



Annual Meeting Recap

I'm happy that many of our members attended the cooperative's recent annual meeting. We greatly appreciate your interest and participation in Lake Region Electric Cooperative. We're proud of our accomplishments and hope that you also share in that pride. That's because you're a co-op member, making this the utility that you own and control. All that we do, we do for you!

As we prepared for the annual meeting, our thoughts turned to the long history we have in the communities within our service territory. Times change with new innovations and uses of electricity. Our industry itself has undergone enormous changes from our early years. Yet, we've never wavered from one very important thing—accountability to Lake Region's grassroots members and encouraging their continued engagement with the cooperative. Just think about this—when the cooperative was first organized to bring utility service to rural areas, our employees engaged with members to teach them the benefits of electricity and its many uses as an extra "hired hand" on the farm. Today, we recognize all the diverse ways our members depend on reliable, safe, and affordable electricity. We help co-op members make wise and efficient choices in their use of electricity. Keeping our cooperative financially strong, innovative, proactive, and attentive to members' needs are goals for this 21st century electric cooperative. Sure, times change, but not Lake Region's core principles and values.

Lake Region Electric Cooperative has a rather unique service territory and membership composition. For instance, our service territory encompasses about 1,000 lakes – presenting some terrain and power line siting challenges. As a highly recreational area, about 30 percent of our 28,125 consumer accounts are seasonal in nature. You might be surprised to learn that our cooperative has members from all 50 states.

Members Share in Our Financial Success

A significant highlight for 2017 was the capital credit retirement (return) of \$1,211,928 for patronage during the years 1991 – 1994. This makes five consecutive years with more than a million-dollar pay back in capital credits. Since Lake Region began paying capital credits in 1958, a total of \$25,473,604 has been retired to members.

We've also focused on steadily increasing member equity as a measure of financial strength. The equity level for 2017 more than doubled since 2005. Our margins, from which capital credits are generated, have also remained at favorable levels.

Our tactical approach to controlling costs is also benefiting the co-op's bottom line. In fact, controllable costs per member are lower today than they were back in 2004.

(CEO column continued on back page)



**LREC offices will
be closed on July 4th**

With PT Jensen operating the remote, and Jeff Peterson guiding the Briggs & Stratton standby generators, the truck is loaded for the day's installations.

Based on member inquiries and sign-ups, LREC's Standby Generator program has been incredibly successful. The Energy Management team has been working hard to schedule site visits, prepare quotes, and install the generators to catch up with demand. Give us a call at (800) 552-7658 to learn more about having a standby generator system installed at your home.

No Ducts? No Worries!

Cool and heat your home with a ductless air source heat pump – and for a limited time **get enhanced rebates!** Act now to get incredible rebates while funds last!

Heating Source	Regular Rebate	Promo Rebate
Delivered Fuels	\$300	\$450
Electric Heat	\$500	\$750

Limited funds are available and awarded on a first-come, first-served basis. Rebate amounts and programs are subject to change without notice.

Do we have your number?

Help us find you fast.



Please make sure your emergency phone number is up-to-date with us. When the number you use is in our system, your call will be automatically recognized when reporting an outage. This leads to **quicker deployment** of line crews, **faster repair time**, and **shorter outage duration**.

Thank you to the nearly 1,400 of you who recently updated your contact information. It helps us serve you better!

In The Dark Winners

The winner of the \$100 bill credit:

▶ Arthur Jacque, Fargo, ND

The winners of the 5 weather radios:

▶ Timothy Melby, Fergus Falls, MN

▶ David Lysne, Moorhead, MN

▶ Doris Issendorf, Henning, MN

▶ Robert Softing, Hawley, MN

▶ Jeffrey Mattson, Fergus Falls, MN



Annual Meeting Recap (continued from front page)

Local Control with Accountability to Members

The election of directors from the membership keeps decision making local. Due to director term limits, District 3 will hold an election next year. Later this year, we plan to hold an educational session to acquaint anyone interested in running for the position about the role and responsibilities of being a co-op director.

New Revenue Streams Created

One key responsibility our management team shares with the board of directors is fiscal management for the benefit of our member-owners. Not only does this involve controlling costs, but also creating new revenues to offset expenditures that would otherwise need to be recovered through the electric rates. Our rate stabilization plan includes new revenue streams that have benefited our members in multiple ways. For instance, we recently launched a Residential Standby Generator Program as a premium service that affords peace of mind to those who cannot risk being without electricity. The new revenue it creates also provides a rate benefit for all members.

Lake Region took a threat and created an opportunity when we moved to expand natural gas service into our area, particularly to Parkers Prairie, Deer Creek, Miliona, and Dent. We used the cooperative philosophy and applied it to the gas business. We selected experienced partners and cross-trained employees. Through leveraging our core competencies, we haven't needed to add employees. This helps expenses on the electric side of our business, too, because it allows us to recover some of our employee costs through the gas business. The estimated annual benefit from these natural

gas extensions is approximately \$255,000 in electric rates offsets. Our long-range expectations indicate a 5-7% rate of return on the natural gas extensions. Most importantly, though, is the fact that the natural gas service is helping our members switch from propane and save money.

Improved Reliability

We certainly have kept our eyes on our core electric business, too. Member satisfaction has always hinged on rates and service reliability. We've made a commitment to improving reliability by reinvesting in our local grid through system improvements, tree clearing, and vegetation management. Our use of data analytics has given us the tools to map out outage prone areas and drill down to investigate causes and make corrections. As a result, there has been a 57% decrease in outage time since 2004, excluding major storms and power supplier outages. From 2010 through 2014, we spent \$8.8 million on very aggressive tree clearing and completed the first system-wide cycle of right-of-way clearing. As a result, we are spending less now on clearing than we did in 2004.

Positive Impact on Electric Rates

All of these factors have placed Lake Region in an enviable position with its electric rates. Ten years ago, our winter rate was on the higher end when compared to a peer group of Minnesota electric cooperatives. Today, the winter rate is considerably lower by comparison. The summer rate is even better, being on the low end of the comparison.



Tim Thompson

BALANCE SHEET

December 31st, 2017 and 2016

Assets	Dec. 31 st , 2017	Dec. 31 st , 2016
Utility Plant		
Electric Plant in Service	\$128,395,052	\$124,872,900
Natural Gas Plant in Service	1,411,433	0
Construction Work in Progress	1,010,861	772,760
Total Utility Plant	130,817,346	125,645,660
Less Accumulated Provision for Depreciation	45,639,618	43,722,829
Net Utility Plant	85,177,728	81,922,831
Other Assets and Investments		
Investments in Associated Organizations	23,907,099	22,733,490
Other Investments, Net of Current Portion	404,493	359,777
Other Assets	140,000	180,000
Total Other Assets and Investments	24,451,592	23,273,267
Current Assets		
Cash and Cash Equivalents	3,415,634	2,858,158
Accounts Receivable, Net	5,930,571	5,314,049
Materials and Supplies Inventory - Electric	1,506,707	1,294,403
Materials and Supplies Inventory - Natural Gas	211,014	0
Prepaid Expenses	191,049	171,583
Accrued Assets	83,588	0
Current Portion of Other Investments	40,000	40,000
Total Current Assets	11,378,563	9,678,193
Deferred Debits	2,145,971	2,398,590
Total Assets	\$123,153,854	\$117,272,881
Equities and Liabilities		
	Dec. 31st, 2017	Dec. 31st, 2016
Equities		
Patronage Capital	\$32,994,972	\$32,708,122
Other Equities	18,262,014	15,769,717
Total Equities	51,256,986	48,477,839
Long-Term Debt ¹	58,097,939	56,553,819
Current Liabilities		
Current Maturities of Long-Term Debt	2,846,000	2,333,000
Accounts Payable - General	420,269	212,298
Accounts Payable - Billed Power Costs	5,991,759	5,333,610
Other Current and Accrued Liabilities	1,442,289	1,584,446
Total Current Liabilities	10,700,317	9,463,354
Deferred Credits	3,098,612	2,777,869
Total Equities and Liabilities	\$123,153,854	\$117,272,881

¹2017 Total Long-Term Debt of \$76,875,650 less cushion of credit of \$18,777,711

STATEMENT OF OPERATIONS

December 31st, 2017 and 2016

Operating Revenues	Dec. 31 st , 2017	Dec. 31 st , 2016
Sale of Electric Energy	\$49,311,071	\$47,355,828
Other Operating Revenues	380,385	58,048
Total Operating Revenues	49,691,456	47,413,876
Operating Expenses		
Cost of Power	30,586,233	29,870,251
Distribution Expense - Operations	2,952,327	2,730,332
Distribution Expense - Maintenance	2,444,682	2,390,526
Consumer Account Expense	1,210,133	1,184,914
Customer Service and Information Expense	939,180	864,890
Administrative and General Expense	2,899,817	2,802,816
Depreciation	4,068,258	4,032,003
Interest on Long-Term Debt	2,664,411	2,609,214
Taxes	418,454	366,847
Total Operating Expenses	48,183,495	46,851,793
Operating Margins After Fixed Charges	1,507,961	562,083
Generation, Transmission, and Other Capital Credits	1,460,316	1,528,568
Net Operating Margins	2,968,277	2,090,651
Interest Income	1,090,367	1,154,979
Other Non-Operating Income	210,933	284,282
Total Non-Operating Margins	1,301,300	1,439,261
Net Margins	\$4,269,577	\$3,529,912

Red Flag Rule Protects Members

In order to ensure the privacy and accuracy of member information and to reduce the incidence of identity theft, the Federal Trade Commission (FTC) has enacted an "Identity Theft Red Flag Rule". This rule requires all businesses that obtain and maintain confidential information to implement an identity theft prevention program.

As a member, you may be asked to provide additional information and identification when you make inquiries regarding your service or account. We understand that some of these rules can be a bit of an inconvenience, but they are in place for your protection. Please understand that these procedures will help protect your identity.

Notice to Distributed Generation Facilities

In compliance with Minnesota adopted rules relating to *Cogeneration and Small Power Production, Chapter 7835*, Lake Region Electric Cooperative is required to interconnect with and purchase electricity from co-generators and small power producers that satisfy the conditions of a *Qualifying Facility**.

Lake Region has available and will provide free information to all interested members regarding rates and interconnection requirements. An application for interconnection is required for a *Qualifying Facility* to interconnect and operate in parallel with the cooperative's distribution system and is subject to the approval by the cooperative.

*A *Qualifying Facility* is a generation system that meets the requirements of the federal PURPA rules ("Public Utility Regulatory Policies Act - 1978"). These facilities are powered by renewable resources, such as solar, wind, hydro, and biomass. Diesel fueled and gas fueled generators are not qualifying facilities under the PURPA rules.

Limited time offers on SEER ASHP and ductless ASHP!

2018 Residential Energy Efficiency Rebates

Cooling and Heating

Call us at (800) 552-7658 to learn more!

Heat Pump Systems	Ductless air source heat pump—ENERGY STAR	\$300 \$450
	Air source heat pump, SEER 14.5 -16+	Up to \$630* \$2,000
	Geothermal heat pump, closed loop	Up to \$400 per ton
	Geothermal heat pump, open loop	\$100 per ton
Central Air Conditioners	Central air conditioner, SEER 13 -16+	\$50/unit*
Electric Thermal Storage (ETS) Heating Systems	Steffes ETS systems on short term storage	\$25 per KW
	All ETS systems on long term storage	\$50 per KW
Home Energy Audit	Audit includes inspection of building envelope, blower door test, infrared camera scan, furnace combustion test, health & safety check, and a report identifying conservation recommendations and potential savings.	Up to \$100
ECM Motor	Electronically Commutated Motor	\$50

*Rebates for high efficiency air source heat pumps and air conditioners are available only through qualified contractors registered at HVACRedu.net. Go to www.lrec.coop and click on "QI A/C & ASHP Contractors" under **Quicklinks** to find qualified contractors in your area.

2018 Residential Energy Efficiency Rebates

Water Heating

Heat Pump Water Heater	<i>Must be ENERGY STAR</i>	\$500
ETS Water Heater (4.8¢ rate)	<i>Must be at least 100 gallons and grid enabled</i>	\$400
Peak Shave Water Heater (5.4¢ rate)	<i>Must be at least 80 gallons and grid enabled</i>	\$100

Appliances

Dehumidifier	<i>Must be ENERGY STAR</i>	\$25
Refrigerator or Freezer	<i>Must be ENERGY STAR</i>	\$75**
Clothes Dryer	<i>Must be ENERGY STAR</i>	\$25

Miscellaneous

LEDs	<i>LEDs purchased through www.lrec.coop</i>	\$2 per bulb
Electric Vehicle Charger Installation	<i>Level 1 & 2 chargers qualify</i>	Up to \$500

** For replacement of existing refrigerator or freezer with recycling of existing unit

All Rebates are subject to change, please contact LREC to verify availability