



MIDWEST ENERGY
**ANNUAL
REPORT**
2017

EXECUTIVE REPORT

Midwest Energy did not achieve budgeted margins in 2017, falling short by \$2.3 million. This marks only the second time in the last 16 years that budget expectations were not met. Mild weather and plentiful rainfall, plus lower than expected sales in the oil field, commercial and industrial sectors accounted for most of the deficiency. Midwest Energy responded before mid-year with deferral or elimination of non-critical projects to soften the impact on the bottom line. Before year-end, management tightened ongoing cost control measures. These changes included expanding the use of “business case” analyses for major expenses, not just capital investments; more stringent bidding requirements; and periodic reviews of baseline budget categories.

While missing budget for the current year should not be ignored, we also need to look beyond near-term weather variances and economic dips. Utility investments are long-lived; it takes decades to fully recoup the original investment. A Board and management priority is to make sure the cooperative is prepared for long-term changes both locally and in the industry to protect our members’ investment and control monthly bills.

We are watching several issues closely. First, we have seen significant growth in the use of renewable energy, particularly wind, to generate electricity. Thirty percent of our electricity now comes from Kansas wind farms. We welcome the environmental benefits and payments to local land owners and communities. Not visible to our customers is the cost of high voltage transmission lines that deliver the electricity generated to buyers outside our system, and in some cases to out-of-state buyers. We believe the current cost allocation process unfairly burdens local electric customers, and we will be working to modify that.

Second, Midwest Energy constantly faces the need to replace old facilities. Our current budget for replacing distribution lines along streets and rural roads is in the range of \$17 million annually. Our planning must include consideration of distributed energy resources such as rooftop solar panels and home-sized energy storage systems. **With new technologies emerging, we need to be even more diligent about future plant investments.**

Third, maintaining cyber security to protect our systems and customer information has become a critical and fast-moving target. Unlike the previous two issues that can largely be solved with traditional utility skills, cyber security threats have bad actors on the other side, constantly presenting new risks.

Finally, be assured we are paying attention to advances in new technologies such as utility-scale solar energy and batteries. Declining costs make it probable that Midwest Energy will adopt them to some degree in the years ahead.

2017 marked Earnie Lehman’s final full year of service to Midwest Energy as President and General Manager. Among many accomplishments, his 15-year tenure includes significant growth in wind energy purchases, multiple storm restoration events that benefited from over \$120 million of assistance from FEMA and the Kansas Department of Emergency Management, and construction of the 102 megawatt Goodman Energy Center. During this time Midwest Energy also earned national recognition for the How\$mart® energy efficiency program, began installation of automated gas and electric metering, constructed Kansas’ first community solar array, began a \$13 million replacement program for bare steel gas mains, and invested over \$100 million in electric transmission line upgrades. We extend Midwest Energy’s gratitude for Earnie’s leadership, and wish him and Lara the best in retirement.

Juanita Stecklein, Board Chair

Pat Parke, Chief Executive Officer

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MISSION

Midwest Energy’s mission is to provide safe, reliable and efficient energy services, while fostering leadership and growth throughout our region.

We believe the biggest way we can impact growth in our region is keeping rates as low and fair as possible.

For several years, Midwest Energy has had the lowest residential natural gas delivery rates in Kansas. Likewise, our average residential electric rate of 11.9¢ per kWh compares favorably to the Kansas average of 13.2¢ per kWh.

FORWARD LOOKING

Midwest Energy looks to the future to bring innovative, affordable and environmentally-sound solutions to our customers. In 2008, Midwest Energy was one of the first utilities in the state to bring Kansas wind to our customers, and in 2015, we were the first to offer our customers community solar. We are closely examining advances in renewable energy and energy storage, which will change how energy is generated and used in the years to come.



COMMUNITY FOCUSED

We’re heavily invested in Kansas communities. In 2017 alone, our Midwest Energy Community Fund, headed by committees of employees and customers, awarded \$111,475 to 217 community and non-profit group projects in our service area. Likewise, since 2008 our award-winning How\$mart® project has invested more than \$10 million in making energy efficiency improvements to our customers’ homes and businesses – supporting hundreds of local contractors who perform the work.



STATEMENT OF OPERATIONS

Years Ended — December 31, 2017 and 2016

	2017	2016
Operating Revenues:		
Electric.....	\$164,842,941	\$168,890,485
Gas	43,515,101	<u>39,902,473</u>
Total Operating Revenues	\$208,358,042	\$208,792,958
Operating Expenses:		
Purchased Electricity.....	\$89,020,803	\$96,513,035
Production & Delivery of Electricity	15,451,867	16,430,902
Purchased Gas	22,550,415	19,221,477
Delivery of Gas	6,580,352	6,541,565
Customer Accounts, Service & Information	6,518,725	6,759,754
Administration & General Expense	11,926,398	11,185,225
Depreciation & Amortization	22,011,562	20,787,636
Property Taxes	7,845,211	7,943,546
Interest Expense.....	<u>14,686,872</u>	<u>13,672,324</u>
Total Operating Expenses	\$196,592,205	\$199,055,464
Operating Margins (Loss)	\$11,765,837	\$9,737,494
Nonoperating Margins:		
Interest.....	\$227,487	\$254,929
Capital Credits From Other Organizations.....	2,990,783	2,522,672
Other	<u>51,755</u>	<u>360,360</u>
Total Non-Operating Margin (Loss)	\$3,270,025	\$3,137,961
Net Margins (Loss)	\$15,035,862	\$12,875,455

SELECTED COMPARATIVE STATISTICS

Years Ended — December 31, 2017 and 2016

	2017	2016
Electric		
Number of Meters.....	50,293	50,189
Peak Load, MW.....	.370	.370
Retail Energy Sales, kWh.....	1,467,298,958	1,460,377,402
Wholesale Energy Sales.....	124,702,969	126,082,791
Total Energy Sales, kWh.....	1,592,001,927	1,586,460,193
Natural Gas		
Number of Meters.....	42,255	42,303
Total Sales, Mcf.....	11,075,652	11,303,034
Financial		
Capital Credit Retirements	\$5,722,957	\$4,616,815
Modified Debt Service Coverage (MDSC).....	1.87	1.92
Average Retail Price Per kWh (Electric).....	\$0.101	\$0.104
Average Retail Price Per MMBtu (Gas)	\$7.77	\$6.77



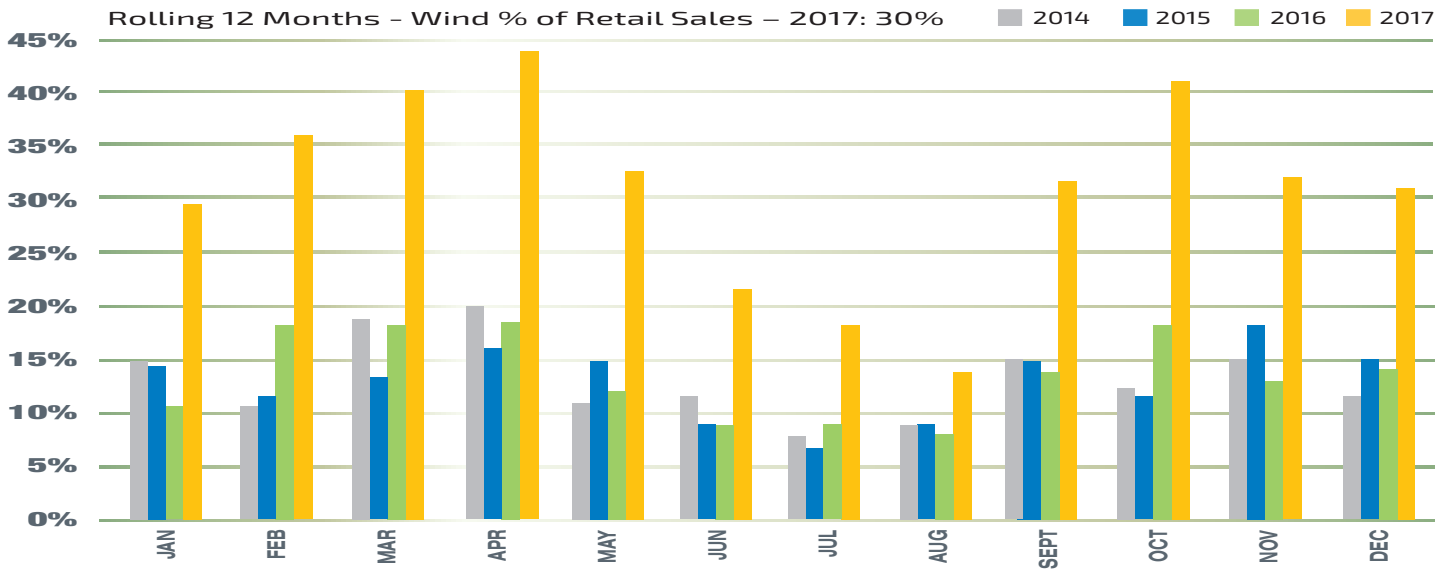
BALANCE SHEET

Assets And Other Debits	2017	2016
Electric Plant in Service	\$645,388,485	\$610,786,278
Construction Work in Progress-Electric	31,347,269	37,548,947
Total Electric Utility Plant	676,735,754	648,335,225
Accumulative Depreciation-Electric	231,256,979	221,652,977
Net Electric Utility Plant	\$445,478,775	\$426,682,248
Gas Plant in Service	89,362,445	86,555,708
Construction Work in Progress-Gas	6,790,079	5,275,952
Total Gas Utility Plant	96,152,524	91,831,660
Accumulative Depreciation-Gas	34,515,222	33,175,190
Net Gas Utility Plant	\$61,637,302	\$58,656,470
Net Utility Plant-Combined	\$507,116,077	\$485,338,718
Investment Patronage Capital	11,386,504	10,407,063
Investment Non-General Funds	5,554,096	5,557,643
Other Investments	5,027,230	5,702,403
Total Other Property & Investments	\$21,967,830	\$21,667,109
Cash-General Funds/Temporary Investments	484,484	590,368
Notes Receivable-Net	7,435,486	7,213,879
Accounts Receivable-Net	31,819,569	27,408,178
Materials & Supplies	6,721,786	6,315,915
Prepayments	544,556	591,971
Other Current & Accrued Assets	1,630,062	1,472,297
Total Current & Accrued Assets	\$48,635,943	\$43,592,608
Deferred Debits	\$21,378,643	\$22,622,240
Total Assets & Other Debits	\$599,098,493	\$573,220,675
Liabilities and Other Credits	2017	2016
Patronage Capital	\$186,467,661	\$179,319,924
Operating Margins-Current Year	11,765,837	9,737,494
Non-Operating Margins	3,270,025	3,137,961
Other Margins & Equities	12,749,080	11,916,263
Total Margins & Equities	\$214,252,603	\$204,111,642
Total Long Term Debt	\$314,124,144	\$294,383,431
Notes Payable	43,227,877	44,639,963
Accounts Payable	12,094,927	14,396,512
Consumer Deposits	3,722,462	3,565,355
Other Current & Accrued Liabilities	11,174,863	11,335,309
Total Current & Accrued Liabilities	\$70,220,129	\$73,937,139
Deferred Credits	\$501,617	\$788,463
Total Liabilities & Other Credits	\$599,098,493	\$573,220,675
Margins & Equities As % of Assets	35.76	35.61
Long Term Debt As % of Plant	40.64	39.77

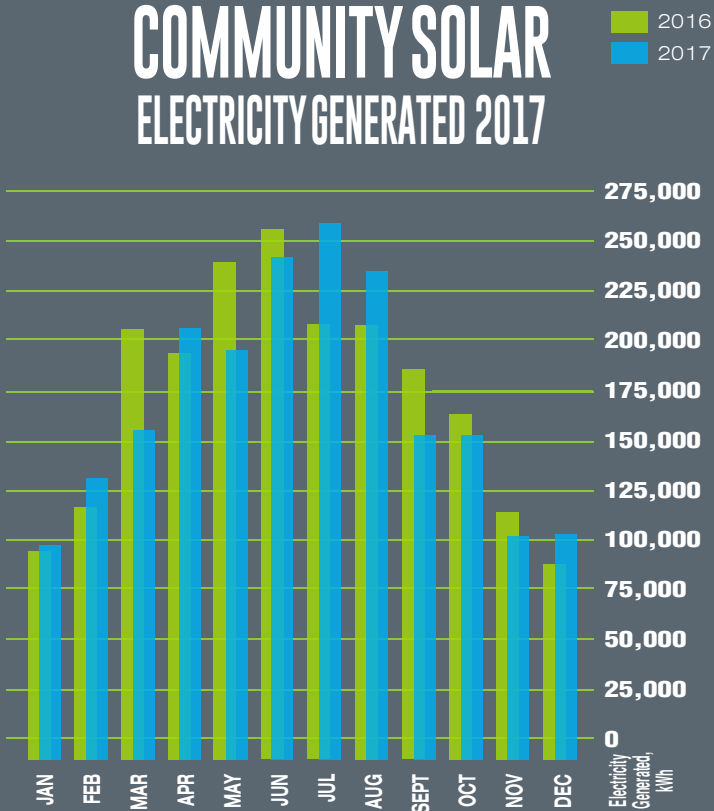
PATRON'S EQUITY Years Ended December 31, 2017 and 2016

	Patronage Capital Assigned	Patronage Capital Unassigned	Other Equities	Total Patrons' Equity
Balance at December 31, 2016	\$179,319,930	\$12,875,452	\$11,916,260	\$204,111,642
Net margins		15,035,862		15,035,862
Patronage capital assignment	12,870,697	(12,875,452)	4,755	0
Retirement of capital credits	(5,722,957)			(5,722,957)
Other			828,056	828,056
Balance at December 31, 2017	\$186,467,670	\$15,035,862	\$12,749,071	\$214,252,603

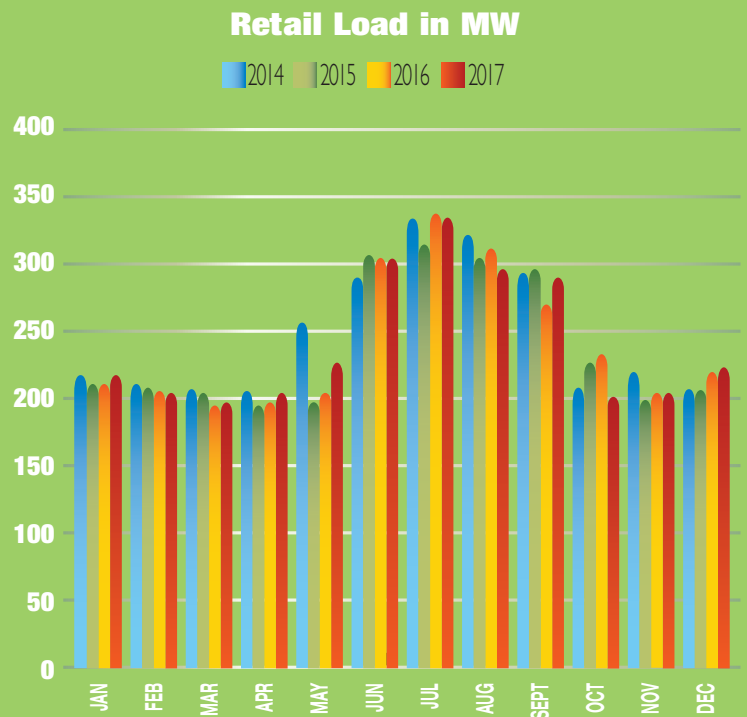
WIND ENERGY % OF RETAIL SALES



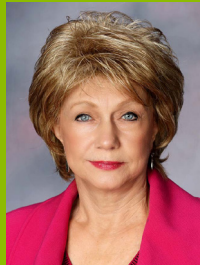
COMMUNITY SOLAR ELECTRICITY GENERATED 2017



MONTHLY PEAK DEMAND 2017



BOARD OF DIRECTORS



Juanita Stecklein
Chair



Ed Pratt
Vice Chair



Dale Unruh
Secretary



Gary Moss
Treasurer



Louise Berning



John Blackwell



Lon Frahm



Keith Miller



Chuck Moore

MANAGEMENT TEAM



Pat Parke
Chief Executive Officer



Bill Dowling
Vice President,
Engineering & Energy Supply



Sharon Dreher
Vice President,
Administrative Services



Tim Flax
Vice President,
Information Technology



Don Hoffman
General Counsel



Brenda Hutchison
Executive Assistant



Deb McEndaffer
Director, Reliability Compliance



Tom Meis
Vice President,
Finance and CFO



Mike Morley
Director, Corporate Communications and Government Affairs



Bob Muirhead
Vice President,
Customer Service



Fred Taylor
Vice President,
Operations





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OFFICES

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- 916 Sheridan, Hoxie, KS 67740
- 719 3rd Street, Phillipsburg, KS 67661
- 1301 S. Main, Scott City, KS 67871
- 415 Barclay, WaKeeney, KS 67672