

Energizing Your Future

Letter to the Members

As I sit down and think of what I would like to communicate to you, I am flooded with thoughts from last year's accomplishments, to this year's goals, to adapting to our rapidly changing environment. Those crashing waves of thought can easily fill a book so I will attempt to condense and highlight the attributes, performance and chosen course of your cooperative.

Energy consumption in the United States increased slightly in 2016, in comparison to 2015, and the renewables component of the generation mix increased with several new wind and solar projects coming online. Wind generation increased by 20%, while coal decreased by 8%. The push last year for utility scale solar projects like the 2.5MW project at your Cooperative's Crane Chase substation will contribute to the large increase in solar capacity connecting to the grid. Overall sales in the state leveled off somewhat because of the continual mild weather. Your Cooperative's sales were below 2015's, which makes these two years the lowest in sales years within the last several. Future forecasted growth in energy sales is flat and will only occur through colder or warmer conditions. Growth in membership is predicted to increase slightly, although the annual totals have dwindled since the Great Recession of 2008. Only 224 new members connected since this time, whereas 451 connected in the five years prior to the recession. The decrease has primarily been in new home construction and year-round consumer growth. Out of the 451 new members for the five years prior to the recession, 303 were new residential homes and 173 were seasonal. Since the recession 136 seasonal members have connected and only 19-year-round residences, along with the loss of 49 farms. New member increase is a little more than 2% over the 14-year span, but impacts sales slightly unless there is variation in the current weather pattern.

Migration and births to increase the populace also illustrates what's happening in our hometowns. The growth rate for Price County in 2015 was 67th out of the 72 Wisconsin counties. The Demographic Study performed showed that the county had a decrease in natural population growth of -1.6%.

Although your cooperative has been restricted by the lack of growth and external pressures affecting costs, we were able to complete a deployment of over 10,000 new AMI (Advanced Metering Infrastructure) meters and are now utilizing the software opportunities associated with it to capitalize on data collection for decision making and identification of system issues requiring correction. This has enhanced our outage response and restoration times, causing these numbers to trend downward. The completion of the Cooperative's first seven-year cycle of right-of-way clearing will assist these numbers as well. This should occur by year's end and is the first time in the existence of the Cooperative that a system clearing cycle was established. We were also able to return \$356,241 in Capital Credits, while awarding 14 scholarships to local youths and instilling community support to worthy causes that benefit you.

With costs in mind, we continue to budget to maintain expenditures and minimize long term debt accumulation. In addition, and after 66 years of residing in our current headquarters, a board committee

has been appointed and is working with a general contractor and an architect to design your new member service center on Springs Drive, south of Phillips. This structure will increase efficiencies and will be constructed with the future of the Cooperative in mind. It should be completed and ready for habitation early next year. The return of \$796K from Dairyland Power Cooperative received from the Nuclear Waste Policy Act litigation case will be applied to the cost of this building. Most importantly, and with all the activity, we were able to maintain an impressive safety record of over three years without a lost time injury or vehicle accident.

Outside of these achievements, the biggest concern on everyone's mind is energy rates. We have done well to hold the line for the last three years with only a small Power Cost Adjustment (PCA) in 2015. Just a one percent increase in operating revenue accounts for \$120,000 annually, which is almost a quarter of your Cooperative's non-operating margins. Given inflation alone accounts for 3% over the last three years you can see how a small percentage impacts the Cooperative. PEC's rate increases for 2017 were required based on the rate and cost of service study conducted by an outside consultant and is consistent with what's occurring in the industry. Upon surveying 17 Wisconsin cooperatives, nine increased their Service Availability charge in the last year and seven had rate percentage increases greater than the one approved by your board this year. Also, the five largest investor-owned utilities in Wisconsin have increased their Service Availability charges recently. This is the expense required to recover the costs for infrastructure to ensure the energy is there when you flip the switch.

Overall, you have an excellent board and a staff of employees looking out for your best interests while attempting to progress in a limited market. I truly believe that "The future depends on what we do in the present," as stated by Mahatma Gandhi, and thus we are incorporating all of today's decision making with consideration towards its future impact and our next generation of cooperative members.

Sincerely,

William L. Caynor Sr.
CEO & President

Mission Statement

Our mission is to provide access to safe, reliable, and affordable electric services.