

# 2010 Annual Report



## ≡≡≡ Welcome ≡≡≡

to the **73**rd Annual Meeting of the Membership of

### Red Lake Electric Cooperative, Inc.

**Wednesday, March 30, 2011**  
Imperial Room, Ralph Engelstad Arena  
Thief River Falls, Minnesota

9:00 a.m.	Registration begins Free coffee and doughnuts	
10:00 a.m.	Entertainment	.....Vernon Rogalla
10:30 a.m.	Call to order	.....Kelly Lundeen, President
	National Anthem	.....Kailee Vigen
	Invocation	.....Pastor Oliver Urdahl, New Hope Lutheran Church, Newfolden
	Introductions	.....Kelly Lundeen

### BUSINESS SESSION

Notice of meeting and affidavit of mailing	.....Mark Hanson
Establishment of quorum	.....Mark Hanson
Minutes of 2010 meeting	.....Mark Hanson
President's report	.....Kelly Lundeen
General manager's report	.....Roger Johanneck
Financial report	.....Shirley Bregier
Minnkota report	.....Robert "Mac" McLennan, CEO, Minnkota Power
Election of directors	.....Kelly Lundeen
Question and answer session	
Adjournment of business session	
Award Presentations	
Awarding of prizes	
Lunch and entertainment	

# Report to the Membership

Electricity for Red Lake Electric Cooperative members and for our region in general has a long history of being the energy of choice because of its convenience, reliability and price stability. When you consider how adaptable electricity is to so many uses in our homes and businesses; it is hard to imagine life without it. Obviously, life as we know it today would not exist without the power provided us with electricity.

A number of factors have played in to why electric energy in our corner of the world has enjoyed price stability and remained such a bargain when compared to other forms of energy. Even as costs of doing business for your cooperative have gone up, rates remained stable because increases in cost have been buffered by increases in kWh sales. An example of that rate stability is our off-peak rate which remained constant for a period of eighteen years; 1984 thru 2001.

Another factor contributing to stable prices (and reliability) for our membership and the region is the resource we have in coal. North

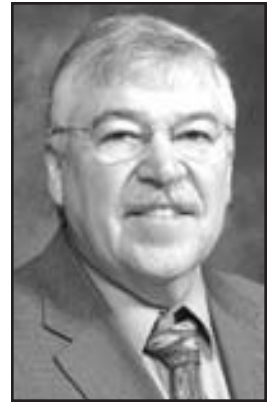


### On the cover...

6,425 cubic yards of concrete were used to construct the 11 foot thick 140-foot diameter foundation that was needed to support the 550-foot chimney for Minnkota Power's Young two generating unit. The 550-stack is part of the \$425 million Minnkota Power has invested in its Milton R Young station to meet new environmental (E.P.A.) emission control standards.



**KELLY LUNDEEN**  
Board President



**ROGER JOHANNECK**  
General Manager

Dakota lignite coal is used as the fuel supply for the base load generators that supply energy to our members and region. Our coal supply is plentiful and because these resources are located right where we use them; coal is not subject to the risk availability and price volatility we have too often seen with foreign oil. Coal's availability and price stability has been an asset to our region and nation that we have all benefited from.

Red Lake Electric Cooperative members don't need to look any further than their monthly bill to know that our hold on price stability has slipped since 2008.



It is no coincidence that our recent hikes in the rate you pay for electricity have paralleled new Federal and State mandates placed on our wholesale supplier of energy, Minnkota Power Cooperative.

Let's take a look at some of the reasons driving Minnkota's cost increases that are showing up on your monthly energy bill from Red Lake Electric Cooperative.

1. Environmental upgrades mandated by the EPA – Minnkota's cost to meet the EPA mandates will total \$425 million over a five year construction period that began in 2008.
2. Minnesota's renewable energy standard that became law in 2007 and required that by 2025, 25% of the energy sold in Minnesota be from renewable sources.

3. Investments in transmission lines to bring renewable energy into the grid.

4. The Minnesota Conservation Improvement Program (CIP) – requires utilities to reduce energy consumption by 1.5% annually.

To get an idea of what \$425 million in environmental plant upgrades mean to Minnkota, consider that the cost to build the Young power plant in the 1970's (Unit 1 came on line in 1970 and Unit 2 came on line in 1977) cost \$300 million.

### **Renewable Energy Surcharge**

The Minnesota renewable energy standard that required a portion of Minnkota's generation resources come from a renewable source, is probably the best understood cost driver of what is listed; members have seen firsthand on their monthly bill the cost of Wind Energy to Minnkota Power.

Beginning with the November 2009 wholesale power bill, Minnkota began billing Red Lake Electric Cooperative and its member systems a "surcharge" of a half-cent per kWh to make up a \$20 million revenue shortfall in 2009 created by the Wind Energy Contracts Minnkota entered into in 2007. When Minnkota moved to comply with the new state law and commit to 25 year wind energy contracts, the strategy was to secure the best (windiest) locations before they were taken by other utilities, to take advantage of existing transmission as much as possible to deliver their energy to the grid and to secure wind energy contracts that would be less expensive than ones signed in the future.

We know in 2009 and again in 2010, the energy generated from the Wind farms Minnkota has contracted to get power from at Langdon and Ashtabula N.D., with Next Era Energy, have created a revenue shortfall. The energy that Minnkota is contracted to purchase from Next Era costs nearly twice as much as it sells for in the power pool or energy market that utilities sell their excess energy to. When Minnkota signed the wind energy contracts; average power pool prices were above the cost of buying the contracted wind energy.

Our nation's economic downturn reduced the demand for pool energy and prices for energy bought and sold in the pool dropped from an average above five cents per kWh to an average less than half that price today. Our nation's economy has rebounded some but the demand for energy and pool prices have not rebounded as quickly as Minnkota had projected or hoped they would. Therein lays the reason the renewable energy surcharge was extended to the Minnkota member systems, and in turn to Red Lake Electric Cooperative members into 2010. It is likely that the renewable energy surcharge will not be

removed until pool prices are at a level where Minnkota is not losing revenue on their wind energy contracts.

Last year Minnkota was not alone in it's Wind Energy revenue loss woes; it cost Minnesota utilities a combined \$67 million in lost revenue due to complying with the MN renewable energy standard and low pool prices received for this excess energy.

### **Rate Outlook**

Cooperative members saw their rates increase an average of 6% with the bill they received in August of 2010. This increase was necessary to offset a wholesale power increase by Minnkota that went into effect in March of 2010.

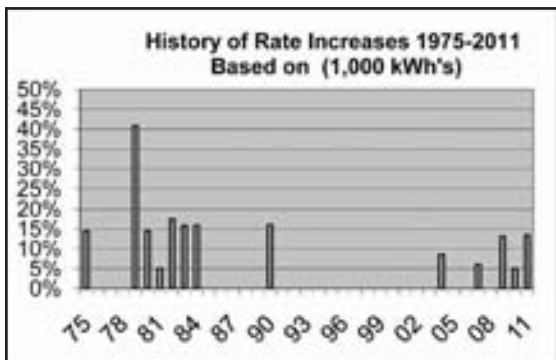
As you have no doubt either heard at one of our four membership meetings held this spring, read in the Volts and Jolts or heard in the news; Minnkota's wholesale rate increased 5% in December of 2010 and will be followed up with a 29.8% increase in March of 2011. Because of the Federal and State mandates passed and the need to secure capacity for future load growth, we have known and have been forecasting increases in rates due to escalating costs at the generation level for a few years now.

The higher than expected rate increase in Minnkota's wholesale power costs that becomes effective March of 2011, can be linked to three main reasons: 1) Minnkota systems winter peak levels were less than budgeted; 2) The Keystone Pipe line pumping load, a projected load size larger than the Red Lake Electric Cooperative system, has not materialized and 3) Pool/Market prices for excess energy are less than forecasted.

Our 14.3% rate increase to RLEC members scheduled to show up on the April 2011 bills was based on Minnkota raising rates 5% in December of 2010 and 17% in March of 2011. With Minnkota's approval of a rate 13% more than what had been projected, it will be necessary for Red Lake Electric to raise rates later in 2011. We simply do not have enough revenue built into our new rates to pay for an additional \$665 thousand in wholesale power cost that will come with Minnkota's higher rate that began March, 2011.

As the history of rate increase chart shows, Red Lake Electric members have seen annual rate increases back in the early 80's that rival what members are going through today. The increases back then reflect the cost to Minnkota of adding more generation to satisfy load growth. Today the investments in environmental upgrades, as well as building a new transmission line that will transport capacity Minnkota will acquire from the Young 2 deal from Minnesota Power, have had a similar impact on wholesale power costs.

That additional capacity we think will satisfy load growth on the Minnkota system for the next 30 years. That might not be of much consolation today, but we expect that costs will level off because our significant investments will be in place for base load power generation until 2042.



### 2010 in Review

Hopefully not lost in the escalating wholesale power cost issues and rate increase news is the fact that Red Lake Electric and the distribution side of your electric service has been doing a good job of holding down its costs. If 2011 unfolds like we expect, distribution system expenses will be less than what those expenses were in 2008, 2009 and 2010.

Service reliability or average outage time per consumer increased to 2.1 hours in 2010; our previous five year average was at 1.7 hours. A tornado that tracked through the southwest part of our service area and underground cable failure were the main reasons members were without power more this past year.

Even though service reliability numbers slipped this past year, our efforts to keep the system maintained did not. Trimming trees by our own crews as well as contracted services has been kept up. We believe that cutting cost on plant maintenance, such as brushing, is not in the best long term interests of serving our members and likely to result in a larger expense tomorrow if not kept up today.

In addition to brushing, the Cooperative contracted to inspect poles for rot and damage in part of our service area again. Our inventory of 40,000 poles is on a schedule to be inspected once every ten years for rot and damage; as a result of those inspections, 251 poles were replaced and many of the poles inspected received additional ground level treatment to extend their service life.

Line construction activity was about average to what has occurred over the past 10 years. Fifty new services were constructed and 53 services were upgraded to provide more capacity or to accommodate backup generator connection. Other construction work included 2 ¾ miles of new line due to road construction work, replac-

ing 7 miles of underground cable that had become unreliable, and adding tie lines to improve service reliability.

Energy sales to members decreased in 2010; the 129.7 million in energy sales is the third highest on record for the cooperative, but down from the kWh sales of 134.6 million in 2009 and 131 million in 2008. A couple of factors that impacted member usage that come to mind; favorable dry weather during last fall's harvest resulted in minimal grain drying in our service area; conservation and efficiency improvements no doubt have helped members lower their annual energy usage too.

Last fall the Cooperative said goodbye to two long term employees; Ira Cota retired in November after 33 years on the Line crew and Richard Gervais retired in December after 37 years working on the Line, the last 22 serving as a crew foreman. These retirements become both challenges and opportunities for those who are called on to fulfill their roles here at the Cooperative. I want to thank the employees who have stepped up and taken on more of a leadership role at the Cooperative. I appreciate their guidance with our new employees, helping them learn not only the trade involved with being a line or office employee here, but teaching what is necessary to uphold the tradition of service our member-owners deserve and expect from us.

The Cooperative has a number of employees that will be retiring over the next few years. In today's economic times, it has been a challenge to find the right balance between hiring replacements, keeping costs manageable and having employees trained to carry on the work of the cooperative. We plan to meet that challenge however, as well as the other challenges that have been placed before us and those that are yet to come.

Working together, just like the founders did to get Red Lake Electric Cooperative formed in 1938, we expect that same tradition of Cooperative spirit among our membership to continue. Membership involvement and support will keep Red Lake Electric Cooperative strong and the electricity it provides, your energy of choice today, tomorrow and for years to come.

Cooperatively yours,

**KELLY LUNDEEN**  
BOARD PRESIDENT

**ROGER JOHANNECK**  
GENERAL MANAGER



## AUDIT REPORT

Board of Directors

### Red Lake Electric Cooperative, Inc.

Red Lake Falls, Minnesota

Brady, Martz and Associates, P.C. an independent certified public accountant, has audited the Cooperative's financial statements for the year ended December 31, 2010. The auditor has issued their unqualified opinion dated February 23, 2011, on the basic financial statements. Copies of the audited financial statements are on file at the Cooperative's office for inspection.

## New Minnkota CEO

The Minnkota board of directors has selected Robert "Mac" McLennan to replace David Loer as Minnkota President & CEO, effective Jan. 10, 2011.

McLennan was employed by Tri-State Generation & Transmission Association based in Westminster, Colo., as senior vice president of external affairs & member relations. In that position he focused on member relations, corporate planning, environmental compliance and development of business strategies.



Robert "Mac" McLennan

McLennan previously worked for the National Rural Electric Cooperative Association (NRECA) as director of environmental affairs and was an assistant to the chief of staff for the retired Sen. Byron Dorgan. He is a graduate of Jamestown College in Jamestown, N.D.

## STATEMENT OF OPERATIONS COMPARISON

	2010	2009
<b>REVENUE</b>		
Electric Energy Sales . . . . .	\$ 11,054,712	\$ 10,192,259
Miscellaneous Electric Sales . . . . .	54,429	40,806
<b>Total Income . . . . .</b>	<b>\$ 11,109,141</b>	<b>\$ 10,233,065</b>
<b>EXPENSES</b>		
Power . . . . .	\$ 7,629,478	\$ 6,776,105
Operation of Lines . . . . .	426,295	373,385
Maintenance of Lines . . . . .	599,300	617,680
Consumer Accounts . . . . .	230,365	208,445
Customer Service . . . . .	227,593	226,092
Electric Sales . . . . .	8,701	8,439
Administrative and General . . . . .	374,151	413,599
	<b>\$ 1,866,405</b>	<b>\$ 1,847,640</b>
<b>Total Operating Expenses . . . . .</b>	<b>\$ 9,495,884</b>	<b>\$ 8,623,745</b>
<b>FIXED CHARGES</b>		
Depreciation . . . . .	\$ 777,103	\$ 753,121
Interest on Debt . . . . .	254,469	283,810
Interest Expense—Other . . . . .	4,181	7,429
Other Deductions . . . . .	5,775	4,428
<b>Total Fixed Charges . . . . .</b>	<b>\$ 1,041,528</b>	<b>\$ 1,048,788</b>
<b>Total Cost of Electric Service \$</b>	<b>\$ 10,537,412</b>	<b>\$ 9,672,533</b>
<b>MARGINS</b>		
Operating Margin . . . . .	\$ 571,729	\$ 560,532
Interest Margin . . . . .	40,145	40,214
Appliance/HVAC Service Margin . . . . .	6,130	(837)
Capital Credits Margin . . . . .	13,090	15,714
<b>Total Margins . . . . .</b>	<b>\$ 631,095</b>	<b>\$ 615,623</b>

## BALANCE SHEET

### WHAT WE HAVE (ASSETS)

	2010	2009
Electric Plant . . . . .	\$ 27,009,554	\$ 25,914,682
Buildings—Improvements . . . . .	1,209,160	1,231,482
Equipment . . . . .	1,965,916	1,894,375
Less: Depreciation . . . . .	-12,318,429	-11,802,727
<b>Net Utility Plant . . . . .</b>	<b>\$ 17,866,201</b>	<b>\$ 17,237,812</b>
General Funds . . . . .	\$ 518,391	\$ 732,409
Investments in		
Associated Organizations . . . . .	1,141,268	1,134,084
Notes Receivable . . . . .		-210
Accounts Receivable . . . . .	1,606,751	1,450,962
Inventories . . . . .	613,583	666,690
Other Assets . . . . .	139,758	82,404
<b>Total Assets . . . . .</b>	<b>\$ 21,885,952</b>	<b>\$ 21,304,151</b>

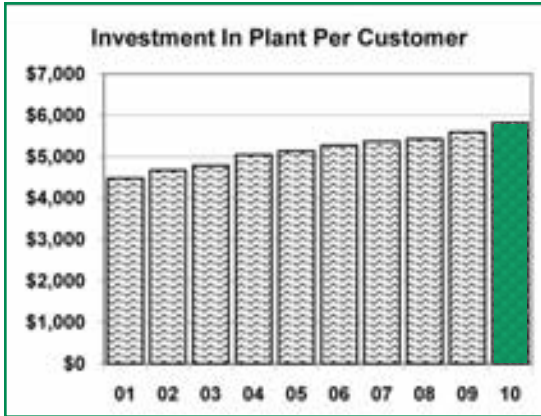
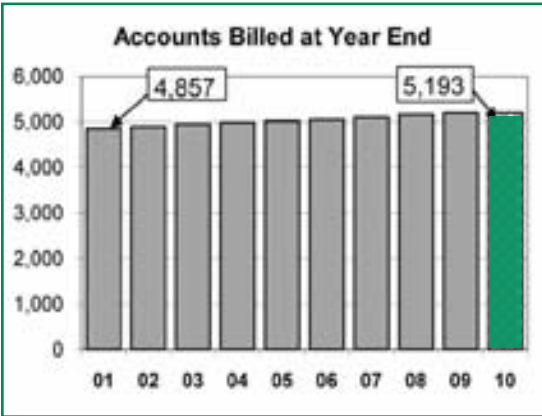
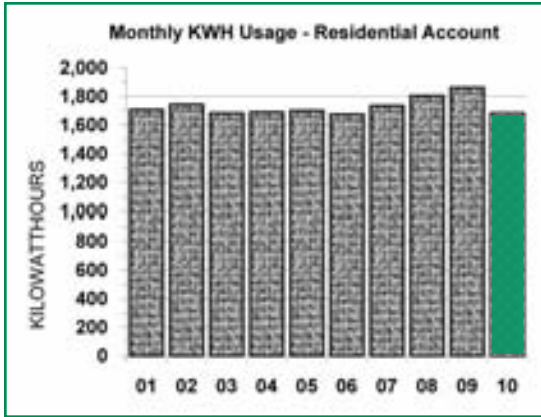
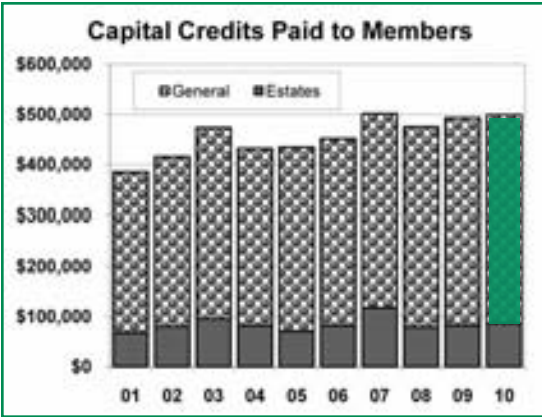
### WHAT WE OWE (LIABILITIES)

#### and Other Credits

Long-term Debt RUS . . . . .	\$ 6,073,442	\$ 7,650,283
Long-term Debt CFC & CoBank . . . . .	2,548,730	534,955
Liabilities and Other Credits . . . . .	2,348,480	2,338,074
<b>Total Liabilities . . . . .</b>	<b>\$ 10,970,652</b>	<b>\$ 10,523,312</b>

### WHAT WE OWN (MEMBER EQUITY)

Capital Stock (memberships) . . . . .	\$ 146,665	\$ 145,015
Patronage Capital . . . . .	10,209,063	10,076,522
Other Equities . . . . .	559,572	559,302
<b>Total Member Equity . . . . .</b>	<b>\$ 10,915,300</b>	<b>\$ 10,780,839</b>
<b>Total Liabilities and Member Equity . . . . .</b>	<b>\$ 21,885,952</b>	<b>\$ 21,304,151</b>



## OPERATING STATISTICS

	5-YEAR AVERAGE	2010
Members (at year end) .....	4,255	4,271
Number of Accounts billed (at year end) .....	5,139	5,193
Total KWHs Purchased .....	135,002,259	137,926,886
Peak Demand (KW) – (without load control) .....	33,322	33,696
Peak Demand (KW) – (with load control) .....	20,992	22,300
Investment in Plant – Total .....	\$ 28,239,958	\$ 30,184,630
Investment in Plant Per Mile .....	\$ 11,039	\$ 11,777
Investment in Plant Per Customer .....	\$ 5,493	\$ 5,813
Long-term Debt – Total .....	\$ 8,071,572	\$ 8,622,172
Long-term Debt – Per Account .....	\$ 1,570	\$ 1,660
Miles of Line – Overhead .....	2,324	2,324
Miles of Line – Underground .....	234	239
Cost of First 1,000 KWH's General Service – 25 kVa .....	\$ 91	\$ 103
Off-peak Rate Per KWH – Long-term Control .....	\$ 0.037	\$ 0.042
Off-peak Rate Per KWH – Short-term Control .....	\$ 0.053	\$ 0.062
Average Residential Usage – Annual KWH's .....	21,024	20,199
Average Residential Usage – Month KWH's .....	1,752	1,683
Energy Account Write-Offs .....	\$ 6,605	\$ 10,896
Number of Regular Employees .....	21	20
Capital Credit Payments:		
To Estates (on behalf of deceased patrons) .....	\$ 89,372	\$ 85,968
General Retirement (all patrons) .....	\$ 394,568	\$ 412,585
Debt/Equity Ratios:		
Debt .....	49.6%	50.1%
Equity .....	50.5%	49.9%



The Operation Round Up® program at Red Lake Electric enjoyed another successful and generous year in 2010. A total of \$22,900 was granted to 35 different nonprofit and community organizations. That brings the total of grants made since the program began in 1993 to \$354,618.

A nonprofit corporation named Red Lake Electric Trust administers donated funds and determines grants. The five-person board of directors, appointed for three-year terms, meets twice a year to determine grants to applying organizations. Red Lake Electric Trust has been granted 501(c)3 tax-exempt status by the Internal Revenue Service. Contributions made to the Operation Round Up program are tax deductible.

There are now 3,871 members that contribute to Operation Round Up®. They represent 91 percent participation of the 4,271 Red Lake Electric Cooperative members, an outstanding participation level. For an average of 50 cents per month or \$6 per year, members can be a part of a very large community-wide charitable program.

**Red Lake Electric Trust, Inc.**  
**BOARD OF DIRECTORS**  
 RANDY KNUTSON  
 PRESIDENT  
 VAN SWANSON  
 VICE PRESIDENT  
 BONNIE COTE  
 SECRETARY-TREASURER  
 BONNIE CHRISTIANS  
 EX OFFICIO DIRECTOR  
 ROGER JOHANNECK  
 EX OFFICIO DIRECTOR



Red Lake Electric Trust, Inc.  
**FINANCIAL REPORT**

For the year ended December 31, 2010

**Cash Balance Forward.....\$ 7,794.60**  
**RECEIPTS**

Operation Round Up Donations .....\$23,140.98  
 Other Contributions ..... 10.00  
 Checking Account Interest ..... 14.97  
**Total Receipts .....\$23,165.95**

**EXPENDITURES**

Administrative Expenses  
 Director Meeting Fees and Expenses .....\$ 346.50  
 Annual Filing Fee, State of Minnesota ..... 25.00  
 Annual Compilation (Audit) Fee ..... 175.00  
**Total Administration.....\$ 546.50**

**GRANTS MADE (35)**

Red Lake County American Cancer Society .....\$ 500  
 Oklee Volunteer Fire Department ..... 1,000  
 Viking Volunteer Fire & Rescue ..... 1,000  
 Goodridge Area Fire and Rescue ..... 1,000  
 Strandquist Area Food Shelf ..... 400  
 Pennington/Red Lake County Crime Victim Services ... 1,000  
 Early Childhood Family Advocate Program - TRF ..... 1,000  
 Red River Valley Emerging Leadership ..... 250  
 Inter-County Nursing Service-TRF ..... 850  
 Polk Co. Mounted Posse Search and Rescue Unit ..... 850  
 Middel River Seniors ..... 300  
 Falls D.A.C. - TRF ..... 750  
 Violence Intervention Project ..... 800  
 Heritage Community Center - TRF ..... 300  
 Middle River-Thief Lake Living at Home ..... 700  
 Little Brother/Little Sister Program (Marshall County) ... 300  
 Pembina Trail RC&D ..... 500  
 Goodridge Lion Tamers ..... 250  
 Tri-Community Living at Home/Blk Nurse Program ..... 700  
 Viking Volcanoes 4H Club ..... 200  
 Pennington County Humane Society ..... 500  
 Thief River Falls Volunteer Fire Department ..... 1,500  
 Newfolden Volunteer Fire Department ..... 1,500  
 Plummer Volunteer Fire Department ..... 1,500  
 Red Lake Falls Volunteer Ambulance ..... 1,000  
 Pennington/Red Lake County Crime Victim Services ... 500  
 Pennington County and TRF Safety Camp ..... 500  
 Thief River Falls Area Food Shelf ..... 750  
 Christmas for Pennington County ..... 500  
 Violence Intervention Project ..... 750  
 RLF Early Childhood Family Education ..... 250  
 Plummer Early Childhood Family Education ..... 250  
 Little Brother/Little Sister Program (Marshall County) ... 250  
 Prairie Community Services ..... 300  
 Silverton 4H Club ..... 200

**Total Grants Made .....\$22,900.00**  
**Total Expenditures .....\$23,446.50**

**Cash Balance December 31, 2010 .....\$ 7,514.05**



## Conservation Improvement Program

Helping your home, farm or business take advantage of cost effective energy efficiency programs is the focus of Power Savers - a Conservation Improvement Program (CIP) formed by Red Lake Electric Cooperative and other area utilities. If you have been considering efficiency upgrades, the timing couldn't be better. Many different rebates and incentives are available to you through Red Lake Electric Cooperative.

# Residential Energy Efficiency Incentives

<i>Energy Efficient Equipment</i>	<i>Rebate Amount</i>	<i>Rebate Maximum</i>
<b>CFL Lamp</b> (Maximum 12 lamps)	<b>\$2 per lamp</b>	<b>\$24 per customer</b>
<b>Energy Star Clothes Washer</b>	<b>\$50</b>	<b>\$50</b>
<b>High Efficiency Electric Water Heater</b> 80 gal. or larger, EF $\geq$ 0.91, must be on load control	<b>\$150/unit</b>	<b>\$150/unit</b>
<b>Programable Thermostat</b>	<b>\$25/unit</b>	<b>\$25/unit</b>
<b>High Efficiency Furnace</b> with ECM blower	<b>\$150/unit</b>	<b>\$150/unit</b>
<b>High Efficiency Air Source Heat Pump</b> 14.0 SEER, 8.2 HSPF	<b>\$250/unit</b>	<b>\$250/unit</b>
<b>Supplemental Electric Heat Added to an Air Source Heat Pump (ASHP)</b> Must allow ASHP to operate to 5° F and be on the Cooperative's load control program	<b>\$500/unit</b>	<b>\$500/unit</b>
<b>Geothermal Heat Pump - Open Loop</b> Open loop, 16.2 EER. If equipped with backup electric heat, the electric heat must be on load control per Red Lake Electric Cooperative offerings.	<b>\$200/ton</b>	<b>\$2500</b>
<b>Geothermal Heat Pump - Closed Loop</b> Closed loop, 14.1 EER. If equipped with backup electric heat, the electric heat must be on load control per Red Lake Electric Cooperative offerings.	<b>\$400/ton</b>	<b>\$5000</b>

## EMPLOYEES

Steve Barbot	Appliance Service Technician	Melanie LaCrosse	Accounting Assistant
Kelli Brateng	Accounting Assistant	Kathy LaPlante	Customer Service Rep
Shirley Bregier	Accountant	Laurie Malwitz	Custodian
Steven Conely	Engineering Tech	Warren Malwitz	Custodian
Alan Cota	Crew Foreman	Mick Raymond	HVAC Service Technician
Aaron Derosier	Apprentice Lineman	Kevin Reich	Manager of Member Services
Bob Guillemette	Manager of Electric Operations	Bev Schmitz	Administrative Assistant
Travis Huot	Apprentice Lineman	Troy Schmitz	Lineman
Roger Johanneck	General Manager	Casey Thronson	Linemen
Brett Knott	Apprentice Lineman	Roger Valley	Crew Foreman
Steve Kruse	Lineman	Mike Wavra	Lead Lineman

## DIRECTORS

Robert Finstad	Director, District 8	Robert Olson	Director, District 2
Randy Versdahl	Director, District 6	Mark Hanson	Secretary-Treasurer, District 5
Bonnie Christians	Vice President, District 1	Colette Kujava	Director, District 3
Kelly Lundeen	President, District 7	Steve Linder	Director, District 4
Peter Mosbeck	Director, District 9		

## The Mission of Red Lake Electric Cooperative, Inc.

It is the mission of the Red Lake Electric Cooperative to enhance the quality of life for people of our service area by consistently providing quality electric service and other valued services while holding our employees, our community, and our environment in high regard.