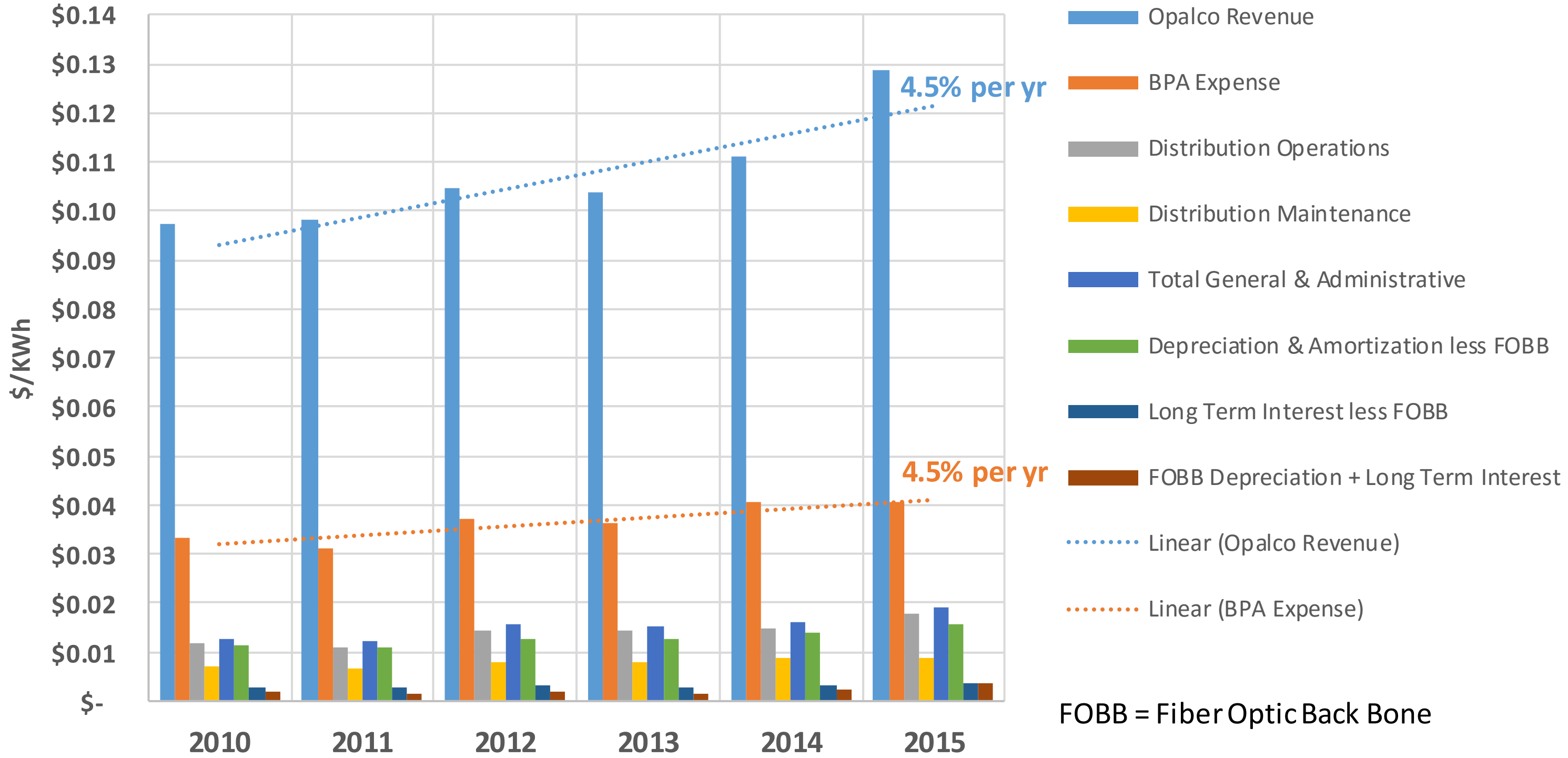


Headline

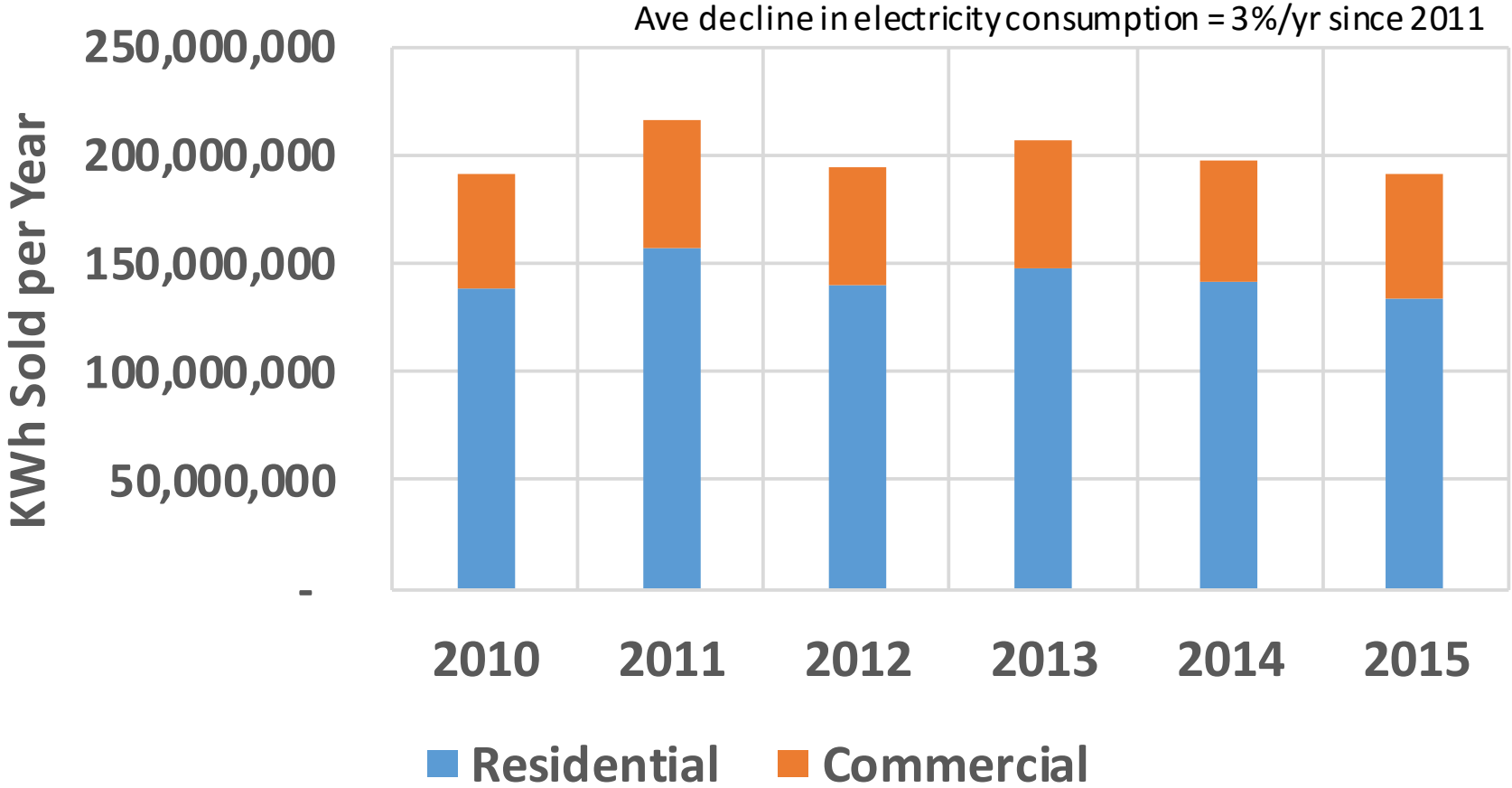
- In the 20th Century, SJC electric energy demand was driven by:
 - population growth and
 - fuel switching from wood, propane and fuel oil heating
 - In the 21st Century, SJC energy demand is projected to be flat - driven up by:
 - slow population growth, and
 - emerging load from AC and fuel switching
- and driven down by:
- Energy Efficiency & Conservation programs (EE&C),
 - reduced heat load due to a warming world, and increased use of super efficient heat pumps.

Revenue and Expense: Trend Analysis

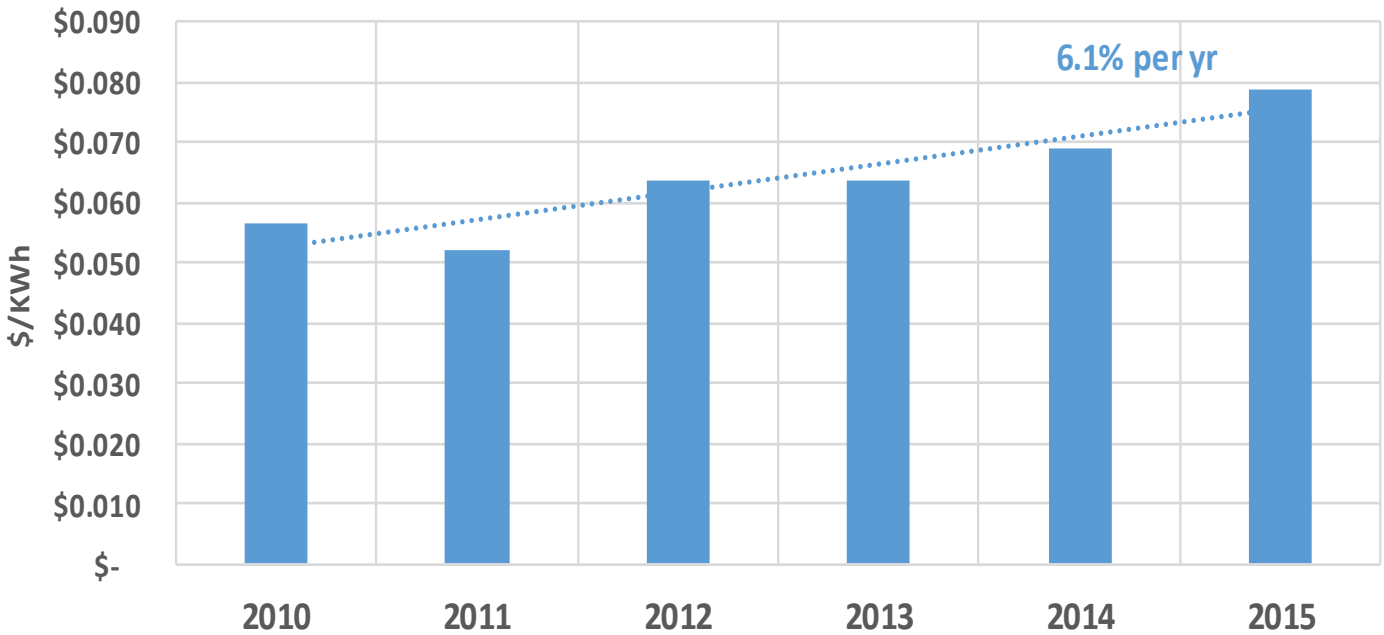
OPALCO Revenue and Cost of Electricity



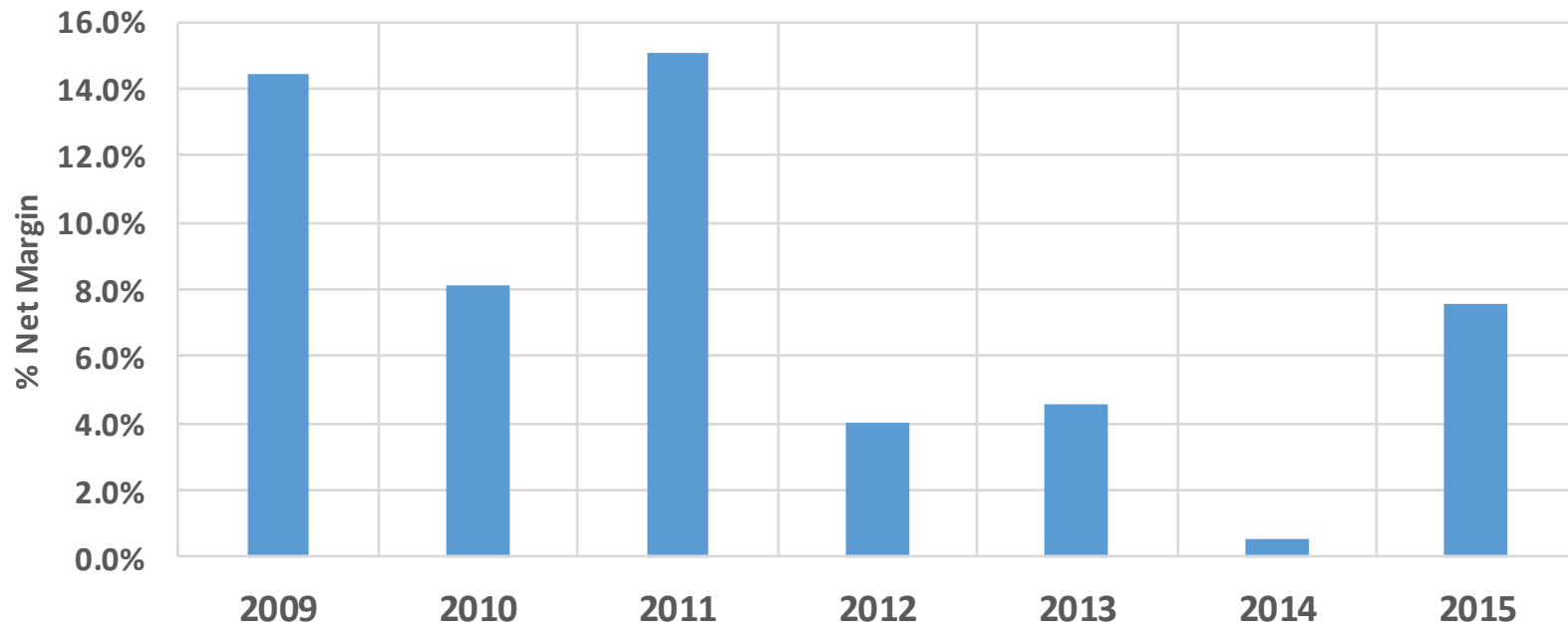
KWh Sold to Members



Total Non-Energy Expenses



Net Margin



When growth is flat, but power and fixed costs continue to rise, ...

Three Options

Manage grid wisely

Invest in things that reduce costs

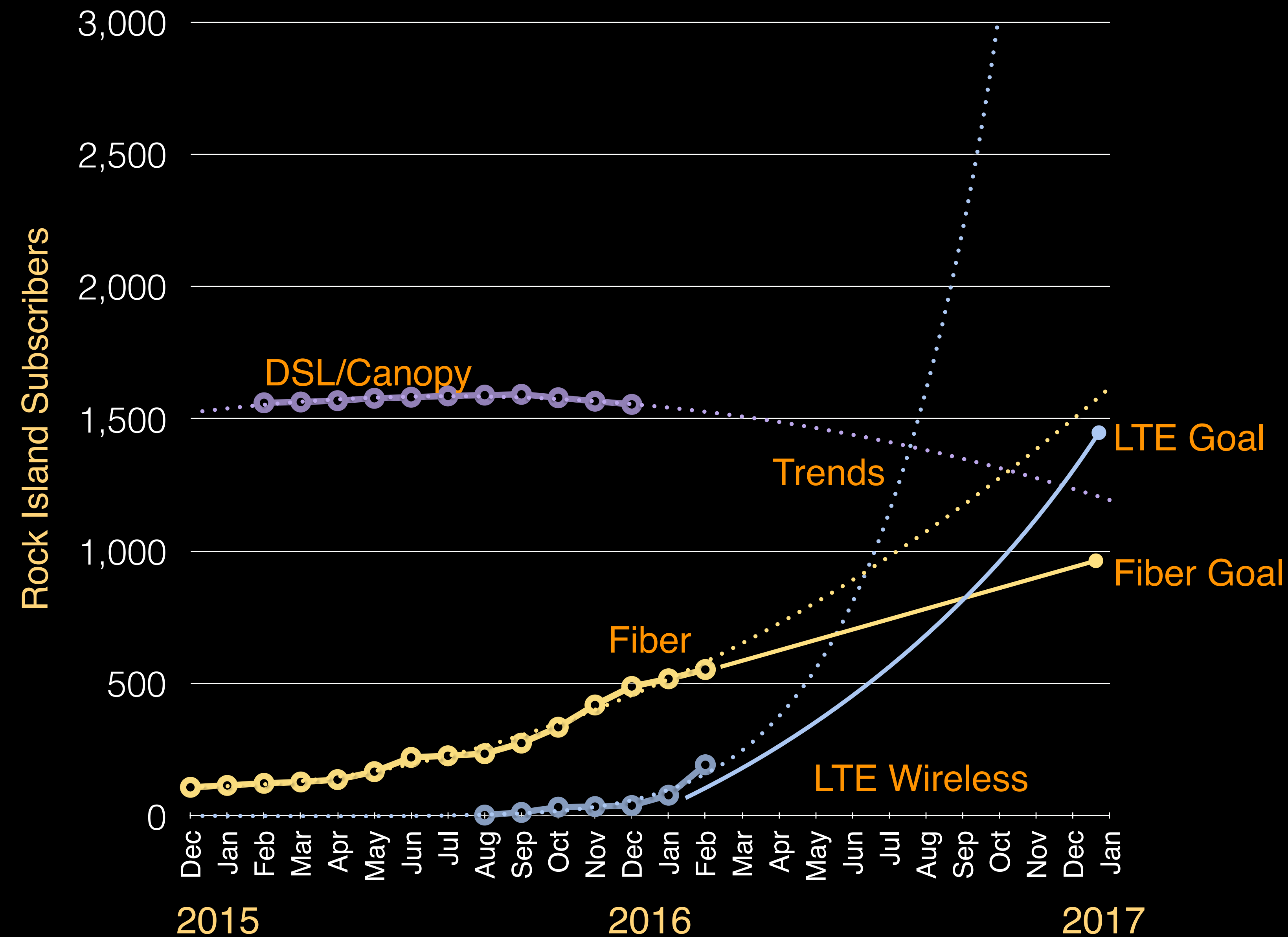
Find new sources of revenue

Rock Island

Rock Island 2015 Year End Results: Statement of Operations

	A.	B.	C.	D.
	Budget	Unaudited	Variance	
	Period End	Period End	(B-A)	Comments
	12/31/2015	12/31/2015	(B-A)	
I OPERATING REVENUES				
1 Sales	2,253,168	1,829,350	(423,818)	Primarily LTE rollout delay due to T-Mobile re-tooling
2 TOTAL OPERATING REVENUES	2,253,168	1,829,350	(423,818)	
3				
4 II COST OF GOODS SOLD	967,174	777,451	(189,723)	Less sales than budgeted
5 TOTAL COST OF GOODS SOLD	967,174	777,451	(189,723)	
6 Gross Profit	1,285,994	1,051,899	(234,095)	
7 III OPERATING EXPENSES				
8 Advertising	75,000	57,297	(17,703)	
9 Depreciation/Amortization Expense	225,056	126,529	(98,527)	Less expense due to delays in capital project completion
10 Insurance	100,000	114,217	14,217	
11 Office Expenses	-	313,808	313,808	Originally budgeted in other line items. Includes expenses for start-up, office sup.= \$60k & costs transitioned from the OPALCO IN department
12 Payroll Expenses	1,325,138	1,308,842	(16,296)	
13 Professional Fees	200,000	600,270	400,270	Due to T-Mobile strategic re-direction, consultant scope increased
14 Rent	120,000	130,014	10,014	
15 Utilities	130,000	10,696	(119,304)	Budgeted costs hitting other operating expenses above
16 Other	-	800	800	
17 Travel & Ent	20,000	35,141	15,141	
18 TOTAL OPERATING EXPENSES	2,195,193	2,697,613	502,420	
19 TOTAL NET OPERATING MARGINS	(909,199)	(1,645,714)	(736,514)	
20 IV OTHER INCOME (EXPENSE)				
21 Interest Income	-	327	327	
22 Other Income (Expense)	-	2,820	2,820	
23 Taxes: State & Local Use Tax	(46,263)	(59,238)	(12,976)	
24 Other Income - Parent	-	29,100	29,100	Charge to OPALCO for network management services - per IRS guidelines
25 Interest Expense	(36,000)	-	36,000	No third party borrowings
26 Interest Expense - Parent	(174,000)	(99,822)	74,178	Less interest charge from OPALCO than budgeted due to lower interest rates
27 Other expense - Parent	-	(58,294)	(58,294)	OPALCO charge for use of backbone - per IRS guidelines
28 TOTAL OTHER INCOME	(256,263)	(185,107)	71,156	
29 Federal Income Tax Expense	-	-	-	No federal tax for these years (net operating loss)
30 GRAND TOTAL NET MARGIN DETAIL BREAKOUT	(1,165,462)	(1,830,821)	(665,358)	

Rock Island Subscriber Growth: Actual, Goal, Trend



Headline

- Fiber installation growing exponentially, but expected to max out at about 42 new connects per month
- LTE wireless has been in testing phase, we are now starting to ramp up connects, quickly growing to about 125 connects per month

Notes

- January 2016 rainy season slowed fiber deployments, pace will quicken with drier weather
- LTE wireless growth trend will be less exponential once we have a few more months of actual growth data

Thank You