

Looking out for you

Dakota Electric Association
2007 Annual Report



Your Touchstone Energy® Partner 

S.E.S. Renewable Energy Project

In 2007, Dakota Electric worked with students from the School of Environmental Studies in Apple Valley to develop and build a renewable energy education project, which culminated in a 20-kilowatt (kW) wind turbine and two 1-kW solar arrays on site at the School of Environmental Studies.

Real-time displays, on-site signage and a small building showcasing sustainable building elements make the project a valuable learning tool for the school and community. The installation also allowed Dakota Electric employees to learn more about renewable energy interconnection projects. The wind turbine tower doubles as a Dakota Electric communications tower, assisting in service reliability.



Generating Learning Opportunities



Managing an electric utility is challenging and interesting work, and 2007 was no exception. It may not seem interesting to those on the outside, and if we do our job right, members should hardly notice us. You flip the switch, the lights come on. You press the power button, your computer comes to life. Do not let our reliability fool you. Every day our jobs are consumed with the challenges of looking out for you, our member-owners.

The legislature kept our work interesting in 2007. Dakota Electric, along with Great River Energy and the Minnesota Rural Electric Association, remains active as legislators debate issues and pass laws with long-term effects on our ability to deliver reliable, low-cost energy to you. In 2007, Dakota Electric also helped members save a significant amount of energy and spent more than \$11 million and countless hours continuing to strengthen our system to make sure you receive reliable electricity.

We again carefully managed our costs and avoided a rate increase in 2007. However, Dakota Electric's key financial indicators are signaling the need for a rate case by 2009 or 2010. Since our last rate increase in 2004, the cost of fuel, metals, health care and other items have grown significantly.

Additionally, a wholesale power cost increase in 2008 amounts to about a 10-percent increase on residential members' bills and even more for many commercial members. This increase is a direct pass-through and none of the money is used for Dakota Electric's distribution costs.

Dakota Electric is the second largest distribution cooperative in Minnesota. We now serve more than 100,000 member-owners with revenue that will top \$150 million this year.

Dakota Electric takes its role as a non-profit cooperative seriously. Your board of directors authorizes the payment of capital credits (the profits from the business) as finances allow. Over the last four years, more than \$6 million has been returned to you, our member-owners, and we anticipate returning more than \$1.2 million in 2008.

While you may not notice us in 2008, know that your board of directors and staff at Dakota Electric are looking out for you.



Greg Miller
President and CEO



Jim Sheldon
Chair, Board of Directors

Letter from our leaders



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Looking out for...

Every Member

As a member-owned, non-profit cooperative, Dakota Electric is looking out for you: your convenience, your comfort and your hard-earned cash. Dakota Electric does not seek to make a profit for investors. The only “investors” we have are you, our local owners. Instead, we strive to provide value for every dollar. In this time of increasing costs, Dakota Electric employees work hard to keep rates low while providing the outstanding service and reliability you deserve and have come to expect.

In 2007, we reached or exceeded many goals aimed at improving service, including starting a major upgrade to our geographical information systems technology. The multi-year project will create efficiencies and improve service by integrating data and computer systems to allow mapping, customer databases, outage management and other systems to share information and by providing employees access to more information, including real-time data.

Additionally, employees completed new service connections in a remarkable three days or less, and customer service representatives answered 80 percent of their 12,000 monthly calls in just a few rings. Meter readers read 99.9 percent of meters each month, leaving few to be estimated.

Dakota Electric also scored an outstanding 85 on the American Customer Satisfaction Index, a standardized measurement of customer satisfaction used across industries and businesses. The utility industry average is 72, and few utilities score more than 80. Dakota Electric works hard to provide quality customer service, and we appreciate our members noticing and scoring us well.

One of Dakota Electric’s most important services includes helping members find energy solutions and energy-saving programs for their homes and businesses. We have staff dedicated to answering energy-related questions and explaining ways to save energy and money with programs that offer convenience and comfort.

To further improve our service to you, Dakota Electric is planning for a major Web site upgrade in 2008. Dakota Electric’s Web site traffic has increased 150 percent since 2004, and with more people using the Web to get information about programs, sign up for services or pay their bills, we feel it is important to make using our Web site as convenient and helpful as possible.

Peace of Mind

Dakota Electric’s average member has power available 99.99 percent of the time, meaning any one member averages less than 30 minutes of outage time per year and goes 23 months between inter-



Great River Energy, Dakota Electric’s wholesale power provider, is committed to environmental stewardship. Great River Energy is currently adding to its renewable portfolio, Great River Energy started negotiations to purchase power from a future 99-MW wind farm. Great River Energy is also exploring other cutting-edge initiatives to improve its environmental stewardship.

ruptions. The average outage length per member clearly shows a downward trend.

When outages do occur, Dakota Electric works hard to ensure power is restored as quickly as possible by combining automation with the skills of experienced employees. During outage situations, an automated system answers hundreds of calls in a short time and provides analysis of outage situations, providing efficiencies not available with live personnel and ensuring outages are identified as quickly as possible. Our computerized outage management system displays the areas and members without power so repair crews can be dispatched quickly. Experienced distribution system operators in our control room and powerline specialists in the field work together to analyze the situation and identify an exact cause.

In addition to improving member service, the geographical information system technology upgrade will be instrumental in improving reliability as well. The upgrade will include integration of a new outage management system with multiple other systems to better pinpoint outages and troubleshoot problems.

In 2008, we will expand the use of technologies that aided reliability in 2007. Dakota Electric will expand sectionalizing by identifying more locations for additional fuses in rural areas. Sectionalization reduces the number of members affected by an outage by placing more fuses at major line intersections to keep



Each July, Dakota Electric Association holds its Member Appreciation Event at the Minnesota Zoo.



Dakota Electric's business account executives work with members to find ways to save energy, such as rebates for upgrading to more efficient lighting.

power supplier, is committed to competitive rates, reliable service and is currently working toward generating 25 percent of its power from renewables by 2025. In 2007, Great River Energy received power from a new 100-MW wind farm in 2007 and signed an agreement to purchase power from the farm. Great River Energy demonstrates its environmental commitment with renewable energy and improved plant efficiencies and reduce emissions.



Looking out for...

problems isolated to smaller areas. We will also continue using infrared camera technology to find overheated and stressed equipment to repair problems before they cause outages and continue adding fault indicators, which speed restoration by helping crews locate problem areas during an outage.

The Environment

Dakota Electric's environmental efforts are comprised of many activities - greener business decisions, environmental education, renewable energy programs and energy conservation. It's all part of looking out for you and our world.

Dakota Electric made many green business decisions in 2007, including providing environmental education programs and supporting new fuel technology by purchasing three hybrid vehicles. Since 1997, Dakota Electric has donated more than 78,000 trees to be planted locally and partnered with Tree Trust to create environmental learning centers that reached more than 12,000 students at 17 schools. Dakota Electric also supports Minnesota State Parks with our annual GreenTouch event. In 2007, 65 Dakota Electric members and employees volunteered more than 200 hours at Fort Snelling State Park during GreenTouch.

However, Dakota Electric's most important environmental mission is helping members save energy. Dakota Electric's load management programs allow members to reduce energy and save money during peak demand times. In 2007, more than 40,000 members participated in load management programs and helped save enough electricity to power more than 22,000 homes and reduced Dakota Electric's power bill by more than \$10 million.

Dakota Electric also encourages members to purchase more energy-efficient products by providing more than 20 rebate programs. In 2007, Dakota Electric promoted compact fluorescent light (CFL) bulbs through the Brighter Idea program, resulting in more than \$13,000 in CFL rebates and an estimated energy savings of 436,900 kWh.

Wellspring Renewable Wind Energy® is another environmental program for members. Nearly 1,500 Dakota Electric members pay a slight premium to receive wind-produced energy. As a result, Dakota Electric members purchased more than 7.1 million kilowatt hours of wind energy in 2007. In addition, renewable energy is a growing part of Great River Energy's standard portfolio.

In 2007, Dakota Electric's conservation programs, which included some large business conversion projects, also resulted in astound-



Member Service

ing energy savings of more than 25 million kWh. This is enough energy to power 2,420 average homes for an entire year.

Your Safety

The safety of the public and employees is of paramount importance to Dakota Electric. Each year, Dakota Electric spends time and money promoting electrical safety through our Web site, advertisements, *Circuits* newsletter and community education programs. Each year, hundreds of school children see the Louie the Lightning Bug program that teaches students about electrical safety, and Dakota Electric's manager of safety services performs numerous powerline safety demonstrations for students, fire and police departments, scout groups and more. These programs reached more than 5,600 people in 2007.

In recent years, Dakota Electric increased its job-related safety focus with greater awareness, education and communication, and in 2007, Dakota Electric employees had only six recordable injuries, an 80 percent reduction from previous averages.

Dakota Electric energy service representatives are dedicated to helping members find energy-saving options for electric heating, water heating, cooling and more, and many area builders offer our programs in their homes as a way to add value and comfort. From air-source heat pumps to compact fluorescent light bulbs, Dakota Electric staff know how to help members save energy and money.

Summarized Financial Information - 2007

Consolidated Balance Sheets

ASSETS

	2007	2006
	(in thousands)	
CURRENT ASSETS		
Cash and cash equivalents	\$1,777	\$2,673
Accounts receivable, less allowance for uncollectible accounts (2007 - \$668, 2006 - \$496)	28,791	20,011
Notes and lease receivable	105	116
Conservation cost recovery	-	29
Materials and supplies	5,166	4,886
Prepayments and interest receivable	651	572
Deferred charges	114	102
Total current assets	36,604	28,389
Investments in associated companies and other investments	49,307	42,525
Energy conservation loans and non-current receivables	287	478
UTILITY PLANT		
Distribution system and general plant	238,659	228,656
Less accumulated depreciation	(82,828)	(77,941)
Net utility plant and work in progress	155,831	150,715
Intangible assets	0	36
Deferred charges and other assets	3	111
TOTAL ASSETS	\$242,032	\$222,254

LIABILITIES AND EQUITIES

CURRENT LIABILITIES

Accounts payable	\$17,604	\$14,645
Notes payable	7,686	6,170
Current portion of long-term debt	4,700	4,754
Customer security deposits	289	134
Accrued property and other taxes	4,037	4,083
Other current liabilities	8,111	6,543
Total current liabilities	42,427	36,329
Long-term debt	103,068	97,430
Deferred gain on RUS buyout	2,912	3,356
Deferred credits and other liabilities	4,195	3,722
Total liabilities	152,602	140,837
MEMBERS' EQUITY		
Patronage capital and other equity	89,430	81,417
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$242,032	\$222,254

Consolidated Statements of Operations

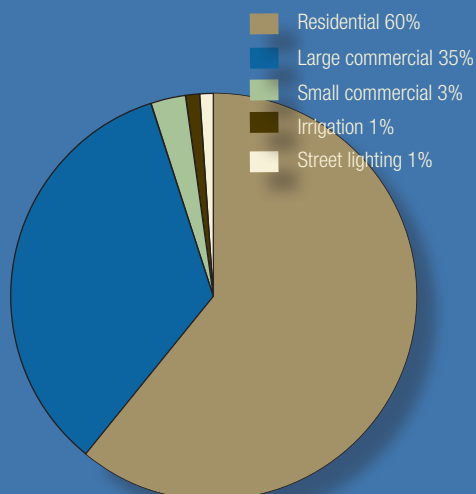
	2007	2006
	(in thousands)	
OPERATING REVENUES		
Net sales	\$172,254	\$152,150
Cost of sales	122,332	103,837
Gross margin	49,922	48,313
OPERATING EXPENSES		
Total operating expenses	47,615	45,120
Net operating margin	2,307	3,193
OTHER INCOME		
Total other income	7,395	10,773
Income before taxes	9,702	13,966
Income tax on nonregulated operations	170	422
NET INCOME	\$9,532	\$13,544

Consolidated Statements of Cash Flows

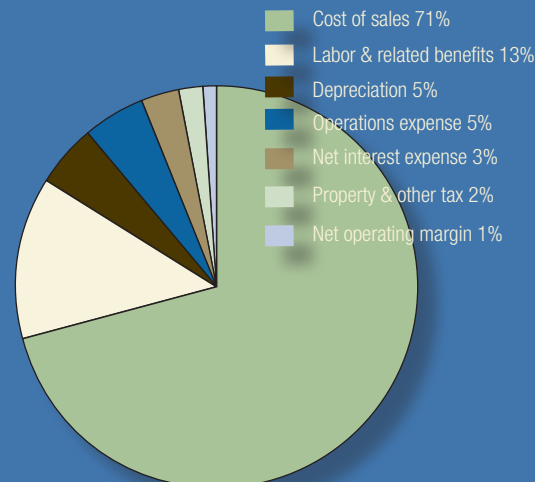
CASH FLOWS FROM OPERATING ACTIVITIES		
Net cash provided by operations	\$6,216	\$16,269
Net cash used for investing activities	(12,693)	(12,705)
Net cash provided by (used for) financing activities	5,581	(1,895)
Net increase in cash and cash equivalents	(896)	1,669
Cash and cash equivalents at beginning of year	2,673	1,004
Cash and cash equivalents at end of year	\$1,777	\$2,673

Financial information presented in this report is summarized. A copy of the complete audited financial statements is available upon request or can be viewed online at www.dakotaelectric.com.

Sources of Rate Revenue (%)



Uses of Revenue (%)



Board of Directors



Left to right: **Gerald F. Pittman, Jr.**, vice chair, Lakeville, elected 1994; **William F. Holton**, secretary, Apple Valley, elected 1995; **Ray B. Nicolai**, Hampton, elected 1984; **Margaret D. Schreiner**, Eagan, elected 1987; **Carl E. Potter**, Great River Energy director and Minnesota Rural Electric Association director, Burnsville, elected 1983; **James F. Sheldon**, chair, Apple Valley, elected 1994; **Clay A. Van De Bogart**, treasurer and Great River Energy director, Lakeville, elected 2000; **Judy H. Kimmes**, Hampton, elected 1997; **Paul A. Trapp**, Hastings, elected 2002; **Ronald R. Swagger**, Burnsville, elected 1987; **Kenneth H. Danner**, Apple Valley, elected 2003; **Janet L. Lekson**, Rosemount, elected 1996.

Dakota Electric Association Statistics

2007 year-end figures

Headquarters	-----	Farmington, Minnesota
Year founded	-----	1937
Service area	-----	507 square miles
Areas served	-----	Portions of Dakota, Goodhue, Scott and Rice counties
Number of members	-----	99,959
Number of employees	-----	213
Miles of line	-----	3,668; 2,323 underground, 1,345 overhead
Number of substations	-----	25
Annual sales	-----	1.9 billion kWh
Wholesale power source	-----	Great River Energy, Elk River, Minn.
Source of funds	-----	Cooperative Finance Corp., Herndon, Virginia CoBank, Denver, Colorado
Subsidiaries	-----	Midwest Energy Services: <ul style="list-style-type: none">• Energy Alternatives• Consulting Engineers Group• Controlled Air Heating & Air Conditioning

Senior Management

Left to right: **Lou Ann Weflen**, vice president, finance; **Dirk Rotty**, vice president, utility services; **Bill Trevis**, vice president, customer and information services; **Greg Miller**, president/CEO; **Mike Fosse**, vice president, marketing and sales; **Dale Gundberg**, president, Midwest Energy Services (subsidiary); **Randy Poulson**, vice president, engineering services.



Dakota Electric's hybrid vehicles.



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