Looking out for you

Minnesota Valley Electric Cooperative (MVEC) continues to work hard keeping your electric bills affordable, providing you with reliable power, striving to exceed your expectations, staying committed to our communities and always putting you, our member-owners, first.

MVEC is member focused and member driven. Your cooperative is locally owned and controlled by you. That is why the Annual Meeting on June 15 is so important. You have input on the direction you want your electric cooperative to take, and you have the opportunity to elect fellow members to the Board of Directors to represent your best interests.

Without a doubt the electrical industry is changing. Keeping you informed every step of the way is very important. Make sure you know the latest cooperative news by reading the Electric Eye newsletter that you receive with your monthly electric bill. Not only will you find important industry news, but you will learn money-saving tips for energy use, payment programs, free online energy tools and so much more.

Thank you for being member-owners of MVEC. I encourage you to read this 2010 Annual report which highlights your cooperative’s accomplishments this past year and includes a look at our future plans for 2011. And, no matter what the future brings, one thing is certain: we are Looking Out For You.

Michelle Morrison, Board President

Seven core cooperative principles

Cooperatives around the world generally operate according to core principles and values adopted in 1995 by the International Cooperative Alliance. The roots of these principles are traced to the first modern cooperative founded in England in 1844. These core principles are:

1. Voluntary and Open Membership
   Cooperatives are voluntary organizations, open to all people able to use its services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2. Democratic Member Control
   Cooperatives are democratic organizations controlled by their members — those who buy the goods or use the services of the cooperative — who actively participate in setting policies and making decisions.

3. Members’ Economic Participation
   Members contribute equally to and democratically control, the capital of the cooperative. This benefits members in proportion to the business they conduct with the cooperative rather than on capital invested.

4. Autonomy and Independence
   Cooperatives are autonomous organizations controlled by their members. If the co-op enters into agreements with other groups or raises capital from external sources, it is based on terms that ensure democratic control by the members and maintains the cooperative’s autonomy.

5. Education, Training and Information
   Cooperatives provide education and training for members, elected officials, managers and employees so they can contribute effectively to the development of their cooperative. Members also inform the general public about cooperatives.

6. Cooperation among Cooperatives
   Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

7. Concern for Community
   While focusing on member needs, cooperatives work for the sustainable development of communities through policies and programs accepted by members.
2010 Year in Review Highlights

Power Supply

- MVEC’s new power supply contracts with Great River Energy and Basin Electric Power Cooperative produced significant benefits again in 2010; estimated savings exceed $5 million.
- Based on present load forecasts both wholesale power suppliers should have adequate resources through 2020.
- Wholesale power supply costs are likely to continue trending upward due to weak economic conditions, lower sales of surplus energy to other utilities, new generation and transmission infrastructure needed to replace aging facilities, government mandates, and costly renewable energy requirements.

Reliability

- MVEC members had their lights on 99.96 percent of the time last year, despite several major storms which caused widespread power outages.
- Automated phone messages were implemented giving members updates on the outage cause and restoration efforts. Information is also updated on www.mvec.net, which features a “real time” outage map for members accessing the Internet via smart phones or battery-powered wireless computers. Social media applications such as Facebook and Twitter are being explored for future implementation.
- Member satisfaction on electric service reliability scored 96 percent meets or exceeds expectations.

Technology

- MVEC was one of 24 cooperatives across the nation to be awarded a smart grid grant, saving the cooperative half a million dollars in previously budgeted equipment expenses. The grant focuses on programs that help manage the flow of power on high demand days, such as residential battery storage.
- Free online energy tools like Google PowerMeter and Energy Check were implemented in 2010, allowing members to view monthly, daily and/or hourly electric usage 24/7/365. Information is accessed over 1,000 times per month, and one in four members report seeing lower energy usage.
- An additional billing option, known as Prepay, is being piloted. Program benefits include: conservation, convenience and member control. Plans are to make Prepay available to all MVEC members in 2012.

Member Service

- MVEC achieved a score of 86 out of 100 points on the 2010 American Customer Satisfaction Index survey. Questions measure satisfaction on member loyalty, expectations and previous experiences with the cooperative.
- A new “unbundled” bill format was developed to itemize wholesale power costs and MVEC delivery charges. It also provides personal energy use information which helps members understand monthly energy consumption.
- $539,000 in Capital Credit refunds were returned to members in 2010. An additional $100,000 was refunded to the senior and estate programs.
- In 2011, MVEC will be updating its existing website (www.mvec.net). New features will include: easy access to payment and billing options, online energy tools and outage information and YouTube videos featuring products, services and rates.
Helping members save in 2010

Residential Energy Wise®

- Nearly 45 percent of MVEC’s members participate in one or more Energy Wise® program(s) allowing them to save 10-50 percent on their electric bills.
- MVEC processed 877 rebate offers for Energy Wise® programs, appliances and energy efficiency incentives that put over $111,000 back into the members pockets.
- A total of 58 Energy Resource Conservation (ERC) Loans were approved adding up to more than $188,000 to help members finance their Energy Wise installations.
- 96 percent of member expectations were met or exceeded on the Energy Wise® installation process.

Business Money-Saving Programs

- Added 1,758 MW of generator load management programs to various commercial, industrial and agricultural members.
- Conservation grants for new construction, customized energy projects, lighting retrofits and variable speed drives totaled more than $53,700 and helped MVEC save 1,223,666 kilo-watt hours.

MVEC in the community

From youth sports to civic offices, cooperative employees volunteer time and talent to a wide variety of organizations in the community, as well as participate in MVEC-sponsored projects:

- The cooperative’s shrimp dinner, held annually since 1999, has raised over $100,000 to build and maintain an electrical system in Pignon, Haiti.
- Employees sampled the simple Kids Against Hunger meal and donated enough cash to make 5,515 meals.
- In December, a Toys for Tots and Santa Anonymous drive was held to help provide gifts for area kids.
- MVEC participated in the Basin Scholarship program, awarding a $1,000 scholarship to high school senior Hannah Orlow of Jordan.

And the big news: the Operation Round Up Trust Fund distributed its $1 millionth dollar in May 2011. This member-funded and member-managed charitable organization has given donations to hospitals, fire departments, youth programs, shelters, libraries, food shelves, schools and other non-profits throughout MVEC’s service area.

MVEC by the Numbers

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2000</th>
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<tbody>
<tr>
<td>Miles of Line</td>
<td>3,620</td>
<td>2,982</td>
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<tr>
<td>Number of new services</td>
<td>460</td>
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<tr>
<td>Number of total services</td>
<td>34,539</td>
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<tr>
<td>Number of employees</td>
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<td>93</td>
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<tr>
<td>Energy Wise loads</td>
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<tr>
<td>Capital Credits paid to the membership</td>
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<td>$7.8M</td>
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Highlights:

2010 revenue and power costs exceeded 2009 by seven percent. The majority of this increase was related to added kWh sales. In addition, MVEC used its rate reserve fund to offset increases in wholesale power costs and satisfy the cooperatives remaining revenue requirements. As a result, no rate increase was needed in 2010.

Operating expenses increased by 10 percent. Summer and winter storm activity was responsible for much of those costs. The cooperative also dedicated more labor towards line maintenance projects, such as tree clearing, animal protection guards, etc. Depreciation, interest and taxes experienced a four percent increase mainly because of higher property tax.

Other income was down as a result of lower non-cash allocated margins by MVEC’s two wholesale power providers, Great River Energy (GRE) and Basin Electric Power Cooperative (BEPC). While 2010 net margins were also down from 2009, the cooperative’s financial position continues to be strong.

Energy Sales

Many utilities in the U.S. experienced negative growth in 2010. MVEC recognized a four percent increase in energy sales. While that’s significantly lower than previous years, it allows your cooperative to spread local operating expense over a broader base of kWh — keeping retail rates affordable. Increased sales also contributed to strengthening MVEC’s rate reserve fund by 10 percent which positions the cooperative to offset future wholesale power costs.

Wholesale Power Costs

Wholesale power costs increased 3 percent from 5.9 to 6.1 cents last year; they have increased 45 percent over the last decade. In 2006, the cooperative negotiated new power supply agreements with GRE and BEPC, which has allowed MVEC’s wholesale power costs to rise at a slower pace than the U.S. median. This is important because wholesale power, referred to as “Cost to generate energy” on your electric bill, represents 70 percent of MVEC’s total costs.

Electric Rates

By managing local operating expense (red bar) as well as absorbing wholesale power cost increases in 2010 the cooperative kept your electric rate flat from 2009 to 2010 (red and blue bars combined). MVEC’s local operating expense continues to be less than $.03 cents per kWh, or 20 percent below the U.S. average. Using technology and implementing best practices are ways to keep these costs under control.

Outlook

GRE and BEPC both announced price changes effective Jan. 1, 2011. To lessen the impact on 2011 electric rates, MVEC absorbed its first quarter increase and used its rate reserve fund to spread the remaining 2011 costs over two years — one half of the wholesale price change was implemented this year and the remainder is deferred until 2012. MVEC’s five-year budget indicates continued pressure on wholesale power costs. Local operating expenses, referred to as “Cost to deliver energy” on your electric bill, are projected to remain flat for the foreseeable future.