

IREA

2016 ANNUAL REPORT

During 2016 Intermountain Rural Electric Association connected its 150,000th active meter. By the end of the year we were serving more than 151,000 meters. As an electric distribution cooperative, IREA is owned by and for the benefit of the customers served by those meters. Throughout the year we focused on improving that service and the financial position of the Association to meet expected new infrastructure requirements and to continue returning capital to customers.

PATRICK
MOONEY
CEO



IREA continued to make significant investments in service capacity and reliability in 2016. One new substation was completed, as was a segment of high-voltage transmission line built to serve a second new substation now under construction. We also made progress on our project to install a new transformer and distribution feeders to serve the Floyd Hill area. Service quality in that area will improve when the project is completed by the end of 2017. Work continued apace on our vegetation management plan, as the third year of the first six-year cycle was finished. Finally, we increased effort and expenditures on inspections and maintenance on the distribution system.

In part due to our efforts and in part due to better weather, reliability in 2016 improved markedly over that of 2015. We aim to do better in 2017 and expect improvement from the new outage management system installed in September 2016. That system is helping us more quickly identify the locations of outages and analyze potential trouble spots on our lines. It also allows us to show customers the location of large outages on a map that may be found on our new, mobile-friendly website.

IREA did not have a general rate increase in 2016. By the end of the year it had been nearly four years since rates were raised. Nevertheless, the company's financial performance improved over 2015. As a result of growth, cost control, and power cost refunds from settlements and true-ups, IREA's margin in 2016 was more than \$37 million. IREA's Board of Directors authorized the refund of \$15.3 million, bringing the four-year total of customer capital credit refunds to \$58.2 million.

Late in 2015 IREA negotiated a power purchase agreement with a utility-scale solar project developer and leased land to the developer adjacent to an IREA substation north of Bennett. Construction work on the project began in July and by early December the 12.83 MW Victory Solar Generation project was operational. As the cost of solar generation continues to fall, IREA continues to look for opportunities to diversify its generation mix by including additional cost-effective, utility-scale solar generation.

It was our privilege to serve our many customers during 2016. We will work to live up to the responsibility we have to provide better service during 2017.



Financial Performance

The Association recorded a net margin of \$37.1 million in 2016, an increase of 15.1% over the prior year. Though rates were not increased, operating revenue grew \$6.2 million because of growth in the customer base with the addition of 2,661 active new services and 2.6% more kilowatt-hours sold as compared to 2015. Interest costs on short- and long-term borrowings declined by 2% from the prior year. As the result of a debt restructuring in 2016, fixed interest rates were lowered on several outstanding loans. In addition, we reduced by 40 basis points, or 0.4%, our short-term borrowing rate by adding an additional line of credit. Finally, other expenses at our Comanche Unit 3 generating station were \$2.4 million lower in 2016 due to significantly improved plant performance following extensive tube replacement in 2015. Meanwhile, the total cost of electric service rose only slightly, by 0.6%.



DEEDE P. JONES
CFO

This year's solid financial performance has strengthened several key metrics, including the Association's equity-to-assets ratio which increased to 27.07% in 2016 from 24.70% in 2015, even after \$13.6 million was returned to our members as capital credit refunds in March 2016. Based on the year's results and continued improvement to the balance sheet, our Board of Directors authorized a refund to our members this year of \$15.3 million. Since 2014, IREA has returned over \$58 million in capital credits. During that same period, long-term debt has been reduced by nearly \$52 million.

Statement of Operations

For the years ended Dec. 31 (Unaudited)

	2016	2015	% Increase or (Decrease)
Total Operating Revenue	\$ 286,675,825	\$ 280,463,127	2.2
Total Operating and Maintenance Expense	160,502,422	157,377,984	2.0
Depreciation and Amortization Expense	33,963,266	32,466,763	4.6
Tax Expense	11,760,000	11,544,120	1.9
Interest Expense	43,263,399	44,136,150	(2.0)
Other Expense	4,628,318	6,992,204	(33.8)
Total Cost of Electric Service	\$ 254,117,405	\$ 252,517,221	0.6
Operating Margin	32,558,420	27,945,906	16.5
Other Non-Operating Interest and Dividends	4,557,402	4,301,090	6.0
Total Margin	\$ 37,115,822	\$ 32,246,996	15.1



\$58.2M

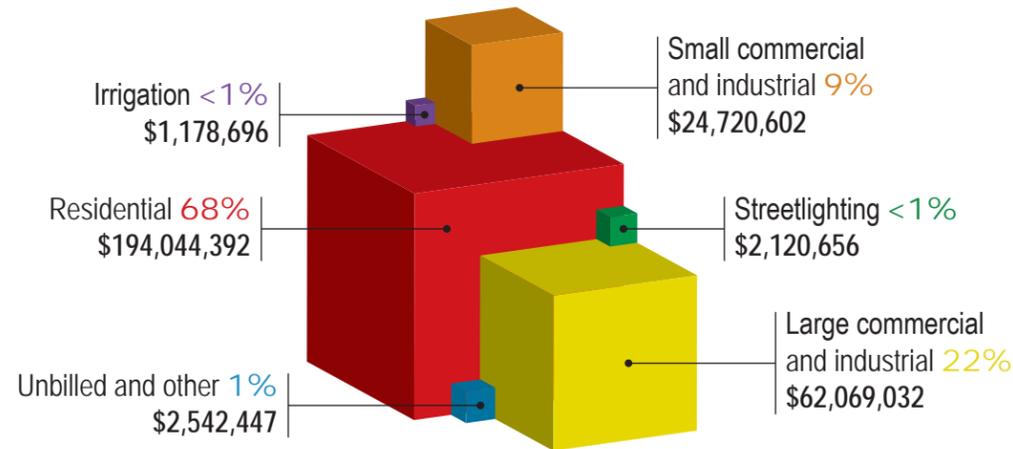
In capital credits refunded to customers in the last 4 years



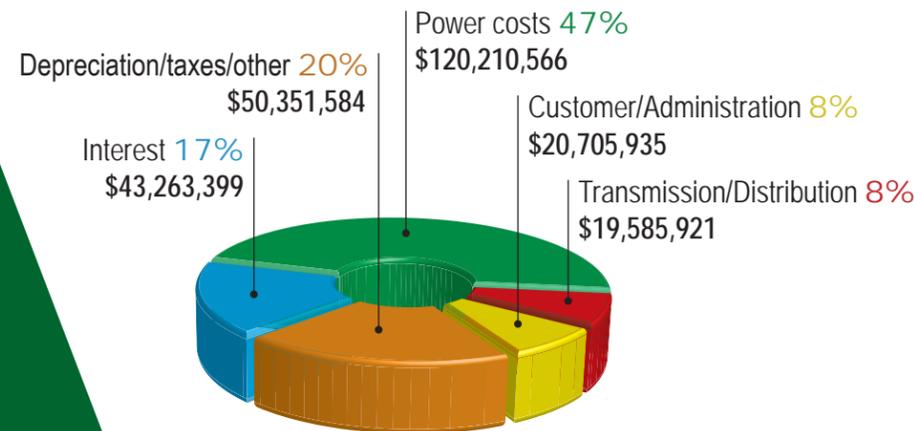
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Free energy audits conducted in 2016

Sources of revenue in 2016



Expenses by type in 2016



Balance Sheet

As of Dec. 31 (Unaudited)

	2016	2015	% Increase or (Decrease)
Assets			
Utility Plant	\$ 1,003,664,986	\$ 981,026,557	2.3
Other Property and Investments	24,766,202	23,437,124	5.7
Current Assets	43,453,153	48,150,628	(9.8)
Deferred Assets	12,167,459	10,773,073	12.9
Total Assets	\$ 1,084,051,800	\$ 1,063,387,382	1.9
Liabilities and Equity			
Memberships and Patronage Capital	\$ 226,474,833	\$ 207,953,968	8.9
Margins and Other Equity	66,990,748	54,713,970	22.4
Total Equity	293,465,581	262,667,938	11.7
Long-term Debt	695,171,513	711,615,006	(2.3)
Other Non-Current Liabilities	15,366,740	20,672,259	(25.7)
Total Current, Accrued and Deferred Liabilities	80,047,966	68,432,179	17.0
Total Liabilities and Equity	\$ 1,084,051,800	\$ 1,063,387,382	1.9

Operating Statistics

	2016	2015	% Increase or (Decrease)
Active Services	151,215	148,554	1.8
kWh Generated, Net	1,421,824,306	1,186,356,130	19.8
kWh Purchased	991,906,254	1,170,866,247	(15.3)
kWh Sold	2,301,048,056	2,243,285,834	2.6
Modified Debt Service Coverage Ratio	1.91 to 1	1.92 to 1	
Equity as a % of Total Assets	27.07%	24.70%	
Debt to EBITDA*	6.72 to 1	7.00 to 1	

* Earnings before Interest, Taxes and Depreciation



2.3B

Billed kilowatt-hours of energy provided to IREA customers in 2016



52,923

IREA eBilling customers



151,215

Total number of IREA customers



2nd

Place in which IREA's team finished at the Mile High Lineman's Rodeo



9,750

Miles of transmission and distribution lines



254

Organizations receiving charitable donations from IREA



2,661

New IREA customers in 2016

Board of Directors

Victory Solar, OMS top 2016 projects

2016 was another year of improvement in the services and value IREA provides its customers. Under the guidance of the Board of Directors and management, IREA has implemented new services to better manage and respond to outages, new generation resources that expand our renewable energy portfolio, and received one of the highest industry honors for risk management. At the same time, IREA has maintained its commitment to keep rates low and return millions of dollars in capital credits to its customers, as is addressed elsewhere in this report.

The focus of the IREA Board of Directors is on identifying and implementing steps our Association must take to constantly improve the service it provides to its members. The Board has encouraged the culture of continuous improvement that has supported our recent success and that will be needed to meet the forthcoming changes in the rapidly evolving electric utility industry. It is likely that in a few years an efficient electric utility that provides the services and infrastructure necessary to meet its customers' needs will bear little resemblance to the staid utility model that has existed for decades.

In 2016 IREA staff and the Board have worked to better understand and develop a distribution platform that will be able to provide more information to customers about electricity usage, better integrate customer-sited generation, and enable more rate options. This year we will formally solicit proposals for automated metering infrastructure and hope to have the communications and data processing systems in place to start a pilot program by the end of the year. We also will continue to investigate utility-scale renewable energy and energy storage opportunities as those technologies become more cost-effective.

Customer service also has been improving steadily, with real progress shown in our call center's hold times and dropped calls, and with a new website available to provide customers with access to billing and outage information. Improvements in our eBill offering have led more than 50,000 of our customers to take their bills electronically.

The Board of Directors and employees of IREA are grateful for the tremendous support and valuable suggestions we have received from our customers in 2016 and pledge that we will continue to work to provide reliable and low-cost service to our customers as proud partners in the communities we serve.

TIMOTHY WHITE
District 4,
Board
President



MICHAEL KEMPE
District 1



JAMES DOZIER
District 2



EUGENE M. SPERRY
District 3



BRUFF SHEA
District 5



ROBERT GRAF
District 6



JAMES ANEST
District 7

About IREA

Intermountain Rural Electric Association is a nonprofit, customer-owned electric distribution cooperative that serves more than 150,000 customers inside a 5,000-square-mile service territory along Colorado's Front Range. IREA's elected board of directors makes decisions regarding the general policies of IREA and directs the chief executive officer to implement those policies.



Customer Service (7-7 M-F)
800-332-9540



Outages
844-IREA-FIX



Online
www.IREA.coop



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