Dear Member,

We have a lot to brag about for 2016 so let me do that by covering some significant accomplishments. You will find many other accomplishments on Page 4 of this annual report, but some of our most noteworthy successes are discussed below.

To begin, 2016 is the year that the Allison Creek Hydroelectric Project, located next to the Valdez Marine Terminal, was completed. This project has been ongoing since 2008 with commencement of the environmental assessment. After three years of environmental studies, two years of permitting review and three seasons of construction, the project began producing commercial power on October 5, 2016. Despite October being the very end of our hydro season, the project still produced 756,000 kWhrs and saved CVEA from burning nearly 50,000 gallons of diesel in 2016. As projected, power was produced until early December. If the project meets our projected 2017 goals, we hope to eliminate burning 700,000 gallons of diesel and to produce 15,000,000 kWhrs.

With all the benefits received from CVEA’s Allison Creek Hydroelectric Plant, we still cannot eliminate burning diesel to get through the winter. Given this unfortunate reality, a project was initiated in 2016 to drastically improve the way diesel power is produced. The four least efficient diesel units have been eliminated and replaced with two most efficient diesel units which will be operational in 2017. These two newer units will be the backbone for future diesel production, and they will become CVEA’s cheapest diesel energy ever. As an added bonus, if natural gas becomes available in the future, the units can operate in a dual-fuel (natural gas in conjunction with diesel) application.

Producing more hydropower and cheaper diesel energy is one side of the efforts in 2016, on the other side reliability and outage response received substantial attention. As you may know, CVEA has limited garage space for outage response vehicles and equipment. Most of this equipment is parked outside in the cold,
and in the Copper Basin that is often extreme cold. When an outage occurs, the linemen must first get this equipment started and warmed up so that it functions properly. At temperatures experienced in the Copper Basin, getting a piece of equipment started in 40-below-zero weather is not an easy task. For this reason and others, construction began in 2016 on a new vehicle storage garage that will keep our equipment protected and warm under extreme weather conditions. The result of this new facility (due to be completed in 2017) is: faster response to outages, greater sustainability of our vehicles/equipment and much less wear and tear on our great linemen who brave the weather for us every day.

Another thing that I want to brag about is CVEA’s Safety Program. The new and improved safety program is working. In 2016 we hit the longest stretch of no-lost-time injuries in the history of CVEA, with over 700 days. In addition, our workers’ compensation modifier that is used by insurance companies to gauge our insurance costs, is at the lowest value in CVEA history. This not only means safe employees but also translates to lower insurance costs.

You may or may not have noticed on your December bill, but we retired capital credits in 2016. Most members either received a check or a credit was applied to their account. While building the Allison Creek Hydroelectric Project, we postponed retiring capital credits to keep our borrowing capability strong. Now that the project is built, we re-initiated the capital credit retirement program in 2016. As many people have told me, it might not have been a huge return for everyone but every little bit helps.

My last bit of bragging is about outages. None of us like outages but we operate an isolated grid through some of the toughest terrain and conditions in the US. Being a small and isolated grid means that our whole system can be disrupted by a single tree on the line. Despite this vulnerability, CVEA’s 2016 outages record is the best we have experienced since 2008. This does not mean that we sit back and relax. The goal of the Board of Directors and Staff is, and always will be, to reduce outages no matter how good we stand. Reducing outages is a challenge for our small system, but 2016 certainly proved that we are going in the right direction.

It is a pleasure to serve this great organization. I continue to thank you for this opportunity to be a member of the team.

John Duhamel
Chief Executive Officer
Allison Creek-Completed

Copper Valley Electric Board of Directors

Paul Kildal
President

Lon Rake
Vice President

Mary Odden
Secretary

Will Stark
Treasurer

Brad Honerlaw
Director

Jeff Saxe
Director

Dan Stowe
Director

Fred Williams
Director
2016 Accomplishments

Power Supply

- Allison Creek Hydroelectric Project
  - On time completion of the Allison Creek construction project
  - Began commercial power generation on October 5, 2016
  - Generated power through December
- Cogen
  - Performed Cogen overhaul to improve efficiency
- Valdez Diesel Plant
  - Installed two more energy efficient CAT generators
- Solomon Gulch
  - Produced over 55,000,000 kWhs for the fourth year in a row; hydropower was 59 percent of total generation in 2016
  - Completion of piping upgrades between Solomon Gulch and VFDA
  - Successful FERC inspection

Safety

- Continued to improve the safety program
- Workers’ compensation premiums were reduced by nine percent as a result of a good safety record company-wide

Administration and Finance

- Launched SmartHub; providing increased access to account information
- Successful audit - 2016 audit had no exceptions noted
- Paid $540,000 in patronage capital to members in December
- Completed significant updates to CVEA’s tariff
- Completed remodel of the Valdez office and installation of a new state of the art video conferencing system in both districts
- Restructured organization to eliminate one manager position

Communications/Community Foundation

- Successfully implemented the Allison Creek Commissioning Ceremony and Powerhouse Dedication
- Record numbers attended the Cooperative Month Halloween Spooktacular
- Won first place in the Digital Storytelling category of the NRECA Spotlight on Excellence Awards for our Allison Creek Construction video
- CVEA Community Foundation awarded a record $12,648 to 10 local non-profit organizations

Transmission and Distribution

- Began construction of a new line crew garage in Glennallen
- Completed installation of Valdez new boat harbor electrical services
- Upgraded our substations
- Highest level of system reliability since 2008 at 99.9 percent
- Performed extensive aerial inspection of the entire transmission infrastructure
Supporting Our Communities
## Balance Sheet

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Utility Plant</td>
<td>$64,098,975</td>
<td>$52,477,532</td>
</tr>
<tr>
<td>Investments</td>
<td>1,700,320</td>
<td>1,633,702</td>
</tr>
<tr>
<td>Current Assets</td>
<td>14,736,969</td>
<td>20,309,258</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$80,536,264</strong></td>
<td><strong>$74,420,492</strong></td>
</tr>
<tr>
<td>Member Equity</td>
<td>17,668,668</td>
<td>16,695,595</td>
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<tr>
<td>R&amp;R Fund</td>
<td>6,224,160</td>
<td>5,949,229</td>
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<tr>
<td>Long-term Debt</td>
<td>42,153,853</td>
<td>37,563,432</td>
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<tr>
<td>Current Liabilities</td>
<td>14,420,263</td>
<td>14,137,140</td>
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<tr>
<td>Other Liabilities</td>
<td>69,320</td>
<td>75,096</td>
</tr>
<tr>
<td><strong>Total Liabilities &amp; Equity</strong></td>
<td><strong>$80,536,264</strong></td>
<td><strong>$74,420,492</strong></td>
</tr>
</tbody>
</table>

## Statement of Income

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy Revenue</td>
<td>$5,841,361</td>
<td>$5,446,507</td>
</tr>
<tr>
<td>Fuel / G&amp;T/ Cost of Power Revenue</td>
<td>13,103,555</td>
<td>12,960,556</td>
</tr>
<tr>
<td>Heat Revenue</td>
<td>1,267,645</td>
<td>1,679,119</td>
</tr>
<tr>
<td>Fuel Credits</td>
<td>(1,140,881)</td>
<td>(1,463,385)</td>
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<tr>
<td>Non-Operating Margins</td>
<td>597,127</td>
<td>521,555</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>19,668,807</strong></td>
<td><strong>19,144,353</strong></td>
</tr>
<tr>
<td>Fuel</td>
<td>4,824,123</td>
<td>5,604,989</td>
</tr>
<tr>
<td>Power Generation &amp; Transmission</td>
<td>6,904,321</td>
<td>6,012,787</td>
</tr>
<tr>
<td>Operations &amp; Maintenance</td>
<td>1,754,268</td>
<td>1,908,010</td>
</tr>
<tr>
<td>Administrative, General &amp; Customer Service</td>
<td>2,381,181</td>
<td>2,702,915</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,626,077</td>
<td>1,769,376</td>
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<tr>
<td>Interest</td>
<td>558,073</td>
<td>579,900</td>
</tr>
<tr>
<td>Taxes</td>
<td>40,265</td>
<td>40,293</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>18,088,308</strong></td>
<td><strong>18,618,272</strong></td>
</tr>
<tr>
<td><strong>Margins</strong></td>
<td><strong>$1,580,499</strong></td>
<td><strong>$526,081</strong></td>
</tr>
</tbody>
</table>
Copper Valley Electric Association, Inc., invites you to the 2017 Annual Meeting of Members. The annual meeting will be held on Tuesday, May 2, 2017, in the Copper Basin District at the Alaska Bible College Murdock Campus Center and on Thursday, May 4, 2017, in the Valdez District at the Valdez Civic Center. Registration and food service begins at 5:30 p.m. and the business meeting begins at 6 p.m. Arrive by 6 p.m. to be eligible for attendance gifts and door prizes.

The purpose of the meeting shall be to hear reports, ask questions about your electric cooperative, accept director election results, and to transact any other business that may come before the membership.

- Caused to be published by Secretary Odden

2017 Annual Meeting Agenda

1. Call to Order                            President Kildal
2. Reports
   Report of Quorum                            Secretary Odden
   Notice of Meeting                           Secretary Odden
   Reading and Approval of 2016 Minutes         Secretary Odden
   Financial Report                            Treasurer Stark
   Election Results                             Credentials & Elections Committee Chair
   Foundation Report                           Foundation President Kildal
   CEO Report                                  CEO Duhamel
   Questions on Reports
3. Acceptance of Reports                      President Kildal
4. Old Business                              President Kildal
5. New Business                              President Kildal
6. Special Recognition                       CEO Duhamel & President Kildal
7. Drawing of Door Prizes                     President Kildal
8. Adjournment                               President Kildal

Copper Valley Electric Association, Inc.
822-3211 in Glennallen and
835-4301 in Valdez
www.cvea.org