

2015 Annual Report



Your Touchstone Energy® Cooperative 

2015 Year-End Review

Letter To Our Members

Dakota Electric Association made progress on many projects in 2015 including fiber optic communication connections to our 30 substations and the replacement of our 20-year-old customer information software (CIS) system. The groundwork was completed and substantial completion of the CIS system is expected by the end of 2016. Both projects will allow us to serve our member-owners even better.

Strategic Plan

The board and its committees intensified our focus on our strategic plan and financial oversight. We are pleased to report that Dakota Electric Association has received yet another clean audit from the independent auditor. In 2016, our board and senior management will complete a thorough review of our strategic plan while scanning a 10-year horizon for proactive changes we need to consider and implement.

Technology

Dakota Electric continues to utilize technology to better serve our member-owners. Our Geographical Information System (GIS) software allows us to monitor the location, age and reliability of all our field equipment including poles, transformers and wire. With this information we can optimize our investment in maintenance and replacement to ensure power quality and reliability at the lowest possible cost.

Rate case complete

In 2015, we completed our rate case with the Minnesota Public Utilities Commission. Dakota Electric asked for a 2.1 percent increase and after a 16-month process, we were granted a two percent increase. Our previous rate case was filed in 2009. We will continue to control our internal expenses to prolong the time between rate cases.

In addition, we continue to watch and provide input on a variety of regulatory and legislative initiatives that could change the way we do business.

Solar

The board of directors recently approved the construction of a two-megawatt solar installation in Dakota County that will be dedicated to our member-owners. The project will consist of approximately 8,000 solar panels and should be operational by late summer.

On behalf of the board and employees of Dakota Electric Association, we thank you for the privilege to serve you and provide value to the communities we serve.



GREG MILLER
President and CEO



JIM SHELDON
Chairman, Board of Directors



2016 Goals

RELIABILITY

- Purchase land and begin site preparation work for a new substation near Randolph.
- Continue evaluating advanced grid systems to determine benefits and cost.
- Install remote control field device automation.
- Continue improving communications among substations and system operations through increased use of fiber optics.

EFFICIENCY

- Encourage residential members to conserve 4.9 million kWhs of electricity through energy-efficiency rebates and programs.
- Offer rebates and grants to help business members conserve at least 11.5 million kWhs.
- Launch a new program that provides turn-key solutions for small business lighting retrofits.

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 5,200 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.
- Host the annual Member Appreciation Event at the Minnesota Zoo.
- Launch a smartphone app that allows members to quickly report outages and more.

2015: 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 2015 achievements:

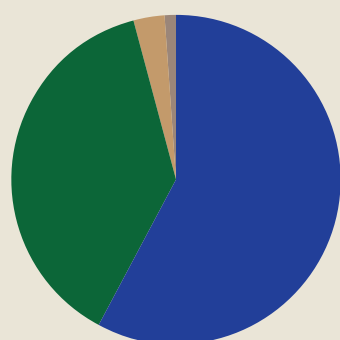
- Reliability indices, as reported to the Public Utilities Commission, continue to be among the best in the nation:
 - Power available more than 99.99 percent of the time.
 - Outage frequency per member averaged less than one outage every three years (normalized for major events).
 - Outage duration averaged 18.4 minutes per member, per year (normalized for major events).
- Installed field devices to allow remote monitoring and control of distribution equipment for improved reliability.
- Helped members conserve more than 15 million kilowatt-hours (kWhs) of electricity, which is enough energy to power approximately 1,500 homes for an entire year.
- Reduced our wholesale power bill by approximately \$18 million through member participation in Energy Wise® off-peak programs.
- Member service representatives received 156,204 calls in 2015 and answered 90.8 percent of calls in 20 seconds or less.
- Meter readers completed approximately 1.4 million meter readings, estimating less than one percent of all readings.
- Awarded \$200,000 in scholarships and educational donations using unclaimed capital credits.



2015 Summarized Financials

Consolidated Balance Sheets

ASSETS	2015	2014
	(in thousands)	
CURRENT ASSETS		
Cash and cash equivalents	\$814	\$703
Accounts receivable, less allowance for uncollectible accounts (2015 - \$1,526; 2014 - \$1,355)	17,135	24,737
Conservation cost and property tax recovery	157	69
Inventories, materials and supplies	5,229	5,258
Prepayments and interest receivable	1,045	1,057
Deferred charges	26	37
Total current assets	24,406	31,861
Restricted cash	2,501	2,501
Investments in associated companies and other investments	102,981	100,402
UTILITY PLANT		
Distribution system and general plant	280,462	272,009
Less accumulated depreciation	(113,845)	(109,013)
Net utility plant and work in progress	166,617	162,996
Deferred charges and other assets	100	104
TOTAL ASSETS	\$296,605	\$297,864
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$23,689	\$24,285
Notes payable	9,100	11,500
Current portion of long-term debt	6,528	5,903
Customer security deposits	545	573
Accrued property and other taxes	4,572	4,510
Other current liabilities	6,802	6,964
Total current liabilities	51,236	53,735
Long-term debt	89,557	91,689
Post-retirement benefit obligation	4,016	3,915
Deferred credits and other liabilities	820	1,116
Total liabilities	145,629	150,455
MEMBERS' EQUITY		
Patronage capital and other equity	150,976	147,409
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$296,605	\$297,864



2015 Sources of Electric Revenue

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

Consolidated Statements of Operations

2015 2014

(in thousands)

OPERATING REVENUES

Net sales	\$193,476	\$196,978
Cost of power/Cost of sales	141,938	146,970
Gross margin	51,538	50,008

OPERATING EXPENSES

Total operating expenses	48,643	47,821
Net operating margin	2,895	2,187

OTHER INCOME

Total other income	3,281	10,898
Income before taxes	6,176	13,085
Income tax (credit) on non-regulated operations	(53)	(50)

NET INCOME FROM CONTINUING OPERATIONS	\$6,229	\$13,135
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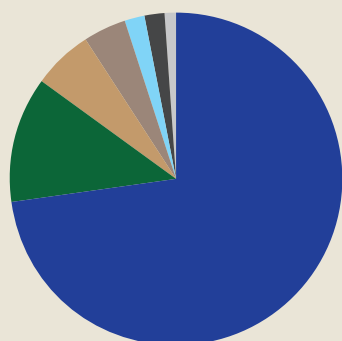
Consolidated Statements of Cash Flows

Net cash provided by operations	\$18,793	\$10,788
Net cash used for investing activities	(12,113)	(9,952)
Net cash used for financing activities	(6,569)	(1,046)
Net change in cash and cash equivalents	111	(210)

Cash and cash equivalents at beginning of year	703	913
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CASH AND CASH EQUIVALENTS AT END OF YEAR	\$814	\$703
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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.



2015 Uses of Revenue

- Cost of power/Cost of sales - 73%
- Labor & related benefits- 12%
- Depreciation - 6%
- Operations expense - 4%
- Net interest expense - 2%
- Property & other tax - 2%
- Net operating margin - 1%