

# 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

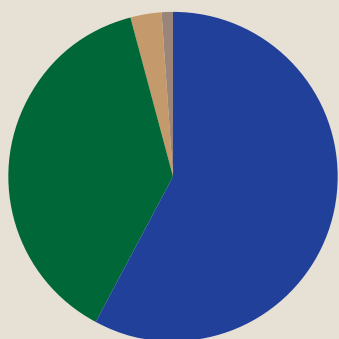
As a member-owned cooperative, we strive to provide quality service to our members. Below is a brief overview of our 2015 achievements:

- 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)   |                  |
| <b>CURRENT ASSETS</b>   |                  |                  |
| 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               |
| <b>Total current assets</b>   | <b>24,406</b>    | <b>31,861</b>    |
| Restricted cash   | 2,501            | 2,501            |
| Investments in associated companies and other investments                                       | 102,981          | 100,402          |
| <b>UTILITY PLANT</b>  |                  |                  |
| Distribution system and general plant   | 280,462          | 272,009          |
| Less accumulated depreciation   | (113,845)        | (109,013)        |
| <b>Net utility plant and work in progress</b>   | <b>166,617</b>   | <b>162,996</b>   |
| Deferred charges and other assets   | 100              | 104              |
| <b>TOTAL ASSETS</b>   | <b>\$296,605</b> | <b>\$297,864</b> |
| <b>LIABILITIES AND EQUITY</b>   |                  |                  |
| <b>CURRENT LIABILITIES</b>  |                  |                  |
| 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            |
| <b>Total current liabilities</b>  | <b>51,236</b>    | <b>53,735</b>    |
| Long-term debt  | 89,557           | 91,689           |
| Post-retirement benefit obligation  | 4,016            | 3,915            |
| Deferred credits and other liabilities  | 820              | 1,116            |
| <b>Total liabilities</b>  | <b>145,629</b>   | <b>150,455</b>   |
| <b>MEMBERS' EQUITY</b>  |                  |                  |
| Patronage capital and other equity  | 150,976          | 147,409          |
| <b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>  | <b>\$296,605</b> | <b>\$297,864</b> |



## 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)   |

|  |                |                 |
|--|----------------|-----------------|
| <b>NET INCOME FROM CONTINUING OPERATIONS</b> | <b>\$6,229</b> | <b>\$13,135</b> |
|--|----------------|-----------------|

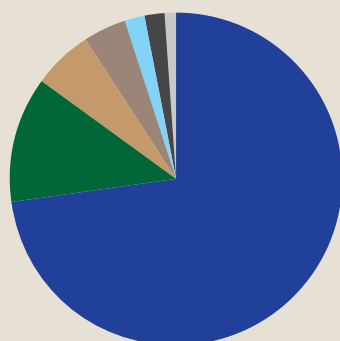
## Consolidated Statements of Cash Flows

|   |          |          |
|---|----------|----------|
| 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 |
|--|-----|-----|

|   |              |              |
|---|--------------|--------------|
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b> | <b>\$814</b> | <b>\$703</b> |
|---|--------------|--------------|

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](http://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%