

2013 ANNUAL REPORT



Minnesota Valley Cooperative
Light and Power Association

76th Annual Meeting Notice

**Please join us on
Saturday, March 22nd, 2014**

Prairie's Edge Casino, Granite Falls, Minnesota

**Breakfast Buffet and registration 8:30–10:00 a.m.
Meeting called to order at 10:30 a.m.**

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

Capital Credit Refunds: The balance of 2000 and 50% of 2001, for a total of \$1,341,606, 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 5: Paul Wilson
Darryl Bursack

District 7: Wayne Peltier

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

Kids Room and Prize Drawings: The 4-H Ambassadors will have a room set up to supervise and entertain any children present while their parents attend the meeting. Door prize drawings for the children and members present will be held after the meeting.

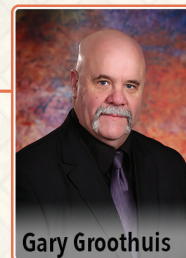
Basin Tour Drawing: Drawings will also be held for the annual Basin Tour scheduled for July 15th–17th, 2014.

Hope to see you there!

Board of Directors



Glen Klefsaas



Gary Groothuis



Mark Peterson



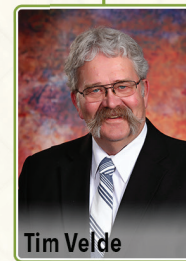
Mike Gunlogson



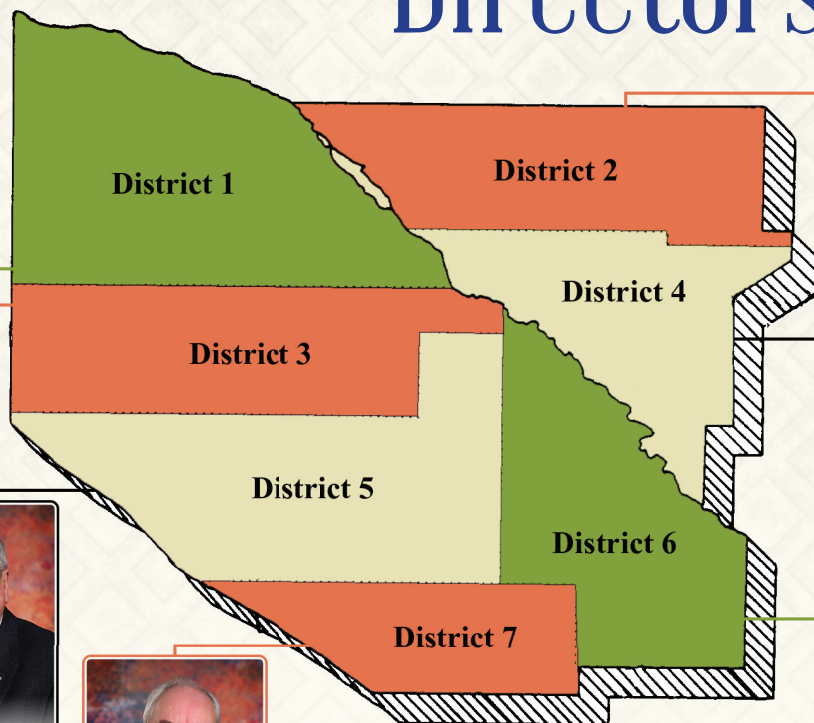
Wayne Peltier



Steve Norman



Tim Velde



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

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.

On the Cover: The cover photo of the 2013 Annual Report features a photo of the Appeldorn Substation near Boyd, Minnesota. The first full year of operation for the substation was 2013. This addition allowed Minnesota Valley Cooperative to increase its system capacity from 40 MWs to over 100 MWs.



Back Row: Glen Klefsaas, Mark Peterson, Wayne Peltier, Mike Gunlogson **Center:** Steve Norman
Front Row: Tim Velde, Pat Carruth, *General Manager*, Steve Torvik, *Attorney*, Gary Groothuis

Board & Manager's Report

We are again fortunate to report to you, the member-owners of Minnesota Valley Cooperative Light and Power Association, that we have had another successful year at your cooperative. It was again a busy year with a full slate of maintenance projects designed to keep your system operating at a high level of reliability now and well into the future. Financially, we ended the year in much better shape than we had planned. Our year end margin is heavily driven by weather and 2013 provided us with the kind that produces heavy energy sales. We dried a lot of corn and did a lot of electric space heating. Our system broke two records. Demand reached 46,828 KW in October beating

our previous record of 46,717 KW set in November 2009. Energy sales were 210,501,463 KWh's beating our previous record of 203,386,840 kwh's in 2009. Our member's energy use continues to grow in both energy and capacity. Increased energy sales is a good indicator of the health of an area economy. We are fortunate to have our sales buoyed by a robust agricultural economy. Overall, energy sales in the United States has declined 5 of the past 6 years and the national trend is expected to continue.

Operationally, our year was spent primarily moving some of our line out of the path of a new 345 Kilovolt line which is part of the

CapX 2020 project. Most of this work was in the south part of our project. The CapX 2020 project is a large transmission project which will move power from the power generators out in the Dakotas to the load going east to the Minneapolis area and beyond. There are 11 utilities that are part of that project with Xcel Energy being the primary partner. We spent just over \$1.3 million moving line, which all costs were reimbursed to us by the CapX project owners. We rebuilt another 12 miles of line of which most was part of our 2010–2029 Long Range Work Plan. The balance of our time was spent doing the annual maintenance projects that need to be taken care of to keep the system op-

erating at a high level of reliability. We tested and treated poles, replaced bad poles, trimmed out right-of-way, tuned up our regulators and oil circuit reclosures just to name a few of the maintenance projects done each year.

For 2014, we will be on the first year of our new Four-Year Construction Work Plan, which will include upgrading 15 miles of line. We will, of course, continue with the heavy list of routine maintenance projects scheduled each year. We will also be having our transformer upgraded in the United States Bureau of Reclamation's Granite Falls Substation or what we call the WAPA Substation north of Granite Falls. The current transformer is a 1959 model and the annual oil tests have been showing that the core has been breaking down at a faster rate, which could lead to failure, so we are excited to have it replaced this summer. We will be going from a 42 MVA to a 60 MVA so we will have increased capacity in addition to a new model. When completed, we believe we have three solid Delivery Points into our system. Blair on the west side at Gary, SD, Appeldorn in the center at Boyd and WAPA at Granite Falls.

We continue to market the benefits of electric heat to you, the

member-owners. We believe electric heat is a very reliable and price competitive way to heat your home or shop. We are working to do what we can to keep it price competitive. By the end of the year, we expect to have over 2,400 heat meters out on our system or about 45% of our members taking advantage of our electric heat rates. Electric heat is a great value and helps you to get more out of the poles and wires you are paying for.

Financially, this past year, we had budgeted for a total margin of \$810,000. We ended up with a margin of \$2,224,648. Selling much more energy than we had planned and aggressively managing our costs helped produce this healthy margin. This is where the beauty of a cooperative kicks in. We give it back. The board simply retired more capital credits this year than they had planned on. We were able to hold rates steady for 2014 and have budgeted for a total margin of \$990,000 on sales of \$18,400,000.

One of the biggest drivers in the cost of energy has always come from the way we as a country decide to handle our national energy policy. The past decade plus energy policy has been focused on renewables and we, the Basin Electric family, have responded by purchasing almost 800 MW's of wind.

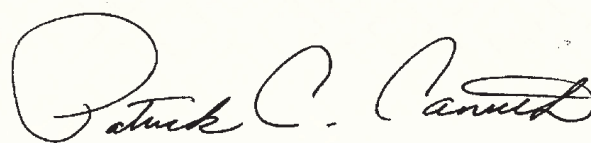
The most recent attack on affordable energy comes from the EPA in newly issued regulations to limit CO2. If the full intentions of these regulations come to be, our ability to use our affordable and plentiful domestic coal to produce affordable electricity will be in jeopardy. We have been working hard at a national level to use what influence we have with legislators and the EPA to dampen these new rules. Thank you to all of you who have registered your support of coal-fired power at www.action.coop or by returning your postcard to us so we can register your support on your behalf. We will continue working where we can to influence the way, we as a nation, handle the way we produce and use electric energy.

In closing, we want you to know that we are excited to be well into another year of working to keep your system in good financial and operational condition. We are especially thankful to you, the member-owners, of Minnesota Valley. We appreciate your patronage and your support in helping us keep your electric power system in reliable shape, from coal mine to the meter in your yard. Together as members, board members and employees of this cooperative, we look forward to another good year in the continued success of this cooperative.

Sincerely,

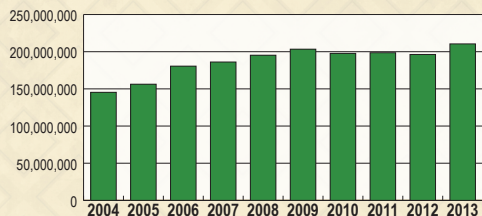


Mike Gunlogson
Board President

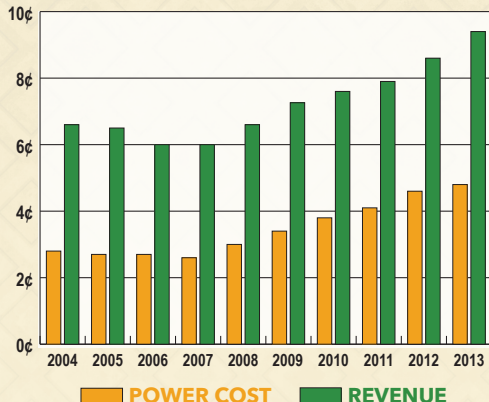


Pat Carruth
General Manager

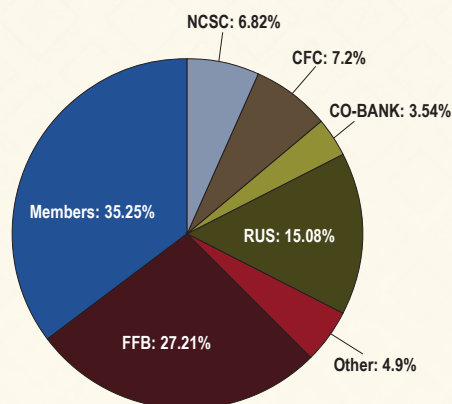
KWh Sales



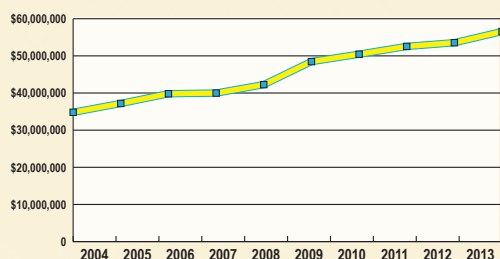
Cost/Revenue Per KWh



Who Owns What



Total Asset Growth



Balance Sheets

Assets and Other Debits (what we own)

Assets	2013	2012
Investment in Utility Plant	\$62,075,561	\$60,672,802
Less: Accumulated Depreciation	\$(20,380,235)	\$(19,045,386)
Net Utility Plant	\$41,695,326	\$41,627,416
Investments		
Loans to Members (energy conservation wiring, central air systems and electric heating)	\$293,044	\$292,226
Capital Credits from Basin	\$5,586,097	\$5,140,704
Memberships in and capital credits from other associated organizations	\$330,570	\$303,355
National Rural Utilities Cooperative Finance Corp.	\$1,409,740	\$903,264
Other Investments	\$954,661	\$1,053,476
Total Investments	\$8,574,112	\$7,693,025
Current Assets		
Cash and Cash Equivalents	\$672,309	\$324,561
Members/others owe us for electrical energy service, etc.	\$2,709,737	\$2,541,152
Materials for line construction and maintenance	\$1,034,880	\$1,019,738
Prepaid Expenses	\$154,503	\$172,472
Total Current Assets	\$4,571,429	\$4,057,923
Deferred Debits	\$1,700,487	\$165,930

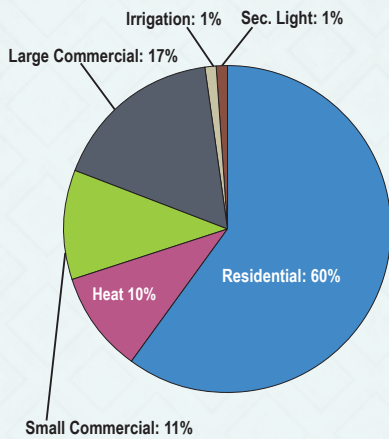
TOTAL ASSETS **\$56,541,354** **\$53,544,294**

LIABILITIES (what we owe)

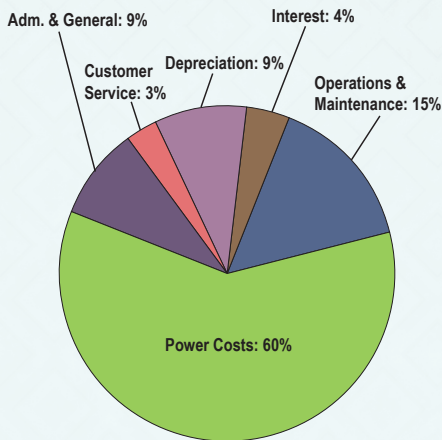
	2013	2012
Long-term Debt		
Rural Utilities Service & Federal Financing Bank	\$24,109,831	\$24,330,984
Cooperative Finance Corporation (CFC)	\$4,080,144	\$2,610,793
National Cooperative Service Corporation (NCSC)	\$3,853,556	\$4,207,541
Co-Bank	\$2,000,000	\$1,500,000
Total long-term debt	\$34,043,531	\$32,649,318
Current Liabilities		
Accounts payable (power, materials, etc)	\$1,177,156	\$984,093
Accrued Expenses (taxes, interest, etc)	\$1,270,275	\$1,253,632
Security Deposits	\$51,065	\$52,865
Total Current Liabilities	\$2,498,496	\$2,290,590
Deferred Credits	\$71,020	\$61,635
TOTAL LIABILITIES	\$36,613,047	\$35,001,543
NET WORTH (members equity in co-op)	\$19,928,307	\$18,542,751

TOTAL LIABILITIES & NET WORTH **\$56,541,354** **\$53,544,294**

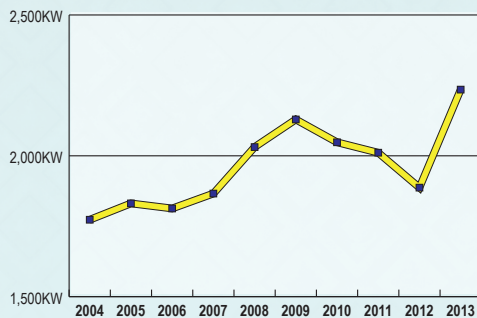
Where It Came From



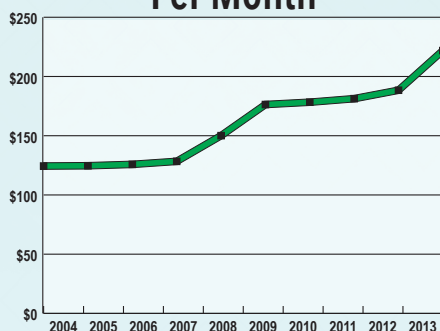
Where It Went



Average Residential KWhs Per Month



Average Residential Bill Per Month



Statements of Revenue & Expenses

REVENUE

	2013	2012
Sales of electric energy to consumers	\$18,956,596	\$16,864,699
Miscellaneous electric revenues and penalties	\$257,624	\$218,330
Non-operating and other income, etc. (interest income, miscellaneous items)	\$466,737	\$210,418
Total Revenue	\$19,680,957	\$17,293,447

EXPENSES

Wholesale Power	\$10,787,989	\$9,504,059
Other Operating expenses (administration, sales, maintenance, taxes, etc.)	\$4,707,322	\$4,762,170
Depreciation of utility plant	\$1,643,153	\$1,549,128
Interest expense on long-term debt	\$763,237	\$817,535
Total Expenses	\$17,901,701	\$16,632,892

PATRONAGE CAPITAL

Patronage capital income before generation and transmission capital credits	\$1,779,256	\$660,555
Patronage capital from Basin Electric and other associated cooperatives	\$445,392	\$330,028
Total year end margin	\$2,224,648	\$990,583
Accumulated patronage capital - January 1 st	\$18,542,751	\$18,447,396
Retirement of patronage capital	\$(850,661)	\$(918,097)
Estate patronage capital retained	\$11,569	\$22,869
Total Accumulated Patronage Capital	\$19,928,307	\$18,542,751

Taxes Paid in 2013

County	Real Estate	Transmission Line
Chippewa	\$46,108	\$53,816
Yellow Medicine	\$9,802	\$52,057
Lac qui Parle	\$11,410	\$102,338
Lyon	\$4,537	\$696
	<u>\$71,857</u>	<u>\$208,907</u>
Total County Taxes		\$280,764
State and Federal UC		\$16,495
Employers Share of Social Security		\$179,786
Total Payroll Taxes		<u>\$196,281</u>
Total of all Taxes		<u><u>\$477,045</u></u>

Generation Portfolio

Energy Source Balancing Act

Trying to find an energy source that is affordable, reliable and environmentally friendly has always been a balancing act. Minnesota Valley's wholesale power supplier, Basin Electric Power Cooperative, has a portfolio that reflects its location near some of the nation's

best coal and wind resources. You also receive a fair amount of energy from the Garrison Dam, which created Lake Sakakawea in central North Dakota. Listed below are some pros and cons of different fuels used for generating electricity.



COAL
3,147.6 megawatts
59.5%



OIL, DIESEL, JET FUEL
181.4 megawatts
3.4%



NUCLEAR
77.2 megawatts
1.5%



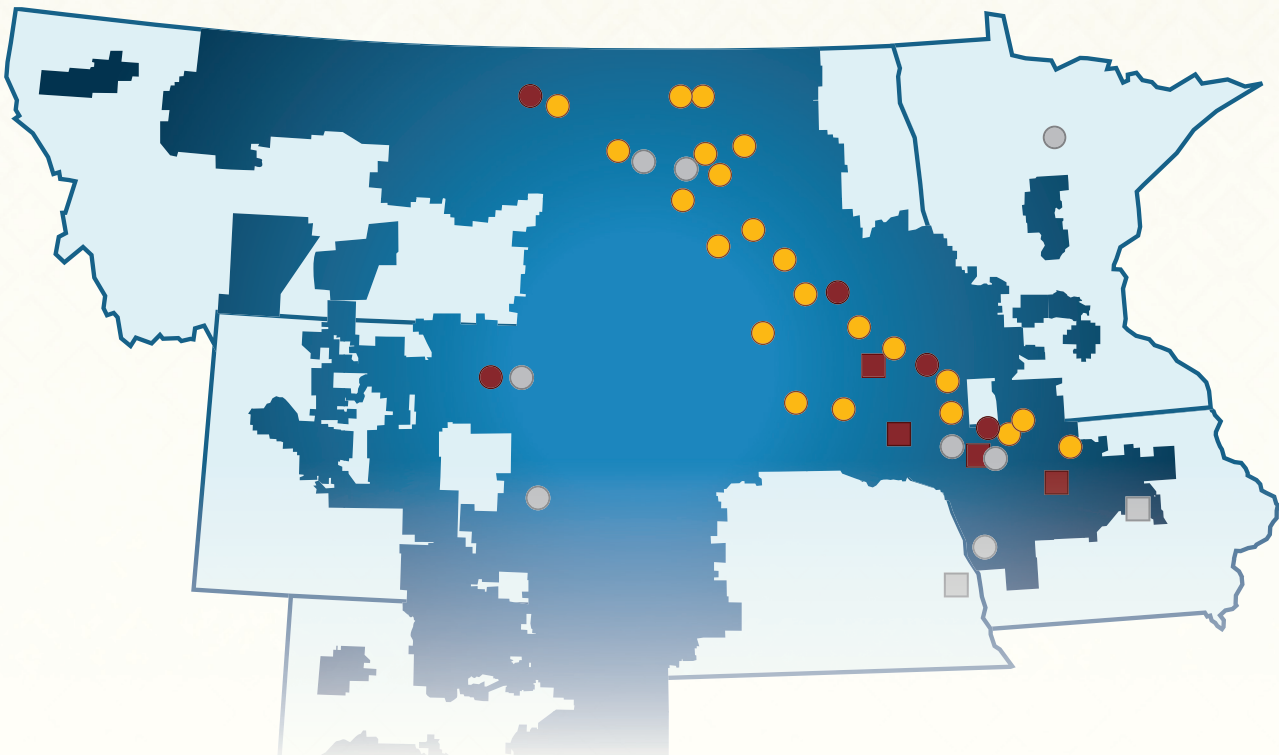
NATURAL GAS
809.8 megawatts
15.3%



RENEWABLE ENERGY
758.4 megawatts
14.3%



HYDROPOWER
315.7 megawatts
6.0%



COAL

Pros

- ❖ Abundant – North Dakota has an 800-year supply.
- ❖ Affordable – Relatively inexpensive compared to other fuels. Generators that use coal are proven technology.
- ❖ Reliable – Coal is baseload generation, meaning a power plant can run 24/7 with this fuel source.
- ❖ Increasingly cleaner – Technology exists, which Basin Electric uses, to drastically cut nitrogen oxides, sulfur dioxide and mercury emissions.

Cons

- ❖ Environmental groups and the federal government continue to attack coal due to its higher carbon dioxide output, which they believe is a contributor to climate change.
- ❖ Regulations and legislation have made it next to impossible to build a new coal-fired power plant.



WATER

Pros

- ❖ Emissions free renewable resource.
- ❖ Affordable unless a prolonged drought occurs.
- ❖ Reliable unless a prolonged drought occurs.

Cons

- ❖ Virtually no resources left to develop.
- ❖ Does affect fish migration and changes the ecosystem.
- ❖ A prolonged drought could raise prices and lessen its rated capacity.

NATURAL GAS

Pros

- ❖ Currently rivals coal in terms of affordability.
- ❖ Abundant fuel supply.
- ❖ Can be used as either peaking (as needed) or baseload generation.

Cons

- ❖ The price of natural gas has historically been very volatile.
- ❖ Fracking is an environmental concern in its own right.
- ❖ The flaring of methane naturally present in these natural gas wells is many times more powerful a greenhouse gas than carbon dioxide. This may negate any advantage natural gas has over coal in terms of carbon dioxide output.

SOLAR

Pros

- ❖ Emissions free and renewable.
- ❖ As technology improves, may be a supplement to power certain items in the home.

Cons

- ❖ Very expensive in its current form.
- ❖ Only available up to 18 percent of the time.
- ❖ If implemented in a large scale, would take up large amounts of land.
- ❖ May not be the best fit for certain regions.

WIND

Pros

- ❖ Emissions free and renewable resource.
- ❖ Cheaper than other forms of renewable energy but still more expensive than coal or natural gas.
- ❖ Landowners receive royalties.

Cons

- ❖ Not reliable. The wind energy you receive from your cooperative is only available 40 percent of the time on average.
- ❖ Can disrupt the path of birds.
- ❖ Is an eyesore to some.
- ❖ Still needs to be backed up by a reliable, baseload energy source like natural gas.

NUCLEAR

Pros

- ❖ Reliable energy; available 24/7.
- ❖ Emissions free.

Cons

- ❖ The U.S. still hasn't figured out what to do with the spent radioactive material.
- ❖ Takes a long time to build.
- ❖ Expensive to build.
- ❖ There is a stigma associated with nuclear energy.



Your Employees

STAFF



Sitting: Bob Walsh, Pat Carruth and Candice Jaenisch
Standing: John Williamson and Jill Sand

OPERATIONS



Sitting: Tim Bertrand, Mark Sweno and Don Snell
Standing: Scott Monson, Stacey Boike and Bob Kratz

JOURNEYMEN LINEMEN



Sitting: Loyd Canatsey, Blake Lymburner, Joe Schultz, James Hughes and Eric Wollschlager
Standing: Andy Johnson, Dave Dieter, Trevor Diggins, Kent Smith and Brandon Bjelland

- ✓ Maintain 2,736 miles of overhead distribution
- ✓ Maintain over 291 miles of underground distribution line
- ✓ Maintain 242 miles of transmission line & 16 distribution substations
- ✓ Total services in place: 5,438
- ✓ Responded to 351 service calls
- ✓ Tested and treated 3,059 distribution poles
- ✓ Installed 372 new distribution poles due to rot, service changes, road changes, storms and construction
- ✓ Responded to 207 Gopher State One-Call line locates

- ✓ Upgraded conversions of 103 existing services
- ✓ Upgraded 1.5 miles of single-phase line to three-phase line
- ✓ Replaced/rebuilt 10.5 miles of single-phase underground/overhead line
- ✓ Replaced/rebuilt 1.5 miles of three-phase underground/overhead line
- ✓ Converted 26 miles of overhead line to underground for CAPX Project route
- ✓ Conducted monthly safety meetings through the Minnesota Rural Electric Association

OFFICE SERVICES



Sitting: Lacey Wintz **Standing:** LaVonne Stegeman and Jill Strand

MEMBER SERVICES




Sitting: Duane O'Malley **Standing:** Jerrad Perkins, Scott Kubesh and Chuck Blom

OFFICE SERVICES

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

- » Process monthly bills to over 5,000 members
- » Calculate estate refunds
- » Process member applications for over 210 members in 2013
- » Issue capital credit checks
- » Facilitate new services, reconnect and disconnect services and moves
- » Maintain idle services
- » ERC Loans/Construction Loans
- » Assist members with Energy Assistant Programs
- » Maintain billing for 300 First Call Phones
- » Assist customers with disconnect notices and past due accounts
- » Facilitate agricultural and electric heat sales tax exemptions

Minnesota Valley's Payment & Statement Options:

- » Automatic payment-checking accounts
- » Electronic payment (Bill-4U Program)
 - Checking accounts, debit cards, & credit cards
- » Debit/credit cards 
- » Mail/in-person/drop box
- » Budget Billing – electric bill remains constant throughout the year

Statement Options:

- » Electronically/paperless
- » Mail

PROGRAMS AND SERVICES OFFERED TO MEMBERS

Equipment Sales and 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 are available.
- » Electric water heaters
- » Central air conditioning systems
- » Air Source Heat Pumps
- » Ground Water Source Heat Pump

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 the following equipment from the co-op:

- » Electric grills
- » Surge suppressors
- » Standby generators

Member Loans: Minnesota Valley has loans of up to \$15,000 available at 5% interest to qualified members for the following:

- » Weatherization
- » Electric heat or central air installation
- » Wiring upgrades

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

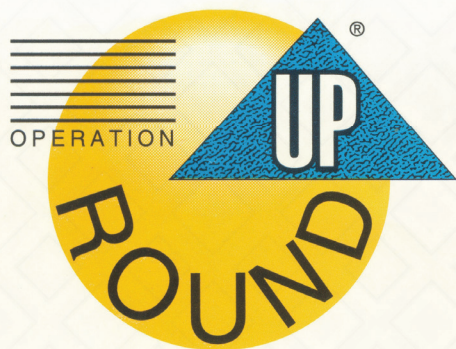
First Call In-home Emergency Response System: Get piece of mind with a medical monitoring phone system for loved ones living at home.

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.

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U.S. Postage
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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.

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 in a year 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 some organization who would benefit from Operation Round Up funds, you can get an application by downloading it from our website at www.mnvalleyrec.com, from one of the Operation Round Up board members; 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.*

The Operation Round Up Board Members are:

Jon Kleven

Wendy VanRavenswaay

Marlys Londgren

Richard Phinney

Janet Bossuyt

Norman Viken

Sheree Williamson

Past Board Members:

Arnold Nokleby, Arlene Miller, Paula Sachariason, Paul Wilson, Gerald Aamodt, Paul Frank, Robin Kleven, Cindy Jerve, Merrie Bertrand, Roger Fjerkenstad, Eunice Bue, Angie Wyffels and Ken Jerve.