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**LAKE REGION ELECTRIC COOPERATIVE**

**2020 ANNUAL MEETING**

(Held Virtually)

June 4, 2020

**CATS COURT REPORTING SERVICE, INC.**

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1 (Beginning of recording.)

2

3 CHAIRMAN KVARE: ...the annual meeting of the  
4 Lake Region Electric Cooperative. I'm Charles Kvare.  
5 On behalf of the board, management, and employees, I  
6 want to thank you for joining us.

7 At this time, we will play The Pledge of  
8 Allegiance, recited by our employees.

9 (The Pledge of Allegiance was recited  
10 on video as follows by Sheldon Marty, Karin  
11 Haugrud, Kyle Jensen, Brian Johnson,  
12 Gretchen Hovland, and others:

13 I pledge allegiance to the flag of  
14 the United States of America and to the  
15 Republic for which it stands, one nation  
16 under God, indivisible, with liberty and  
17 justice for all.)

18 (End of video.)

19 CHAIRMAN KVARE: And now I would like to  
20 call on District 8 Director Sid Wisness to give the  
21 invocation.

22 DIRECTOR WISNESS: Good evening.

23 In Proverbs 16:3, it says, "Commit to the  
24 Lord whatever you do and your plans will succeed."

25 Let's pray. Our Father, we come before you

1 this evening, thanking you for being our God; sending  
2 your son into this world to be the supreme sacrifice  
3 for our sin.

4 Thank you for the technology that allows us  
5 to have this virtual annual meeting of Lake Region  
6 Electric for our members.

7 Lord, you know all about our life's issues  
8 and situations, individually and corporately. May  
9 you give us strength and endurance as we navigate  
10 through these trying, difficult times. May we be  
11 challenged to give our very best always. May we be  
12 assured of your presence with us.

13 We thank you for the freedom we do enjoy.  
14 For our military personnel that continue to defend  
15 our country, protect and keep them safe.

16 We would pray for our leaders, the  
17 President, our Governor, and others that we have  
18 elected to national and local government. May you  
19 guide and direct them; give them wisdom, courage, and  
20 strength as they lead and manage our great country,  
21 and may we all strive to make this a better world.

22 We thank you for the electric energy  
23 industry, especially for Lake Region Electric Co-op  
24 and each member we serve. May we serve in a business  
25 and an honorable way to meet each member's energy

1 electric needs.

2 Thank you for the employee group and the  
3 diligence they display keeping our lights on. We  
4 recognize the excellent leadership and the work that  
5 keeps Lake Region Electric Cooperative a successful  
6 utility. We thank each of them. May you keep them  
7 safe and healthy as well.

8 Now we commit this time and this meeting to  
9 you and ask that you help us in directing our  
10 thoughts to the presentations and the business of  
11 this annual meeting. We do recognize the electric  
12 light of this utility helps us in our daily lives.

13 May you, God our Father, help us in life.  
14 As the Bible says, you are the light of the world.

15 We ask these things in the name of our  
16 Savior, Jesus Christ. Amen.

17 CHAIRMAN KVARE: Thank you, Sid.

18 As chairman of your board of directors, I  
19 call this business meeting to order.

20 I want to mention that before we adjourn  
21 tonight's meeting, we will draw for prizes. You must  
22 be online at the conclusion of this meeting to claim  
23 your prize.

24 Also, feel free to let us know where you are  
25 from by using the chatbox on your screen.

1           Now I'd like to invite board secretary Joyce  
2 Valley to join me at the other podium.

3           Joyce?

4           DIRECTOR VALLEY: As secretary of the board  
5 of directors, I certify that the official notice of  
6 the meeting was mailed the week of May 4, 2020, in  
7 the cooperative's newsletter.

8           The cooperative's bylaws state that members  
9 present in person represented by mail ballot or  
10 electronic ballot constitute a quorum. We have  
11 received 50-plus mail-in and electronic ballots; and,  
12 therefore, a quorum has been established.

13           CHAIRMAN KVARE: For tonight -- for today's  
14 meeting, I appoint Cynthia Brosowske, executive  
15 assistant, as the recording secretary.

16           The agenda has been made available on our  
17 website. Is there a motion to adopt the agenda as  
18 official order of this meeting?

19           UNIDENTIFIED PERSON: So moved.

20           CHAIRMAN KVARE: Is there a second?

21           UNIDENTIFIED PERSON: Second.

22           CHAIRMAN KVARE: All those in favor of the  
23 motion, signify by saying "aye."

24           UNIDENTIFIED PERSON: Aye.

25           CHAIRMAN KVARE: Those opposed, the same

1 sign.

2 (No audible response.)

3 CHAIRMAN KVARE: The motion carries.

4 Joyce?

5 DIRECTOR VALLEY: The annual meeting minutes  
6 have been made available on our website. I move the  
7 official 2019 annual meeting minutes be adopted as  
8 written.

9 CHAIRMAN KVARE: Is there a second to this  
10 motion?

11 UNIDENTIFIED PERSON: Second.

12 CHAIRMAN KVARE: All those in favor of this  
13 motion, signify by saying "aye."

14 UNIDENTIFIED PERSON: Aye.

15 CHAIRMAN KVARE: And those opposed, the same  
16 sign.

17 (No audible response.)

18 CHAIRMAN KVARE: This motion carries.

19 At this time I would like to introduce your  
20 board of directors. From District 1, Denny  
21 Tollefson, Pelican Rapids. Denny also serves as the  
22 Great River Energy director.

23 District 2, Dennis Mathiason from Frazee.

24 Dennis was unable to be here this evening.

25 District 3, Mike Brasel.

1           District 4, Earl Rydell.

2           Myself from District 5.

3           Joyce from District 6.

4           Tom Jennen, District 7. Tom is our vice  
5 chair.

6           District 8, Sid Wisness from Battle Lake.

7           Robert Shaw, District 9. Bob lives in  
8 Henning, and Bob is our treasurer.

9           The next order of business on our agenda is  
10 the election process. I want to introduce our  
11 attorney, Chad Felstul, who will further explain this  
12 process.

13           As a result of our electronic voting process  
14 here, the number of member votes has increased  
15 56 percent.

16           Chad?

17           MR. FELSTUL: Thank you, Mr. Chairman.

18           In June 2012 the membership approved the  
19 amended and restated articles of incorporation and  
20 bylaws that states, "In the event there is only one  
21 candidate duly nominated for election to a director  
22 position, the single candidate nominated shall be  
23 deemed elected by acclamation as an unopposed  
24 candidate, and no voting shall be required for such  
25 uncontested director district election." Therefore,

1 I would like to present to you the candidate elected  
2 by acclamation as an unopposed candidate and no  
3 voting was required: Sid Wisness from District 8.

4 Ladies and gentlemen, a contested election  
5 is being held in District 2 and District 5, and the  
6 candidates are: In District 2, Cecil "Bud" Hensel  
7 and Les Christianson. In District 5, the candidates  
8 are Patrick Meyers and Ron Bratlie.

9 Because this year's annual meeting is being  
10 held virtually, all ballots were submitted by mail or  
11 by electronic transmission. Only those members in  
12 District 2 can vote for Mr. Hensel or  
13 Mr. Christianson. Only those members in District 5  
14 can vote for Mr. Meyers or Mr. Bratlie.

15 In years past, the ballots were submitted to  
16 the cooperative and counted by tellers who were  
17 members of the nine districts of the cooperative.  
18 This year, the ballots were all submitted to Survey &  
19 Ballot Systems, who counted all the mailed-in ballots  
20 and the electronic ballots and will certify the  
21 results.

22 Thank you, Mr. Chairman.

23 CHAIRMAN KVARE: Thank you, Chad.

24 We certainly are in unusual and  
25 unprecedented times. It's unfortunate that we cannot

1 gather for the annual meeting in our usual way,  
2 particularly because interacting with member owners  
3 of Lake Region Electric is critically important to  
4 your board of directors; however, current  
5 circumstances dictate we must take a different  
6 approach, and I personally want to thank you for  
7 tuning in to this YouTube virtual meeting. Operating  
8 during the COVID-19 pandemic points out a couple  
9 advantages of being a local cooperative. The  
10 cooperative business model means that we can be  
11 flexible. Your board of directors are elected by and  
12 from the cooperative membership. There aren't layers  
13 of bureaucracy to cut through when quick decisions  
14 are needed. Your cooperative can be nimble because  
15 of the close connections it has to our members and  
16 our communities.

17 Along with the flexibility, Lake Region is  
18 adaptable. As part of our ongoing safety precautions  
19 and training, we have planned for working in  
20 less-than-ideal conditions. Your cooperative  
21 employees take pride in being prepared for whatever  
22 may come their way; therefore, we have been able to  
23 adapt to the new restrictions while remaining focused  
24 on our members' needs in a productive, professional,  
25 and safe way.

1           This YouTube format for this annual meeting  
2           is a great example of being flexible and adapting to  
3           changing conditions through the use of technology.  
4           Our cooperative has a history of being innovative in  
5           the use of technology for various applications.  
6           While Lake Region Cooperative always has been tied to  
7           the land by power lines and substations, the  
8           membership of the cooperative is rather unique. We  
9           have members from all 50 states. No doubt, many have  
10          been drawn to this area because of our 1,000 lakes  
11          within our service territory that encompasses 3,200  
12          square miles. We are a growing cooperative, building  
13          roughly 360 new electric services each year, most of  
14          which are near the lakes. We are also seeing summer  
15          cabins being converted into year-round homes.

16                 We now serve 27,000 members across  
17          5,700 miles of power line. To ensure that Lake  
18          Region Cooperative provides these 27,000 member  
19          owners with the quality of service they expect and  
20          deserve, we do a considerable amount of planning.  
21          Each year, the directors and cooperative management  
22          team work to identify our strategic comparatives and  
23          formulate approaches to achieving those identified  
24          goals. The process creates a framework for keeping  
25          our goals in focus and staying on track. Everything

1 the cooperative pursues must fit within this  
2 framework. We've found that this approach has worked  
3 well for us. For instance, we set a goal to increase  
4 the member equity to 40 percent. I am pleased to  
5 tell you that in 2019 we not only achieved this goal,  
6 but we are -- we are close to meeting the 45 percent  
7 member equity.

8           During 2019, electric cooperatives made two  
9 key legislative gains. On the federal level,  
10 Congress passed the RURAL Act. This bipartisan  
11 legislation protects electric cooperatives from  
12 losing their tax-exempt status should government  
13 grants for disaster relief be accepted for storm  
14 recovery. This was a victory for our nation's  
15 900-plus electric cooperatives.

16           In Minnesota we were pleased with the  
17 legislature approving a 12-year property tax  
18 abatement for new natural gas distribution  
19 infrastructure built in rural areas. This will help  
20 us grow our natural gas business.

21           I hope that I have conveyed to you how  
22 important our member owners are to the success of our  
23 cooperative. We want you to feel comfortable and  
24 confident as a cooperative member. Connections run  
25 deep when you're part of a cooperative.

1           We will continue to work through the issues  
2           created by the pandemic, continuing to serve our  
3           members in the best of our ability.

4           On behalf of your board of directors, I  
5           sincerely thank you for your patience and support as  
6           we navigate through these challenging times.

7           Although current circumstances have kept us  
8           apart, please know that Lake Region Electric remains  
9           accessible by phone and email. If you have a  
10          question or concern, we want to hear from you. Let's  
11          stay connected. I am confident that we will get  
12          through this tough times because we strive to  
13          succeed.

14          Now I would like to introduce our CEO, Tim  
15          Thompson, who will give his presentation.

16          Tim?

17          CEO THOMPSON: Thank you, Charles.

18          Good evening, everyone. Thank you for  
19          logging on and joining us for our virtual annual  
20          meeting.

21          Well, who could have imagined just a few  
22          months ago that we would be dealing with a pandemic?  
23          As we saw the coronavirus spread across the globe and  
24          into our country, we implemented our response plan.  
25          The top priority in our response plan has been our

1 employees, their families, and our member owners.

2 We have had to make a lot of changes in  
3 order to make sure that we keep everybody safe while  
4 we continue to run the cooperative and to serve you,  
5 our member owners.

6 Each morning, as our employees who need to  
7 come into the office to work, we do a temperature  
8 check prior to those employees coming into the  
9 building to make sure that no one has a fever.

10 Our front office is temporarily closed. Our  
11 plan calls for reopening our front office on  
12 June 15th.

13 On most days during this pandemic, because  
14 our employees are able to work remotely and from  
15 home, our employee parking lot has been pretty empty;  
16 but, rest assured, your cooperative is open for  
17 business, and we are here to serve you. Our customer  
18 service team is working both here at the office and  
19 at home. Please continue to call us, email us, chat  
20 with us so we can continue to serve you.

21 And while our dispatch center on most days  
22 has been vacant and quiet, rest assured, our  
23 dispatchers are working from their home, dispatching  
24 our crews, communicating with our field personnel  
25 across our service territory so we can continue to

1       serve you.

2                   And our linemens' room is empty; but, rest  
3 assured, our linemen are out there working on those  
4 power lines, making sure that electricity continues  
5 to flow to you safely and reliably.

6                   And, of course, even in a pandemic, if  
7 there's a power outage at night, our linemen are on  
8 call. They're going to respond to that power outage,  
9 like this one the other night. And even in a  
10 pandemic, they still put that belt on and those hooks  
11 on and climb that pole to restore your power if  
12 that's what it takes.

13                   No matter where you are at tonight on the  
14 other side of this camera that I'm looking into, I  
15 hope you feel that your cooperative is as committed  
16 as it has ever been to serving you.

17                   I am so thankful to our board of directors  
18 and to all of our wonderful employees for the  
19 adaptability and the flexibility that they have  
20 demonstrated through this pandemic so we can keep  
21 everybody safe and continue to serve you, our member  
22 owners, and beat this virus.

23                   One of the things that is so important in  
24 our cooperative is that we have a high level of  
25 member engagement. One good example of member

1 engagement at Lake Region is our annual member  
2 satisfaction survey. I am pleased to report that  
3 based on the 600 members who responded to our most  
4 recent survey, our overall member satisfaction  
5 continues to be on the rise.

6 Over the last couple years our overall  
7 member satisfaction has increased from an 8.6 to an  
8 8.9 on a 10-point scale. The best part of that  
9 member survey are the actual comments that our  
10 members provide us, and they typically fall into  
11 three categories.

12 One is members like to talk about our rates,  
13 so tonight I'm going to talk a little bit about our  
14 rates and share the good news that our rate stability  
15 plan shows that our rates don't need to change.  
16 We've kept them stable for the last few years, and we  
17 can anticipate that that will continue. Nice to have  
18 those stable rates.

19 The second thing members like to talk about  
20 is reliability. And I have some really good news.  
21 I'm excited to share with you tonight an update on  
22 some major infrastructure improvements going on in  
23 our service territory that's going to continue to  
24 improve the reliability across our service territory.

25 And the third area that members give us good

1 feedback on is I think they appreciate the fact that  
2 we're a very forward-thinking cooperative in bringing  
3 new products and services to the membership.

4 Let's start with rates. Here is one of the  
5 quotes right out of our survey at the top of this  
6 screen. It says, "Thank you for having some of the  
7 lowest rates in Minnesota."

8 What this chart shows is the cost of what  
9 you and I as members of Lake Region pay each month  
10 for 1,000 kilowatt hours; and when you look at Lake  
11 Region's cost for 1,000 kilowatt hours and you  
12 compare that to a peer group of 14 electric  
13 cooperatives across the state, what this chart shows  
14 is that Lake Region is, in fact, the second lowest  
15 out of that group of 14 electric cooperatives.

16 In that same survey, this quote at the top  
17 of the screen we received as well. It says,  
18 "Rates seem excessive. Why so much higher than  
19 Fargo?"

20 The fundamental reason why rates will be a  
21 little more expensive in a rural area -- the  
22 fundamental reason is there's so few number of  
23 customers in the rural area to share in the cost of  
24 that infrastructure. I hope these two pictures on  
25 this slide help explain that.

1           On the left-hand side, that's a beautiful  
2 picture of a rural setting in Lake Region's --  
3 representing Lake Region's service territory. And  
4 when you drive down that road, what do you see as you  
5 drive? You see a lot of poles with a lot of wires  
6 stringing between those poles. You see a lot of  
7 expensive infrastructure. What you don't see is a  
8 lot of houses or a lot of customers. Compare that to  
9 the picture on the right-hand side of the screen  
10 representing a street in Fargo, a more urban area,  
11 and what do you see there? You see a lot of houses,  
12 a lot of customers. The houses are very close  
13 together, and they're on both sides of the street.  
14 So you have a lot of customers in a relatively small  
15 area to share in that cost of that infrastructure.

16           To demonstrate this point a little further,  
17 I would like to use these two wires. This wire,  
18 pretend with me that this represents one mile of  
19 power line on the Lake Region Electric distribution  
20 system. We only have five customers per mile of  
21 power line. These colorful pieces of tape on this  
22 wire represent a customer. So imagine with only five  
23 customers per mile -- you think about the cost of  
24 building this one mile of power line, the cost to  
25 operate the power line and maintain that power line,

1 and we only have five customers to share in that  
2 cost.

3 Now let's compare that to the second wire  
4 that I have, representing a mile of line from Xcel  
5 Energy. That is the power provider in the city of  
6 Fargo. For every one mile of power line that they  
7 have -- they have 34 customers per mile, so there's  
8 34 pieces of this colorful tape on this mile of power  
9 line, so they have 34 customers they can spread all  
10 that infrastructure over.

11 So for Lake Region, with only five customers  
12 per mile, our monthly facility charge is \$24, and  
13 that's set by your board of directors and designed to  
14 recover some of the cost of that infrastructure out  
15 there.

16 On the Xcel side of the screen here, with 34  
17 customers per mile, their monthly service charge is  
18 only \$8. They simply have more customers to spread  
19 their cost over, and that is the fundamental  
20 difference why costs for electricity may be higher in  
21 a rural area.

22 If you're curious as to how our \$24-a-month  
23 facility charge compares to other electric utilities  
24 across the state of Minnesota, you can see on this  
25 chart that the green bar represents Lake Region, and

1 that's our \$24-per-month facility charge. The lower  
2 facility charge of the utilities to the left of Lake  
3 Region on this screen are the larger investor-owned  
4 utilities like Xcel Energy, municipal utilities that  
5 only serve cities, they don't serve any rural areas,  
6 the lowest facility charge being \$8, and they go all  
7 the way up to the top, to the right-hand side of this  
8 chart, where facility charges can range from \$45 to  
9 \$47, and those, again, are rural electric  
10 cooperatives who don't have very many customers per  
11 mile of line.

12 When we think about our rates, a lot of good  
13 news here. We've had stable rates for the last few  
14 years, and we see that stability continuing for Lake  
15 Region Electric. There's a couple really good  
16 reasons why we've been able to keep our rates stable.  
17 One is we've done a really good job of controlling  
18 our costs. We want to be good stewards of your  
19 dollars.

20 What this chart shows is how the  
21 controllable costs at your cooperative compare to the  
22 controllable costs of the whole state average of all  
23 44 electric cooperatives in Minnesota.

24 That higher line on the graph, that  
25 represents the state average of controllable costs

1 per member of all 44 electric cooperatives. You can  
2 see it trends upward each year. The lower line on  
3 the chart represents the controllable costs per  
4 member at Lake Region Electric, and you can see  
5 there's quite a bit of difference between the state  
6 average and Lake Region's controllable cost. In  
7 fact, the difference between that state average and  
8 Lake Region's cost is \$158 per year.

9 The other thing that's interesting about  
10 this chart is if you look at Lake Region at the end  
11 of 2019 and look at our costs, controllable costs per  
12 member, and draw a straight line back to the year  
13 2004, our controllable costs at the end of 2019 is  
14 about the same as they were back in 2004.

15 Great job, everybody, of controlling our  
16 costs.

17 The second big reason in our rate  
18 stabilization plan as far as why we've been able to  
19 keep our rates consistent for you is because we've  
20 been able to generate new revenue streams for the  
21 cooperative. I like to keep it simple. For every  
22 one dollar of new revenue we can bring into the  
23 cooperative from a new source is one less dollar that  
24 your board of directors has to build into your  
25 electric rate.

1           And our new residential standby generator  
2 program is a really good example of a new revenue  
3 stream. For those members who need a standby  
4 generator, this is a great program. It's a premium  
5 service to have your own standby generator; and if  
6 the power does go off, this generator will  
7 automatically come on and power your house through  
8 that outage. Really gives you peace of mind that if  
9 something happens, you're going to have electricity.

10           We rolled this program out in 2017. The  
11 first year, we had 50 members buy a standby  
12 generator. We installed that for them. In 2018, we  
13 sold 89 units; and in 2019, 64 generators. When we  
14 sell these units, it creates a new revenue stream for  
15 the cooperative. In 2019 alone, this program created  
16 an additional \$344,000 of revenue for your  
17 cooperative and a margin of \$83,000.

18           The second new revenue stream for your  
19 cooperative has been our new natural gas business.  
20 Well, let me ask you a question. Why would an  
21 electric cooperative want to start a new gas company?  
22 The short answer is we've seen natural gas expanding  
23 into our service territory. On this map, those red  
24 outlined areas, those three outlined areas in red,  
25 those represent areas where we've seen natural gas

1 expanding in recent years.

2 The community of Barnesville, for example,  
3 that smaller circle out to the left-hand side of this  
4 screen, they now have natural gas. Xcel Energy and  
5 Greater Minnesota Gas teamed up to bring natural gas  
6 to Barnesville for the first time. When that  
7 happens, if an electric consumer of Lake Region  
8 Electric is heating their home with electricity and  
9 they switch to natural gas, that has a negative  
10 impact on the cooperative, reduces our revenue, and  
11 puts upward pressure on our rates.

12 The larger red circle in the -- the upper  
13 middle part of this screen is the Pelican Lake area,  
14 the Cormorant Lake area. They, too, now have natural  
15 gas. That was brought into that area by Greater  
16 Minnesota Gas.

17 And then that third area also -- looks kind  
18 of like a dinosaur. The southern part of that  
19 project has also expanded in recent years, down into  
20 the Battle Lake area; and, again, when that happens,  
21 we can experience revenue erosion.

22 So your board of directors took a look at  
23 this situation and said maybe this is an opportunity  
24 for Lake Region to get into the natural gas business,  
25 grow our cooperative, and create a new revenue

1 stream, and that's what we have done.

2 The key to success of running this new  
3 natural gas company is our ability to leverage our  
4 existing capabilities. While we've never been in the  
5 natural gas business before we started this company,  
6 we've been in the electric utility business. We're a  
7 great electric utility, so we've got a lot of  
8 capabilities we can leverage into starting the new  
9 gas company. We've already got a headquarters  
10 building. We've got great employees. We've got  
11 great equipment. We've got great technology. And we  
12 can leverage all that into the natural gas business,  
13 and that's proven to be a good strategy and very  
14 successful for us.

15 The blue areas on this map represent the  
16 areas where we have now brought natural gas service  
17 to for the very first time, the areas of Deer Creek,  
18 the area of Parkers Prairie, and down to Miltona.  
19 We're expanding this summer around Lake Miltona. In  
20 the center part of their screen, that other blue  
21 area, the Dent area, we have now brought natural  
22 gas for the first time to Dent and also some of the  
23 lakes around Dent, and we have plans to expand in  
24 that area as well this summer.

25 So we feel we have taken a threat to the

1 cooperative and created an opportunity. Bringing  
2 natural gas infrastructure and natural gas service to  
3 these areas for the first time is all about improving  
4 the quality of life for people in our service  
5 territory. We are helping people save money on  
6 heating their homes. For an average household, we  
7 can save them 3- to \$500 per year. Who couldn't use  
8 3- to \$500 per year?

9 The three pictures on the right-hand side of  
10 the screen, we've also helped school systems reduce  
11 the cost of heating their buildings so they can take  
12 those energy dollars and redirect them into helping  
13 their educational programs for their students.

14 Assisted living centers, same type of thing.

15 And, of course, our family farms. We've  
16 helped them -- helped some of our family farms reduce  
17 their cost of drying their grain and heating their  
18 barns. It's all about improving quality of life, and  
19 that's what an electric cooperative is all about.

20 I'm very pleased tonight to share with you  
21 that at the end of 2019, our second full year in the  
22 gas business, we had 634 natural -- natural gas  
23 customers. This created a margin, or a profit, for  
24 us, for the gas company, in 2019 of \$81,000; again,  
25 just in the second full year of business. Plus,

1 there was \$184,000 of cost that was allocated off the  
2 electric cooperative into the gas company and  
3 recovered through the rate payers of the gas company.

4 As we leverage those capabilities of the  
5 electric cooperative, for example, if an electric  
6 cooperative employee works in the natural gas  
7 company, those costs are allocated off the electric  
8 into the gas and recovered through the gas company.  
9 That creates positive rate benefits for all of our  
10 electric rate payers.

11 Well, how did the electric cooperative do in  
12 2019 financially? This financial statement is a  
13 consolidated financial statement, meaning it's both  
14 the electric cooperative and the new natural gas  
15 company together. The top line there, the revenue  
16 line, \$53 million, that is the highest revenue we've  
17 ever had in the history of the cooperative.

18 I've already talked a little bit about the  
19 job we're doing controlling our expenses. So we had  
20 record revenue, holding the line on the costs when we  
21 can, and the total margin, then, was \$5.6 million,  
22 the largest margin in the history of the cooperative.

23 I also would like to take a moment to carve  
24 out the natural gas financial statement for you since  
25 it's so new. That's the second column of numbers on

1 your screen, Lake Region Energy Services, which is  
2 our natural gas company. The top line there,  
3 revenue, you can see just shy of \$1.5 million. The  
4 bottom line, though, in that red box there, a margin  
5 of \$81,000.

6 I also want to point out again how the  
7 electric and the gas work together and complement one  
8 another. That red arrow in the middle of the screen,  
9 that \$184,000, those are the costs that were  
10 allocated off the electric cooperative and into the  
11 natural gas company and recovered through natural gas  
12 rates. So if you take a look at that \$81,000 margin  
13 plus the positive benefits of the \$184,000 being  
14 allocated off the electric cooperative, that's a  
15 total positive impact of \$266,000 for the year. With  
16 that banner financial year, the financial condition  
17 of the cooperative continues to increase and  
18 strengthens our balance sheet.

19 This chart shows the steady growth of the  
20 equity over the years. Currently, we have  
21 \$60 million of equity on the balance sheet. That's a  
22 \$37 million increase in equity since 2005. Charles  
23 talked a little bit about this, but our current  
24 equity percentage is 44.7 percent year to date. That  
25 means we have -- 44 percent of our total assets is

1 equity.

2 With that great financial year, strong  
3 balance sheet, great equity position, your board of  
4 directors again made the decision last year to do a  
5 capital credit retirement of \$1.6 million. That also  
6 was the largest capital credit retirement in the  
7 history of the cooperative. Great news for member  
8 owners. That now brings our capital credit rotation  
9 down to 18 years.

10 And this year it came to you in two parts.  
11 The first part was the Lake Region capital credit  
12 payout and retirement of \$1,350,000. So if you were  
13 a member of Lake Region back in the year 1996 and  
14 1997 or 2002, you would have received your portion of  
15 that \$1.3 million.

16 The second portion of this this year, which  
17 is new, came from Great River Energy, our power  
18 supplier. They're a cooperative just like we are.  
19 They have now reached their financial goals, and they  
20 are starting to retire capital credits to Lake  
21 Region; and when they do that, Lake Region then  
22 passes that through to you, the member owners.

23 So if you were a member of Lake Region back  
24 in the years 1976 through 1981 or '83 and '84, you  
25 would have received your portion of that GRE

1 retirement of -- total of \$318,000.

2 This is now the seventh consecutive year  
3 that your board of directors has made the decision to  
4 retire over \$1 million each year.

5 In the history of the co-op, since the co-op  
6 began retiring capital credits back in 1958, we've  
7 now paid back over \$28 million in capital credits.

8 Shifting gears to reliability, and back to  
9 the member satisfaction survey and an actual quote  
10 from a member that says, "Service has improved in the  
11 last 20 years. Power interruptions are less  
12 frequent," and that's certainly the case, and that's  
13 really what this chart shows, is the average outage  
14 time per member over the years.

15 In 2019, we had a very good year for  
16 reliability. Certainly, that's always  
17 weather-related to a certain extent. In 2019, we  
18 averaged 1.4 hours of outage time per member. We're  
19 working hard to continue to drive that down.

20 Two big reasons why we've had a nice  
21 downward trend in outage times over the years: We  
22 continue to make major investments back into our  
23 distribution system for system improvements and, of  
24 course, the ongoing maintenance of our tree clearing.

25 Couple of highlights from 2019 to improve

1 your reliability. We replaced 468 poles for a total  
2 of \$852,000. We continue to do a lot of tree  
3 clearing. We spent \$775,000 clearing those trees  
4 last year. We also did another system assessment to  
5 go out there and gauge how we're doing in terms of  
6 cutting those trees appropriately, and we learned  
7 that we need to spend more money on our tree  
8 clearing, so we upped our budget this year to over a  
9 million dollars. We must stay ahead of the game on  
10 these trees. It really makes a difference on those  
11 outages.

12 Another project is our cutouts program.  
13 Kind of proud of this one. We changed out all 7,432  
14 cutouts. Those cutouts that you see on that pole in  
15 that red circle, they really function like a fuse.  
16 And over the years, what we were noticing is they  
17 were starting to fail, and they developed these  
18 hairline cracks that can -- can be very problematic  
19 for us; they can cause an outage, which is bad, but  
20 it can also cause a safety concern for our linemen.  
21 So instead of waiting for those to fail one at a  
22 time, we did a wholesale changeout, changed all 7,000  
23 of them. That project is now complete, and that  
24 should reduce outages by about 62 outages per year.

25 Now, these are the big projects that I'm

1 excited to talk about tonight. The first one is an  
2 upgrade to the Lake Region distribution substation,  
3 which is called the Lake Eunice Substation. So this  
4 is a distribution substation that's owned by Lake  
5 Region that serves our members. This upgrade is a  
6 \$3 million project. The substation is located near  
7 Lake Eunice and near Pelican Lake. It will be  
8 completed in the year 2021. This is both a  
9 substation upgrade, so Lake Region will upgrade this  
10 substation, and Great River Energy is going to build  
11 a new transmission line to serve the new substation.  
12 So we're getting rid of an old transmission line,  
13 replacing it with a new transmission line, and the  
14 source of the new transmission line is going to be  
15 coming from a different location and a much more  
16 reliable source, so the 2,000 members that are served  
17 off Lake Eunice Substation, when this project is  
18 completed, should see improved reliability.

19 Yet another big project in our area that is  
20 now completed is the new Great River Energy  
21 Transmission Substation. This is one of those bigger  
22 substations that's owned by Great River Energy that  
23 serves our distribution substations, and then our  
24 distribution substations feed our members. This is a  
25 \$6.8 million project. It's located near Perham.

1 This substation feeds the Lake Region distribution  
2 substations of Frazee, Dora, Dent, and Perham. So  
3 our members that are served off of those four  
4 distribution substations are already seeing the  
5 benefits of this new transmission-level substation.

6 And the real big project that's just getting  
7 underway is Great River Energy is upgrading their  
8 transmission substation in the Frazee area. This is  
9 a \$10.2 million project, and when this is completed,  
10 this will result in better reliability and increased  
11 voltage support for over one half of Lake Region's  
12 distribution substations.

13 And this is the last big upgrade they're  
14 doing in this project is the upgrade to the Henning  
15 transmission substation. This is a \$1.2 million  
16 project near Henning. This will result in an upgrade  
17 in terms of the reliability to the Lake Region  
18 substations of our Henning Substation and our Stalker  
19 Lake Substation.

20 So with those four major projects -- this  
21 slide summarizes that for you. This is our entire  
22 electric service territory, that 3,200 square miles.  
23 These four red dots on this slide are the locations  
24 of those four big projects that are underway. The  
25 green shaded areas on this slide represent the areas

1 of our -- of our service territory and all the  
2 members that will see improved reliability because of  
3 these projects.

4 These four projects total \$21.2 million.  
5 18,000 members of Lake Region Electric should see  
6 improved reliability because of these projects.  
7 That's about 65 percent of our overall membership.  
8 We cannot recall a time when there's been this much  
9 new investment made in such a short window of time  
10 into our system to improve our reliability, and we  
11 look forward to seeing how this does impact and  
12 improve our reliability.

13 And that third area of feedback from our  
14 members really has to do with our forward-thinking  
15 philosophy at Lake Region, and I think our members  
16 are expressing appreciation for the new things that  
17 we're doing, whether that's our solar program or  
18 standby generator program or, more recently, our  
19 wind/solar hybrid project.

20 Here's a picture of the construction of that  
21 project last year with the big GE wind turbine being  
22 built and the solar farm being built. It's a wind  
23 and a solar project, so in one project we're  
24 harnessing the wind and the sun.

25 This is also a big part of our rate

1       stabilization program as this is a lower cost source  
2       of electric for us. The great thing about this  
3       project is we didn't have to invest in it; we didn't  
4       have to borrow any money for it. This is a local  
5       renewable energy project. It interconnects directly  
6       into the Lake Region distribution system that you  
7       already own, so there's no overhead cost for  
8       transmission or anything like that. Local energy  
9       being produced at a lower cost and being consumed by  
10      our members in the local area.

11                Because this is GE technology and this was  
12      the first of its kind -- type of wind/solar hybrid  
13      project in the nation, GE came up and did a short  
14      video on the project, and we wanted to share that  
15      video clip with you tonight.

16                (Video played as follows:

17                    DAN JUHL: I've always felt that  
18                    electricity is the lifeblood of our society.  
19                    Nothing works without electricity.

20                    DANIELLE MERFELD: We worked with the  
21                    Lake Region Electric Co-op in rural Minnesota to  
22                    design the hybrid electric solar and wind  
23                    solution. This gave this very rural community a  
24                    low-cost renewable energy solution.

25                    DAN JUHL: This is the first true

1 solar/wind hybrid of its kind where we've  
2 utilized this technology that we've developed  
3 with GE.

4 DANIELLE MERFELD: Hybrid renewables  
5 are scalable from cities and towns to small  
6 rural communities.

7 DAN JUHL: They're very complementary  
8 on how they work together.

9 CEO THOMPSON: We can harness both the  
10 wind and the sun in one project and bring more  
11 renewable electricity to our members.

12 DAN JUHL: With this renewable  
13 technology, there's no fuel, no emissions, no  
14 waste, no water, and it's by far the way cheaper  
15 energy.

16 CEO THOMPSON: It not only allows us to  
17 bring in the new -- the renewable energy for our  
18 members, but it also actually saves us money on  
19 our overall power costs; so it's more  
20 renewables, less cost for our members, and  
21 that's what they're asking for.

22 DANIELLE MERFELD: We absolutely need a  
23 greener, cleaner system. Hybrid renewables are  
24 our first step in the path to reaching  
25 100 percent renewable energy.)

1 (End of video.)

2 CEO THOMPSON: All right. I hope you  
3 enjoyed that little video there.

4 This is a shot of the project taken from a  
5 drone, and now that the project has been up and  
6 running and producing renewable energy for us for a  
7 full year, we've calculated the annual savings for  
8 that first year of operation, and it has saved you,  
9 the members of Lake Region, \$256,000 the first year.

10 My closing thoughts for my presentation this  
11 evening take me back to the pandemic that we're  
12 dealing with, and I wanted to just share with you  
13 that during this pandemic, our Operation Round Up  
14 program, which is -- I hope you know how that works.  
15 It's a -- for those members who want to round up  
16 their electric bill each month to the next whole  
17 dollar, those pennies from each customer go into an  
18 Operation Round Up fund, and those pennies become  
19 dollars. And a group of volunteer Lake Region  
20 Electric members are the trustees of that Operation  
21 Round Up fund, and they decide where those dollars  
22 are donated to.

23 And during the pandemic, they had a special  
24 meeting to donate an additional \$7,000 -- \$7,700 to  
25 the 14 local food shelves in our territory. This is

1 in addition to the money we've already donated to  
2 those food shelves. What a great program this  
3 Operation Round Up program is.

4 Thank you to all the trustees that run the  
5 program, our staff that runs the program, and to you  
6 members who are participating in this Operation  
7 Round Up program.

8 In closing, I just want to say what a  
9 privilege it is to serve you as your CEO. We've got  
10 a great team of people in this organization, and as I  
11 always say, if there's anything that we can do to add  
12 value to your membership in Lake Region, please don't  
13 hesitate to give us a call. We're here to serve you.

14 Thank you very much.

15 CHAIRMAN KVARE: Thank you, Tim, for your  
16 presentation. Also, thank you for the strong  
17 leadership that you provide to our cooperative.

18 I'd just like to share with our membership  
19 just a small example of that. You heard Tim talk  
20 about our natural gas. I touched briefly on the  
21 legislative activity in St. Paul that -- that was  
22 very meaningful, helpful to our -- our gas business,  
23 and that was the 12-year abatement of the taxes on  
24 our infrastructure. And Tim and his management team  
25 made several trips to St. Paul, testified before the

1       hearings, and continued to follow that till it become  
2       reality, and the membership thanks you for that.

3               At this time, we are going to go live with  
4       Mark Fagan from Great River Energy. Mark is going to  
5       give us an update on the evolving Great River Energy  
6       generation portfolio.

7               Mark?

8               MARK FAGAN: Thank you, Charles.

9               Thank you, Tim, for the invitation to  
10       present at your annual meeting tonight. It's always  
11       a privilege and a -- and a humble experience to  
12       present at our member owners' annual meeting.

13               I'm Mark Fagan. I'm the vice president of  
14       corporate member services at Great River Energy.

15               And just to provide you some facts on Great  
16       River Energy, Lake Region Electric Cooperative is one  
17       of 27 -- or one of 28 total cooperatives located  
18       across the state of Minnesota and a small portion of  
19       Wisconsin that are member owners of Great River  
20       Energy, so in total, we serve 707 end-use members  
21       through our 28 member owners.

22               In 2019, we had \$3.9 billion in assets and  
23       \$990 million in revenue, 4,800 miles of transmission  
24       line, and 3,000 megawatts of generation. And I'm  
25       giving you all these facts right now because later on

1 in this presentation I'll make a comparison of how  
2 GRE, in our size and scope, fits in along with the  
3 other utilities that make up the Midcontinent  
4 Independent System Operator, just to give you a feel  
5 for the scope of the power market that we operate in.

6 Like Lake Region Electric Cooperative, GRE  
7 is a mission-focused organization with a strong focus  
8 on our member owners. We exist for our member  
9 owners. And we help our employees remember what it  
10 means to be member-focused using our triple bottom  
11 line tool, which is simply for our employees to  
12 remember it's affordable rates for our member owners,  
13 it's reliable power delivery, and it's environmental  
14 stewardship.

15 And also like Lake Region, we've established  
16 a strategic plan and set forth strategic initiatives  
17 whereby we build our work, our work plans, and our  
18 employee activities around every year.

19 We currently have four strategic  
20 comparatives: Grow the business, keep costs  
21 competitive, position the portfolio, and shape our  
22 future. And tonight I want to dig deeper -- along  
23 with Charles's introduction there, deeper into our  
24 power supply portfolio and how we've been positioning  
25 and evolving that power supply portfolio over time.

1 And over the last 15 years, you can see from the  
2 comparison of these two donut charts showing where  
3 the energy that we produce comes from, the -- the  
4 pretty distinct contrast on how things have changed  
5 from 2005 to 2018.

6 A couple things of note there. In 2005,  
7 80 percent of the energy we produced for our member  
8 owners came from coal-fired resources; and in 2018,  
9 58 percent. And I'll explain a little bit of what  
10 that change was here on the next slide.

11 In addition, a big increase in renewable  
12 energy, 2 percent in 2005 to 25 percent in 2018.  
13 Some of the renewable energy additions were to meet  
14 mandates, as required under the Minnesota Renewable  
15 Energy Standard, and some of the most -- more recent  
16 renewable energy additions were because they were  
17 just the best economic resource that we could use to  
18 provide power supply to our members.

19 Another increase you see on there is in the  
20 gray portion of the donuts, moving from 8 percent  
21 reliance on the market for some of our energy needs  
22 to 14 percent. And that's been a conscious decision  
23 by GRE. As the Midwest market has -- has grown and  
24 matured -- the Midwest market opened up on April 1st  
25 of 2005, and so as that market has grown and matured

1 and resources have been added to it, we've become  
2 more and more comfortable relying on the market for  
3 some portion of our load-serving obligation to our  
4 member owners.

5 A little further to our power supply  
6 portfolio evolution, on the right-hand side of the  
7 screen you can see the actions that the Great River  
8 Energy Board has taken over time to economically  
9 right size our power supply portfolio with a focus on  
10 that and affordable rates imperative.

11 And so since 2015, we've reduced -- or we've  
12 eliminated 318 megawatts from our power supply  
13 portfolio. The first listed there was GRE exiting a  
14 long-term power purchase contract we had for half of  
15 the output of a coal-fired power plant in Wisconsin.  
16 We exited that contract in 2015.

17 In 2017, the board made the very difficult  
18 decision to shut down Stanton Station, which was a  
19 188 megawatt coal-fired power plant out in  
20 North Dakota, which resulted, unfortunately, in 25  
21 GRE employees losing their jobs.

22 And then more recently, last year, last  
23 March, the board made another difficult decision to  
24 shut down Elk River Station, which was a  
25 refuse-derived fuel burning power plant, or a

1 trash-burning power plant, and 85 employees,  
2 unfortunately, were laid off from Great River Energy  
3 as a result of that decision.

4 But all three of those decisions were with  
5 an eye toward affordability and a recognition that  
6 those power supply resources were no longer  
7 economically competitive in the market environment  
8 that we're in.

9 On the other side of the slide you'll see  
10 the energy additions that we added as a result of  
11 shutting down those power plants on the right-hand  
12 side and as a result of just meeting need to provide  
13 affordable energy to our member owners. All of those  
14 are wind projects that have been added to our  
15 portfolio. Two of them, at the bottom, are wind  
16 projects that we already had under contract but were  
17 coming to the end of the useful life of their  
18 equipment in the contract, and so those -- those wind  
19 farms were repowered to continue for 20 more years or  
20 so.

21 We're in a good position capacitywise to be  
22 able to take full advantage of our position, the  
23 portfolio strategic imperative. And as you can see,  
24 right now we are about 600 megawatts long capacity,  
25 right now we're actually about 500 megawatts long

1 capacity because we have full results in capacity,  
2 but over time we'll be at that 600 megawatts of more  
3 capability to produce energy than our load-serving  
4 obligation to our member owners. And so the red line  
5 there represents our demand curve or our load-serving  
6 obligation, and the blue bars represent the capacity  
7 that we either own because we have iron in the ground  
8 with power plants or we've procured or purchased  
9 under long-term PPAs. And when you add those up, you  
10 can see the blue bars are significantly higher than  
11 the red line, and that positions us very well to make  
12 power supply changes to right size our portfolio both  
13 from a rates perspective and also just from a  
14 resource adequacy perspective.

15 The next evolution in that power supply  
16 decisionmaking was something that we announced on  
17 May 7th, and that's what we're calling our strategic  
18 power supply plan. That has quite a few moving parts  
19 to it, as you can see on the screen.

20 The first aspect of that will be retiring  
21 Coal Creek Station in -- at the end of 2022, and that  
22 is the aspect of this power supply plan that's  
23 gut-wrenching, just tear-your-heart-out-of-your-chest  
24 situation, because retiring that plant in -- at the  
25 end of 2022 will result in GRE having to lay off 266

1 smart, dedicated, hardworking employees at Coal Creek  
2 Station; but, unfortunately, the situation has -- has  
3 become, at Coal Creek Station, one such that the  
4 economics of continuing to operate that power plant  
5 are not good, and we can provide more affordable  
6 power supply to our members without Coal Creek in our  
7 power supply portfolio.

8 And so as you can see, the plan, as we  
9 retire Coal Creek at the end of 2022, is to add new  
10 wind resources, very attractively priced wind  
11 resources, that will be located at and around our  
12 existing large combustion turbine power plants, at  
13 Pleasant Valley Station and Lakeville Junction  
14 Station, and we were able to get flat pricing for  
15 30 years for those wind resources.

16 In addition, we'll be out looking in the  
17 market for an additional 200 megawatts of wind to  
18 round out the energy need that we have as a result of  
19 shutting down Coal Creek Station.

20 And then the benefit of going into this  
21 decision with 600 megawatts of capacity length is  
22 that we only need to add 400 megawatts of capacity,  
23 that's the ability to make energy, to replace Coal  
24 Creek Station because we were already sitting with  
25 that capacity length. And our plan to meet that

1 capacity, meet that additional 400 megawatts, is to  
2 upgrade our existing peaking plants, Lakeville,  
3 Pleasant Valley, potentially Cambridge, too, and our  
4 Elk River peaking station, and then procure  
5 attractively priced market capacity.

6 The -- the major benefit of this -- of this  
7 decision and the reason we made this decision was for  
8 economics. Our forecast is that our members -- once  
9 we execute on this plan, our members will see a 13  
10 percent reduction in their wholesale power rates, and  
11 that's a big deal. Tim gave a great presentation on  
12 the work that Lake Region is doing on managing their  
13 costs and keeping their rates flat. GRE, for the  
14 last few years, has been able to keep our wholesale  
15 power rates flat, but this -- executing on this  
16 strategic power supply plan will result in, on  
17 average for our member owners, a 13 percent reduction  
18 in their wholesale power rates.

19 Here's what our energy evolution will look  
20 like from last year, 2019, into 2025 once Coal Creek  
21 is retired and we've executed on these energy and  
22 capacity hedges. You'll see we'll be more reliant on  
23 the market than we are today, and we're comfortable  
24 with that because we keep an eye -- close eye on the  
25 fundamentals of the wholesale power market. And then

1 the largest majority of the energy that we'll need to  
2 serve our member owners will be coming from wind  
3 resources.

4 But that only -- that only shares part of  
5 the story. This is where the energy will be coming  
6 from, but as a load-serving entity in the Midwest  
7 market and a utility in Minnesota, we have an  
8 obligation to meet the load-serving needs of our  
9 members all the time, even when the wind isn't  
10 blowing, the sun isn't shining, et cetera.

11 And so those energy -- that energy portfolio  
12 I showed you in the previous slide will be  
13 backstopped, the majority, by assets that we own and  
14 operate; iron in the ground.

15 So on -- on the right-hand slide, the 2025  
16 donut chart, you can see that 58 percent of our  
17 capacity, that's the ability to make energy,  
18 dispatchable resources, will come from owned --  
19 currently owned and operated natural gas facilities.

20 In addition, we're planning to add 9 percent  
21 of capacity to those existing facilities through  
22 upgrades. We'll continue to rely on the capacity  
23 that we get through our hydro allocations from WAPA  
24 and also from Manitoba Hydro, and we've also got  
25 4 percent of our capacity coming from existing fuel

1 oil-fired combustion turbines that we own and  
2 operate. So under this plan, we're really only  
3 relying on the market purchases for 9 percent of our  
4 capacity and the renewables for 7 percent of our  
5 capacity.

6 So a lot of our energy will be coming from  
7 the market renewables, but the majority of our  
8 capacity will be coming from resources that we own  
9 and operate today and some -- with some upgrades to  
10 some of those resources.

11 And so that starts to take a look at what  
12 our near-term capacity strategies and priorities are.  
13 We are willing to take some of that capacity need to  
14 the market as long as it's cost-effective to do so  
15 and the market allows us to do that.

16 But in the longer term, we're also planning  
17 to optimize demand response resources; so demand  
18 response resources, especially with the technological  
19 changes that we're seeing amongst our members and  
20 undertaking at GRE, and I'll talk a little bit about  
21 that in a second, will also be a source of capacity  
22 and source of reliability for us that we're excited  
23 to take advantage of.

24 And in addition -- and you might have seen,  
25 if you saw our press release on the strategic power

1 supply plan that we announced on May 7th, that we're  
2 also undertaking a pilot project to take a look at  
3 the opportunity that long-duration battery electric  
4 storage may offer us and may offer the market into  
5 the future.

6 And so right now we've got a 1 megawatt  
7 pilot project that we're hoping will be integrated  
8 with the grid in 2023. And when we're talking about  
9 long duration storage, we're talking about a battery  
10 storage resource that can provide between 100 and  
11 200 hours of continuous energy to the grid. Right  
12 now, when we're talking about battery storage on the  
13 grid, it's lithium-ion batteries that can give you  
14 two to four to maybe six hours of discharge, but  
15 we're looking at opportunities that give us 100 to  
16 200 hours of continuous discharge.

17 I mentioned the MISO market a couple of  
18 times. Again, MISO stands for the Midcontinent  
19 Independent System Operator. That's the energy  
20 that -- or that's the entity that dispatches  
21 generating resources onto the grid. Their geographic  
22 footprint -- as you can see there, the chart's not --  
23 the map's not real large, but their footprint runs  
24 from eastern Montana all the way up to Canada, all  
25 the way to the east through Indiana and the south all

1 the way down to Louisiana and a little bit of east  
2 Texas, and that's the entity that dispatches all of  
3 the generating resources within that footprint.

4 They're also responsible -- primarily  
5 responsible for transmission reliability. Now, all  
6 the electric utilities in MISO support MISO's  
7 transmission reliability efforts at the local  
8 lever -- level, but MISO has overall responsibility  
9 for reliability and making sure there's enough  
10 generation in their footprint to meet the load  
11 obligation in their footprint. So MISO's job, every  
12 four seconds of every day of the year, is to make  
13 sure that generation and load are in sync and match  
14 up.

15 The utility's role in this market is to  
16 offer all of our generating resources into the market  
17 for dispatch at production costs and to buy all of  
18 our load-serving needs from the market as well, and  
19 that's been the case in the -- in the Midwest market  
20 since April of 2005.

21 Just to give you a sense of the scope and  
22 scale of MISO versus the scope and scale on that  
23 first slide I showed you with regard to GRE, MISO has  
24 almost \$30 billion in gross -- gross revenue and  
25 market charges. Recall, GRE last year was \$990

1 million.

2           They have 468 participating entities serving  
3 42 million people. GRE's member owners and  
4 aggregates serve about 770,000 people across  
5 Minnesota and a little bit of Wisconsin.

6           MISO's summer peak demand is 127 megawatts,  
7 their all-time peak, which was in 2011. GRE's  
8 all-time peak is about 2,600 megawatts, and as you  
9 can see, in MISO there's 6,657 generating units. We  
10 have 10 generating units.

11           And 4,800 miles of transmission versus  
12 MISO's almost 72,000 miles of transmission.

13           And so this is the market that we operate  
14 in, along with other utilities in the Upper Midwest.

15           So the question that you might wonder is who  
16 is responsible for reliability and how can I be  
17 assured that when GRE undertakes this strategic power  
18 supply plan that I've talked about, that the lights  
19 are going to continue to be on and that rates are  
20 going to continue to be affordable? Well, first and  
21 foremost, the electric utilities, including GRE,  
22 including our -- all of our member owners, have  
23 primary responsibility for making sure that we have  
24 the power supply to meet your needs all the time.

25           Now, we also have to -- we also have to

1 demonstrate that not just to our member owners, but  
2 to MISO, that we have enough resources to provide  
3 adequate power supply to our member owners with an  
4 adequate reserve margin for every summer peak, and so  
5 MISO requires that us -- requires us, through  
6 Module E of their tariff, and their tariff is  
7 regulated by the Federal Energy Regulatory  
8 Commission, or FERC, we have to demonstrate to MISO  
9 every year going into the summer season that we have  
10 adequate resources to meet our members' need plus a  
11 reserve margin. And then MISO undertakes other --  
12 other study activities to make sure that their market  
13 will continue to be resource adequate into the  
14 future.

15 In addition, Minnesota is an integrated  
16 resource planning state, which means that the  
17 Minnesota Public Utilities Commission has the purview  
18 to regulate all the utilities in Minnesota, co-ops  
19 (indiscernible) included, as it relates to ensuring  
20 that those utilities have adequate resources now and  
21 looking out 15 years into the future to meet the  
22 load-serving obligation that they have to their  
23 customers for the IOUs, to our member owners for the  
24 co-ops.

25 Just in terms of recapping our strategic

1 power supply portfolio, the things that will stay  
2 same -- the same for GRE, once Coal Creek is retired  
3 and these new wind resources are added and we upgrade  
4 our combustion turbines and purchase some capacity,  
5 is we're going to continue to have that obligation to  
6 provide reliable power to our member owners. We're  
7 going to continue to serve our member owners' load  
8 through the MISO market. And the majority of the  
9 capacity, as I showed you on that 2025 donut chart,  
10 will be coming from owned resources, iron in the  
11 ground that we own and operate today. And we'll  
12 continue to comply with the MISO resource adequacy  
13 rules; we'll continue to file an integrated resource  
14 plan with the State of Minnesota to demonstrate that  
15 we will be resource adequate for our member owners'  
16 needs into the future.

17 Some of the things that change is the type  
18 of our resources will become smaller, more  
19 diversified -- more diverse, excuse me, and more  
20 renewable. We're going to have a mix of physical  
21 resources and market purchases as long as it's --  
22 it's cost-effective to purchase from the market. And  
23 overall, our costs are going to be lower. I  
24 mentioned on average our rates are projected to go  
25 down 13 percent for our member owners.

1           But the other aspect of this is demand  
2           response. Remember, I mentioned part of our  
3           long-term capacity plan is to optimize demand  
4           response. And so the great news in the demand  
5           response world -- and this is what we used to call  
6           load management or load control. We now call it  
7           demand response. The great news in that world is  
8           that there is some significant technology  
9           improvements that are going on both at GRE and  
10          amongst our member owners.

11          At GRE, we're in the process -- in a  
12          multiyear process of replacing our legacy load  
13          management system and our legacy load management  
14          controller, which is vintage 1980s technology, with  
15          an updated system called the Demand Response  
16          Management System. And the great thing about that  
17          system is it will integrate directly with each of our  
18          member owners as our member owners move to Advanced  
19          Metering Infrastructure, or AMI. And in the future  
20          we'll be relying on our member owners'  
21          telecommunication to get the load management signal  
22          out to the end-use devices, to control water heaters,  
23          to control air conditioners, to dispatch gensets.  
24          That will be happening via our member owners' AMI  
25          telecommunications.

1           This will also allow us to be more automated  
2           on how we schedule our load control programs; it will  
3           provide more bandwidth or ability to be more  
4           discrete, more surgical, more granular in how loads  
5           are shed and restored over time; and provides new  
6           functionalities, including the ability to dispatch  
7           load management, or demand response, as I'm getting  
8           used to saying, for reliability, especially local  
9           reliability.

10           And it's important to note that Lake Region  
11           has been on the vanguard of updating their system,  
12           their load management system, and integrating --  
13           adopting and then integrating their AMI with GRE's  
14           Demand Response Management System, and that has  
15           unlocked some early opportunities to take a look at  
16           being more granular and surgical with load control,  
17           taking a look at opportunities to see can we control  
18           loads by MISO zone rather than doing blanket load  
19           control across the state, which is what we're forced  
20           to do today with GRE's legacy system. Can we control  
21           loads by cooperative? Can we control loads within  
22           the cooperative according to substation or feeder or  
23           just in kilowatt-hour increments?

24           And so this is -- Lake Region's early  
25           adoption of AMI and the load control that goes along

1 with it in integrating with our Demand Response  
2 Management System has unlocked opportunities to  
3 understand what the potential is and to understand  
4 how demand response could be a real opportunity for  
5 us to provide additional resource adequacy beyond  
6 traditional power supply resources and also help us  
7 with reliability.

8 And we almost had the opportunity to test  
9 the ability of load -- load response -- or demand  
10 response to provide reliability relief last summer in  
11 Lake Region service territory.

12 So we had a situation last summer, in late  
13 July and early August, typically times of the year  
14 that are quite hot and humid in our neck of the  
15 woods, where we had a transformer outage at one of  
16 GRE's substations, and so -- and so Lake Region was  
17 only being fed by one source, and there was a concern  
18 that that single source may not be able to carry the  
19 full load on that sub during a real hot time.

20 And so GRE staff worked really closely with  
21 Lake Region staff, with GRE system operations, to get  
22 in place a plan and get a profile -- the load  
23 control profile in our control system such that if --  
24 if that system started getting overloaded, that we  
25 could be discrete with load management to maintain

1 reliability, control some loads on a feathered basis  
2 to -- to make sure that we kept the lights on during  
3 this transformer outage.

4 At the end of the day, we didn't need to  
5 deploy load management for this -- for this  
6 situation, but it was a great drill both for Great  
7 River Energy and for Lake Region to think about how  
8 we would do it, to prepare to do it, to get the loads  
9 scheduled to be curtailed if they needed to, and then  
10 to be on standby if something happened and we needed  
11 to take advantage of that situation.

12 So my thanks to Dan Husted and Al Fazio and  
13 others at Lake Region Co-op for working closely with  
14 us to help manage this situation and be ready for --  
15 be ready to control loads if we needed to, so well  
16 done in that regard.

17 Finally, I'd just like to wrap up and say,  
18 you know, there's a lot of innovative things going on  
19 amongst cooperatives. There's a lot of change in our  
20 industry, and it seems to be getting -- the change  
21 just seems to be evolving faster and faster, but it's  
22 important to keep in mind that Great River Energy,  
23 Lake Region, and the other member owners of Great  
24 River Energy stand firmly -- excuse me -- on the  
25 electric cooperative pillars.

1           We're going to continue to be innovative and  
2           work together to make sure that we're providing  
3           meaningful, essential service to our member owners;  
4           but, at the same time, we know we need to keep the  
5           lights on, and we're going to undertake all the  
6           activities that we need to to keep the lights on, and  
7           if for some reason the lights go out, be the  
8           resilient organizations that our members need us to  
9           be to get those lights back on as soon as possible;  
10          to provide affordable energy; to make sure that we  
11          continue to give all our members a voice in how the  
12          co-op's operated; and to focus on that seventh --  
13          seventh cooperative principle, concern for community,  
14          especially in times like these when our communities  
15          are in need and our communities are hurting, to make  
16          sure that we serve that role as quality of life  
17          provider in greater Minnesota.

18                 Thank you very much for your time today,  
19                 Charles and Tim. I appreciate this opportunity. I  
20                 hope it was meaningful and shared to the dialogue  
21                 that you're having with your member owners, and I'm  
22                 certainly available to take questions however you  
23                 want to manage that.

24                         CHAIRMAN KVARE: Thank you, Mark.

25                         Now I'll call on Chad to give us the

1 election results.

2 MR. FELSTUL: Thank you, Mr. Chairman.

3 The results are: District 2, Cecil "Bud"  
4 Hensel with 289 votes. In District 2, Les  
5 Christianson with 187 votes.

6 District 5, Patrick Meyers with 419 votes.  
7 Ron Bratlie with 217 votes.

8 As a result of the voting, Mr. Hensel will  
9 serve as your director for District 2 and Mr. Meyers  
10 will serve as your director for District 5.

11 Mr. Chairman, the Survey & Ballot Systems  
12 certifies that this is a true and accurate statement  
13 of the election results.

14 CHAIRMAN KVARE: Thank you, Chad.

15 Before we draw for prizes and conclude  
16 tonight's meeting, we have received several  
17 questions, and due to time constraints, we will  
18 answer a few of those. We will also provide a  
19 Q and A document on our website so all questions can  
20 be viewed.

21 Our management team will contact every  
22 member who brought a question to get you an answer to  
23 your question.

24 The first question is from Tom and Annette  
25 Good from Perham. It's kind of a two-part question,

1 and I'll try and answer it that way. It says, "I  
2 believe that directors should be elected from the  
3 entire membership. There are many fine people who  
4 can serve with distinction. Why is this not allowed?  
5 What can be done to change this?"

6 Back in 2006, the membership -- or prior to  
7 2006, all directors were elected at-large or voted  
8 upon by the entire membership. In 2006, a sizeable  
9 group of our member owners asked our board to  
10 change -- to consider changing bylaws to allow  
11 directors to be elected by the membership in the  
12 district they represent. We discussed this at all of  
13 our district meetings, and at that time, the bylaw  
14 amendment was placed on the ballot and passed by a  
15 large majority of the member voters. This concept  
16 has worked good for Lake Region. It has also had a  
17 considerable cost savings. Instead of sending  
18 ballots to over 25,000 members, we send about 22- to  
19 2,300 ballots to voters within that district.

20 The question asks, "What can be done to  
21 change this?" To do so, I would suggest if you'd  
22 gather support of a large number of members who feel  
23 a need for such a bylaw change, then bring this to  
24 the board of directors. It would be up to them to  
25 decide, based on the numbers, if they want to place

1 this on the ballot for the next election. I would  
2 suggest you may want to start by discussing this with  
3 your district representative, who very likely --  
4 based on your address, very likely is Mike Brasel.

5 I hope this helps in answering your  
6 question. Thank you.

7 Tim?

8 CEO THOMPSON: Yes. I wanted to share with  
9 you, we've had an excellent turnout for tonight's  
10 virtual meeting. A total of 451 members have logged  
11 on to join us for the virtual meeting. We're very  
12 pleased with that. Thank you so much for joining us.

13 I've been reviewing some of the questions  
14 here that have been coming in. There are several  
15 questions, as Charles said. We will follow up with a  
16 Q and A for all the questions on our -- on our  
17 website, but I wanted to give you a little flavor of  
18 the types of questions.

19 For example, one question is: "How come the  
20 virtual annual meeting does not have closed caption  
21 for the hearing-impaired cooperative members?"

22 We intend to provide a full transcript of  
23 the annual meeting to our -- to our membership on  
24 our -- on our website.

25 Another question: "How much energy is

1 produced at the wind/solar hybrid project, and how  
2 does this compare to the amount of energy sold by  
3 Lake Region?"

4 The wind/solar hybrid project produces about  
5 9 million kilowatt hours. Per year, that's about  
6 2 percent of our energy needs of our -- of our entire  
7 system, so it's a small -- very small percentage of  
8 our total -- our total needs.

9 Another question: "Did you have to change  
10 co-op bylaws to have a virtual meeting and electric  
11 [sic] voting?"

12 We implemented that change in our bylaws a  
13 few years ago so we can do the electronic type of  
14 meetings and voting.

15 Then there's a few other questions about the  
16 closing of Coal Creek Station that I think Mark did a  
17 pretty good job of explaining that, but a specific  
18 question: "I'm wondering what the effect of closing  
19 the Great River Energy coal plant will have on Lake  
20 Region Electric."

21 I think the biggest impact is an economic  
22 impact. That's a positive impact. As Mark said,  
23 there could be up to 13 percent lower costs in our  
24 wholesale power costs from Great River Energy. We're  
25 continuing to analyze that and study that; and,

1 hopefully, when that project is implemented and  
2 completed, Lake Region will see that reduction in the  
3 power costs.

4 Another question: "What is going to create  
5 the -- the base load in your wind and solar  
6 projects?"

7 The wind/solar project is -- is  
8 interconnected to our Erhard Substation, and when  
9 the -- the wind's not blowing and the sun's not  
10 shining, the power will certainly come from the  
11 central station grid power, like it always has there  
12 from -- from Lake Region Electric.

13 So there's a -- a few of the questions I  
14 wanted to answer tonight. And, again, we will follow  
15 up directly with each member who asked a question as  
16 well as have a Q and A on our website.

17

18 (End of recording.)

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REPORTER'S CERTIFICATE

I, Carolyn Taylor Pekas, Registered Professional Reporter, PO Box 1474, Detroit Lakes, Minnesota, do hereby certify that the foregoing sixty-one (61) pages of typewritten material constitute a full, true and correct transcript of my original stenotype notes, as they purport to contain, of the transcript of proceedings reported by me at the time and place hereinbefore mentioned.

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Carolyn Taylor Pekas, RPR  
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Dated this 25th day of June, 2020.