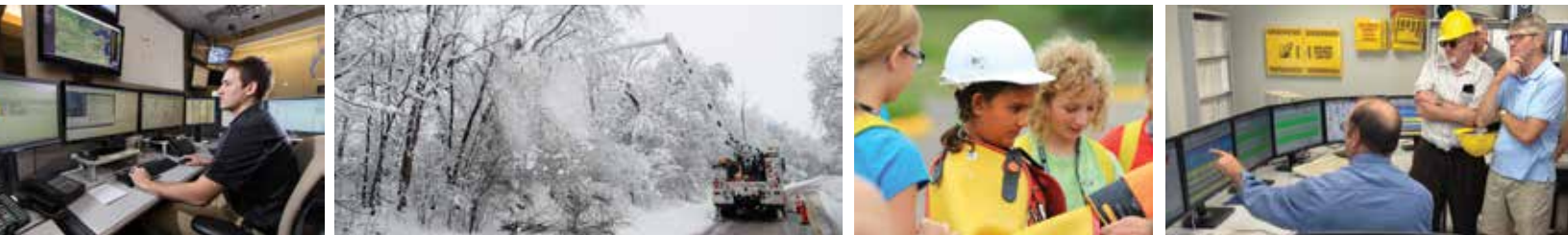


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ANNUAL REPORT 2013



Your Touchstone Energy® Partner 

2013 Year-End Review

Letter To Our Members

Dakota Electric Association continued to perform well in 2013. The economy seems to be recovering and your cooperative worked hard to provide affordable and reliable electricity with unparalleled service. We continue to monitor energy legislation and provide feedback on how various legislative bills will affect what you ultimately pay for electricity.

Growth

Signaling a glimmer of hope that the economy is on the rebound, Dakota Electric Association added just over 700 members in 2013. What was interesting is that while we added new members, we did not see growth in kilowatt-hour (kWh) sales. This is primarily due to the combination of weather and effectiveness of our energy conservation programs. Dakota Electric members saved more than 22 million kWh last year by installing high-efficiency lighting, heating and cooling devices in their homes, farms and businesses.

Reliability

Your cooperative's reliability indices were excellent and remain among the best in the country. Our system performed well during some strong winter and summer storms, thanks to proactive tree trimming and replacement of aging infrastructure. Additionally, your board of directors approved dollars for 2014 to accelerate replacement of underground cable and add a substation north of Red Wing, which will benefit all of eastern Dakota County.

Rates

Dakota Electric's rates remain very competitive locally and nationally. We continue to find efficiencies and control costs without adversely affecting reliability, service or safety. Our wholesale power supplier, Great River Energy, projects only modest annual increases, which will help us remain competitive.

While we have done our best to hold the line on costs, a recent financial study indicates the need to file for a rate increase with the Public Utilities Commission in 2014. Dakota Electric files a rate case approximately every five years, with the last filing in 2009. We will provide more information about this in Circuits and on our website in the coming months.

Energy legislation & solar

Minnesota's electric cooperatives worked closely with state legislators in 2013 as solar mandate bills were being crafted. Our message was clear: We already encourage renewable energy and work closely with members interested in installing solar panels. Our primary concern was that the mandate increased costs above those we already incur to meet the existing 25-percent renewable energy mandate. In the end, cooperatives and municipal electricity providers were exempted from the final solar energy bill.

Solar energy continues to grow in popularity. Dakota Electric wants to learn more about how to integrate this renewable energy resource into the generation mix that will benefit the cooperative and you, our member-owners. In 2014, we will partner with Great River Energy to install a 20 kW solar system in our service territory. We will be able to monitor the energy output and learn more about this emerging technology. In addition, Dakota Electric was selected to participate in a solar study by Colorado's Rocky Mountain Institute (RMI). This study will provide additional insight into the costs and benefits of solar projects to the cooperative and its members. It is expected to conclude later this year.

The future

Looking forward, Dakota Electric will complete a study of our communication infrastructure and



look at alternatives to replace our 20-year-old customer information software system. We will continue to actively partner with communities to bring new businesses and jobs to our area. And we will continually enhance communication with our member-owners. Whether that interaction is in person, on the phone, on our website or via social media, we will work to stay connected and be a trusted source of information for your energy questions.

We appreciate your business and we look forward to serving you. Thank you for being a member-owner of Dakota Electric.

A handwritten signature in cursive script, reading "Greg Miller".

Greg Miller, President and CEO

A handwritten signature in cursive script, reading "Jim Sheldon".

**Jim Sheldon, Chair
Board of Directors**

2014 Goals

RELIABILITY

- Replace all remaining pre-1984 underground cable on the entire system with new jacketed cable.
- Conduct study to identify heavily-loaded transformers for replacement to eliminate possible failures.
- Improve system communication by using upgraded fiber-optic line at Lake Marion substation.
- Build a substation on the eastern side of our service territory (Ravenna township)

EFFICIENCY

- Encourage residential members to conserve 4 million kWhs of electricity through energy-efficiency rebates and programs.
- Offer rebates and grants to urge business members to conserve at least 8.2 million kWhs.
- Use our geographic information system (GIS) to identify and replace under-loaded transformers on the system, which will save energy.

AFFORDABILITY

- Work with our wholesale power supplier, Great River Energy, to minimize power cost increases.
- Work with 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.

MEMBERSHIP

- Pay out more than \$1.5 million in capital credits.



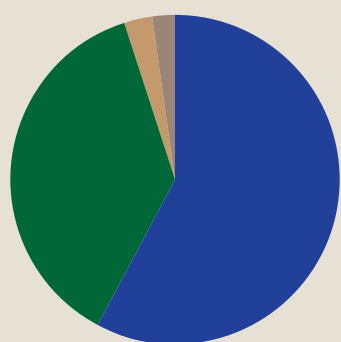
2013: Continued achievement in service and reliability

As a member-owned cooperative, we strive to provide quality service to our members. Below is a brief overview of our 2013 achievements:

- 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 less than one outage every 22 months (normalized for major events).
 - Outage duration averaged 24.9 minutes per member, per year (normalized for major events).
- Helped members conserve more than 22 million kilowatt-hours (kWhs) of electricity, which is enough energy to power more than 2,200 homes for an entire year.
- Reduced our wholesale power bill by approximately \$18 million through member participation in EnergyWise® off-peak programs.
- Member service representatives received 173,017 calls in 2013 and answered 89 percent of calls in 20 seconds or less.
- Meter readers completed more than 1.3 million meter readings, estimating just 1.7 percent of all readings.
- Awarded \$136,000 in scholarships and educational donations with unclaimed capital credits.

Consolidated Balance Sheets

ASSETS	2013	2012
	(in thousands)	
CURRENT ASSETS		
Cash and cash equivalents	\$913	\$2,305
Accounts receivable, less allowance for uncollectible accounts (2013 - \$1,239; 2012 - \$1,151)	25,864	26,565
Conservation cost and property tax recovery	238	97
Inventories, materials and supplies	5,057	4,234
Prepayments and interest receivable	908	787
Deferred charges	66	290
Total current assets	33,046	34,278
Restricted cash	2,501	2,500
Investments in associated companies and other investments	90,180	82,016
UTILITY PLANT		
Distribution system and general plant	266,260	261,432
Less accumulated depreciation	(104,824)	(101,333)
Net utility plant and work in progress	161,436	160,099
Deferred charges and other assets	108	112
TOTAL ASSETS	\$287,271	\$279,005
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$25,537	\$22,993
Notes payable	13,900	10,900
Current portion of long-term debt	5,975	5,913
Customer security deposits	559	561
Accrued property and other taxes	4,614	4,930
Other current liabilities	6,695	6,371
Total current liabilities	57,280	51,668
Long-term debt	87,700	93,361
Post-retirement benefit obligation	4,019	4,122
Deferred credits and other liabilities	1,435	2,090
Total liabilities	150,434	151,241
MEMBERS' EQUITY		
Patronage capital and other equity	136,837	127,764
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$287,271	\$279,005



2013 Sources of Electric Revenue

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

Consolidated Statements of Operations

2013 2012

(in thousands)

OPERATING REVENUES

Net sales	\$194,940	\$191,642
Cost of power/Cost of sales	145,137	141,503
Gross margin	49,803	50,139

OPERATING EXPENSES

Total operating expenses	47,676	47,438
Net operating margin	2,127	2,701

OTHER INCOME

Total other income	8,733	9,022
Income before taxes	10,860	11,723
Income tax (credit) on non-regulated operations	(556)	(192)

NET INCOME FROM CONTINUING OPERATIONS	\$11,416	\$11,915
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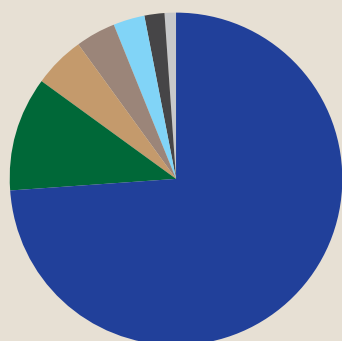
Consolidated Statements of Cash Flows

Net cash provided by operations	\$13,126	\$5,612
Net cash from (used for) investing activities	(9,576)	7,292
Net cash used for financing activities	(4,942)	(11,791)
Net change in cash and cash equivalents	(1,392)	1,113

Cash and cash equivalents at beginning of year	2,305	1,192
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CASH AND CASH EQUIVALENTS AT END OF YEAR	\$913	\$2,305
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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.



2013 Uses of Revenue

- Cost of power/Cost of sales - 74%
- Labor & related benefits- 11%
- Operations expense - 5%
- Depreciation - 4%
- Net interest expense - 3%
- Property & other tax - 2%
- Net operating margin - 1%