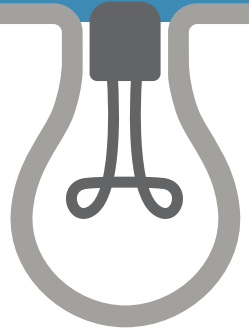




CAPITAL CREDITS

FREQUENTLY ASKED QUESTIONS GUIDE

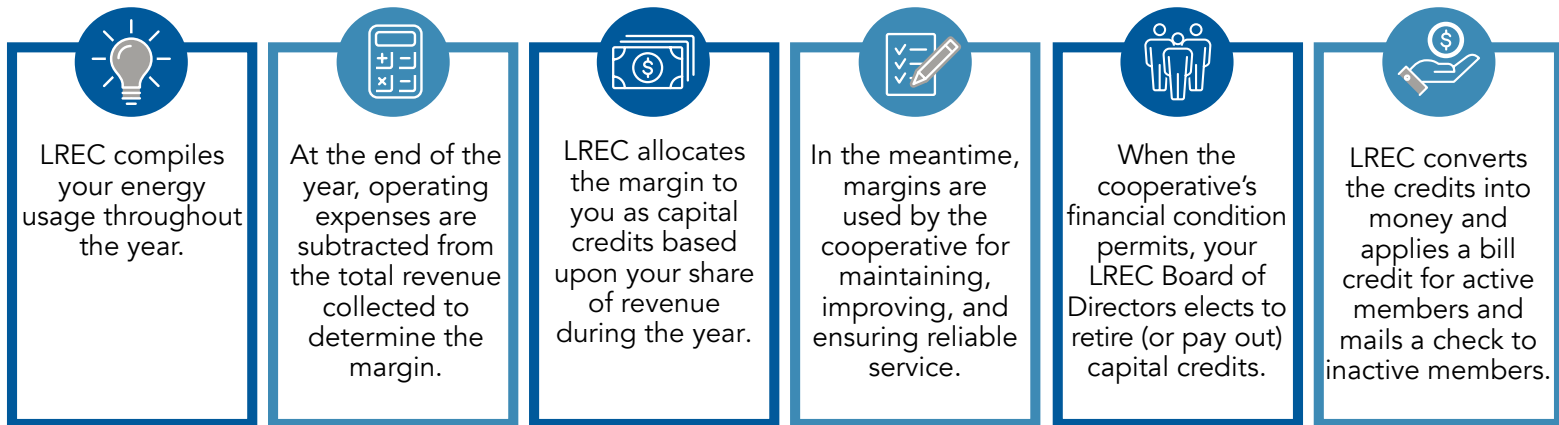
As a non-profit cooperative, Lake Region Electric Cooperative (LREC) is jointly owned by its member-owners (members). Unlike investor-owned utilities, which are designed to make a profit for shareholders, LREC refunds capital (money), above the cost of operations, to its member in the form of "capital credits."



WHAT ARE CAPITAL CREDITS?

As a member of an electric cooperative, you invest in LREC through your revenue contribution. Each year, any margin (revenue after expenses) earned by LREC is reinvested in the cooperative. At the same time, LREC's margin is proportionally allocated, based on your share of revenue contributions during the year, and recorded to capital credit accounts for each of the members. These accounts are maintained until the credits are retired (paid) in full. Capital credits represent each member's ownership interest of the cooperative.

HOW DO CAPITAL CREDITS WORK?



HOW MUCH HAS LREC RETURNED IN CAPITAL CREDITS?

To date, LREC has allocated \$102 million and retired and paid out \$42.6 million in patronage to its co-op members.

WHAT IS THE DIFFERENCE BETWEEN ALLOCATED AND RETIRED CAPITAL CREDITS?

Capital credit allocations are your share of LREC's net margins and reflect your equity and ownership of the cooperative. Each year, your portion of any margins that LREC may have are "allocated" or assigned to you based upon your share of revenue during the year. In the meantime, the margin is used by the cooperative for operating capital, necessary reserves, and other system repairs, improvements, and investments. Until capital credits are retired, allocations have no cash value.

HOW ARE MY CAPITAL CREDITS ALLOCATED?

LREC subtracts operating expenses from revenues collected and the remaining balance is called the margin. LREC allocates margins to members as capital credits based proportionately on your share of revenue contributions during the year.





WHAT IS THE DIFFERENCE BETWEEN COOPERATIVE CAPITAL CREDITS AND GENERATION & TRANSMISSION (G&T) CAPITAL CREDITS?

When LREC experiences financial success, it returns cash to members in the form of capital credits. Cooperative capital credits reflect your ownership in LREC.

Great River Energy (GRE) is also a cooperative and does the same by returning capital credits to its 28 member cooperatives, including LREC. Because LREC believes this money belongs to the members, LREC re-allocates these capital credits to you. These allocations are kept separate from the cooperative capital credit allocations. When LREC receives payment from GRE to retire (pay) any portion of the G&T allocations, LREC retires the corresponding G&T allocation to you. In other words, when GRE pays LREC, LREC pays you.

HOW DOES THE LREC BOARD OF DIRECTORS DECIDE WHETHER OR NOT CAPITAL CREDITS ARE RETIRED AND PAID BACK?

The LREC Board of Directors examines the current financial state of the cooperative and considers future financial needs. If LREC's financial condition allows, the board of directors will elect to retire and pay out an appropriate percentage of the capital credit funds.

WHY DOESN'T LREC LOWER RATES INSTEAD OF PAYING CAPITAL CREDITS?

The margin that capital credits are generated from is essential for the cooperative to operate on for a number of years before being paid back to members. If the cooperative did not use these funds for operational investments first, LREC would be 100% dependent on debt, which is financially irresponsible.

WHAT HAPPENS TO MY CAPITAL CREDITS IF I MOVE AND TERMINATE SERVICE WITH LREC?

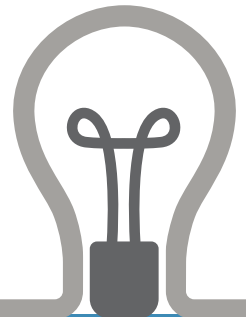
Once you terminate service, you become a former member and will no longer receive additional allocations. Your existing capital credits balance will be maintained in a capital credits account in your name until it is retired (paid) in full. When the LREC Board of Directors elects to retire (pay) capital credits in the future, a check will be mailed to the last known address on record. It is your responsibility to maintain a correct mailing address in LREC's records for the receipt of any future payments or information concerning capital credits.

WHAT HAPPENS TO CAPITAL CREDITS THAT ARE NOT CLAIMED?

General retirement checks that are returned as undeliverable are classified as unclaimed. These are held for a period of time and then returned to the state of the last known address of the member, unless the member is a Minnesota resident. Any unclaimed checks from former LREC members who are Minnesota residents are transferred to LREC's Operation Round Up program to be donated within the local communities.

WHAT HAPPENS TO THE CAPITAL CREDITS OF A MEMBER (OR FORMER MEMBER) WHO PASSES AWAY?

A special capital credit retirement is offered upon the death of a member or former member. To assist the member's beneficiaries in closing the member's account, please contact LREC at (800) 552-7658.



IF YOU HAVE ANY QUESTIONS REGARDING CAPITAL CREDITS, PLEASE CONTACT LREC:

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LREC is an equal opportunity provider and employer.