

2014

"Taking Action"



October 3, 2014



NORTH STAR ELECTRIC COOPERATIVE ANNUAL REPORT

North Star
ELECTRIC COOPERATIVE
Your Touchstone Energy® Partner





Steve Arnesen
District 1



Mike Trueman
District 2



Randy Bergan
District 3



Michael Hanson
District 4



Bruce Polkinghorne
District 5



Lorraine Nygaard
District 6



Julian Brzoznowski
District 7

Serving since:

Julian Brzoznowski	1983
Steve Arnesen	1986
Bruce Polkinghorne	1989
Michael Hanson	1994
Randy Bergan	1999
Mike Trueman	2002
Lorraine Nygaard	2007

MISSION STATEMENT

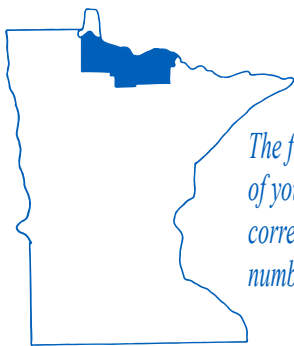
To improve the lives of our member-owners and community by responsibly providing clean, affordable electric energy and other beneficial services while maintaining the very highest standards of performance and member satisfaction.

An annual meeting is a meeting of the member-owners of the cooperative. It provides the opportunity to vote for the director of your choice and to express your opinions about the operations of your cooperative. It also provides you with the opportunity to become better informed through the reports of officers and employees. This will be a successful meeting if all who attend gain some knowledge of their cooperative. A well-informed membership is the basis of a strong cooperative.

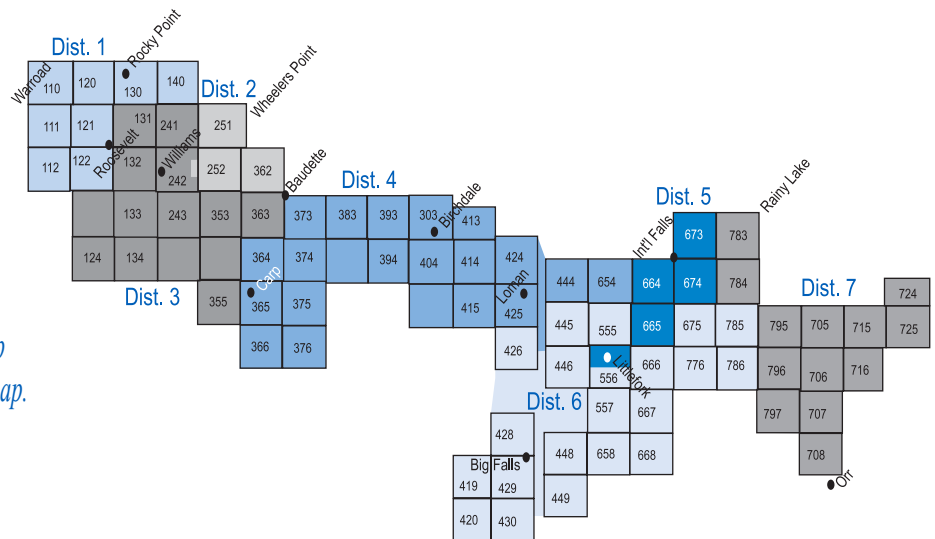
ON THE COVER "Taking Action"

- **Board Planning** – for our future
- **Community Involvement** – supporting local needs
- **Education** – solar demo project (see page 5)
- **Political** – working to shape balanced legislation
- **Reliable Electricity** – on call and ready to serve 24/7/365

DIRECTOR CANDIDATES



*The first three numbers
of your account number
correspond to the township
number included on this map.*



District 2 - Mike Trueman

Mike Trueman has lived and been a business owner in Lake of the Woods County for 34 years. He and his wife, Connie, have five grown children, Lisa, Tony, Tawnya, Dannell and Mike Jr. They also have 6 grandchildren, Jaden, Tarick, Noah, Ava Bell, Wyatt and Evan. Mike and Connie owned Border View Lodge for 25 years

and the Trueman Hunt Club for 12 years. Prior to moving to this area, Mike was a real estate broker for six years in Cold Springs, Minn., and worked 12 years for Cold Springs Granite. He was president of the Chamber of Commerce in Richmond, Minn., and was a volunteer fireman. He was president of the Minnesota Border Lakes Coalition, Inc., from 1982-84 and served on the Governor's Board on the border waters dispute with Canada. Over the last few years, he has attended several seminars enabling him to be a credentialed board member for North Star. He has also attended the annual meeting for Minnkota Power, Square Butte and the Minnesota Rural Electric Association (MREA). Mike has been on the North Star board for 12 years and would like to continue to serve on the North Star board out of his commitment to community service.



District 3 - Randy Bergan

Randy Bergan is a lifelong resident of Lake of the Woods County. He and his wife, Treva, have two grown children, Gordon and Kendra. After farming all his life, Randy and Treva sold their farm and semi-retired. While farming he also worked 11 winters at GSI, which provides support services for the Bosch Testing Facility in Baudette.

Randy was appointed to the North Star board in 1992 to finish out the term for Wilton Anderson. Then, in 1999 when Lee Tisdale moved from the area, he was again appointed to finish the four-year term. Randy has now served on the North Star board for 18½ years and the Square Butte board for 11 years. He has served on several other boards as well: Northern Farmer's board for 12 years, Soil and Water Conservation District board for 12 years and the Williams Pilgrim Congregational Church board for 54 years. Over the last few years, he has attended several seminars enabling him to be a credentialed board member for North Star. He has also attended the annual meeting for Minnkota Power, Square Butte and the MREA. Randy feels now that he is retired, he will have additional time to serve on the North Star board.

PRESIDENT & MANAGER'S REPORT



Dan Hoskins, *general manager*
Steve Arnesen, *president*

Congratulations North Star Electric Cooperative member-owners on your 74th annual meeting of the membership. We are proud to be a part of it! This year our theme is “Taking Action,” but before we get into that part of this report, we just want to touch on a few action items of our own that happened over the course of the last year.

The most important item is the changing employee group. This group of folks sees to it that your cooperative runs efficiently, reliably, dependably and at our lowest cost. Since we met with you last year, we have had three more employees either retire or leave North Star employment: Ron Lee, sub-foreman of the line crew in Littlefork, 31 years of service; Rich Grotberg, journeyman lineman out of Littlefork, 18 years of service; and Kathy Senti, work order clerk out of the Baudette office, 26 years of service. We thank them for all their years of dedicated service and we wish them all the best in the future. Speaking of future, our newest employees hopefully have a long future ahead of them and we welcome them to our team: Preston Kennedy, journeyman lineman out of Littlefork, and Brittany Hanson, administrative assistant/billing clerk at the Baudette office.

On Dec. 20, 2013, we adjusted the monthly basic service fee from \$36 per

month to \$38 per month. We also worked it out so that when this went into effect, the cost per kWh went down from 11.3 cents per kWh to 11 cents per kWh. So if you use less than 667 kWh per month, you would see a slight increase in your bill, but if you used more than 667 kWh per month, you would see a slight decrease in your bill.

As we moved into 2014, we ended the 2013 year in very good shape. You bought 13 percent more kWh, which created 7 percent more revenue than budgeted. This then created a margin of \$933,201 and a TIER of 2.16, which our lenders and our board of directors like very much, so thank you for buying our product!

In March, the Minnkota Power Cooperative board of directors extended the wind energy surcharge on your bill and increased it by 1 mill, which is one-tenth of one cent and equates to \$1 per 1,000 kWh.

Winter and spring were also a good time for a few technology changes and improvements at North Star. We began using a new secure pay system to create more protection for our members who pay their bill with a check or credit/debit card over the phone. This process now involves the member calling a toll free number (855-874-5354) and entering their own information, which keeps their account and card information completely out of the office. We also rolled out our new online bill pay system called SmartHub. SmartHub can be accessed through our North Star website and also a handy app that can be downloaded on any smartphone, iPad or tablet. Along with information about your current bill, SmartHub also includes new features like usage charts and the ability to look at previous months' bills.

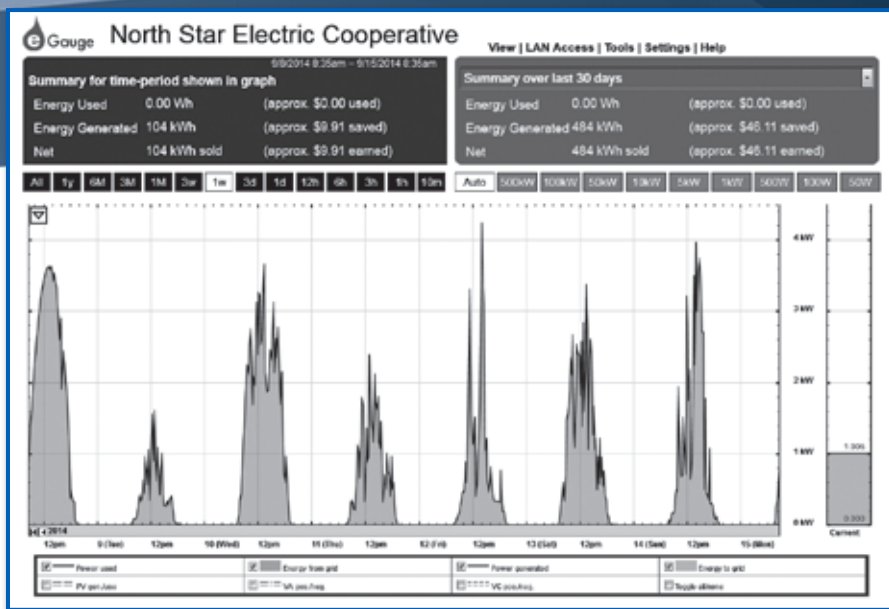
To be on track with our power supplier, Minnkota, we started to move our billing date to match its meter reading date, which is at the end of the month. We used to read your meters on the 20th of each month, but to get more in line with Minnkota's

billing system and to avoid a large 10-day increase on one month's bill, we have been changing the billing cycle by two days every month. We started this process in April and it continued through September, which then put our billing in line with Minnkota's wholesale power bill. So for six months, April through September, everyone saw two extra days of usage on their bill, which raised a few questions that employees were happy to answer. Now that this process is complete, bills will be sent out around the 6th of every month and will always be due on the 20th of every month.

June was a first for us. Our folks installed our first-ever solar electric panel in the front yard of our Baudette office. When you drive into our parking lot you will see a new 4.92-kW solar system. You may wonder why North Star installed a solar system at its headquarters. The answer is simple: education, both for us and our membership. If you are considering installing a solar system, we want you to have the most accurate information possible and not just some information you read off a website or heard from a salesman pushing for a sale.

We installed a 12-panel, 410-watt photovoltaic system, which is rated at 4.92 kW DC (direct current) and when converted to AC (alternating current), which you use in your home, is 4.5 kW. The system consists of 12 panels, 6 wide by 2 deep and covers a 15-foot by 40-foot area. It is estimated that this unit will produce 6,674 kWh/year. The peak month of production is July, which is estimated at 791 kWh (we had 763 kWh actual), and the lowest month is November, which is estimated to be 277 kWh (actual is yet to be seen). This system is interconnected with our headquarters building so all the electricity that is produced is used on site. If you have any questions about this system, please give our office a call and talk with Wayne, manager of member services, or stop by and check out the system.

On the operations side of things,



Part of becoming educated about solar energy includes understanding that electricity must be used at almost the moment it is generated, unless you have a way to store it. This real-time graph on our website (www.nse.coop) shows how much electricity our demonstration project has generated. You can see the week started with a very sunny day – a nice smooth curve as the sun rose and set. Day 2 was cloudy, and the rest of the week showed a few clouds.

crews were busy, especially with the extra long spring. One thing that kept them busy were outages. Some of you experienced outages and some of them were longer than usual, but all in all, we believe outages were under the average for the year. The crews also completed a number of 2014 work plan projects, which, in turn, give our system much more stability and dependability. One major hurdle this summer was the replacement of most or all of the

underground cable in the city of Big Falls. These folks were experiencing a number of outages on the old cable. This project, which was going to possibly take two or three years, was knocked out in one year, so great job to the crews.

In September, most of you should have seen a capital credit refund on your bill. The board approved a \$600,000 capital credit retirement for this year, which landed on your September bill.

And now let's talk about "Taking Action." There have been a number of actions around here, and I am going to talk about two of them. The first is an action that we hope includes a lot of you folks. You have shown that you care about affordable electricity, and many of you sent your opinion when the EPA was targeting new coal-fired generating plants. Now they are after the existing coal-fired power plants and we need your help again. Go to www.action.coop to learn more and let your voice be heard, or contact Ann Ellis, assistant general manager and our grassroots coordinator in our Baudette office, and she would be glad to direct you to the site or even just talk to you about it. This proposed rule could be devastating to our industry. We have strength in numbers, but only if we stand up together and take action.

There you have it, the many different actions within our co-op. But, like we mentioned before, there is one more action to tell you about. This action is personal. My action is retirement. This is the last annual meeting for me as your general manager, as I plan to retire in August 2015. It has been my honor and privilege to serve as your general manager, and I hope to have a much larger article in the near future explaining my honor and privilege to you.

God bless you and our troops,
Dan and Steve

ANNUAL MEETING MINUTES

Annual meeting of the members of North Star Electric Cooperative, Inc., Oct. 4, 2013

The annual meeting of the members of North Star Electric Cooperative, Inc., was held at the Littlefork/Big Falls School in Littlefork, Minn., on Friday, Oct. 4, 2013, pursuant to the notice of the meeting published in the cooperative's newsletter.

The meeting was preceded by the registration of the members. A delicious ham dinner was served by the Littlefork Lutheran Church Women. Entertainment was provided by the "Sloughgrass Band" from Birchdale, Minn.

The Colors were presented and the National Anthem was sung by the "Sloughgrass Band."

General Manager Dan Hoskins invited the audience to watch a brief video from Touchstone Energy.

General Manager Dan Hoskins welcomed the members to their 73rd annual meeting and introduced President Arnesen.

President Arnesen called the meeting to order at 6:05 p.m. and gave the invocation. He then introduced the board of directors and Attorney Gerad Paul.

President Arnesen then recognized the guests in the audience. Visiting distinguished guests included Mac McLennan, Kevin Fee and Gerad Paul, all of Minnkota Power Cooperative; Don Simons of Lake Country Power; Scott Handy of Cass County Electric; Dale Moser, Curt Hukee and Mel Ortman, all of Roseau Electric; State Sen. Tom Bakk and State Rep. Roger Erickson.

President Arnesen reported the number of registered members as 168, which exceeded the minimum requirements for a quorum. He then introduced Secretary Mike Hanson.

Secretary Hanson read the Notice of the 2013 Annual Meeting. A motion was made by Bruce Sampson, seconded by Einar Sundin and unanimously carried, to approve the 2013 notice and agenda as presented.

Secretary Hanson reported that the minutes of the 2012 annual meeting of the members

were printed in the annual report handed out during registration. A motion was made by David Cassi, seconded and unanimously carried to approve the minutes of the 2012 annual meeting as presented.

Secretary-Treasurer Hanson gave the treasurer's report and also reported on the favorable results of the annual audit, conducted by Eide Bailly.

President Arnesen introduced Attorney Gerad Paul to conduct the election for directors in Districts 5 and 6. Attorney Paul introduced the candidates, Bruce Polkinghorne, the only candidate for District 5, and Lorraine Nygaard, the only candidate for District 6.

Attorney Paul explained that if a motion was made to declare the candidates elected, there would be no need to conduct an election.

A motion was made, seconded by Amos Layman and unanimously carried, to declare District 5 candidate Bruce Polkinghorne elected.

A motion was made, seconded by Bruce Sampson and unanimously carried, to declare

(continued on page 7)

CO-OP EMPLOYEES



Dan Hoskins



Ann Ellis



Wayne Haukaas



Marty Mollberg



Patsy Olson



Bruce Petersen



Todd Thydean



Susan Williams



Tim Pelach



Kevin Holen



Glen Marcotte



Todd Higgins



Jim Kuehl



Brad Dolinski



Robyn Sonstegard



Tessa Pepera



Jesse Huot



Darren Koschak



Toby Wahl



Preston Kennedy



Brittany Hanson



James Sather



Nick Horne



Travis Junker

	<u>Position</u>	<u>Years of service</u>
Dan Hoskins	General Manager	12
STAFF		
Ann Ellis	Assistant General Manager/Finance Manager	37
Wayne Haukaas	Manager of Compliance & Member Services	26
Marty Mollberg	Operations Manager	26
EMPLOYEES		
Patsy Olson	Billing Coordinator	38
Bruce Petersen	Line Foreman	36
Todd Thydean	Line Sub-Foreman	26
Susan Williams	Supervisor, District Office Services	26
Tim Pelach	Line Foreman	23
Kevin Holen	Member Service Master Electrician	18
Glen Marcotte	Line Crew Chief	12

	<u>Position</u>	<u>Years of service</u>
Todd Higgins	Line Sub-Foreman	11
Jim Kuehl	Part-time Handyman/Groundskeeper	11
Brad Dolinski	Purchasing Agent/CAD Draftsman	9
Robyn Sonstegard	Bookkeeper/Asst. Office Manager	7
Tessa Pepera	Work Order Clerk	5
Jesse Huot	Journeyman Lineman	1
Darren Koschak	Line Crew Chief	1
Toby Wahl	Journeyman Lineman	1
Preston Kennedy	Journeyman Lineman	1
Brittany Hanson	Billing Clerk/Administrative Assistant	
James Sather	Part-time Summer Apprentice Lineman	
Nick Horne	Part-time Summer Apprentice Lineman	
Travis Junker	Part-time Summer Apprentice Lineman	

ANNUAL MEETING MINUTES

(continued from page 5)

District 6 candidate Lorraine Nygaard elected.

President Arnesen introduced Assistant General Manager Ann Ellis, who provided an informative slide presentation on rates and the financial status of the cooperative. She also informed the audience of the upcoming \$2 basic service fee increase and offsetting .3-cent kWh charge decrease. This will become effective Dec. 20 and is a revenue-neutral change for the cooperative.

A motion was made by Einar Sundin, seconded and unanimously approved, to accept the financial report.

President Arnesen introduced Mac McLennan, who spoke to the audience about Minnkota Power, the construction of the new transmission power line across North Dakota, the regulatory, environmental and legislative challenges facing Minnkota, and the high costs associated with them.

General Manager Hoskins thanked Rep. Erickson and Sen. Bakk for attending the cooperative's annual meeting. He discussed the rate changes for 2014, as previously mentioned by Assistant Manager Ellis in her financial report. He discussed the importance of safety,

and commended the employees of North Star for recently reaching the milestone of 500,000 hours worked with no lost time accidents.

At this time, General Manager Hoskins recognized some of the employees. Allan Baumgartner and Steve Ellis retired in January after 36 and 34 years of service, respectively. New Operations Manager Marty Mollberg was introduced to the members. The following employees were recognized for their years of service: Jim Kuehl – 10 years, Todd Higgins – 10 years, Marty Mollberg – 25 years, Wayne Haukaas – 25 years, Todd Thydean – 25 years, Sue Williams – 25 years, and Bruce Petersen – 35 years. General Manager Hoskins also recognized Assistant Manager Ann Ellis for recently receiving a new award from MREA for Outstanding Service to Minnesota's rural electric cooperatives.

This being North Star Electric's 73rd year, Manager Hoskins had a drawing for \$73. This was won by Wilmer Johnson of Littlefork. Prizes drawn throughout the evening totaled \$2,050 in energy credits. The winners of the energy credit prizes were:

Earl Liberko of Cottage Grove	\$500
Richard Spenst of Roosevelt	\$250
Leo Nemec of Littlefork	\$250
Norma Ulrich of Baudette	\$100
Dennis Vohler of International Falls	\$100
John Helget of Annandale	\$100
Robert Polkinghorne of Littlefork	\$100
Shawn Ostlund of Littlefork	\$100

Reynold Lofgren of Littlefork	\$100
Wayne Clement of Littlefork	\$100
Michael Karsnia of International Falls	\$100
Leroy Winkel of Littlefork	\$50
Allen Linder of Ray	\$50
Harvey Kennedy of International Falls	\$50
Anthony Steplyk of Grayslake, Ill.	\$50
Einar Sundin of Ray	\$50

Minnkota Power Cooperative had a drawing for two \$50 gift cards for anyone who had signed up with their grassroots effort during registration. The winners of those \$50 gift cards were Richard Spenst of Roosevelt and Barb Craig of International Falls. President Arnesen talked about the history of rural electrification in the United States and urged members to participate in North Star's and NRECA's grassroots program.

President Arnesen asked the members for any old business. There was no old business. President Arnesen asked the members for any new business. There was no new business. President Arnesen thanked the Littlefork Lutheran Church Women for preparing the delicious dinner, and the special guests and the members for coming to their annual meeting and showing their concern and support for the cooperative.

There being no further business, a motion was made by Einar Sundin, seconded by Bruce Sampson and unanimously carried, to adjourn the meeting at 7:35 p.m.

POWER SUPPLY REPORT



By Mac McLennan

*President & CEO
Minnkota Power Cooperative, Inc.*

Transmission line construction, a major unplanned outage and another proposed power plant regulation have highlighted a busy 2014 for Minnkota Power Cooperative, North Star Electric

Cooperative's wholesale power provider.

The largest investment in Minnkota transmission facilities ever, the Center to Grand Forks (CGF) 345-kilovolt Transmission Line, is finished. The last wires were strung July 31 and the line was put in service on Aug. 7.

The \$353 million, 250-mile line is transporting energy from the Milton R. Young Station near Center, N.D., to Minnkota's service territory in eastern North Dakota and northwest Minnesota.

The CGF Project is the longest line in state history that begins and ends within the state of North Dakota. It will meet Minnkota's obligations as a transmission services provider for grid reliability and to meet long-term load growth needs. The recent reassignment of an existing transmission line also drives the need for additional transmission facilities.

Crews worked almost 117 straight weeks on construction. The hard work of up to 250 people working outside and exposed to the elements has turned more than 2,000 truckloads of raw material into a major infrastructure improvement.

My hats off to everybody involved in the build, led by Project Manager Mike Hennes.

With more than 300,000 hours worked during construction, the project only had two instances requiring medical attention. Considering the type of work being performed, that is a strong testament to the people working and their attitude toward safety.

Minnkota staff has also spent

part of the year trying to better understand a new EPA-proposed rule targeted at carbon dioxide emissions for existing coal-based power plants.

Comments are flooding in on the heels of the administration's June announcement of the United States' first proposed rule to cut carbon dioxide (CO₂) emissions from existing power plants.

The EPA has proposed that existing plants reduce CO₂ by an average of 30 percent – compared to 2005 levels – by 2030. North Dakota's reduction goal is to cut CO₂ emissions by 10.6 percent, while Minnesota's goal is to cut CO₂ emissions by 40.6 percent.

This is obviously an important issue for North Star, Minnkota and other electric cooperatives in this country. We hope members in our system will go to action.coop to learn more and submit official comments on the proposed rule. The EPA is accepting comments regarding this issue until Dec. 1.

Two-day public hearings were held in Denver, Atlanta, Washington, D.C., and Pittsburgh the week of July 28. Minnkota Environmental Manager John Graves was one of 388 speakers at the Denver location. An EPA spokesperson said a combined 1,322 people spoke at the four regional meeting locations.

Minnkota continues to analyze the proposal, titled the "Clean Power Plan," for its possible effects on the reliability and affordability of electricity for cooperative members and the region at large. Minnkota, like all utilities, interacts with the larger energy market to ensure its members have a dependable and low-cost supply of energy.

Minnkota has invested more than \$425 million into environmental upgrades at the Milton R. Young Station. Total investment in the clean coal technology at North Dakota's eight coal-based power plants is more than \$2 billion.

Speaking of the Young Station, it had an unfortunate incident this year.

In early May, 12 tubes ruptured in the boiler at the plant, causing significant damage to the boiler and several other areas of the Young 2 unit.



To date, repairs for the damage have reached nearly \$17 million and the operating impacts from not having the plant online have been nearly \$17 million as well.

I had the opportunity to spend some time at the plant to look at the damage caused by the tube failure and pressure excursion. It was significant and I will say that we are very fortunate that no one was injured as a result of it.

More than 300 contractors and Minnkota personnel worked long hours making repairs and completing inspections to get the unit back in service. Minnkota is doing a root-cause analysis of the incident to learn more.

Lastly, Minnkota has been working with our members on a marketing campaign this year. The message of the new campaign is "Powerful Value."

In addition to the advertising piece, we also have started an electric heating rebate program.

Through an assortment of communications materials, Minnkota will remind consumers of the role electricity plays in their lives and why it is important to use it wisely.

In part because of the Young 2 unplanned outage and the CGF line being finished, there will be a need for some rate adjustments in the next couple of years.

Rates are always a concern. We must keep a long-term focus and stay watchful.

Even with the challenges of EPA regulations and legislative mandates, it's our pledge to do everything possible to help North Star keep its electricity as the best energy value in the region.

Interest high in EPA's proposed carbon rule

Comments are flooding in on the heels of the Obama administration's June announcement of the United States' first proposed rule to cut carbon dioxide (CO₂) emissions from existing power plants.

The U.S. Environmental Protection Agency (EPA) has proposed that existing plants reduce carbon dioxide by an average of 30 percent – compared to 2005 levels – by 2030. North Dakota's reduction goal is to cut CO₂ emissions by 10.6 percent.

North Star Electric Cooperative's wholesale energy provider, Minnkota Power Cooperative, is concerned about the proposed rule.

"This is obviously an important issue for Minnkota and other electric cooperatives in this country," said Mac McLennan, Minnkota president & CEO. "We hope the consumers in our system will go to **action.coop** to learn more and submit official comments on the proposed rule to the EPA."

The EPA is accepting comments on the proposal until Dec. 1. Two-day public hearings were held in Denver, Atlanta, Washington, D.C., and Pittsburgh the week of July 28. Interest in the meetings was strong, with speaker slots for Denver, Atlanta and Washington filling up well in advance.

Minnkota Environmental Manager John Graves was one of 388 speakers at the Denver location. An EPA spokesperson said a combined 1,322 people spoke at the four regional meeting locations.

"The first concern is that the EPA has based the required CO₂ reductions upon the reductions potentially available by the states utilizing four building blocks," Graves told the EPA. "Of those four building blocks, three of them are 'outside the fence,' which we do not believe is permissible under Section 111(d)."

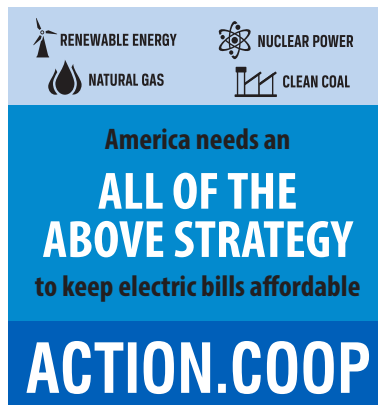
Graves also said Minnkota is concerned about the length of time before states must submit their State Implementation Plans (SIPs).

"The guidelines require states to submit their SIPs to the EPA by June 2016, although a one-year extension is possible," he said. "Even with the extension, this time frame is too short. Most states took three years to prepare a SIP for the regional haze program, which is a relatively straightforward program compared to this program. States need more time."

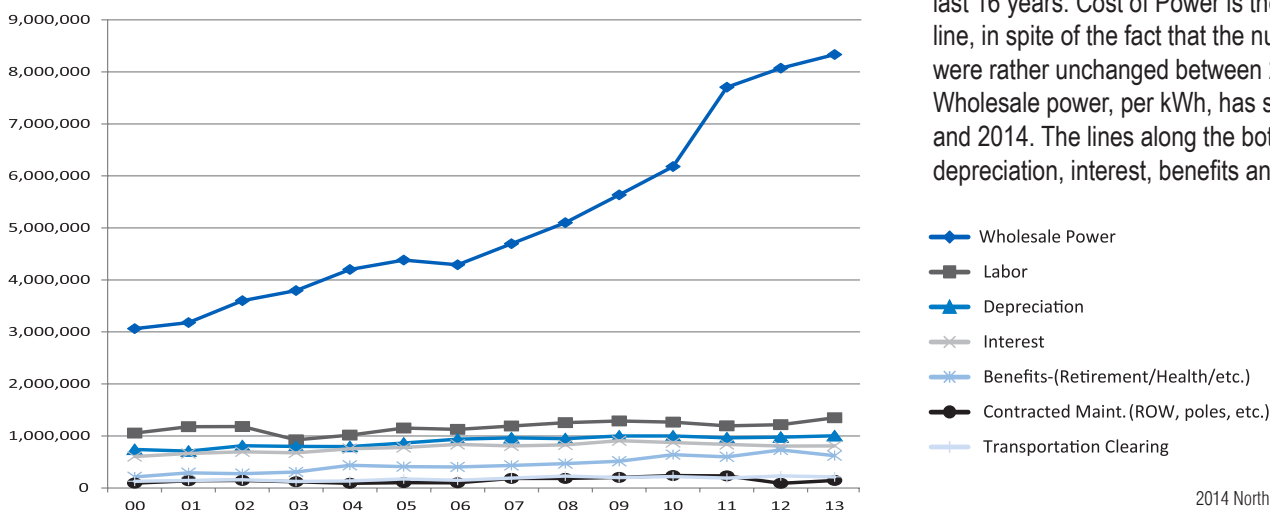
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Minnkota and North Star Electric have recently invested more than \$425 million into environmental upgrades at the Milton R. Young Station near Center, N.D. Total investment in the clean coal technology at North Dakota's eight coal-based power plants is more than \$2 billion.



HIGHEST COST EXPENSES



These lines represent our biggest expenses for the last 16 years. Cost of Power is the quickly climbing line, in spite of the fact that the number of kWh sold were rather unchanged between 2000 and 2012. Wholesale power, per kWh, has stabilized in 2013 and 2014. The lines along the bottom include labor, depreciation, interest, benefits and transportation.

YOUR 2013 DOLLAR



Where it came from:

Farms and Homes	\$ 9,457,674
Small Commercial	3,817,707
Large Commercial	0
Seasonal	575,013
Street Lighting	30,338
Consumer Penalties	69,492
Rent from Electric Property	47,802
Total Revenue	\$ 13,998,026

Where it went:

Operation Expense:

Purchased Power	\$ 8,333,789
Operations	688,983
<i>(includes supervision, safety, mapping, cable locating, etc.)</i>	
Consumer Accounts	322,094
Consumer Services and Information	295,041
Sales	37,590
Administrative and General	1,341,168

Maintenance Expense:

Maintenance of Distribution Plant	\$ 553,426
<i>(includes right-of-way maintenance, outage costs, etc.)</i>	
Depreciation	1,001,813
Interest	808,073
Other Deductions	0

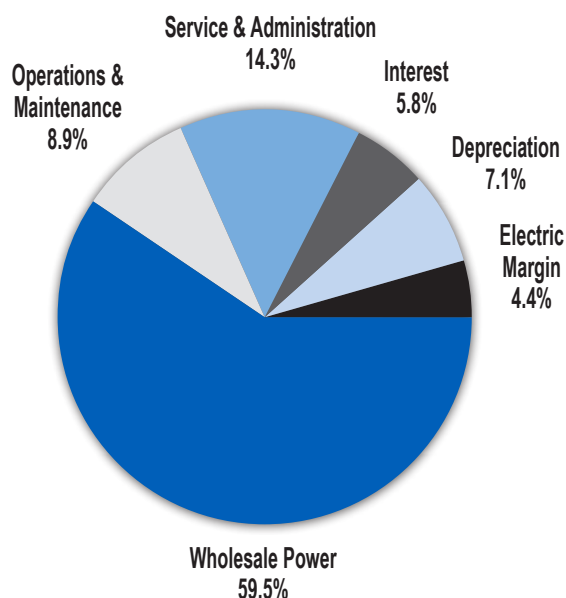
Total Expense \$ 13,381,977

Electric Operation Margin for Year	\$ 616,049
<i>(Revenue less expense)</i>	
Interest and Dividend Income	205,109
Misc. NonOperating Margins	(11,624)
Generation and Transmission Capital Credits	72,727
<i>(Minnkota Power Cooperative)</i>	
Other Capital Credits and Patronage Dividends	50,940

Net Patronage Capital Assigned \$ 933,201

HOW YOUR 2013 DOLLAR WAS SPENT

Revenue from the sale of our service amounted to \$13,998,026 as of the year ending December 31, 2013.



STATEMENT OF FINANCIAL CONDITION



What we own:

Lines and General Equipment	\$ 40,895,446
Less: Provision for Depreciation	14,843,861
	\$ 26,051,585

Cash:

General Funds	\$ 353,766
Special Funds	20
Investments	1,523,350
Temporary Investments	350,000
Notes Receivable Net	341,250
Receivables	1,835,181
Material and Supplies	586,721
Prepaid Expenses <i>(includes insurance)</i>	134,383
Other Current and Accrued Assets <i>(accrued revenue)</i>	485,672
Deferred Debits <i>(includes prepayments for engineering studies and benefits)</i>	975,207

Total what we own

\$ 32,637,135

What we owe:

Long-Term Obligations	\$ 15,210,762
Current and Accrued Liabilities <i>(includes accounts payable, taxes, interest, deposits, etc.)</i>	3,107,183
Deferred Credits <i>(includes member prepayments and small service territory transition)</i>	661,668

Our Equity in Above Assets:

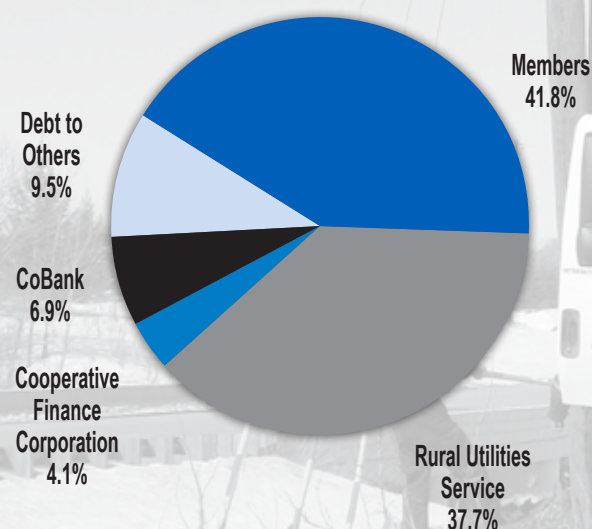
Membership Fees	\$ 26,715
Patronage Capital and Other Equities	13,630,807

Total what we owe

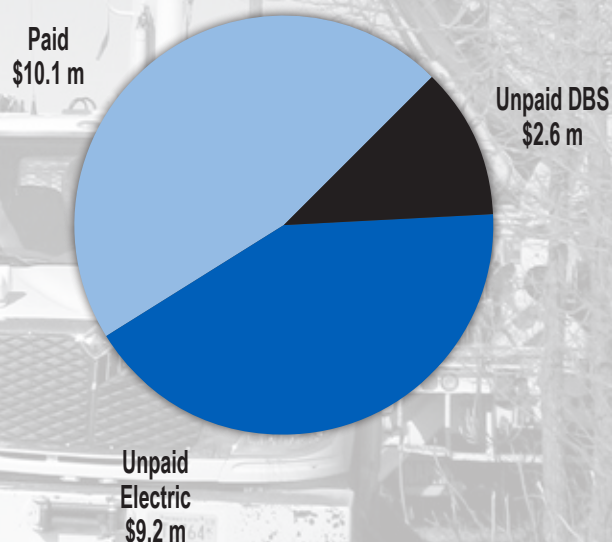
\$ 32,637,135

*Balance
Sheet as of
December 31,
2013*

WHO OWNS WHAT



CAPITAL CREDITS *(as of Aug. 2014)*



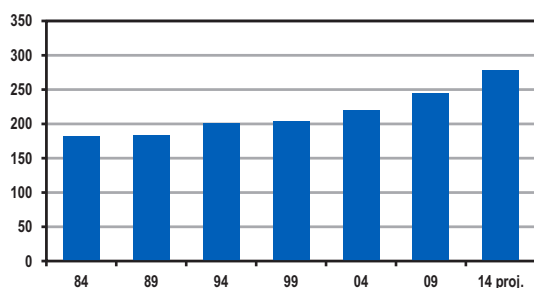
COMPARATIVE OPERATING STATISTICS



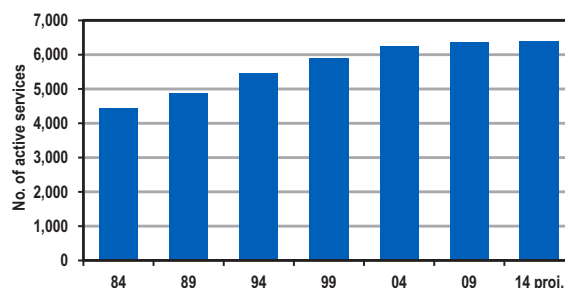
	2009	2010	2011	2012	2013	2014 proj.
Revenues	\$10,736,921	\$11,595,695	\$13,113,268	\$13,577,072	\$13,998,026	\$14,279,623
Cost of Wholesale Power	5,636,546	6,178,195	7,703,546	8,071,602	8,333,789	8,561,771
Operating Expenses	2,916,823	3,069,555	2,946,149	3,070,497	3,238,302	3,379,130
Depreciation	1,000,947	998,400	962,717	975,257	1,001,813	1,025,831
Taxes	0	0	0	0	0	75,000
Interest	907,672	872,989	836,221	805,454	808,073	813,189
TOTAL EXPENSES	\$10,461,988	\$11,119,139	\$12,448,633	\$12,922,810	\$13,381,977	\$13,854,921
Operating Margin	\$274,933	\$476,556	\$664,635	\$654,262	\$616,049	\$424,702
kWh Purchased	127,791,821	117,026,307	118,972,535	117,772,420	124,125,276	130,300,414
kWh Sold	119,651,800	109,176,084	111,141,990	109,678,468	116,394,570	119,615,013
Miles of Line	1,399	1,405	1,421	1,426	1,431	1,432
Connected Members	6,366	6,384	6,379	6,404	6,396	6,399
Average Residential Usage*	1,498	1,339	1,345	1,273	1,349	1,410
Average Residential Bill*	130.75	139.69	156.05	157.28	161.17	166.67
Average Residential Rate/kWh* (excludes seasonals)	0.087	0.104	0.116	0.124	0.119	0.118
Average Wholesale Cost to North Star per kWh Sold	0.0471	0.0566	0.0693	0.0736	0.0716	0.0716

* Monthly billed residential accounts

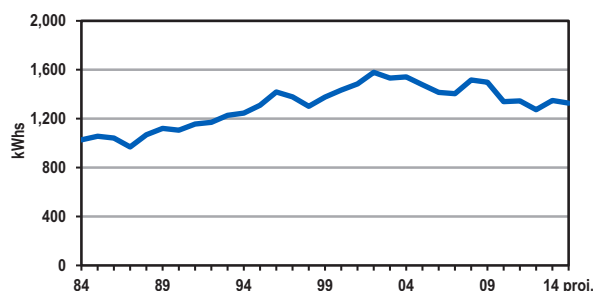
ACCOUNTS PER EMPLOYEE



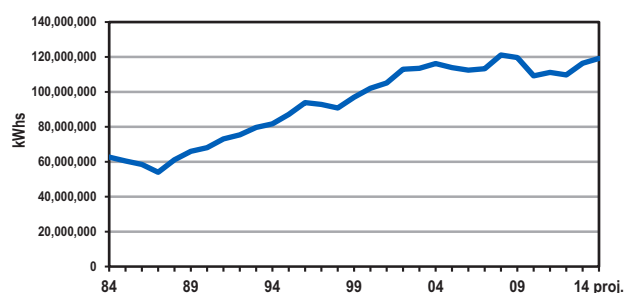
TOTAL ELECTRICAL ACCOUNTS



ELECTRICITY CONSUMED PER RESIDENCE



ELECTRICITY CONSUMED CO-OP TOTAL

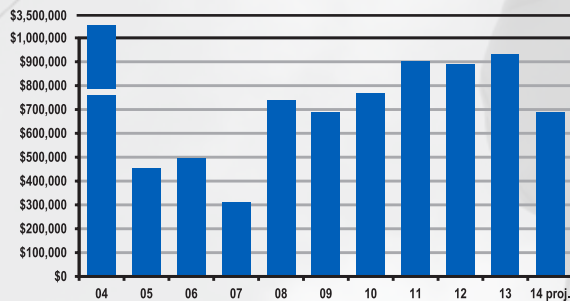


OPERATING COMPARISONS

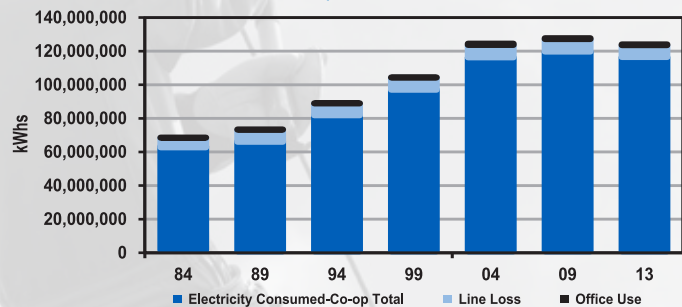


	New Services	Retired Services	Connects	Disconnects	Net Gain	Sec. Lights Installed	Sec. Lights Removed
1998	129	20	95	113	111	82	55
1999	133	16	103	102	134	77	42
2000	126	55	72	122	76	67	62
2001	117	17	82	103	96	64	44
2002	113	16	84	120	77	58	47
2003	127	17	74	133	68	51	50
2004	111	27	92	132	71	66	50
2005	87	17	80	137	30	43	34
2006	106	28	85	158	33	122	125
2007	69	27	112	189	-8	35	49
2008	62	52	126	188	0	33	45
2009	57	34	119	171	5	35	43
2010	44	70	130	153	21	24	50
2011	41	25	93	133	1	17	48
2012	63	30	97	137	23	21	40
2013	38	20	92	133	-3	18	26

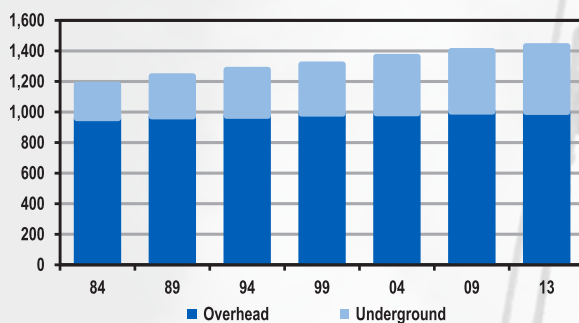
MARGINS



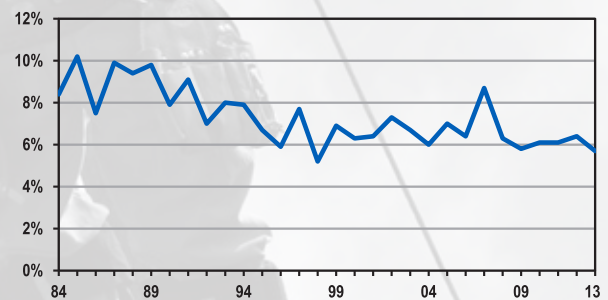
KWH SOLD, OFFICE USE AND LOSSES



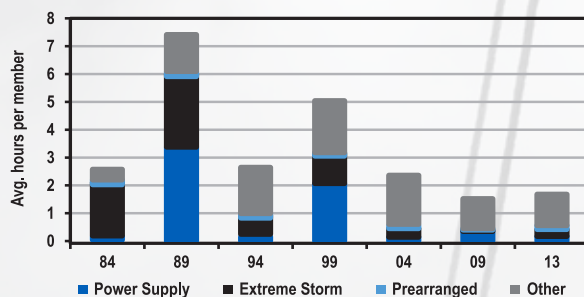
MILES OF LINE



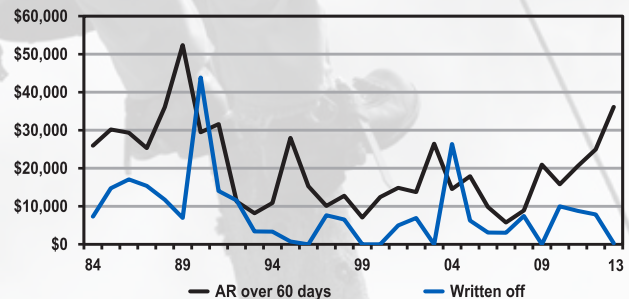
LINE LOSS



OUTAGE TYPES



BAD DEBTS AND WRITE-OFFS



BASIC TERMS

Creating electricity



Understanding some basic terms regarding electricity can help you make wiser energy use decisions at your home or business.

Electricity is nothing more than an organized flow of electrons. Everything in the universe is made up of atoms. Each atom has neutrons and protons in the nucleus, plus electrons that orbit around the nucleus. Protons have a positive charge and electrons have a negative charge. Applying a magnetic field to the electrons can push them from their orbit and make them move from atom to atom.

Electricity can be created by many conversion processes on a large scale with sources like coal, wind, water or the sun. The most common scenario uses affordable coal. Coal is burned to create super-hot temperatures that are then used to boil water. The steam created from the water flows through a turbine, causing its blades to turn. The blades spin a large magnet in the generator. The magnets are arranged so their magnetic fields can pull and push electrons. As the magnet passes near stationary wire coils in the generator, an electric current is produced and electrons flow through the wire. Wind turbines work the same way, only the force of wind acts as the prime mover, causing its blades to turn and spin the generator. About 30 percent of North Star Electric Cooperative's power portfolio is now wind.

Utilities are always generating electricity for the grid that powers our nation, and electricity must be used at almost the exact moment that it is generated. Minnkota's baseload coal-fired plants provide the

reliability we all want. During the January 2014 polar vortex grip, the coal-fired plants ran 100 percent of the time.

So, how does it get from the center of North Dakota to your place? Since metals allow electrons to move easily between the individual atoms, electricity is moved from the generating plant to your home or business using large metal wires and high voltage. These lines are strung on structures topped with insulators that don't conduct electricity.

Now that we have talked about how electricity is produced and delivered, we can discuss how to measure some basic properties and how they factor into your monthly electric bill.

- **Watt:** A measure of power – the rate energy is used or produced. For example, the amount of electricity used to run a particular appliance.
- **Kilowatt (kW):** 1,000 watts
- **Kilowatt-hour (kWh):** A measure of energy working over a period of one hour. This is how utilities measure energy usage. If you have a 5,500-watt clothes dryer running continuously for one hour, you would use 5.5 kWh, and it would cost you about 63 cents for that hour.
- **Amperes:** Used to measure electron flow (current), quite often directly related to the power consumed by a device/appliance.
- **Voltage:** A unit of electric force that measures the "pressure" of electricity. The new transmission line Minnkota just completed this year is 345,000 volts. By the time it gets to you, the standard residential voltages are 120 volts (like outlets) and 240 volts (like a water heater or clothes dryer).

Because you can't see electricity, think of it this way: Voltage is like the pressure of water in a pipe. Amps are like the water flowing through the faucet. Watts are like the speed at which the water flows through the faucet. Kilowatt-hours (kWh) measure the amount of "water" used over a period of time. Class dismissed.

ABOUT CO-OPS

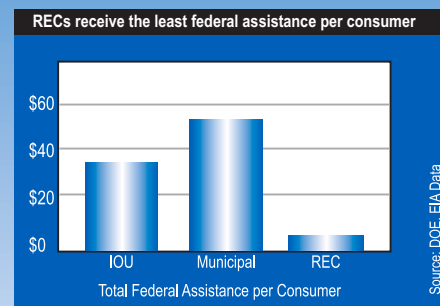
Electric cooperatives are private, independent electric utilities, owned by the members they serve. Democratically governed businesses, electric cooperatives are organized under the Cooperative or Rochdale Principles, anchoring them firmly in the communities they serve and ensuring that they are closely regulated by their consumers.

Electric cooperatives began to spread across rural America after President Franklin D. Roosevelt created the Rural Electrification Administration (REA) in 1935. The Executive Order establishing the REA and the passage of the REA Act a year later marked the first steps in a public-private partnership that has, over the last 75 years, bridged the vast expanse of rural America to bring electric power to businesses and communities willing to organize cooperatively and accept responsibility for the provision of safe, affordable and reliable electric power.

Today more than 900 electric cooperatives power Alaskan fishing villages, dairy farms in Vermont and the suburbs and exurbs in between. They provide reliable and technologically advanced service to 42 million Americans while maintaining a unique consumer-focused approach to business.

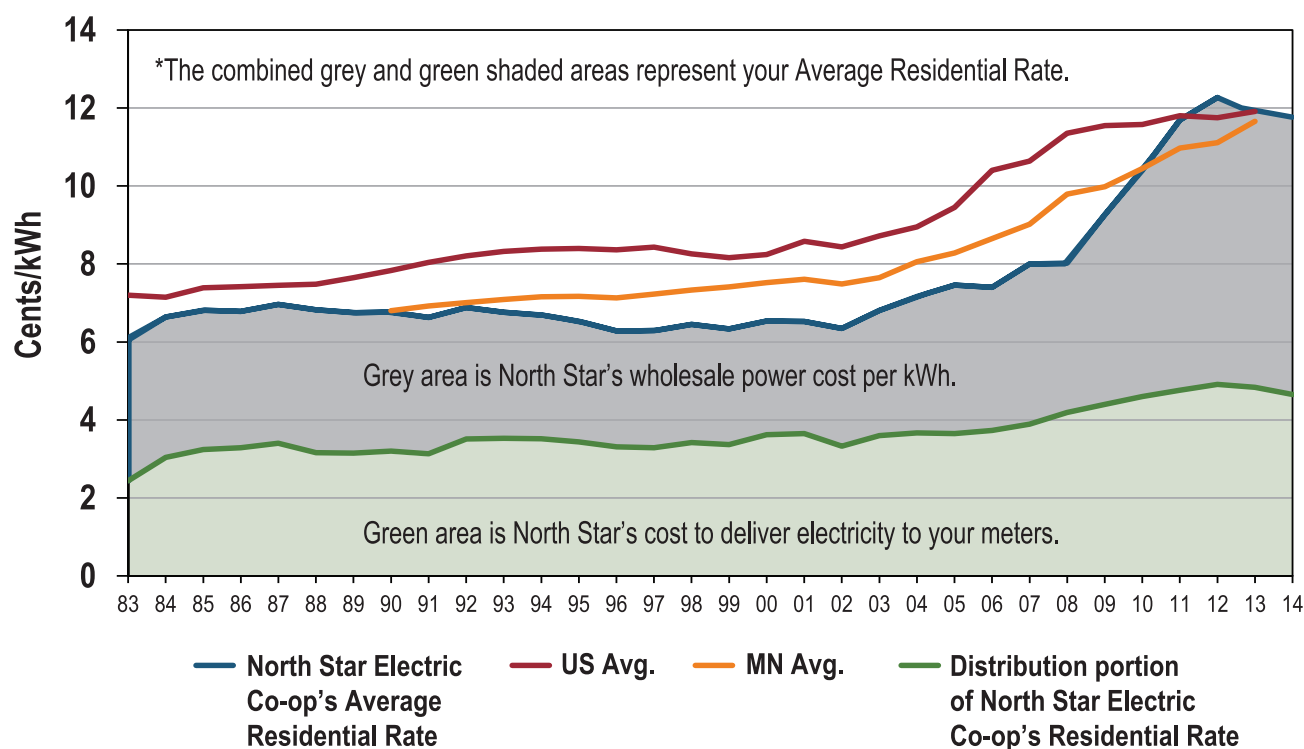
Federal assistance to electric utilities

According to Nobel Laureate economics professor, Lawrence R. Klein of the University of Pennsylvania, all types of utilities (investor-owned utilities (IOUs), municipal-owned utilities and electric cooperatives enjoy some form of subsidy. **You may be surprised to learn that electric cooperatives receive the least amount of subsidy per customer.**



All electric utilities receive federal subsidies in one form or another. Calculations based on federal government financial reports show that rural electric cooperatives receive the least federal amount of subsidy per consumer. This is in spite of the fact that rural electric cooperatives serve only six consumers per mile of line compared to 38 for investor-owned (such as Minnesota Power) and 48 for city-owned utilities.

AVERAGE RESIDENTIAL ELECTRIC RATES



2013 Average Residential Electric Rates (cents per kilowatt-hour)

**North Star
Electric Rate
11.93¢**

West North Central	10.58	East North Central	11.91	New England	15.83	Middle Atlantic	15.37
Iowa	10.72	Illinois	10.46	Connecticut	17.36	New Jersey	15.50
Kansas	11.43	Indiana	10.69	Maine	14.34	New York	18.50
Minnesota	11.66	Michigan	14.37	Massachusetts	15.02	Pennsylvania	12.56
Missouri	10.16	Ohio	11.66	New Hampshire	16.50		
Nebraska	9.70	Wisconsin	13.54	Rhode Island	15.12	South Atlantic	11.16
North Dakota	8.66			Vermont	17.01	Delaware	13.15
South Dakota	9.89					District of Columbia	12.26
						Florida	11.27
Mountain	10.99					Georgia	10.98
Arizona	11.41					Maryland	12.84
Colorado	11.55					North Carolina	10.64
Idaho	8.90					South Carolina	11.69
Montana	10.16					Virginia	10.63
Nevada	11.70					West Virginia	9.57
New Mexico	11.45						
Utah	10.06					East South Central	10.35
Wyoming	9.88					Alabama	11.19
						Kentucky	9.63
Pacific Contiguous	13.21			West South Central	10.59	Mississippi	10.75
California	16.19			Arkansas	9.30	Tennessee	10.01
Oregon	9.79	Pacific NonContiguous	28.33	Louisiana	9.26		
Washington	8.57	Alaska	17.97	Oklahoma	9.50		
		Hawaii	37.18	Texas	11.24		

Source: Energy Information Administration

AGENDA

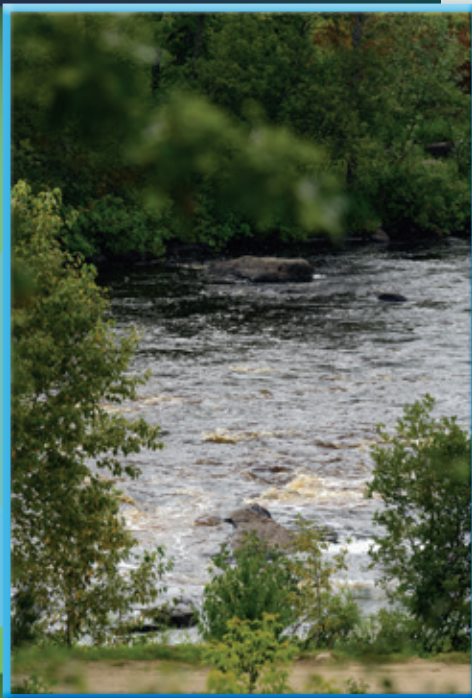
2014 Annual Meeting

"Taking Action"

2 0 1 4

Lake of the Woods School • Baudette, Minnesota • Oct. 3, 2014

- | | | |
|-----------|---|--|
| 5-6 p.m. | Registration and Dinner | |
| 5 p.m. | Entertainment | Sloughgrass Band |
| 5:30 p.m. | Free child care until meeting adjournment | |
| 6 p.m. | Presentation of Colors and National Anthem | |
| | Welcome | General Manager Dan Hoskins |
| | Call to Order | President Arnesen |
| | Invocation | President Arnesen |
| | Welcome Guests | President Arnesen |
| | Notice of 2014 Meeting | Secretary Hanson |
| | Minutes of 2013 Meeting | Secretary Hanson |
| | Treasurer's Report of Audit | Treasurer Hanson |
| | Introduction of Board Candidates | |
| | Election of Directors | Districts 2 and 3 |
| | Financial Report | Asst. General Manager/Finance Manager, Ann Ellis |
| | Guest Speaker | Mac McLennan, President & CEO,
Minnkota Power Cooperative |
| | Manager's Report | General Manager Dan Hoskins |
| | President's Report | President Arnesen |
| | Old and New Business | Members |
| | Question and Answer Time | |
| | Drawing for Balance of Prizes and Grand Prize | |
| | Adjournment | |



Sloughgrass
Band,
Birchdale,
Minnesota

*Thank you for attending
your annual meeting!*

ANNUAL MEETING PRIZES

- 5 - \$ 50 Energy Credit
- 10 - \$ 100 Energy Credit
- 1 - \$ 250 Energy Credit

GRAND PRIZE
\$500 Energy Credit
(must be present to win)