



Behind the Power

As your electric cooperative, it's important for MVEC to provide member-owners with safe, reliable and affordable power. It's also essential to know our business goes beyond the poles and wires.

MVEC is different from other businesses. Your cooperative was formed back in 1937. At that time, the biggest concern for the community was a lack of power. As time evolved, so did the power. Today, more than 42,000 members across nine Minnesota counties, representing nearly 1,000 square miles of service area, are being served.

What makes the cooperative business model so unique and successful is that you, our member-owners, are first. MVEC is locally owned and controlled by you. We operate on the philosophy of seven cooperative principles. These values drive our business and motivation to exceed your expectations.

Costs are rising for all of us, but when it comes to your electric bill our rates are set to cover the cost of doing business, not to generate profits for stockholders. Without stockholders, we focus on generating enough revenue to pay the cooperative's operating costs; so the business runs efficiently, and we repay our lenders. If there is excess, the money is returned to you through the Capital Credit program.

Attending your cooperative annual meeting is important. As a member of MVEC, you have a significant role in deciding the direction of our cooperative and making sure it has strong leadership. When you vote in your annual elections, you determine the directors on the MVEC Board. The Board sets the policies and is the governing body for your cooperative. You have a say in our long-term success.

As you read through the 2017 annual report, notice how these seven founding values guide us in our dedication to serve the membership. MVEC is your trusted energy partner that's loyal to the community - now and for future generations.

We hope to see you April 10 at your cooperative's 81st Annual Meeting. As always, it's a privilege to serve you.

Brent Lawrence, MVEC Board President

COOPERATIVE PRINCIPLES

THE SEVEN FOUNDING VALUES OF CO-OPS



OPEN & VOLUNTARY MEMBERSHIP

Cooperatives are voluntary organizations, open to everyone who is able to use their services and is willing to accept the responsibilities of membership.



DEMOCRATIC MEMBER CONTROL

Cooperatives are democratic organizations controlled by their members, who actively participate in setting policies and making decisions.



MEMBER ECONOMIC PARTICIPATION

Members contribute equitably to, and democratically control, the capital of their cooperatives.



AUTONOMY & INDEPENDENCE

Cooperatives are independent, self-help organizations controlled by their members.



EDUCATION, TRAINING & INFORMATION

Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives.



COOPERATION AMONG COOPERATIVES

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together.



CONCERN FOR COMMUNITY

While focusing on member needs, cooperatives work for the sustainable development of their communities.



Touchstone Energy® Cooperatives

The power of human connections®

Your cooperative

is committed to delivering personal service and dedicated to ensuring member interactions are timely, friendly and responsive. The Seven Cooperative Principles are imperative to our business philosophy.

JANUARY

- ◆ Newly-designed website launched, offering 24/7 member service capabilities and language translation options.
- ◆ Employees kick off safety culture training campaign – Speak UP! Listen UP! Encouraging routine conversations about safety is critical in our business. Goal: every employee goes home safely to their family at the end of each day.

FEBRUARY

- ◆ Announcement made: no rate increase for 2017.
- ◆ Board of Directors approve \$10 million construction budget for reliability projects throughout service area.

MARCH

- ◆ Multiple construction projects for reliability and road moves begin, including installation of new underground cable and overhead lines in Chanhassen, Eden Prairie, Prior Lake and Belle Plaine. Project costs range from \$217,000 to \$2,330,000 and provide additional reliability for load growth.



- ◆ Bakken Museum’s “War of the Currents” presented to fourth and fifth graders at Belle Plaine’s Oakcrest Elementary School. Students learn about the history of electricity and how it’s generated.

APRIL

- ◆ Annual Capital Credit distribution of \$1.179 million paid back to eligible members. \$21 million to member-owners since 1959.
- ◆ Over 500 members attend 80th Annual Meeting. Fifteen \$1,000 scholarships awarded to area high school seniors.
- ◆ Approval of revisions to MVEC’s Articles and Bylaws makes the 80-year-old document current and compliant with state statutes.



MAY

- ◆ Income-eligible members receive funding to make affordable energy-efficient upgrades at reduced or no cost as part of the state’s Conservation Improvement Program (CIP).
- ◆ The fifth Beat the Peak Energy Challenge begins Memorial Day with over 2,900 participants and 21 teams ready to save energy and money.



JUNE

- ◆ New “Bring Your Own Thermostat” program launches and features Honeywell and Nest WiFi thermostats.
- ◆ Cyber security training implemented company-wide for employees to learn about security threats and the importance of keeping

personal and member information safe and secure.



JULY

- ◆ Line crews participate in annual pole top and bucket rescue proficiency evaluations to ensure safety measures are correctly practiced in the field.



OPERATION ROUND UP impacts the MVEC community the entire year. Quarterly, the ORU Board of Trustees (comprised of co-op members) research and approve grant applications from local charities and community organizations, such as school groups, fire departments and social services.

- ◆ 2017 ORU contributions were \$125,779.
- ◆ Total donations since 1995 inception: \$1,689,507.10.

Thank you to participating members who round up their bills!

2017 = busy, successful year

AUGUST

◆ MVEC has 130 commercial and industrial accounts participating in the Peak Alert Generator Program. Throughout the year, key account staff makes site visits to discuss on-site generator program benefits and savings. On average, business owners save 30 percent on energy costs, and it also contributes to significant wholesale power savings for the co-op.

SEPTEMBER

◆ Two MVEC linemen, along with linemen from five other Minnesota electric cooperatives, caravan across the United States to help with Hurricane Irma restoration efforts in Live Oak, Florida.



◆ Electric products and money-saving Energy Wise programs promoted in a dozen MVEC suburban homes during the Fall Twin Cities Parade of Homes.

OCTOBER

◆ End results of Beat the Peak Energy Challenge show members saved 19.5 megawatt hours of electricity over the summer — enough power to operate a tilt-a-whirl ride for 32 days non-stop and give a thrill to 305,000 riders!

◆ Staff presents MVEC's free tabletop safety demonstration at several local fire department open houses in honor of Fire Prevention Month.



NOVEMBER

◆ The co-op's 28th substation, Cedar Lake, is successfully completed within budget and projected timeline. In Savage, preparations continued for the development of the Zinran Substation. Both projects strengthen system reliability.

◆ Annual power pole inspections include GPS locating, visual inspection, sounding and review of structural integrity. 5,438 poles were inspected for a total cost of \$45,000. MVEC has 42,300 poles within its nearly 1,000 square-mile service area.

DECEMBER

◆ Employees collect toys and presents for Toys for Tots and Hope for the Holidays program that assists families in need during the Christmas season.

◆ Over \$6.6 million in wholesale power costs saved in 2017, thanks to residential Energy Wise and commercial on-site generator participants.

◆ 2017 ends with 843 new services — the highest amount since pre-recession year 2007. Growth is steady and expected to continue into 2018. MVEC has 42,536 total services.



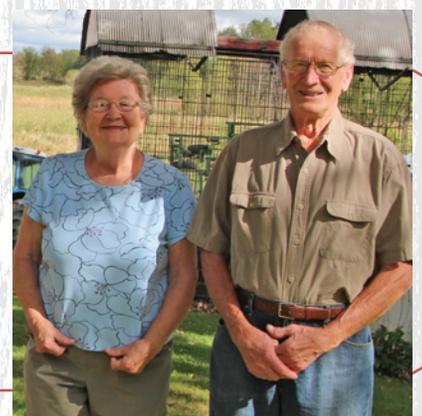
Your cooperative staff spends considerable time planning and providing members with safe, reliable and affordable electricity. That's why we thank you for giving us an American Customer Service Index score of

88.5 out of 100 possible points in 2017 on member satisfaction.

ENERGY WISE is a year-round way to save energy and money. Participants receive significantly-reduced electric rates or bill credits.

◆ Energy Wise participation increased 34 percent in 2017.

Jeff Schoenecker of New Prague figures he saved at least \$1,000 last winter with an air source heat pump. Rita and John Stasney save with a heat pump, boiler, baseboard and fan-forced heat and electric water heater in their 112-year-old farm house near Montgomery.



financial
report for
the fiscal
year
2017

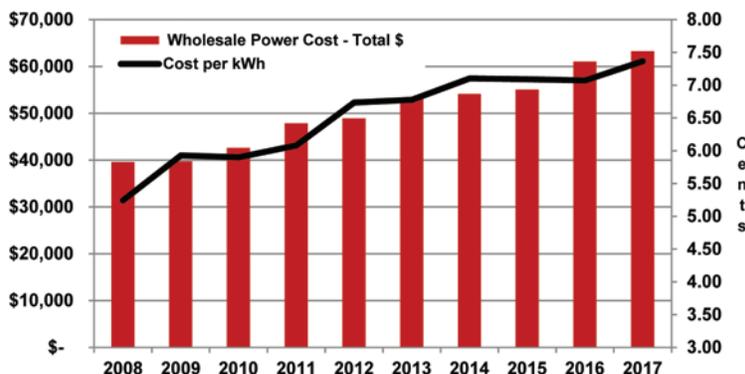
Operating Statement 2017 2016

Revenues	\$87,359,000	\$84,304,000
Expenses		
• Wholesale Power Costs	\$63,229,000	\$61,031,000
• Operating Expenses	\$13,215,000	\$12,920,000
• Depreciation, Interest & Taxes	\$9,904,000	\$9,207,000
Total Expenses	\$86,348,000	\$83,158,000
Other Income	\$2,420,000	\$3,362,000

Net Margins	\$3,431,000	\$4,508,000
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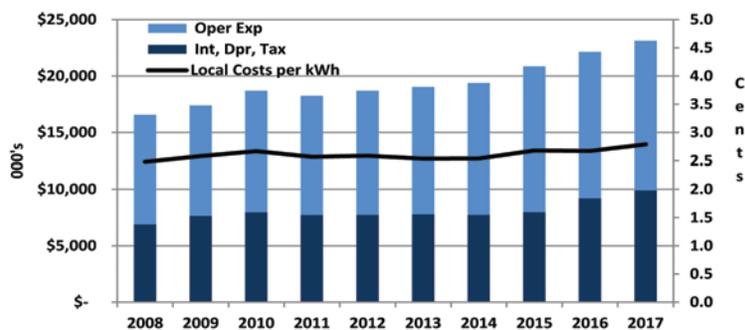
COST TO GENERATE

The first cost driver of your electric bill is the Cost to Generate energy (Generation and Transmission), which represents over 70% of the co-op's costs. Overall volume has caused this purchase to climb, but more significant is the increasing rate per kilowatt hour, nearly 30% during the past 10 years.



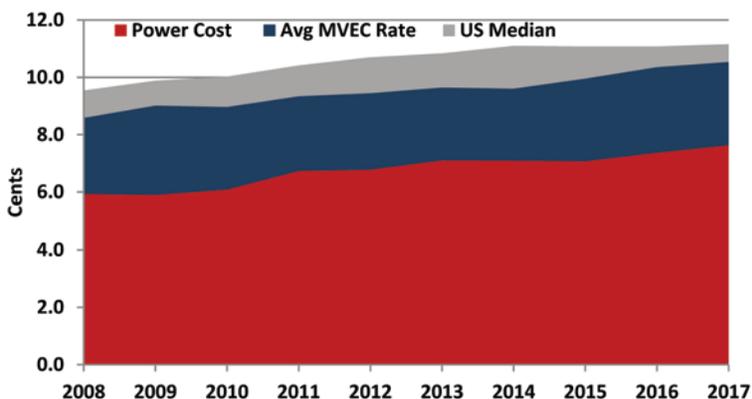
COST TO DELIVER

The second cost driver of your electric bill is local expense, the Cost to Deliver energy. While operating expense, depreciation, interest and property tax have also increased, the per kWh rate has remained relatively flat. Growth helps spread all local costs over more kWh which keeps this portion of your electric bill minimally impacted.



RATE TRENDS

Power Cost (70% of MVEC's cost structure) and local expense (the remaining 30%) comprise your monthly electric bill. MVEC's average rate continues to be less than the national average. The co-op's Commercial and Residential load management programs make MVEC rates even more attractive. Participation in these programs are at nearly 50%.



Balance Sheet

- Plant Investment (poles, wires, etc.) \$171,289,000
- less depreciation: \$45,663,000
- Investments \$38,640,000
- Current Assets \$18,569,000
- Rate Stabilization Reserve Fund \$6,732,000
- Other Assets \$70,000

Total Assets
\$189,637,000

- Current and Accrued Liabilities \$20,773,000
- Long-Term Obligations \$94,089,000
- Deferred Credits \$7,653,000
- Total Equity \$67,122,000

Total Liabilities and Equity
\$189,637,000

Summary:

Your cooperative is financially strong.