



INN Electric Cooperative, Inc.

POWER FOR THE FUTURE!

2012 Annual Report

Letter to the Membership

Dear INNEC Members,

Your electric cooperative has had a good year. In 2012 INNEC generated a record 4,342,007 kWh of electricity using only 4,694 gallons of diesel fuel, an all-time low. Our load seems to be slowly growing over the years. Sustained and extremely cold temperatures in conjunction with old equipment and poor installation contributed to one of the power failures experienced by consumers this winter. This power failure occurred on December 22nd. From the evening of December 22nd to the morning of December 27th a good portion of Iliamna was without power. I would like to extend my thanks to the Iliamna residents who took a Christmas without power, in stride, with lots of patience. INNEC management will be looking at our entire distribution system in the next year for accomplishing upgrades to repair and replace some of this old equipment that is going to continue to give us problems especially when it is cold.

The summer of 2012, one of the upgrades we did was to install "Air Flow Spoilers" on select power lines in Newhalen that have been the subject of line slap in the past during high winds. This line slap would blow fuses on the power poles and folks would be without power until the wind died down and we could replace the blown fuses. Since installation of these spoilers we have had several very high wind storms and have not blown any fuses. This was an easy fix for a very frustrating problem.

INNEC's underground distribution replacement project will continue during the summer of 2013. The project replaces a substantial portion of the faulty underground system. In 2010, INNEC received \$2.3 million in funding through USDA's Rural Utilities Service (RUS) High Energy Cost Community Grant program. With this grant we are also rerouting the underground power line that goes to the beach. This project will be complete by November 30, 2013.

In August, September, October, November and part of December 2012, INNEC completed a major diesel generation and tank farm upgrade. The work financed by Rural Power Systems Upgrade grant was administered through the Alaska Energy Authority (AEA). The generation upgrade included replacing all four old Caterpillar generators with 3 new fuel efficient Skania generators and the construction of 60,000 gallon tank farm and pipeline. The new system is automated allowing diesel generation to come on seamlessly when hydroelectric generation is down. At the time of this report we still have a few nit-picky problems that we are working on but expect the entire system to be functional by the end of April 2013. All INNEC shareholders are welcome to stop by the Newhalen diesel plant and we will be happy to give you a tour of our new and improved diesel plant.

Manager Hornberger, Board member Greg Anelson, Jr. and financial manager Terri Harper traveled to Juneau in February 2013 to once again lobby for Tazimina Hydroelectric Project debt reimbursement. The Alaska Legislature is scheduled to conclude this year's session mid-April and it is unknown whether INNEC's request for debt reimbursement will be included in the state's FY2014 Capital Budget.

Looking forward and focusing on bringing INNEC management and consumer operations back to the Iliamna area during 2012, the Board of Directors approved a contract with Rural Alaska Fuel Services (RAFS) in Anchorage for accounting services and has hired office personnel. INNEC's goal of completing the transition by July 1, 2012 was not quite met by we had the transition complete by September 2012. We have now moved entirely out of Naknek and are doing all of our bookkeeping between the Anchorage office and Newhalen office. This arrangement is working extremely well and we are especially happy to have a large portion of our billing and bookkeeping back in our own service area.

Thank you for being a member of INN Electric Cooperative. Without our members and consumers we would not be here. We hope to see you at the Annual Membership Meeting in Nondalton on Saturday, April 13, 2013!

Sincerely,



George Hornberger
General Manager



Tinny Hedlund
Board President



2013 Director Candidates

Two (2) three-year seats on INN's Board of Directors will be filled at the 2013 Annual Membership Meeting on April 13, 2013. Tinny Hedlund & Gary Marttila are the only candidates for these seats.

Gary Marttila is a 14 year resident of electric business and cooperative Nondalton and Alaska resident for over 35 fundamentals. years. He is a family man who enjoys traveling and computer technology. As incumbent, Mr. Marttila would like to continue to help guide the Board and General Manager through strategic planning and appropriate financial decisions to maintain safe and reliable power at a cost consistent with our resources. He has enjoyed working with the Board and General Manager over the past few years to make possible the numerous improvements to our energy sources and grid while learning about the



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BOARD OF DIRECTORS

Thomas Hedlund,
President
John Baechler, Sr.,
Vice President
Greg Anelon,
Secretary/Treasurer
Gary Martilla
Director
Bob Tracey
Director

STAFF

George Hornberger,
General Manager
Clarence Balluta,
Plant Foreman
Robert Clay,
Plant Operator
Sarah John,
Secretary/Bookkeeper

Audited Financial Statements

BALANCE SHEET DECEMBER 31, 2012

Assets	
Net Utility Plant	\$ 5,926,841
Other Property, Investments, and Receivables	
376,695	
Current Assets	
1,583,990	
Deferred Charges	
0	
Total Assets	\$ 7,887,526
Equities and Liabilities	
Patronage Capital & Other Equities	\$
4,268,151	
Net Long-Term Debt	
2,989,786	
Current Liabilities	
629,589	
Total Equities and Liabilities	\$ 7,887,526

STATEMENT OF OPERATIONS DECEMBER 31, 2011

Operating Revenues	
\$ 1,669,139	
Less: Cost of Power	
\$ 196,037	
Other Operating Expenses	
798,589	
Total Operating Expenses	
\$ 994,626	
Less: Interest on Long-Term Debt	
\$ 155,804	
Operating Margins	
\$ 518,709	
Investment Income	
\$ 3,621	
Patronage Capital from Others	
47,562	
Loss on Disposition of Property	
(11,120)	
Net Margins	
558,772	\$

Rates

RESIDENTIAL:

Consumer Charge	\$25.00
0 - 400 kWh	.42
Over 400 kWh	.38

LARGE POWER Year-Round:

Consumer Charge	\$200.00
Demand per kW	12.00
All kWh	.36

FUEL SURCHARGE:

All kWh / All Members	.12
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COMMERCIAL:

Consumer Charge	\$35.00
Consumer 3 Phase	\$65.00
First 1000 kWh	.42
Over 1000 kWh	.38

LARGE POWER Seasonal:

Consumer Charge	\$300.00
Demand per kW	14.00
All kWh	.35



INN ELECTRIC COOPERATIVE ANNUAL MEMBERSHIP MEETING MINUTES

April 28, 2012

1. CALL TO ORDER AND VERIFICATION OF A QUORUM

President Thomas Hedlund welcomed members and called the 2012 INN Electric Cooperative, Inc. Annual Membership Meeting to order at 12:00 PM. The meeting was held at the Newhalen Teen Center Building in Newhalen, Alaska. President Hedlund stated that there were 216 members of record. A quorum of 22 was reached with 33 members signing in as of 12:00 NOON.

2. READING OF THE NOTICE OF THE 2012 ANNUAL MEETING AND AFFIDAVIT OF MAILING

President Hedlund stated that he had the official notice of the 2012 INN Electric Cooperative, Inc. Annual Membership Meeting and Affidavit of Mailing mailed to members of record on March 30, 2012. He asked for a motion to waive the reading of the notice and affidavit. IT WAS MOVED, SECONDED AND DULY PASSED to waive reading the meeting notice and the affidavit of mailing.

3. READING AND APPROVAL OF THE May 7, 2011 ANNUAL MEETING MINUTES

President Hedlund stated that the 2011 INN Electric Cooperative, Inc. Annual Membership Meeting Minutes were in the annual meeting packet and available at the registration desk. He asked for corrections to the minutes, none heard he asked for a motion to waive the reading and approve the minutes as presented. IT WAS MOVED, SECONDED AND DULY PASSED to waive the reading and approve the May 7, 2011 INN Electric Cooperative, Inc. Annual Membership Meeting Minutes as presented in the annual meeting packet.

4. BOARD PRESIDENT'S REPORT

President Hedlund introduced the INN Electric Cooperative, Inc. Board of Directors: John Baechler, Vice President, Greg Anelon, Secretary, Bob Tracey, Director and Gary Martilla, Director. He also introduced INN's General Manager, George Hornberger, and Sarah John, secretary/Bookkeeper and Board Recorder. He also introduced Suzanne Lampson and Dianne Stills from NEA, whom General Manager noted was the one our members have been talking to on the phone for the past 4 years. Also introduced was Don Ellis, INNEC's lawyer and Terri Harper and Del Conrad from Rural Alaska Fuel Services (RAFS).

The President thanked the nominating committee: Jaslyn Wren, Shannon Johnson-Nanalook, Dawn Wassillie and Natalia Martilla for their diligence in carrying out the duties of the committee by seeking board nominations, and ensuring that the balloting and counting was secure.

President Hedlund began his report to the membership by briefly recapping the cooperative's accomplishments in 2011, and out-

lining plans for 2012. He stated that in the generation department Tazimina Hydroelectric plant provided 98% of gross kWh generation. Diesel generation consumed approximately 6,056 gallons of diesel fuel providing the remaining 2% of gross kWh generation. This was a savings of over \$200,000 for fuel.

Intake upgrades and boiler and plumbing controls with the heated trash racks was completed as part of the Tazimina Overhaul thanks to the Alaska Energy Authority, the Denali Commission, a grant totaling \$1.2 million.

President Hedlund stated that the cooperative board and management continue to work with both state and federal legislatures for Tazimina Hydroelectric Project debt forgiveness. INN received \$2.3 million in Rural Utilities Service (RUS) High Energy Cost Grant Program funding and will continue underground primary distribution replacement this summer. It will increase liability and shorten outage times.

We have experienced two outages this year due to underground wiring, as well as outages due to line slap. INN will be installing air flow spoilers on large portions of our overhead power lines to reduce line slap. On April 6 and 7, we experienced several outages due to some problems at the Tazimina Hydro, which has been resolved. President Hedlund encouraged members to ask General Manager Hornberger about it if they wanted to know more about that.

President Hedlund stated that this summer, INN will be upgrading the diesel generation plant with new controls and three (3) new Skania diesel generators. They are very fuel efficient. This upgrade will allow auto-start and remote start capability at the diesel generation plant in Newhalen in the event Tazimina Hydroelectric goes off-line. We are also putting in three (3) new 20,000 gallon diesel fuel tanks with all new pumping and fuel distribution pumping. All old ones will be demolished.

5. FIRST DRAWING OF DOOR PRIZES

6. ELECTION OF DIRECTORS

President Hedlund noted that this had already been done.

7. RECESS FOR REFRESHMENTS

President Hedlund convened the meeting at 12:19 PM for refreshments and the casting and counting of ballots.

8. RECONVENE MEETING AND REPORT ELECTION RESULTS

President Hedlund reconvened the meeting at 12:33 PM. He reported that 92 ballots were cast by mail and at the annual meeting, 85 were valid and 7 were invalid.

Election results:

John Baechler, Sr.	72
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Other write-in ballots included:

Denise Nickoli	2
Chip Embretson	3
Darlene Nolan	1
Tinny Hedlund	1
Henry Anelon, Jr.	1
Evelyn Trefon	1
Fedosia Balluta	2
Ira Nickoli	1
Gary Martilla	1

President Hedlund announced the results and congratulated incumbents, John Baechler, Sr. on his reelection to INN's Board of Directors.

9. SECOND DRAWING OF DOOR PRIZES

10. GENERAL MANAGER'S REPORT

Manager Hornberger began his report to the membership by thanking members for attending INN Electric Cooperative's 2012 Annual Membership Meeting. He stated that this year was an especially cold year, which contributed to high generation and 497,000 kW sales. He stated that 2011 sales were up and commented that the increase was directly attributable to a cold year and selling interruptible power to Lake and Peninsula School Districts Newhalen and Nondalton schools. Tazimina ran its highest loads ever with two (2) straight months at 100% of its capacity. He then thanked Clarence Balluta for his work along with Robert Clay, Edwin Balluta-Trefon, Fred Roehl, and Chad Koktelash. The manager explained that these employees put in some long cold hours of work at the Tazimina Hydroelectric Plant to help get it back on-line after tail-race icing shut down hydro generation.

Manager Hornberger noted that the 2011 audited end-of-year financial statements and balance sheet were available at the registration table at the meeting. INN burned nearly 40,000 gallons of diesel fuel last year. INN's fuel usage goal for the year 2012 would be 5,000 gallons of diesel fuel. INN margins at the end of 2011 equaled \$394,000. He noted that it may seem like a lot, but a lot of it is going into plant upgrades.

Manager Hornberger noted that it is INNEC's 30th year and was the best thing that ever happened to the area. He also noted that Johnny Johnson has been with the coop ever since its start and thanked him for his dedication and asked members to thank him. Manager Hornberger stated that Johnny Johnson would be retiring on June 30, 2012 after 30 years of service for INN. He presented him with a plaque.

Manager Hornberger reported that INNEC signed a contract with Rural Alaska Fuel Services (RAFS) in December to take on our billing and accounting services. He thanked Naknek Electric Association (NEA) for their service over the years and presented

them with a plaque.

Manager Hornberger also pointed out John and Ethel Adcox and thanked them for their continuing support and contributions over the last thirty (30) years. He said it should be recognized that John was on the original Board of Director's thirty (30) years ago and Ethel was the very first secretary for INN. He also presented them with a plaque.

Manager Hornberger informed members of the Ampy system that would be implemented in July 2012. He described the system briefly and then opened the meeting to member questions. Members asked various questions about the system, such as credit cards, if it is stolen, where the meter and box would be located, and pre-payment on it.

Manager Hornberger informed members on our office phone number and hours. He also stated that there is now a website and that we would be doing newsletters quarterly and are now accepting credit card payments at the Newhalen office. A member asked about plant operators doing the credit cards. Manager Hornberger said that only office personnel would be doing the credit cards. A member asked about Nondalton payments to which manager Hornberger replied that they could still mail payments and that we would take credit card payments over the phone. He also asked members for their patience as we make the transition away from Naknek.

A twenty (20) minute video commemorating INNEC's thirty (30) years, as well as the Adcox's and John Johnson was then shown to members.

11. UNFINISHED BUSINESS

None

12. NEW BUSINESS – QUESTIONS FROM THE MEMBERSHIP

No new business. President Hedlund opened the meeting to questions from the membership. There were none.

13. THIRD DRAWING OF DOOR PRIZES

14. GRAND PRIZE DRAWING

Dawn Wassillie won a \$300 electricity gift certificate. Jim Lamont won a \$100 electricity gift certificate, as did Ray Wassillie.

15. ADJOURNMENT 1:33 PM

President Hedlund thanked the membership for attending and encouraged people to take tours with George if they wanted to. He encouraged anymore questions, in which there were none. ADJOURNMENT WAS MOVED, SECONDED AND DULY PASSED at 1:33 PM.

INN Electric Cooperative, Inc.

**2013 Annual Membership Meeting
Nondalton Community Building
Nondalton, Alaska**

**Saturday April 13, 2013
Registration 11:00 AM – Meeting 12:00 NOON**



AGENDA

- 1. Call to Order**
- 2. Reading of Notice of Annual Meeting and Affidavit of Mailing**
- 3. Reading and Approval of the Minutes of the April 28, 2012 Annual Meeting**
- 4. Board President's Report**
 - a. Introduction of Guests**
- 5. First Drawing of Door Prizes**
- 6. Election of Directors**
- 7. Recess for Refreshments**
- 8. Reconvene Meeting and Report on Election Results**
- 9. Second Drawing of Door Prizes**
- 10. General Manager's Report**
- 11. Unfinished Business**
- 12. New Business – Questions from the Membership**
- 13. Third Drawing of Door Prizes**
- 14. Grand Prize Drawing – 1-\$300 & 4-\$50 Certificates for electricity**
- 15. Adjournment**