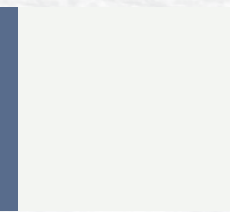
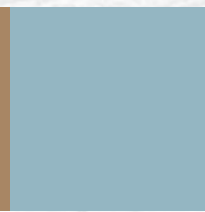
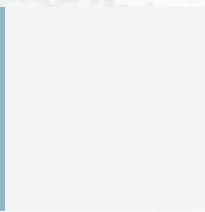
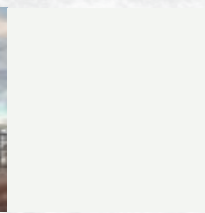
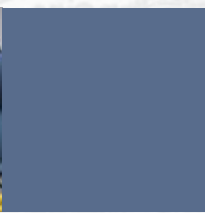


# ANNUAL REPORT 14



WORKING **TOGETHER**  
FOR THE GOOD OF **ONE**

**UPPER MISSOURI**  
POWER COOPERATIVE A Touchstone Energy® Cooperative 

# Upper Missouri Power Cooperative delivers energy!



*Little Missouri Substation*

Upper Missouri Power Cooperative (Upper Missouri) was organized in 1957 to serve transmission needs of rural electric cooperatives in eastern Montana and western North Dakota. Upper Missouri provides service to ten electric distribution cooperatives, five in eastern Montana and five in western North Dakota. The ten Member Systems serve nearly 71,000 meters to farms, ranches, homes and businesses in thirty three counties, representing over 51,000 square miles.

Upper Missouri sources power from two major power suppliers, Western Area Power Administration and Basin Electric Power Cooperative (Basin). Over 95% of the power is sourced from Basin.

Today, the Upper Missouri region has been transformed into a world oil and gas exploration and development play. Upper Missouri has seen dramatic energy sales and demand growth, now a 987 MW system, representing 24.6% of Basin's member sales in 2014. Upper Missouri is projected to need another 1,510 MW of capacity in the next twenty years.



**Roger Sorenson, President**  
Mountrail-Williams

|                             |                 |
|-----------------------------|-----------------|
| Robert Grant                | Garrett Lalim   |
| Blaine Jorgenson            | Cheryl Hartsoch |
| Larry Johnson               | Warren Bratvold |
| Aaron Lynne                 | Nick Haugen     |
| <b>Dale Haugen, Manager</b> |                 |



**Bill Retterath, Treasurer**  
Roughrider

|  |               |               |
|--|---------------|---------------|
| Roger Kudrna   | Darell Herman | Troy Sailer   |
| Bruce Darcy  | Arnold Kainz  | Greg Steckler |
| Dan Price  | Callen Schoch |               |
| <b>Don Franklund/Chris Baumgartner,</b><br>Co-Managers |               |               |



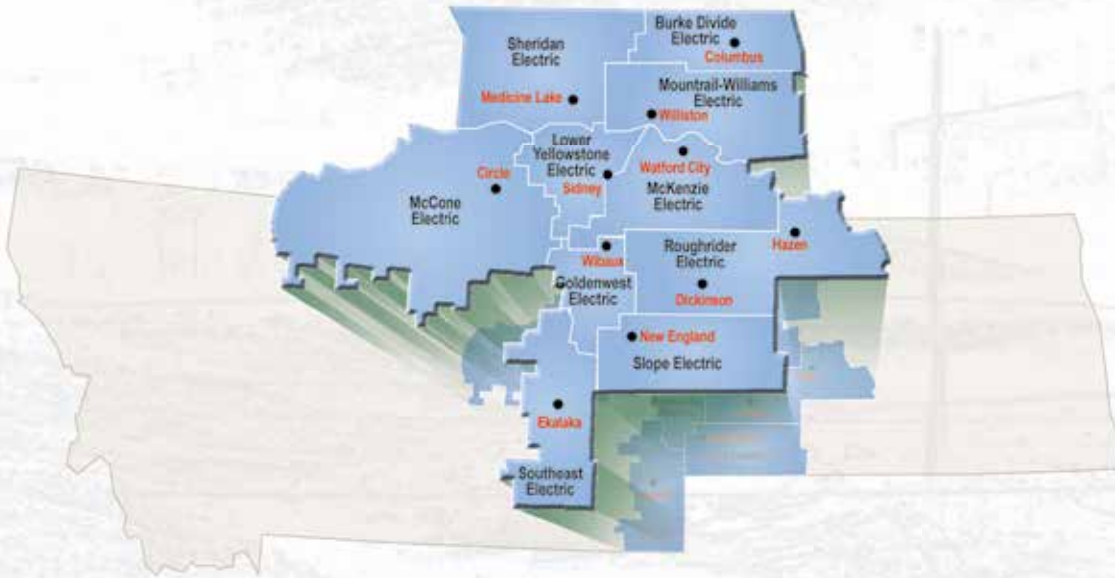
**Allen Thiessen, Vice President**  
Lower Yellowstone

|                             |                  |
|-----------------------------|------------------|
| Greg Rauschendorfer         | John Redman      |
| Colin Gartner               | Jim Vitt         |
| Dennis Nelson               | Dennis Schmierer |
| <b>Don Prevost, Manager</b> |                  |



**Travis Thompson, Secretary**  
McKenzie

|                               |                   |
|-------------------------------|-------------------|
| Ray Tescher                   | Don Link          |
| Rondee Hanna                  | Cameron Wahlstrom |
| Dennis Johnson                | Clayton Monsen    |
| Glen Houghton                 | Tim Wasen         |
| <b>John Skurupey, Manager</b> |                   |



**David Sigloh - Burke Divide**

|                            |               |
|----------------------------|---------------|
| Kent Haugland              | Lynn Jacobson |
| Steve Overlee              | Jeff Dahlin   |
| Kurt Koppelsloen           | Lane Titus    |
| <b>Jerry King, Manager</b> |               |



**Jerome Caron - Slope**

|  |               |               |
|--|---------------|---------------|
| Terry Jacobs   | Lauren Klewin | Steven Wegner |
| Lyle Narum   | John Njos     | James Kerzman |
| Anthony Larson   |               |               |
| <b>Don Franklund/Chris Baumgartner,</b><br>Co-Managers |               |               |



**Dean McCabe - McCone**

|                           |              |
|---------------------------|--------------|
| Conrad Moline             | Arne Sutton  |
| Ruth Hinnaland            | Brent McRae  |
| Donald Bogar              | Kirk Haynie  |
| Brent Kluth               | Patti Murphy |
| <b>Mike Kays, Manager</b> |              |



**Ray Clouse - Goldenwest**

|                                |               |
|--------------------------------|---------------|
| Dale Schweigert                | Charles Miske |
| Robert Makelky                 | David Franz   |
| <b>John Sokoloski, Manager</b> |               |



**Albert Paul - Southeast**

|                              |               |
|------------------------------|---------------|
| Dave Hayden                  | Karen Kreitel |
| Francis Hayes                | Leroy Jardee  |
| Mike Hansen                  |               |
| <b>Jack Hamblin, Manager</b> |               |



**Wayne Deubner - Sheridan**

|                            |                     |
|----------------------------|---------------------|
| Rod Smith                  | Robert Rust         |
| Kerrey Heppner             | Alan Danelson       |
| Andrew Dethman             | Rick Hansen         |
| Warren Overgaard           | Harlan Skillingberg |
| <b>Rick Knick, Manager</b> |                     |

# President's Report



**Roger Sorenson**

I am pleased to report that the Upper Missouri Power Cooperative family is healthy and growing well! Just like our personal well being, our cooperative network's health is dependent on regular check-ups, education, communication, good friends, and rest!

As a board, we feel like we are doing pretty well in all of these facets, except for rest! Upper Missouri Power Cooperative continues to grow at breakneck speed, over 27% in sales increase in 2014 over 2013. There is no rest in sight either; Upper Missouri has grown from a 204 MW system in 2005 to a 987 MW system in 2014, nearly five times the size in ten years! Upper Missouri is projected to be a 2500 MW system by 2035!

Even though we are growing well, we take our check-ups very seriously. In 2014, the Board of Directors chose to solicit bids for a new audit firm citing the value of having different eyes on the organization. Eide Bailly was selected to provide the audit work for the next three years. The board of directors' legal counsel, Holland & Hart, is commissioned to keep pulse on the legal "check up".

The board of directors held a strategic planning session, a self examination, in late 2014 to discuss topics including new members, board meeting structure & frequency, external relationships, and the Upper Missouri business structure. The direction remains clear, Working Together for the Good of One...the ultimate member-consumer-owner!

In addition to our internal health and well being, the board of directors supported a cooperative facelift. The board moved to change the cooperative's name in March of 2014 to more accurately reflect the organization's new direction; changing the name to Upper Missouri Power Cooperative. The board also authorized a building update creating a very professional image for the organization. With some minor inconvenience, the office building was totally remodeled (inside/outside) creating a new board room, offices, and conference rooms.

The oil price decrease in late 2014 slowed some activity down around the edges, but activity remained brisk in the heart of the Bakken. A little breathing room would be welcome, but rest assured that Upper Missouri is getting regular checkups, is growing well, and continues to depend on good people to do good things.

A handwritten signature in black ink that reads "Roger Sorenson". The signature is written in a cursive, flowing style.

# General Manager's Report



**Claire Vigesaa**

This year's theme, Working Together for the Good of One, inspires the board of directors and staff to work smart and hard to keep electricity reliable and affordable for that "one", the member consumer at the end of the line. To that end, our strength and well-being depends on regular check-ups, proper nutrition (feeding on the right things), good habits, education, communication, and good friends. Good health is vital to operate in our fast paced environment, one where we are short of rest, and one where we face several vulnerabilities...from regulation, landowner fatigue, to resource and human resource limitations. Just as we take care to have good hygiene personally...to avoid disease like ebola or influenza; we strive to keep in tip top shape and adhere to good business practices to avoid business and member relation pitfalls.

As General Manager, much of my time is focused on "good friends", our relationship with our Member Systems, among our member systems, our power suppliers, vendors, competitors and associations. Healthy relationships create great forums for sharing information, culminating in greater cooperation and system efficiencies.

Good nutrition, feeding on the right things, is a result of our involvement in our Montana and North Dakota Statewide Associations, the National Rural Electric Association, Touchstone Energy®, Basin Electric Power Cooperative, Western Area Power Cooperative, Midwest Electric Consumers Association, and Western States Power Corporation. Regular attendance and engaged participation enables us to feed on valid information, things that contribute to preventative care, and long term organization health.

Our growth requires heavy investments in generation and transmission infrastructure, and much of this responsibility lies with our majority power supplier, Basin Electric Power Cooperative. In 2014, we represented 24.6 % of Basin's Member Sales...growing to 31% of Basin's Member Sales in 2015. We are grateful for the support from Basin staff and membership, attending to our big appetite for electric energy. As the "big guy" with the "big appetite" we recognize that we need to do some heavy lifting on our part...being engaged and supportive of our Basin family. Part of that heavy lifting includes exhaustive efforts to provide Basin with valid load forecast data; data that is critical for their power supply and transmission planning. In our world, the load forecast work is nearly continuous.

In late 2014, analysis of moving assets into the Southwest Power Pool (SPP) was conducted. In conclusion, several Upper Missouri Power Cooperative's assets were identified, along with Member System assets, as assets that would be offered for inclusion in SPP.

Even though Upper Missouri is known for its fast paced growth, not all of its ten member systems are experiencing the exponential growth, nor are the sales evenly distributed. Two of our member systems represent nearly 65% of the sales, while three of the smaller systems represent less than 3% of total member system sales. Despite the disparity, I am pleased to report that our "Upper Missouri body" is working in harmony. Much like our human body, where small things like the thyroid gland play a vital part in the body's health; even our smallest member systems contribute to a healthy and well balanced organization.

I appreciate the dedication of the Upper Missouri board of trustees and Member System General Managers who whole heartily support "Working Together for the Good of One." I am pleased to work with and for a talented board of trustees, general managers and staff who remember who that "One" is...our ultimate member-consumer.

A handwritten signature in black ink that reads "Claire Vigesaa".

# Chief Operating Officer Report



**Jeremy Mahowald**

## **LOAD MONITORING**

With heavy growth and rising demand, the need for an accurate real-time load monitoring system at Upper Missouri has been of critical importance. Poor data reporting on Upper Missouri's part had significant financial impacts on Basin's marketing and forecasting groups, so Upper Missouri has taken many steps in the last year to implement a functional and timely load monitoring solution. Many options were analyzed and discussed, including the possibility of Upper Missouri running its own SCADA system and installing meters at delivery points. In the end, a high tech and cost effective solution was chosen, utilizing data available from our WAPA billing meters with Basin hosting our data.

With the data source and its destination established, the last year focused on the communication and implementation of technology to bring these together, with a goal of metering every delivery point. HDR Engineering was selected to lead the implementation, to utilize existing communications or establish new, and work with cooperatives to identify the best solution. The project is on-budget and on-track and is expected to be completed in the summer of 2015.

## **NERC COMPLIANCE**

Another pressing matter to Upper Missouri and its cooperatives is the implication and extensive amount of work associated with NERC compliance. Our current compliance program running through Basin is set to expire in 2016, and Upper Missouri along with each cooperative owning Bulk Electric System (BES) will be required to register with the Midwest Reliability Organization (MRO).

Upper Missouri has taken action and began putting together a comprehensive compliance plan for interested cooperatives and Upper Missouri itself. This included coordinating work with HDR Engineering and the cooperatives, our maintenance contractors WAPA and MDU, and the hiring of Rick Engstrom, Manager of Compliance. Rick's first objective is to apply programs to each of the nineteen standards we will be subject to, and to work with cooperatives on getting these programs implemented. Currently, Upper Missouri is working on compliance for Upper Missouri, Mountrail-Williams, Burke-Divide, and Sheridan assets.

## **UFLS**

Under-Frequency Load Shedding (UFLS) is one of the nineteen NERC compliance standards for which we need a plan. UFLS is installed to drop 30% of Upper Missouri's load in three stages if our frequency level drops to critical levels. Our long-term work with this standard will involve the maintenance of relays that perform this task. In the short-term, we need a coordinated effort with each of Upper Missouri's ten cooperatives to see that 30% of their load is shed through this program.

A handwritten signature in black ink, appearing to read 'Jeremy Mahowald', written in a cursive style.



**Della Pewonka**

Upper Missouri Power Cooperative's (Upper Missouri) sales continue to increase very rapidly. Sales to Upper Missouri's ten Member Systems totaled 5,927 GWHS in 2014, a 27% increase over 2013. Upper Missouri's 2014 coincidental peak reached 987 MW in December, 2014. The growth driver continues to be attributed to oil and gas exploration. Just a few years back, in 2004, Upper Missouri had a 224 MW peak and 1,325 GWh sales. Growth isn't over yet either, as Upper Missouri is projected to be a 2,569 MW system with 15,922 GWh sales by 2035.

In 2014 95% of Upper Missouri's energy was purchased from Basin Electric Power Cooperative, with the balance, 5%, purchased from Western Area Power Cooperative. In 2014, Upper Missouri's purchases represented 24.6% of Basin's Member Sales.

Under Upper Missouri's cost of service model, wholesale power costs are passed directly through to the ten Member Systems. Maintenance. Replacement expense, operations expense, voltage credits, capital credit allocation and renewable energy credits are passed directly through to the Member Systems based on load allocation. Margins are budgeted to be \$750,000, and capital credits are retired on average over ten years.

Upper Missouri took action to transfer a number of assets to its Member Systems and Basin Electric Power Cooperative in 2014. The transfers clean up lines of ownership in several facilities, providing for more clear maintenance and replacement responsibilities, including NERC Compliance responsibilities.

Upper Missouri updated its accounting software to QuickBooks Enterprise; the enhanced accounting software better matched the needs of the cooperative and provided the extra power for expanded reporting. Upper Missouri continues to contract with HDR Engineering and their in-house expert, Cristy Hoferer, for billing services.

2014 marks the final year of major accounting transitions due to the business model change in 2013, and accounting software change. The cooperative is well positioned financially, both from a position of strength and of order. Upper Missouri has healthy ratios, enabling the cooperative to access cost effective financing and return capital credits on a ten year rotation.

I am pleased to report that we have accounting and financial systems in place so that we can confidently say we are "Working Together for the Good of One."

A handwritten signature in black ink that reads "Della Pewonka". The signature is written in a cursive, flowing style.



Major work was completed at Upper Missouri's Medora Substation in 2014. Structure/building stabilization, a new runoff control berm, and a new access road was developed in cooperation with the Teddy Roosevelt Medora Foundation and the U.S. Forest Service.



A new 115kV bay addition was completed at the Dickinson Substation to accommodate growth in the Dickinson area. Control upgrades were completed on the parallel regulation at Dickinson as well.



Upper Missouri's mobile substation transformer failed in July 2014. The mobile is being rebuilt and updated. Once repaired, Lower Yellowstone REA has indicated interest in owning, maintaining and managing the mobile substation and regulator.





*Switchyards at Charlie Creek and Richland were offered for sale to Basin Electric Power Cooperative in late 2014. Basin already owned the transmission line between switchyards and in today's regulatory environment, it was prudent that the switchyards and line were owned by one entity. The sale also included the East Sidney Switches.*



*The manager's group and the board of directors each held a strategic planning session in late 2014. Topics addressed at the sessions included new members, the cooperative's business structure, external relationships and board/manager meeting structure.*



Due to changes in operation and long overdue building maintenance; the staff moved to the basement of the office for six months while contractors completely remodeled the main floor offices and board room. The remodel included new windows, landscaping, signage and exterior painting.



General Manager Vigesaa, and HDR Engineer **Cristy Hoferer** worked with Western Area Power and Member Systems in late 2014; drafting firm electric contract extensions to 2050 and updates to Interconnection and Tie Line Agreements and the Consolidated Facility Arrangements.



**Rick Engstrom**, manager of compliance and **Jeremy Mahowald**, chief operating officer, review progress on NERC compliance plans.



Regular meetings and negotiations were held with regard to the Interconnection and Common Use Agreement, an agreement dating back to 1972. The agreement compensates transmission owners (cooperative and MDU) based on actual load share use. In early 2014, an agreement was made with MDU to reduce losses from 7% to 4%, saving Upper Missouri Member Systems approximately \$750,000 in loss compensation.



General Manager, **Vigesaa**, was asked by NRECA to be a panelist on the Quadrennial Energy Review in August. The review included several industry speakers as well as US Presidential Cabinet Members; Secretary of Interior-Fox and Secretary of Energy-Moniz.



Upper Missouri and its Member Systems were deeply involved in the RTO analysis and supportive of Basin's plan to enter the Southwest Power Pool (SPP). Upper Missouri and some Member Systems plan for asset inclusion in SPP through the Basin lease program.



Upper Missouri Managers Advisory Committee meets monthly with Upper Missouri staff to share ideas and plans.

| Co-op              | Total Members | Total Meters  | Miles of Line | Square Miles of Service Area | Coincidental -Peak Demand (MW) | GWH Sales    |
|--------------------|---------------|---------------|---------------|------------------------------|--------------------------------|--------------|
| Burke-Divide       | 1,601         | 4,279         | 2,700         | 2,590                        | 42.4                           | 249          |
| GoldenWest         | 673           | 1,487         | 1,120         | 1,800                        | 7.1                            | 39           |
| Lower Yellowstone  | 2,435         | 6,003         | 2,159         | 3,900                        | 42.6                           | 245          |
| McCone             | 2,541         | 5,258         | 3,825         | 14,400                       | 18.6                           | 76           |
| McKenzie           | 3,824         | 10,799        | 3,969         | 4,243                        | 292.2                          | 1,722        |
| Mountrail-Williams | 6,902         | 17,930        | 5,165         | 4,089                        | 337.6                          | 2,094        |
| Roughrider         | 8,240         | 14,148        | 3,252         | 5,800                        | 152.6                          | 844          |
| Sheridan           | 1,864         | 4,680         | 2,756         | 5,042                        | 26.6                           | 148          |
| Slope              | 1,897         | 3,963         | 3,230         | 4,509                        | 64.8                           | 471          |
| Southeast          | 932           | 2,045         | 1,667         | 6,800                        | 9.4                            | 40           |
| <b>TOTAL</b>       | <b>30,909</b> | <b>70,592</b> | <b>29,843</b> | <b>53,173</b>                | <b>986.8</b>                   | <b>5,927</b> |



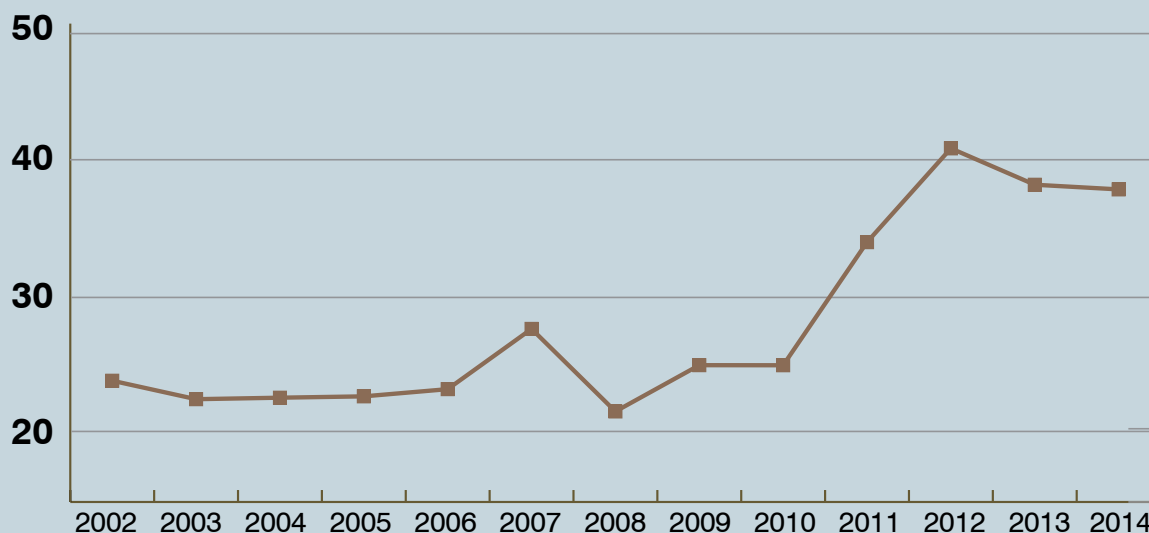
## Assets &amp; Other Debits

|   | <u>2014</u>          | <u>2013</u>          |
|---|----------------------|----------------------|
| <b>Electric Plant</b>                       |                      |                      |
| In Service                                  | \$39,603,313         | \$39,896,045         |
| Under construction                          | <u>1,632,196</u>     | <u>214,358</u>       |
| <b>Total electric plant</b>                 | 41,235,509           | 40,110,403           |
| Less accumulated depreciation               | <u>18,315,451</u>    | <u>17,552,534</u>    |
| <b>Electric Plant - net</b>                 | <u>22,920,058</u>    | <u>22,557,869</u>    |
| <b>Other Property and Investments</b>       |                      |                      |
| Patronage Capital - Basin Electric          | 62,941,714           | 51,056,730           |
| Investments in associated companies         | 509,706              | 418,130              |
| Investment in economic development projects | <u>442,550</u>       | <u>462,550</u>       |
| <b>Total other property and investments</b> | <u>63,893,970</u>    | <u>51,937,410</u>    |
| <b>Current Assets</b>                       |                      |                      |
| Cash and cash equivalents                   | 832,298              | 1,147,444            |
| Temporary cash investments                  | 134,824              | 134,824              |
| Accounts Receivable                         | 33,256,835           | 27,372,878           |
| Prepayments                                 | <u>37,430</u>        | <u>57,505</u>        |
| <b>Total Current Assets</b>                 | <u>34,261,387</u>    | <u>28,712,651</u>    |
| <b>Total Assets</b>                         | <u>\$121,075,415</u> | <u>\$103,207,930</u> |

## Equities and Liabilities

|  | <u>2014</u>          | <u>2013</u>          |
|--|----------------------|----------------------|
| <b>Equities</b>                                |                      |                      |
| Memberships                                    | \$5,000              | \$5,000              |
| Patronage capital                              | <u>69,898,925</u>    | <u>57,932,003</u>    |
| <b>Total equities</b>                          | <u>69,903,925</u>    | <u>57,937,003</u>    |
| <b>Long-Term Debt, Less Current Maturities</b> | <u>16,604,008</u>    | <u>17,009,717</u>    |
| <b>Current Liabilities</b>                     |                      |                      |
| Current maturities of long-term debt           | 907,932              | 1,456,905            |
| Line of credit                                 | 878,282              | 528,282              |
| Accounts payable - Power supply                | 31,053,989           | 24,267,381           |
| Accounts payable - other                       | 947,622              | 1,976,320            |
| Patronage capital retirement payable           | 700,000              | -                    |
| Accrued payroll                                | 24,167               | -                    |
| Accrued compensated absences                   | 52,753               | 31,939.00            |
| Other current and accrued liabilities          | <u>2,737</u>         | <u>383</u>           |
| <b>Total Current Liabilities</b>               | <u>34,567,482</u>    | <u>28,261,210</u>    |
| <b>Total current liabilities</b>               | <u>\$121,075,415</u> | <u>\$103,207,930</u> |

## Total Utility Plan Value (Millions)

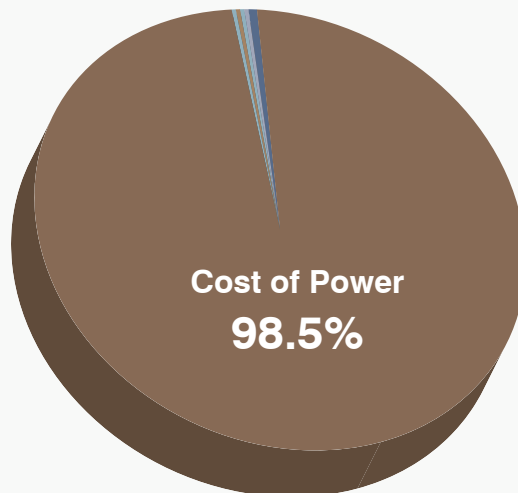


## Statements of Revenue &amp; Patronage Capital

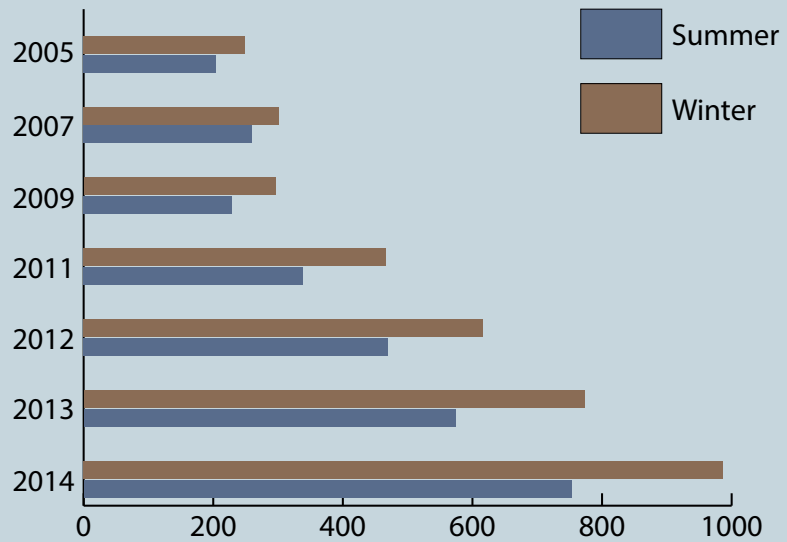
|   | <u>2014</u>          | <u>2013</u>          |
|---|----------------------|----------------------|
| <b>Operating Revenues</b>                       |                      |                      |
| Electric  | 301,872,772          | \$236,942,664        |
| Other   | 5,021,565            | \$4,712,767          |
|   | <u>\$306,894,337</u> | <u>\$241,655,431</u> |
| <b>Operating Expenses</b>                       |                      |                      |
| Cost of Power                                   | 301,901,638          | 236,457,321          |
| Transmission - operations                       | 520,981              | 343,138              |
| Transmission - maintenance                      | 339,492              | 142,029              |
| Administrative and general                      | 1,754,188            | 1,911,013            |
| Depreciation and amortization                   | 1,064,211            | 1,142,999            |
| Taxes   | 61,517               | 59,519               |
| Interest on long-term debt                      | 791,075              | 961,504              |
| Total Operating Expenses                        | <u>306,433,102</u>   | <u>241,017,523</u>   |
| <b>Operating Margins Before Capital Credits</b> | 461,235              | 637,908              |
| <b>Basin Electric capital credits</b>           | 11,922,490           | 11,209,366           |
| <b>Other Cooperative Capital Credits</b>        | 281,529              | 179,114              |
| Total Capital Credits                           | <u>12,204,019</u>    | <u>11,388,480</u>    |
| <b>Net Operating Margins</b>                    | <u>12,665,254</u>    | <u>12,026,388</u>    |
| <b>Nonoperating Margins (Loss)</b>              |                      |                      |
| Interest Income                                 | 2,017                | 13,748               |
| Gain on sale of plant                           | 25,269               |                      |
| Other non-operating income                      | 11,887               | (57,874)             |
| Total non-operating margins (loss)              | <u>39,173</u>        | <u>(44,126)</u>      |
| <b>Net Margins</b>                              | <u>\$12,704,427</u>  | <u>\$11,982,262</u>  |

## 2014 Expenses

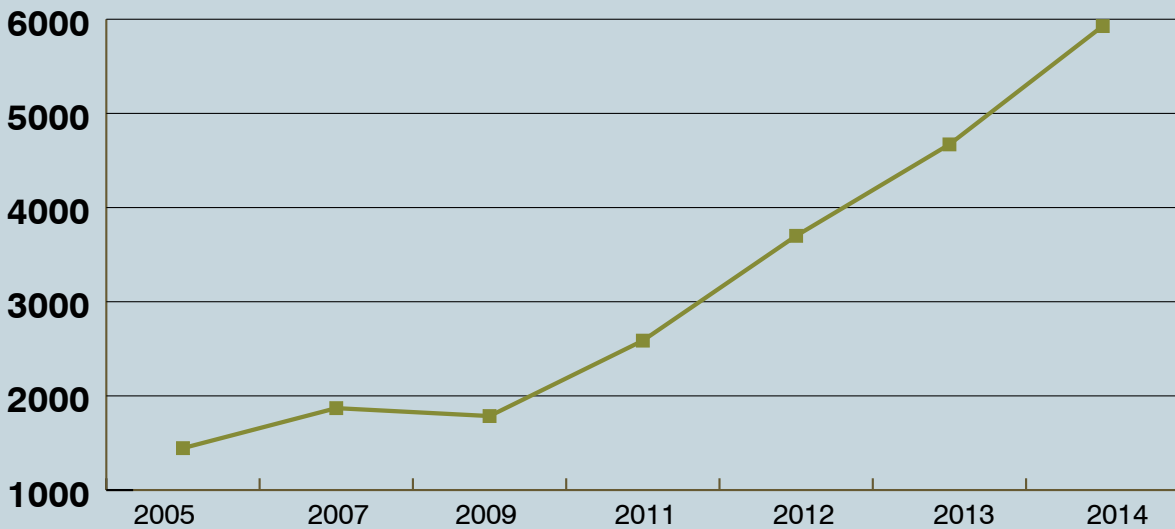
|                            |                      |
|----------------------------|----------------------|
| ■ Administrative & General | \$1,754,188          |
| ■ Cost of Power            | \$301,901,638        |
| ■ Depreciation             | \$1,064,211          |
| ■ Taxes                    | \$61,517             |
| ■ Operations Maintenance   | \$860,473            |
| ■ Interest                 | \$791,075            |
|                            | <u>\$306,433,102</u> |



## Peak Loads (Mega Watts)



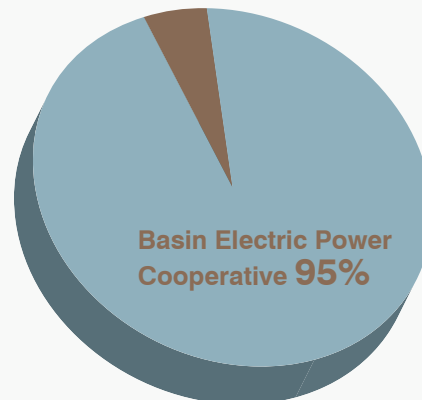
## Energy Sales (Gwh)

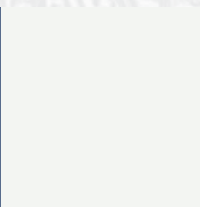
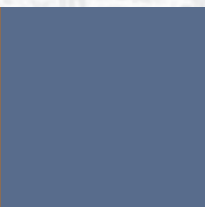
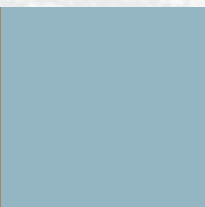
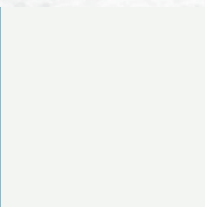
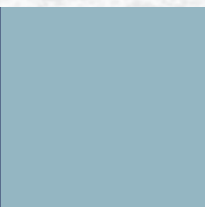
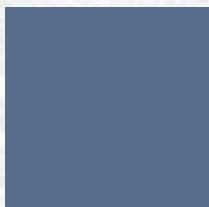
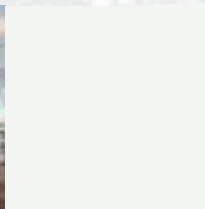
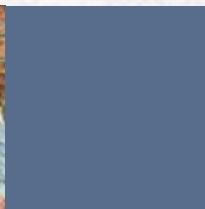


## 2014 Power Supply

- Western Area Power Administration  
312,591 MWH
- Basin Electric Power Cooperative  
5,614,895 MWH

Western Area Power  
Administration 5%





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