

2012

Annual Report



Your Touchstone Energy® Partner 

2012 Year-End Review

Letter To Our Members

Although Dakota Electric Association faced some challenges in 2012 relating to the weather, economy and legislative pressures, we continued to achieve success in reliability and member services.

Last summer we experienced storms with high winds and more lightning than normal, causing isolated damage to equipment which resulted in power outages for some members. The economy and lack of jobs made it difficult for some of our members to pay their electric bill. In addition, regulatory and legislative pressures continue to drive up the cost of doing business.

Despite those challenges, your cooperative had excellent performance in the areas of reliability and member services. Studies show our electric rates are very competitive with neighboring utilities, thanks in part to internal cost controls and moderating wholesale power costs. We again exceeded the goals set by the state for energy efficiency and conservation. We also improved communication with our members through an upgraded website, the use of social media and online chat with our member service representatives.

Another significant accomplishment was the complete review and rewrite of Dakota Electric's strategic plan. After studying important information and industry trends, the board of directors and senior staff held multiple discussions leading up to the finished document.

This plan provides a foundation for current operations and guides us into the future. The electric utility industry is undergoing many changes, and the board continues to focus the organization on what is best for our member-owners.

The strategic plan provides focus and sets goals for improvements in seven major areas including:

- Financial stewardship
- Power supply
- Reliability
- Energy conservation / renewable energy / environmental stewardship
- Member services / communications / community involvement
- Safety / human resources
- Regulatory and legislative affairs

We are excited about the future of Dakota Electric Association. We continue to be proactive and will work hard to maintain your trust. That's what cooperatives do!

We appreciate your business and we look forward to serving you.



Greg Miller
President and CEO



Jim Sheldon
Chair, Board of Directors



Jim Sheldon, chair, board of directors; and Greg Miller, president/CEO



2012: Continued achievement in service and reliability

As a member-owned cooperative, we strive to provide quality service to our members. Below is a brief overview of our 2012 achievements:

- Helped members conserve nearly 19 million kilowatt-hours (kWhs) of electricity, enough energy to power more than 1,900 homes for an entire year.
- Reduced our wholesale power bill by \$18 million through member participation in EnergyWise® off-peak programs.
- Reliability indices, as reported to the Public Utilities Commission, continue to be among the best in the nation:
 - Power available more than 99.99 percent of the time.
 - Outage frequency per member averaged approximately one outage every 22 months (normalized for major events).
 - Outage duration averaged 26.5 minutes per member, per year (normalized for major events).
- Member service representatives received 167,093 calls in 2012 and answered 91 percent of calls in 20 seconds or less.
- Meter readers completed more than 1.3 million meter readings, estimating just one-half of a percent of all readings.
- Awarded \$50,000 in scholarships with unclaimed capital credits.
- Completed construction of a new Burnsville substation to improve reliability.
- Reviewed and updated a contingency study to determine the best way to restore power to an area when we lose power at a substation.

RELIABILITY

- Continue to monitor underground cable failures and replace cables that have a larger number of failures.
- Invest nearly \$6 million in cable replacement and mainline work.
- Work with Great River Energy to test the improvement to communication and monitoring by using fiber optic cable at the Lake Marion substation.
- Relocate or modify powerlines and equipment to accommodate CapX2020 transmission construction.

EFFICIENCY

- Encourage residential members to conserve more than 4.4 million kWhs of electricity through appliance rebates and other programs.
- Offer rebates and grants to urge business members to conserve more than 7.6 million kWhs.
- Replace under-loaded transformers on the system, which will save energy and reduce their premature failure.

AFFORDABILITY

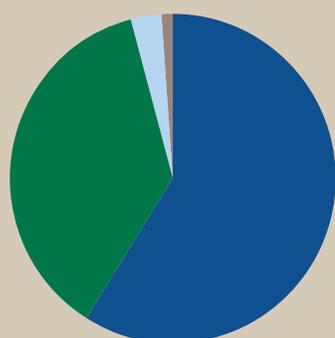
- Work with our wholesale power supplier, Great River Energy, to minimize power cost increases.
- Pay out more than \$1.5 million in capital credits.
- Educate legislators on the impact potential legislation may have on Dakota Electric members.

COMMUNITY

- Distribute more than 5,100 tree seedlings to communities and schools.
- Send five high school students to Washington D.C. to learn about our nation's government.
- Educate area students and adults about electrical safety.
- Actively support the communities we serve through various volunteer efforts.

Consolidated Balance Sheets

| ASSETS | 2012 | 2011 |
|---|------------------|------------------|
| | (in thousands) | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$2,305 | \$1,192 |
| Accounts receivable, less allowance for uncollectible accounts (2012 - \$1,151; 2011 - \$1,078) | 26,565 | 22,827 |
| Lease receivable, short-term | - | 280 |
| Conservation cost recovery | 97 | - |
| Inventories, materials and supplies | 4,234 | 7,078 |
| Prepayments and interest receivable | 787 | 784 |
| Deferred charges | 290 | 1,485 |
| Total current assets | 34,278 | 33,646 |
| Restricted cash | 2,500 | - |
| Investments in associated companies and other investments | 82,016 | 73,565 |
| Lease receivable | - | 338 |
| UTILITY PLANT | | |
| Distribution system and general plant | 261,432 | 277,597 |
| Less accumulated depreciation | (101,333) | (101,263) |
| Net utility plant and work in progress | 160,099 | 176,334 |
| Deferred charges and other assets | 112 | 156 |
| TOTAL ASSETS | \$279,005 | \$284,039 |
| LIABILITIES AND EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$22,993 | \$22,695 |
| Notes payable | 10,900 | 4,176 |
| Current portion of long-term debt | 5,913 | 6,424 |
| Conservation cost over-recovery | - | 262 |
| Customer security deposits | 561 | 543 |
| Accrued property and other taxes | 4,930 | 4,846 |
| Other current liabilities | 6,371 | 6,488 |
| Total current liabilities | 51,668 | 45,434 |
| Long-term debt | 93,361 | 109,244 |
| Deferred gain on RUS buyout | 1,191 | 1,468 |
| Deferred credits and other liabilities | 5,021 | 8,838 |
| Total liabilities | 151,241 | 164,984 |
| MEMBERS' EQUITY | | |
| Patronage capital and other equity | 127,764 | 119,055 |
| TOTAL LIABILITIES AND MEMBERS' EQUITY | \$279,005 | \$284,039 |



2012 Sources of Electric Revenue

- Residential - 58%
- Large commercial - 37%
- Small commercial - 3%
- Street lighting & Irrigation - 2%

Consolidated Statements of Operations

2012 2011

(in thousands)

OPERATING REVENUES

| | | |
|-----------------------------|-----------|-----------|
| Net sales | \$198,712 | \$195,385 |
| Cost of power/Cost of sales | 144,372 | 139,908 |
| Gross margin | 54,340 | 55,477 |

OPERATING EXPENSES

| | | |
|--------------------------|--------|--------|
| Total operating expenses | 51,329 | 49,846 |
| Net operating margin | 3,011 | 5,631 |

OTHER INCOME

| | | |
|--|--------|--------|
| Total other income | 7,977 | 6,578 |
| Income before taxes | 10,988 | 12,209 |
| Income tax on non-regulated operations | 158 | 469 |

| | | |
|-------------------|-----------------|-----------------|
| NET INCOME | \$10,830 | \$11,740 |
|-------------------|-----------------|-----------------|

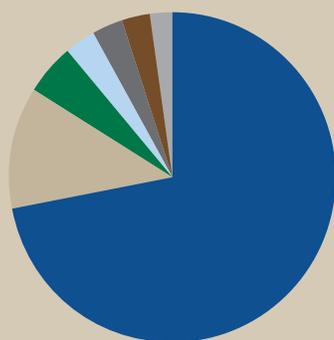
Consolidated Statements of Cash Flows

| | | |
|---|----------|----------|
| Net cash provided by operations | \$5,612 | \$22,465 |
| Net cash from (used for) investing activities | 7,292 | (13,301) |
| Net cash used for financing activities | (11,791) | (9,505) |
| Net change in cash and cash equivalents | 1,113 | (341) |

| | | |
|--|-------|-------|
| Cash and cash equivalents at beginning of year | 1,192 | 1,533 |
|--|-------|-------|

| | | |
|---|----------------|----------------|
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$2,305 | \$1,192 |
|---|----------------|----------------|

Financial information presented in this report is summarized. Members may request a copy of the complete audited financial statements or view them online at www.dakotaelectric.com.



2012 Uses of Revenue

- Cost of power/Cost of sales - 73%
- Net interest expense - 3%
- Labor & related benefits- 12%
- Net operating margin - 2%
- Depreciation - 4%
- Property & other tax - 2%
- Operations expense - 4%