

2016 Annual Report

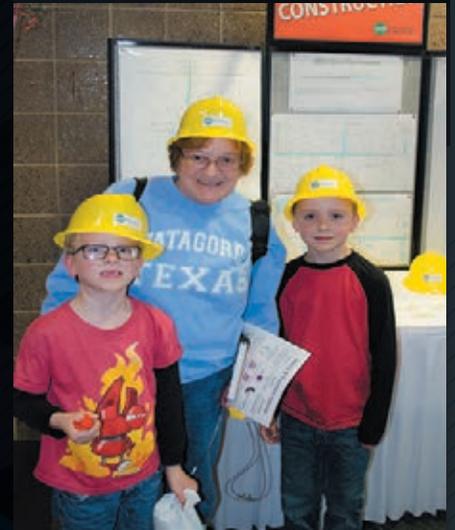


**Beltrami Electric
Cooperative Inc.**

® Your Touchstone Energy® Cooperative 

Northern Lights, April 2017

77th Annual Meeting • April 20, 2017



YOUR
We are
Cooperative.

The power is YOURS.

NORTHERN L I G H T S

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Office Hours: 8 a.m. to 4:30 p.m.
Monday – Friday

Member Service: 218-444-2540
or 1-800-955-6083
www.beltramielcric.com

Board of Directors

President	Rick Coe, DISTRICT 6 (Minnkota Director)
Vice President	John Lund, DISTRICT 7
Secretary	Murl Nord, DISTRICT 1 (Square Butte Director)
Treasurer	Judy Honer, DISTRICT 9
Directors:	Lea Perkins, DISTRICT 2; Charles Parson, DISTRICT 3; Jerry Larson Sr., DISTRICT 4; Robert Wallner, DISTRICT 5; Sue Kringsen, DISTRICT 8
CEO	Jared Echternach
Editor	Angela Lyseng

This institution is an equal opportunity provider and employer.

Minnesota State Electrical Inspectors
Beltrami and Clearwater Counties
Davis Smid
507-227-2772 - mntristate@gmail.com

Cass and Hubbard Counties
Steve Schauland
218-652-2213 or fax 218-333-0451

These are the inspectors covering the area served by Beltrami Electric. They can be reached by phone Monday through Friday between 7 and 8:30 a.m. or by fax or email as indicated.

Gopher State One Call
1-800-252-1166 or call 811

Anyone who is planning to dig is required by law to notify the state of their intentions at least 48 hours in advance.

All digging requires the 48-hour notification so that buried telephone line, television cable, pipelines, electrical lines, water lines and sewer lines can be located to ensure that none will be severed or damaged.

REPORT TO THE MEMBERS



Jared Echternach
CEO



Rick Coe
Board President

Year of changes and challenges

2016 was a year of change at your cooperative. New leadership, a new director, a new CEO and several new employees have changed many of the faces at your cooperative. What hasn't changed is our commitment to you, our member-owners. As part of this change, your board of directors and employees completed a strategic planning process in 2016, resulting in updated Vision, Mission and Values Statements. Through this process we identified five strategic initiatives: Support Growth Within the Membership and Communities We Serve; Increase Member Awareness and Engagement; Leverage Technology for the Benefit of our Members; Succession Planning and Workforce Management to Attract and Retain Employees Whose Values are Consistent with our Organization; and Continue to Improve our Safety Culture. These initiatives include several supporting objectives and goals and are part of a multi-year strategy to improve your cooperative.

Major storm

2016 was also a challenging year for your cooperative. A major storm swept through our service area in July disrupting power and interrupting the lives of many of our members.

Employees worked tirelessly to restore power as safely and as quickly as possible. Nothing can bring a team together more than adversity. This was the case during the July storms. It was an honor to see our employees rise to the challenge and excel during the storm and we are proud of their effort on behalf of our members. Neighboring cooperatives chipped in during the storm with additional crews and equipment and power was restored to all members within three days. We're fortunate that we don't have many of these storms, as they are costly to your cooperative, not to mention the inconvenience to our members. We're also fortunate that one of our seven cooperative principles is Cooperation Among Cooperatives and we witnessed that cooperation first-hand in July. We felt the true power of our membership as members lent a hand wherever they could by providing information on damaged areas or stopping by to give a crew a bottle of water or a sandwich. That means a lot to our employees and we thank you as member-owners for caring.

As a result of the July storm, we experienced more sustained outages in 2016. Despite the fact that more than 70 percent of our lines are now underground, trees remain the number one cause of outages in our service territory and it's imperative we continue to manage the vegetation beneath and around power lines to improve safety and service reliability. We need your help in this effort and we ask for your support.



Sales and margins

We were also challenged by another mild winter that resulted in lower-than-budgeted residential energy sales, producing revenues and margins below budget. This is the fourth consecutive year of decreased residential energy sales. While the mild winters are certainly enjoyable, it has placed upward rate pressure on our cooperative

as we have sold fewer kilowatt-hours over which to spread our fixed costs.

Fortunately we had deferred revenue to recognize and did so in 2016 to meet our loan covenants. We used \$800,000 of this deferred revenue in 2016 and will likely use the remaining \$200,000 in 2017 to help minimize the impact of pending rate increases. As a result, your cooperative ended the year with an operating margin of \$756,000 and a total margin of just over \$1.5 million, thanks in part to our investment in Cooperative Development, our subsidiary owned jointly with Paul Bunyan Communications. We also retired more than \$1 million in capital credits to current and former members in 2016.

Rates

Minnkota Power Cooperative, our wholesale power supplier, increased rates 3.4 percent in 2016, which we were unable to absorb. The bottom line meant an increase to our members in 2016. Minnkota will implement a 2.9 percent wholesale power cost increase in 2017, which again we are unable to absorb and your board of directors is working to determine the extent of the increase needed to maintain financial stability and meet our loan covenants. Approximately 70 percent of every dollar you pay on your electric bill goes toward the cost of wholesale power. The remaining 30 percent includes operational costs, depreciation, interest and margins. We will continue to monitor revenue, expenses and, most importantly, our controllable costs, attempting to minimize their impact on rates. Our last cost of service study conducted in 2015-2016 showed that our monthly access charge should be in the low-to-mid \$40 range. Our existing monthly access charge is \$34.50, so we still have a ways to go before we recover our fixed distribution costs through the monthly access charge.

Work plans

2016 was a busy construction year for your cooperative. We completed the final year of this four-year construction work plan, including major projects along Beltrami CR 39 (Scenic Highway), State Hwy. 1, Archery Road, Mission Road, the Red Lake substation feeder and south of U.S. Hwy. 2 in Cass Lake. Crews also constructed more than 250 new services and performed more than 100 service improvements for our membership. It's a reassuring sign that our local economy continues to slowly grow.

Your board approved a new four-year construction work plan at the end of 2016. These projects are designed to maintain and improve service reliability to our members. Major work for 2017 includes projects near the Red Lake Hospital, along State Hwy. 371 north of Walker, along 16th St. in Bemidji, along the North Plantagenet Rd. south of Bemidji and along Beltrami CR 39 (Scenic Highway). We also expect to build another 250 new services and perform 100 or so system improvements. These activities will keep our employees busy throughout the year. In addition, we will continue our meter change-out project with completion expected by the end of 2018.

Northern Solar

Your cooperative is proceeding with the development of a community solar array. The 80-kilowatt (kW) array will

be located at our headquarters facility with construction to begin in earnest this spring. This project is a great example of how local control and decision-making is much better than legislative or regulatory mandates. Members who want to participate in this project are able to do so. If you are interested in purchasing local, renewable energy without the cost and hassle of a rooftop system, this may be a good option for you. If you are interested in this option, please contact the cooperative.

Legislative outlook

State and federal legislative issues continue to require constant monitoring and effort to minimize their potential impacts and, in some cases, unintended consequences. We continue to advocate for fairness in the Environmental Protection Agency's (EPA's) proposed regulation of carbon dioxide that, as written, will drive up the cost of electricity to our members. Current projections estimate a 30-50 percent increase in wholesale power costs if the plan is implemented as written. With a new administration we are hopeful at the very least to delay the implementation of this plan to allow more time for compliance and to ease the burden of potentially stranded generation assets in North Dakota.

On the state level, the 2016 election resulted in an entire new slate of legislators serving our area. We have spent a great deal of time meeting with Rep. Grossell, Rep. Bliss, Sen. Eichorn and Sen. Utke on issues facing our cooperative. We are pleased to report that all of our Minnesota legislators have been receptive and supportive of our issues.



One piece of legislation for which we have advocated is appropriately titled Local Democracy. This legislation ensures disputes regarding net metering are solved at the local co-op level rather than going before the Minnesota Public Utilities Commission – a costly process. This goes to the heart of what a cooperative is: a member-owned, locally-controlled, locally-governed entity. We don't need a governor-appointed, five-member commission from St. Paul dictating what's best for our cooperative. We truly believe our members are best suited to shape their own future. We were pleased that both the House and Senate passed this legislation with overwhelming majorities. We are disappointed that Governor Dayton vetoed this legislation less than 24 hours after receiving it. We will now seek to attach this legislation to an omnibus bill later this session. Rest assured we will continue to work diligently to engage our legislators on your behalf to minimize the potential impact of harmful legislation.

In closing, we would like to thank you for your patronage and support over the past year. We would also like to thank your dedicated employees who continue to provide the best possible service to you, our member-owners.

Cooperatively yours,
Jared Echernach, *CEO*
Rick Coe, *Board President*

BOARD OF DIRECTORS



Rick Coe
President
District 6
Minnkota Director



John Lund
Vice President
District 7



Murl Nord
Secretary
District 1
Square Butte Director



Judy Honer
Treasurer
District 9



Sue Kringen
Director
District 8



Jerry Larson Sr.
Director
District 4



Charles Parson
Director
District 3



Lea Perkins
Director
District 2



Robert Wallner
Director
District 5

THE MISSION OF BELTRAMI ELECTRIC COOPERATIVE

“To provide excellent value to our members through the safe delivery of reliable electric service, excellent member service and innovative energy solutions at fair and reasonable prices.”

DISTRICT MAP & SAMPLE BALLOT



Highlighted areas denote 2017 election districts.



2017 Official Ballot Director Election

NOTICE: Please return your ballot in the enclosed envelope. Your ballot must be received by mail by 8:00 a.m. on April 20, 2017 at Survey & Ballot Systems, or submitted in person at the annual meeting starting at 7:00 p.m. on Thursday, April 20, 2017 at the Berwick High School.

Marking Instructions

- Use black or blue ink or No. 2 pencil only.
- Erase changes clearly.
- Fill circles completely.
- Make no stray marks on this form.

You may vote for one candidate in each district

District 2 Three-Year Term Vote for <u>one</u> candidate	<input type="radio"/> Donald (Charlie) Perkins, Sr.	4 nomination votes received
District 4 Three-Year Term Vote for <u>one</u> candidate	<input type="radio"/> Craig Gaasvig <input type="radio"/> Christina Pegas	10 nomination votes received 3 nomination votes received
District 6 Three-Year Term Vote for <u>one</u> candidate	<input type="radio"/> Rick Coe (Incumbent)	19 nomination votes received

NEW IN 2017: ONLINE VOTING!

See your ballot for more information.

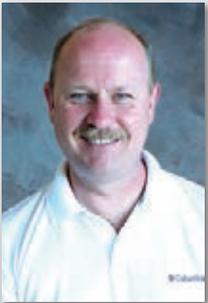
District 2, Donald (Charlie) Perkins, Sr.



Charlie is a lifelong resident of Red Lake. He is a maintenance worker at the Red Lake Hospital, where he performs various electrical work on items such as generators, high-voltage circuits, power meters, etc. He is a graduate of Red Lake High School and completed the two-year carpentry program at the Minnesota State Community and Technical College in Detroit Lakes, Minn. He also attended Bemidji State University for Industrial Technology. Charlie enjoys spending time and traveling with his children, Donald Jr., Alexandra and Aydon, taking walks with his dogs, target shooting and hunting.

What qualifications do you possess that would make you a good choice to represent the members of Beltrami Electric on the Board of Directors? I am proud to continue in my family's footsteps, extending our commitment to the members of Beltrami Electric Cooperative. My sister, Lea Perkins, has served on the Beltrami Electric board since 2005, and previously my father, Ed Perkins, served on the board for eight years. I am passionate about my community, family and friends. I hope to be able to utilize my knowledge and electrical experience to work hard for the members of the cooperative, providing reliable and affordable electric service to our area.

District 4, Craig Gaasvig



Craig has lived in the Bemidji area his entire life, including the past 17 years in Port Hope Township. He has been a regional account manager with North Country Business Products of Bemidji for 23 years. Craig is a graduate of Bemidji State University with a bachelor's degree in mathematics, along with a secondary education licensure. He has served as supervisor of the Port Hope Township board for the past 10 years. Craig was a Ducks Unlimited committee member for 10 years, serving in many roles, including treasurer. He also serves on the Bemidji Rural Animal Control Organization (BRACO) board, which is a group formed by townships to manage animal control outside of the city limits. Craig and his wife, Karen, have two sons, James and Jonathon. He is an avid walleye fisherman and enjoys hunting and fishing for many different species.

What qualifications do you possess that would make you a good choice to represent the members of Beltrami Electric on the Board of Directors? I have roots in this area, with a history of community service. I feel my experience on other boards provides a knowledge base that will assist me in understanding the cooperative business. I genuinely care about the people and the area we live in and I look forward to serving you, the members of the cooperative.

District 4, Christina Regas



Christina has been a Beltrami County resident for 20 years. She currently serves as the City Administrator for the city of Blackduck. Christina has an associate of arts degree from Vermilion Community College in Ely, Minn., and a Bachelor of Arts degree from the University of Hawaii at Manoa. She has served on several boards such as the Blackduck Development Corporation, Blackduck Chamber of Commerce, Blackduck Area Ambulance board and the Golf Course board. She also volunteers with the Bemidji Take a Kid Fishing, Blackduck Youth Wrestling, Cub Scouts and the Blackduck Backwoods Bash. She and her husband, Demosthenes (Demo), live in Hines with their son, Gunnar. They enjoy spending time outdoors, skiing, snowmobiling, camping, hunting and fishing.

What qualifications do you possess that would make you a good choice to represent the members of Beltrami Electric on the Board of Directors? My years of experience working with the public in my past and present careers have developed my skill to work with people of all ages and backgrounds. Holding a customer service role means you must have the ability to listen and understand many perspectives and deliver a solid solution for all parties. I feel this skill is invaluable when working with a board of directors. A director is one voice of many and must work toward a common ground for the greater good of the membership of the co-op.

District 6, Rick Coe



Rick has lived in the Bemidji area for 44 years and resides in Northern Township. He has been a member of Beltrami Electric for more than 30 years. Rick retired from the Bemidji Public Schools where he was employed as a teacher, counselor and coach. Coe has a Master of Science degree in counseling from Bemidji State University. During his educational career, he was involved in many labor negotiations, acting as chief negotiator three different times. For 31 years he coached all levels of youth hockey and baseball and has also served as a board member with these sports. Rick has been active in various committees within the Bemidji community and at his church. He has served District 6 on the Beltrami Electric board since 2008 and has been the president since 2011. He and his wife, Mickie, have three grown children and three grandchildren.

What qualifications do you possess that would make you a good choice to represent the members of Beltrami Electric on the Board of Directors? I have served as a director of Beltrami Electric Cooperative for 9 years and I am currently the board president. I also serve as a director on the Minnkota Power Cooperative board (our generation and transmission co-op) and the Minnesota Rural Electric Association board (our statewide co-op). I have gained a great deal of knowledge and experience from serving on these boards. Being a member of Beltrami Electric Cooperative for 35 years, I have the passion and dedication to serve you the members and I will continue to do so.

ANNUAL MEETING MINUTES



The annual meeting of the members of Beltrami Electric Cooperative Inc. was held at the Bemidji High School in Bemidji, Minn., on Thursday, April 21, 2016, commencing at 7 p.m. Rick Coe presided as chairman. The following directors were present:

Murl Nord	Judy Honer	Lea Perkins
John Lund	Rick Coe	Jerry Larson
Charlie Parson	Bob Wallner	Terry Diffley

The chairman asked all to stand for the National Anthem and invocation. The chairman recognized Lara Hicks of Bemidji, who was selected as the Youth Tour delegate to Washington D.C., and also led the group in singing the National Anthem.

Director Judy Honer gave the invocation.

The Chairman called the meeting to order at 7:05 p.m. and announced that a quorum was present with 169 registered voting members present and appointed Attorney Gerad Paul as parliamentarian.

The chairman asked for membership approval of the Notice of Meeting and previous year's minutes. Both were approved without objection.

The chairman introduced the current directors and recognized Lea Perkins and Terry Diffley for their years of service on the board as well as past directors in attendance.

The chairman recognized retiring CEO Lynette Nieuwsma, and spoke about the highlights in her 10-year career at Beltrami Electric Cooperative.

Door prizes were given out at intervals throughout the meeting.

Attorney Gerad Paul introduced the director candidates from District 1, 5 and 8, one from each district.

Attorney Paul noted that the bylaws allowed for a waiver of the formal balloting requirement and asked for a motion from the floor to declare all three candidates elected to serve their respective districts. Upon motion made, seconded and carried, Attorney Paul then announced the election of Murl Nord, Bob Wallner and Sue Kringen as directors of Beltrami Electric Cooperative. The meeting was then turned over to Chairman Coe.

Sidney Sletten, Beltrami Electric Cooperative director of finance and member services, gave the annual financial report.

CEO Jared Echternach recognized the special guests in attendance and gave a report on the past year's performance, energy sales, construction projects and new programs of Beltrami Electric Cooperative.

The chairman introduced Mac McLennan, the president & CEO of Minnkota Power Cooperative, who addressed the membership on various utility issues.

The chairman then called for any unfinished business. There was none. The chairman then called for any new business. There was none. There being no further business the chairman adjourned the meeting at 8:20 p.m.

THANK YOU *Lea Perkins*

District 2 Director

Beltrami Electric Cooperative wishes to honor and thank board member Lea Perkins for her years of service. Her leadership, principles and knowledge have been a great value to the cooperative. On behalf of all of the members of Beltrami Electric Cooperative, we thank you for your dedicated service.



Lea was appointed to the Beltrami Electric board in November 2005, filling the remainder of the term of her late father, Ed Perkins, and has served since then. Lea was employed by the Red Lake Tribal Council from August 2004 to 2014, as the executive administrator and has since enjoyed taking care of her mother and tutoring and teaching at the Tribal College. She has lived in Red Lake since 1980, raising two children, Candace and Robert. She enjoys being grandma to her three grandchildren, Tim, Kittie and Harlie, and looks forward to spending more time with them.

THANK YOU *Jerry Larson, Sr.*

District 4 Director

Beltrami Electric Cooperative wishes to honor and thank board member Jerry Larson for his years of service. His leadership, principles and knowledge have been a great value to the cooperative. Jerry has decided not to run for another term for District 4, so on behalf of all of the members of Beltrami Electric Cooperative, we thank you for your dedicated service.



Jerry served on the Beltrami Electric board of directors three times, representing District 4 from 1978-1984, from 1990-2002 and his current term from 2011-2017. He has been a lifelong member of Beltrami Electric since the 1940s when his farm was provided electricity for the first time. Jerry notes that it was one of the greatest things to happen to the rural areas of the country because it made America grow and helped create business. He and his wife, Donna Jean, have four grown children, 11 grandchildren and one great-grandchild.

OPERATIONS REPORT



Dan Edens
Manager of Operations

Spring cleaning delivers safe, reliable power

It's annual meeting time again, and that means it must be spring! Spring gives us a chance to thaw out after a chilly winter. I take advantage of longer daylight hours by doing a little spring cleaning and yardwork.

As we move from spring into another summer season, we realize it has the potential to bring with it severe weather. In order to protect the lines that keep power flowing safely to your home, Beltrami Electric maintains our right of way (ROW). This is just

one of the many ways that we provide you with safe, reliable electric service. Think of it as spring cleaning for power lines.

Even with more than 70 percent of our lines underground, we still have 30 percent that is overhead. Some people question why we don't convert all of the remaining overhead to underground. Well, quite simply, it's because the cost would have to be passed on to you, our member. It is expensive to replace existing overhead with new underground, as it doesn't only involve depreciation expense for the existing poles and lines, but also additional expense that goes along with an underground service. It is more cost-effective to maintain that existing overhead line and keep the ROW clear, than it is to replace it with new underground. Your cooperative is focused on providing the best reliability possible to our members at the lowest possible price. A major aspect of that reliability is getting the lights back on as soon as possible after an outage.

Power lines remain a part of our landscape; however, it's easy to forget they are around. Your cooperative works hard to keep the area around the lines clear, but we do need your help. Be alert this spring. Don't plant trees or tall vegetation under power lines, and keep an eye out for power lines when working in your yard.

members. Maintaining our ROW is an important part of controlling costs. Fewer and shorter outages save money for everyone. When crews work in well-maintained areas, we can reduce risks for employees and equipment too – another way to keep costs low. Safety, reliability and cost: this is why we believe in ROW 'spring cleaning.' Maintaining our ROW is a priority for your safety, comfort and pocketbook.

Construction

Working through another stormy summer season this past year, your cooperative was still able to complete a number of projects, which will also improve reliability for our members. We replaced a mile of single-phase line with three-phase line to split up a heavily loaded area on Archery Road. Crews replaced several other single-phase underground lines that were failing and experiencing numerous outages due to deteriorating cable insulation, which were a result of multiple lightning strikes. Today's cable has better quality insulation and will be more resistant to lightning. Crews also completed underground line replacements on the east side of Big Lake, along Mission Road NE and along Beltrami County Road 39 (Scenic Highway), both in preparation of road construction that will take place this year.

The upcoming construction season will once again be a busy time for your cooperative, so if you will be building a new home this year, keep us in mind early in your planning. Stop in and visit with our member service representatives. They will help guide you through the process of installing your new electric service.

Our construction plan for this year includes quite a few improvements, all designed to enhance service reliability to our membership. Crews will work to replace a feeder line from the Laporte substation down to the Kabekona area, in addition to underground replacement projects near the Red Lake Hospital, North Plantagenet Road and 16th Street, as well as a final section of line near the Scenic Highway, to be completed prior to planned road construction.

Metering project

We continue to work on our systemwide meter upgrade, and to date we have installed more than 2,500 new meters. Our existing metering system was installed in the mid-1990s and has reached its end-of-life, and the manufacturer is no longer supporting this equipment. The new meters will improve reliability, outage management and will give you more tools and opportunities to manage and save energy.

BEC has contracted with a third party metering company, Allegiant Utility Services (formerly known as Sooner Meter), that will start this month to assist in completing the remaining meter exchanges. Their vehicles will have signage designating them as a BEC Contractor so that our membership will know they are acting on behalf of BEC.

The impact of the installation is minimal. Co-op members can expect to lose power for a few minutes on the day of installation. You may need to reset your electronic devices such as digital clocks. In addition, the next bill will show two meter readings: one from the old meter and one from the new meter. We will not need access to your home or business, nor will you need to be on site when crews perform this work.

VEGETATION MANAGEMENT

Why it Matters to You

Right of way (ROW): Refers to a strip of land underneath or around power lines that your electric cooperative maintains and clears. Trees must grow at a distance far enough from conductors where they will not cause harm to individuals, or disruption to electrical service.

Power Interruption occurs when trees, shrubs or bushes grow too close to power lines. By managing vegetation, your electric cooperative keeps power safe and reliable.



If or when severe weather blows through, a well-maintained ROW leads to fewer outages and faster response time. When trees do fall, crews will be able to restore service more quickly than they could with poorly maintained areas.

Beltrami Electric strives to keep costs affordable for you, our

ENERGY SERVICES REPORT

As your cooperative, we are not only your source of power and information. We strive to be your trusted energy advisor.



Sam Mason
Manager of Energy Services
and Facilities

The Energy Services Department goal is to become members' first choice for energy information. We want to be your trusted energy advisor. This was a key theme in the cooperative's recently completed strategic planning process. The goals focused on enhancing member benefits and targeted initiatives to help your cooperative succeed. Our technicians look forward to talking with you about your energy needs.

We're available to answer questions or help design and size an efficient electric heating system. We are always here for you, contact us whenever you have questions or concerns.

The off-peak heating advantage

One of our ongoing initiatives is the load management or demand response system, commonly referred to as "ripple" or "off-peak." This program was developed in the 1970s by Minnkota Power Cooperative, our wholesale power provider, as a way to gain efficiency by utilizing available power generation rather than building additional capacity. The load management system reduces the significant expense of purchasing additional generation capacity that would be used only a few hours per season. The system allows specific electrical equipment to be turned off or switched to an alternate backup during periods of peak electrical demand. Load management reduces your electrical expense by offering a money-saving, discounted off-peak electrical rate to members who choose to participate. Your participation in this program continues to enhance system reliability.

Why is this important? Limiting the peak demand for power, while at the same time making use of the existing capacity that is underutilized during off-peak periods, means lower costs for the co-op and, ultimately, lower rates for members. How and when we use electricity can be as much of a factor driving cost as the amount of electricity we use. Our load management system allows us to avoid the significant expense of building additional generation to meet a few sporadic periods of peak demand. If we build more generation, we then have even more underutilized capacity during times of low electrical demand. Ultimately, once we as electrical consumers create a need for peak capacity, we pay for that capacity whether we utilize it only a few hours or most of the season. Years ago, Minnkota was able to reduce costs for member cooperatives by selling energy that we did not use into the wholesale markets for a profit, and the profits helped cover

the capacity expenses incurred meeting our peak demand. Today this surplus off-peak energy has little value in the wholesale market. In today's energy market, our best financial option is to limit our peak demand and more fully utilize the capacity we have; load management is the most effective method to achieve this savings for both the cooperative as a whole and individual members specifically.

The load management rate is about 40 percent less than the regular service rate, making off-peak electricity one of the most stable and cost-effective energy sources available. High-efficiency electric heating systems such as heat pumps coupled with a modulating plenum heater utilizing the lower off-peak rate, are very competitive with other heating fuels, such as propane and fuel oil and still offer significant savings to homeowners. Purchasing a heating system is a long-term investment. You want the most stable energy prices possible year after year. The off-peak electric rate has remained relatively flat in recent years, while fossil fuel prices fluctuate dramatically.

We want to encourage members who are considering a new electric heating system to take a look at the off-peak program. Stop in or call our Energy Services Department and we can answer questions or even help you to select a system that will work for you and your family. Our expert technicians can also help you design and size an efficient electric heating system, whether you are building a new home or replacing an existing heating system.

What can Energy Services do for you?

In addition to offering heat-loss calculations, which can assist in sizing a new electric system for your home, we offer many other services at no additional cost to our members. We provide electrical evaluations/assessments for both residential and commercial services. Our expert technicians will meet you at your home/business to help you determine ways you can reduce your energy use, thus reducing your electric bill. We offer MANY rebates and incentives for installing equipment such as new large capacity water heaters or electric heating systems that connect to the load management program. There are many efficiency rebates available for items such as appliances, LED lighting, programmable thermostats and more! Check out our website at www.beltramielc.com and click on the orange Rebates tab for more information, or stop into our office. We are happy to assist you.

Energy Center

We are starting to upgrade our Energy Center and later this year, we invite you to visit the improved Energy Center at your cooperative. You will be able to easily find many resources and helpful information for everything from cooperative programs to various rebates and incentives for electric heating systems that work well with load management. So, please stop by, we look forward to visiting with you!

Reducing peak demand means lower costs for the co-op and ultimately, lower rates for members.

Volunteer for Project GreenTouch

Invite your family and friends!
Saturday, May 6, 10 a.m. to 2 p.m.,
Lake Bemidji State Park

Tools, equipment, beverages and a grilled lunch provided

For the 18th year, Beltrami Electric Cooperative and other Touchstone Energy[®] cooperatives throughout Minnesota will again join together to spruce up our state parks through a program called GreenTouch.

You're invited to volunteer your time to plant trees, clean up trails, rake leaves and complete other general projects, all to prepare Lake Bemidji State Park for the 2017 season!



Come join us! No park sticker will be needed that day for volunteers. For more information visit www.beltramielectric.com or if you would like to volunteer, contact Angela at 444-3689 or alyseng@beltramielectric.com.

BELTRAMI ELECTRIC MULTIVENDOR INDOOR GARAGE SALE

to benefit the United Way

Saturday, May 6, 2017

8 a.m. to 2:30 p.m. at Beltrami Electric
(in the garage)

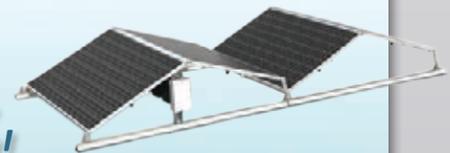
4111 Technology Dr NW, Bemidji
(near Paul Bunyan Communications)

- Access to 91 booths and the comfort of indoor shopping!
- Huge variety of NEW and USED merchandise!
- All fees (rent, entrance, food) go to the United Way of Bemidji



COMING SOON!

Subscribe to locally-produced, renewable solar energy today!



80-kW DC community solar array to be located at Beltrami Electric Cooperative headquarters

- Each panel is projected to produce an average of 450 kWh/year
- 20-year subscriptions available. Members may subscribe to as little as a half panel or as many panels as they choose, up to their average annual usage
- **Four Options Available:**
 - **Option 1 – One-time Payment** (One-time upfront cost – receive credit on your electric bill for 20 years based on current electric rates)
 - **Option 2 – Easy Pay** (12, 24 or 36 month payment plans available subject to review of account standing)
 - **Option 3 – Graduated Payment Schedule** (50% down, 50% due upon completion of the project)
 - **Option 4 – Pay As You Go** (No contract – simply tell us how many kWh you want to receive from Northern Solar and pay an additional fee on your electric bill)

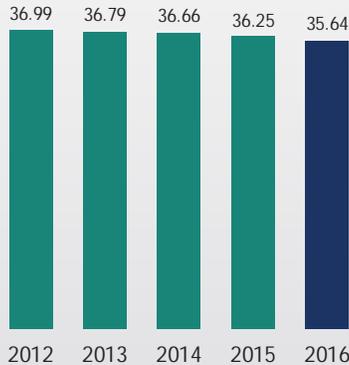
BALANCE SHEET

As of December 31, 2016 & 2015



Equity

Equity is the percentage the members of Beltrami Electric own of the cooperative's assets.



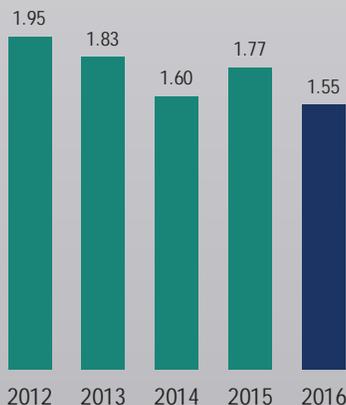
Electric Plant Investments

Millions of dollars



TIER

(Times interest earned ratio)



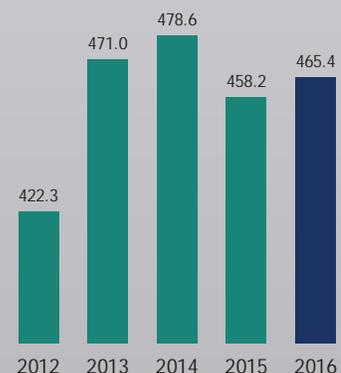
Margins

Thousands of dollars



Electricity Sold

Total kWh in millions



ASSETS

ELECTRIC PLANT:

In service
Under construction
Total electric plant
Less accumulated depreciation
Electric plant – net

OTHER PROPERTY AND INVESTMENTS:

Investments in associated companies
Other investments
Special funds
Total other property and investments

CURRENT ASSETS:

Cash - general
Accounts receivable, less allowance for uncollectible accounts (2016 – \$234,231; 2015 – \$74,998)
Materials and supplies
Prepayments
Interest receivable
Total current assets

DEFERRED DEBITS:

Deferred debits

TOTAL ASSETS

	2016	2015
ELECTRIC PLANT:		
In service	\$142,103,872	\$135,953,131
Under construction	67,815	1,354,977
Total electric plant	142,171,687	137,308,108
Less accumulated depreciation	(41,182,113)	(38,792,728)
Electric plant – net	100,989,574	98,515,380
OTHER PROPERTY AND INVESTMENTS:		
Investments in associated companies	5,468,315	5,384,813
Other investments	2,987,102	3,068,453
Special funds	1,094,694	1,075,895
Total other property and investments	9,550,111	9,529,161
CURRENT ASSETS:		
Cash - general	1,765,592	1,783,992
Accounts receivable, less allowance for uncollectible accounts (2016 – \$234,231; 2015 – \$74,998)	6,948,364	6,573,207
Materials and supplies	873,714	782,820
Prepayments	222,258	185,833
Interest receivable	8,100	8,168
Total current assets	9,818,028	9,334,020
DEFERRED DEBITS:		
Deferred debits	2,142,645	2,387,011
TOTAL ASSETS	\$122,500,358	\$119,765,572

EQUITIES AND LIABILITIES

EQUITIES:

	2016	2015
Memberships	\$ 794,445	\$ 782,065
Patronage capital	24,066,796	25,539,643
Other equities	18,544,255	16,911,831
Accumulated other comprehensive income	196,393	177,594
Total equities	<u>43,601,889</u>	<u>43,411,133</u>
Long-term debt, net of current maturities and net of cushion of credit of \$4,632,304 for 2016 and \$4,415,903 for 2015	<u>65,913,087</u>	<u>61,590,000</u>

OTHER NONCURRENT LIABILITIES:

Postretirement benefits obligation	524,560	526,339
Deferred Revenue Reserve	253,432	1,053,432
	<u>777,992</u>	<u>1,579,771</u>

CURRENT LIABILITIES:

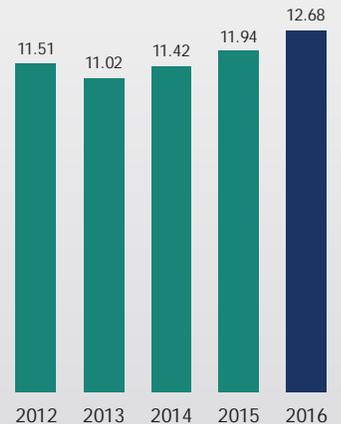
Current maturities of long-term debt	3,148,094	6,310,274
Current portion of postretirement benefit obligation	25,000	18,000
Line of credit	1,600,000	0
Accounts payable – general	1,250,308	884,441
Accounts payable to associated company-billed power costs	3,787,989	3,619,522
Customer deposits	845,256	854,604
Taxes accrued	258,053	271,185
Interest accrued	210,005	219,633
Payroll accrued	97,065	72,502
Accrued compensated absences	319,972	336,057
Total current liabilities	<u>11,541,742</u>	<u>12,586,218</u>

DEFERRED CREDITS:

Customers' energy prepayments	305,327	302,257
Unamortized gain on reacquired debt	159,778	272,562
AMI meter install project	156,321	0
Unamortized gain on reacquired – Northern Solar	44,222	23,631
Total deferred credits	<u>665,648</u>	<u>598,450</u>
TOTAL EQUITIES AND LIABILITIES	<u><u>\$ 122,500,358</u></u>	<u><u>\$ 119,765,572</u></u>

Cost of Electricity

Average cost to residential consumers per kWh (includes Access Charge)



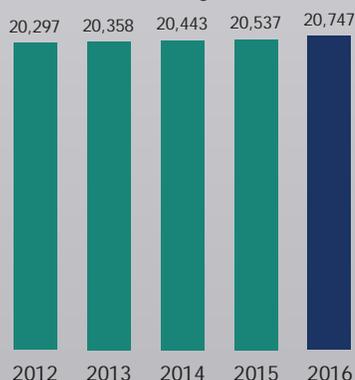
Capital Credits Retirements

Thousands of dollars



Meters Served

Average



Miles of Line

Average



STATEMENT OF REVENUE & PATRONAGE CAPITAL

For the years ended December 31, 2016 & 2015

OPERATING REVENUE:

Electric	
Other	
Total operating revenue	

OPERATING EXPENSE:

Cost of power	
Distribution – operation	
Distribution – maintenance	
Customer accounts	
Customer service and information	
Sales expense	
Administrative and general	
Depreciation	
Taxes	
Interest on long-term debt	
Amortization of gain on reacquired debt	
Other	

TOTAL OPERATING EXPENSES

Operating margin	
Total generation and transmission and other cooperative capital credits	

NONOPERATING MARGINS (LOSSES):

Merchandising, jobbing and contract work, less costs and expenses of (2016 – \$18,486; 2015 – \$19,609)	
Rent of headquarters second floor, net of costs (2016 – \$130,976; 2015 – \$110,514)	
Loss on disposition of property	
Investment income	
Revenue deferral recognition	
Cooperative Development LLC (net of income taxes)	
Income Tax Benefit (Expense)	
Northern Safety & Security LLC management income	
Northern Safety & Security LLC	
Total nonoperating margin	

NET MARGIN

Patronage capital – beginning of year	
Transfer nonoperating margins to unallocated reserve	
Retirement of capital credits	

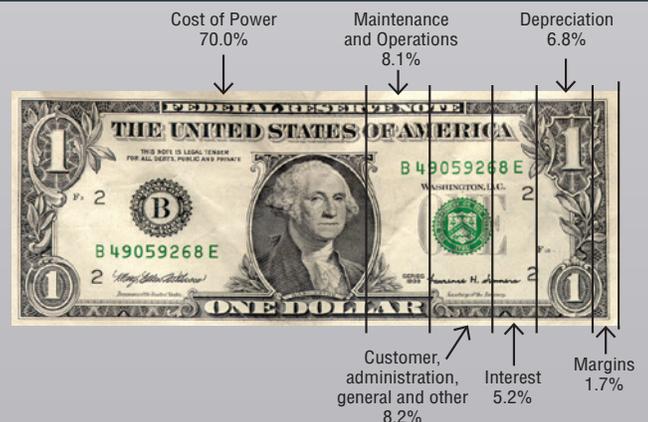
PATRONAGE CAPITAL – END OF YEAR

	2016	Percent of Revenue	2015	Percent of Revenue
Electric	\$50,769,484		\$48,784,792	
Other	1,240,865		471,532	
Total operating revenue	<u>\$52,010,349</u>	100.0%	<u>\$49,256,324</u>	100.0%
Cost of power	\$36,405,749	70.0%	\$34,438,506	69.9%
Distribution – operation	2,231,907	4.3%	1,893,470	3.8%
Distribution – maintenance	1,985,397	3.8%	1,912,161	3.9%
Customer accounts	1,498,952	2.9%	1,388,403	2.8%
Customer service and information	824,880	1.6%	828,396	1.7%
Sales expense	125,934	0.2%	100,896	0.2%
Administrative and general	1,775,918	3.4%	1,695,848	3.4%
Depreciation	3,656,454	6.8%	3,577,034	7.3%
Taxes	1,720	0.0%	1,710	0.0%
Interest on long-term debt	2,766,840	5.3%	2,690,821	5.5%
Amortization of gain on reacquired debt	(112,784)	-0.2%	(112,784)	-0.2%
Other	92,570	0.1%	78,495	0.2%
TOTAL OPERATING EXPENSES	<u>\$51,253,537</u>	<u>98.2%</u>	<u>\$48,492,956</u>	<u>98.5%</u>
Operating margin	756,812	1.8%	763,368	1.5%
Total generation and transmission and other cooperative capital credits	<u>363,431</u>		<u>363,037</u>	
NONOPERATING MARGINS (LOSSES):				
Merchandising, jobbing and contract work, less costs and expenses of (2016 – \$18,486; 2015 – \$19,609)	\$ 5,398		\$ (1,079)	
Rent of headquarters second floor, net of costs (2016 – \$130,976; 2015 – \$110,514)	(21,901)		6,157	
Loss on disposition of property	(8,488)		(8,276)	
Investment income	257,091		220,642	
Revenue deferral recognition	0		26,714	
Cooperative Development LLC (net of income taxes)	228,894		569,666	
Income Tax Benefit (Expense)	(93,275)		(61,307)	
Northern Safety & Security LLC management income	12,205		11,802	
Northern Safety & Security LLC	11,049		177,401	
Total nonoperating margin	<u>390,973</u>		<u>941,720</u>	
NET MARGIN	\$ 1,511,216	2.9%	\$ 2,068,125	4.2%
Patronage capital – beginning of year	25,539,643		25,939,791	
Transfer nonoperating margins to unallocated reserve	(1,304,756)		(1,086,881)	
Retirement of capital credits	(1,679,307)		(1,381,392)	
PATRONAGE CAPITAL – END OF YEAR	<u>\$24,066,796</u>		<u>\$25,539,643</u>	

Where operating revenue came from

INCOME	Amount	Percent of Revenue
Residential sales	\$34,650,769	66.6%
Irrigation sales	15,403	0.0%
Commercial & industrial 50 kva or less	2,728,611	5.2%
Commercial & industrial over 50 kva	5,759,691	11.1%
Public street & highway lighting	77,333	0.1%
Sales for resale – RUS borrowers	693,833	1.3%
Sales for resale – others	6,843,844	13.2%
Total sales of electric energy	\$50,769,484	97.5%
Other revenue	1,240,865	2.5%
Total operating revenue	<u>\$52,010,349</u>	<u>100.0%</u>

Where operating revenue was spent



ANALYSIS OF OPERATING EXPENSE ITEMS

OPERATIONS EXPENSE

Operations, Supervision and Engineering	\$ 253,580
Overhead Line Expense	290,529
Overhead Line Expense – Line Inspection	275,582
Overhead Line Expense – PCB Test	20,720
Underground Line Expense	293,926
Underground Line Expense – Cable Locating	159,250
Meter Expenses	347,334
Consumer Installation Expenses	86,134
Miscellaneous Distribution Expense	490,608
Rents	14,244
Total Operations Expense	\$ 2,231,907

MAINTENANCE EXPENSE

Maintenance, Supervision and Engineering	\$ 79,042
Maintenance of Overhead Lines Expense	158,690
Maintenance of Overhead Lines Expense – Reclearing	578,711
Maintenance of Overhead Lines Expense – Spraying	66,198
Maintenance of Overhead Lines Expense – Osmose Pole Treating	400
Overhead Outages	313,527
Overhead Outages – July Storm Outage	115,393
Maintenance of Underground Lines Expense	62,026
Underground Outages	339,997
Maintenance of Street Lights	2,925
Maintenance of Transformers	2,345
Maintenance of Meters	187,517
Maintenance of Turtle Meters	30,441
Maintenance of Remote Disconnects	9,216
Maintenance of Miscellaneous Distribution	38,969
Total Maintenance Expense	\$ 1,985,397

CONSUMER ACCOUNTS EXPENSE

Meter Reading Expense	\$ 14,113
Customer Records	1,026,318
Customer Records – Delinquent Accounts	458,388
Customer Records – Cash Short and Over	133
Total Consumer Accounts Expense	\$ 1,498,952

SALES EXPENSE

Advertising Expense	\$ 125,934
Total Sales Expense	\$ 125,934

CUSTOMER SERVICE & INFORMATION EXPENSE

Member Assistance Expense	\$ 157,275
C. I. P. – Load Management	134,648
Customer Assistance Expense – Safety	3,942
C. I. P. – Electric Heat Maintenance	58,960
C. I. P. – Heat Loss Calculation	1,121
C. I. P. – Renewable Energy	32,564
C. I. P. – Residential Electric Evaluation & Consultation	29,875
C. I. P. – Water Heater & Dryer	192
C. I. P. – Prescriptive Incentives	155,237
C. I. P. – Existing Homes	-
C. I. P. – Low Income Weatherization	41,256
C. I. P. – Energy Use Behavior	326
C. I. P. – Residential Custom Incentive	-
C. I. P. – Business Prescriptive Incentives	72,516
C. I. P. – Business Custom Incentives	-
Power Plant Tour	13,390
Fair Booth	3,574
Youth Tour	2,539
Northern Lights, Member Service & Information	117,465
Total Member Service & Information Expense	\$ 824,880

C.I.P. is the state-mandated Conservation Improvement Program.

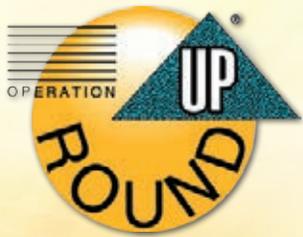
ADMINISTRATIVE & GENERAL EXPENSE

Administrative & General Salaries	\$ 940,248
Office Supplies & Expenses	68,762
Computer Supplies & Software	239,950
Outside Services Employed	46,575
Property Insurance, Injury and Damages	8,297
Employee Benefits, Education	69,955
Regulatory Expenses	33,506
Duplicate Charges, Credit	(67,139)
Miscellaneous Expense – Goodwill Administration and Advertising	31,944
Dues Paid Associated Organizations	77,990
Miscellaneous General Expenses	35,066
Miscellaneous General Expenses – Capital Credits	44,544
Directors' Fees & Expenses	96,971
Miscellaneous General Expenses – Annual & District Meetings	38,226
Rents	5,620
Maintenance of General Plant – Building	71,291
Maintenance of General Plant – Office Equipment	5,068
Maintenance of General Plant – 2 Way Radio	8,187
Maintenance of General Plant – Miscellaneous Equipment	2,908
Maintenance of General Plant – Lab Equipment	321
Maintenance of General Plant – Tools	1,443
Maintenance of General Plant – Computers	16,185
Total Administrative & General Expense	\$ 1,775,918

COMPARISON STATISTICS

	2016	2015	2016	2015
Retail kWh sales	349,124,165	364,756,339	Average monthly kWh per residential consumer	1,177
Wholesale kWh sales	116,282,146	93,463,328	Average monthly bill for residential consumer	\$149.24
Total kWh sales	465,406,311	458,219,667	Number of consumers (average)	20,747
			Miles of line, Dec. 31	3,467
			Investment per consumer	\$6,806.71
			Long-term debt per consumer	\$3,306.42
				\$3,306.25

THANK YOU *Beltrami Electric members!*



Thanks to the generosity of our members, the Beltrami Electric Cooperative Trust board for Operation Round Up® has awarded \$64,491 as of January 2017 in grants to nonprofit and community organizations in the area. The Trust board, made up of five volunteers from our community, meets quarterly to review applications and award funds.

Operation Round Up is a charitable program unique to electric cooperatives and is designed to give members a means of working together to use their small change to make a big impact in their local communities. The average amount a member will contribute is approximately 50 cents/month or \$6 per year. Donations are tax deductible and participating members will receive an annual summary of their contributions on their billing statement each January.

The funding guidelines are as follows: Community Service, Economic Development, Education & Youth and Environment. The next quarterly application deadline is June 30, 2017. Grant applications are available at the BEC office or by visiting our website at www.beltramielc.com.



We want to thank you for having the Round Up program. We are so very thankful to have received the grant for our manikin for training. We are excited to provide to the community a local Certified Nursing Assistant (CNA) class that we otherwise wouldn't have easy access to. The job market for CNAs is behind, with a lot of jobs available but little supply of personnel. We hope this gives people easier access to join the nursing career path. We would like to extend our utmost appreciation to the Round Up board and Beltrami Electric Members. Thank you!

Sincerely,

*Staff at Good Samaritan Society – Blackduck,
Andrea Major, Administrator, Dawna Rankin,
Director of Nursing*

Beltrami Electric **SELECTS**

MARANATHA COBB

FOR 2017 YOUTH TOUR



Beltrami Electric is pleased to announce that Maranatha (Mara) Cobb has been selected as the cooperative's 2017 Electric Cooperative Youth Tour representative. She will join 1,500 high school students representing their cooperatives on an all-expense-paid trip to Washington, D.C., June 10-15, 2017. This trip is part of an annual Youth Tour sponsored by the National Rural Electric Cooperative Association (NRECA), the Minnesota Rural Electric Association (MREA) and Beltrami Electric Cooperative.

Senator Lyndon Baines Johnson inspired the Youth Tour when he addressed the NRECA Annual Meeting in Chicago in 1957. The Senator and future president declared, "If one thing comes out of this meeting, it will be sending youngsters to the national capitol where they can actually see what the flag stands for and represents."

In its 53rd year, the Electric Cooperative Youth Tour program continues to foster

the grassroots spirit of the rural electric cooperatives by demonstrating to our youth how our government works and what the electric cooperative business model is all about. Building the next generation of leaders is what the Youth Tour program is all about. Many former Youth Tour representatives have moved on to serve in significant positions in our communities, including members of Congress. In a time when energy is at the forefront of our nation's issues, this is a great opportunity to have a hand in the creation of electric cooperative advocates!

Mara, a Bemidji homeschool student, is very involved in activities with her homeschool group, church and community. She loves to write and has served as the editor and coordinator for her homeschool group's newsletter. In 2014/2015, she was a semifinalist for the Stossel Essay Contest and was the winner of the National Right to Life Essay Contest in 2016. She has performed in a play for her homeschool group as well as helped to write and direct another play. Mara plays the violin with her family's band, who

perform monthly for residents at a local nursing home.

In her essay about what would happen if the power went out, she stepped through what a day would be like without electricity, and by the end realized the importance of reliable electricity; how it keeps us connected while powering our daily lives.

Mara possesses an eagerness to expand on what she already has learned about how our government functions. She is a strong communicator, speaks with confidence and has a very positive attitude.

Mara is the daughter of Kenneth and Abigail Cobb of Bemidji, Minn. The members of Beltrami Electric are proud to send such a well-rounded and community-minded individual to our nation's capitol as a representative of the Cooperative. Congratulations and good luck!



Present this coupon at the registration table (with your preprinted address on the reverse side) during Beltrami Electric Cooperative's annual meeting THURSDAY, APRIL 20, at Bemidji High School to be eligible for a

\$100 cash prize drawing.

No substitute coupons will be accepted. Must be registered and present to win.

2017 Annual Meeting

Thursday, April 20, 2017

Bemidji High School, Bemidji, Minn.

Dinner in Commons Area

Meeting in Auditorium

**Roast Turkey or Pork Dinner
5:30 to 7 p.m. Meeting to follow.**

Please clip and return this coupon by April 13 with the number dining so we know how many to plan for. Thank you!

Name: _____ **Account #:** _____

Number Attending: _____

Please RSVP by Thursday, April 13, 2017.

Send this coupon to Beltrami Electric, PO Box 488, Bemidji, MN 56619-0488, call us at 218-444-3622 or email bgregg@beltramielc.com and include your name, account number, address and phone number along with the number attending. Members with special needs should please note this so we can provide appropriate accommodations.

Board Meeting Highlights

Beltrami Electric's board of directors conducted its monthly meeting Wednesday, Feb. 22, 2017. A quorum of directors was present.

The following reports were given:

- CEO Echternach gave his monthly report, including updates on the new meter system, the Northern Solar project, legislative issues and local economic development. He also discussed future rates and projections and presented Resolutions for Northern Solar, LLC.
- Sid Sletten gave the financial report for January, including review of work orders. He also reported on the 2016 capital credit allocation.
- Arlene Hogquist reviewed the balanced performance scorecard.
- Directors and the CEO shared highlights of meetings attended on behalf of the cooperative and discussed upcoming meetings and educational conferences.

The following actions were taken:

- Approved the consent agenda and work order inventories.
- Approved the Resolutions for Northern Solar.
- Approved the 2016 capital credit allocation and to retain all nonoperating margins as permanent equity.
- Elected Rick Coe as the Minnkota Power director and Murl Nord as the Square Butte director.

The April board meeting will be Friday, April 28, 2017.



**NATIONAL
LINEMAN
APPRECIATION
DAY.**

APRIL 10, 2017

#ThankALineman

2017 ANNUAL MEETING PROGRAM

April 20, 2017 • Bemidji High School

5:30 to 7 p.m.

Roast turkey and roast pork dinner, *Commons Area*

Registration, browse information booths, free promotional items

6 p.m. to 6:45 p.m.

Entertainment, *Auditorium* BHS Orchestra Quartet

6:30 p.m.

Open swimming for kids, pool area See details below

7 p.m.

Annual meeting, *Auditorium* Drawing for door prizes throughout the meeting

Welcome & call of meeting to order Rick Coe, President

Pledge of Allegiance

Invocation Judy Honer, Director

Appointment of tellers Rick Coe, President

Introduction of candidates

and last call for ballots Gerad Paul, Attorney,
Minnkota Power Cooperative

Reading of official notice of meeting,
proof of mailing and minutes of

2016 annual meeting Rick Coe, President

Financial report Sid Sletten, Director of Finance
& Member Services, *Beltrami Electric*

CEO's report Jared Echternach,
CEO, *Beltrami Electric*

Guest speaker Robert "Mac" McLennan, President & CEO,
Minnkota Power Cooperative

Announcement of election results Gerad Paul, Attorney

Grand prize drawing

Adjournment of meeting



ATTENTION KIDS!

Swimming available again at
annual meeting. Bring your suit and a towel!



Once again, Beltrami Electric has secured the pool at Bemidji High School during the 2017 annual meeting. While parents listen to the meeting program, their children can swim in the pool free of charge. Lifeguards and supervision will be provided, so please bring a towel and a bathing suit, which is all that will be needed. **PLEASE NOTE** that the pool will be open from 6:30 p.m. until the end of the meeting. Parents, please accompany your children while changing clothes. Nonswimmers must provide their own life jacket.

Good Friday Closing

The Beltrami Electric Cooperative offices will be closed on Friday, April 14, in observance of Good Friday.

Please bring your copy of the
Northern Lights to the annual meeting.