

Dakota Electric Association Annual Report 2014



Your Touchstone Energy® Partner 

2014 Year-End Review

Letter To Our Members

Dakota Electric Association had a very productive year in 2014. After overcoming the challenges of a harsh winter and wet spring, our reliability numbers remained strong and our crews completed several important projects.

Growth and reliability

The board of directors authorized an accelerated replacement of aging mainline cable that was prone to unplanned outages. This work was completed last summer and will benefit our members for years to come.

We have seen an increase in residential housing throughout our service territory. Dakota Electric constructed new lines and connected service to 576 new residential members in 2014 and anticipates connecting service to approximately 700 new members in 2015. In addition, we began construction on a new substation north of Red Wing that will help support growth and improve reliability for the eastern portion of Dakota County.

Data communications system

Last year, Dakota Electric completed an important study of our data communications infrastructure. Our two-way radio communication system is nearing the end of its useful life and simply cannot carry the increasing amount of data necessary to monitor our substations, field equipment and metering. As a result of the study, a multi-year plan was developed to utilize existing fiber optic cable throughout our service territory to increase speed, capacity and reliability of our data communications.

Commitment to community

Dakota Electric continues to be very active in the communities we serve. Our donation of unclaimed capital credits to local schools has been very successful in providing scholarships and funding special projects in the school dis-

tricts.

Our board and staff have been active in community events and chambers of commerce. It is a great way to serve our communities and stay connected with our member-owners. More enhanced economic development efforts have allowed us to partner with local communities to compete for new large businesses, which are a win-win for securing new electric sales for the cooperative, tax revenues for local communities and jobs for our members.

Solar energy

Last summer, Dakota Electric partnered with our power supplier, Great River Energy, to build a 20-kW solar demonstration project near our headquarters in Farmington. Great River Energy and Dakota Electric will evaluate the data to see how solar performs and what it takes to plan, finance and execute a solar project. You can view the live solar output from the Farmington Solar Array on our website at www.dakotaelectric.com.

Dakota Electric hosted a solar education meeting last year for residential members interested in learning more about solar installations. We are planning another one later this month. More details can be found on page five. To assist members in recovering the costs associated with installing a solar system, Dakota Electric now offers a residential solar rebate.

As our industry continues to evolve, we intend to gain additional knowledge about solar energy, so we can continue to be a trusted source of information for our members.

Looking ahead

Throughout the remainder of 2015, Dakota Electric plans to invest \$12 million in our distribution grid, energize our new substation, implement new customer information system software,



enhance our cyber and physical security and finalize our rate case.

Our member-owners remain our focus in all we do. We value your trust and will continue to prudently invest your dollars to ensure superior reliability, member services, environmental programs and safety. We are proud of the employees of this cooperative who help us meet these goals. It is a privilege to work on behalf of our member-owners, and we look forward to another great year of service.

A handwritten signature in black ink, reading "Greg Miller".

Greg Miller, President and CEO

A handwritten signature in black ink, reading "Jim Sheldon".

**Jim Sheldon, Chair
Board of Directors**

2015 Goals

RELIABILITY

- Complete the construction of a new substation on the eastern side of our service territory (Ravenna Township).
- Replace deteriorating foundations at the Miesville substation.
- Install five remote-operated air-break switches and add remote monitoring and control to two more voltage regulator banks.
- Improve communications among substations and system operations through increased use of fiber optics.

EFFICIENCY

- Encourage residential members to conserve 4 million kWhs of electricity through energy-efficiency rebates and programs.
- Offer rebates and grants to help business members conserve at least 8.5 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 \$2.5 million in capital credits.

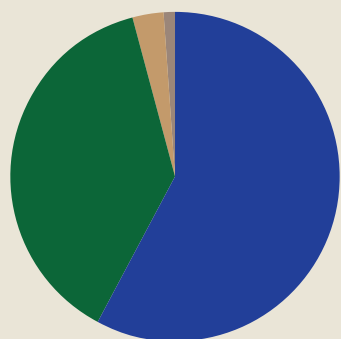
2014: Continued achievement in service and reliability

As a member-owned cooperative, we strive to provide quality service to our members. Below is a brief overview of our 2014 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 2 years (normalized for major events).
 - Outage duration averaged 28.3 minutes per member, per year (normalized for major events).
- Replaced all remaining pre-1984 underground mainline cable on the entire system with new jacketed cable.
- Helped members conserve more than 14 million kilowatt-hours (kWhs) of electricity, which is enough energy to power more than 1,400 homes for an entire year.
- Reduced our wholesale power bill by approximately \$17 million through member participation in EnergyWise® off-peak programs.
- Member service representatives received 162,977 calls in 2014 and answered 90.5 percent of calls in 20 seconds or less.
- Meter readers completed approximately 1.25 million meter readings, estimating just 2.45 percent of all readings.
- Awarded \$160,000 in scholarships and educational donations with unclaimed capital credits.

Consolidated Balance Sheets

ASSETS	2014	2013
	(in thousands)	
CURRENT ASSETS		
Cash and cash equivalents	\$703	\$913
Accounts receivable, less allowance for uncollectible accounts (2014 - \$1,355; 2013 - \$1,239)	24,737	25,864
Conservation cost and property tax recovery	69	238
Inventories, materials and supplies	5,258	5,057
Prepayments and interest receivable	1,057	908
Deferred charges	37	66
Total current assets	31,861	33,046
Restricted cash	2,501	2,501
Investments in associated companies and other investments	100,402	90,180
UTILITY PLANT		
Distribution system and general plant	272,009	266,260
Less accumulated depreciation	(109,013)	(104,824)
Net utility plant and work in progress	162,996	161,436
Deferred charges and other assets	104	108
TOTAL ASSETS	\$297,864	\$287,271
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$24,285	\$25,537
Notes payable	11,500	13,900
Current portion of long-term debt	5,903	5,975
Customer security deposits	573	559
Accrued property and other taxes	4,510	4,614
Other current liabilities	6,964	6,695
Total current liabilities	53,735	57,280
Long-term debt	91,689	87,700
Post-retirement benefit obligation	3,915	4,019
Deferred credits and other liabilities	1,116	1,435
Total liabilities	150,455	150,434
MEMBERS' EQUITY		
Patronage capital and other equity	147,409	136,837
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$297,864	\$287,271



2014 Sources of Electric Revenue

- Residential - 58%
- Large commercial - 38%
- Small commercial - 3%
- Street lighting & Irrigation - 1%

Consolidated Statements of Operations

2014 2013

(in thousands)

OPERATING REVENUES

Net sales	\$196,978	\$194,940
Cost of power/Cost of sales	146,970	145,137
Gross margin	50,008	49,803

OPERATING EXPENSES

Total operating expenses	47,821	47,676
Net operating margin	2,187	2,127

OTHER INCOME

Total other income	10,898	8,733
Income before taxes	13,085	10,860
Income tax (credit) on non-regulated operations	(50)	(556)

NET INCOME FROM CONTINUING OPERATIONS	\$13,135	\$11,416
--	-----------------	-----------------

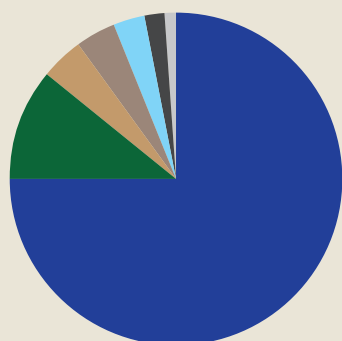
Consolidated Statements of Cash Flows

Net cash provided by operations	\$10,788	\$13,126
Net cash used for investing activities	(9,952)	(9,576)
Net cash used for financing activities	(1,046)	(4,942)
Net change in cash and cash equivalents	(210)	(1,392)

Cash and cash equivalents at beginning of year	913	2,305
--	-----	-------

CASH AND CASH EQUIVALENTS AT END OF YEAR	\$703	\$913
---	--------------	--------------

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.



2014 Uses of Revenue

- Cost of power/Cost of sales - 75%
- Labor & related benefits- 11%
- Operations expense - 4%
- Depreciation - 4%
- Net interest expense - 3%
- Property & other tax - 2%
- Net operating margin - 1%