

A Year of
ACCOMPLISHMENT

2015 ANNUAL REPORT





From the CEO and Chairman of the Board

Our cooperative made a huge leap forward in 2015, moving much closer to our goal of using renewable resources to supply at least 50 percent of our power generation by 2023.

That is one of the reasons the theme of this report is “A Year of Accomplishment.”

In the past five years, we have reduced our fossil fuel consumption by nearly 30 percent. Greenhouse gas emissions are now below our 1990 level.

The plunge in oil prices was an unexpected, but welcome, break. The average residential bill fell 20 percent in 2015. But we did not let up in our pursuit of cleaner alternatives. Now we are in a much stronger position to help insulate Kaua’i from oil price increases.

With the dedication of our Anahola solar project and completion of the Green Energy Team biomass project, renewable energy accounted for 38 percent of our power generation at the end of the year. That is up from 13 percent in 2014.

While our highest profile work was in renewable energy, we did not forget about our everyday interactions with members. KIUC invested in a new customer service system that enables members to track their energy use and account information online, and easily pay bills on the phone or with a mobile device.

There was much discussion about utility ownership models in 2015. People across Hawai’i are becoming educated about the benefits of the cooperative.

A key advantage is our exclusive focus on our members and our community. We do not have to weigh the cost of serving customers against the expectations of shareholders.

Our success is a tribute to the work of our elected board and our 152 employees. We are all member-owners, committed to providing exceptional value and service to our island community.

David J. Bissell
President and Chief Executive Officer



Our community electric cooperative continues to lead the state and the nation in our commitment to renewable energy and our action on that commitment.

Our 2015 opening of the Anahola solar array followed the opening a year earlier of the Kōloa solar array. Each, at commissioning, was the largest solar farm in the state. As the year ended, we were near opening the Green Energy biomass project, which would bring our utility to 40 percent renewable.

Looking forward, we are planning the biggest utility-scale solar and storage facility in the nation in cooperation with Solar City and Tesla. We also are in the planning phases of two more major solar and storage projects, plus a West Kaua’i pumped storage facility that will help our community add even more renewable resources to our grid.

All of this should bring us—with years to spare—to our 2023 strategic goal of 50 percent renewable power. It also will push us closer to the state’s goal of 100 percent renewable power.

There is so much movement on renewables, and it is happening so much faster than we planned for, that our progress is now far ahead of our strategic plan.

In the coming year, we will update the plan and then work on how to beat it, too.

Jan TenBruggencate
Chairman of the Board

2015 KIUC Board of Directors

Chairman: Jan TenBruggencate
Vice Chairman: Calvin K. Murashige
Treasurer: Peter Yukimura
Secretary: Karen Baldwin
Board: Carol Bain, Dennis Esaki,
Pat Gegen, David Iha
and Teofilo “Phil” Tacbian



The role of the board of directors is to set the policies by which the cooperative operates and to develop long-range goals for the delivery of reliable power that is also safe, economical and environmentally responsible.

The board advocates for the members and makes decisions with the best interests of the membership in mind. Directors are accountable to the membership through annual elections.

The president and CEO is the board’s only employee. The board is responsible for evaluating his or her performance. The CEO is accountable for the day-to-day operations of the utility and ensuring the cooperative is professionally managed and responsive to its members.



In Memorium: Carol Bain



Carol Bain, one of the longest-serving members of the KIUC Board of Directors, passed away May 16, 2016.

An advocate for transparency and open communication with members, Carol was first elected to the board in 2007. In March 2016, she was elected to her fourth three-year term. She served as secretary from 2013 to 2014 and most recently was chairwoman of the Policy Committee.

“We honor Carol’s memory and her work when we consider how we can be even more open and helpful to members,” said Board Chairman Jan TenBruggencate. “It would be difficult to imagine a more dedicated board member than Carol.”



The cooperative started 2015 with renewable resources generating 13 percent of its electricity. By the end of the year, with the completion of the Anahola solar array and the Green Energy Team biomass plant, KIUC had boosted that number to 38 percent. KIUC is on track to reach its goal of using renewable resources to generate at least 50 percent of Kaua'i's power by 2023.

Some highlights of 2015:

- February: Green Energy Team biomass plant begins testing. This 7-megawatt plant provides 12 percent of Kaua'i's power. The only project of its kind in this country, the \$90 million plant burns wood chips from invasive species and locally grown trees.
- April: For the eighth year, KIUC is ranked among the nation's Top 10 utilities for the integration of solar by the Solar Electric Power Association.
- May: \$2.1 million in patronage capital is refunded to the members.
- May: An update on the plans for a pumped hydro storage system on the westside is presented at a community meeting in Waimea.
- July: The co-op holds its 13th annual membership meeting; 282 people attend.
- July: The co-op distributes 6,000 LED bulbs in Princeville, Līhu'e and Waimea.
- September: KIUC signs a power purchase agreement with SolarCity for electricity from the first utility-scale solar array and battery storage system designed to supply power to the grid in the evening. The SolarCity project, which will use Tesla Powerpack battery technology, is believed to be the first utility-scale system in the U.S. to provide dispatchable solar energy, meaning the utility can count on electricity being available when it is needed, even hours after sunset.
- September: KIUC sponsors the island's second annual Drive Electric event promoting electric vehicles.
- September: Using smart meter technology, KIUC begins work on a time-of-use pilot program that offers a lower rate on electricity consumed during the day, when solar energy is abundant.
- October: KIUC upgrades its customer information and billing system, giving members more ways to obtain account information and make payments online.
- November: The 59,000-panel Anahola solar array is dedicated. The largest solar project in Hawai'i, this 12-megawatt, \$54 million solar array reduces KIUC's carbon dioxide emissions by 18,000 tons a year.
- December: Green Energy biomass plant comes online.
- December: Cumulative rooftop solar installations by members total 3,390—about 12 percent of all residential customers.
- December: Average residential bill in 2015 is \$163.04—nearly \$40 less than in 2014.

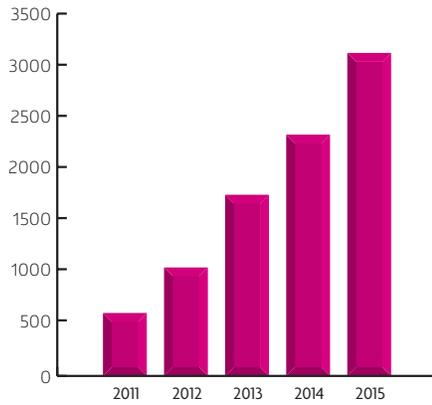
With Anahola solar and the Green Energy plant online, KIUC finishes 2015 with 38 percent of its electricity generated by renewable resources.

Highlights From 2015

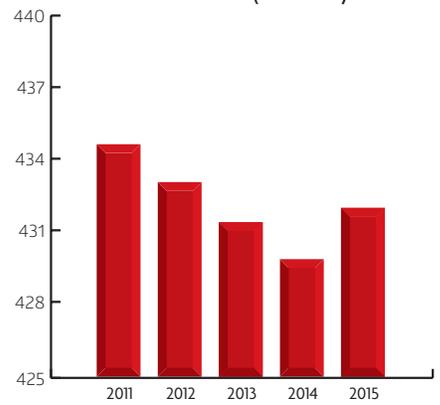




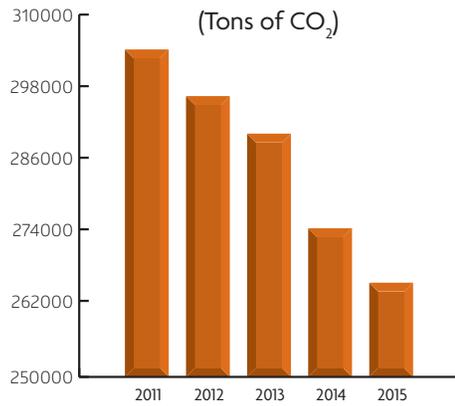
Cumulative PV Installations



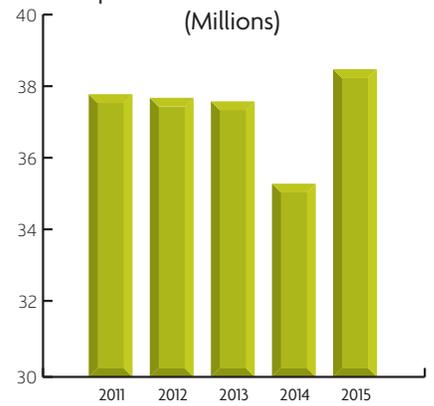
kWH Sales (Millions)



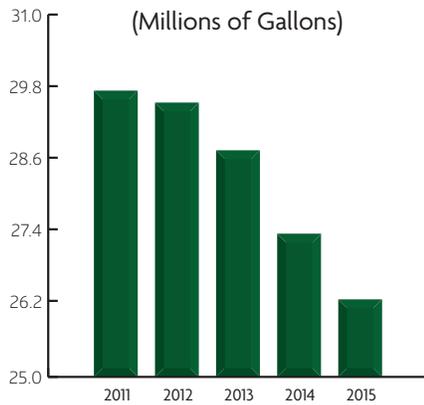
Greenhouse Gas Emissions (Tons of CO₂)



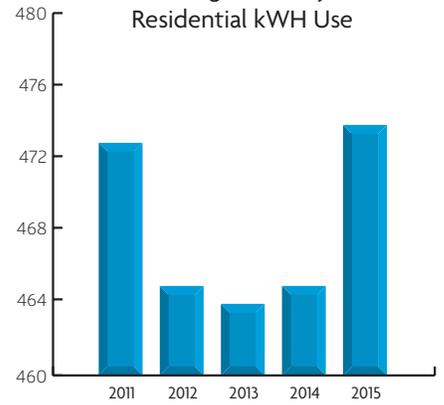
Operations and Maintenance (Millions)



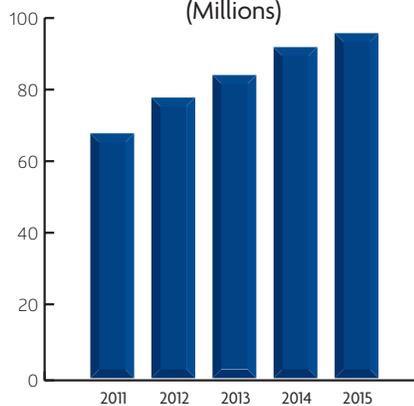
Fuel Burned (Millions of Gallons)



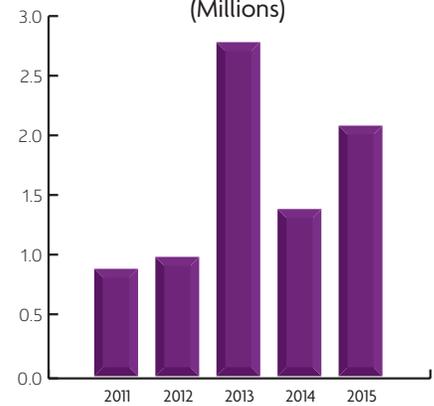
Average Monthly Residential kWh Use



Member Equity (Millions)



Patronage Capital Returned (Millions)



By the Numbers

Summary of Operations

For the period 01/01/2015 through 12/31/2015

KIUC results of operations for the year ended December 31, 2015, remained strong despite a significant decrease in revenues from 2014. Revenues decreased 20 percent due to lower fuel and purchased power costs. In 2015, KIUC's members spent \$31.4 million less in fuel and purchased power costs than in 2014. Overall, electricity use on the island was slightly higher than last year. In 2015, KIUC shifted about 23,700 megawatt-hours of generation from fossil fuel to renewable energy. The cooperative is working hard to reduce costs, operate efficiently and effectively, and preserve a strong financial position, while maintaining safety and reliability. Revenues, expenses and net margins totaled \$143.5 million, \$137.5 million and \$6.0 million, respectively, for the 12-month period ending December 31, 2015.

As is the case for all electric utilities, the cost of power generation is the largest expense, totaling \$75.9 million or 52.9 percent of revenues. Commodities—fuel and purchased power costs—are the largest component of power generation, totaling \$61.8 million or 43.1 percent of revenues. Currently, fossil fuel is the largest component of commodities, totaling \$51.0 million or 35.5 percent of revenues. Other commodities include hydropower, \$4.7 million or 3.3 percent of revenues; solar power, \$5.4 million or 3.8 percent of revenues; and biomass, \$0.7 million or 0.5 percent of revenues. The remaining \$14.1 million or 9.8 percent of revenues represents the cost of operating and maintaining the generating units.

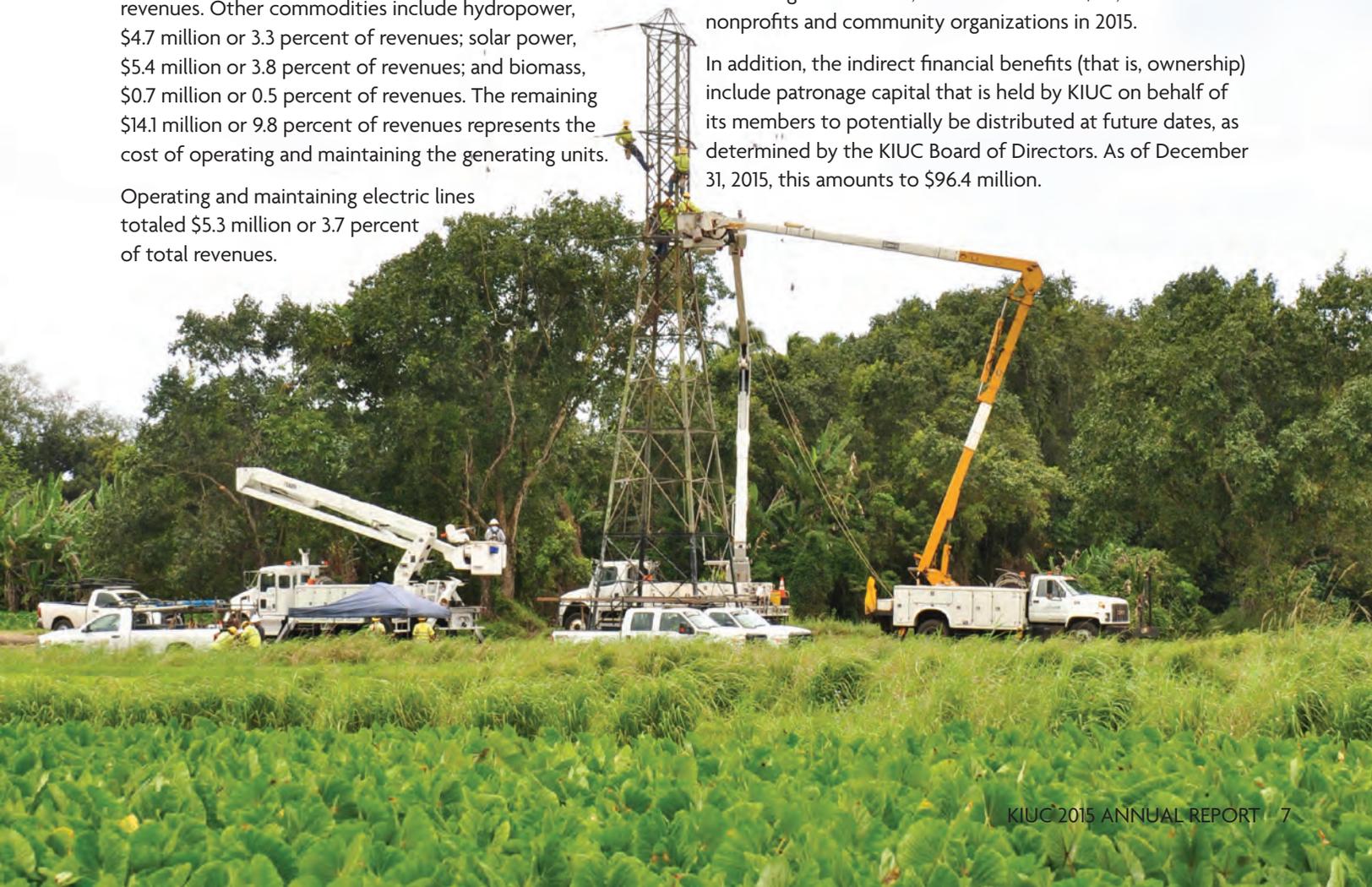
Operating and maintaining electric lines totaled \$5.3 million or 3.7 percent of total revenues.

Servicing our members totaled \$2.9 million or 2.0 percent of revenues. Administrative and general costs—which include legislative and regulatory expenses, engineering, executive, human resources, communications, safety and facilities, information services, financial and corporate services, and board of director expenses—totaled \$16.7 million or 11.7 percent of revenues.

Being capital intensive, depreciation and amortization of the utility plant costs \$17.0 million or 11.9 percent of revenues. Although not subject to federal income taxes, state and local taxes amounted to \$12.1 million or 8.4 percent of revenues. Interest on long-term debt, at a favorable sub-5 percent interest rate, totals \$7.5 million or 5.2 percent of revenues. Nonoperating net margins deducted \$0.1 million from overall net margins. Revenues less total expenses equal margins of \$6.0 million or 4.1 percent of total revenue. Margins are allocated to consumer-members and paid when appropriate.

The direct and indirect financial benefit to KIUC members is significant. Since 2002, KIUC has returned \$32.6 million to members in the form of patronage capital retirements and billing credits. Also, KIUC contributed \$115,741 to local nonprofits and community organizations in 2015.

In addition, the indirect financial benefits (that is, ownership) include patronage capital that is held by KIUC on behalf of its members to potentially be distributed at future dates, as determined by the KIUC Board of Directors. As of December 31, 2015, this amounts to \$96.4 million.





Assets

	December 31,	
	2015	2014
UTILITY PLANT AT COST		
Electric Plant in Service	\$ 546,374,192	\$ 479,173,682
Electric Plant Acquisition Cost	54,852,453	54,852,453
Accumulated Depreciation and Amortization	(265,316,187)	(253,579,118)
Net Electric Plant in Service	335,910,458	280,447,017
Construction Work in Progress	8,311,847	51,849,468
Net Utility Plant	344,222,305	332,296,485
OTHER INVESTMENTS		
Investments in Associated Organizations	889,780	791,795
Rural Economic Development Loans	873,750	1,073,313
Total Other Investments	1,763,530	1,865,108
CURRENT ASSETS		
Cash & Cash Equivalents	19,447,410	20,028,196
Restricted Cash & Cash Equivalents	2,126,117	1,908,115
Accounts and Notes Receivable (Less allowance for doubtful accounts of \$688,103 in 2015 and \$592,145 in 2014)	9,423,591	11,128,564
Accrued Unbilled Revenue	6,599,036	7,091,702
Inventories	14,538,474	14,396,537
Other Current and Accrued Assets	1,431,463	1,218,420
Total Current Assets	53,566,091	55,771,534
POST-RETIREMENT BENEFIT ASSET		
	1,252,400	1,113,400
DEFERRED CHARGES		
	10,509,802	7,530,747
Total Assets	\$ 411,314,128	\$ 398,577,274

Equities and Liabilities

EQUITIES AND LIABILITIES		
Memberships	\$ 483	\$ 467
Patronage Capital	96,389,604	92,527,762
Other Equity	397,441	396,333
Post-retirement Benefit Obligation Gain (Loss)	(259,000)	94,700
Controlling Equity Interest	96,528,528	93,019,262
Capital Account - A&B KRS II LLC	22,702,967	23,928,991
Non-Controlling Equity Interest	22,702,967	23,928,991
Total Equities and Margins	119,231,495	116,948,253
LONG-TERM DEBT, Less Current Maturities		
	187,819,625	191,515,093
ASSET RETIREMENT OBLIGATIONS		
	2,278,249	1,139,750
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	13,952,739	12,556,893
Line of Credit	59,500,000	39,000,000
Accounts Payable	5,617,070	10,277,372
Energy Rate Adjustment Clause	1,259,609	1,109,770
Consumer Deposits	1,593,707	1,514,639
Accrued Employee Compensation	2,047,106	2,655,600
Accrued Taxes	6,218,963	9,413,017
Other Current and Accrued Liabilities	729,181	835,608
Total Current Liabilities	90,918,375	77,362,899
DEFERRED CREDITS		
	11,066,384	11,611,279
Total Liabilities and Equities	\$ 411,314,128	\$ 398,577,274

Balance Sheet

December 31,
2015 and 2014

Year Ended December 31,

	2015	2014
OPERATING REVENUES		
Residential	\$ 55,512,573	\$ 68,457,684
Irrigation	59,629	38,762
Commercial and Industrial	86,013,501	108,660,247
Public Street and Highway Lighting	1,362,924	1,594,732
Other Operating Revenues	508,142	624,043
Total Operating Revenues	<u>143,456,769</u>	<u>179,375,468</u>
OPERATING EXPENSES		
Power Cost	75,873,417	109,348,105
Transmission - Operation	408,792	335,826
Transmission - Maintenance	576,009	479,856
Distribution - Operation	1,264,327	1,346,803
Distribution - Maintenance	3,058,602	3,046,602
Customer Accounts	2,278,950	2,357,285
Customer Service and Information	597,264	527,877
Administrative and General	16,717,504	13,382,811
Depreciation and Amortization	17,018,391	14,789,636
Taxes	12,100,554	15,101,376
Accretion Expense	41,053	-
Other Interest Expense	1,371,908	550,062
Total Operating Expenses	<u>131,306,771</u>	<u>161,266,239</u>
OPERATING MARGINS - Before Interest	12,149,998	18,109,229
INTEREST ON LONG-TERM DEBT	7,529,211	7,766,874
OPERATING MARGINS	4,620,787	10,342,355
NONOPERATING MARGINS		
Interest Income	613,607	590,051
Allowance for Funds Used During Construction	1,098,704	832,685
Capital Credits	97,309	53,676
Other Nonoperating Income (Expense)	(534,698)	206,578
Total Nonoperating Margins	<u>1,274,922</u>	<u>1,682,990</u>
EXTRAORDINARY ITEMS	-	(1,509,273)
NET MARGINS	5,895,709	10,516,072
Net Loss (Margins) Attributable to Non-controlling Interest	55,172	(1,067,191)
NET MARGINS - COOPERATIVE	<u>\$ 5,950,881</u>	<u>\$ 9,448,881</u>
PATRONAGE CAPITAL - BEGINNING OF YEAR	\$ 92,527,762	\$ 84,689,122
Allocation of Net Margins	5,950,881	9,448,881
Patronage Capital Retired	<u>(2,089,039)</u>	<u>(1,610,241)</u>
PATRONAGE CAPITAL - END OF YEAR	<u>\$ 96,389,604</u>	<u>\$ 92,527,762</u>



Statement of Income and Patronage Capital

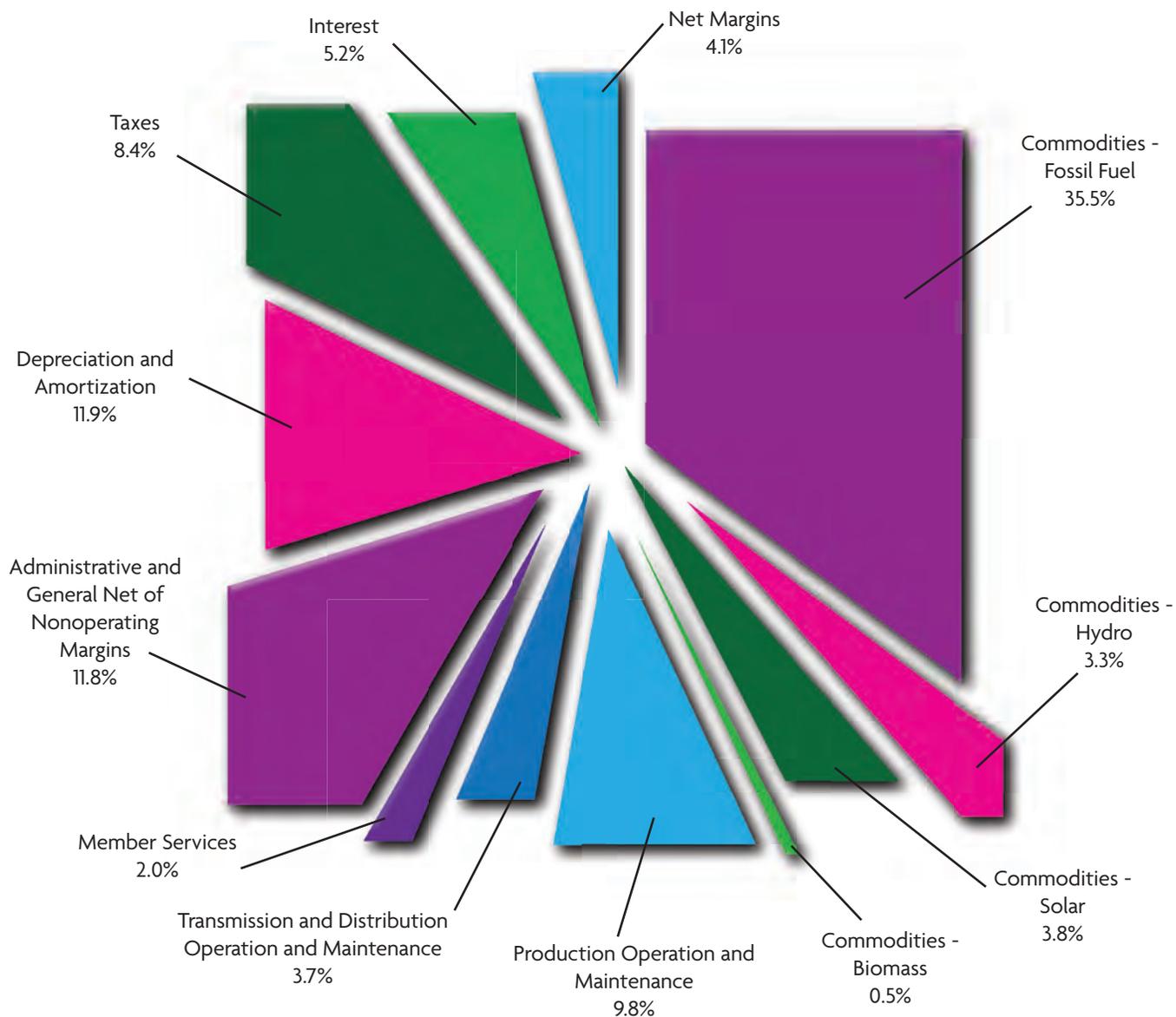
For the years ended
December 31,
2015 and 2014



Statement of Cash Flows

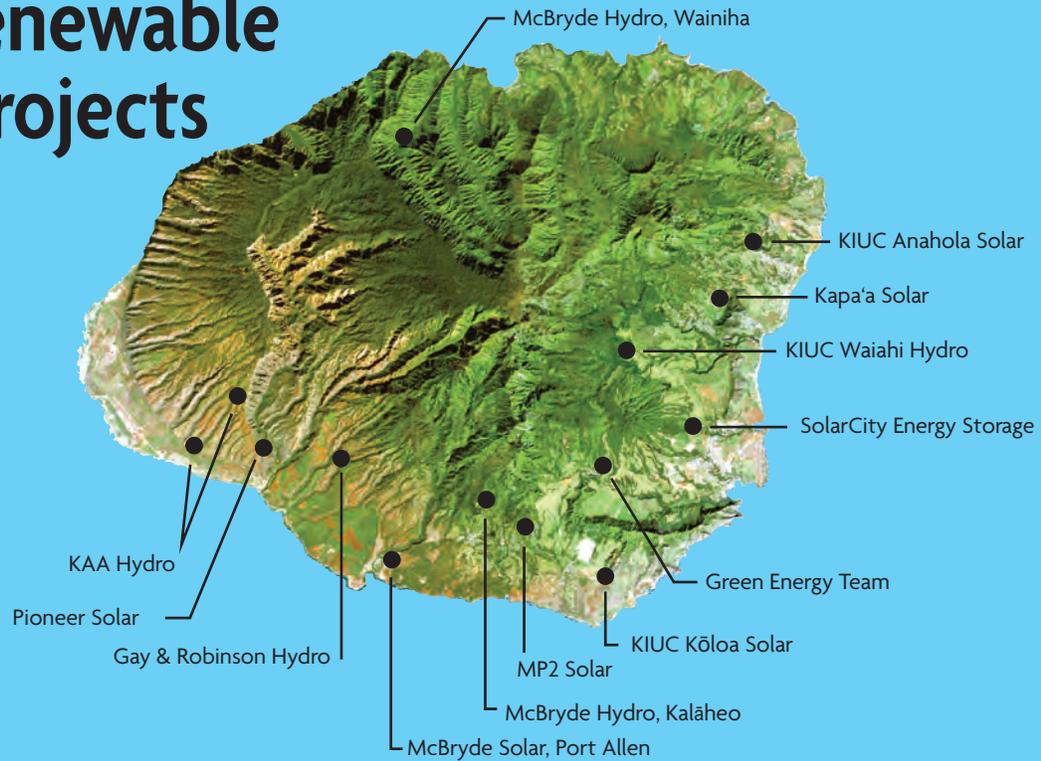
For the years ended
December 31,
2015 and 2014

	December 31,	
	2015	2014
OPERATING ACTIVITIES		
Net Margins	\$ 5,950,881	\$ 9,448,881
Adjustments to Reconcile Net Margins to Net Cash from Operating Activities		
Depreciation and Amortization	17,510,336	15,184,103
Accretion of Asset Retirement Obligation	41,053	-
Interest Earned on Cushion of Credit	(634,155)	(603,258)
Capital Credit Allocations	(97,309)	(53,676)
Net Margins Attributable to Non-controlling Equity Interest	(55,172)	1,067,191
Change in Assets and Liabilities:		
Accounts Receivable and Unbilled Revenue	2,197,639	3,768,767
Energy Rate Adjustment Clause	149,839	1,268,158
Inventories and Other Current Assets	(354,980)	1,025,641
Deferred Debits	(2,979,055)	(125,516)
Post-Retirement Benefit Obligation	(492,700)	(2,923,100)
Payables and Accrued Expenses	(3,457,170)	(2,884,753)
Deferred Credits	(544,895)	(968,004)
Net Cash from Operating Activities	<u>17,234,312</u>	<u>24,204,434</u>
INVESTING ACTIVITIES		
Additions to Utility Plant, net	(33,371,749)	(70,020,691)
Rural Economic Development Loans	199,563	86,622
Other Investments	(676)	3,140
Net Cash used for Investing Activities	<u>(33,172,862)</u>	<u>(69,930,929)</u>
FINANCING ACTIVITIES		
Borrowings from Long-Term Debt	10,961,000	45,729,000
Principal Payments on Long-Term Debt	(12,626,467)	(35,314,075)
Net Activity on Line of Credit	20,500,000	27,689,000
Contributions from Non-controlling Equity Interest	-	23,848,609
Distribution to Non-controlling Equity Interest	(1,170,852)	(986,809)
Memberships	16	16
Other Equities	1,108	98,229
Retirement of Patronage Capital	(2,089,039)	(1,610,241)
Net Cash from Financing Activities	<u>15,575,766</u>	<u>59,453,729</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(362,784)	13,727,234
CASH AND CASH EQUIVALENTS — BEGINNING OF YEAR	<u>21,936,311</u>	<u>8,209,077</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 21,573,527</u>	<u>\$ 21,936,311</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	<u>8,902,286</u>	<u>8,316,936</u>
Income Taxes	<u>31,508</u>	<u>30,836</u>
Noncash Investing Activities:		
Liabilities Incurred for Asset Retirement Obligations	<u>1,097,446</u>	<u>1,139,750</u>
Liabilities Incurred for Utility Plant Additions	<u>-</u>	<u>5,033,039</u>



Commodities - Fossil Fuel	50,941,514
Commodities - Hydro.....	4,682,985
Commodities - Solar.....	5,432,347
Commodities - Biomass.....	702,576
Production Operation & Maintenance.....	14,113,996
Transmission & Distribution Operation & Maintenance.....	5,307,730
Member Services.....	2,876,214
Administrative & General Net of Nonoperating Margins.....	16,800,371
Depreciation & Amortization	17,018,391
Taxes.....	12,100,554
Interest.....	7,529,211
Net Margins.....	5,950,881

Kaua'i Renewable Energy Projects



	Type	MW	% of Sales
Active In Use			
KIUC, Kōloa	Solar	12.0	5.0
KIUC, Anahola	Solar	12.0	5.0
Green Energy Team	Biomass	7.4	11.4
McBryde, Port Allen	Solar	6.0	2.7
McBryde, Wainiha	Hydro	4.0	3.6
KIUC, Waiahi	Hydro	1.3	1.4
McBryde, Kalāheo	Hydro	1.0	0.9
Gay & Robinson, Olokele	Hydro	1.3	0.9
KAA, Waimea/Kekaha	Hydro	1.5	0.9
Pioneer, Waimea	Solar	0.3	0.1
Kapa'a Solar	Solar	1.0	0.4
MP2, 'Ōma'o	Solar	0.3	0.1
Customer Solar	Solar	21.0	4.0
Under Construction/Permitting			
Gay & Robinson, Olokele	Hydro	6.0	4.2
SolarCity Energy Storage	Solar	13.0	5.0
Customer Solar	Solar	6.6	1.0
Under Consideration			
Westside Pumped Hydro Storage	Hydro	12.0	7.0
Solar plus Storage Storage	Solar	32.0	13.0

Total Renewable Energy in Service 2016
68.7 MW/36.4%

Potential Renewable Energy in Service 2025
138.3 MW/66.6%



Member owned. Member operated.

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