

Sheridan Electric Cooperative

LiveWire

Sheridan Electric Cooperative - Medicine Lake, Mont. 406-789-2231

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PRESIDENT'S REPORT **Sheridan Electric Cooperative annual report**

BY WAYNE DEUBNER

The board and staff of Sheridan Electric Cooperative want to welcome you to the 70th annual meeting of the members. We hope this year's annual report is informative and answers any questions you might have.

The board of directors and staff have spent a lot of time this year discussing margins and cash levels. It is difficult at times to separate the two, because common sense tells you that if your margins are high, you should have a lot of cash. This isn't the case for Sheridan Electric at this point in our history, as we are seeing very high margins and struggling with large fluctuations in cash levels.

Margins are described as a financial ratio that expresses business profitability in a percentage form. In short, margins are similar to profits and every business, including cooperatives, need margins to get through the normal ups and downs of business. Financial ratios in loan covenants and monthly cash needs also drive the need for margins.

The annual budget is the primary financial tool we use to set rates. If we miss on the budget, the margins go

up or down. Developing a budget is easy when a few things line up: power costs are stable, depreciation and debt payments match, sales match the forecast and, there is no immediate cash need. Not so for Sheridan Electric Cooperative in the last couple of years. We experienced a drop in sales in 2015 and 2016 and had no reason to believe the trend wasn't going to continue in 2017. We've also found ourselves in a position where depreciation of plant does not match our debt payments.

The high margins we are experiencing can be traced back to the start of the special rate we charge

oil companies for transmission lines. A few years ago, we discovered we needed to build transmission lines and substations to serve a growing demand in oil-producing areas. We worked out an additional monthly charge with the oil companies to pay for this infrastructure. We call this charge a KVA charge. The income from this charge goes directly to make the loan payment on the transmission line each month and has nothing to do with the operations of the co-op.

The short-term interest rates were about as low as they have ever been in the history of this co-op, so we settled



Miss Montana **Madison Murray** delivers a strong performance of the national anthem.



Miss Montana poses with the Plentywood elementary students before an outstanding patriotic performance. This performance was very well-done.

on 10-year term loans with a 10-year accelerated depreciation rate to match. In the meantime, an opportunity to lease some of these transmission lines came along that we were not aware of when the lines were built. In the lease agreement, there is debt recovery but it is based on a standard 30-year depreciation schedule, so we had to change our depreciation schedule but did not refinance the loans to match. Depreciation is explained as an expense that reduces net income. When the income we collect to pay debt is greater than the depreciation expense, it creates high margins but doesn't increase available cash.

When refinancing a loan, there is a broken funding surcharge applied. The surcharge coupled with the interest

rate going from just over 2 percent to more than 5 percent makes the decision easy to stay with the current loan term.

Cash on hand plays a part in the budgeting process as well. The general philosophy of the board is to have about a month's worth of operating cash on hand. This philosophy was branded into us back in the year 2000 when an ice storm took down 1,800 poles and we lost about a month of revenue.

We started this year with very low reserves, but our financial outlook had improved significantly by the end of the first quarter. A few cold months early in the year increased sales, making the financial picture better than anticipated. A couple

of other things also contributed to more cash on hand. We received larger-than-anticipated capital credit retirement checks from a few of our vendors (CoBank, Federated Insurance and Mets Pool, our workers' comp provider).

In the past, we have used the annual event of budgeting to balance income with expenses. About mid-year, we asked ourselves if this philosophy is counterproductive. In other words, if we adjust the budget and move the rates more often during the year, we should be able to do a better job of keeping the margins low and that money in the members' pocket.

For this year, the board of directors decided to use two methods to control margins and cash. First, we decided to lower rates mid-year and, secondly, to use any available cash to retire three years of older unretired margins, allowing us to get back on a 15-year schedule.

The electric utility industry continues to change and evolve and the board of directors and staff have worked hard to keep pace with the challenges that change brings. On behalf of the membership, the board wants to thank the outstanding group of people who staff the positions at our cooperative. They are the ones who keep the lights on. ■



In his capacity as general manager and CEO, Rick Knick honors the employees and the membership of Sheridan Electric Cooperative

Moving through time

BY SCOTT WESTLUND

This is why we are here. We are here because of the membership of this cooperative and the desire to serve you.

Where does the time go? Another summer has passed in a flash and another year is under our belts, with crops in and winter setting in. It is a moment when we sit back and wonder where time has gone, with the successes and failures, and we ask ourselves, “Where do we go now?”

Life has an uncanny sense of humor that challenges you at every turn. These challenges come from our work life, home life and health. All of these challenges define life. How we deal with them defines the people we want to be and how we want to be remembered.

As I continue to work for your cooperative, the employees’ lives unfold into the family we have become. Are the same challenges there for all employees? You bet. Some of these are small, but others are rather large, and can consume large amounts of time, but always there is the support group to help within the family with these challenges, small or large.

This also is a topic for the cooperative in general. This business model has its challenges, and time is also one of them. Time can be the enemy of infrastructure, poles, wires, transformers and substations. Any one of these can be catastrophic to the system and how it operates. Time is also a challenge for the employees of the cooperative as they grow older and reach retirement age.

However, there are measures that can be put into place to combat time and its effects.

Let’s start with infrastructure.

The equipment used on the system is replaced periodically, either due to a failure or from a preventative maintenance schedule. These preventative maintenance schedules are designed to trigger a change-out before the failure occurs. This places the system in a controlled outage environment versus an uncontrolled environment.

System upgrades bring new technology that enhances the performance of the system and its components. The addition of transmission lines that replace old lines and bring in new lines also adds to the performance of the system, supporting an expanding cooperative base.

Next, we should talk about succession planning and the cooperative personnel replacements when we are gone.

Succession planning is something that we should be thinking about on a daily basis. This can be described as something as simple as training for another department backup to who will lead the cooperative as a board member. All of these positions are vital to the smooth operation of the cooperative. Who is the right replacement for me when I retire? Will I replace from within, or will I go outside of the firm? What types of traits will I look for to fill that position that reflects the direction given by the board?

These are the types of questions we always should be asking when talking about succession planning, and we should always be working on this openly.

Infrastructure and succession

planning are both time-related in your cooperative. Both are sensitive to action at all times and should always be on the forefront when in strategic planning sessions.

At the beginning of this article, I talked about a family of employees. This is so true with this cooperative. Working together day in and day out creates a team of people who help each other and look for ways to better the environment in which they live. They are spending “time” together, which ties directly back to a family of people who will test the resolve of time, giving it their full attention for the years to come. ■

Tampering with meters is dangerous

BY SCOTT WESTLUND

Recently, I was involved in a discussion about a meter being severely tampered with. Tampering with a meter is very dangerous. Typically, when a meter is tampered with and quits reading usage, the cooperative is quickly notified of the particular problem. In this case, this meter was disconnected for non-payment and was disconnected from our internal system.

Tampering with meters is not only very dangerous, it is also illegal. Since I started here, I have seen two different occasions where a meter has been tampered with and I have been surprised that someone was not killed in the attempt.

If you know of someone who has done this in the past, please ask them not to take the chance with their lives. Sheridan Electric cares for the members of this cooperative. ■

Lighting to be given away

In the spirit of efficiency, Sheridan Electric Cooperative is giving away light-emitting diodes (LEDs) each month. Each month's winner will receive 12 new LED bulbs.

So this month, take a moment to complete and mail the coupon. Maybe you'll be this month's lucky winner and save on your energy costs. Good luck. ■

Name: _____
 Address: _____

 Phone number: _____
 Account number: _____

*Congratulations to **Border Farm Trust** for winning this month's light giveaway.*



Sheridan Electric Cooperative STATISTICAL REPORT

	September 2016	September 2017
Total miles of line	2,833	2,831
Consumers billed	3,083	3,098
Kilowatt-hours purchased	8,967,782	9,533,530
Kilowatt-hours sold	8,247,610	8,895,891
Average KWH per residential consumer	822	833
Average bill per residential consumer	\$105	\$104
Cost of purchased power	\$534,366	\$533,887
Margins year to date	\$2,617,859	\$3,306,092

LINE DEPARTMENT STATS

	September 2016	September 2017
Weather	9	21
Age or deterioration	3	1
Animals and public	3	4
Power supplier	0	0
Equipment	0	0

SUMMARY OF WORK COMPLETED

	September 2016	September 2017	Year to date
Pole installations	16	4	92
New construction	451	18,049	71,774
Miles driven	27,731	22,362	237,295
New accounts	5	11	41
Accounts retired	3	1	9

SHERIDAN ELECTRIC CO-OP

Medicine Lake, Mont. 59247
406-789-2231

TRUSTEES

Wayne Deubner, President Brockton, Mont.
 Rod Smith, V. President..... Dagmar, Mont.
 Rob Rust, Sec..... Alkabo, N.D.
 Kerrey Heppner, Treas. Plentywood, Mont
 Alan Danelson, Trustee..... Scobey, Mont.
 Andrew Dethman, Trustee Brockton, Mont.
 Rick A. Hansen, Trustee.....Froid, Mont.
 Harlan Skillingberg, Trustee Plentywood, Mont.

EMPLOYEES

Rick KnickManager
 Riley Tommerup..... Office Mgr./Accountant
 Scott Westlund.....Marketing/Member Service Manager
 Pam Lund Billing Supervisor
 Jamie Ator Accountant
 Lisa SalvevoldOffice Assistant
 Tasha Ronnes..... Customer Service Representative
 Torie Waller Work Order Clerk
 Kory OppLine Superintendent
 Bryan Lenz Line Foreman
 Nick Oelkers.....Staking Tech
 Tim Ereth..... Operator/Utilityman
 Josh JohnsonElectrical General Foreman
 Tom Hinds Electrical Foreman
 Steve Augustine Line Sub Foreman
 Tristan ErethApprentice Electrician
 Ronnie Gillett Journeyman Lineman
 Dan Roeder Journeyman Lineman
 Shawn Sansaver..... Journeyman Lineman
 Josh Marottek Journeyman Lineman
 Bill Baillie..... Apprentice Lineman
 Josh Ming.....Apprentice Lineman
 Jim Bakken..... Material Specialist
 Vicky Haddix..... Custodian

OUTAGES • CALL 24 HOURS A DAY
406-789-2231

OFFICE HOURS: 7 a.m. to 4:30 p.m.
Monday through Friday

Your Touchstone Energy® Cooperative