

2017 ANNUAL REPORT



2017 Year-End Review

Letter To Our Members

Being a member-owned electric cooperative, we strive for noticeably superior member services. This is not only one of our strategic goals, it is the culture at Dakota Electric Association. Every one of our employees and board members plays a role in demonstrating noticeably superior service each and every day.

We are thankful that our members send us notes from time to time to express their gratitude for our service. A member from Lakeville wrote a note saying, “We have been members of Dakota Electric for almost 40 years. The excellent service along with the friendly, reliable people we have come in contact with over the years has been truly remarkable. Thank you!” We share these notes with our employees to assure them that our members do appreciate their hard work. Comments like this generate a great deal of pride among our employees and motivate them to constantly improve.

Our commitment to the environment was evident last year as well. Dakota Electric energized its first utility-scale solar installation near Hastings. The 1-megawatt (MW) project consists of 3,600 solar panels, and the energy produced is delivered solely to member-owners throughout our distribution system. In 2018, we plan to install a 2-MW solar array with details currently being finalized. The board of directors has asked staff to explore up to an additional 10 MW of solar projects and possibly couple these projects with battery storage. These renewable energy initiatives are in addition to the impressive renewable mix from our power supplier, Great River Energy, that includes wind, solar, hydro and refuse-derived fuel.

Dakota Electric continues to add approximately 1,000 new services a year. Even with the addition of new services, energy sales are flat or declining primarily due to our energy conservation and efficiency programs. The good news is that our electric rates are slightly lower this year. Our wholesale power provider is forecasting very moderate cost increases for the foreseeable future, which will continue to make our rates very competitive with neighboring utilities.

Our system reliability continues to be world class thanks to proactive system maintenance, ongoing line patrol, tree trimming, and our knowledgeable line workers and system control staff. These combined efforts help to improve outage prevention and restoration. In addition, work continues on our Advanced Grid Infrastructure (AGI) project, which will replace our aging electric meters and load control receivers with state-of-the-art devices that will detect outages and report them directly to our dispatch center. This will enhance our ability to provide reliable service. We plan to conduct a pilot project at our headquarters later this year and field test a few thousand meters in 2019 before full deployment begins in 2020. Watch for more information as we get further into this important project.

As you can see, we have a lot of exciting things happening this year and beyond. We will keep you informed every step of the way. On behalf of the board of directors and staff of Dakota Electric Association, thank you for the privilege to serve you, our member-owners.



JIM SHELTON
Chairman, Board of Directors



GREG MILLER
President and CEO



2018 Goals

RELIABILITY

- Complete the installation of fiber optic communication to all substations in 2018.
- Address the poorest performing feeders to improve reliability in outage-prone areas.
- Finalize Advanced Grid Infrastructure (AGI) contracts and begin tests on the new technology.

EFFICIENCY

- Encourage residential members to conserve 4.8 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.

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

- Send five high school students to Washington, D.C. to learn about our nation's government.
- Continue to recognize local firefighters through our Spirit of Excellence Award.
- Actively support the communities we serve through various volunteer efforts.

ENVIRONMENT

- Install 2-MW solar array (8,000 panels) near Randolph.
- Distribute more than 6,000 tree seedlings to communities and schools.

MEMBERSHIP

- Pay out more than \$2.5 million in capital credits.
- Host the fourth annual Energy Trends Expo to inform members on the latest energy-efficiency trends and technologies.
- Host the annual Member Appreciation Event at the Minnesota Zoo.



2017: Continued achievement in service and reliability

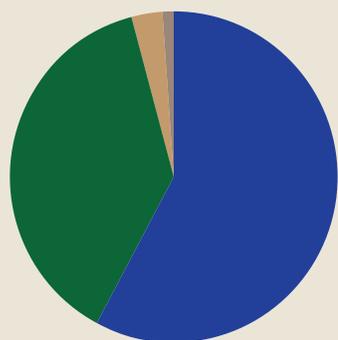
As a member-owned cooperative, we strive to provide quality service to our members. Below is a brief overview of our 2017 achievements:

- Reliability indices, as reported to the Public Utilities Commission, continue to be among the best in the nation:
 - Outage frequency per member averaged less than one outage every four years (normalized for major events).
- Helped bring the first electric school bus to Minnesota to test the technology in a real-world environment.
- Continued the installation of remote monitoring and distribution equipment controls to allow improved restoration times.
- Completed construction on a new substation north of Randolph to improve capacity and service to the southern part of our service territory.
- Helped members conserve more than 30.6 million kilowatt-hours (kWhs) of electricity, which is enough energy to power approximately 3,000 homes for an entire year.
- Reduced our wholesale power bill by approximately \$17 million through member participation in Energy Wise® off-peak programs.
- Member service representatives received 151,756 calls in 2017 and answered 89 percent of calls in 20 seconds or less.
- Meter readers completed approximately 1.4 million meter readings, estimating approximately one percent of all readings.
- Awarded \$200,000 in scholarships and educational donations using unclaimed capital credits.
- Launched a smartphone app that allows members to quickly report outages and more.
- Provided turnkey lighting retrofits to 21 small businesses, helping them save more than 240,000 kWh.

2017 Summarized Financials

Consolidated Balance Sheets

ASSETS	2017	2016
	(in thousands)	
CURRENT ASSETS		
Cash and cash equivalents	\$3,081	\$3,848
Accounts receivable, less allowance for uncollectible accounts (2017 - \$676; 2016 - \$1,001)	25,541	22,656
Conservation cost and property tax recovery	1,009	918
Inventories, materials and supplies	4,473	4,070
Prepayments and interest receivable	1,012	1,080
Deferred charges	2	15
Total current assets	35,118	32,587
Investments in associated companies and other investments	117,009	110,393
UTILITY PLANT		
Distribution system and general plant	297,301	288,017
Less accumulated depreciation	(122,693)	(118,630)
Net utility plant and work in progress	174,608	169,387
Deferred charges and other assets	92	96
TOTAL ASSETS	\$326,827	\$312,463
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$29,492	\$28,268
Notes payable	12,000	10,900
Current portion of long-term debt	7,695	7,228
Customer security deposits	529	537
Accrued property and other taxes	4,925	4,836
Other current liabilities	7,785	7,324
Total current liabilities	62,426	59,093
Long-term debt	90,658	87,598
Post-retirement benefit obligation	4,207	3,925
Deferred credits and other liabilities	337	553
Total liabilities	157,628	151,169
MEMBERS' EQUITY		
Patronage capital and other equity	169,199	161,294
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$326,827	\$312,463



2017 Sources of Electric Revenue

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

Consolidated Statements of Operations

2017 2016

(in thousands)

OPERATING REVENUES

Net sales	\$202,277	\$202,746
Cost of power/Cost of sales	148,448	149,205
Gross margin	53,829	53,541

OPERATING EXPENSES

Total operating expenses	50,074	48,417
Net operating margin	3,755	5,124

OTHER INCOME

Total other income	7,309	8,305
Income before taxes	11,064	13,429
Income tax (credit) on non-regulated operations	(80)	(60)

NET INCOME	\$11,144	\$13,489
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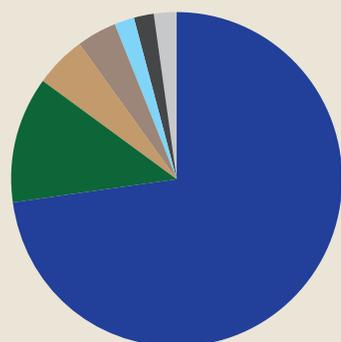
Consolidated Statements of Cash Flows

Net cash provided by operations	\$12,291	\$16,817
Net cash used for investing activities	(14,446)	(11,153)
Net cash from (used for) financing activities	1,388	(2,630)
Net change in cash and cash equivalents	(767)	3,034

Cash and cash equivalents at beginning of year	3,848	814
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CASH AND CASH EQUIVALENTS AT END OF YEAR	\$3,081	\$3,848
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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.



2017 Uses of Revenue

- Cost of power/Cost of sales - 73%
- Labor & related benefits- 12%
- Depreciation - 5%
- Operations expense - 4%
- Net operating margin - 2%
- Net interest expense - 2%
- Property & other tax - 2%