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2022 April 2023 Newsline Special Edition
Annual Report

Are we there yet?

If we look at the last few years as a road trip, it might start to feel like a cross-country trek that never ends-with the road dotted with potholes and the kids in the back seat asking “Are we there yet!?”

At this time last year, we faced significant challenges to continue providing safe and reliable energy – rising equipment costs, supply chain shortages and escalating contractor labor costs contributing to increased rates – and despite some progress, we’re still staring down those issues and more in 2023.

That said, I’m still hopeful for the year ahead as our management team, board and employees continue to work hard to reduce the impacts of these issues on our membership.



By Mark Bakk
LCP general manager

Discussing Rates

This year, we implemented a general service rate increase of 0.0056 per kilowatt-hour and an increase in our monthly service availability charge from \$42 to \$48. These were tough but necessary decisions to maintain the viability of your cooperative as we continue to meet our mission of providing safe and reliable electric service.

Consider this: In 2019, the average cost to install one single-phase power pole was \$1,805. In 2022, the price was \$3,115, a 72% increase in three years. Securing a new power pole

through our vendors used to take one week, but supply chain issues have increased that lead time to 55 weeks. Thanks to a consignment agreement we have with our vendor, our lead time is now around 16 weeks for a new pole, but that is still a significant amount of time compared to the pre-pandemic years.

More broadly, the average price increase on materials since the start of the pandemic is over 60%. The new rate changes are a direct result of these issues and if left unaddressed would threaten the reliability and service our members expect and deserve from us.

Carbon-Free by 2040

The Minnesota Legislature passed and Gov. Tim Walz signed a new mandate for state energy utilities that will require us to provide 100% carbon-free energy by 2040.

If you blinked, you likely missed the discussion on this legislation in St. Paul. The fast-tracked effort was passed by a House committee on January 20 and signed by the governor on February 7, a nearly incomprehensible short period of time for a bill of this magnitude to become law, with very little time for public input or awareness.

Lawmakers were agreeable to a concession that allows cooperatives and municipalities to be 60% percent by 2030, rather than 80% for investor-owned utilities, but we’re still on the same timeline for 90% by 2035 and 100% by 2040. Utilities can ask for an off ramp if affordability becomes a major concern or if reliability will suffer, but the ultimate decision will be made by the Minnesota Public Utilities Commission, a five-member commission appointed by the

Governor. Our efforts to maintain that decision-making authority at the local, member-elected Board level were unsuccessful.

I have several concerns with the carbon-free by 2040 legislation when it comes to our reliability, affordability and local control. The biggest being that the technology to fully make the carbon-free transition simply doesn’t exist yet on a large enough scale.

Why is that an issue? Well, I checked our energy generation mix through the Midcontinent Independent System Operator (MISO) on the morning of February 3, 2023, one of the colder days here in the Northland this year. The power generation breakdown at that time was coal (39%), natural gas (38%), nuclear (12%), wind (7%), other (mostly hydro) (4%) and solar (0%).

That’s 77 percent of our energy generation from a source that has to be replaced in less than 20 years. Without the large-scale technology in place to ensure alternative energy sources are reliable, blackouts become a major public safety concern and a matter of life and death in our Minnesota winters.

I also have concerns over the cost to build wind turbines, solar arrays, the necessary new transmission lines, as well as the need for sourcing the minerals necessary to develop these technologies.

Beyond that, it’s simple economics: As demand for the electrification of economic sectors increases and the supply of energy faces hurdles through this legislation, the price increase will fall back to us and our members. ■

GRE, LCP continue to focus on members

The way electricity is produced and consumed is rapidly evolving. While this is an exciting time to be part of an electric cooperative, these changes do come with challenges.

As an elected director to District 5 of Lake Country Power and the chair of the Great River Energy (GRE) board, I have seen these challenges up close. Together with my fellow directors at Lake Country Power and GRE, I have worked to minimize the effects on the people we serve.

In 2023, however, GRE budgeted its first wholesale rate increase in five years by an average of 6.2% from the 2022 budgeted rate. This increase is compared to a nationwide retail electricity cost increase of 8% as reported by the U.S. Energy Information Administration (EIA).

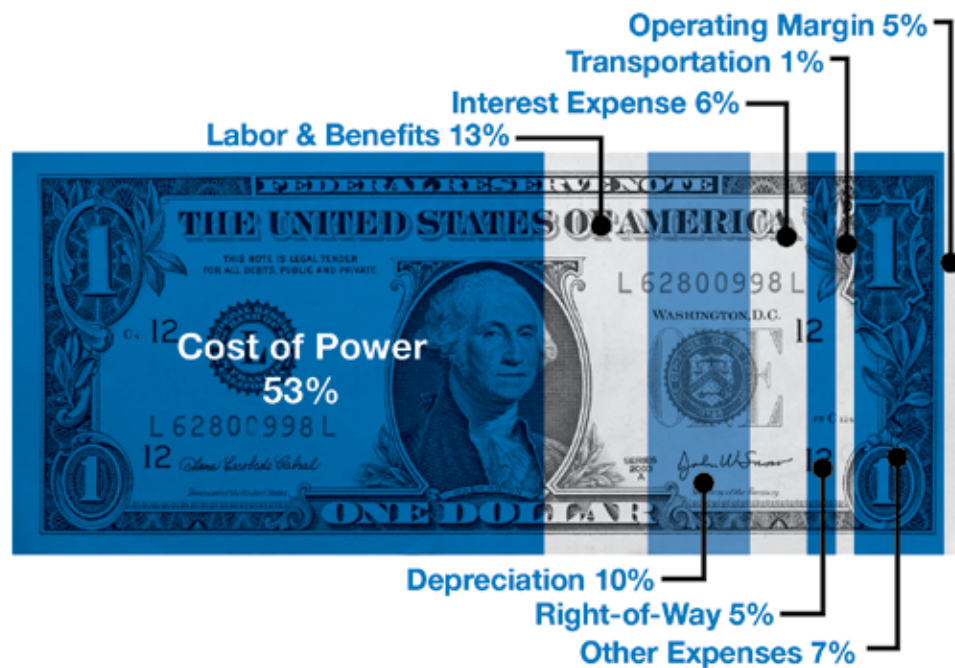
GRE's board and management team have made efforts to stabilize its wholesale electric rates to insulate its member-owners in the short term and keep the cooperative setup for success and in a strong financial position.

Focused on the members

Cooperatives are not-for-profit



2022 Breakdown of Total Cooperative Expenses



organizations that operate at cost, only collecting enough revenue to run the business and meet their financial obligations. When a cooperative experiences financial success, it returns those dollars to members.

The past year was marked with periods of turbulence in the energy markets; however, GRE's resources performed well. In fact, strong financial results allowed GRE to issue a total of \$38 million in bill credits throughout the year. The cooperative also issued patronage capital payments to member-owners.

These cash returns came at a time when many electricity providers are experiencing increased cost pressures due to supply chain challenges and inflation.

Building out the grid

Earlier this year the Midcontinent Independent

System Operator (MISO) approved a large-scale grid expansion across the Upper Midwest, a \$10.3 billion portfolio of 18 large projects.

Lake Country Power members will benefit from this build out through the Northland Reliability Project, a 150-mile line that begins in Grand Rapids, built in partnership with GRE and Minnesota Power.

These projects are important to prepare the region's grid for the ongoing transition from fossil-fuel based power generation to more renewable energy, create more resilience to extreme weather and prepare the grid for more electrification. ■

Bob Bruckbauer was elected to the LCP Board by members in District 5 and was appointed chair of the Great River Energy board. He can be reached at 218-290-8729 or rbruckbauer@lcp.coop.

Subsidiary sale continues to benefit LCP

The past year presented a different look for LCP Holdings, Inc. after Lake Country Power closed on selling its subsidiaries on January 1, 2022, but the cooperative and its members have continued to see cost savings from a new partnership with those new companies.

Lakes States Tree Service Inc. and Lakes States Construction Inc. – now Zielies Tree Service and Lake States Construction, LLC, respectfully – negotiated new service contracts with Lake Country Power that will help the cooperative realize millions in savings down the road.

With third party labor contract work rates climbing between 35% and 100% in the construction and right-of-way sectors year over year, the service agreements reached by LCP management are expected to save members \$12-21.6 million over the five-year

life of the contract, including savings realized in the year prior.

Broken down annually, that's about \$1 million a year for construction work and about \$2.6 million a year for right-of-way work.

Meanwhile, LCP Holdings, Inc. will continue to operate despite the subsidiary sale. It is still collecting rent on property associated with the newly-formed companies and its audit was approved March 17.

As those items are finalized, the holding company



By Dan
KINGSLEY
District 6
Director

expects to reduce its meetings to quarterly or possibly annually as needed. The holding company will remain intact as currently structured and available should the cooperative choose to purchase another business (subsidiary) though there are no pending purchases at this time.

We're looking forward to the year ahead and

wish a safe and successful 2023 to the employees and member-owners of Lake Country Power. ■

Dan Kingsley was elected president of Lake Country Power Holdings Inc. by the shareholders of the holding company and was elected to the LCP Board by members in District 6. He can be reached at 218-259-7366 or dkingsley@lcp.coop.

MEMBERS



BUILT THE CO-OP



LEAD THE CO-OP



SHAPE THE CO-OP



Lake Country Power Board Expenses

	2022	2021	2020
Compensation	\$ 114,667	\$ 133,600	\$ 112,728
Other Reimbursable Expenses	55,058	44,140	17,437
Other Board Expenses	12,499	10,586	7,639
Total Expense	\$ 182,224	\$ 188,326	\$ 137,804

Great River Energy delivers on its triple bottom line in 2022

Cooperative's performance demonstrates its commitment to rates, reliability and environmental stewardship

Lake Country Power's membership is a network of individuals, families, farmers and business owners like you who own part of the company that supplies electricity to your community.

Similarly, Lake Country Power is a member of Great River Energy. Lake Country Power not only receives wholesale electricity from Great River Energy but is also an owner.

Like all cooperatives, Great River Energy strives to provide great, affordable service and meet the needs of its membership. Electricity is being produced in new ways and cooperative members are finding different ways to use that electricity in their homes and businesses.

Great River Energy and its member-owners have adapted remarkably to both trends. They have taken important steps to meet members' energy needs today, tomorrow and long into the future while recording impressive financial and operational performance.

Building for the future

Great River Energy successfully concluded several significant projects over the past year that have the cooperative on track to

maintain stable wholesale electric rates and reliable service while reducing its environmental impact.

Great River Energy sold its largest coal-based power plant and the high-voltage, direct-current (HVDC) transmission system that delivered the plant's electricity to Minnesota. As part of the sale, Great River Energy secured rights to interconnect a large renewable energy project to the HVDC system. The project will fulfill a significant portion of the renewable energy needs for Great River Energy's power supply transition and deliver wind energy just west of the Twin Cities.

Great River Energy has been adding wind resources for years, which has the cooperative on a trajectory to reduce its carbon dioxide emissions by more than 80% by 2033, and it has done so cost-effectively.

Grid remains stable amid weather extremes

Extreme weather in the summer and winter posed a challenge to the electric grid, but Great River Energy's system performed well thanks to its experienced team and the ability to reduce electric demand at critical moments.

The summer of 2022 will go down as the longest on record as temperatures reached 70 degrees or higher for 118 consecutive days. On several occasions, Great River Energy deployed "demand response" resources, which strategically reduce electricity use to maintain the health of the grid and avoid high power market prices.

This is all part of the cooperative's strategy to use the grid efficiently and economically by reducing demand during periods of high stress – such as hot-weather days – and shifting energy consumption to off-peak times.

Members have voluntarily enrolled more than 370,000 appliances, irrigation systems, and other devices into the demand response programs offered by Great River Energy and its member-owner cooperatives making it the nation's largest demand response program per peak load. By participating, member-consumers grant Great River Energy permission to "control" or "cycle" their air conditioner, water heater, heat pump or other electric devices for a period of hours on high demand days in exchange for a reduced electric rate or other incentive.

By calling on its demand response resources this summer, Great River Energy reduced hundreds of megawatts of electricity demand and avoided making costly market purchases – ultimately saving members upwards of \$2.5 million.

Ethanol business sold

A biofuels enterprise of which Great River Energy was the majority owner was

sold in 2022 for the benefit of the membership.

Great River Energy's ownership of Midwest AgEnergy served its members well for many years. After the sale of Coal Creek Station, however, the cooperative had less of a strategic interest in ethanol biorefineries.

Serving members responsibly

Cooperatives take pride in being good neighbors in the communities where they serve and operate facilities as well as doing what's right for their employees.

Great River Energy was again certified as a Great Place to Work in 2022, an honor given to companies whose employees report a positive working experience. Nearly 90% of employees said Great River Energy is a great place to work – that's 31 points higher than the average U.S. company. The cooperative also earned the title of "Healthiest Employer" after achieving a very high ranking among midsize Minnesota employers.

Great River Energy provides charitable contributions to nonprofits, operates scholarship programs and sponsors events that bring people together. The cooperative also works with its member-owners to attract and retain business activity and jobs where its members live.

Through wholesale electric service and community programs, Great River Energy strives to support its member-owners, contribute to sustainable communities and deliver on its mission to provide affordable, reliable energy in harmony with a sustainable environment. ■



Northland Reliability Project open houses successful

Public open houses for the Northland Reliability Project recently concluded after 14 meetings were held in seven different cities from Grand Rapids to Becker. The meetings were held throughout the project's study area to provide the public with information about Great River Energy, Minnesota Power and the project that the companies are jointly building.

The Northland Reliability Project is a double-circuit, 345-kilovolt transmission line that will span approximately 150 miles from northern Minnesota near Grand Rapids to central Minnesota near Becker and will support grid reliability in the Upper Midwest. It is estimated to cost \$970 million. Great River Energy is the wholesale power supplier to Lake Country Power and the Northland Reliability Project will pass through Lake Country Power's service area.

More than 250 people attended the open houses to learn more about the project and provide input on the route. The project team is now meeting with county officials along the proposed route.

"We had a great turnout at the open houses and everyone was very interested in the project," said Great River Energy's Dan Leshner, manager, transmission planning and land rights. "The feedback we received from the public will help us narrow down our route and route alternatives."

The project team will seek opportunities to route the line along existing corridors using land already being used for power lines when it makes sense. A certificate of need and route permit application will be submitted to the Minnesota Public Utilities



Commission (PUC) in the fourth quarter of 2023. The PUC will then determine the final route. Subject to regulatory approvals, the transmission line is estimated to be in service by 2030.

The Northland Reliability Project is a proactive investment that is necessary as more low-cost renewable energy is brought online, existing power plants are retired, electrification continues to grow and extreme weather events become more frequent. It is one of 18 projects approved in July 2022 by the Midcontinent Independent System Operator (MISO), which is the region's grid operator, as part of its Long-Range Transmission Plan.

Those who missed the open houses can learn more about the project anytime at www.northlandreliabilityproject.com. ■

Commitment to community

As an electric cooperative, Lake Country Power is community-focused and local. Your co-op is led by consumers like you, belongs to the communities it serves and is built by the communities it serves. Last year's community focus included some of the following actions:

- \$212,940 contributed through Operation Round Up® in 2022 (more than \$3 million overall since October 2004 for community-based projects and programs).
- \$1.7 million capital credit retirement to LCP members.
- 32 local high school seniors from 27 different schools received the Les Beach Memorial Scholarship from LCP, valued at \$4,000 each.
- Employees volunteered 789.25 hours in 2022.
- Employees contributed nearly \$13,673 to United Way; LCP's board approved a co-op contribution of



\$6,000 that was evenly divided between the three United Way agencies in the co-op's service area.



- \$298,948 was given back to residential co-op members through the co-op's rebate program.
- Recognized the Embarrass Region Fair Association of Embarrass, Minn. as the winner of its annual Touchstone Energy Community Award.
- Sponsored two high school students on the Electric Cooperative Youth Tour to Washington, D.C., in June 2022.



STATEMENT OF OPERATIONS AND CHANGES IN EQUITY

	2022	2021	2020
Revenue (In Thousands)			
Sales of electric energy to members	\$ 107,980	\$ 95,085	\$ 89,365
Miscellaneous other operating revenue	765	533	323
Total Revenues	\$ 108,745	\$ 95,618	\$ 89,688
Expenses			
Wholesale power (Great River Energy)	57,242	50,811	46,303
Operating expenses (maintenance, operations, administration, member support)	28,602	24,133	25,402
Depreciation of utility plant	11,046	10,741	10,264
Interest expense on long-term debt	6,909	6,727	6,753
Total Operating Expenses	103,799	92,412	88,722
Income from Electric Operations	4,946	3,206	966
Patronage capital from Great River Energy and Others	2,142	3,948	2,066
Non-operating and other income, net	(17)	176	770
Subsidiary Income or (Loss)	2,708	1,880	1,273
Net Margins	\$ 9,779	\$ 9,210	\$ 5,075
Accumulated patronage capital-beginning of year	\$ 117,476	\$ 112,738	\$ 111,541
Net other changes in equities	612	1,181	1,043
Retirement of patronage capital	(2,752)	(5,653)	(4,921)
Accumulated Capital at Year End	\$ 125,115	\$ 117,476	\$ 112,738

Kilowatt Hours Sold (In Thousands)	2022	2021	2020
Rural Residential	516,106	489,955	491,205
Commercial /Industrial	239,325	159,754	121,610
Public Street Light	467	487	522
Resale	-	-	-
Total kWh Sold	755,898	650,196	613,337
Revenue (In Thousands)			
Rural Residential	\$ 80,801	\$ 75,403	\$ 73,449
Commercial /Industrial	27,050	19,562	15,812
Public Street Light	129	120	104
Resale	-	-	-
Total Revenue	\$ 107,980	\$ 95,085	\$ 89,365
Comparative Operating Statistics			
Number of accounts at year end	50,938	50,607	50,073
Miles of line energized	8,395	8,377	8,359
Accounts per mile of line	6.1	6.0	6.0
Average residential kWhs used per month	922	882	892
Average residential monthly bill	\$ 144	\$ 136	\$ 133
Plant investment per Account	\$ 5,568	\$ 5,439	\$ 5,332

The above figures are preliminary and unaudited.

2022 Annual Report – Statement of Operations and Changes in Equity for the years ended
December 31, 2022, 2021 and 2020 (Numbers in Thousands)

Balance Sheet

Assets

What we own

	2022	2021	2020
Cost of Our Utility System	\$ 411,344	\$ 395,581	\$ 379,357
Depreciated Plant	(127,720)	(120,324)	(112,358)
This gives our system a book value of:	<u>\$ 283,624</u>	<u>\$ 275,257</u>	<u>\$ 266,999</u>

We Have Other Property and Investments

Investments in Associated Organizations	\$ 47,544	\$ 48,095	\$ 46,974
Other Investments	11,916	9,341	8,022
Total other property and investments	<u>\$ 59,460</u>	<u>\$ 57,436</u>	<u>\$ 54,996</u>

We Have These Current Assets

Cash and cash equivalents	\$ 5,729	\$ 9,061	\$ 5,814
Members and others owe us for our services	12,243	12,094	8,999
Materials and supplies for line construction	8,158	6,036	5,306
Other current assets	313	196	232
Total Current Assets	<u>\$ 26,443</u>	<u>\$ 27,387</u>	<u>\$ 20,351</u>

We Have Deferred Debits

	\$ 207	\$ 482	\$ 793
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TOTAL ASSETS **\$ 369,734** **\$ 360,562** **\$ 343,139**

Liabilities

What we owe

Long Term Debt

We owe Rural Utility Service	\$ 155,325	\$ 154,239	\$ 134,970
We owe NRUCFC	10,311	11,444	12,604
We owe CoBank	52,764	56,177	62,537
We owe Great River Energy	577	257	288
Other long-term liabilities	-	-	-

\$ 218,977 \$ 222,117 \$ 210,399

Less payments due in the next year
(8,866) (8,480) (6,956)

Total Long Term Debt **\$ 210,111** **\$ 213,637** **\$ 203,443**

Other Noncurrent Liabilities

Capital Lease - noncurrent portion \$ - \$ - \$ -

We Owe Current Liabilities

Power, materials, etc.	\$ 11,366	\$ 14,065	\$ 12,182
Payments on long-term debt due in the next year	8,866	8,480	6,956
Notes Payable	7,000	-	-
Other current liabilities	7,265	6,893	5,807

\$ 34,497 \$ 29,438 \$ 24,945

We have deferred credits 11 11 2,013

TOTAL WE OWE **\$ 244,619** **\$ 243,086** **\$ 230,401**

Net Worth

Members' Equity in the Cooperative

Your accumulated patronage capital \$ 94,129 \$ 88,981 \$ 86,697

Other capital 30,986 28,495 26,041

\$ 125,115 \$ 117,476 \$ 112,738

Members' Equity in the Cooperative **\$ 125,115** **\$ 117,476** **\$ 112,738**

TOTAL LIABILITIES **\$ 369,734** **\$ 360,562** **\$ 343,139**

The above figures are preliminary and unaudited.

2022 Election Results

*Denotes current LCP Director

District 2:

Michael Forsman*

624 votes

Members in District 4 and District 8 did not receive a director ballot because no members petitioned to run for the board of directors by the filing deadline on February 9, 2022.

Districts Voting • 2023

District 3:

Steve Raukar, Hibbing*

District 4**:

Ernie Braunschweig,
Cohasset

Carter Pettersen, Grand
Rapids

Jeff Sheldon, Cohasset

Lee Thole, Cohasset

District 6:

Dan Kingsley, Hill City*

Don Simons,
Grand Rapids

District 7:

Craig Olson, Culver*

District 8**:

Marvin Ketola, McGregor

Brian Napstad, McGregor

Daniel Reed, Kettle River

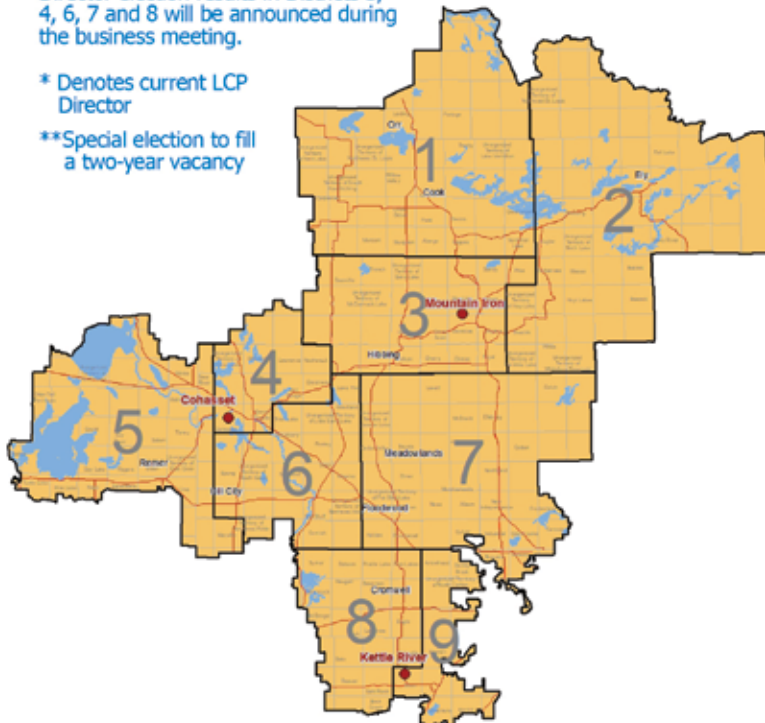
Danny Smith, Tamarack

Paul Vernon, Tamarack

Director election results in Districts 3, 4, 6, 7 and 8 will be announced during the business meeting.

* Denotes current LCP Director

** Special election to fill a two-year vacancy



Condensed Board Minutes

2022 Annual Meeting - Condensed Minutes

The twenty-sixth Lake Country Power Annual Meeting was held in the garage area of the Lake Country Power Cohasset Service Center, Cohasset, Minnesota on Wednesday, April 20, 2022. President Craig Olson called the meeting to order at 5:30 p.m.

President Olson commented on the two-year stretch through the pandemic and the long wait to invite members to see LCP's new headquarters and Cohasset service center. Olson highlighted other activities, including member picnics, district meetings, the annual meeting, director education classes, as well as meetings and seminars held by Minnesota Rural Electric Association (MREA) and the National Rural Electric Cooperative Association (NRECA) as opportunities for directors to keep informed about the future and possible changes affecting the rural electric industry. He also thanked outgoing board members Craig Carlson and Jim Huhta.

General Manager Mark Bakk noted the pandemic created issues for LCP including material costs rising more than 30% from pre-pandemic levels and months-long supply chain delays. He said the co-op achieved its best-ever score for the average number of minutes of outage time each member experienced for the year, and reached its highest-ever member satisfaction score of 77. Bakk also awarded the Great River Energy Award of Excellence to four linemen – Tim Rasmusson, Cody Vredenburg, Matt Bade and Tyler McClellan – for their life-saving actions in November 2021.

The meeting adjourned at 6:38 p.m. ■

Editor's Note: A complete copy of the 2022 annual meeting minutes will be distributed at the 2023 annual meeting and are also available online at lakecountrypower.coop.

Annual Meeting Location Map



Date: **April 20, 2023**

4:00 p.m. Registration

5:30 p.m. Business Meeting



5624 MN-210,
Cromwell, MN 55726

Cromwell-Wright School

The 2023 Annual Meeting will be April 20, 2023, in person at the Cromwell-Wright School (5624 MN-210, Cromwell, MN). Registration is 4:00 p.m. Business meeting at 5:30 p.m.