



INTERNET | ELECTRIC | HOME

# ANNUAL REPORT

FUTURE BOUND

2015

# A Message from the President & GM

**The Guadalupe Valley Electric Cooperative is future bound. Your Cooperative has grown into a place where our employees embrace new technologies, our services fulfill the needs of each generation, and newfound solutions create flexibility for what lies ahead.**

“Building on our heritage and having confidence in the future...” is the first phrase of the GVEC mission statement. This perfectly describes who we are: proud of our past and confident in what the future holds.

As the year began, we continued to respond to over five years of unexpected, yet welcomed, demand from the discovery of the Eagle Ford Shale. By this time, activity had resulted in hundreds of miles of new line and greater access to electricity in the more rural areas of the eastern portion of the service territory. As the year progressed, natural gas and oil prices dropped to their lowest levels in years and the flow of new associated projects slowed as well. Though the Shale had been a significant part of our operations, GVEC and the surrounding region did not feel the impact of falling prices as much as other parts of Texas. As in the past, the diverse mix of industry in our area continued to serve the Cooperative well. From agriculture and food processing to manufacturing, constant growth and change has kept GVEC moving forward with each passing year and 2015 was no exception.

However, a newer challenge has presented itself in recent years: meeting the needs of a mix of generations with varying lifestyles. Modern technologies are working to minimize outages and provide quicker access to information, while line and equipment upgrades have increased the overall reliability and efficiency of the electric system. Our customer services have grown more diverse, utilizing features such as text messaging and self-service kiosks for those wanting alternative ways to do business. GVEC.net® has expanded its offering of Fiber Internet, the fastest technology on the market, into new areas. Meanwhile, GVEC Home® has established greater accessibility to energy-efficient products and services to help lower monthly electric bills. This is in addition to the long-standing co-op tradition of supporting our communities, which included surpassing \$1 million in POWER UP grants and promoting lifesaving safety demonstrations as part of the year's activities.

For GVEC, the most notable highlight of the year is reaching the milestone of self-managing our wholesale power supply for

greater control over future power costs. The first step involved completing the official move away from the long-time all-requirements contract with the Lower Colorado River Authority. It has been a transition many years in the making and a groundbreaking move in support of the membership. The second step was entering into an agreement for part ownership of the Guadalupe Peaking Energy Center, a new electric generation facility expected to begin operations between 2017 and 2019. The agreement allows for favorable rates on 220 megawatts of wholesale power and will serve as a hedge against future peak pricing periods. Assuming the role of generating electricity in addition to delivering purchased power is a historical change in the services of GVEC. We're implementing creative strategies not particularly relevant to our past, but very much a part of building the flexibility necessary to adapt more quickly to the ever-changing needs of our industry and member-owners.

Last, but certainly not least, these accomplishments would not be possible without a strong financial position. High ratings from top finance industry experts continue to support new options in energy procurement and financing. The GVEC Board of Directors is making decisions with the utmost respect to striking a balance between covering the cost of quality service, and identifying and investing in products and services that are fairly priced.

As a cooperative confident in the future, good employees, new technologies and strategic solutions are helping us achieve our objectives. Yet, good old-fashioned value remains our ultimate goal. To us, value is something every generation can appreciate. In everything we do, we are committed to exceeding our members' expectations.

Respectfully,



Darren Schauer  
General Manager and CEO



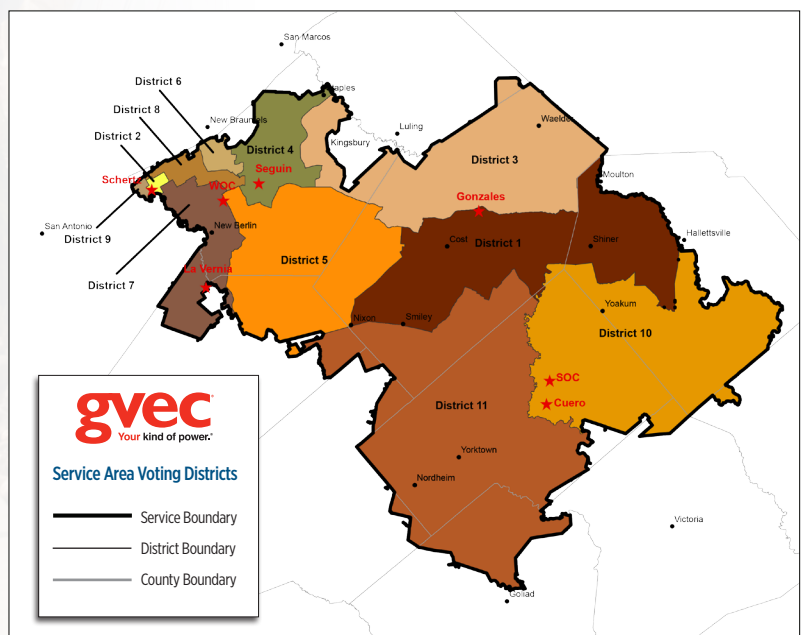
Lewis Borgfeld  
President





## GVEC Voting Districts Realigned

**W**ith the constant flow of new members moving into the service area, it is customary for GVEC to periodically review the membership population within the 11 board districts and realign boundaries when necessary. This helps to ensure a proportional balance between voting districts and that both suburban and rural members' interests are fairly represented. The 2015 review resulted in changes to boundaries in place since August 1, 2009. The realigned boundaries became effective January 1, 2016.





# Building Reliability, Sustainability

## To maintain a strong foundation...

**T**he Cooperative has grown from serving 150 members in 1938 to one of the largest distribution cooperatives in Texas. Today, we serve more than 77,000 meters in a service area spanning 3,500 square miles over 13 counties. Our state-of-the-art electric system encompasses 9,389 miles of overhead and underground distribution line, 258 miles of transmission line, and 51 substations.

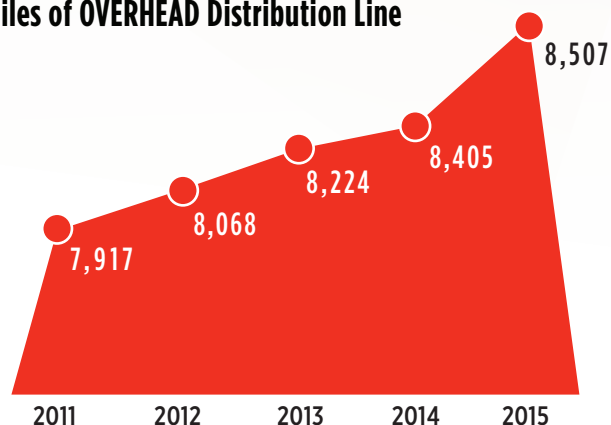
### Metrics and Technology Fuel Performance

Three basic metrics set and gauge the standards of electric reliability: SAIFI tells us the average number of interruptions members experienced over the year; SAIDI identifies the average time a member was out of power over the year; and CAIDI measures how long it took, on average, to restore an outage. Over the past few years, the addition of protective equipment along with the creation of self-healing circuits have reduced the number of members involved in an outage. The 2015 numbers indicate, on average, members experienced a little over one outage (SAIFI) lasting about an hour and 15 minutes (CAIDI).

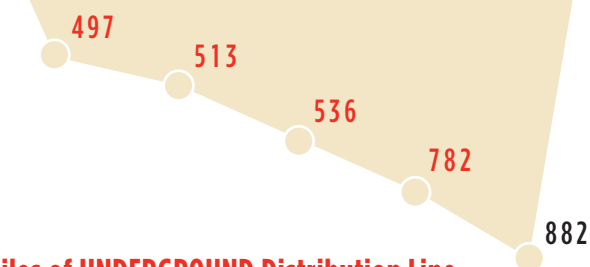
2015 was one of the most difficult years in recent times to meet the CAIDI benchmark due to unusually heavy spring and fall storms that brought high winds, rain, and even an F2 tornado to the Geronimo area in late October. GVEC crews were out in full force to restore power to the small community severely affected by the early morning storm.

It's events like these that reinforced the implementation of a new notification system, ETOR (Estimated Time of Restoration), giving crews the power to estimate restoral times from the field. This information can then be provided to members through programs like TextPower, implemented in February: a first for GVEC (see more on page 5).

### Miles of OVERHEAD Distribution Line

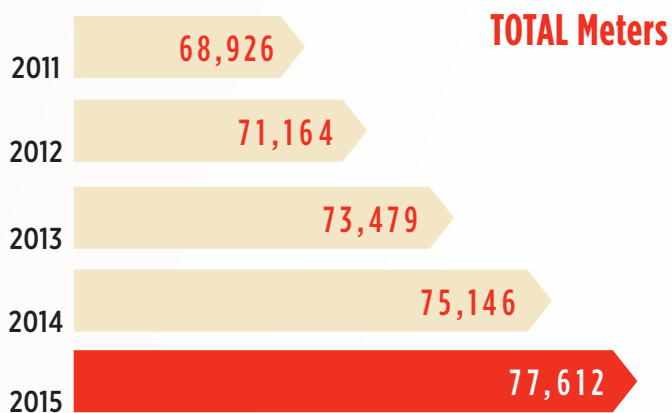


### Miles of UNDERGROUND Distribution Line



	2015	Benchmark
SAIFI	1.27	1.81
SAIDI	1:36	2:03
CAIDI	1:15	1:07

SAIFI showed, on average, members experienced a little more than one outage. SAIDI showed the average total outage time for each member was 1 hour and 36 minutes. CAIDI showed, on average, power for a single outage was restored in 1 hour and 15 minutes.



GVEC line crews work diligently to make repairs and get members back in service after storms and high winds, including an F2 tornado in Geronimo, moved through the service area on October 30, 2015.







From left: GVEC's Journeyman Team of Josh Tucker, Zach Land and Greg John proved they are among the best at the 2015 Texas Lineman's Rodeo. They won 1<sup>st</sup> Place, Cooperative Division Overall; 2<sup>nd</sup> Place for Hot Stick Insulator Change; and 3<sup>rd</sup> Place for Overall Journeyman Team. In October, the GVEC team placed 4<sup>th</sup> in the Cooperative Division and 10<sup>th</sup> Overall at the International Lineman's Rodeo.

## Proactive Maintenance, Focused Projects

GVEC has several ongoing preventive maintenance programs in addition to engineering projects to preserve and improve the reliability and efficiency of the electric system. Just a few projects in 2015 included:

- Completed 7,275 pole inspections, 1,266 pole change-outs, and 1,800 miles of rights-of-way maintenance.
- Inspected and painted 729 pad-mount transformers, switches and pedestals in the western side to preserve equipment life and ensure the safety of the public from defective equipment.
- Energized Kokernot Circuit 1 and 2 to support oil and gas development and move 483 members from GVEC's old Shiner substation to the LCRA Shiner substation.
- Installed 2.5 miles of fiber line from LCRA Guadalupe substation to GVEC Handhole #443 for improved communications to the Nordheim-West, Yorktown and Lost Creek substations.
- Completed construction of the 138kV transmission tap and CMC substation improvements to increase capacity and reliability.
- Initiated underground renovation project for greater reliability and increased efficiency in the Scenic Hills subdivision, Schertz.
- Received approval from PUCT for Nopal Transmission project in Nixon-Smiley area. Initiated design and engineering.



The CMC substation undergoes a biannual cleaning of its equipment. Maintaining the health and cleanliness of GVEC infrastructure extends equipment life and ensures reliability.



As part of the Capote to Deer Creek rebuild, crews drill the structure foundation for the new 138kV transmission line.

## Self-Managing Power Supply

After many years of planning and negotiation, the Co-op has moved seamlessly into its new role as an active participant in the price-competitive ERCOT energy market. This shift in power supply strategy, which included the Board-authorized move away from an all-requirements contract with the Lower Colorado River Authority (LCRA) as of June 25, 2016, has allowed us to contract with multiple power providers at varying contract terms and fully participate in the deregulated power market: a move that will provide us with the flexibility we need to adapt in an ever-changing industry. Having wholesale power costs directly in our control will also help assure future affordability.

To date, GVEC has contracted for its energy supply with contract terms ranging from nearly 3 to 10.5 years. This includes contracts with some of the world's largest power suppliers: Mercuria Energy Group, NextEra Energy Power Marketing, AEP Energy Partners and Calpine Energy Services. Negotiations will continue as needs arise.

In addition, GVEC also entered into an agreement with an affiliate of Calpine Corporation to take 50 percent ownership in the Guadalupe Peaking Energy Center. This 448-megawatt combustion turbine generating facility will be constructed in Marion, Texas, sometime between 2017 and 2019. This will be the first time in its history GVEC will own any type of electric generation.

# Answering Customer Needs

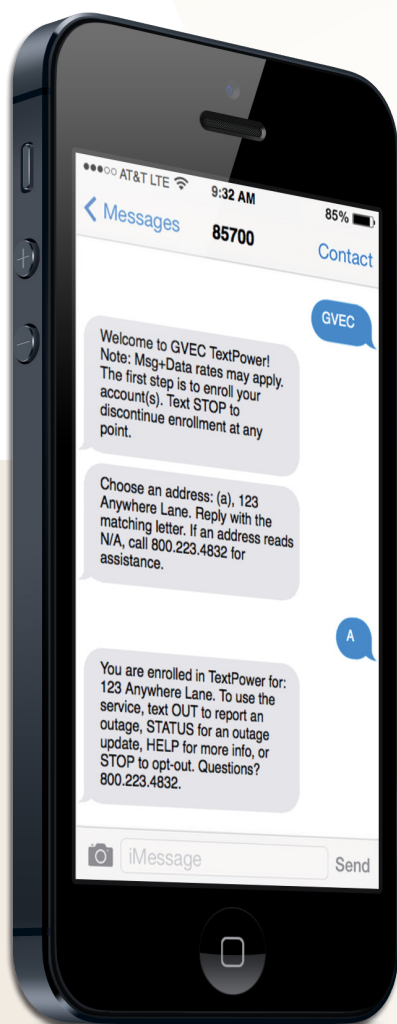
*For convenience and accessibility...*

**T**he GVEC membership is diverse, which is why we believe it is important to provide our members with options to meet their individual needs. Whether it is face to face, over the phone or electronically, we want to make it easier and more convenient to do business with us. This philosophy extends to our subsidiaries, too—GVEC.net and GVEC Home. Both were created to provide our members more choices by offering access to products and services that were otherwise limited or unavailable.

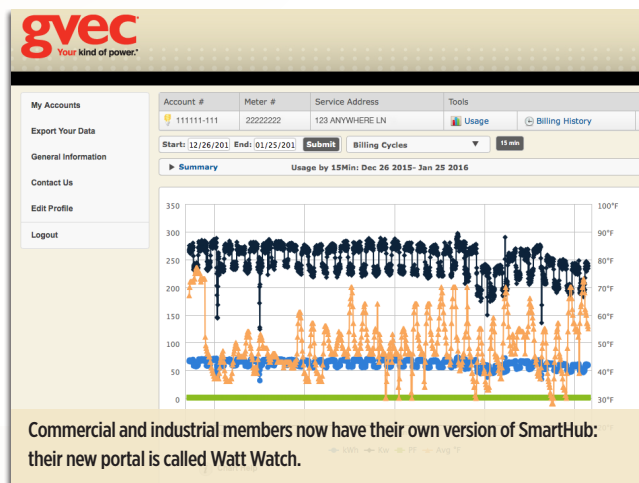
For example, one of the most exciting new services introduced in February 2015 was our TextPower outage reporting service. It allows members to report an outage by simply texting, OUT. They can also receive a power restoral estimate as well as a notification when power is restored. TextPower joins the existing options of reporting outages, including calling us or using the SmartHub® app or self-service portal at [www.gvec.org](http://www.gvec.org).

We also added another way for members to make their electric payment—by drive-thru kiosk. Installed in the high traffic areas of the Seguin and Schertz Customer Service Centers, the kiosks accept cash, credit cards and electronic checks. They can also be used to view billing statements and billing history. For customers wanting other options, payments can also be made by Automatic Bill Pay, or by phone, online, in person and by night drop box.

While the majority of our services are designed to meet the needs of our residential customers, we also have many industrial and commercial members whose requirements can be quite different. As large power consumers, these companies need to monitor their significant usage at more detailed levels. To meet this need, we rolled out a new customer portal called Watt Watch in March 2015.



TextPower was a result of member feedback to build texting into Cooperative communications.



Commercial and industrial members now have their own version of SmartHub: their new portal is called Watt Watch.



Kiosks in the drive-thru lane at the Seguin and Schertz Customer Service Centers offer a secure way to pay your GVEC electric bill anytime, day or night. Kiosks accept cash, credit cards and electronic checks; payments post immediately.



## The Fastest Internet Available

Back in 1998, when GVEC.net entered the market as an Internet Service Provider, the goal was to bring this urban amenity to rural residents who had limited access to the Internet. Since then, GVEC.net has evolved from offering dial-up service to high-speed wireless as well as Fiber to the Home (FTTH), which we refer to as Fiber Power™. Two years ago, Fiber Power was introduced as a pilot project in La Vernia: the first and fastest service of its kind in the area with speeds up to 1 Gigabit. After success in La Vernia, we continue to expand into select neighborhoods throughout our service territory.

As for our core business of wireless point-to-multipoint broadband, we are continuing to enhance that service by providing existing customers with access to a minimum download speed of 5 Mbps as part of an upgrade of 24 tower sites. In addition, all Internet customers have a more streamlined bill as part of an upgrade to a new operating system called Logisense, which also allowed for a brand new GVEC.net self-service customer portal to be introduced in May 2016.



In La Vernia, Fiber to the Home service from GVEC.net is available in Rosewood, Legacy Ranch, Vintage Oaks, Copper Creek, The Reserve, Wildwood Ranch, Presidents Park, Spring Valley, Moss Woods, Wood Valley Acres, Tierra Robles, Country Hills, Country Acres, Shadow Woods, Millers Crossing, North Millers Cove, Bridgewater, Silverado Hills, The Meadows, Big Oak Estates, Deer Ridge, The Woodlands, Eden Crossing, Westfield Ranch and selected areas around CR 319, CR 323, CR 321, CR 361, CR 324 and FM 775.

In Seguin and Marion, Fiber service is available in Mill Creek, Castlewood Estates, The Summit, and Harvest Hills.

## Valuable, Efficient Options

If sales are an indication, the Cuero GVEC Home showroom, opened in 2014, has proven to be a much needed amenity as the only appliance store of its type in the area. Like our showrooms in Gonzales, Seguin and La Vernia, it offers name-brand, energy-efficient appliances, HVAC systems sales and service, water heating sales and solar technology. This past year in response to customer requests, GVEC Home began offering an extended warranty for large appliances. It protects customers from unexpected repairs by offering features such as no deductible, 100% parts and labor for covered repairs, unlimited service calls and a no-lemon guarantee.



GVEC Home stores are located in Gonzales, Cuero, Seguin and La Vernia. Customers appreciate the fact that we have many appliances in stock, allowing them to take home their purchase that same day.



As part of GVEC's goal to help members live a more energy-efficient lifestyle, GVEC Home not only sells solar products like these PV panels, but offers an instant Energy Efficiency Rebate to GVEC members. In 2015, 789 rebates were approved, with the majority of them for heat pump HVAC systems, solar photovoltaic systems (solar roof panels), and solar screens.



# Supporting Community

*To empower every generation...*

**F**rom the beginning the cooperative purpose has been to empower people and communities, which is a value we live through activities that touch our members' lives. One program having a tremendous impact is POWER UP, which is supported by the donations of participating members and administered by the GVEC Charitable Foundation.

This year was particularly significant: grants awarded to nonprofit and civic organizations topped the million-dollar mark in 2015. Thanks to the generosity of members who have been rounding up their electric bills and donating the difference, a total of \$1,204,472 has helped to fund 77 community improvement projects in our area since the first distribution in 2012. These projects have included such things as the purchase of safety and rescue equipment for emergency responders, improvements to an all-volunteer no-kill animal shelter, and equipment for local food pantries. In addition to these grants, POWER UP includes a community assistance component where approximately 20 percent of the funds are distributed each month through three area Community Action Agency offices to help low-income and elderly members pay their electric bills.

## Spurring Growth and Prosperity

Assisting with economic development is another way we help support our members since we know the impact it can have on a community's vitality and future. It is an undertaking GVEC has engaged in for many decades through our nonprofit subsidiary, Guadalupe Valley Development Corporation and GVEC staff. For example, GVEC has helped facilitate meetings between community groups and other stakeholders, represented our area in economic development-related forums at the state and national levels, and assisted community partners in promoting our area.

In March 2016, we launched a new website—[www.ExperienceGuadalupeValley.com](http://www.ExperienceGuadalupeValley.com)—created as a tool to promote and recruit new business development within the GVEC region. The site includes detailed demographics of cities and counties within the region, news updates and commercial real estate listings. It also has a social media component for real-time, regional updates targeted to site selection professionals and others across the nation interested in relocating their businesses to our area.



In 2015, grants totaling \$285,748 were awarded to 17 organizations. Marion ISD (above) and the Yoakum First Baptist Church Food Pantry (below) were among the recipients awarded POWER UP grants this past year.



The website, [www.ExperienceGuadalupeValley.com](http://www.ExperienceGuadalupeValley.com), was created as a tool to promote and recruit new business development within the GVEC region.



**Boosting Safety Awareness**

We also enjoy sharing our expertise whenever we can, which is why you'll find us in classrooms and at community meetings teaching others about electrical safety, energy efficiency, and renewable alternatives like solar energy. This past year GVEC was invited by the Damage Prevention Councils of Texas to host their Eagle Ford Safety and Equipment Rodeo Roundup at GVEC's Thomas A. Coor Training Facility in Gonzales. It was the first time the event was brought to our area and offered bigger-than-life safety demonstrations and training for the general public, first responders, construction workers, community officials and others. On a smaller scale, we held classes on solar electrical safety for volunteer fire departments in our service area.



More than 4,000 students tour the Texas Agricultural Education and Heritage Center in Seguin with their schools each year. GVEC upgraded its exhibit in the Center to include a display showing the history of energy and a real bicycle the students can pedal to generate electricity.



Who doesn't love Louie the Lightning Bug? As GVEC's safety mascot, Louie visits about 3,000 students in second-grade classrooms each year to teach electrical safety.

Staying in touch at all levels, the GVEC Board and management meet with Speaker of the House and 2015 Texan of the Year, Joe Straus, at the 2015 Texas Legislative Conference in New Braunfels.



GVEC, along with the Damage Prevention Councils of Texas and other equipment and safety-related sponsors, hosted the Eagle Ford Safety & Equipment Rodeo Roundup to teach the community about potential digging hazards and how to stay safe. As part of the activities, GVEC demonstrated what happens when a power line is hit.





# Financially Secure

## *To provide long-term affordability...*

**T**op credit ratings and proven financial performance are not only important in procuring energy and maintaining a state-of-the-art electric system, but also in opening the door to savings opportunities.

- GVEC earned an upgraded “AA-stable” rating from one of the world’s top credit rating institutions, Standard & Poor’s Ratings Services (S&P). This rating was raised one level from the previous “A+ stable” rating, which the Co-op has firmly held since 2006. GVEC is one of only a few leading companies in the energy sector to achieve this distinction, which speaks highly of the Cooperative’s financial stability and performance. S&P commented in the summary report, “The upgrade reflects our view that with its future power arrangements settled once it moves away from LCRA in 2016, the utility should be able to sustain its strong financial risk profile.” S&P also cited factors such as a “history of very strong financial metrics” and “strong residential growth” among other considerations supporting their decision.
- Fitch Ratings affirmed the “F1+” short-term rating on GVEC’s authorized Commercial Paper Program noting that the rating “reflects GVEC’s strong credit quality and market access implied by the long-term rating as well as substantial liquidity sources.” In its long-term report, Fitch affirmed GVEC’s “AA-” rating on our 2007 electric system bond series stating the Rating Outlook is stable.
- GVEC submitted an updated Transmission Cost of Service (TCOS) filing with the Public Utility Commission of Texas. The requested rate increase was approved, allowing the Cooperative to recoup additional transmission revenue to cover the cost of new improvements. These revenues are recovered from other ERCOT electricity market participants accessing transmission lines owned by GVEC, helping to keep rates affordable for our members.
- GVEC was the first cooperative in the nation to utilize a Commercial Paper Program, a short-term financing method that allows GVEC to utilize short-term interest rates to fund capital investments. Since implementation in 2010, relative to previously available financing alternatives, the Cooperative has saved millions in interest costs by using this program with a borrowing capacity up to \$75 million.

- By year-end, the Cooperative issued bonds totaling \$50 million with the majority of the proceeds used to pay off all commercial paper borrowings. This action was consistent with the Cooperative’s debt management strategy of securing long-term debt for ongoing stability. Favorable credit ratings and financial performance allowed GVEC to secure 30-year final maturity financing at a 3.89% interest rate.
- The Cooperative engaged an industry consulting firm to conduct an extensive analysis of GVEC’s cost of service and forecasted financial position. For the first time since November 2005, the distribution rate was increased in March 2016. However, as a not-for-profit Cooperative, the Board also made the decision to lower the G&T rate in the bill, the component that makes up approximately 70 percent of members’ bills, to more than offset the impact on monthly budgets. The rate changes resulted in the average cost of power for all-electric homes going down from approximately \$0.11 to \$0.10 per kilowatt-hour.

The GVEC Board of Directors, from left, back row: Morris Harvey (District 5), Mark Roberts (District 8), President Lewis Borgfeld (District 2) and Emmett Engelke (District 6). Middle row: Robert J. Werner (District 1), Henry C. Schmidt, Jr. (District 3), Vice President Melvin E. Strey (District 7), Secretary/Treasurer Don Williams (District 10) and David Warzecha (District 11). Front row: Dr. Tom DeKunder (District 9) and Shawn Martinez (District 4).





# Guadalupe Valley Electric Cooperative, Inc. and Affiliates

## Consolidated Financials

Year Ending December 31, 2015

### 2015 Balance Sheet

#### Assets

Cash and Cash Equivalents	\$32,042,585
Current and Accrued Assets	32,135,999
Property, Plant, and Equipment	615,358,186
Accumulated Depreciation	<u>(179,096,026)</u>
Net Property, Plant, and Equipment	436,262,160
Other Long-Term Assets	<u>18,780,893</u>
Total Assets	<u><u>\$519,221,637</u></u>

#### Liabilities

Current and Accrued Liabilities	\$36,589,432
Current Portion of Long-Term Debt	7,452,296
Notes and Bonds Payable, Long-Term	190,858,751
Other Long-Term Liabilities	<u>34,299,128</u>
Total Liabilities	<u><u>\$269,199,607</u></u>

#### Member Equity

Total Patronage Capital and Other Equity	\$248,899,305
Non-Controlling Interest	<u>1,122,725</u>
Total Member Equity	<u>250,022,030</u>
Total Liabilities and Equity	<u><u>\$519,221,637</u></u>

### 2015 Cash Flow

Net Margin	\$19,468,517
Adjustments to Reconcile Net Margin to Net Cash	
Depreciation and Amortization	22,567,517
(Increase) Decrease in Current Assets	1,398,225
(Increase) Decrease in Long-Term Assets	(6,680,607)
Increase (Decrease) in Current Liabilities	12,660,772
Increase (Decrease) in Long-Term Liabilities	<u>7,885,454</u>
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$57,299,878</u></u>

#### Cash Flows from Investing Activities

Purchase of Property, Plant, and Equipment	\$(45,515,704)
Collections on Loans	13,035,674
New Loans Issued	(60,000)
Other Investing Activities	<u>143,226</u>
<b>Net Cash Used in Investing Activities</b>	<u><u>\$(32,396,804)</u></u>

#### Cash Flows from Financing Activities

Proceeds from Debt Issued	\$50,000,000
Repayment of Debt	(58,765,495)
Other Financing Activities	<u>281,857</u>
<b>Net Cash Used in Financing Activities</b>	<u><u>\$(8,483,638)</u></u>

<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	\$16,419,436
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	\$15,623,149
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>\$32,042,585</u></u>

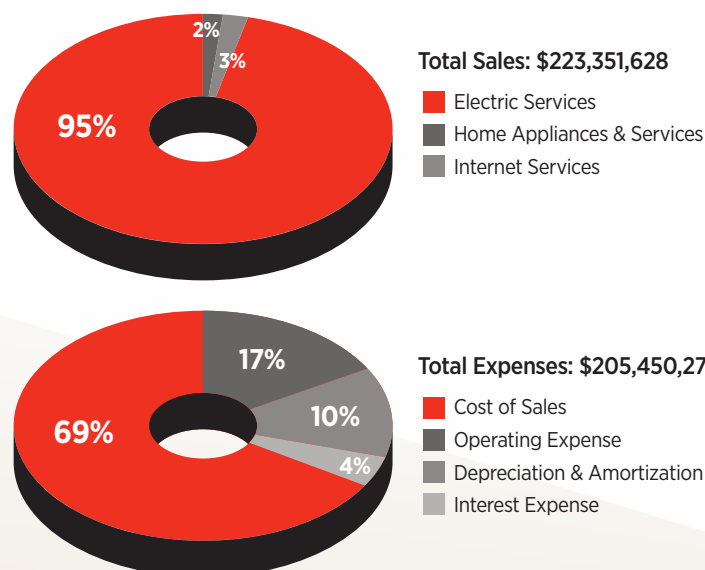
### 2015 Income Statement

#### Operating Revenue

Sales	\$223,351,628
Cost of Sales	<u>141,981,311</u>
Gross Margin on Sales	\$81,370,317

#### Expenses

Operating Expense	\$33,915,798
Depreciation and Amortization	21,517,679
Interest Expense	8,035,484
Other Expense (Income)	<u>(2,106,585)</u>
Income Before Tax Expense	20,007,941
Tax Expense	<u>539,424</u>
Net Income	<u><u>\$19,468,517</u></u>



\*Percentages have been rounded to the nearest whole number.

**Note:** Guadalupe Valley Electric Cooperative, Inc. and Affiliates Consolidated Financial Statements are audited by: Bolinger, Segars, Gilbert & Moss, LLP.

FOLLOW US ON



**Gonzales**

825 E. Sarah DeWitt Dr.  
830.857.1200

**Cuero**

1015 E. Broadway  
361.275.2334

**La Vernia**

13849 U.S. Hwy 87 W  
830.253.1600

**Schertz**

908 Curtiss Ave.  
210.658.7033

**Seguin**

927 N. Hwy 46  
830.379.2114



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