



Recap of District Meetings

Thank you to all the members who attended our three recent District Meetings. It was wonderful to have your participation. Each of the three incumbent directors were nominated for re-election.

Much of our focus during these meetings centered on rates and reliability. It is understandable and expected that our co-op member-owners will always rank these as top priorities. Let me assure you that they are also a priority for me, your directors, and our employees. It was a pleasure to report that we have great news on both fronts.

Rate stabilization is a key component of our long-range strategic planning. Success comes with creating opportunities for growth, controlling costs and simultaneously developing new revenue streams. Some key points you should know are:

The spending that is under our cooperative's local control has declined. We are doing an excellent job in this area. Today, the controllable cost per member is actually less than it was in 2004.

The cooperative is receiving revenue from the new programs offered and previous investments made by the cooperative. New revenues help offset Lake Region's fixed costs, thus reducing the funds that must otherwise come from electric rates. Every dollar that we can bring in from another source is a dollar less that's paid through your electric bill. During the time frame of 2006 through 2017, Lake Region's overall non-operating income increased from \$300,000 to over \$1 million. For instance, since we are now an owner of Carr's Tree Service it has produced steadily increased revenues —\$161,000 in new non-operating income in 2017 alone.

Our new natural gas business is another example of creating a revenue stream. Additionally, we have several employees who have been cross-trained to work in both electric and natural gas delivery. The gas business allows allocation of some employee costs away from the electric business and thereby has a positive impact on electric rates. Please see the related article for more information about our natural gas project.

Lake Region employees use technology to pinpoint and plan upgrades to the distribution system. We are using data analytics to identify areas of our grid which need additional scrutiny and attention. The software incorporates outage history and is used to identify what appear to be weak circuits in our system. This allows us to focus on the locations that seem to experience more frequent outages, so that we can correctly identify the causes and proactively make corrections.

Reliability has greatly improved with our investment in grid improvements, vegetation management, and right-of-way clearing. Power outages have been reduced by 57% since 2004. We made a large investment for the first tree clearing of our entire system. We are now undertaking our second system-wide clearing and have reduced the process to a four-year cycle. Lake Region spent less on vegetation management in 2017 than in 2004. We have also upgraded power cables, poles, and equipment.

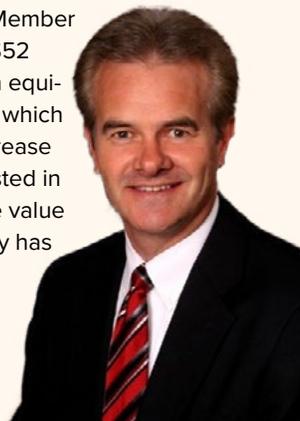
For our members who desire additional security and peace of mind, Lake Region offers a residential standby generator program. Again, we are being proactive in how we meet your needs and expectations.

Lake Region Electric Cooperative strives to be a good steward of energy resources.

Our industry will likely have less reliance on coal as a fuel for electric generation in years to come. Your cooperative will support wind, solar, and other renewable energy projects when they become feasible and are in the interest of our members.

Lake Region is in a very strong financial position. 2017 was another great year for your cooperative. We produced \$4.6 million in margins. Member equity reached \$52 million. This is an equity level of 41.9%, which is a dramatic increase from the 31% posted in 2005. In fact, the value of member equity has more than doubled since 2005 when it was \$23 million.

Tom Thompson



LRES Bringing Natural Gas to Dent and Miltona

After successfully delivering natural gas service to the communities of Deer Creek and Parkers Prairie last year, Lake Region Energy Services (LRES) will be growing its operation this spring. The plan is to expand off of the initial project and extend natural gas lines south of Parkers Prairie to the Miltona area and, in partnership with Greater Minnesota Transmission, extend south from the Viking pipeline east of Vergas to Dent.

"We believe this expansion will create a new revenue stream for Lake Region Electric Cooperative," says LREC Board Chair Charles Kvare. "It will result in positive rate benefits for all electric cooperative members, no matter where they are geographically located, because the natural gas utility operations will be offsetting costs of the electric cooperative."

Lake Region has gone from approximately \$250,000 a year of non-operating income just over a decade ago to more than \$1 million of non-operating income today. Embracing new and diverse revenue streams, like natural gas, helps provide members with more stable, lower electric rates.

(Natural Gas continued on back)

Director Candidates Nominated in Districts 1, 4, & 7

District meetings with director nominations were held in February. Three incumbent directors were nominated without opposition in Districts 1, 4, and 7:

- ▶ **District 1:** Denny Tollefson
- ▶ **District 4:** Earl Rydell
- ▶ **District 7:** Tom Jennen

If no other candidates are nominated through the petition process, the unopposed candidates nominated at the district meetings will be deemed elected by acclamation*. The LREC Annual Meeting will be held on June 7th, 2018 at Life Church in Fergus Falls, MN.

* The Articles of Incorporation and Bylaws of LREC can be found and read at: <http://www.lrec.coop/your-co-op/cooperative-governance>



LRES Bringing Natural Gas to Dent and Miltona

(continued from front page)

As a subsidiary of Lake Region Electric Cooperative, LRES was formed in 2017 through a working partnership with Greater Minnesota Gas. As LREC CEO Tim Thompson explains, the cooperative decided to step into the natural gas business after observing other companies bringing natural gas into LREC's service territory. "Strategically, we decided to take a proactive approach," he says. "Natural gas is one of the lowest cost, cleanest burning fuels available and will be a primary national energy resource for a long time. We see this as an opportunity to grow the cooperative."

While there are substantial front-end costs related to the project, LRES will serve as a significant long-term investment for Lake Region. The co-op's ability to leverage existing capabilities and utilize current staff means operating and maintenance costs over time will be minimal. Thompson says having the support of the cooperative's employees has been critical. "If we didn't have highly motivated employees this would never work. It involves the entire organization and takes everyone's willingness to support this effort," he notes.

Community members have also been extremely supportive of their local utility bringing natural gas into the area. "Customers have been very positive so far. They like doing business with a local cooperative," Thompson adds. "The feedback from large agricultural customers is that it's been saving them a lot of money."



Transmission construction on the expansion to Miltona and Dent will start at the beginning of May. The build out of distribution will occur after that, with gas flowing on the distribution lines by this August. LRES will again be working with NPL, the same contractor that worked on the Deer Creek and Parkers Prairie project.

"We are encouraging people along the existing and new projects to get started with the conversion process as soon as possible," says Dan Husted, VP of Business Development at LREC. "Give us a call now to schedule a free site visit and learn more about the opportunity to save with natural gas."

Visit www.lakeregionenergy.com to view maps of the Dent and Miltona projects.

Operating Summary 2017

As of December 31st, 2017

	2016	2017
Operating Revenue	\$47,406,625	\$49,390,330
Cost of Purchased Power	29,870,310	30,361,387
<i>Operations Expense</i>	2,730,275	2,693,052
<i>Maintenance Expense</i>	2,390,527	2,440,239
<i>Consumer Accounts Expense</i>	1,184,914	1,202,205
<i>Customer Service & Information Expense</i>	864,890	912,460
<i>Administrative and General Expense</i>	2,798,398	2,794,449
Depreciation Expense	4,024,224	4,060,300
Tax Expense	366,847	418,454
Interest Expense	2,609,215	2,664,411
Total Cost of Electric Service	\$46,839,600	\$47,546,957
Operating Margins	567,025	1,843,373
Non-Operating Margins	2,962,886	2,759,805
Total Margins	\$3,529,911	\$4,603,178

Expense items in *italics* are controllable expenses versus not-controllable expenses such as power cost, depreciation, tax, and interest.

Kilowatt Hours Sold	421,685,732	429,019,405
Total Miles of Line	5,746	5,765
New Services This Year	316	376
Services Retired This Year	119	90
Total Services in Place	27,862	28,148

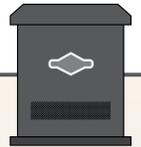
Veteran Lineworker Scholarship

The LREC Veteran Lineworker Scholarship application deadline is April 30th, 2018. Visit the information page on our website to learn more:

www.lrec.coop/veteran-lineworker-scholarship



Standby Generators



Our standby power systems are designed to provide peace of mind and keep your life uninterrupted. Lights stay on, the sump pump keeps running, and your furnace or AC keeps your family comfortable.



DirectPower automatic transfer switch technology is available exclusively from LREC.



8 KW	12 KW	20 KW
Starts at \$4,184.17	Starts at \$4,820.12	Starts at \$6,635.31

- Generator automatically starts when the power goes out
- Standby generator system intelligently powers your whole house, automatically powering what you need when you need it most
- Sold and installed by LREC
- Eligible for 48-month **EASY-PAY** plan
- Runs on natural gas or LP (provided by others)

Come See Us at a
Home Show Near You!

Perham // PACC
Lakes Area Home & Cabin Show
March 9th & 10th, 2018

Detroit Lakes // Fairgrounds
Lake Region Builders Association Home & Sport Show
March 24th & 25th, 2018

In the dark? Help us find you fast.

Your accurate **emergency** outage phone number on file means:

- Instant pinpoint location
- Quicker deployment of line personnel
- Faster repair time
- Shorter outage duration for you

Members who update their contact information by April 30th will be entered to win prizes.
See back for details!



Lake Region Electric Cooperative

Pelican Rapids, MN

www.lrec.coop

(800) 552-7658

The information you provide will remain confidential and only be used by the cooperative.



All members who provide their emergency outage *numbers by April 30th, 2018 will be entered to win prizes including 5 weather radios and a \$100 bill credit.

*Please provide the number you will most likely call from to report an outage (like a cell phone).

Five easy ways to update your number:

1. Visit www.lrec.coop/contact-us/ and enter information in the form
2. Call Customer Service toll free at (800) 552-7658 or (218) 863-1171
3. Email your information to lrec@lrec.coop
4. Fill out the *Change of Address form* on the back of your monthly bill
5. Fill out the information below and mail to LREC • PO Box 643 • Pelican Rapids, MN 56572

Name: _____ Account #: _____

Phone (*best*): LANDLINE CELL _____ Phone (*alternate*): LANDLINE CELL _____

E-mail address: _____

*Your information is important to us. It will remain confidential and only be used by the cooperative.