



WE GET OUR POWER FROM YOU!

ORCAS POWER & LIGHT COOPERATIVE
183 MT. BAKER ROAD, EASTSOUND WA 98245

WWW.OPALCO.COM

**Managing Wisely for
Today and Tomorrow**

SEVEN COOPERATIVE PRINCIPLES

Independent, democratically governed businesses electric cooperatives are organized under the Rochdale Principles, also known as the Seven Cooperative Principles:

- **Voluntary and Open Membership**—Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
- **Democratic Member Control**—Cooperatives are democratic organizations controlled by their members, who actively participate in setting policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (1 member, 1 vote) and cooperatives at other levels are also organized in a democratic manner.
- **Members' Economic Participation**—Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting

members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

- **Autonomy and Independence**—Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.
- **Education, Training and Information**—Cooperatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives. They inform the general public—particularly young people and opinion leaders—about the nature and benefits of cooperation.
- **Cooperation Among Cooperatives**—Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.
- **Concern for Community**—While focusing on member needs, cooperatives work for the sustainable development of their communities through policies approved by their members.

CO-OP TEAM

OPALCO is run by a strong team of Co-op member-owner-operators who are dedicated to serving our membership. OPALCO offers employees a unique working culture where member service is combined with state-of-the-art technology. Employees work in a high-energy environment. Creativity, innovation and teamwork are supported and encouraged. Employees have the opportunity to learn and grow in their careers, including training in the latest technologies. OPALCO offers excellent benefits, including health care coverage, vacation and sick leave, pension, 401K match, competitive salaries and holiday leave. Job openings are posted on our website.

The OPALCO team is full of fresh new faces following a wave of retirements in 2014. In 2015, we welcomed:

- Jon Blomgren, Assistant Manager of Member Services
- Lindsay Curtis, Energy Services Coordinator
- Brett Deines, Staking Technician

- Theresa Haynie, Communications Specialist
- Travis Neal, Head Accountant
- Regina Penwell, Member Services Representative
- Jordan Ross, Apprentice Lineman
- Kyle Stanley, Journeyman Lineman
- Trevor Steinbrueck, Apprentice Lineman (now Journeyman Lineman)
- Jeff Tilstra, Communications Technician

Also in 2015, we bid farewell to Jeanie Fodor, Member Services Representative, after more than 16 years of service in the Friday Harbor office and James Toole, Special Projects Coordinator, with 5 years of service in the Eastsound accounting office. We wish them both well in their next adventures!



Jon Blomgren, Anne Huhndorf, Jeff
Tilstra, Lindsay Curtis, Brett Deines

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NOTE: This printed version of OPALCO's annual report is abbreviated as a cost-saving measure. The full report is available at opalco.com/annualreport.



meters, and a variety of automated grid control devices to improve reliability, reduce losses and improve efficiency. We are building a fiber communications loop throughout our system to allow us to connect the next generation of automated utility devices to assist us in keeping our reliability up and system maintenance costs down.

Now through 2035, we will continue to upgrade our grid to allow for more local renewable energy, storage systems, community solar, intelligent home solar inverters and a vibrant energy market where Co-op members buy and sell energy at favorable rates. This initiative is being replicated across the country and here in Washington State, through the clean energy initiative.

On the energy efficiency front, OPALCO members were so effective at taking advantage of rebates offered through BPA's Conservation Program that we spent our own Co-op allocation, spent unused allocations from other Co-ops in the region and ended 2015 having pre-spent about 50% of

our 2016/2017 allocation as well. Nearly \$275,000 in rebates were paid to OPALCO members in 2015, and our running total since 2008 is \$2,194,541.

Rebates for appliances, heat pumps and water heaters are still available, while they last. We've put a temporary hold on weatherization rebates to make our funds last as long as possible. OPALCO continues to work with the San Juan Islands Conservation District for efficiency, conservation and renewable energy outreach and education.

The Member Owned Renewable Energy (M.O.R.E.) program had more than 200 member generators interconnected at year-end 2015. The independent M.O.R.E. committee will continue to incentivize existing Member Generators but opted to place a hold on any new M.O.R.E. incentives until an increase in funding occurs, through greater member participation in purchasing green blocks or an authorized contribution by the Board of Directors.



Go to www.opalco.com/annualreport to read the full story

MESSAGE FROM LEADERSHIP

Our highest purpose as an organization is to improve the quality of life for our members in San Juan County. The most important thing that we can do to realize that vision is to manage our Co-op resources wisely. We serve more than 11,200 members on 20 remote islands with an automated electrical distribution system and fiber communications grid. For today, we are maintaining those resources to maximize member benefits and minimize costs. For tomorrow, we are expanding those systems and using technology to meet our future needs and prepare to deliver the same high quality of service in a rapidly changing environment.

Our electric and communications infrastructure is the foundation that our services are built on, but the real heart of our cooperative is made up of people. The people who keep the power on, communicate with our members, monitor the system and balance the books. The members who pay their bills, elect their Co-op directors and care about the finite resources available. The Co-op leadership who are dedicated to the

safety, health and sustainability of the business and especially our Board members who we depend on for their valuable knowledge and diverse expertise to Co-op decision making. We manage wisely to best serve the people of our Co-op.

We know that change is not easy. However, our growth has been flat since 2008 and costs continue to rise. In order to meet those costs, spread over 11,200—which is a small number compared with most utilities—we must be frugal with expense and innovative with solutions. Rock Island Communications is one such solution. Our wise investment today will pay dividends in a future revenue stream to help



Danny Herbert, Daniel Martz,
Dan Vekved, Katie Maxwell, Russell
Guerry, Ed Lago, Terry Turner

Foster Hildreth, General Manager

Jim Lett, Board President

the Co-op meet the ever-rising costs of power and fixed expenses such as labor and the facilities required to serve these 20 islands.

This generation of Co-op members is witnessing—and carrying some of the costs for—big changes in our Co-op, the utility industry and the world. Our Low-Income Needs Assessment showed us that the cost of living in San Juan County is going up in all areas. Housing is the greatest challenge for affordability, but transportation, medical and insurance costs, groceries, and utility bills are all on the rise. OPALCO is leading the countywide effort to address affordability with our new Energy Assist program, providing a monthly bill credit to qualified households. Project PAL is still available for those in need of emergency assistance.

“Our task is to collect enough revenue to cover costs and keep member bills as low as possible, and every aspect of our business must meet this test.”

This publication reports on our progress in 2015 in the 3 major areas of our business: Communications, Finance and Energy. Our task is to collect enough revenue to cover costs and keep member bills as low as possible, and every aspect of our business must meet this test.

We are expanding our communications infrastructure to build a modern grid

In the near future, we see that OPALCO will shift from being a provider of power to a servicer of power. We will be managing a growing number of intermittent resources on our grid, such as solar, wind, electric vehicles and battery power walls, and, hopefully, even tidal power. Our grid must be able to rebalance resources instantaneously: to bring on some

ENERGY SERVICES

We are proud of our operations crew—3 line crews (3 General Foremen, 14 Journeymen Linemen and 2 Apprentice Linemen) on 3 islands serving a total of 20 islands; engineering professionals (8) and communications technicians (2). When a storm took out 7 poles on Shaw Island, our crews worked night and day and had power restored in just over 24 hours.

Three key initiatives are under way on the energy side of the business. The biggest is the \$15M Lopez-San Juan submarine cable replacement project. Spending on that project will end in 2018. Second, since 1990, the Co-op has invested heavily in undergrounding distribution cable to storm-harden the grid. To date, about 87% of our distribution is now underground, which means the number of instances of power outages is very low—far below industry averages—but the duration of outages is slightly higher than industry averages because of the time it takes to make repairs to underground equipment. The greatest weakness in our current system is underground cable that was buried directly in the ground during the early 1990s. In 2015, we continued to replace aging direct-buried



Shaw Outage Restoration 2015

underground cables with a priority on segments that have exhibited multiple faults.

Go to www.opalco.com/photos-and-videos to see videos about the submarine cable and OPALCO's grid

The third initiative is grid modernization, which has been ongoing since 2001, when we first began building out our fiber-optic network. We followed up with electronic automated



battery storage when cloud cover shuts solar production down and to reroute power in a blink when outages occur on the system. Our grid is in good shape, but we must continue to expand the reach and capacity of our grid to meet the needs of the future. All utilities are moving in this direction, and OPALCO must not be left behind. We have very low interest rates today and can make the necessary capital improvements now for a sustainable system into the future.

[Read more about Communications on page 8.](#)

We are restructuring expense and revenue to offset changing energy usage patterns

What does a business do when fixed costs continue to rise and growth is flat? Without greater numbers of members to share in rising power and operational costs, we are:

- Tightening our belts. We cut expenses by \$923,000K compared with budget in 2015. Lower power sales were

a major factor, along with making wise decisions to reduce expenses wherever we could.

- Positioning Rock Island Communications to return a profit to the Co-op in the form of a future revenue stream.
- Encouraging members to invest all of their energy dollars into our member-owned utility. As members switch from gasoline to electric vehicles and from propane heating to electric, their total energy bills will go down (electricity is less expensive than gasoline or propane) and our Co-op revenue will go up.

[Read more about Finance on page 12.](#)

We are looking ahead and planning for our future power supply

In 2015, we completed a comprehensive Integrated Resource Plan (IRP), designed to raise questions and foster insight about our future power supply with the Co-op Board, management team and membership. It is the result of a year of research and



Foster and Jim

LIABILITIES & EQUITIES

	2015 UNAUDITED	2014 AUDITED
Current Liabilities		
Accounts payable	287,298	—
Other payables	117,384	2,667
Total current liabilities	404,682	2,667
Non-current Liabilities		
Long-term Debt	7,029,993	343,297
Startup Capital (OPALCO)		
Total liabilities	\$7,434,675	\$345,964

EQUITIES & MARGINS

	2015 UNAUDITED	2014 AUDITED
Retained Earnings	—	(220,088)
Net loss	(1,830,821)	—
Total equity	(1,830,821)	(220,088)
TOTAL LIABILITIES AND EQUITY	\$5,603,854	\$125,876

ROCK ISLAND BALANCE SHEETS FOR YEARS ENDING DECEMBER 31, 2015 AND 2014

ASSETS	2015 UNAUDITED (ROCK ISLAND COMMUNICATIONS)	2014 AUDITED (ISLAND NETWORK DEPARTMENT)		2015 UNAUDITED	2014 AUDITED
Current Assets			Property and Plant Equipment		
Cash	225,976	—	Fixed assets	4,613,008	165,436
Accounts receivable	89,876	45,473	Accumulated depreciation	(1,262,651)	(90,545)
Inventory	1,642,206	—			
Prepaid and other current assets	9,582	5,512	Total property and equipment	3,350,357	74,891
Total current assets	1,967,640	50,985	Other assets	3,600	—
			Goodwill	282,257	—
			TOTAL ASSETS	\$5,603,854	\$125,876

analysis, exploration of energy topics at Board meetings, energy roundtables and fairs, and discussions with community leaders and visiting experts. The IRP is a “living document” updated periodically to catalyze constructive discussion on our energy future.

The IRP helps explore the resources needed to meet OPALCO’s goals as we look to meet the energy demand of our Co-op members into the future. We encourage members to read it and become familiar with the Co-op’s goals and the trends and issues related to our energy future here in the islands.

[Find our complete Integrated Resource Plan on opalco.com/resource-library](#)

We have also joined the Pacific Northwest Generating Cooperative (PNGC Power), joining with 14 other distribution

utilities to take advantage of wholesale generation options, aggregation of regional loads and resources, and PNGC’s sophisticated power management services. When our current contract with Bonneville Power is up for renegotiation in 2028, we will have a portfolio of options to choose from in planning our future power supply, and we expect Bonneville and their regional hydro resources to remain the foundation of any power plan we create.

[Read more about Energy on page 24.](#)

We are proud of our team at OPALCO, the reliable and modern system we are building, and the role we play in contributing to a good quality of life in San Juan County. We thank our membership for inspiring and supporting us toward this vision.



Conduit for infrastructure expansion with an active LTE pole at OPALCO's Eastsound headquarters

ROCK ISLAND COMMUNICATIONS

STATEMENTS OF OPERATIONS

FOR YEAR ENDING DECEMBER 31, 2015

FINANCE 20

OPERATING REVENUES		2015 UNAUDITED	2015 UNAUDITED
(net of cost of goods sold of \$777,451)		\$1,051,899	Rent 130,014
			Other 46,636
OPERATING EXPENSES			Total Operating Expenses 2,697,613
Advertising	57,297		Operating loss (1,645,714)
Distribution/Amortization Expense	126,529		Other income (expense)
Insurance	114,217		Expenses to OPALCO (158,116)
Office Expenses	313,808		Other income (OPALCO) 29,100
Payroll Expenses	1,308,842		Other income (expense) (56,091)
Professional Fees	600,270		Non-operating loss (185,107)
			NET LOSS \$(1,830,821)

Note: Island Network department profit/loss combined with OPALCO in 2014



COMMUNICATIONS SERVICES

We have come a long way on the road to modern communications in San Juan County! It all started in 1999 when the OPALCO Board made a bold decision to go with fiber optics to solve our own communications issues. We began building our fiber infrastructure in 2001 and today have nearly 140 miles of fiber running our automated electric distribution system. In 2011, the San Juan County Economic Development Council invited OPALCO to join its effort to bring modern broadband connections to businesses and residents countywide. In 2012, the San Juan County Council asked OPALCO to help rewrite its wireless ordinance, which became the Joint Use Wireless Facilities Code. After 2 years of feasibility studies and a number of potential approaches, a major communications outage in November of 2013 prompted the OPALCO Board to issue the following directive:

“Our Island communities are suffering economic damage and safety issues caused directly by inadequate phone and internet infrastructure. Therefore, OPALCO shall accelerate expansion of our local member

owned robust, reliable highspeed data infrastructure to provide internet, phone, and emergency communications services to our members. Deployment will be supported and funded by OPALCO assets, including equity and rates.”

In June of 2014, we successfully purchased an FCC licensed frequency (700MHz) for the OPALCO grid control network to advance our wireless communication capacity.

In February 2015, we successfully purchased a local Internet service provider, Rock Island, and merged operations with OPALCO's Island Network. Rock Island Communications, a wholly owned subsidiary of OPALCO, is a for-profit company with the expertise to expand Internet services to our membership, as the Board directed in 2013.

This past year was a wild ride, as start-up businesses and mergers tend to be. Rock Island and Island Network merged operations, hired staff and developed new administrative systems while simultaneously constructing new fiber



Tom Schramm, Ali Boe,
Kelly Koral, Brian Hurley,
Dan Burke, Chad Bailey

OPALCO STATEMENTS OF OPERATIONS

FOR YEARS ENDING DECEMBER 31, 2015 AND 2014

FINANCE 18

OPERATING REVENUES

2015
UNAUDITED

2014
AUDITED

\$24,581,918

\$22,029,025

OPERATING EXPENSES

Cost of purchased power 7,966,406

8,130,301

Distribution expense 5,105,073

4,739,766

Consumer accounts 893,766

898,198

Administrative and general 3,609,716

3,195,763

Subsidiary charges 29,100

—

Depreciation and amortization 3,308,154

2,975,650

Taxes 1,046,626

961,815

Interest expense – other —

—

Interest on long-term debt 1,047,248

908,934

Total Operating Expenses 23,006,089

21,810,427

Operating margins

2015
UNAUDITED

2014
AUDITED

1,575,829

218,598

Non-operating margins

OPALCO

40,769

55,588

Island Network

—

(220,088)

Department

Income from Subsidiary

158,116

—

Total Non-operating margins

198,885

(164,500)

Patronage capital credits

83,608

67,853

NET MARGINS

\$1,858,322

\$121,951



Foster meeting with members
at the 2015 Annual Meeting

connections and designing a fixed wireless LTE network. As we were testing the initial LTE design, T-Mobile stepped up to provide a more robust solution including their equipment, additional spectrum and the substantial expertise to build and manage our fixed LTE network. Not only did T-Mobile's partnership solve the problem of a fixed LTE wireless system for Internet services countywide, but the agreement was a net zero exchange that allows T-Mobile to offer cellular phone service to San Juan County. A true win-win for our membership.

As of December 31, 2015, Rock Island Communications had built 489 fiber connections and 39 fixed wireless LTE connections. The total subscriber count was close to target on the fiber side but fell short on the LTE side because of delays when we retooled our plans with T-Mobile. The T-Mobile agreement reduced the total number of poles required to complete deployment from 120 to 38, but required us to accelerate deployment by year-end 2016 from the 6 LTE poles planned to 31. With T-Mobile on board, services will be available

to most of San Juan County by year-end 2016, compared with 25% of the county in the previous "go it alone" plan.

For 2016, the pipeline for fiber subscribers is already full and LTE deployment is ramping up. Since January 1, 11 active LTE poles have been deployed and 31 of the 38 poles will be active by year-end, more than compensating for the subscriber delay in 2015.

Rock Island Communications now has 2 offices open and a great team on board with 22 full-time employees and another 4 new hires budgeted in 2016. After merging, Rock Island's administrative and accounting systems are in place, and San Juan County residents are starting to enjoy the benefits of high-speed broadband and true connectivity to the rest of the world.



Go to www.opalco.com/annualreport to read the full story



Work on the submarine cable replacement project began in 2015 on Lopez Island

EQUITIES & MARGINS

	2015 UNAUDITED	2014 AUDITED
Memberships	\$56,395	\$56,880
Other equities	4,763,939	4,477,375
Subsidiary (Dept.) margins	(1,830,821)	(220,088)
Patronage capital— OPALCO	37,130,221	36,348,023
Equity & Margins	40,119,734	40,662,189

LONG-TERM DEBT

RUS mortgage notes	25,094,574	22,446,072
RUS economic development	64,659	72,663

	2015 UNAUDITED	2014 AUDITED
CFC mortgage notes	8,821,516	2,468,531
Long Term Debt	33,980,749	24,987,266

CURRENT LIABILITIES

Accounts payable	1,765,437	1,931,399
Customer deposits	82,377	91,717
Accrued liabilities	712,118	751,049
Current maturities of long-term debt	1,181,603	663,885
Total Current Liabilities	3,741,535	3,438,051

DEFERRED CREDITS	217,517	183,124
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EQUITIES, MARGINS, AND LIABILITIES	\$78,059,535	\$69,270,631
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OPALCO BALANCE SHEETS

FOR YEARS ENDING DECEMBER 31, 2015 AND 2014

ASSETS	2015 UNAUDITED	2014 AUDITED
Utility Plant*	\$104,011,496	\$96,849,290
Less accumulated depreciation & amortization	41,160,577	38,650,755
Net electric plant	62,850,919	58,198,535
OTHER PROPERTY AND INVESTMENTS – AT COST		
Non-utility property (net)	—	74,891
Investments in associated organizations	1,093,965	1,063,004
Investment in Subsidiary	5,199,172	—
Net Non-Utility Property	6,293,137	1,137,895

CURRENT ASSETS	2015 UNAUDITED	2014 AUDITED
Cash and cash equivalents	1,697,386	3,534,091
Accounts receivable	3,558,213	3,036,986
Materials and supplies	3,341,939	2,720,342
Other current & accrued assets	317,941	592,411
Total current assets	8,915,479	9,883,830
DEFERRED CHARGES	—	50,371
TOTAL ASSETS	\$78,059,535	\$69,270,631

FINANCE

OPALCO finances are in good shape. We ended 2015 with Co-op equity as a percentage of total capital at 53%, in line with our projections, and our TIER improved to a healthy 2.5. After a year of shrinking kilowatt-hour sales, our cash flow from Operations is positive. [Go to opalco.com/resource-library and read our unaudited 2015 OPALCO financial report.](#)

While Co-op revenue is driven largely by fluctuations in energy usage and dependent on weather, debt is driven by capital projects such as replacing submarine cable, undergrounding of distribution cables and modernizing the grid. As planned, capital spending for those 3 initiatives has tripled since 2012 during a period of very low interest rates. That capital spending will taper off by 2018. [Go to opalco.com/resource-library and read our 2016 Budget Presentation.](#)

In December of 2015, we distributed capital credits for members who were active in 1990. Because of the strain that low revenues and capital expenses have had on our

finances, the Board decided to pay out 50% of capital credit distributions at year-end 2015. We expect the remainder to be paid out over the next 1-3 years as we catch up with our 25-year distribution schedule. [Go to www.opalco.com and read all about capital credits.](#)

Recognizing that this can be a special burden on members from low- and fixed-income households, OPALCO has, in addition to PAL and LIHEAP programs, added a third energy assistance program, Energy Assist, which provides a monthly bill credit. Qualifying for this new program is simple, and those who are eligible for PAL emergency grants are also eligible for this monthly credit. [Go to www.opalco.com to read more about Energy Assist.](#)

Project PAL continues to provide emergency grants for members in need during the heating season, funded by member donations. In 2015, 2,282 members rounded up their monthly bills totaling just over \$23,252.00, with an additional \$6,798.00 of individual contributions. PAL grants



Travis Neal, Head Accountant, and Patty Kelly, Special Projects Coordinator, joined the accounting team in 2015. Travis came to us from Moss Adams, where he served on OPALCO's audit team for the past 4 years, and Patty transferred from the position of Member Services Supervisor.

were awarded to 171 members during the 2014/2015 heating season totaling \$39,961.00, which is an average award of \$233.69 per member. The Board also authorized a transfer of an additional \$25,000 in 2015 to meet the unmet need.

Members want to be assured that OPALCO costs and Rock Island costs are kept separate. In fact, we don't have a choice. They are separate, and this separation is required by IRS. Their regulations direct us to clearly separate the nonprofit side of the business, OPALCO, from the for-profit Rock Island Communications. Each company is independently audited by an outside accounting firm. OPALCO is additionally audited by our major capital projects lender, the Rural Utility Service. The IRS provides a third layer of audit in keeping with IRS rules for nonprofit and for-profit businesses.

Nelda Hastings

October 17, 1933—February 4, 2016

Nelda served as a founding member of the Project PAL Committee. Her generosity as a volunteer made a big difference in the lives of Co-op members in need throughout San Juan County. Her daughter Beth Anderson and son-in-law Kerry Anderson retired from OPALCO in 2014. Our condolences go out to the family.



Go to www.opalco.com/annualreport to read the full story