




A Touchstone Energy® Cooperative 

Energy that Powers Our Lives

# 2015 Annual Report

April 2016 *Newsline* Special Edition

## IN THIS ISSUE

People, principles and purpose .....	p. 1
Giving thanks.....	p. 2
Holding Company Update .....	p. 3
Great River Energy Update .....	p. 4
Flat Sales vs. Rising Costs.....	p. 5
2015 Financials .....	p. 6-7
Condensed Minutes .....	p. 8

## People, principles and purpose – Co-op energy still powers local communities

When electric cooperatives were formed in the 1930s and '40s, there were detractors. In a 1962 book that chronicles the history and contributions of electric cooperatives in Minnesota, author Harold Severson's insight is still relevant today.

Severson quoted the early critics of electric co-ops who said a bunch of farmers—even with low-interest loans from the federal government—could never run an electric utility.

Fast forward 80 years, and here we are today. Still working for you. Still delivering safe and reliable electric service to rural areas (the areas that for-profit commercial utilities chose not to serve). Still providing an essential service. And still serving to help our communities prosper.

There are still detractors. But the priorities outlined above sum up our mission. And on behalf of LCP employees, we are proud and privileged to provide you with an essential service in a rural area to help keep your home warm and your batteries charged.

### Serving a purpose

Our job is to make your life simpler, easier and less complex in a world that is increasingly busier, more complicated and full of political distractions.

Whether it's overhead, underground, under water, across lakes, over rocks, or through wetlands, woods and streams, we distribute electricity across more than 8,200 miles. Said another way, it's equivalent to LCP running power lines from New York City to Los Angeles and back to New York City again.

When you add the challenges of weather



By Greg Randa,  
General Manager

and nature into the mix, the fact that electricity is as reliable as it is – is a testament to the men and women at LCP who work day in and day out to make it easy for you to flip a switch when light is needed and necessary.

### Serving with purpose

That said, the energy “climate” has its challenges for you as an electric consumer and for this electric cooperative that you own by virtue of membership.

We continue to both respond and look ahead. We also work hard to keep members informed. We hosted nine district meetings again this spring, with nearly 450 co-op members in attendance.

For those who weren't able to attend a district meeting, we hope to see you at our annual meeting Thursday, April 28, at the Merritt Elementary School in Mountain Iron. Dinner will be served at 4:45 pm. We'll feature entertainment from the Choralaires before the business meeting starts at 6:00 p.m.

If you can't make the annual meeting, we have recapped the key numbers and trends from 2015 in this Annual Report/*Newsline*. We will also be posting annual meeting presentations to members online again this year.

To hear firsthand about the challenges impacting you as electric consumers and the co-op you own, check out our website at [www.lakecountrypower.coop](http://www.lakecountrypower.coop) in May. We'll provide video links to presentations from Great River Energy, our Board of Directors and Director of Finance & Administration, Mark Bakk. My report will be uploaded as well.

However you choose to keep informed and stay engaged, we hope to see you at your annual meeting – April 28, in Mountain Iron.

## Annual Meeting to connect with members

Nearly 450 LCP members connected with the co-op's staff, employees and directors earlier this year. During a series of nine district-member meetings, co-op members attended to stay informed about the construction/line projects underway at LCP, governmental regulations, related rate pressures and reflections on co-op history.

Next up is the annual meeting when Lake Country Power will connect with another 400 members and guests. The annual meeting will be held Thursday, April 28, at the Merritt Elementary School in Mountain Iron, MN.

- Registration and dinner (baked chicken or meatballs/rigatoni) begins 4:45 p.m.
- Special entertainment begins 5:00 p.m. (The Choralaires)
- Business meeting begins 6:00 p.m.

Members will receive a registration gift and door prize ticket. Enjoy food and fellowship, visit with co-op representatives and friends, and enjoy special musical entertainment. Members who bring a cash donation or non-perishable food for the local food shelf will receive up to two lights.





# Giving thanks for safe, hard-working employees

By Don Simons, District 6 Director

Perhaps you've heard me say it before, but I'd like to say it again. Lake Country Power has some of the finest and most dedicated employees. Whether they work inside or out, each is a valuable asset to our electric cooperative and our local communities.

Every employee works with Lake Country Power's mission in mind. That is to deliver safe, reliable electric service; manage member resources wisely and serve to help our communities prosper.

Each individual employee is also responsible to make safety his or her first priority. In fact, safety is a core value at Lake Country Power.

While Lake Country Power had four OSHA recordable injuries for medical attention in 2015, none of these injuries resulted in lost time. The four

injuries resulted in shoulder strain, laceration with stitches, strained wrist and lower back strain.

**Lineman Appreciation Day**  
I'd like to recognize the work line technicians do for our cooperative, its membership, and in our communities.

This year's Lineman Appreciation Day falls on April 11. It's a day to honor the electric line technicians who work in challenging conditions to keep the lights on. Line technicians are often first responders in storms and outages, sometimes working around the clock to restore power. They live and work in our community.

Line technicians literally save the day when they're dispatched to a storm area. They work all hours of the day, often in hazardous

conditions, going above and beyond to restore power to their communities. They keep the lights on for members like you and me who live in the countryside. If it weren't for them, Lake Country Power would have a tough time providing safe and reliable electricity.

The National Rural Electric Cooperative Association (NRECA) has dedicated the second Monday in

April as a time to thank and recognize linemen and the important work they do in our communities.

Let's all take a moment to thank a lineman for the work they do. And I'll see you at this year's annual meeting in Mountain Iron.

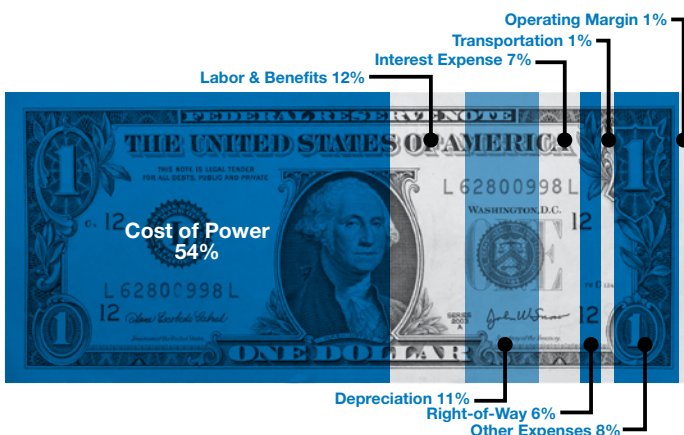
*Don Simons was elected by members in Lake Country Power District 6. He can be reached at 218-326-2184 or dsimons42@gmail.com.*



## LAKE COUNTY POWER BOARD EXPENSES

	2015	2014	2013
Per Diem	\$119,775	\$114,200	\$102,700
Other Reimbursable Expenses	48,569	45,579	63,072
Other Board Expenses	6,999	8,721	12,014
<b>Total</b>	<b>\$175,343</b>	<b>\$168,500</b>	<b>\$177,786</b>

### Breakdown of Total Cooperative Expenses



## Supreme Court issues stay of Clean Power Plan

On Feb. 9, the United States Supreme Court unexpectedly issued a stay of the EPA's Clean Power Plan which addresses carbon dioxide emissions from existing power plants. This is the first time the Supreme Court has stayed a rule currently under review by a lower court.

The stay does not directly impact the current legal challenges being heard by the U.S. Court of Appeals for the District of Columbia Circuit. Those proceedings will continue to assess the rule's legality.

This action by the Supreme Court means that the Clean Power Plan will not be enforced while legal challenges proceed and the courts decide the next steps for the rule.

While those proceedings play out, Great River Energy will continue to prepare for regulation of carbon dioxide emissions by working with state agencies and continue research ways to increase power plant efficiency and reduce emissions.

The National Rural Electric Cooperative Association (NRECA) has estimated that total compliance costs for electric co-ops could reach as much as \$28 billion.

# Reversing trends and subsidiary operating results

It's been a tough year for the Lake Country Power Holding Company — and the for-profit subsidiaries that are run separately and independently from the electric cooperative. The subsidiaries, Lake States Tree Service and Lake States Construction, both perform utility-based services and work for a range of businesses, including LCP.

The arms-length independence from the co-op allows LCP management to focus on LCP operations. The link to the co-op is at the board level, where LCP board members serve in a separate capacity as directors of the Lake Country Power Holding Company.

From both an operational and oversight perspective, 2015 was a year of transition for the subs. We started by restructuring

governance and oversight of each subsidiary. We changed the structure of subsidiary boards, formerly comprised of co-op members, layered between the Holding Company directors and subsidiary management.

That means the leadership of the subs now report to the same directors who sit on the Holding Company Board instead of three-person board committees comprised of additional co-op members.

The change was made to reverse recent operating results. In addition to

changes in governance, the subsidiaries are adding additional superintendent-level positions to assist with day-to-day operations and free-up time for management of the subsidiaries to grow the businesses.

Those are the changes that have been made in governance structure, management and oversight. In 2016, we expect to see change in operational results.

Competition is fierce, and many companies, including LCP's subsidiaries, are addressing the problem of recruiting and retaining employees. Rural areas are declining in population. People are a competitive advantage, and building on that advantage right now is difficult.

As you will see in the operating statement, the subsidiaries reported a \$188,053 loss in 2015. We have made changes at the subsidiary governance and management level to address shortfalls, demonstrate more consistency, and produce positive long-term results.

In short, we are looking for a turnaround in 2016 in subsidiary performance and results.



By George Harvey,  
LCP Holding Company  
Vice President



## Lake Country Power Holdings, Inc. Board Per Diem & Expenses

**2015:** \$40,718.56  
**2014:** \$31,623.24  
**2013:** \$29,364.99

All holding company board expenses paid by subsidiaries.

## Subsidiary overview

Lake States Tree Service is a commercial tree service that contracts with electric utilities, pipelines, private landowners for tree maintenance and right-of-way clearing. The business averages between 100–120 employees and is headquartered in Grand Rapids, Minn.

Lake States Construction is a utility construction company specializing in underground and overhead power line construction for fiber, electric utilities and cooperatives. The business averages between 30–53 employees and is headquartered in Grand Rapids, Minn.

## Lake Country Power Director Candidates for 2016

Members residing in Districts 2, 4 and 8 will receive a director election ballot with the annual meeting notice. It will mail between April 8 and April 13.

Members will have three options to cast their director ballot, and should choose only one method. The ballots will give specific voting instructions, so please read closely when received. Members may vote online, by mail or in person.

Online voting begins April 8, 2016, at 8:00 a.m. central, and ends April 21, 2016, at 5:00 p.m. central. If you miss the online voting period, vote by mail or in person according to the voting instructions printed on the ballot.

The following members are director candidates for their designated voting districts. Election results will be presented April 28, at the Merritt Elementary School, Mountain Iron, MN.



- District 2:** Michael D. Forsman, Ely
- District 4:** Craig Carlson, Grand Rapids\*
- District 8:** Jim Huhta, Cromwell; Marvin E. Ketola, McGregor; and Danny G. Smith, Tamarack\*

\* Denotes current LCP Director.

# Great River Energy: Meeting the needs of a changing membership

Lake Country Power's wholesale power supplier, Great River Energy, is discovering ways to evolve with changes among its membership and within the industry while continuing to do what it has always done: generate and transmit reliable and affordable electricity in harmony with a sustainable environment.

When research revealed that members were increasingly interested in solar electricity, Great River Energy and its member cooperatives devised programs that offered solar energy in ways that treated members fairly. Today, those cooperatives collectively own nearly two megawatts of solar capacity.

After stakeholders indicated there was growing momentum for the electrification of Minnesota's economy, particularly

moderate increases in the years ahead.

## Curbing CO2 emissions

In August 2015, the Environmental Protection Agency released its Clean Power Plan, which would require a 32-percent reduction in carbon dioxide emissions (CO2) from the power sector by 2030. The Supreme Court has since issued a stay of the rule, which will require legal challenges to be settled before it could go into effect.

Despite the delay of this recent rule, the EPA is obligated to regulate CO2 emissions. Great River Energy has long recognized that impending carbon regulation is a serious business issue. For that reason the cooperative has taken steps to prepare for regulations and actively engaged in discussions with state and federal agencies.

the organization's history. It will overhaul and upgrade of the converter stations at both ends of the 436-mile high-voltage, direct-current transmission line. The line delivers power to Minnesota from Great River Energy's Coal Creek Station power plant in central North Dakota.

## Planning the grid of the future

Great River Energy will deploy a new demand response management system in 2016. The system will introduce a new level of precision and control capability to Great River Energy's existing demand response resources. Demand response allows cooperatives to avoid purchasing costly electricity during periods of heightened



Great River Energy has invested approximately \$300 million to maintain and improve power plant operations and emissions since 2000. The investments in plant maintenance and efficiencies and air quality improvements are one of the reasons power costs, and consumer electric rates, have been rising over the past 15 years.

transportation, Great River Energy and its member cooperatives responded with Revolt™. This first-of-its-kind electric vehicle program allows cooperative members to fuel their vehicles with wind-generated electricity at no additional cost.

## A strong financial backbone

Great River Energy maintained its strong financial position in 2015. The cooperative consistently receives investment-grade credit ratings and maintains wholesale rates below the averages. In fact, Great River Energy's rate to its member cooperatives declined in 2015, and rate projections show

## CapX2020 fulfills promise

CapX2020 is a joint initiative of 11 transmission-owning utilities in Minnesota and the surrounding region to expand the electric transmission grid. The projects have been in the works for more than 10 years. When the fifth and final project is completed in 2017, CapX2020 will have been responsible for 800 miles of transmission line and a total investment of more than \$2 billion.

## Investing in the reliability of vital resource

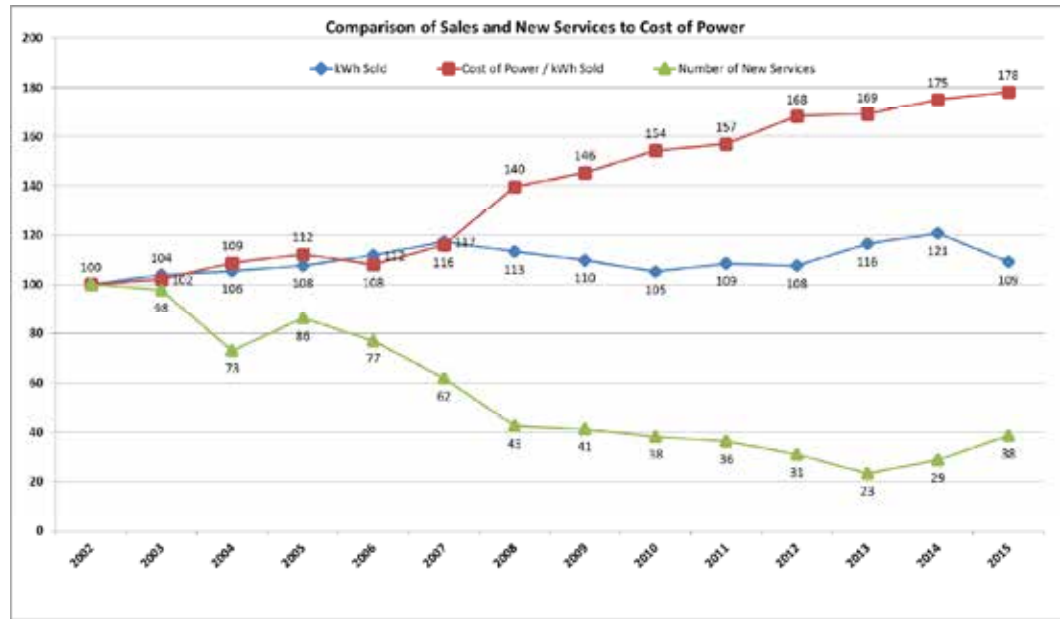
Great River Energy will soon undertake the largest transmission refurbishment project in

electricity use and maintain reliability while the grid is stressed.

As Great River Energy faces new challenges, the cooperative finds strength through collaboration. Great River Energy and its 28-member cooperatives are learning from one another new ways to achieve their vision: to keep cooperative energy competitive.

# Energy sales & new services vs. cost of power

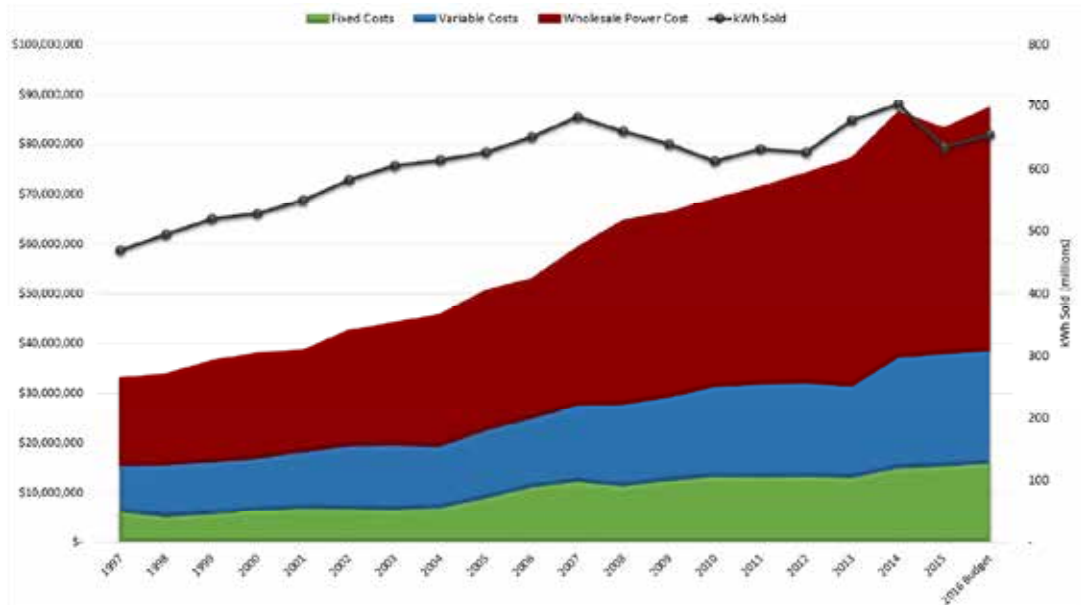
We have seen stagnant energy sales growth (blue line) and a decrease in the annual growth in the number of consumers (green line); however, the cost of generation and transmission of electricity has increased dramatically over the same period (red line).  
 \*\*Numbers are expressed as a percentage of 2002\*\*



# The dilemma of declining energy sales; rising costs

The past ten years has been a period of flat or even declining energy sales coupled with increasing costs. Our largest cost increases have related to generation and transmission of electricity which is shown in red to the right.

Lake Country Power's biggest annual expense involves buying power. Wholesale power accounts for close to 56 percent of your co-op's budget. LCP's "local" budget (areas of the budget the co-op directly controls) includes everything from keeping the lines clear of trees, replacing poles, wires



and substation equipment; and maintaining and fueling line trucks. Costs for these

activities are increasing at a moderate rate, and LCP continues to closely monitor

and manage these costs without sacrificing the safety or reliability of your service.

# Rebates help members save cash

Lake Country Power is always pleased to put some cash back into members' pockets. In 2015, members received \$397,592. The rebates were given to members who initiated some sort of qualifying home improvement projects—upgrading to Energy Star appliances, lighting and EnergyWise home heating and cooling programs.

**\$397,592**



2015 Annual Report – Statement of Operations and Changes in Equity  
for the years ended December 31, 2015, 2014 and 2013 (Numbers in Thousands)

<b>Revenue (In Thousands)</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Sales of electric energy to members	\$82,660	\$87,755	\$79,398
Miscellaneous other operating revenue	912	763	999
<b>Total Revenues</b>	<b>\$83,572</b>	<b>\$88,518</b>	<b>\$80,397</b>
Wholesale power (Great River Energy)	45,001	48,969	45,607
Operating expenses (maintenance, operations, administration, member support)	22,819	22,364	18,576
Depreciation of utility plant	9,221	8,732	7,714
Interest expense on long-term debt	5,941	6,082	5,181
<b>Total Operating Expenses</b>	<b>82,982</b>	<b>86,147</b>	<b>77,078</b>
<b>Income from Electric Operations</b>	<b>590</b>	<b>2,371</b>	<b>3,319</b>
Patronage capital from Great River Energy and others	856	3,608	2,739
Non-operating and other income, net	655	655	650
Subsidiary Income or (Loss)	(188)	525	(365)
<b>Net Margins</b>	<b>\$1,913</b>	<b>\$7,159</b>	<b>\$6,343</b>
Accumulated patronage capital-beginning of year	\$101,641	\$97,032	\$93,635
Net other changes in equities	1,073	580	398
Retirement of patronage capital	(3,639)	(3,130)	(3,344)
<b>Accumulated Capital at Year End</b>	<b>\$100,988</b>	<b>\$101,641</b>	<b>\$97,032</b>

### Financial Highlights

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Kilowatt Hours Sold (In Thousands)			
Rural Residential	468,009	521,097	504,083
Commercial /Industrial	129,670	144,826	137,525
Public Street Light	600	596	611
Resale	36,692	36,082	35,215
<b>Total kWh Sold</b>	<b>634,971</b>	<b>702,601</b>	<b>677,434</b>
<b>Revenue (In Thousands)</b>			
Rural Residential	\$65,451	\$69,922	\$62,849
Commercial /Industrial	15,043	15,749	14,641
Public Street Light	110	108	107
Resale	2,056	1,976	1,801
<b>Total Revenue</b>	<b>\$82,660</b>	<b>\$87,755</b>	<b>\$79,398</b>
<b>Comparative Operating Statistics</b>			
Number of accounts at year end	48,757	48,542	48,487
Miles of line energized	8,278	8,249	8,234
Accounts per mile of line	5.9	5.9	5.9
Average residential kWhs used per month	863	962	930
Average residential monthly bill	\$121	\$129	\$116
Plant investment per account	\$4,316	\$4,258	\$4,192

A complete consolidated audited financial statement is available upon request.

2015 Annual Report – Balance Sheet  
for the years ended December 31, 2015, 2014 and 2013 (Numbers in Thousands)

**Assets**

*What we own*

	2015	2014	2013
Cost of our utility system	\$303,533	\$294,508	\$284,862
Depreciated plant	(93,082)	(87,810)	(81,620)
<b>This gives our system a book value of:</b>	<b>\$210,451</b>	<b>\$206,698</b>	<b>\$203,242</b>

**We Have Other Property and Investments**

Investments in associated organizations	\$40,727	\$40,185	\$36,828
Other Investments	6,413	6,645	6,194
<b>Total Other Property and Investments</b>	<b>\$47,140</b>	<b>\$46,830</b>	<b>\$43,022</b>

**We Have These Current Assets**

Cash and cash equivalents	\$3,144	\$3,852	\$5,044
Members and others owe us for our services	8,885	9,640	9,876
Materials and supplies for line construction	3,767	3,272	3,256
Other current assets	151	158	85
<b>Total Current Assets</b>	<b>\$15,947</b>	<b>\$16,922</b>	<b>\$18,261</b>

**We Have Deferred Debits**

	\$2,042	\$2,406	\$2,639
<b>TOTAL ASSETS</b>	<b>\$275,580</b>	<b>\$272,856</b>	<b>\$267,164</b>

**Liabilities**

*What we owe*

**Long-Term Debt**

We owe Rural Utility Service	\$66,400	\$127,625	\$121,419
We owe NRUCFC	18,888	20,351	21,995
We owe CoBank	74,115	8,542	8,829
We owe Great River Energy	391	470	848
Other long-term liabilities	-	-	9
	\$159,794	\$156,988	\$153,100
Less payments due in the next year	(5,409)	(5,017)	(4,907)
<b>Total Long-Term Debt</b>	<b>154,385</b>	<b>\$151,971</b>	<b>\$148,193</b>

**Other Noncurrent Liabilities**

Capital Lease - noncurrent portion	\$114	\$ -	\$ -
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**We Owe Current Liabilities**

Power, materials, etc.	\$9,475	\$9,632	\$10,243
Payments on long-term debt due in the next year	5,409	5,017	4,907
Notes payable	-	-	-
Capital Lease - current portion	57	-	-
Other current liabilities	5,131	4,368	4,303
<b>Total Current Liabilities</b>	<b>\$20,072</b>	<b>\$19,017</b>	<b>\$19,453</b>
We have deferred credits	21	227	2,486
<b>TOTAL WE OWE</b>	<b>\$174,592</b>	<b>\$171,215</b>	<b>\$170,132</b>

**Net Worth**

Members' equity in the cooperative			
Your accumulated patronage capital	\$81,557	\$83,837	\$79,444
Other capital	19,431	17,804	17,588
<b>Members' Equity in the Cooperative</b>	<b>\$100,988</b>	<b>\$101,641</b>	<b>\$97,032</b>
<b>TOTAL LIABILITIES</b>	<b>\$275,580</b>	<b>\$272,856</b>	<b>\$267,164</b>

A complete consolidated audited financial statement is available upon request.

# 2015 Annual Meeting – Condensed Minutes

The nineteenth Annual Membership Meeting of Lake Country Power was held at the Cromwell High School, Cromwell, Minnesota, on April 30, 2015. President Dale Long called the meeting to order at 6:00 p.m. Secretary, George Harvey, presented the meeting notice and announced a quorum with 210 registered members.

President Long called for a motion to approve the condensed minutes of the May 6, 2014, Annual Membership Meeting. Motion carried. The polls closed for director elections at 6:08 p.m.

President Long addressed the membership about the electric service we all have and take for granted. Over the years of wear, aging equipment, increased demand and usage, nearly 2,000 miles of line and equipment needs to be replaced. The board supports an approach to balance the need for affordability with the expectation of reliability. In 2014, more than 1,000 miles of right-of-way work was done. The board will continue to be mindful of the challenges to provide reliable service and keep electric bills affordable.

General Manager Randa referenced the changes he's observed since beginning his

career with the co-op in 1979—specifically the changes related to energy generation. Capital credits are the cornerstone of the co-op business model. Randa thanked the co-op decision makers from 30 years ago for their foresight to provide members with off-peak and dual fuel programs. He reported on LCP's responsibility to maintain a balance between rates, reliability and system upgrades. LCP's long-term philosophy is to keep any necessary rate changes small to help avoid large increases on electric bills.

Director of Finance and Accounting Bakk reported about the 2014 year-end audit, and that it provided a clean opinion of LCP's accounting controls. LCP is in full compliance with the financial requirements set by its lender, the federal government's Rural Utilities Service.

Sherman Liimatainen, President of the Holding Company, provided an update on Lake Country Power's two subsidiaries – Lake States Tree Service and Lake States Construction.

Rick Lancaster, Great River Energy's Vice President of Generation, reported that GRE's energy portfolio is well diversified with

three coal plants, a biomass plant, peaking plants, wind energy, solar energy and hydropower. GRE is studying the capacity factor of solar energy, however solar isn't capable of providing the same baseload generation that coal-fired power plants do.

Attorney Carlisle presided over Old and New Business. One member asked questions related to Great River Energy and Lake Country Power.

The meeting adjourned at 7:10 p.m.

## 2015 Director Elections

### District 1:

Joseph "Dale" Long\* ..... 628  
Susan Hankner ..... 256

### District 5:

Robert Bruckbauer\* ..... 333

### District 9:

Sherman Liimatainen\* ..... 394

\*Denotes current LCP director

## Annual Meeting Location Map

### Districts Voting – 2016

Districts 2, 4 and 8 will elect directors to three-year terms on April 28, 2016.

