

IREA 2017 ANNUAL REPORT

The Intermountain Rural Electric Association was established in 1938 by a few Park County residents. Eighty years later IREA is the 14th-largest distribution cooperative in the U.S., with more than \$1 billion in assets. We provide electric service to more than 154,000 meters. The association operates and maintains more than 9,800 miles of transmission and distribution line. In 2017 IREA delivered more than 2.3 billion kilowatt-hours of electricity and had revenues of more than \$280 million. The Board of Directors authorized the return of \$15.3 million of capital to IREA members and, in December, IREA customers received an \$8.4 million rate refund.



PATRICK MOONEY
Chief Executive Officer



TIMOTHY WHITE
Board President

These numbers portray a growing and financially healthy organization, but they do not begin to reveal the changes IREA has experienced recently and expects to see in coming years. Fifteen years ago IREA was using mechanical meters that were read by visual inspection. All customers received paper bills through the U.S. mail and virtually all payments from and to our customers were made by check. Electricity was generated almost exclusively by using large hydro, coal and gas generators. Today IREA's meters are digital and broadcast readings to meter readers in vehicles, 40% of our customers receive their bills electronically, 70% pay electronically, and almost all current customers receive capital credit refunds as bill credits. During 2017 more wind and solar generation capacity was added to the U.S. Generation Fleet than any other kind of generation. A 12.8-megawatt solar facility has been built on ground owned by IREA and the association has agreed to purchase the output of that facility for 25 years. There currently is more than 10 megawatts of customer-owned renewable generation capacity interconnected to IREA's distribution system. We have developed a new, more functional website, installed new phone and outage management

systems, and replaced virtually all of our business software so that paper processes have been all but eliminated.

Most of these changes have occurred within the past five years. Within the next five years the pace of change is likely to accelerate. During 2017 the board of directors approved a contract for the installation of advanced metering infrastructure (AMI), which will consist of a two-way meter communications network and meters capable of storing and transmitting data regarding the quantity and quality of electricity delivered by us. The network will allow us to automate our distribution system as never before. Customers will have access to near-real time data regarding their own electricity usage. We will have greater visibility into the operation of our system and be able to remotely conduct operations. We expect to be able to offer customers rate options that more accurately recover costs and better suit their needs. The AMI is a major step in the direction of accommodating a higher level of customer-owned renewable generation and more electric vehicles on our system.

Real change also seems imminent in the wholesale power marketplace. Utilities in our region are exploring the possibility of joining a regional transmission organization that will oversee the development and operation of the transmission system across a wide area and operate an organized wholesale power market. This move potentially will reduce wholesale power costs, make better use of intermittent renewable generation and facilitate the use of large-scale battery storage.

The fundamental goal of all these changes is to provide reliable, affordable electricity. Beyond these fundamentals, we seek to provide better customer service, more rate options, a distribution platform that accommodates distributed generation, and power supply that meets environmental expectations. We appreciate your support as we bend our efforts to meet these goals.

FINANCIAL PERFORMANCE

The association recorded a net margin of \$34.2 million in 2017, nearly 8% less than the prior year, though 6.4% greater than budgeted. IREA received a one-time wholesale power cost refund in 2017 and, in December, passed on to customers the full amount of that refund, \$8.4 million, in the form of a bill credit. The \$8.4 million directly reduced not only our net margin, but also our power costs, which similarly were about 8% less than the previous year.



DEDE P. JONES
Chief Financial Officer

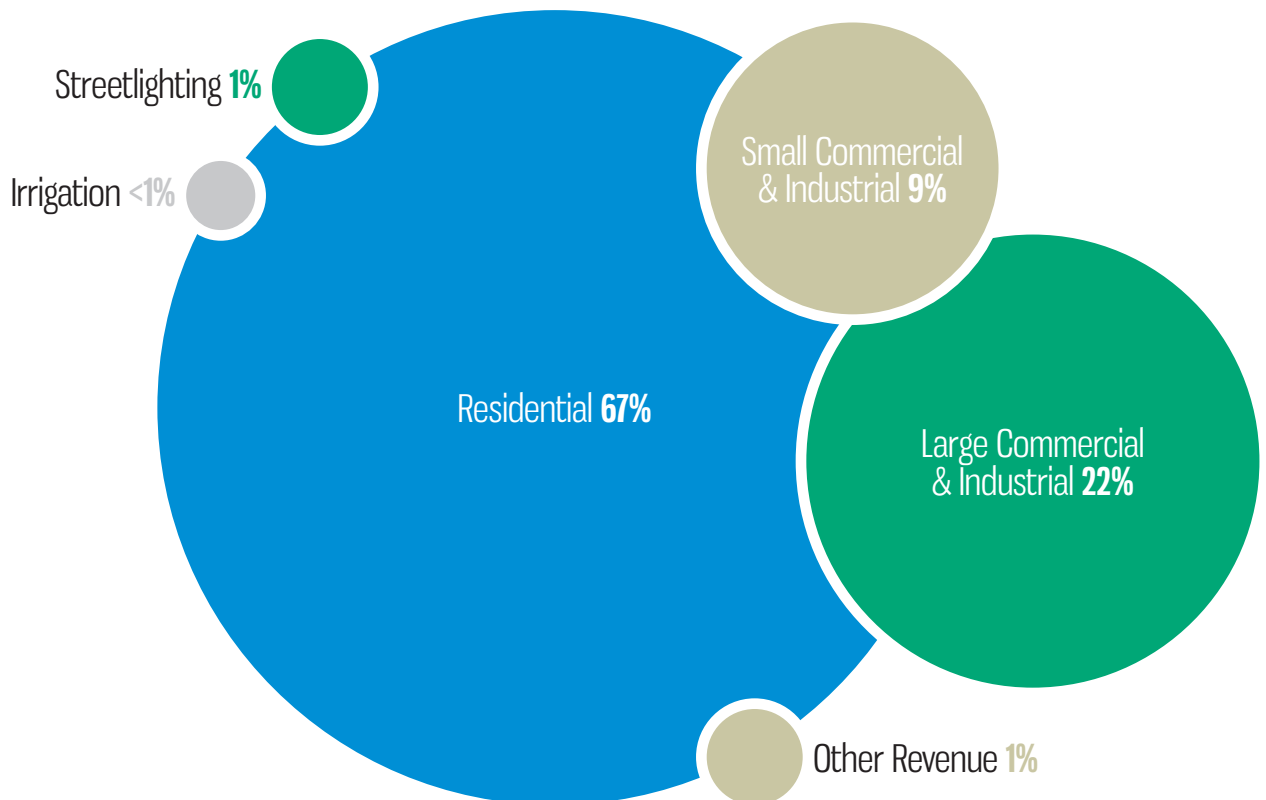
We experienced growth in our customer base with the addition of 3,327 active new services and sold 0.5% more kilowatt-hours as compared to 2016. We generated 8.8% less kilowatt-hours and purchased 12.8% more kilowatt-hours than the previous year, largely because of the planned Comanche 3 maintenance outage that took place between April 1 and May 16, 2017. Depreciation expense was 11.1% greater than 2016 as a result of additions to the plant, changes in the useful life of certain utility assets to conform to our improved maintenance practices and to account for the upcoming implementation of advanced metering infrastructure (AMI). Interest costs on short- and long-term borrowings declined by 1.8% from

the prior year as we continued to pay down debt. Overall, the total cost of electric service declined by 1.8%.

The number of association employees increased by 2 during the year, from 224 to 226. The number of consumers per employee, 684, is among the highest in the electricity distribution industry.

The association's key financial metrics remain strong. The equity-to-assets ratio increased from 27.07% in 2016 to 28.7% in 2017, even after the \$8.4 million power cost refund. The ratio of debt to earnings before interest, taxes, depreciation and amortization (EBITDA) declined from 6.72 to 6.53, in part due to the 3% reduction in our long-term debt balance. Based on the year's results and continued improvement to the balance sheet, IREA's board of directors authorized a refund of \$15 million to our members in March 2018. Including this March 2018 amount, IREA has returned more than \$73 million in capital credits over the past five years.

Sources of revenue in 2017



Statement of Operations

For the year ended December 31 (Unaudited)

	2017	2016
Total Operating Revenue	\$ 280,295,123	\$ 286,675,825
Total Operating and Maintenance Expense	152,676,493	160,502,422
Depreciation and Amortization Expense	37,734,663	33,963,266
Tax Expense	12,252,000	11,760,000
Interest Expense	42,499,664	43,263,399
Other Expense	4,357,863	4,628,318
Total Cost of Electric Service	\$ 249,520,683	\$ 254,117,405
Operating Margin	30,774,440	32,558,420
Other Non-Operating Interest and Dividends	3,398,595	4,557,402
Total Margin	\$ 34,173,035	\$ 37,115,822

Balance Sheet

As of December 31 (Unaudited)

	2017	2016
Assets		
Utility Plant	\$ 1,011,573,874	\$1,003,664,986
Other Property and Investments	25,878,026	24,766,202
Current Assets	40,579,469	43,453,153
Deferred Assets	12,751,271	12,167,459
Total Assets	\$1,090,782,640	\$1,084,051,800
Liabilities and Equity		
Memberships and Patronage Capital	\$ 248,350,005	\$ 226,474,833
Margins and Other Equity	64,719,359	66,990,748
Total Equity	313,069,364	293,465,581
Long-term Debt	674,416,704	695,171,513
Other Non-Current Liabilities	17,309,787	15,366,740
Total Current, Accrued and Deferred Liabilities	85,986,785	80,047,966
Total Liabilities and Equity	\$1,090,782,640	\$1,084,051,800

Operating Statistics

	2017	2016
Active Services	154,542	151,215
kWh Generated, net	1,296,808,197	1,421,824,306
kWh Purchased	1,118,668,626	991,906,254
kWh Sold	2,312,194,464	2,301,048,056
Modified Debt Service Coverage Ratio	1.87 to 1	1.91 to 1
Equity as a % of Total Assets	28.70%	27.07%
Debt to EBITDA *	6.53 to 1	6.72 to 1
Number of Employees	226	224
Number of Consumers per Employee	684	675

* Earnings before Interest, Taxes, Depreciation and Amortization

KEY NUMBERS



2,312,194,464

Billed kilowatt-hours of energy provided to IREA customers in 2017

154,542

Total number of IREA customers as of Dec. 31, 2017

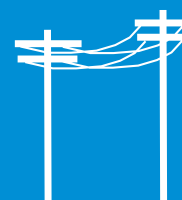


3,327

New IREA customers in 2017

62,000+

IREA eBilling customers as of Dec. 31, 2017



9,800+

Miles of transmission and distribution lines

520

Free energy audits conducted in 2017



\$73.2M

In capital credits refunded to customers since 2014

2017 HIGHLIGHTS

Outage Management System

Our Outage Management System completed its first full calendar year of use. The OMS, which went online in late 2016, allows customers to more quickly report outages and monitor IREA's progress as we work to restore service. Many customers find our online Outage Center, located at www.IREA.coop/outage-center, more convenient than calling our customer service department. The system also allows customers to report outages and receive alerts via text message.

New IREA.coop

Early in 2017 we unveiled the redesigned IREA.coop, which has earned positive feedback from customers. The site's more intuitive navigation, improved aesthetics and mobile-friendly format provide a better visitor experience. Much thought and work went into making the site expansive and easily accessible, particularly when it comes to customer account information. We continue to refine and build on the redesigned IREA.coop, which is your best resource for IREA news and customer tools.

Redesigned monthly bill

Late in 2017 we introduced a new monthly bill format that also has been well-received. It offers customers a clearer, more concise picture of their usage and billing. We made the amount and due date easier to find, reduced much of the previous bill design's visual clutter and introduced new features such as My Billing Snapshot, which provides a month-to-month comparison of your usage.

Community outreach

IREA continued to help the Coats for Colorado program, which provides winter coats to in-need Colorado residents, and our customers donated more than 500 coats to the cause. We also introduced a Holiday Lights Recycling program that collected more than 3,000 pounds of old and unwanted holiday lights, the sale of which generated a \$1,200 donation to Energy Outreach Colorado. This was in addition to the nearly \$27,000 customers donated to Energy Outreach – an amount that was matched in kind by IREA cent-for-cent. IREA was also proud to continue its tradition of awarding higher education grants of \$1,000 each to 21 high school seniors. Through our donations program, IREA has provided financial and in-kind support to dozens of nonprofit agencies throughout our service territory.

BOARD OF DIRECTORS

Intermountain Rural Electric Association's business and affairs are managed by a board of seven elected directors, each of whom represents a district within IREA's service territory. Elections for Districts 3, 5 and 7 were most recently held in 2017. Elections for Districts 1, 2, 4 and 6 will be held in 2019.



MICHAEL KEMPE
District 1



JAMES DOZIER
District 2



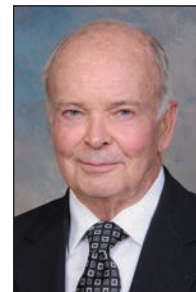
EUGENE M. SPERRY
District 3



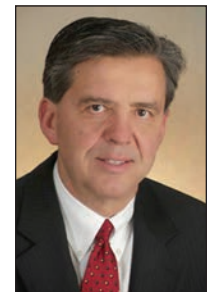
TIMOTHY WHITE
District 4



BRUFF SHEA
District 5



ROBERT GRAF
District 6




JAMES ANEST
District 7

ABOUT IREA


Intermountain Rural Electric Association was established in 1938 as a nonprofit, customer-owned electric distribution cooperative. We currently serve more than 154,000 customers inside a 5,000-square-mile service territory in central Colorado, with headquarters in Sedalia and district offices in Conifer, Strasburg and Woodland Park.

CONTACT US

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