

A large-scale photograph of solar panels, viewed from a low angle, creating a strong sense of perspective. The panels are blue with a grid of silver lines. The sky is a clear, bright blue.

2016

ANNUAL
REPORT

BREAKING
THE MOLD

gvec
Your kind of power.®

INTERNET | ELECTRIC | HOME

EXCEEDING EXPECTATIONS

gvec[®]
Your kind of power.[®]

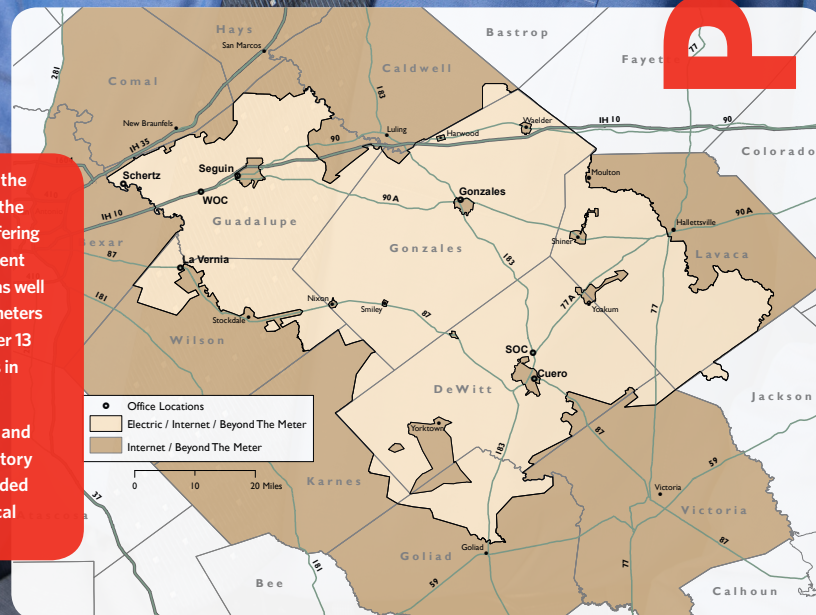
GVEC IS A COOPERATIVE THAT PROVIDES ELECTRIC, INTERNET, AND BEYOND THE METER SERVICES.





GVEC is a progressive cooperative specializing in the delivery of products and services that empower the people and communities in the Guadalupe Valley. Offering dependable electricity, high-speed Internet, efficient appliances, reliable AC/Heating sales and service as well as solar options, GVEC serves more than 79,000 meters in a service area that spans 3,500 square miles over 13 counties including five customer service locations in Cuero, Gonzales, La Vernia, Schertz and Seguin.

GVEC has a proud history of serving members and reaching milestone accomplishments. Our history book, covering the first 75 years, will be provided to members at the Annual Meeting and at local Customer Service Offices.



Sometimes you have to break the mold—think bigger and act differently—in order to be an invaluable resource in the areas that heavily impact quality of life.

This past year, the GVEC Board and staff have been engaging in conversations about the significant changes taking place in the electric industry and how they will affect GVEC. Where do we want to be and what do we want to look like as a cooperative 10 and 20 years from now? While we are always looking ahead and planning, we recognize now is the time to take action if we want to stay on top and not be left behind. It's this type of forward-thinking that has kept GVEC strong for the past 78 years and what will lead us into the future.

It's never been our nature to take the easy path. In fact, one of the strongest characteristics of GVEC is not being afraid to evolve with the times when it leads to better service and results. Take a company like Kodak, for example. They were the first to develop the digital camera, but hesitated to introduce it due to the worry it would destroy the film business. With this mentality, they lost out on what we all now know was an unprecedented opportunity. The telecommunications industry also underwent tremendous changes to the point where very few people now have landlines. The companies who meet these types of challenges head on are the most successful. And, that is the mindset behind our plan of action today.

Sometimes you have to break the mold—think bigger and act differently—in order to be an invaluable resource in the areas that heavily impact quality of life.

For example, solar technology is improving, technology is changing the way energy is generated and distributed, and soon there will be batteries to store renewable energy. It is critical for GVEC to prepare for this mix of technologies by taking small steps now to ensure sustainability in the future. Therefore, we're not only offering solar consultation and sales, we're also engaging in community solar.

Another step we are taking is to put a new focus on growing our subsidiary businesses, GVEC Home® and GVEC.net®. They were originally put in place to serve unmet needs. Today, while more options exist for our offerings, we feel the unbiased Cooperative way of doing business creates the most overall value for consumers.

We see GVEC's subsidiaries as an important growth element whose profits could help support the Co-op for years to come. We already know we have genuinely good products and outstanding service. And now, after re-evaluating our pricing structure, we are competitive with the larger box stores. You may have noticed our approach to marketing is more aggressive, too, letting more people know the value we can provide.

GVEC.net continued to expand Fiber to the Home to more neighborhoods in La Vernia as well as parts of Guadalupe County and is an excellent example of how GVEC looks ahead to leverage assets. Offering members Fiber Internet service was a natural progression as we have been transitioning the electric system from one traditionally utilized only for delivery to one that also includes

high-speed communications. This convergence not only is leading to a more intelligent electric system for the cost-effective delivery of electricity and better outage management, but also is providing the most technologically advanced Internet available where it makes sense financially.

As part of our commitment to enhance wireless Internet service, we have begun to construct microcell towers. These mini towers will provide service for the first time to customers living in pockets, or areas that are out of range of existing tower sites or where circumstances such as terrain or line-of-sight obstruction prevent us, or any company, from providing service.

Another big change has taken place at GVEC Home where we've blended the efficiency expertise of our Member Services Advisors with our Home services. Now, our Advisors not only have the knowledge to help members become more energy efficient through free in-home energy audits, they can offer real solutions for saving money with recommendations for the best AC/Heating system or solar solutions. A new air conditioning or solar panel system are two of the most expensive, yet impactful, investments that can be made for a home. It is important to GVEC that those we serve have reliable information before a long-term decision is made that will most definitely impact quality of life.

Lastly, though much of our focus this past year has been on enhancing our subsidiary offerings, we have not lost sight of our goals to continue to deliver reliable electricity and supporting services to our members. We are settling into our first year of self-managing our wholesale power supply well with four credible suppliers and staggered contracts in place. Outage management metrics indicate we are operating better than our benchmarks on the average number and length of power interruptions per meter. In addition, GVEC redesigned our www.gvec.org website to make doing business with us easier, and began a new community solar project that will take shape in 2017.

These are exciting times at GVEC as we work to increase the value of our cooperative services for our members and the communities we serve. We can all agree our strategies are changing with the times, yet every single service we offer is rooted in traditional values. As always, we are proud to represent you in everything we do.

Respectfully,

Darren Schauer
Darren Schauer
General Manager and CEO

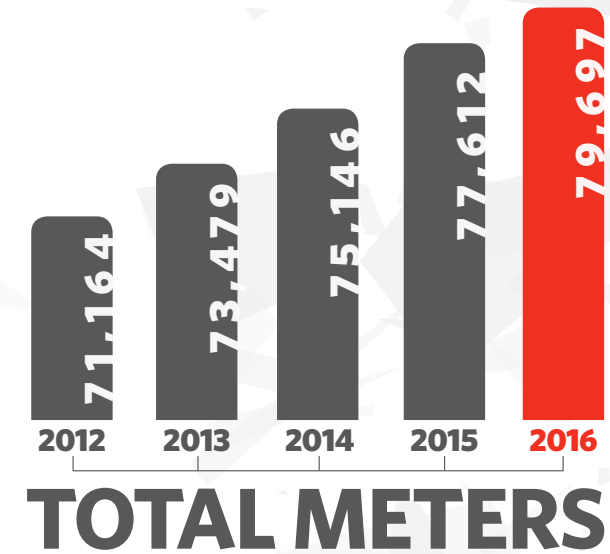
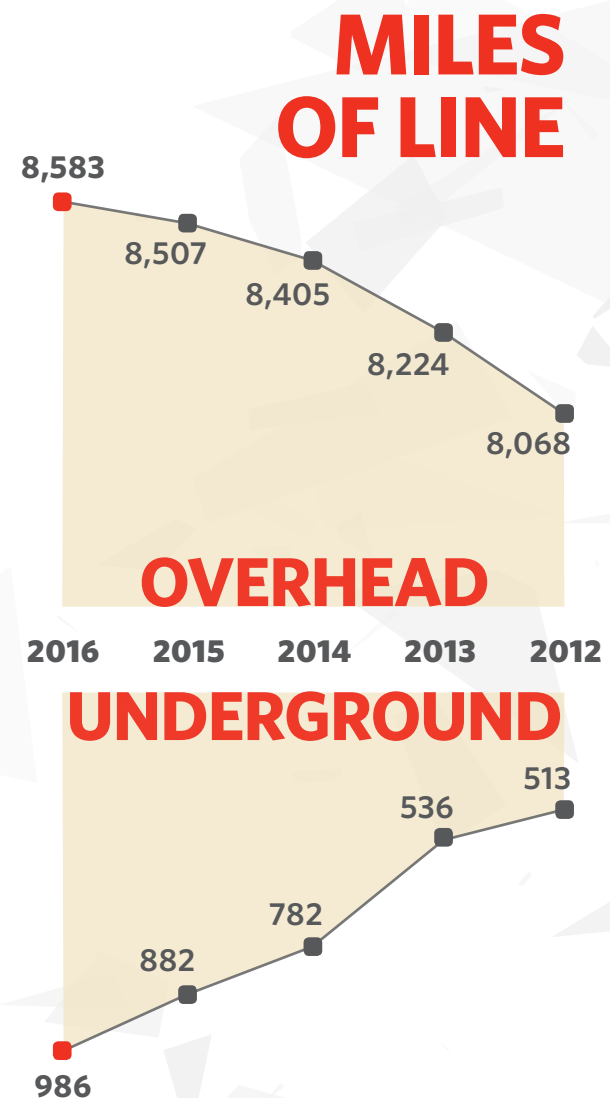
Lewis Borgfeld
Lewis Borgfeld
President

Breaking the mold means proactively fusing performance and technology to achieve stronger results.

Reliability means electricity when members need it. It also means staying ahead of industry trends and being open to innovation. Ongoing planning, testing, assessment, maintenance and improvement—that's what reliability means to us.

One of the most valuable tools we use to set reliability standards, measure progress and gauge success is benchmarks. As part of the five-year strategic plan that carried the Co-op through 2016, an important focal point was to significantly reduce SAIDI, the benchmark that measures what members care about most: how long they're out of power during the year. The process began with identifying and creating a multi-year plan for improving 15 of GVEC's poorest performing circuits. By year-end 2016, the Co-op not only met the benchmark, but exceeded it by more than 30 minutes.

Power Independence Day, the day GVEC officially began self-managing 100 percent of our wholesale power (June 26, 2016) is another example. It began with anticipating how upcoming changes in the regulatory environment, along with industry trends, would affect wholesale power costs. It ended with the Co-op making an important shift in our power supply strategy to ensure wholesale power costs would be in our control. It was the only way to provide the flexibility needed to adapt quickly to future changes and assure future affordability.



	2016	BENCHMARK
SAIFI Avg. # of interruptions	1.10	1.77
SAIDI Avg. time of power outage	1:28	2:00
CAIDI Avg. time of restoration	1:19	1:07

OUR FOCUS on lowering SAIDI was a great success—more than 30 minutes below the benchmark.

- **SAIFI** tells us the average number of interruptions members experienced was just over one.
- **SAIDI** tells us the average time a member was out of power during 2016 was one hour and 28 minutes.
- **CAIDI** suffered due to isolated weather events. It shows that it took an hour and 19 minutes, on average, to restore an outage.

RIGHT-OF-WAY maintenance is ongoing and helps keep easements and lines clear of vegetation and foliage. This makes it safer and easier for linemen to repair outages.

PROACTIVE maintenance, like painting padmount transformers, upgrading equipment and inspecting poles preserves GVEC's investment and helps improve reliability.

PRESERVING, IMPROVING, STRENGTHENING

The 2016 business plan included many preventive maintenance and engineering projects to improve performance, efficiency and reliability. Here are just a few:

- Completed 8,281 pole inspections, 770 pole change-outs, and 1,424 miles of right-of-way maintenance.
- Inspected, leveled, repaired and painted 657 padmount transformers in subdivisions in Gonzales, Guadalupe and Wilson Counties.
- Energized Moulton South substation to support oil and gas development in the Shiner and Moulton areas. Related engineering projects provided voltage reinforcement and allowed for shortened feeder lines to improve reliability to members.
- Upgraded two-way mobile radio system for improved audio quality, automated vehicle location and enhanced monitoring capabilities.
- Completed two-year Scenic Hills underground renovation project in the Schertz area to replace aging conductor and equipment.
- Completed system automation on Yorktown Circuit 5 to Nordheim West Circuit 1 back-feed voltage conversion to improve reliability.

IN CONSTRUCTION the thoughtful planning of the new Moulton South substation saved members approximately \$31.5 million, while solving many issues. The decision was made to locate the substation underneath an LCRA 138kV line, rather than upgrade an existing GVEC 69kV line between Gonzales and Hallettsville.



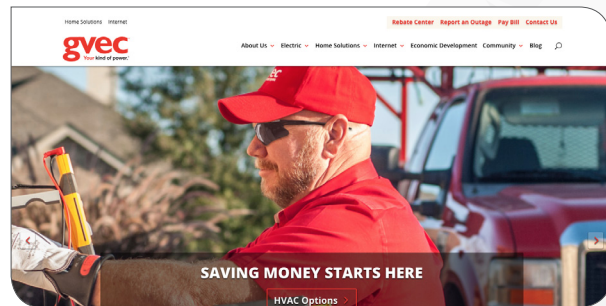
Breaking the mold means finding out what members want and turning information into action.

COMMUNITY SOLAR BREAKS GROUND

A growing number of members are interested in “green” energy, but for one reason or another, don’t want to install a solar panel system on their home. To support these members, GVEC broke ground on a two-megawatt community solar project in April 2017. Located off Highway 90A, between Seguin and Gonzales, this small scale installation will connect to the GVEC grid, allowing members to purchase local, renewable energy at an affordable price. Another benefit: having energy consumed at the distribution level helps all members save in overall transmission costs, which are administered by ERCOT (Electric Reliability Council of Texas).



GVEC'S TWO-MEGAWATT community solar project is located on approximately 16 acres off of Highway 90A, between Seguin and Gonzales. Construction began in early 2017, and when complete, it will resemble the one pictured.



EXPANDED SERVICE, FEWER CLICKS

Based on analytics and member feedback, we redesigned www.gvec.org to deliver a better online experience. Some of the changes made include easy access to all GVEC websites and quick links to member services like SmartHub® and TextPower from the home page. Members can also subscribe to our new blog for GVEC news, energy efficiency and safety tips, and stories about the communities we serve. We also have a new website, www.gvecACservice.com, featuring AC/Heating sales and services from GVEC Home.

ABOVE THE CO-OP NORM

How do we know what members are thinking? Since 2010, they’ve responded to telephone surveys to help us improve our service to them. In each survey, including this year’s, members gave us a rating of 9 out of 10 in satisfaction—well above the norm for co-ops. The development of our TextPower outage reporting service last year, and redesigned websites this year, were a result of this feedback. Members also said they would like us to do a better job communicating the full range of products offered through our subsidiaries, GVEC Home and GVEC.net. So, you’ll be hearing a lot more about them in 2017.

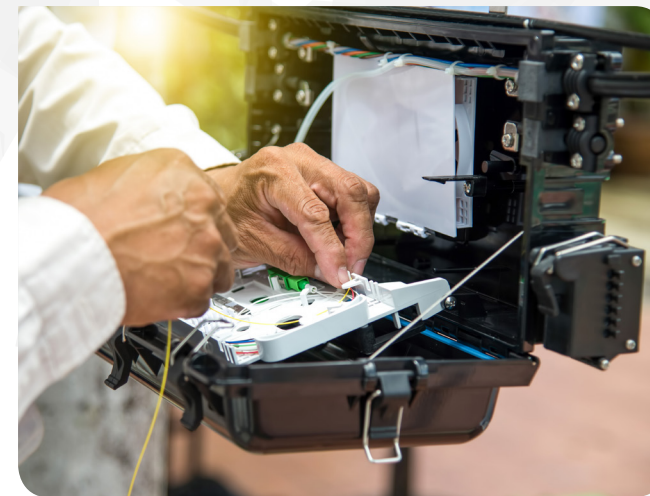
UPDATE: INTERNET SERVICE EXPANDED

Providing Internet access at an affordable price was a groundbreaking service when GVEC brought it to rural members. Back in 1998, it was dial-up service. Several platforms later, the majority of our Internet customers have one of our high-speed wireless plans. Offering service in rural areas has its challenges, which is why we are committed to always looking for ways to improve it.

- In March 2017, we began constructing microcell towers to provide service to members living in pockets, areas that are out of range of any existing tower sites, or where terrain or line-of-sight obstruction, have previously prevented us from providing service.
- GVEC.net upgraded 24 tower sites to provide existing customers with access to a minimum download speed of 5 Mbps.
- GVEC.net began offering 24/7 customer support and troubleshooting service in early 2017.
- GVEC.net was named Best Internet Provider in Gonzales by the Gonzales Inquirer readership.

Back In 2013, GVEC.net introduced Fiber Power™ (Fiber to the Home) as a pilot project in the La Vernia community. It was the first and fastest service of its kind in the area with speeds up to 1 Gigabit. Expansion of our Fiber product has continued in Seguin and other parts of Guadalupe County.

- By year-end 2016, Fiber to the Home was offered in over 40 subdivisions for a total of 3,512 potential passings (homes or business that could connect to this service).



THE INTERNET is no longer a luxury, but a necessity. GVEC.net began offering 24/7 customer support and troubleshooting in early 2017.



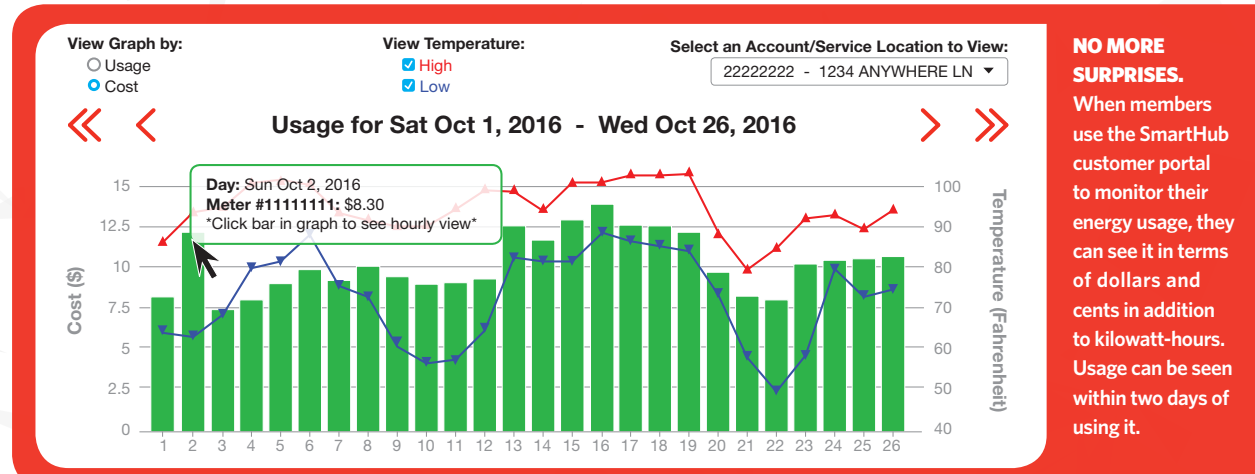
GET SOLUTIONS AT GVEC HOME

For many rural members, GVEC Home provided the only appliance repair service willing to travel to their homes. Since 1979, we’ve been expanding our appliance lines and AC/Heating systems and services to provide members with energy-efficient options from a trusted source.

- In 2016, Member Services Advisors began providing members with a whole-home approach to meeting their

energy efficiency needs. In addition to conducting GVEC’s free in-home energy audits with recommendations, this team of professional energy experts were now providing solutions to help members save money and lower their bills. By teaming up with GVEC Home, they can help members select the best AC/Heating system for their needs. For many homeowners, replacing an older system is one of the most impactful measures they can take to increase a home’s energy efficiency.

- Based on consumer surveys and local focus groups, GVEC Home re-evaluated its pricing strategy to offer lower, more competitive prices.
- GVEC Home added the luxury Jenn-Air® brand to its appliance line in 2016. We also became certified installation specialists, which means customers can receive an additional year of extended service for free when GVEC Home installs their appliance.
- GVEC Home was voted the Best Appliance Store in Seguin as well as in Gonzales by Seguin Gazette and Gonzales Inquirer readers.



Breaking the mold means not just supporting, but actively engaging with our members and their communities.

Supporting our members and helping to make a difference in their lives and communities is a privilege for GVEC. It's also an important aspect of our corporate values. Volunteerism, scholarships, youth programs, safety education, charitable grants, community events and economic development activities...GVEC takes pride in delivering more than just electricity.

- We spend many hours in classrooms throughout our territory, teaching safety and energy efficiency to all ages. We changed this year's presentations to incorporate TEKS (Texas Essential Knowledge and Skills). The goal was to be



WHO REMEMBERS eating the best fried fish this side of Lake McQueeney? The fun of eating at the old Hotshot's restaurant is recreated for one night each year at the Seguin Chamber of Commerce's Hotshot's Fish Fry fundraiser. GVEC's famous Cook Team has fried fish at this event since 2011, helping the Chamber raise approximately \$196,000 over the years.

IT'S NOT an easy job to be a volunteer firefighter or a first responder. As a thank you for all they do, GVEC held a barbecue to honor these unsung heroes and their families.



more impactful by pairing real-life experience with state-tested material to teach life lessons, while helping teachers with their lesson needs, too.

- GVEC's life-size arcing demonstration trailer was updated this past year. It's been an invaluable tool for demonstrating electricity's hazardous nature to first responders, safety personnel, school children and the general public.
- Just a few of the other ways we engaged with our members and their communities included: serving on local boards and community committees, volunteering at local events, raising money for causes like cancer, hosting barbecues to honor community heroes, participating in local parades and joining local libraries to be a part of their summer reading programs.

GVEC TAKES its arcing demonstration trailer throughout the territory to teach first responders, community members and school children about the hazards of electricity. Promoting safety within the Co-op as well as out in the community is important to us.

GVEC'S ECONOMIC development staff represents our region at local, state and national levels. Below, from left: Dale Fowler, Victoria EDC; Gerri Lawing, GVEC economic development coordinator; Futurist Lowell Catlett, Ph.D.; Team Texas Director Lorie Vincent and Ray Covey, AEP, at the Great States Investment Summit, hosted by Team Texas.



GVEC HOSTED a business appreciation luncheon in Cuero, featuring special guest, Texas Comptroller Glenn Hagar. From left: Pat Kennedy, Cuero Development Corporation; Mike Absher, GVEC; and Glenn Hagar.



SUPPORTING ECONOMIC PROSPERITY

Another way to serve our membership and their communities is through economic development activities. Over the years we've seen the difference it can make. Healthy communities bring jobs and prosperity—important elements that help ensure our region remains a place we're all proud to call home.

In 2016, we launched an aggressive social media campaign to further strengthen our economic development website, www.ExperienceGuadalupeValley.com. This has been a valuable tool in promoting and recruiting new business development within the GVEC region. GVEC staff also worked with local city governments, chambers of commerce, and regional economic development partners in support of their needs and initiatives. Other activities included: hosting business appreciation luncheons and other networking events, and representing our area in economic development-related forums at the state and national levels.

POWER UP GRANT RECIPIENTS

MEMBERS participating in the **POWER UP** program donate one cent to 99 cents each month. Bills are rounded up to the nearest dollar and the difference goes to the **POWER UP** program.

APRIL 2016 AWARD

TOTAL: \$177,400

- American Legion Dinter Post 3
- Ander-Weser VFD
- Chisholm Trail Heritage Museum
- City of Yoakum Carl & Mary Welhausen Library
- DeWitt County Historical Museum
- Guadalupe County Master Gardeners
- Habitable Spaces
- Navarro Athletic Booster Club
- Pioneer Village
- Salvation Army of Comal County
- Seguin ISD
- Seguin-Guadalupe County Heritage Museum
- Shiner Chamber of Commerce

OCTOBER 2016 AWARD

TOTAL: \$156,000

- Blossom Fields
- City of Cibolo
- City of Schertz
- Guadalupe County CERT
- Guadalupe County Children's Advocacy Center
- Hallettsville ISD
- Irma Lewis Outdoor Learning Center
- McQueeney VFD
- Moulton Lions Club
- Seguin Art League
- York Creek VFD



THE POWER UP program has had a tremendous impact by providing grants for community projects ranging from buying safety equipment for emergency personnel to refurbishing special community places and spaces. Since 2012, members participating in this charitable program have donated over \$1.5 million in grants to more than 100 nonprofit and civic organizations. At left: The City of Schertz received a grant to help build a restroom building at the Schertz Community Playscape.

Breaking the mold means understanding the difference a strong financial platform makes in maintaining stability and ensuring future sustainability.

Like any successful business, it's important that GVEC develop and adhere to a long-term plan that will ensure strong financial performance, top credit ratings, and a respected industry reputation. These are all necessary for building and maintaining a state-of-the-art electric system, procuring wholesale energy and taking advantage of cost-saving opportunities.

- GVEC maintained its "AA-stable" rating from one of the world's top credit rating institutions, Standard & Poor's Ratings Services (S&P). GVEC continues to be 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 report, "a history of very strong financial metrics" and "its strong, broad and diverse economy" 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 substantial liquidity sources, including a \$75 million dedicated credit facility provided by CoBank (rated 'AA-'/'F1+') as well as market access implied by the long-term rating." 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 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.
- 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. This helps keep rates affordable for our members.
- The Cooperative arranged for a stand-alone credit facility for GVEC.net (a majority-owned subsidiary) to support its Fiber to the Home expansion plan. The credit facility provides for up to \$15 million in loans with no guarantee or financial support from the Cooperative.



FROM LEFT: GVEC Directors Dr. Tom DeKunder (District 9), Robert J. Werner (District 1), David Warzecha (District 11), Morris Harvey (District 5), Vice President Melvin E. Strey (District 7), President Lewis Borgfeld (District 2), Secretary/Treasurer Don Williams (District 10), Henry C. Schmidt Jr. (District 3), Joe A. Castilleja (District 6), Mark Roberts (District 8), and Shawn Martinez (District 4).

Guadalupe Valley Electric Cooperative, Inc. and Affiliates Consolidated Financials

Year Ending December 31, 2016

2016 Balance Sheet

Assets	
Cash and Cash Equivalents	\$36,853,402
Current and Accrued Assets	30,415,709
Property, Plant, and Equipment	655,733,523
Accumulated Depreciation	(199,390,962)
Net Property, Plant, and Equipment	456,342,561
Other Long-Term Assets	17,228,041
Total Assets	\$540,839,713
Liabilities	
Current and Accrued Liabilities	\$46,827,300
Current Portion of Long-Term Debt	7,713,743
Notes and Bonds Payable, Long-Term	180,752,085
Other Long-Term Liabilities	33,345,809
Total Liabilities	\$268,638,937
Member Equity	
Total Patronage Capital and Other Equity	\$270,379,102
Non-Controlling Interest	1,821,674
Total Member Equity	272,200,776
Total Liabilities and Equity	\$540,839,713

2016 Income Statement

Operating Revenue	
Sales	\$222,684,830
Cost of Sales	134,032,335
Gross Margin on Sales	\$88,652,495
Expenses	
Operating Expense	\$33,454,799
Depreciation and Amortization	23,158,238
Interest Expense	8,832,054
Other Expense (Income)	(2,042,966)
Income Before Tax Expense	25,250,370
Tax Expense	452,146
Net Income	\$24,798,224

2016 Cash Flow

Net Margin	\$24,798,224
Adjustments to Reconcile Net Margin to Net Cash	
Depreciation and Amortization	24,328,503
(Increase) Decrease in Current Assets	615,967
(Increase) Decrease in Long-Term Assets	(95,903)
Increase (Decrease) in Current Liabilities	11,260,486
Increase (Decrease) in Long-Term Liabilities	(1,068,859)
Net Cash Provided by Operating Activities	\$59,838,418

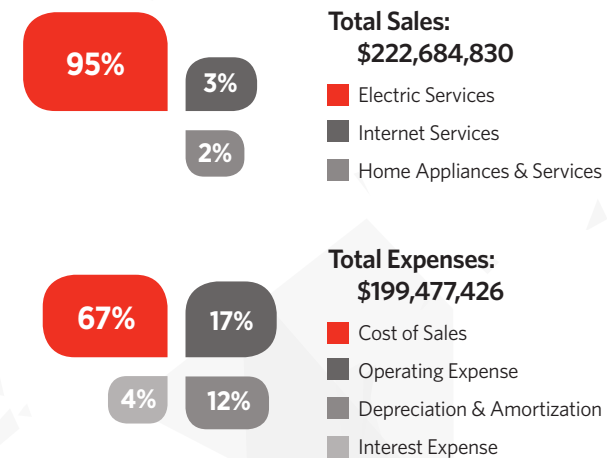
Cash Flows from Investing Activities

Purchase of Property, Plant, and Equipment	\$(44,408,904)
Collections on Loans	633,222
Other Investing Activities	157,022
Net Cash Used in Investing Activities	\$(43,618,660)

Cash Flows from Financing Activities

Proceeds from Stock Issued	500,000
Dividends Paid	(3,939,482)
Repayment of Debt	(8,020,705)
Other Financing Activities	51,246
Net Cash Used in Financing Activities	\$(11,408,941)

INCREASE IN CASH AND CASH EQUIVALENTS	\$4,810,817
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	\$32,042,585
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$36,853,402



*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.

Breaking the mold is working to deliver real solutions, forward-thinking technology, top notch service and consistent community involvement. It's been a privilege to serve you, our members, this past year.



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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