



*Minnesota
Valley
Cooperative
Light & Power
Association*



2014 Annual Report

77th Annual Meeting Notice

Please join us on **Saturday, March 21st, 2015** at the Lac qui Parle Valley High School in Madison, Minnesota.

Registration: Doors open for registration and breakfast buffet at 8:30 and continues until 10:00 a.m. The meeting will be called to order at 10:30 a.m.

Capital Credits Refunds: The balance of 2001 and 75% of 2002, for a total of \$1,395,110, will be refunded.

Operation Round Up: New and current members can sign up for Operation Round Up, receive a chance to win a Basin Tour trip and an opportunity for a \$25 credit on their energy bill.

Director Elections: Elections will be held for two directors to serve 3-year terms.

Nominees for each District are:

District 1: Glen Klefsaas

District 3: Mark Peterson

Reports: Reports will be made on the cooperative's finances, operations and future plans.

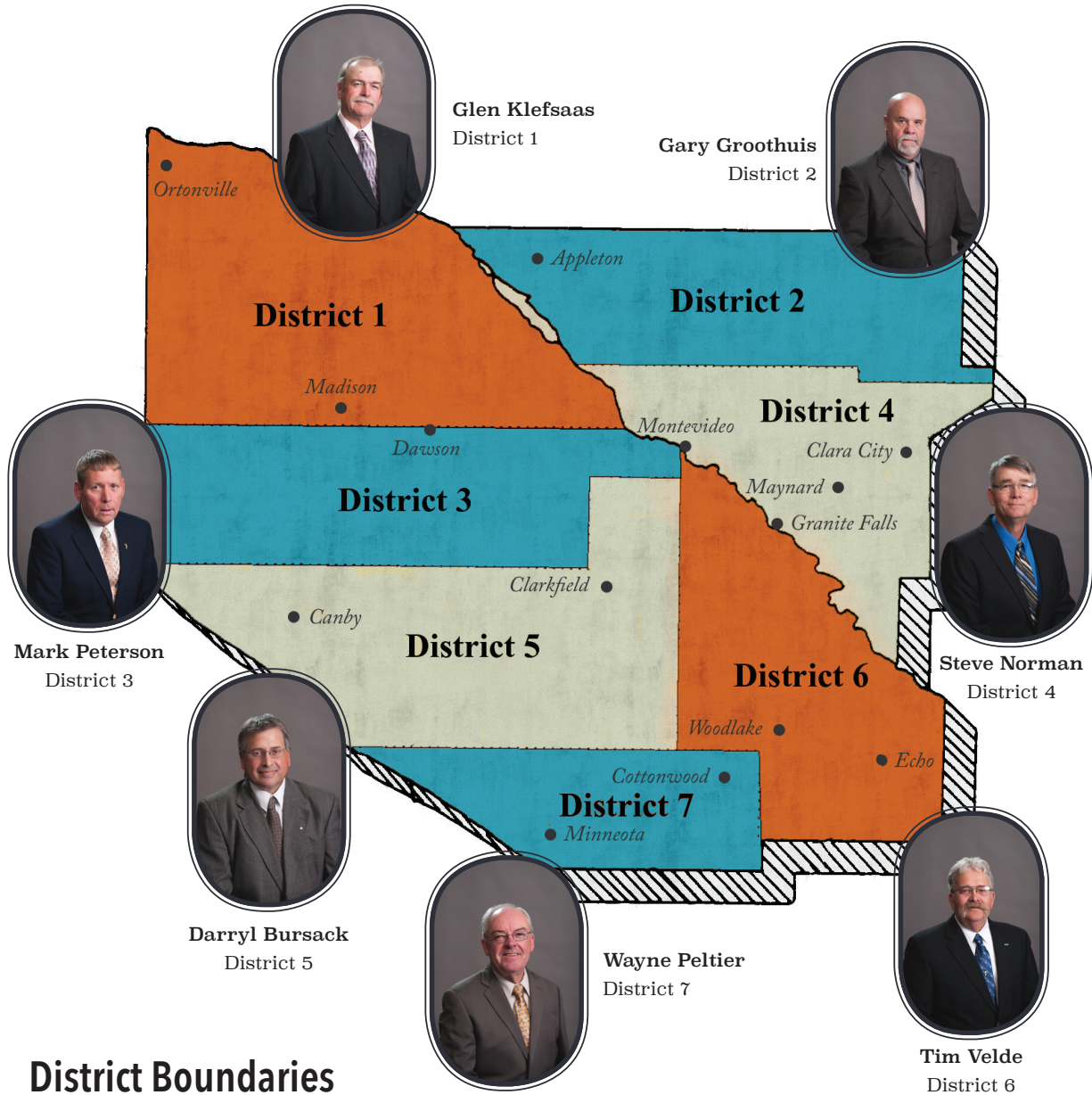
Kids Room and Prize Drawings: Bring your kids for a fun morning of supervised activities and a chance to win prizes!

Basin Tour Drawing: Drawings will also be held for the annual Basin Tour scheduled for July 21st-23rd, 2015.

Hope to see you there!



Board of Directors



District Boundaries

BYLAWS: ARTICLE III, DIRECTORS SECTION 3

The seven (7) directors shall be nominated and elected so that one (1) director shall represent each of the following districts:

DISTRICT 1 shall consist of that part of Lac qui Parle County which lies north of a line one mile north of U.S. Highway 212 and that portion of Big Stone County served by the association.

DISTRICT 2 shall consist of that part of Chippewa County which lies north of County Road No. 13 and that portion of Swift County served by this association.

DISTRICT 3 shall consist of that part of Lac qui Parle County lying south of a line one mile north of U.S. Highway 212.

DISTRICT 4 shall consist of that part of Chippewa County lying south of County Road No. 13 and that portion of Renville County served by this association.

DISTRICT 5 shall consist of that part of Yellow Medicine County lying west of the line drawn on the east borders of Townships of Friendship, Lisbon and Normania.

DISTRICT 6 shall consist of that part of Yellow Medicine County lying east of the east borders of Townships of Friendship, Lisbon and Normania and that portion of Redwood County served by this association.

DISTRICT 7 shall consist of that portion of Lincoln and Lyon Counties served by this association.

Director's Responsibilities

According to information compiled by the National Rural Electric Cooperative Association (NRECA) in Washington, D.C., a director's responsibility consists of having the ability and knowledge to set policy and approve programs that are the basis for operating the association. A director must have the time to attend monthly board meetings and other special meetings and seminars. These special sessions are necessary to keep directors informed on the various aspects of the cooperative and the electric utility industry. Other criteria of a board member as identified by NRECA include:

- Be an independent thinker, but a cooperater.
- Be capable of acquiring the knowledge necessary to cope with the issues of a modern electric utility, including finances, management and public issues.
- Possess the character and demeanor that will reflect favorable on behalf of the cooperative.
- Have the willingness to listen and learn.
- Be one who can accept and direct change.
- Be of sufficient stature to command the respect of management, employees, fellow board members, cooperative members and the public.
- Be willing to commit adequate time to the work of the board to be an effective member and properly discharge the duties of the board.
- Subordinate personal and other business interests to the needs of the cooperative when making a decision.
- Be willing to accept the unpleasant moments of a director's experience.
- Let management manage.

Board & Manager's Report to the Membership 2014

Minnesota Valley Cooperative closed the year again successful both financially and operationally. Financially, our year-end total margin was \$2,475,569, which was much better than we had budgeted for. This was a culmination of many different income and expense factors coming together in a good way. A good margin like this puts us in a good position to retire capital credits. We are retiring the remaining balance of 2001 capital credit of \$501,260 and 75% of 2002, which is \$893,850, for a total of \$1,395,110. Another benefit to a healthy margin is it keeps our member-equity position in good shape. This helps us meet our loan covenants with our lenders without raising rates. We did not increase rates for 2015.

For the Operations Department, it was another year heavily scheduled with maintenance activities and system and service upgrades. Many services were upgraded this past year to keep up with increased motor amperages as those members continue to improve their production facilities. We also upgraded about 11 miles of three-phase and several miles of single-phase line. Most of the three-phase improvements were primarily to keep our facilities between the distribution substation and the service capable of handling the increased load. We also continue to make systematic improvements in our substations to keep ahead of load growth. The pole treating crews again treated and tested poles. Rejected poles have been re-

Sitting (left to right):

Steve Torvik (Attorney),
Darryl Bursack,
Mark Peterson

Standing (left to right):

Wayne Peltier, Steve Norman,
Glen Klefsaas, Tim Velde,
Gary Groothuis,
Pat Carruth (General Manager)



placed. We made better progress on clearing our right-of-way this year with crews from our Minnesota Valley Tree Service. We expect to be more aggressive with line clearing in 2015. Our Karian Peterson Power Line Contracting also did a good part of our line construction again this past year. Weather allowed us to complete most of our planned projects. We had the usual number of summer storms, which caused occasional outage problems. We did have an ice storm on December 15th, which caused several days of problems on the western part of our project.

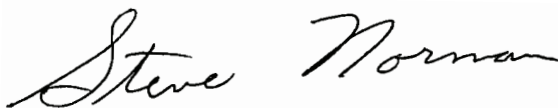
Member Services was again very busy selling and installing electric heat. Interest in electric heating systems, especially heat pumps, seems to increase each year. The spike in propane early in the year may have caused a spike in interest in electric heat. We supplanted that interest with bonus rebates for heat pump installations throughout the summer. Electric heat is reliable, affordable and we work hard to keep the cost of operating it stable. We have had discounted electric heating rates since 1983 and we are committed to keeping electric heating rates affordable. Almost half of our members have electric heating systems.

Office Services made some big improvements in our computer systems and software. We improved our computer backup systems and security processes within our computers and software. We overhauled and enhanced our website, www.mnvalleyrec.com. We continue to aggressively manage our debt portfolio in an effort to keep our cost of money manageable.

Sincerely,



Steve Norman
Board President



We keep a good portion short-term to glean savings out of lower short-term interest rates. We also locked some of our loans in at slightly higher long-term rates to keep our interest rate exposure manageable.

We had a big win for coal in Minnesota this year. Back in 2007, Minnesota Governor Pawlenty signed a law banning new coal fired generation from being used to make electrons for use in Minnesota whether or not they were made in Minnesota. It was called the Next Generation Energy Act of 2007. This created an obvious problem for electric utilities whose job is to provide reliable and affordable electric power to the homes and businesses in Minnesota. For electric cooperatives, about 60% of our electrons are generated by coal fired power plants. We went to work and paralleled our legislative efforts in Minnesota with a lawsuit against Minnesota. Our Basin Electric, along with several other like-minded parties, got behind the State of North Dakota who filed suit in Federal District Court. Our primary argument had nothing to do with coal's reliability and affordability. We argued this law violated the interstate commerce clause of the United States Constitution. Minnesota's ban on coal was ruled unconstitutional in U.S. District Court of Minnesota in late April. This is a clear win for affordable and reliable electric power in Minnesota.

This past year Minnesota Valley, along with 1.6 million other people or entities, submitted comments to the Environmental Protection Agency (EPA) about their proposed rules to limit carbon dioxide emis-

sion on coal fired power plants. By year end, the EPA is expected to issue final rules giving states one year to submit a plan to them as to how they are going to meet the Federal Rules. If the full intentions of these regulations come to be, our ability to use our affordable and plentiful domestic coal to produce affordable electricity will be in jeopardy. As an industry, we have been working hard at a national level to influence legislators and the EPA to dampen these new rules. Affordable electric energy is too important to our economy. Our burgeoning U.S. oil and natural gas industry will be hit next. The EPA has recently outlined a series of regulation they will put on the industry to reduce methane and volatile organic components that are emitted as the oil and gas is collected and processed.

In closing, we want you to know that we continue to be good stewards of your electric power cooperative. You have put forth a dedicated board that has a good understanding of the electric utility industry set on a firm foundation of belief in the cooperative way. You have a great group of employees who know their jobs and they do them with purpose and dedication. When a storm rolls through, rest assured, your employees will do all they can until your lights are back on. We are especially thankful to you, the member-owners of Minnesota Valley, for not only your patronage this past year, but for your faith in us to get the job done for you. Together as members, board members and employees of this cooperative, we look forward to another good year in the continued success of this cooperative.



Pat Carruth
General Manager



Balance Sheets

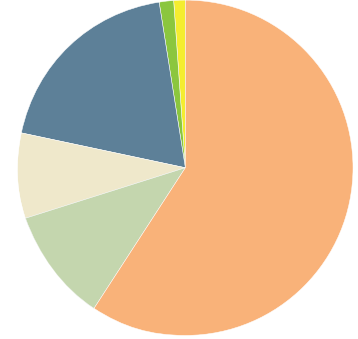
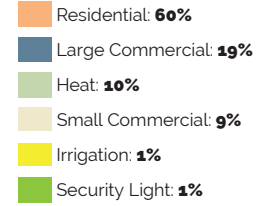
Assets & Other Debits *(what we own)*

Assets and Other Debits	2014	2013
Investment in Utility Plant	\$63,829,957	\$62,075,561
Less: Accumulated Depreciation	\$(21,559,504)	\$(20,380,235)
Net Utility Plant	\$42,270,453	\$41,695,326
Investments		
Loans to Members (energy conservation wiring, central air systems and electric heating)	\$213,317	\$261,349
Capital Credits from Basin	\$5,879,213	\$5,586,097
Memberships in and capital credits from other associated organizations	\$622,713	\$629,667
National Rural Utilities Cooperative Finance Corp.	\$1,587,965	\$1,273,550
Other Investments Minnesota Valley Holding Co.	\$835,095	\$823,449
Total Investments	\$9,138,303	\$8,574,112
Current Assets		
Cash and Cash Equivalents	\$288,215	\$672,309
Members/others owe us for electrical energy service, etc.	\$2,325,461	\$2,709,737
Materials for line construction and maintenance	\$867,625	\$1,034,880
Prepaid Expenses	\$156,170	\$154,503
Total Current Assets	\$3,637,471	\$4,571,429
Deferred Debits	\$1,512,685	\$1,700,487
TOTAL ASSETS	\$56,558,912	\$56,541,354

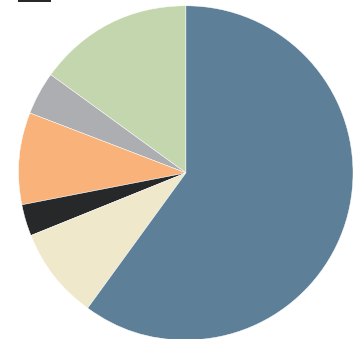
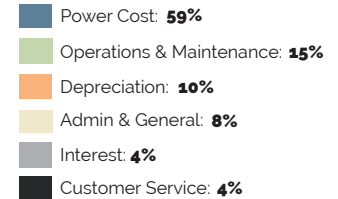
Liabilities *(what we owe)*

Long-term Debt	2014	2013
Rural Utilities Service & Federal Financing Bank	\$23,282,539	\$24,109,831
Cooperative Finance Corporation (CFC)	\$3,739,696	\$4,080,144
National Cooperative Service Corporation (NCSC)	\$3,490,843	\$3,853,556
Co-Bank	\$2,000,000	\$2,000,000
Total Long-Term Debt	\$32,513,078	\$34,043,531
Accumulated Operating Provisions	\$452,800	\$429,400
Current Liabilities		
Notes Payable	\$600,000	\$0
Accounts payable (power, materials, etc)	\$1,025,785	\$1,177,156
Accrued Expenses (taxes, interest, etc)	\$825,233	\$840,875
Security Deposits	\$54,440	\$51,065
Total Current Liabilities	\$2,505,458	\$2,069,096
Deferred Credits	\$63,974	\$71,020
TOTAL LIABILITIES	\$35,535,310	\$36,613,047
MEMBERS' EQUITY	\$21,023,602	\$19,928,307
TOTAL LIABILITIES & MEMBERS' EQUITY	\$56,558,912	\$56,541,354

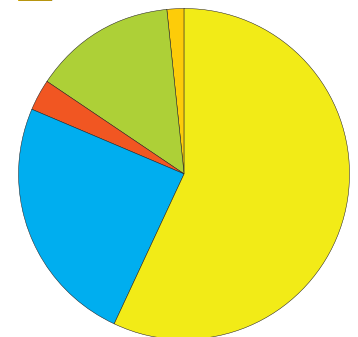
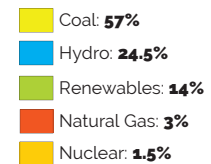
Where It Came From



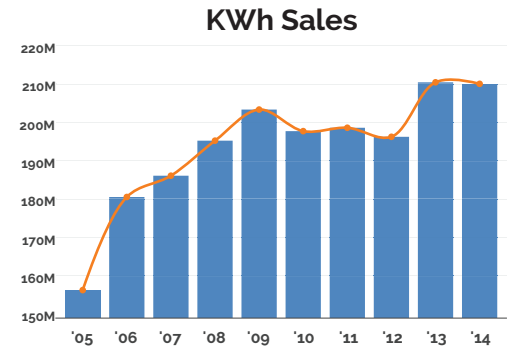
Where It Went



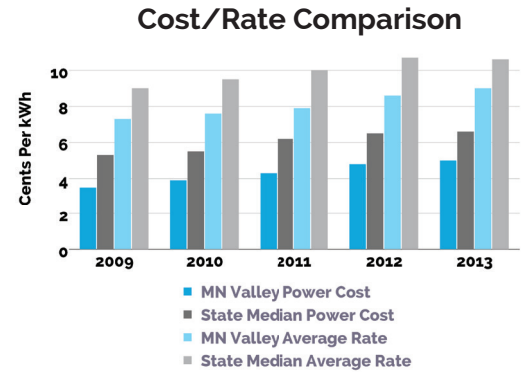
Minnesota Valley's Energy Portfolio



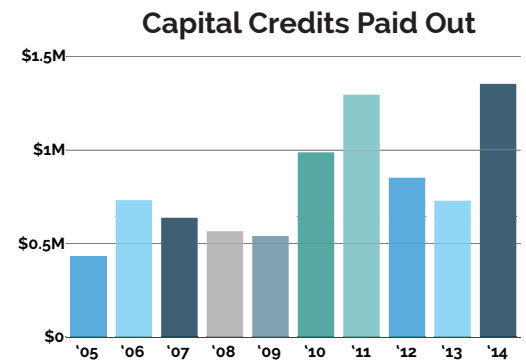
Statements of Revenue & Expenses



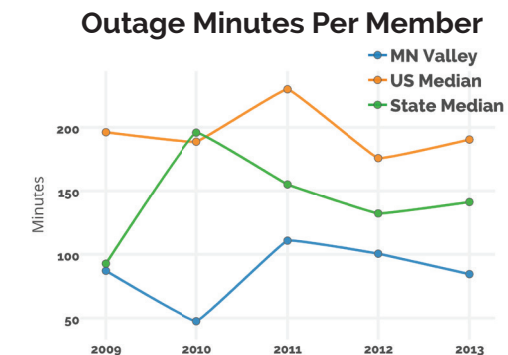
Revenue	2014	2013	Percent Change
Sales of electric energy to consumers	\$18,945,401	\$18,956,596	-0.06%
Miscellaneous electric revenues and penalties	\$256,085	\$257,624	-0.60%
Non-operating and other income, etc. (mdse sales, interest income and subsidiary income)	\$705,677	\$393,478	79.34%
TOTAL REVENUE	\$19,907,163	\$19,607,698	1.53%



Expenses	2014	2013	Percent Change
Wholesale Power	\$10,567,466	\$10,787,989	-2.04%
Other operating expenses (administration, sales, maintenance, taxes, etc.)	\$4,906,517	\$4,707,322	4.23%
Depreciation of utility plant	\$1,701,809	\$1,643,153	3.57%
Interest expense on long-term debt	\$715,499	\$763,237	-6.25%
TOTAL EXPENSES	\$17,891,291	\$17,901,701	-0.06%



Patronage Capital	2014	2013	Percent Change
Patronage capital income before generation and transmission capital credits	\$2,015,872	\$1,705,997	18.16%
Patronage capital from Basin Electric	\$359,451	\$445,392	-19.30%
Patronage from other cooperatives	\$100,246	\$73,259	36.84%
Total Year End Margin	\$2,475,569	\$2,224,648	11.28%
Patronage capital (January 1 st)	\$19,928,307	\$18,542,751	7.47%
Retirement of patronage capital	\$(1,411,263)	\$(850,661)	
Estate patronage capital retained	\$30,989	\$11,569	
TOTAL PATRONAGE CAPITAL	\$21,023,602	\$19,928,307	5.50%



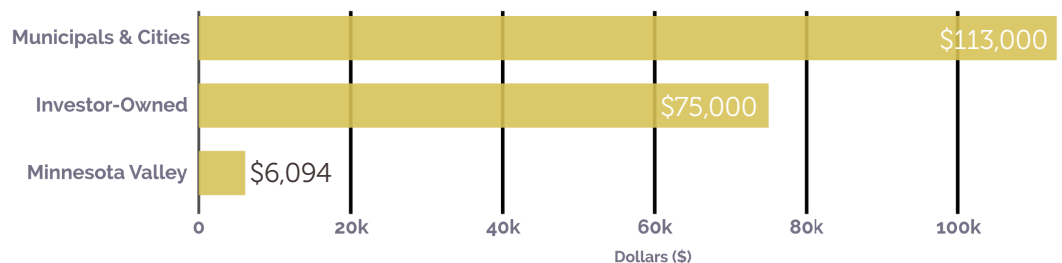
Taxes Paid in Counties Served

County Served	Members Served	Real Estate	Transmission Line	Total
Chippewa	1,112	\$59,326	\$34,022	\$93,348
Yellow Medicine	1,489	\$8,840	\$46,666	\$55,506
Lac qui Parle	1,333	\$10,578	\$132,670	\$143,248
Lyon	383	\$4,458	\$684	\$5,142
Total	4,317	\$83,202	\$214,042	\$297,244

Revenue Per Mile of Line

Because of higher population densities, municipal and investor-owned utilities receive more revenue per mile of line than electric cooperatives. Municipals average 48 consumers per mile. Investor-owned average 34 consumers per mile. Minnesota Valley averages 1.7 members per mile.

Source: National Rural Electric Cooperative Association



EPA Legislation

New EPA Water Heater Regulation

The Department of Energy has come out with its final rule on the newest update to the National Appliance Energy Conservation Act (NAECA). Effective April 16th, 2015, almost all residential electric, gas, oil and tankless water heaters will have new higher Energy Efficiency Standards. Electric water heaters, under 55 gallons, will still be available for sale. However, the new standard will require the use of heat pump technology for water heaters of 55 gallons or larger capacity.

Effects to co-ops and their members:

- ⦿ Increased costs and inability to meet demand for hot water:
Prices of 55+ gallon water heaters will raise substantially due to the heat pump technology that they will

be required to have. Higher prices for larger water heaters may lead people to choose a smaller unit that will not be able to meet their demand. There is no stopping someone from installing two smaller units to keep up with the hot water demand. However, this would lead to higher costs, take up more space and lead to a lower efficiency than the current 55+ gallon water heaters.

- ⦿ Decrease electric cooperatives' ability to conduct demand response programs: Another advantage the current electric water heaters give electric co-ops across the nation is the ability to conduct demand response programs that help save co-ops and their members energy as well as tens of millions of dollars per year.

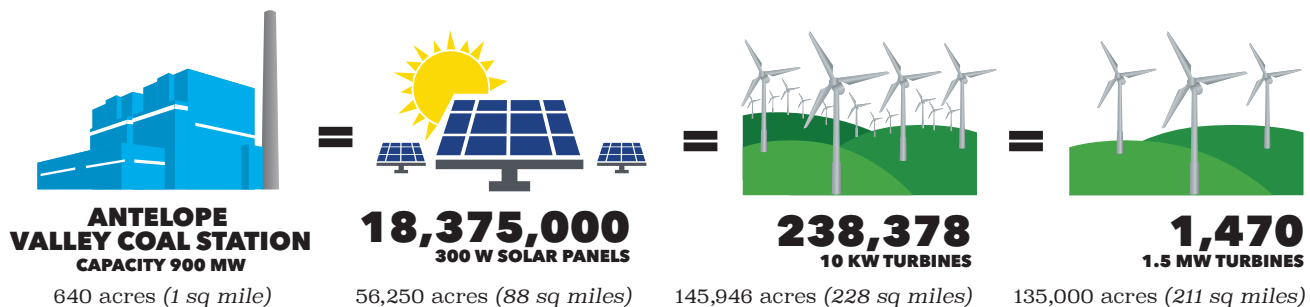
Replacing Coal?

How Renewables Stack Up to a Single Coal Generation Site

With EPA's newest attack on coal generation, we wanted to show what it would take for a renewable energy source to replace the amount of energy one coal generation station produces in a year. The size of these renewable projects doesn't make financial sense and occupies large amounts of land. Also, renewables still remain intermittent power options and cannot replace a reliable baseload. We firmly believe that all sources of energy generation should be available in order to provide reliable and affordable electricity.

Assumptions:

- » Coal=98% Capacity Factor
- » Solar=16% Capacity Factor
- » 10 KW Wind Turbine=37% Capacity Factor
- » 1.5 MW Wind Turbine=40% Capacity Factor
- » Solar=10 acres per MW
- » Wind=60 acres per MW
(portion of land is still usable)



EPA Clean Air Act Update

The Environmental Protection Agency (EPA) is set to come out with its final rule setting greenhouse gas emission performance standards for both new and existing electricity generating units (primarily coal and natural gas combined cycle units) in the summer of 2015. In the proposed rule for existing power plants, pertaining to Section 111(d) of the Clean Air Act, the EPA would set a carbon dioxide (CO2) intensity target (pounds of CO2 emitted per megawatt-hour of generation) for each state for the year 2030, as well as an “interim goal”, applied as an average of the 2020-2029 period. Each state would then be required to draft a plan on how they will meet the goal set for them.

EPA’s proposed rule will force many generators to reduce their

operation of coal power plants and invest a large amount of money into renewables to reach the goals set for them. It will also require many states and utilities to increase use of natural gas to displace coal.

The other EPA ruling, pertaining to Section 111(b) of the Clean Air Act, would deal with new power plants and the amount of emissions that they could produce. Under the current proposal, coal plants would have to have carbon capture technology to be able to reach the required emission level. This carbon capture technology is not commercially available and current capture technologies in development would lead to extreme cost increases in both the construction and operation of coal power plants.

Coal remains the most reliable and cost-effective baseload energy source we have. Utilities across the nation rely on coal for a major part of their energy portfolio (refer back to Minnesota Valley’s) and restricting the ability to produce power from coal will have a large impact on everyone across the nation.

IMPACTS

Higher electricity costs:

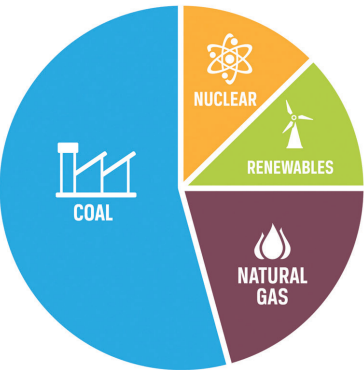
Coal remains the most cost-effective way of producing energy. Limiting the use of coal will inevitably raise rates substantially for consumers.

Reliability:

The EPA’s proposal will also jeopardize reliability by reducing the overall amount of power generation available at times of peak use, in part because it will force many existing coal generation units to retire before the end of their useful lives.

Job losses and stranded assets:

Emission levels proposed by EPA could lead to reduced operation of existing coal power plants and possibly make them economically unviable. This would lead to numerous job losses and stranded assets for coal plants that have many years of operation left.



America needs an

ALL OF THE ABOVE STRATEGY

to keep electric bills affordable

Common Energy Misconceptions

- ⊙ **Setting the thermostat higher or lower will heat or cool your home faster**

Adjusting the thermostat higher or lower than necessary will not heat or cool your home faster. Furnaces and air conditioners work at the same speed, no matter what the thermostat setting. A home will warm up to 70 just as quickly if the thermostat is set at 70 as it will if it is set at 80. In fact, more energy will be wasted as the heating or cooling system continues to run to reach the higher set point.

- ⊙ **Leaving lights, computers and other appliances on uses less energy than turning them off and on repeatedly and makes them last longer**

The small surge of power created when some devices are turned on is vastly smaller than the energy used by running the device when it’s not needed. While it used to be the case that cycling appliances and lighting on and off significantly reduced their useful lifetimes, these problems have been largely overcome through better design.

The rule of thumb today is: Turn off the lights when you leave the room and use the power-management software that comes with your computer and monitor.

- ⊙ **When an appliance is turned off, it is off**

Many appliances and electronic devices continue to use power after they have been turned off—sometimes as much as when they are on. This is known as standby power or phantom load. The only way to stop the drain of power from these devices is to unplug them.

- ⊙ **Closing off vents will help to lower heating and cooling costs**

Typically, closing or covering up vents is not a good way to save on energy costs. Heating and cooling systems are balanced through the duct system; closing vents throws the system off balance. Pressure can build up in the ductwork, causing leakage and reducing the amount of air circulating in your home. This reduces system efficiency and comfort.

Employees

Staff



Sitting (left to right):
Candice Jaenisch,
Jill Sand

Standing (left to right):
John Williamson,
Pat Carruth, Bob Walsh

Operations



Sitting (left to right):
Mark Sweno, Stacey Boike

Standing (left to right):
Scott Monson, Bob Kratz,
Brandon Bjelland, Don Snell

Linemen



Sitting (left to right):
Lloyd Canatsey, Dave Dieter,
Andy Johnson

Standing (left to right):
Kent Smith,
Mitch Christensen,
Blake Lymburner,
James Hughes, Joe Schultz,
Eric Wollschlager,
Trevor Diggins,
Eric Landmark

Major Activities of Engineering and Operations in 2014

- ❖ Maintain 2,713 miles of overhead distribution
- ❖ Maintain over 313 miles of underground distribution line
- ❖ Maintain 242 miles of transmission line and 16 distribution substations
- ❖ Total services in place: 5,469
- ❖ Responded to 304 service calls
- ❖ Tested and treated 1,835 distribution poles
- ❖ Installed 767 new distribution poles due to rot, service changes, road changes, storms and construction
- ❖ Responded to 314 Gopher State One-Call line locates
- ❖ Upgrade conversions of existing service: 100
- ❖ Upgraded 5.8 miles of single-phase line to three-phase line
- ❖ Replaced/rebuilt 3.5 miles of single-phase underground/overhead line
- ❖ Replaced/rebuilt 6.5 miles of three-phase underground/overhead line
- ❖ Constructed 3 miles of new single-phase underground/overhead line
- ❖ Conducted monthly safety meetings through Minnesota Rural Electric Association (MREA)

Office Services

Member Services



Standing (left to right): LaVonne Stegeman, Jill Strand, Lacey Wintz



Sitting (left to right): Duane O'Malley, Mark Johnson
Standing (left to right): Scott Kubesh, Jerrad Perkins

Office Services

The business office department provides high-quality customer service to the members of Minnesota Valley in the following areas:

- ❖ Process monthly bills for over 5,000 services
- ❖ Calculate estate refunds
- ❖ Process member applications for over 195 new members in 2014
- ❖ Issue capital credit checks
- ❖ Facilitate new services, reconnect and disconnect services and moves
- ❖ Maintain idle services
- ❖ Maintain ERC loans/Construction loans
- ❖ Assist members with Energy Assistance Programs
- ❖ Maintain billing for 300 First Call Phones
- ❖ Facilitate agricultural and electric heat sales tax exemptions
- ❖ Maintain communications to members via Minnesota Valley's website: www.mnvalleyrec.com
- ❖ Invoicing of purchases and services from Member Services and Operations Department
- ❖ Sign up members for Operation Round Up (23% of members participate)

Minnesota Valley's Payment & Statement Options

- ❖ Automatic payment-checking accounts (21% of members choose this option)
- ❖ Electronic payment (Bill-4U Program) through website
- ❖ Checking accounts, debit cards and credit cards (roughly 200 members use this option every month) at www.mnvalleyrec.com
- ❖ Mail/drop box
- ❖ Budget Billing – electric bill remains constant throughout the year

Statement Options

- ❖ Electronically/paperless (140 members chose this)
- ❖ Mail

Member Services

Equipment Sales & Installation

- ❖ Electric heating systems of all kinds, including ground water source heat pumps, air to air heat pumps, baseboard heaters, underslab radiant heat, cove heaters, furnaces and boilers
- ❖ Electric water heaters
- ❖ Central air conditioning systems

Heating System Maintenance Program

Member Services Technicians will provide preventative maintenance service for all types of heating systems including gas, oil, electric and heat pumps.

Merchandising

Members can purchase electric grills, surge suppressors and standby generators from the co-op.

Member Loans

Minnesota Valley has loans of up to \$15,000 available at 5% interest to qualified members for weatherization, electric heat/central air installation and wiring upgrades.

Environmental Monitoring Systems

Environmental and security monitoring systems can be installed to keep an eye on things when you can't.

First Call In-home Emergency Response System

Get peace of mind with a medical monitoring phone system for loved ones living at home.

Electrical Planning Advice

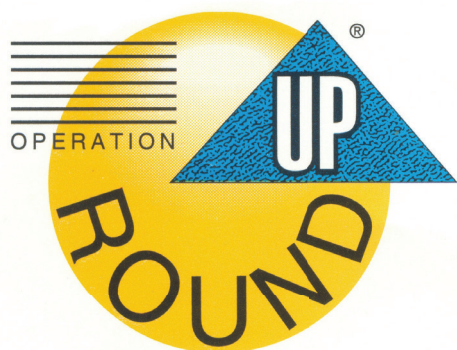
Let us help you evaluate the electrical needs of new construction or upgrades.

Energy Audits

Minnesota Valley can help with your energy efficiency needs.

Stray Voltage Investigations

Stray voltage investigations can be performed at your livestock facilities.



Operation Round Up

Since January 1995, co-op members, employees and directors have supported many projects, organizations, individuals and families in our area communities with their donations to Operation Round Up.

The Operation Round Up board members are:

- **Jon Kleven**
- **Wendy VanRavenswaay**
- **Marlys Londgren**
- **Richard Phinney**
- **Janet Bossuyt**
- **Norman Viken**
- **Sheree Williamson**

How does it work?

Operation Round Up is a Trust Fund set up separately from all other Minnesota Valley business and is used solely for the purpose of helping organizations, service groups and families in our service territory. Any member who wishes to participate will have their electric bill rounded up to the next highest dollar each month. For example, if your actual electric bill is \$72.40, we will round it up to \$73.00 and the extra 60¢ goes into the Operation Round Up Trust Fund.

How much will I contribute?

With this method of donating, the average annual contribution from a member who participates is \$6.00. The most a member could contribute would be \$.99 per month, or \$11.88 per year. Contributions are tax deductible. You may withdraw from the program at any time simply by notifying Minnesota Valley. All Minnesota Valley employees contribute to the fund by having their payroll checks rounded down once a month.

What can the money be used for?

Money in the fund has been used to support such programs as: fire fighting equipment for volunteer fire departments; lifesaving and communication equipment for ambulance crews, rescue squads or first responders; hospice programs; respite care, transportation needs and other necessary support for families who have a member with a disability; education scholarships; educational seminars; youth programs; Toys for Tots and similar programs; emergency energy assistance; recovery after natural disasters; clothing, shelter and medical services for families or individuals following an accident, storm or other emergency.

How does someone get an application?

If you know of someone or an organization that would benefit from Operation Round Up funds, you can get an application by downloading it from our website at www.mnvalleyrec.com, by calling Minnesota Valley at (320) 269-2163 or (800) 247-5051 or requesting it by mail to **Minnesota Valley R.E.C., P.O. Box 248, Montevideo, MN 56265.**

**Sign
Up
Today!** 