



Beltrami Electric Cooperative, Inc. Northern Lights • May 2014



Annual Report 2013

74th Annual Meeting • April 24, 2014



**Beltrami Electric
Cooperative Inc.**

Your Touchstone Energy® Partner 

NORTHERN L I G H T S

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Monday – Friday

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or 1-800-955-6083

www.beltramielectric.com

Board of Directors

President	Rick Coe, DISTRICT 6 (Square Butte Director)
Vice President	Jeff Nelson, DISTRICT 3
Secretary	Murl Nord, DISTRICT 1
Treasurer	Judy Honer, DISTRICT 9
Directors:	Lea Perkins, DISTRICT 2; Jerry Larson Sr., DISTRICT 4; Robert Wallner, DISTRICT 5; John Lund, DISTRICT 7; Terry Diffley, DISTRICT 8 (Minnkota Director)
General Manager/CEO	Lynette Nieuwsma
Editor	Mitch Raile

Minnesota State Electrical Inspectors

Beltrami and Clearwater Counties

Robert Orgon
218-556-3829

Cass and Hubbard Counties

Steve Schauland
phone and fax 218-652-2213

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 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*

Powerful Value



Lynette Nieuwsma
CEO/General Manager

The theme for our annual meeting this year is “Powerful Value.” As we are all known to take electricity for granted, we forget how valuable it is to us every day. This Powerful Value is brought to you by a cooperative in which you have ownership. Your cooperative is made up of people in your community who care about the wellbeing of local families, their homes, schools, farms and businesses. Nine directors, whom you elect and represent your interests, support this cooperative and 62 dedicated employees care about you and understand we need to provide our member-owners with the Powerful Value of high reliability and excellent customer service.



Rick Coe
Board President

Value is so important to us that it is in your cooperative’s mission statement, which reads: *“To provide excellent value to our members through the safe delivery of reliable electric service, excellent customer service and innovative energy solutions at fair and reasonable prices.”*

One Powerful Value we brought you in 2013, and again in 2014, was stable rates. We are happy to report the only distribution increase in both 2013 and 2014 was 50-cent per month increase with the reduction of the Access Charge credit. Wholesale power rates saw no increase in 2013 and the only increase comes from our Renewable Energy Market Adjustment (REMA), which will see a one mill (1/10 of one cent) increase in 2014.

The weather in this region has certainly impacted annual sales, as 2013 started out cold and ended up cold with more than its share of winter in between. These many cold months and record December lows brought us residential kWh sales for the year 12.6 percent above those of 2012. Financially, we ended the year in good condition.

Our off-peak program is another Powerful Value we offer to our member-owners. Thousands of our members take advantage of this program and save hundreds of dollars each year with an electric rate that is about 40 percent less than our regular rate. Our off-peak rate equals about \$1.60 per gallon propane when used in a high efficiency furnace. In spite of the extremely cold temperatures this winter, control hours were only 295 hours. Demonstrating the cooperative philosophy of providing higher value, Minnkota went out on the market to buy power and limited load control during the time propane rose to its highest price this season. In the coming months you will see us promote this program, as expanding it to more members will increase the value for all of our members. Energy Services Manager Sam Mason has some excellent insight on page 8 as to why electric heat and, specifically our off-peak program, just makes sense.

The cost of electricity itself is a Powerful Value. Did you know that when Beltrami Electric was formed in 1940, members paid about \$.06 per kWh? When you compare that to what we pay today (\$.103 per kWh), it’s pretty easy to see that the price of electricity has been pretty stable in the 74 years of this co-op’s existence. And when you compare the change in price to that of other items we purchase, it’s amazing how little it has changed. For example, in 1940, the price of a gallon of gasoline was around \$0.10, a dozen eggs was about \$0.27 a dozen and a pound of coffee would have cost you an average of \$0.15. Today, a gallon of gasoline is almost always more than \$3 per gallon, a dozen eggs runs about \$2 and a pound of coffee averages more than \$7 pound. Those prices can really put the cost of electricity into perspective.

When your power goes out, so do we

We understand that electric reliability is a Powerful Value to you in your homes and businesses. In 2013, we were fortunate that we did not have any major storms like we did in 2012, but it isn't just the major storms that bring out the best in our employees. They work hard every day to improve reliability through upgrades and maintenance. Although in 2013 we were 99.97 percent reliable, increasing our reliability and reducing the time it takes to get power back on after an outage is one of the major objectives we have set here at the cooperative. For information on what we are doing to improve all aspects of your electrical service, please take a look at what Operations Manager Dan Edens has to say on page 7.

2013 legislative issues

At this time last year we were very concerned about many of the legislative issues being proposed at the Minnesota Legislature. Thanks to strong rural supporters on both sides of the aisle, we were able to dodge the bullet of those proposals, which would have brought considerable costs to our wholesale power supplier and would have forced more shifting and subsidizing of costs between some members. At this point in time, it appears the 2014 session is not venturing too far into controversial energy legislation. But we will not let our guard down until the hammer is down on the session. We have worked to build strong relationships with all the area legislators who represent us in St. Paul and we thank them for their support.

On the federal level, we are watching very closely what plans continue to come out from the Environmental Protection Agency (EPA). The proposed emissions limits for new coal-fired power plants are very onerous and would require technology that is not now available and very expensive to say the least. Currently, in regard to new power plants, the EPA seems to have taken an "all but one" approach to generation fuel supply. As no new power plants will be needed on the Minnkota system until well after 2030, we are more concerned with what the forthcoming proposals may be for existing power plants and how they might affect our rates in future years. The proposal for existing plants is expected out in June. We ask that you go to www.action.coop to tell the EPA to work with America's electric cooperatives to keep electricity affordable. An "all of the above" approach is needed to provide a common sense solution.

Commitment to community

One of the key principles of being a Touchstone Energy® cooperative is maintaining a strong relationship with the communities we serve. There are many issues and causes that we support, especially when it involves our members. Not only are we as a cooperative able to provide modest financial donations to many groups in our service area, our employees also donate many hours of their personal time to make a difference. Many of these contributions are not recognized, but that doesn't make them less important to those they directly affect each day.

Our relationship with the United Way of the Bemidji Area is very special to us, as we are designated as one of their Pacesetter businesses. In 2013, we raised almost \$14,000 for the organization via employee donations and a variety of fundraisers, including our annual garage sale and golf tournament.

In addition to the United Way donation, we host Project GreenTouch each year at Lake Bemidji State Park, as well as collect

children's winter wear via our Mitten Tree, which is distributed to preschool students around our service area each winter. These events and projects are our way to give back to the communities we serve.

Focusing on the future

Now we can look ahead to the rest of 2014. As you well know, we are having even more of an extreme winter than last year. Hopefully, the rest of the year's weather will return to average and we'll be able to enjoy the outdoor activities we all appreciate.

At Beltrami Electric, we recently completed a strategic plan for 2014-2016 and with that, we recognized four specific themes that we will work on to bring you more value as a member.

- 1. Customized member solutions** – To meet the needs of our very diverse membership. The membership consists of various economical, sociological, generational and cultural groups, all of which expect different things from their cooperative. It is our job to identify these members and find solutions that will not only satisfy, but also exceed their expectations.
- 2. Effectively communicate** – To meet our members' expectations, we are developing numerous ways to communicate with our diverse membership mentioned above. We know that many members prefer traditional means of communication such as the newsletter, by mail or by phone. However, more and more members are now wishing to communicate electronically via text messages, emails and the World Wide Web. It is important for us to recognize and offer these communication methods based on what the member prefers. In addition, we are looking to improve our communications in the event of a power outage and how we handle job scheduling.
- 3. Utilize proven technology** – Our meter reading technology is nearly 20 years old and will be replaced in the next several years. In evaluating the many options we have, we want to employ the technology that will provide the best value for many years to come as we make this large investment. Some of these options include the ability to implement meters that communicate two-ways, automate distribution, allow members to prepay for service and offer advanced demand response using load management. Not only do we want to utilize proven technology, we also want to be innovative in the options we give our members. This means we will be open to new ideas in the future when it comes to finding and using clean, efficient and affordable electricity.
- 4. Manage costs** – This is not a new emphasis area for us, but one we recognize continues to be important. Seventy percent of our costs come from wholesale power we purchase from Minnkota. We have minimal control over the wholesale power costs; however the increased use of off-peak energy would lower our average costs. The other 30 percent of our costs are what we refer to as the distribution adder. It includes all of our costs with the exclusion of our wholesale power. We do our best to keep the costs we can control down each day and balance this with service reliability and member satisfaction.

We thank you for the opportunity to serve you and look forward to hosting the upcoming Annual Meeting scheduled for April 24 at Bemidji High School. We hope to see you there.

Cooperatively yours,

Lynette Nieuwsma, *CEO/General Manager*

Rick Coe, *Board President*



Mission Statement

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

Board of Directors



Murl Nord
Secretary
District 1



Lea Perkins
Director
District 2



Jeff Nelson
Vice President
District 3



Jerry Larson Sr.
Director
District 4



Robert Wallner
Director
District 5



Rick Coe
President
District 6
Square Butte Director



John Lund
Director
District 7



Terry Diffley
Director
District 8
Minnkota Director



Judy Honer
Treasurer
District 9

District map and Election Information

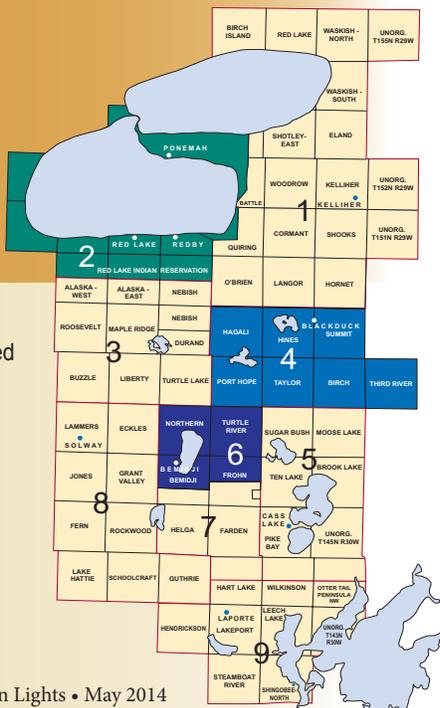
Election information

At each of the three district meetings held in March, Beltrami Electric Cooperative members nominated the incumbent for another term on the board of directors and there were no additional nominations made. Thus, the incumbents listed on page 5 will be elected at the annual meeting scheduled for April 24 by way of voice vote, show of hands or other appropriate means. With that, Beltrami Electric will not be sending paper ballots via the U.S. Postal Service to its members in 2014. Please see the bylaws below.

ARTICLE III DIRECTORS

Section 9. Nominations and Elections. The areas to be served by the Cooperative shall be divided by and at the discretion of the Board of Directors into nine (9) director districts, and not less than ten (10) days nor more than fifty (50) days prior to the date of the annual members' meeting, and in accordance with the mailed notice to each of the members therein affected, district meetings shall be held at which candidates for the office of director from each respective district shall be nominated, and the names of the two (2) candidates receiving the greatest number of votes (including the number of votes cast for each of them) shall be certified to the annual meeting members.

At the annual meeting not more than one candidate from each district shall be elected to the Board of Directors. Election of directors shall be determined on the basis of a plurality of the votes properly cast. Notwithstanding anything in these Bylaws or applicable procedural rules to the contrary, a candidate who is the only qualified nominee for a seat up for election may be elected at the annual meeting of the members by motion adopted by a voice vote, show of hands or other appropriate means.



Highlighted areas denote 2014 election districts.

Due to all three district elections being uncontested for director positions in 2014, there will not be a vote by mail. Please refer to page 4 for more information.

Director *Candidates*

District 2, Lea Perkins (Incumbent)



Lea was appointed to the Beltrami Electric board in November 2005 filling the remainder of the term of her father, Ed Perkins, and has won the opportunity to serve since then. She has lived in Red Lake since 1980, raising two children, Candace and Robert. She earned a bachelor's degree from Bemidji State and a master's degree from Minnesota-Duluth. Perkins has been employed by the Red Lake Tribal Council since

August 2004 as the executive administrator. She is grandma to her grandson, Tim, and is expecting a second grandchild in July.

The most important issues facing the cooperative: It is important that electricity be as affordable as possible and that we also keep our minds open to finding ways of reducing cost to the membership.

District 4, Jerry Larson, Sr. (Incumbent)



Jerry is a lifelong resident of the Hines area, where he raises beef cattle on the same farm he was born. He has served on the Beltrami Electric board of directors three times prior, representing District 4 from 1978–1984, from 1990–2002 and during his current term from 2011–2014. Larson has been a lifelong member of Beltrami Electric since the 1940s when his farm was provided electricity for the first time. He 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. Jerry has also served on the Hines

town board. He and his wife, Donna Jean, have four grown children, 11 grandchildren and one great-grandchild. He is a graduate of Blackduck High School and also worked for the Job Corps in the past.

The most important issues facing the cooperative: I think the government forcing utility companies to install wind generators and solar panels is wrong. I also disagree with them trying to tax CO₂ emissions. Global warming is another issue I am not sure is proven, as I don't really think it is happening the way some say it is.

District 6, Rick Coe (Incumbent)



Rick has lived in the Bemidji area for 41 years and resides in Northern Township. He has been a member of Beltrami Electric for more than 30 years. Rick is 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 also been active in various committees within the Bemidji community and at his church. Coe has served District 6 on the Beltrami Electric board of directors since 2008 and has been the president since 2011. In addition, he represents Beltrami Electric on the Square Butte Electric Cooperative board of directors, owner of the Milton R. Young

Station Unit 2 power plant near Center, N.D. In January, he was elected to serve on the Minnesota Rural Electric Association's (MREA) board of directors. He and his wife, Mickie, have three grown children and three grandchildren.

The most important issues facing the cooperative: It is important that we provide excellent service to our members. They are the stakeholders. Excellent service is providing safe, reliable and affordable electricity. We must continue to watch our costs, making good decisions on balancing efforts between those costs and the environment. We want to improve our technology and find ways to provide good sources of generating electricity. The demands have never been greater. Our members deserve great leadership and a strong voice to provide them the best possible service.

Annual Meeting Minutes

The annual meeting of the members of Beltrami Electric Cooperative Inc. was held at Bemidji High School in Bemidji, Minn., on April 25, 2013, commencing at 7 p.m. Rick Coe presided as chairman.

The following directors were present: Jeff Nelson, Murl Nord, Judy Honer, Terry Diffley, John Lund, Rick Coe, Jerry Larson. Director Lea Perkins was absent.

The chairman asked all to stand for the national anthem and invocation. Lara Hicks led the group in singing the national anthem. Director Judy Honer gave the invocation.

The chairman called the meeting to order and announced that a quorum of 184 registered voting members was present. The chairman then appointed Attorney David Sogard as parliamentarian of the annual meeting and stated that the meeting will be conducted according to Robert's Rules of Order.

The chairman then announced that the board of directors had appointed the following as tellers:

Audrey Arndt from District #7

Walt Renskers from District #9

Attorney Sogard introduced the director candidates.

Door prizes were given out at intervals throughout the meeting. The chairman introduced the current directors and recognized past directors in attendance.

Manager Lynette Nieuwsma introduced special guests in attendance.

The chairman recognized McKayla Beaulieu of Bemidji, who was selected as the Youth Tour delegate to Washington, D.C.

The reading of the official Notice of the Meeting and Proof of Mailing was dispensed with by motion made, seconded and carried.

A motion was made, seconded and carried to approve the minutes of the last annual meeting held April 27, 2012, as mailed to the membership.

Sidney Sletten, Beltrami Electric Cooperative manager of finance and administration, gave the annual financial

report. Manager Nieuwsma gave a report on various topics of the electric industry. Manager Nieuwsma introduced Mr. Mark Glaess, general manager of the Minnesota Rural Electric Association, 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.

Attorney David Sogard then announced the results of the election:

Total mailing envelopes received	2,186
Less: Disqualified mailed ballots	1
Subtotal:	2,185
Total members voting in person (On-Site ballots)	37
Less: Disqualified Ballots	2
Subtotal:	35
Total votes counted:	2,220

District Results:		# of Votes
District 1	Murl Nord	1,998
District 5	Gene Okerlund	632
	Robert Wallner	1,542
District 8	Terry Diffley	2,007
Amended and Restated	Yes	1,787
Bylaws approval	No	174

Attorney Sogard then announced the election of Murl Nord, Robert Wallner and Terry Diffley as directors of Beltrami Electric Cooperative and that the amended and restated Bylaws are approved.

There being no further business to come before the board, on a motion made, seconded and carried, the meeting adjourned at 8:10 p.m.



Beltrami Electric selects Jenna Thompson for 2014 Youth Tour



Beltrami Electric has selected Bemidji High School's Jenna Thompson as the cooperative's representative for the 2014 Electric Cooperative Youth Tour, where she will join hundreds of high school students representing their cooperatives on an all-expense-paid trip to Washington, D.C., June 13-19, 2014. This trip is a 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.

Jenna is very active in her school. Not only is she a member of the National Honor Society and the Environmental Club, she also plays

softball and has been a hockey cheerleader. She has also been a Relay for Life team member for the past five years. In college, she plans to major in math and science and would ultimately like to pursue a career in dentistry.

The tour includes visits to many of the National Mall memorials. Representatives will also spend a day on "The Hill" meeting with legislators and witnessing the day-to-day operations of the federal legislature. Jenna was selected based on her strong educational background and community involvements, qualities that Beltrami Electric Cooperative believes are important in our future community leaders. Jenna is the daughter of Mark and Minda Thompson, Bemidji, Minn.



Operations *Report*



Dan Edens
Manager of Operations

What a difference a year makes! During my report last year, I focused on a 2012 summer storm that devastated our service area and left many without power for up to four days in early July. In contrast, 2013 was much quieter on the outage front, which is what we always hope for each year. In fact, we only experienced an average of 94 minutes of outage time per member last year. Even at that number, we do feel there is room for improvement with our employees striving to reduce your time without power and prevent as many outages as possible.

Right-of-way clearing

We are always working to increase our service reliability and one way we do that is with a very aggressive right-of-way clearing program. You may have received a postcard from me in the past or read an article in the *Northern Lights* about why we need to clear these areas. I'd like to take this time to reiterate why it is important to the co-op and, ultimately, you the member.

A comprehensive tree clearing program, like we have at Beltrami Electric, not only lessens the likelihood of extended power outages by keeping branches away from the lines, but it gives our crews better access in the event there is a major storm. Whether it's a winter or summer event, our crews will be able to restore power in a quicker and safer manner.

New service numbers

In other areas of operations, we are seeing an increase in new services, which is a very encouraging sign. If you look at the numbers below, you will see that the recession didn't do us any favors in that regard. As you can see, after an all-time high of 629 new services installed in 2006, our numbers have steadily declined, until finally growing again last year.

2006: 629	2007: 451	2008: 315
2009: 289	2010: 262	2011: 217
2012: 201	2013: 241	

However, if 2013 is any indication, the numbers are moving upward again. We're hoping 2014 will follow this pattern and that the amount of new services installed in our territory will continue to rise. The increase in numbers helps distribute the fixed costs of service across a larger membership base, thus lowering the amount each member pays each month.

Construction plan

This summer, we plan to add underground feeder lines (and removing overhead lines) from your Northern substation that will more evenly distribute our electric load in that area. In addition, we will do a similar project in the Guthrie area. We will also replace underground line from the 1970s in a variety of areas throughout our territory. This vintage line is known to be defective in some cases. Finally, our crews will do various maintenance projects and other jobs as they come up this summer. These improvements will directly increase our service reliability in those particular areas. I want to thank you for your membership, and I appreciate your input and suggestions. If you have any questions about anything I've mentioned here, please call our office at 444-2540.

Energy service *Report*

How can you impact your power costs?



Sam Mason
Manager of Energy Services
and Facilities

I want to highlight the Powerful Value electricity provides and the importance of how and when we use our system is in regard to cost of electrical service. The value has been especially obvious this past winter. This winter the media was full of news about the extreme price and supply issues related to propane, heating fuel and the natural gas supply concerns because of pipeline problems in Canada. These issues had a direct impact on local folks who use propane. Many recognized the value of electricity and turned to electric space heaters. While we focus on energy issues, I would like to share information about the impact on the electrical supply and market pricing and, most importantly, what each of us can do by working collectively to positively impact the cost of electricity. At the same time, there are significant actions that we should avoid that can negatively drive up the cost of electricity.

What a winter it has been! There have been 89 days of zero or colder temperatures and 23 days that it did not get above zero at any point. This compares to the past five heating seasons when there was an average of 42 days with zero or colder temperatures and less than four days that it did not get above zero. This was not just colder, but it was much colder! This data on its own makes good coffee shop conversation, but weather, along with our usage habits, does have a very real impact on the availability and price of energy. These extremes drive the design of our energy supply systems.

With the continuing introduction of more intermittent renewable generation, such as wind and solar systems, the volatility of the electrical supply is becoming greater each year. It is important that we develop loads that can utilize this electricity when available and be controlled when the wind is not blowing or the sun is not shining. The demand response system that we use in the Minnkota Power System to operate the off-peak load management program is the most cost-effective method to address intermittent generation systems. Our goal is to assist and guide members to better utilize this surplus off-peak energy and effectively maintain comfort with their dual-fuel or Electric Thermal Storage (ETS) backup heating systems during periods of peak electrical demand, while delivering a great value.

We are starting a communication program to better explain the Powerful Value of electricity and to encourage our members to support and more effectively use the electrical grid. This program will include rebates and incentives for the installation of specific electrical heating and thermal storage equipment to utilize surplus off-peak electricity. This Powerful Value program is a group effort involving Beltrami Electric Cooperative and the other member-owned utilities that make up the Minnkota Power Systems. You, I and the other member-owners of each of the cooperatives have a

tremendous asset, which is ours to utilize to our benefit. As I get into explaining the fixed and variable components in the wholesale power bill, I ask that you remember that we collectively are Minnkota and these complicated cost mechanisms are meant to fairly distribute real cost. Beltrami Electric and Minnkota Power are member-owned cooperatives looking out for their member-owners, which includes you and me. Allow me to relay important information related to the electrical supply system and how we as consumers of energy impact the cost of electricity; there is a lot more to the costs that drive our electric bills than just how many kilowatt-hours (kWh) we each use. When we use the energy can actually be a much greater factor than how much we use it. This timing is the basis of the much lower cost for off-peak electricity.

I am going to get into some of the numbers behind the average price per kWh we pay as retail consumers of electricity. I know from experience that this can be hard to follow and explain. The important point I would like to help members understand is that we can drive down our cost by using more off-peak kWh, but also understand to make this work we must effectively control the electrical demand when our system is at capacity. If we force our power supplier to incur more costs to serve our peak demand requirement, we will significantly increase the fixed cost components in the wholesale power bill and drive up the average cost we pay per kWh.

The first and most important point to know is that the price per kWh you and I pay on our retail electric bill is an average price, which includes many fixed and variable components. A given kWh may actually have an incremental cost of 2 cents to produce, and during off-peak periods, may only have a wholesale market value of 2 cents. Along with the incremental cost, Minnkota must recover the fixed costs related to the generation and transmission systems, which drives the average power cost up to about 7 cents per kWh. To this, the fixed distribution cost that Beltrami Electric has to deliver this energy to your home or business adds another 3 to 4 cents per kWh, creating an average price of about 10.3 cents per kWh. The Access Charge on each bill also recovers some of Beltrami Electric's fixed costs.

Now looking at how this expense flows to Beltrami Electric, the cost of a given kWh is determined by the total number of kWh that the fixed costs are spread over and the ratio between the fixed and variable cost components in the wholesale power purchased. An off-peak kWh that is used by equipment, which is utilized only when surplus off-peak electricity is available and shut off during periods when the fixed costs are assessed, should incur only about 4 cents of power cost. Adding distribution expenses to this, we have the effective off-peak cost of 6.6 cents. But if we plug in electric space heaters during peak periods, there may be more than \$100 of fixed demand expense incurred for each heater. This expense is then spread across the annual kWh of usage for each kW of electric heating equipment. I know that most of you don't have the electrical background to understand the difference between kW and kWh,



so I assure you this is the cost driver. A sample ratio could be 1,333 annual kWh per kW of peak demand; spreading this \$100 of demand expense would add about 7.5 cents to the 4 cents of energy cost and means that at 6.6 cents, the cooperative loses money on the energy used by this heater. Even the regular rate is not enough to pay the power cost for this heater and leave nothing to pay for the distribution cost. Keep in mind, this ratio is different for each type of equipment in our homes and we can impact the ratio by how we use the equipment. The most effective method to impact this is to have an operational off-peak control system on the electric space and water heating in the home. To make this work and maintain comfort, the backup heating system must work and be used to reduce electrical demand during peak periods. The backup must be something that does not create additional electrical load. This means dual-fuel or thermal storage. These items do have electric controls but they don't have the high wattage requirements of electric space heaters. While on this subject, I do want to ask anyone who may have used plug-in space heaters as a backup heating source to look into an effective dual-fuel or thermal storage system. Plug-in space heaters may be affordable to operate on the retail rate, but during peak times it is very costly, and if everyone did this, it would drive up rates.

There are other methods that we can work together on to impact the cost of electricity. Moving beyond just the off-peak load management system, we can make a difference by adjusting the time when we use any electrical equipment in our home. I am speaking about specific periods of peak days, which are often the coldest or hottest days of the year. If there is electrical usage that can wait until off-peak hours, you too can lower the demand expense. Examples of this could be using the timer on the dishwasher so it runs later in the night when the demand for electricity has dropped. If you use an electric engine heater to help start your vehicle, use a timer so it does not draw power during the evening peak hours. The key here is that we still receive the benefit of our electrical appliance, while helping to hold the line on power cost.

When explaining the cost of electricity, I am often asked why these costs are incurred this way. The answer is that electricity is very different from all the other commodities that we purchase. Electricity must be generated, transmitted, distributed and consumed in the same instance in time. This all happens at the speed of light! Due to this, the expense and revenue factors relating to electricity are very different from other types of energy or commodities. There are no effective large-scale methods to store electricity, and because of this, just producing more kWh of electricity can in fact significantly drive up cost and jeopardize reliability. Surplus electricity must be used when it is generated; this is why additional off-peak loads such as dual-fuel and Steffes ETS systems are helpful.

Much of the cost of electricity is the huge capital cost to have a system ready whenever someone turns on his or her lights. Due to the instantaneous nature of electrical service, the electrical system must be built to meet our peak demand. Because of the tremendous variation in the instantaneous demand that you and I require, along with everyone else who uses our electrical service, there are both times of huge capacity surplus and other moments of short supply.

Engineers have been attempting for years to develop new electrical storage methods. Batteries are much better today, but there are no cost-effective methods to store a measurable volume of electricity. This really is the key limitation of the renewable systems such as solar and wind generation. As a leader in the use of renewable generation, we have experienced firsthand the problems created by excess generation during periods of low customer demand for electricity. It is important that we all understand the impact of more renewables, which often produce during moments when there is no market for the surplus.

To this point my discussion has focused on the generation assets that you and I own as part of the Minnkota Power Systems; before I leave the subject of power cost, I do want to mention the wholesale power markets. We do turn to the market when we need additional electricity or to sell our surpluses. These markets have been extremely volatile. Being able to control when you purchase is very beneficial. Effective load management is the key. The sale of surplus wind generation has been an issue. Often the price we receive during our surplus periods has been very low. In contrast to this, there have been periods this winter when market prices spiked to \$2 per kWh. The key point is that we must be able to control when we purchase from the markets to protect members during periods of skyrocketing market prices. This winter there were single days that Minnkota used load management to avoid millions of dollars of purchases. At other times Minnkota does purchase additional electricity when affordable. This reduces the total hours that dual-fuel customers are required to use their backup heating systems. Minnkota Power really is looking out for us when it uses the load management system to control electrical demand.

The wholesale markets are a method to recover some of the fixed cost by selling any surplus electricity that we have. Because during our surplus periods the market value was typically low, this electricity would have been much more valuable to members if used to displace expensive propane. Those who have been using propane as their primary heat could add an off-peak electric plenum heater. They will have a significant savings on their heating cost. Dual-fuel systems still must have propane in the tank for backup, but use much less than a propane-only system. This saves you a lot on your annual heating cost.

I do want to stress that we can make improvements to how we use electricity and still enjoy the Powerful Value of electricity. Your cooperative is here to serve you. We will be there to meet your electrical needs. Electricity enhances the quality and enjoyment of our days. It pumps our water, heats and cools our food and powers our communication and entertainment systems. By providing this in-depth information, I hope this helps you understand we are helping you make informed decisions so we can all make a positive difference. Watch for the Powerful Value messages, along with new rebates and incentives to assist your efforts to cost effectively use more off-peak electricity and control on-peak demand expenses.

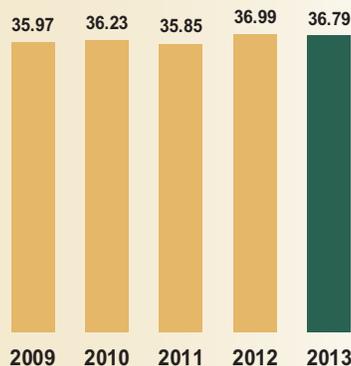
Your cooperative has many tools to help you manage the electrical use at your home. Several are available on Beltrami Electric's website at www.beltramielc.com. Also you can call us at the office at 218-444-2540 or 800-955-6083. I enjoy hearing from you, the cooperative members. I invite anyone with questions or comments to contact me.



Balance Sheet *As of December 31, 2013 & 2012*

Equity

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



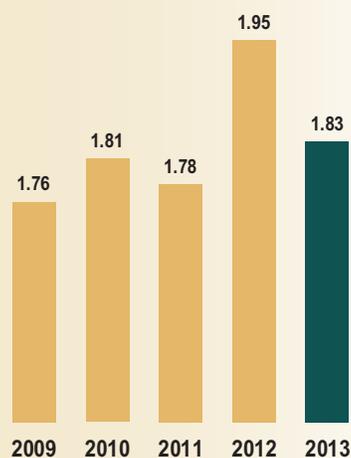
Electric Plant Investments

Millions of dollars



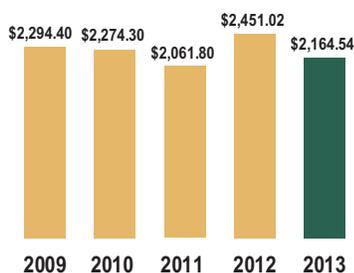
TIER

(Times interest earned ratio)



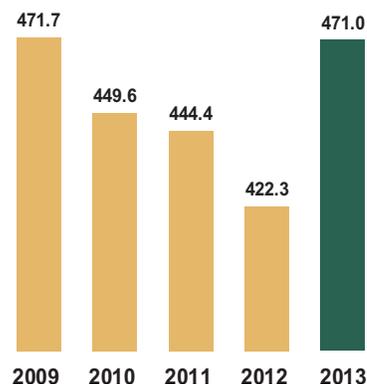
Margins

Thousands of dollars



Electricity Sold

Total kWh in millions



ASSETS

ELECTRIC PLANT:

	2013	2012
1. In service	\$126,639,038	\$123,753,995
2. Under construction	226,238	262,879
3. Total electric plant	126,865,276	124,016,874
4. Less accumulated depreciation	(32,491,252)	(30,683,356)
5. Electric plant – net	94,374,024	93,333,518

OTHER PROPERTY AND INVESTMENTS:

6. Investments in associated companies	5,154,842	5,063,302
7. Other investments	2,298,240	2,377,481
8. Special funds	1,652,884	1,881,347
9. Total other property and investments	9,105,966	9,322,130

CURRENT ASSETS:

10. Cash and cash equivalents	1,117,827	2,186,099
11. Accounts receivable, less allowance for uncollectible accounts (2013 – \$74,950; 2012 – \$75,000)	5,560,873	4,188,097
12. Materials and supplies	921,635	1,057,701
13. Prepayments	212,819	208,495
14. Interest receivable	8,258	8,213
15. Total current assets	7,821,412	7,648,605

DEFERRED DEBITS:

16. Total deferred debits	3,081,916	77,524
17. TOTAL ASSETS	\$114,383,318	\$110,381,777

EQUITIES AND LIABILITIES

EQUITIES:

	2013	2012
18. Memberships	\$ 761,630	\$ 754,455
19. Patronage capital	26,490,815	26,673,757
20. Other equities	14,673,297	13,259,897
21. Accumulated other comprehensive income	154,584	137,432
22. Total equities	<u>42,080,326</u>	<u>40,825,541</u>
23. Long-term debt, net of current maturities and net of cushion of credit of \$2,112,684 for 2013 and \$1,033,699 for 2012	<u>52,806,828</u>	<u>59,047,937</u>

OTHER NONCURRENT LIABILITIES:

24. Postretirement benefits obligation	783,236	781,490
25. Deferred Revenue Reserve	<u>1,140,121</u>	<u>1,284,315</u>
	<u>1,923,357</u>	<u>2,065,805</u>

CURRENT LIABILITIES:

26. Current maturities of long-term debt	4,940,256	2,340,093
27. Current portion of postretirement benefit obligation	40,000	60,000
28. Line of credit	4,870,000	0
29. Accounts payable – general	526,912	441,977
30. Accounts payable to associated company-billed power costs	4,687,514	2,975,247
31. Customer deposits	754,721	717,666
32. Taxes accrued	236,466	220,729
33. Interest accrued	337,523	406,881
34. Payroll accrued	200,979	176,586
35. Accrued compensated absences	286,246	278,639
36. Total current liabilities	<u>16,880,617</u>	<u>7,617,818</u>

DEFERRED CREDITS:

37. Customers' energy prepayments	194,059	213,761
38. Unamortized gain on reacquired debt	498,131	610,915
39. Total deferred credits	<u>692,190</u>	<u>824,676</u>
40. TOTAL EQUITIES AND LIABILITIES	<u>\$ 114,383,318</u>	<u>\$ 110,381,777</u>

Cost of Electricity

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



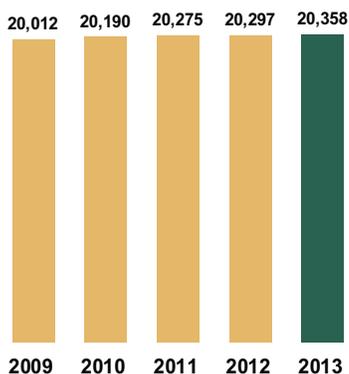
Capital Credits Retirements

Thousands of dollars



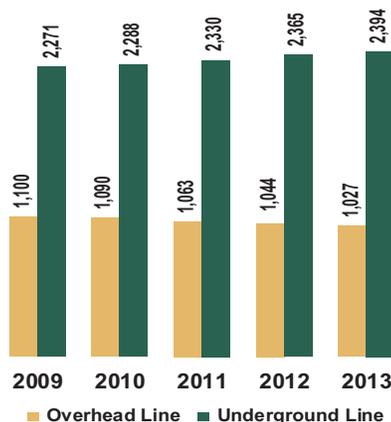
Meters Served

Average



Miles of Line

Average



Statement of Revenue and Patronage Capital



For the years ended December 31, 2013 & 2012

OPERATING REVENUE:

1. Electric
2. Other
3. Total operating revenue

OPERATING EXPENSE:

4. Cost of power
5. Distribution – operation
6. Distribution – maintenance
7. Customer accounts
8. Customer service and information
9. Sales expense
10. Administrative and general
11. Depreciation
12. Taxes
13. Interest on long-term debt
14. Amortization of gain on reacquired debt
15. Other
16. Total operating expense
17. Operating margin before capital credits
18. Generation and transmission and other cooperative capital credits

19. NET OPERATING MARGIN

NONOPERATING MARGINS (LOSSES):

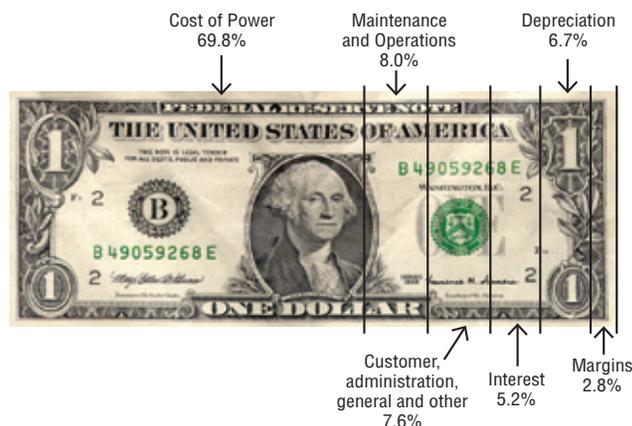
20. Merchandising, jobbing and contract work, less costs and expenses of (2013 – \$16,621; 2012 – \$16,621)
21. Rent of headquarters second floor, net of costs (2013 – \$118,197; 2012 – \$118,197)
22. Investment income
23. Revenue deferral recognition
24. Cooperative Development LLC (net of income taxes)
25. Income Tax Benefit (Expense)
26. Northern Safety & Security LLC management income
27. Northern Safety & Security LLC
28. Total nonoperating margin
29. Net margin
30. Patronage capital – beginning of year
31. Transfer nonoperating margins to unallocated reserve
32. Retirement of capital credits
33. PATRONAGE CAPITAL – END OF YEAR

	2013	Percent of Revenue	2012	Percent of Revenue
1. Electric	\$47,849,464		\$44,523,829	
2. Other	486,842		523,536	
3. Total operating revenue	<u>\$48,336,306</u>	100.0%	<u>\$45,047,365</u>	100.0%
4. Cost of power	\$33,726,872	69.8%	30,781,885	68.3%
5. Distribution – operation	1,878,906	3.9%	1,844,599	4.1%
6. Distribution – maintenance	1,993,809	4.1%	2,104,909	4.7%
7. Customer accounts	1,235,362	2.6%	1,313,678	2.9%
8. Customer service and information	750,066	1.6%	751,479	1.7%
9. Sales expense	120,086	0.2%	111,984	0.2%
10. Administrative and general	1,482,822	3.1%	1,459,794	3.2%
11. Depreciation	3,255,251	6.7%	3,173,667	7.0%
12. Taxes	1,650	0.0%	1,690	0.0%
13. Interest on long-term debt	2,597,914	5.2%	2,591,895	5.8%
14. Amortization of gain on reacquired debt	(112,784)	-0.2%	(112,784)	-0.3%
15. Other	93,878	0.2%	86,017	0.2%
16. Total operating expense	<u>\$47,023,832</u>	<u>97.2%</u>	<u>\$44,108,813</u>	<u>97.8%</u>
17. Operating margin before capital credits	1,312,474	2.8%	938,552	2.1%
18. Generation and transmission and other cooperative capital credits	365,630		563,904	
19. NET OPERATING MARGIN	<u>\$ 1,678,104</u>		<u>\$ 1,502,456</u>	
20. Merchandising, jobbing and contract work, less costs and expenses of (2013 – \$16,621; 2012 – \$16,621)	\$ 8,978		\$ (333)	
21. Rent of headquarters second floor, net of costs (2013 – \$118,197; 2012 – \$118,197)	(2,639)		292	
22. Investment income	153,287		110,890	
23. Revenue deferral recognition	144,194		376,875	
24. Cooperative Development LLC (net of income taxes)	328,709		433,618	
25. Income Tax Benefit (Expense)	(176,393)		-	
26. Northern Safety & Security LLC management income	13,196		13,524	
27. Northern Safety & Security LLC	17,106		13,693	
28. Total nonoperating margin	<u>486,438</u>		<u>948,559</u>	
29. Net margin	\$ 2,164,542	4.5%	\$ 2,451,015	5.4%
30. Patronage capital – beginning of year	26,673,757		25,957,543	
31. Transfer nonoperating margins to unallocated reserve	(1,225,215)		(861,066)	
32. Retirement of capital credits	(1,122,269)		(873,735)	
33. PATRONAGE CAPITAL – END OF YEAR	<u>\$26,490,815</u>		<u>\$26,673,757</u>	

Where operating revenue came from

INCOME	Amount	Percent of Revenue
Residential sales (Except seasonal)	\$35,553,246	73.4%
Irrigation sales	14,119	0.0%
Commercial & industrial 50 kva or less	2,744,346	5.7%
Commercial & industrial over 50 kva	5,345,441	11.1%
Public street & highway lighting	73,772	0.2%
Sales for resale – REA borrowers	703,521	1.5%
Sales for resale – others	3,415,017	9.3%
Total sales of electric energy	<u>\$47,849,462</u>	<u>99.0%</u>
Other revenue	486,843	1.0%
Total operating revenue	<u>\$48,336,305</u>	<u>100.0%</u>

Where operating revenue was spent



Analysis of *Operating Expense Items*

OPERATIONS EXPENSE

Operations, Supervision and Engineering	\$ 252,386
Overhead Line Expense	218,542
Overhead Line Expense – Line Inspection	178,904
Overhead Line Expense – PCB Test	11,048
Underground Line Expense	221,521
Underground Line Expense – Cable Locating	116,014
Meter Expenses	315,491
Consumer Installation Expenses	98,052
Miscellaneous Distribution Expense	458,379
Rents	8,569
Total Operations Expense (Total Line #5)	\$ 1,878,906

MAINTENANCE EXPENSE

Maintenance, Supervision and Engineering	\$ 58,663
Maintenance of Overhead Lines Expense	137,547
Maintenance of Overhead Lines Expense – Reclearing	790,142
Maintenance of Overhead Lines Expense – Spraying	68,097
Overhead Outages	209,041
Maintenance of Underground Lines Expense	69,206
Underground Outages	337,062
Maintenance of Street Lights	3,117
Maintenance of Transformers	12,945
Maintenance of Meters	187,973
Maintenance of Turtle Meters	57,664
Maintenance of Remote Disconnects	13,561
Maintenance of Miscellaneous Distribution	48,791
Total Maintenance Expense (Total Line #6)	\$ 1,993,809

CONSUMER ACCOUNTS EXPENSE

Meter Reading Expense	\$ 56,821
Customer Records	754,665
Customer Records – Delinquent Accounts	423,925
Customer Records – Cash Short and Over	(49)
Total Consumer Accounts Expense (Total Line #7)	\$ 1,235,362

SALES EXPENSE

Advertising Expense	\$ 120,086
Total Sales Expense (Total Line #9)	\$ 120,086

CUSTOMER SERVICE & INFORMATION EXPENSE

Customer Assistance Expense	\$ 149,614
C. I. P. – Load Management	134,157
Customer Assistance Expense – Safety	4,704
C. I. P. – Electric Heat Maintenance	56,640
C. I. P. – Thermal Heater	207
C. I. P. – Heat Loss Calculation	201
C. I. P. – Renewable Energy	779
C. I. P. – Residential Electric Evaluation & Consultation	42,334
C. I. P. – Prescriptive Incentives	97,012
C. I. P. – Existing Homes	1,043
C. I. P. – Low Income Weatherization	61,644
C. I. P. – Energy Use Behavior	6,939
C. I. P. – Residential Custom Incentive	1,124
C. I. P. – Business Prescriptive Incentives	90,175
C. I. P. – Business Custom Incentives	40
Power Plant Tour	15,459
Fair Booth	3,307
Youth Tour	1,946
Northern Lights, Customer Service & Information	82,741
Total Customer Service & Information Expense (Total Line #8)	\$ 750,066

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

ADMINISTRATIVE & GENERAL EXPENSE

Administrative & General Salaries	\$ 742,090
Office Supplies & Expenses	67,809
Computer Supplies & Software	186,004
Outside Services Employed	36,823
Property Insurance, Injury and Damages	10,501
Employee Benefits, Education	27,671
Regulatory Expenses	31,541
Duplicate Charges, Credit	(70,444)
Miscellaneous Expense – Goodwill Administration and Advertising	28,915
Dues Paid Associated Organizations	70,769
Miscellaneous General Expenses	76,930
Miscellaneous General Expenses – Capital Credits	36,228
Directors' Fees & Expenses	76,482
Miscellaneous General Expenses – Annual & District Meetings	63,431
Rents	5,785
Maintenance of General Plant – Building	53,737
Maintenance of General Plant – Office Equipment	4,507
Maintenance of General Plant – 2 Way Radio	5,111
Maintenance of General Plant – Miscellaneous Equipment	4,576
Maintenance of General Plant – Lab Equipment	893
Maintenance of General Plant – Computers	23,463
Total Administrative & General Expense (Total Line #10)	\$ 1,482,822

Comparison *Statistics*

	2013	2012
kWh sold	471,046,710	422,288,512
Average monthly kWh per residential customer	1,421	1,249
Average monthly bill for residential customer	\$156.62	\$143.95

Average monthly bill for all customers	\$195.87	\$182.80
Average monthly expense per customer	\$192.49	\$181.10
Investment per customer	\$6,231.72	\$6,110.11
Number of consumers (average)	20,358	20,297
Miles of line, Dec. 31	3,421	3,409
Long-term debt per customer	\$2,838.98	\$3,024.49

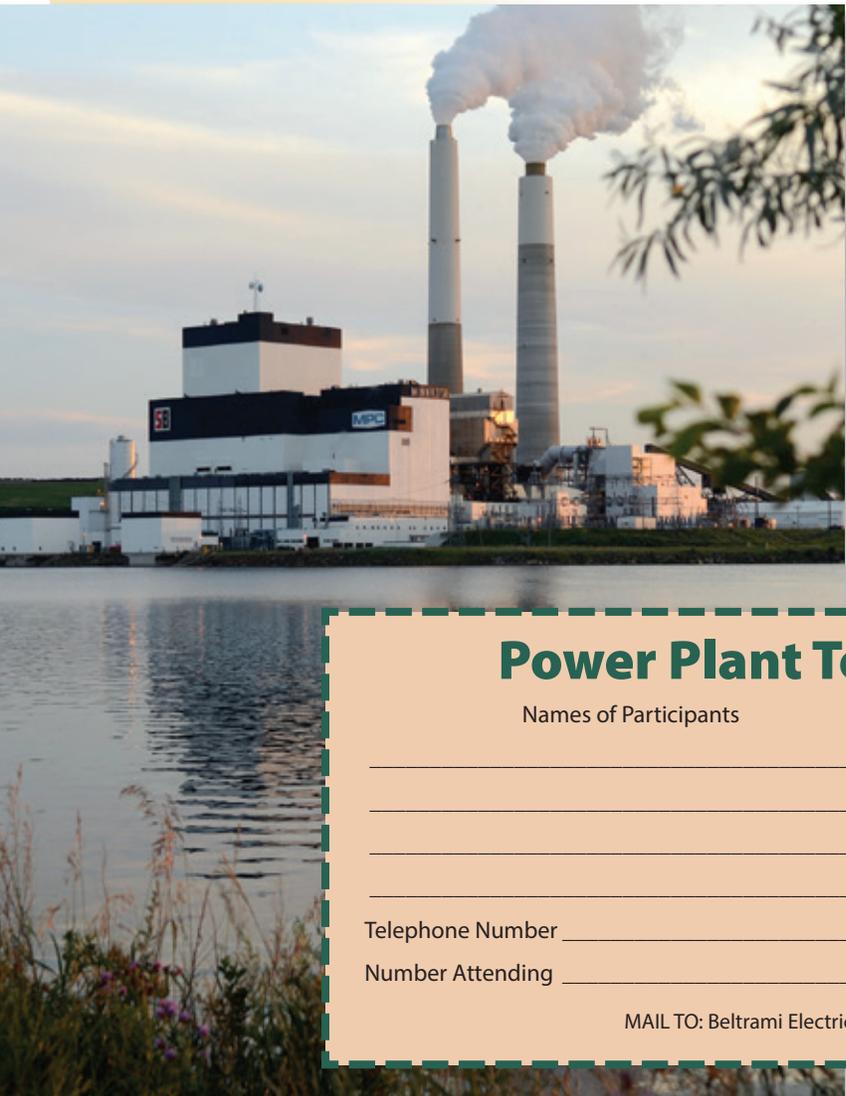


Power Plant *Tour*

June 5-6 and Sept. 8-9

Where does our electricity come from?

Sign up today for one of the two-day power plant tours offered by Beltrami Electric Cooperative. Tours are scheduled for June 5-6 and Sept. 8-9. For only \$40 per person, these tours include motor coach travel, meals and lodging at the Seven Seas Hotel and Waterpark in Mandan, N.D., where you will be provided a banquet dinner. The tour, which will stop at various locations in eastern and central North Dakota, includes visits to Minnkota's offices in Grand Forks and the Ashtabula Wind Energy Center north of Valley City, N.D. (June), a tour of the lignite-fueled Milton R. Young Station near the town of Center, N.D., and a stop at the Garrison Dam (September). Sign up soon, spots are limited and are going fast. Call 444-2540 for more information.



Power Plant Tour Registration Form

Names of Participants

Address

Telephone Number _____

June 5 & 6 _____ Sept. 8 & 9 _____

Number Attending _____

Number of Rooms 1 _____ 2 _____

MAIL TO: Beltrami Electric Cooperative, PO Box 488, Bemidji, MN 56619-0488

Multivendor Indoor Garage Sale

To benefit the



Saturday, May 3, 8 a.m. to 3 p.m.

at Beltrami Electric (in the garage)

4111 Technology Dr NW, Bemidji

(near Paul Bunyan Communications)

\$1 entrance fee (12 & under free)

- Access to 72 booths & the comfort of indoor shopping!
- Huge variety of NEW & USED merchandise!
- All fees collected (rent, entrance, food) go to the United Way of Bemidji Area!

Present this coupon at the registration table (with your preprinted address on the reverse side) during Beltrami Electric Cooperative's annual meeting Thursday, April 24, 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.

Hey kids! Northern Safety & Security is having a Coloring Contest for a chance to win a new bicycle!

Print out a coloring sheet of Security Man from their website at www.northss.com or pick up a copy in the Beltrami Electric Cooperative lobby.

When you are done with your artwork, please mail the sheet to Northern Safety & Security, 4111 Technology Dr. NW #203, Bemidji, MN 56601. All entries must be postmarked by May 23, 2014. Winners will be announced May 30.



Board Meeting Highlights

Beltrami Electric's board of directors conducted its monthly meeting Wednesday, March 26, 2014. All directors were present with Jerry Larson excused. Also present were General Manager Lynette Nieuwsma, Sid Sletten and Kay Olson.

The following reports were given:

- The CEO made her monthly report, including discussion on February financials and the district meetings held recently. Incumbent directors, Lea Perkins of District 2, Jerry Larson of District 4 and Rick Coe of District 6 will be running unopposed and therefore no ballot will be mailed to the membership as allowed in the Bylaws. She also discussed energy policy legislation, recent visits with legislators and solar energy.
- Sid Sletten gave the financial and statistical report for February. He also reviewed the work order inventories and special equipment.
- Sid Sletten presented to the board the CoBank borrowing limits and incumbency certificate.
- The CEO presented a revision to BEC Policy 110, Conduct of Elections.
- Mark Martens of Eide Bailly, LLC presented the audit report.
- Sam Mason updated the board on the upcoming annual meeting that will be held April 24, 2014. District meetings were also discussed.
- The CEO presented an addition to the rate schedules.
- The CEO and Sam Mason discussed electric off-peak rebates from Minnkota Power.
- A delegate to Northern Safety & Security was discussed.
- Murl Nord and Rick Coe reported on the NRECA annual meeting they recently attended.
- John Lund, Terry Diffley, Rick Coe and the CEO reported on the Minnesota Rural Electric Association annual meeting and legislative visits they attended.
- Terry Diffley reported on the last Minnkota board meeting.

The following actions were taken:

- Adopted a resolution approving the debt limit related to CoBank.
- Support of electric off-peak rebates from Minnkota Power passed on to the membership.
- Accepted the annual audit report as presented.
- Appointed Sam Mason as the delegate to Northern Safety & Security.
- Accepted addition to BEC rate schedules.
- Approved the revised BEC Policy #110 as presented.
- Approved the revised BEC Policy #209 as presented.

The next board meeting will be held Wednesday, April 30, 2014.

Volunteer for Project GreenTouch

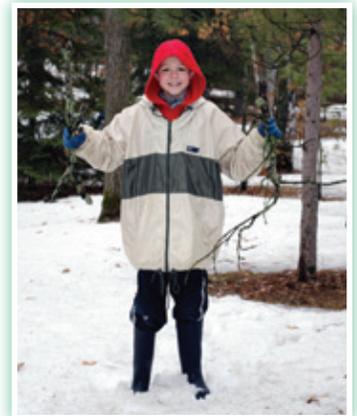
Invite your family and friends!

Saturday, May 3, 10 a.m. to 2 p.m., Lake Bemidji State Park
Tools, equipment, beverages and grilled lunch provided

Beltrami Electric Cooperative and other Touchstone Energy® cooperatives throughout Minnesota have joined 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 help spruce up Lake Bemidji

State Park for the 2014 season!

Come join us! No park sticker will be needed that day for volunteers. For more information visit www.beltramielc.com or if you would like to volunteer, contact us at 444-2540 or mraile@beltramielc.com.



Annual Meeting *Program*

April 24, 2014 • Bemidji High School

5:30 to 7 p.m.

Turkey & Pork Dinner, *Commons Area*
Registration, browse information, free promotional items

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

Entertainment, *Auditorium* Northside Jazz Combo

6:30 p.m.

Swimming for kids, pool area..... See note below
for more information

7 p.m.

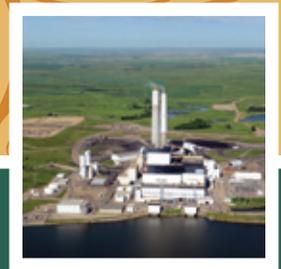
Annual Meeting, *Auditorium* Drawing for door
prizes throughout the meeting

National Anthem Lara Hicks, *Bemidji High School*

Invocation..... Judy Honer, Director

Welcome & Call Meeting to Order..... Rick Coe, President

Reading of Official Notice of Meeting,



Proof of Mailing and Minutes of
2013 Annual Meeting Murl Nord, Secretary

Introduction of Candidates,
Election of Directors Joel Larson, Attorney,
Minnkota Power Cooperative

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

Board President/Manager's Report Rick Coe, President/
Lynette Nieuwsma, CEO/General Manager, *Beltrami Electric*

Featured Speaker Darrick Moe, President and CEO,
Minnesota Rural Electric Association

Grand Prize Drawing

Adjournment of Meeting

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

Attention kids! Swimming available again
at Annual Meeting! Bring your suit!

Once again, Beltrami Electric has secured the pool at Bemidji High School during the 2014 Annual Meeting. While parents listen to the meeting program, their children can swim in the pool free of charge. Lifeguards and supervision will be in place, 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.

Memorial Day Closing

The Beltrami Electric Cooperative offices will be closed on Monday, May 26, in observance of Memorial Day. Please remember those who sacrificed their lives for our freedom.