

2019 ANNUAL REPORT

special edition of the March 2020 Electric Eye newsletter

Deep Roots. Locally Owned. Always Member Focused.

Minnesota Valley Electric Cooperative (MVEC) works hard to create a partnership with our member-owners. MVEC's mission is to create exceptional member experiences, while safely providing reliable energy at cost. This is both a privilege and our commitment to you every day.

To efficiently and effectively operate the cooperative, there are various items taken into consideration. Bylaws, policies and procedures, strategic plans with goals, contracts and financial statements. All items work comprehensively together and allow your Board of Directors and MVEC team members to focus on providing you with the best electric cooperative.

With this in mind, there is a high regard for being responsible. While other business types need to produce returns for investors or stakeholders, cooperatives focus on their members. You are the owners of this business. We realize that over time the membership evolves

(serving more than 43,000 members today), but the cooperative business model ensures the values of the membership guide the company. Our deep roots show MVEC met a need that was previously unmet in the community back in 1937 when your co-op brought electricity to rural areas.

With every monthly payment, you are investing in your local electric system, positively impacting it in a variety of ways. Below recaps some of the 2019 highlights:

- **As a not-for-profit business**, MVEC returns margins to you through Capital Credits. In 2019, \$1.4 million in general retirement was returned. Since 1959, more than \$26 million has been given back to the members of this cooperative.
- **MVEC received an ACSI (American Customer Satisfaction Index) score of 91.** Comparatively, the Investor-Owned Utilities industry scored 73 (2019 ACSI Report). Our employees provide exceptional customer service.
- **MVEC's general service rate** has not increased since 2016 and our average rate is currently 10 percent below Xcel Energy.
- **MVEC's Energy Wise programs** help

members save on their electric bills and collectively save on MVEC's wholesale power costs. A recently-signed contract moves the cooperative to our goal of 20 percent renewable energy in 2020.

Another value of the co-op business model is that Board of Directors are elected by their fellow MVEC members - in other words, you. Because we are members, we base our decisions looking out for the best interest of all members. As a Board, we have a solid set of policies that guide the business and are reviewed monthly. This allows policies to reflect current issues we face as a cooperative and community, within legislation and our country. We hold ourselves to a high business and ethical standard and look to make a strong partnership with our members and our communities.

We hope to see you on April 7 at MVEC's Annual Meeting. It's a great opportunity for us to build our partnership and show you our vision of being a trusted energy partner loyal to the community - now and for future generations.

Brent Lawrence
MVEC Board President



MVEC's 83rd Annual Meeting is Tuesday, April 7, 2020, at Arlington Community Center, 204 Shamrock Drive, Arlington, MN. Registration is 6:30 -7 p.m. with an hour-long business meeting starting at 7 p.m. All households registered by 7 p.m. will receive a \$15 bill credit on May electric bills. Scholarship winners and prize drawings will be announced at the end of the business meeting.

Winter Storm Wesley Mutual Aid



In April, MVEC sent 12 linemen to help neighboring electric cooperatives in southern Minnesota that had extensive storm damage.

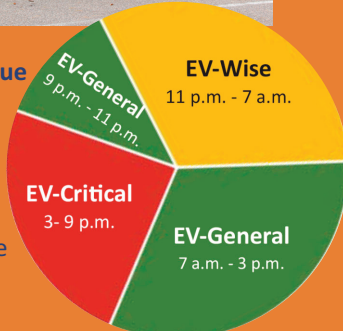
Tesla Model 3 Electric Vehicle

EVs are a growing trend in MVEC's service area and we don't see this trend slowing down. At the end of 2019 there were 145 EVs connected to our money saving Energy Wise programs.



EV24 Program Offers Value with Time of Use Rates

Who doesn't like flexibility? This unique program offers EV charging with fluctuating rate periods based on the time of day you charge your EV.



- 93% of all charging occurs during **EV-Wise hours**
- 4% of all charging occurs during **EV-General times**
- 3% of all charging occurs during **EV-Critical time**

Reliability Improvement

Tree-related incidents are a leading cause of MVEC outages. To better understand current Right-of-Way (ROW) vegetation cycles, field inspections were conducted, and current and past practices along with map updating of historical trimming data was reviewed. The thorough investigation allowed recommendations to be made to current policy and procedures to manage ROW more effectively. This will positively improve reliability for our membership.



2019 tree trimming budget: \$1.8 million

2019 at a glance

Line Crews

On average, an MVEC lineman is called out for after hours emergencies and outages 233 hours each year.

Dedicated to keeping your lights on 24/7

- 26 full-time linemen + summer apprentice program
- 438 years of combined experience at MVEC
- Maintain 4,000+ miles of line in 9 suburban and rural Minnesota counties

Electric Grid System

Designing an efficient and reliable system

- \$13.8 million: 2019 Construction Budget
- Maintained 29 substations with the Cleveland Substation upgraded and Waconia Substation totally rebuilt
- 823 new services added

SAFETY

Enhancing MVEC's safety culture is critical. All 90 employees are expected to promote and practice safe work habits which helps ensure everyone goes home safely, every day. In 2019 the employees collectively had over 3,600 hours of safety training recorded. A wide range of training sessions are offered, from Sky Warn, to CPR and First Aid, to distracted driving, pole top rescues, tree trimming, gas line and various equipment trainings.

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- \$986,000 Margin Refund for Legacy members
- \$100,560+ residential rebates paid. Rebates available for: Energy Star appliances, Air Source, Ground Source and Mini Split Heat Pumps, ECM motors, electric resistive heat products, cooling tune ups, EV chargers

Business Rebates

- \$176,790: Commercial and Industrial grants paid. Rebates available for: LED lighting, high efficiency heating ventilation and AC, variable speed drive motors, roof top units, dairy and commercial food service equipment

OPERATION ROUND UP

This voluntary program of "rounding up" monthly electric bills to the next dollar raised \$130,722 in 2019 for local charitable organizations. Total donations since inception in 1995 are \$1,878,550. **Thank you!**

INFORMATION TECHNOLOGY

Cyber security is important
MVEC works diligently to keep personal data and the electric grid safe and secure. MVEC actively engages with national laboratories and government agencies to receive and respond to the latest intelligence threats.

- 10 percent traffic increase at www.mvec.net – 132,300+ visitors
- 24,746 members enrolled with SmartHub, a secure information center for your account needs. Check usage (daily, hourly), make payments, view billing history, set notifications, receive alerts, report outages and more, all from your computer, phone or tablet

Online
Experience

Energy Saving Programs = Member Benefits

Members save 10-50 percent on their electric rates with residential Energy Wise Programs. Electric energy is comfortable, efficient and an economical choice when paired with MVEC's popular Energy Wise programs.

- 1,000+ new residential Energy Wise load installations
- **Total Energy Wise participants enrolled:** Cooling (15,584) • Electric water heating (5,772) • Electric resistive heating (7,289) • Wifi thermostat (2,000)

Commercial and Industrial LED Lighting Retrofit Projects that were implemented saved more than 3.6 million kilowatt-hours (kWh). The energy savings achieved is equivalent to powering a large Cub Foods or Target store.

Community Partnerships

Providing reliable and safe electric service is important, but we also look to be good stewards in our local communities by paying it forward:

- Sixteen \$1,000 high school scholarships awarded
- College internship and apprentice lineman programs
- Youth Tour leadership program in Washington, D.C.

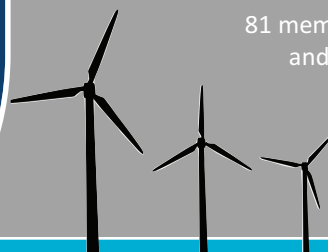


Employees gathered after hours in November to make over 40 fleece tie blankets, which were donated to local organizations.

The electricity delivered to your home includes increasing amounts of renewable energy purchased by MVEC. The Board approved two wind contracts, totalling 66,375,000 kWh of renewable energy. Our GreenSource Program gives members options to personally increase their amount of renewable energy by purchasing wind and solar Renewable Energy Credits (RECs).

- **GreenSource Subscriptions: Wind: 2,768 and Solar: 439**

81 members have a wind turbine and/or solar array at their home or business. The total capacity is 1,264 kWh or the equivalent of 35 Caribou Coffee Shops.



GreenSource Program Subscriptions: 3,207

Financial Report for the calendar year 2019

Operating Statement

	2019	2018
Revenue	\$90,258,000	\$92,168,000
Expense		
• Wholesale Power	\$63,750,000	\$66,598,000
• Operating	\$14,960,000	\$14,509,000
• Depreciation, Interest & Taxes	\$10,400,000	\$10,017,000
Total Expense	\$89,110,000	\$91,124,000
Other Income	\$2,301,000	\$4,297,000

Net Margin \$3,449,000 \$5,341,000

Balance Sheet

• Plant Investment
(poles, wires, etc.)
\$195,209,000

less depreciation:
\$50,246,000

• Investments
\$43,984,000

• Current Assets
\$17,987,000

• Rate Stabilization
Reserve Fund
\$6,432,000

• Other Assets
\$28,000

**Total Assets
\$213,394,000**

• Current and
Accrued Liabilities
\$24,451,000

• Long-Term
Obligations
\$108,684,000

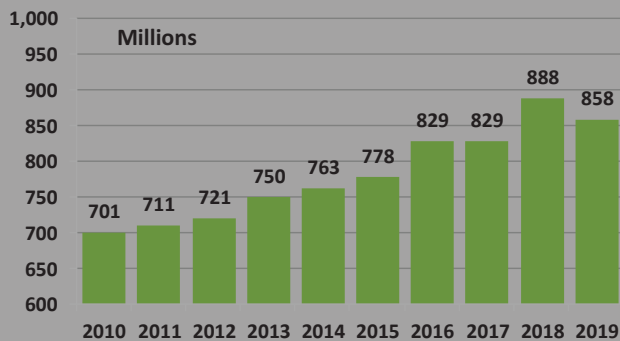
• Deferred Credits
\$7,750,000

Total Equity
\$72,509,000

**Total Liabilities
and Equity
\$213,394,000**

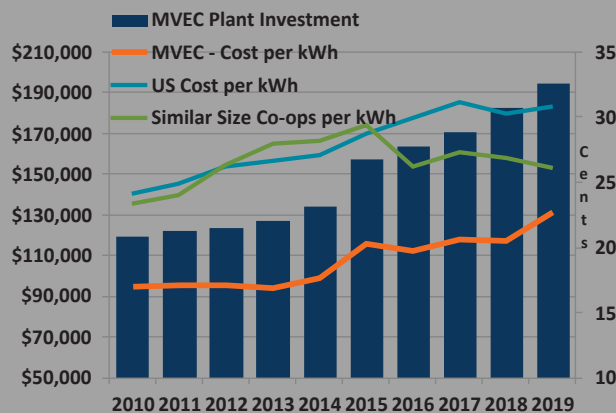
MVEC Annual Energy Sold (000s)

Revenues dropped in 2019 vs. 2018 due to lower kWh sales volume and loss of members from an annexation of MVEC territory by a local municipal. In 2018, the co-op realized 7 percent growth over 2017. The increase in sales volume for 2015-16 was aided by a mid-year acquisition of Alliant Energy territory (a full-year impact was in 2016). With more sales, operating expense can be spread over a greater kWh base, keeping your electric bill impact to a minimum.



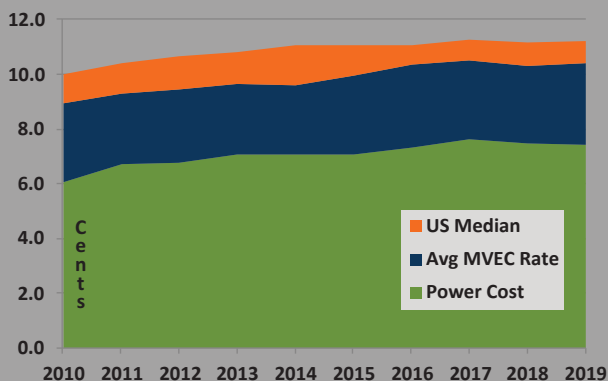
Total Plant Investment (000s)

The need to support growth and maintain the existing electric grid has increased substantially the past 10 years. The importance of these investments is to continue improving upon a reliable system. Despite unprecedented growth, MVEC's cost per kWh continues to be 30-40 percent below similar size cooperatives and the U.S. median respectively.



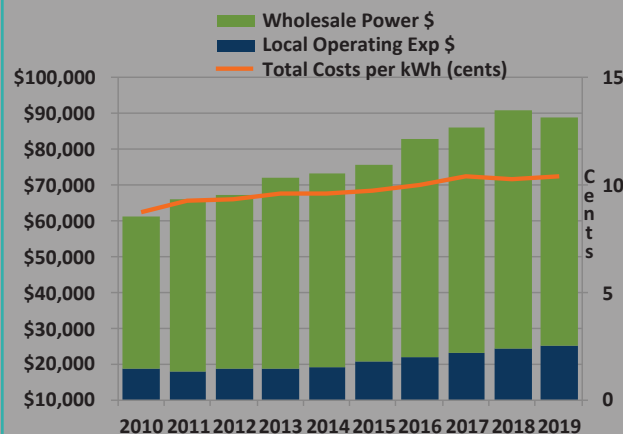
Rate Trends (cents per kWh)

MVEC's average electric rate continues below the national average by 8 percent. The co-op has not had a general service rate increase the past three years, and rates will continue to be stable in 2020. Commercial and residential load management programs help members further reduce their monthly electric bill. Locally, the cooperative also compares favorably to Xcel Energy and is competitive with various municipal utilities.



Cost Components (000s)

As labeled on your electric bill, the Cost to Generate (Wholesale Power) represents the majority of your costs at 7+ cents per kWh. The Cost to Deliver is about 3 cents per kWh and represents MVEC's efforts to bring power from the substation to your location, while ensuring reliable service.



Summary:
Your cooperative is
financially positioned
to meet 2020
needs.