

Update from Minnkota

Increased expenses drive 2011 increase

Minnkota Power Cooperative, North Star Electric's wholesale energy provider, has announced that its wholesale rates will increase again in 2011.

While North Star has not finalized how much its 2011 rate adjustment will be, it will reflect no more than the 34.8 percent increased cost of wholesale power it purchases from Minnkota.

Minnkota has experienced significant upward pressure on its rates as a result of increased expenses. These increases are occurring while total energy sales have remained relatively flat. As a not-for-profit electric cooperative, Minnkota recovers the cost of its expenses through the rate it charges to its member systems.

Minnkota's total expenses for 2011 total nearly \$333 million, an increase of about \$97.3 million from

2009. To recover this 41.4 percent expense increase, the Minnkota board of directors has approved a 29.8 percent increase to all rate component charges to be effective March 20, in addition to the 5 percent increase in December 2010. Rate increases were implemented in 2009 and 2010 to attempt to address the same issues. As a result, North Star's average wholesale rate will have risen 2.4 cents per kilowatt-hour (kWh).

The cost for Minnkota to own, operate and maintain its power plants has increased considerably. Minnkota is in the process of adding emission control equipment on both generating units at the Milton R. Young Station, located near Center, N.D. To meet new federal emission control standards, more than \$425 million has been invested in major upgrades to the plant, which originally cost about \$300 million with \$50 million in emission control equipment.

Major rate increase drivers since 2009

Fuel

Fuel costs are increasing at the Milton R. Young Station, as well as

at the Coyote Station. Fuel costs for Young 1 are up by \$4.4 million and for Young 2 the increase is \$2.7 million. At the Coyote Station, fuel costs have increased by \$3.6 million.

Since 2009, the total increase in fuel expenses is \$10.7 million.

Operating and Maintenance (O&M) expense

As a result of additional environmental equipment and processes at the Young Station, Minnkota is experiencing significant increases in operating and maintenance (O&M) expenses. O&M expenses for Young 1 are up by \$8.4 million and for Young 2 the increase is \$5.1 million. At the Coyote Station, O&M expenses have increased by \$400,000.

Since 2009, the total increase in operating and maintenance expenses is \$13.9 million.

Debt Service

As Minnkota adds large amounts of capital to meet environmental requirements and to replace and expand its transmission system, there is an increase in the amount of revenue that Minnkota needs to recover in depreciation and interest expense. For

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North Star Electric Cooperative, Inc.
Mission Statement

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

Members' corner

We added a section called the members' corner. What we would like is for members to send in questions about your electric cooperative, and we will answer them for you. Please give us your name and a phone number in case we need to clarify the question, and send them to North Star Electric, PO Box 719, Baudette, MN, 56623, Attn: Wayne.

Highlights from the **BOARDROOM**

These are the highlights from the board of directors meeting held Jan. 5, 2011. The board acted upon usual, routine business and also voted to reduce the number of districts from eight to seven, to have Directors Trueman and Hanson represent the members in District 4 until the boundaries are redrawn, to reschedule the April and May board meeting dates to April 14 and May 12, to name all directors as delegates to the Minnkota/Square Butte annual meeting in Grand Forks and to approve the 2011 operating budget.

Staff reports were provided and included the financial report, higher bills due to colder weather and less load control, plans to print and mail bills from NISC's (our software supplier's) office in St. Louis, pole attachment rates, load management, CIP (Conservation Improvement Program) rebates, Operation Round Up,

adding Garrison Dam as a stop during the members' power plant tour in June, the Minnkota Power Cooperative meetings, the progress of the NOvA project at Ash River, new services, mounting no lost-time hours worked without an accident, equipment, pole changeouts, right-of-way clearing and donating unclaimed capital credits to local tax-exempt organizations.

Reports from Minnkota, Square Butte and MREA (Minnesota Rural Electric Association) were heard.

Detailed minutes are available at the cooperative for member review. Regular board meetings are generally held the first Wednesday of every month. If you wish to speak with the board, or have an item that you would like to have placed on the agenda, please contact Manager Dan Hoskins at least one week in advance to be included on the agenda.

••• Current electrical inspectors •••

State law requires that every new electrical installation in any construction, remodeling, replacement or repair shall file a certificate for inspection with the State Board of Electricity and be inspected by a Minnesota electrical inspector.

- **St. Louis and Koochiching counties:**
Bob Orgon
10111 Roosevelt Rd. S.E.
Bemidji, MN 56601
Phone: (218) 556-3829
Fax: (218) 333-0451
7 a.m. - 8:30 a.m. (Mon. thru Fri.)
- **Roseau and Lake of the Woods counties:**
Scott Stenvik
16409 State Hwy 1 N.W.
Thief River Falls, MN 56701
Phone: (218) 689-5406
7 a.m. - 8:30 a.m. (Mon. thru Fri.)

Reliable backup systems a must!

Electric off-peak heating systems must be capable of 500 hours or more of interruption each winter season, although this year we are expecting only 270 hours of control. "In order to realize the full benefits of the load management program, it is very important that our members work with a qualified heating contractor to ensure that they have an automatic, adequate and well-maintained backup heating system," said Wayne Haukaas, manager of compliance and member services.

The electric off-peak heating program continues to provide great value to members today, just as it did when it was first utilized in the late 1970s. The winter heating season is here, and North Star Electric stands ready to assist our members with their electric home heating options.

Update from Minnkota continued from page 1

Young 2, the increase is \$6.7 million. For Minnkota as a whole, interest and depreciation expenses have increased by \$14.4 million. At the Coyote Station, debt service is down in 2011 by \$4.1 million. This was a one-time restructuring of debt that will go back up in 2012.

Since 2009, the total increase in Debt Service is \$17.0 million.

Surplus energy sales

In addition to increased expenses to run its own facilities, Minnkota has seen pressures applied to its costs as a result of market conditions. Minnkota currently has significant surplus energy in its system that is more costly than it can recover in the wholesale market. Minnkota receives significant energy from its wind resources under long-term contracts. Minnkota also purchases hydroelectric energy from the Western Area Power Administration (WAPA), whose rates have increased as well. Minnkota has not been able to recover all of these expenses each year. In 2011,

\$23.3 million of the expenses associated with the \$104.6 million of purchased power expenses is related to past expenses not recovered in 2010.

Since 2009, expenses associated with market conditions have gone up from \$59.1 million in 2009 to \$104.6 million in 2011. This is a \$45.5 million increase.

Transmission expense

Minnkota has also faced a significant increase in the expenses that it pays for substation and transmission. In this area, \$7.0 million is a new expense associated with payments being made to Minnesota Power to use the DC transmission line under the Young 2 Deal. In 2009, Minnkota's transmission and substation expenses were \$17.2 million. In 2011, the projected expense is \$26.4 million.

Since 2009, the total increase in transmission and substation expenses is \$9.2 million.

All other expenses

Minnkota has experienced some inflationary expenses on the materials and services that are purchased in the administrative area, as well as necessary materials to meet new regulatory requirements. Approximately \$800,000 has been added to comply with new energy efficiency standards. Addressing all of these areas has increased Minnkota's expenses by approximately \$1 million.

Since 2009, the total increase in General and Administrative expenses is \$1 million.

These expenses taken together since 2009 have required Minnkota and therefore its member-owners to have to pay an additional **\$97.3 million** beyond that historically collected in the rates.

The \$97.3 million is a 41.4 percent increase in the expenses that Minnkota is facing from 2009 to 2011.

When you break down the components of these increases, the elements of the \$97.3 million increase ends up being:

Fuel:	\$10.7	11.0 percent
O&M:	\$13.9	14.3 percent
Debt Service:	\$17.0	17.5 percent
Surplus Market		
Conditions:	\$45.5	46.7 percent
Transmission:	\$9.2	9.5 percent
General and		
Administration	\$1.0	1.0 percent
Total	\$97.3	100 percent

If Minnkota's member system sales were increasing, that growth would cover a large portion of these increases; however, member system sales between 2009 and 2011 are projected to increase minimally (353-02-012-01, George Linquist). This means that all expenses must be collected by increasing the rates that Minnkota charges.

This 29.8 percent increase in the rate components includes taking care of the carry-over expenses incurred in 2009 and 2010 that were not collected during those years.

Each of Minnkota's member systems, as well as the municipal customers of NMPA, will be impacted differently by these increases.

Unfortunately, most of these are not one-time cost increases but ongoing expenses that will need to be recovered each year into the future. We are going to carefully review all of our options to manage these increases in the future.

North Star offices will be closed Monday, Feb. 21, in observance of Presidents Day.

ATTENTION:

Parents of high school seniors

Are you aware of North Star Electric's Knowledge Scholarship? To qualify, the parent/guardian must be an active member of North Star Electric, and your child must take a test about your cooperative that provides electricity to your home. North Star Electric will be awarding five scholarships, one \$1,000 and four \$400, plus a chance to win one of eight \$50 cash awards for scoring more than 50 percent on the test. Most of the answers will be in the study material that North Star provides. A couple hours of study time could pay off with a \$1,000 scholarship. Last year only 40 students took the test. The information meeting and the test will be given in mid-April. For more information about the scholarships, please call Wayne at North Star Electric or check with your guidance counselor at your school.



Wholesale power costs are SKYROCKETING

Wholesale power increases are staggering compared to our other costs. As the cooperative that delivers this electricity to you, we are asking for your help to inform legislators about the unintended consequences of legislation and federal EPA regulations impacting our wholesale power supplier, Minnkota Power Cooperative.

It really CAN make a difference when our elected officials hear the concerns of voters. Please take the time to contact yours and tell them: Your rates have increased 83 percent over the last eight years as the price of wholesale power has gone up 141 percent BECAUSE of:

EPA regulations

More than \$425 million of new emission control equipment is required at the Milton R. Young Station, which was originally built for \$350 million, including emission control equipment.

Sluggish economy

Lower demand for electricity results in a surplus of electricity, causing a 50 percent loss on sale of excess wind power.

Renewable mandates

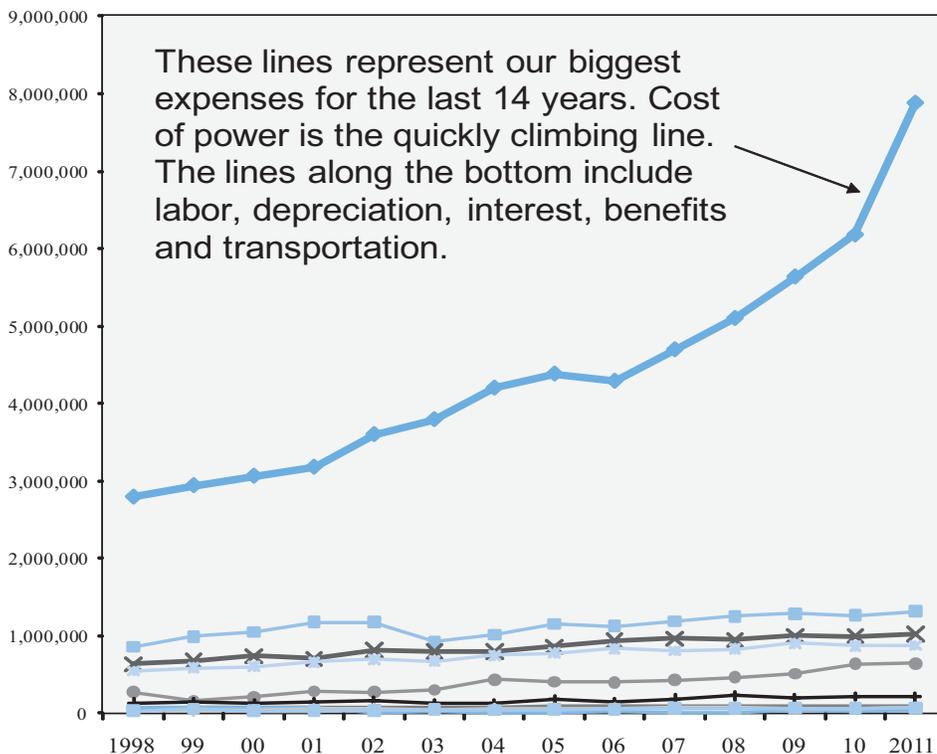
Minnkota has added enough wind to its portfolio to meet the Minnesota Renewable Energy Standard (555-33-001-13, Thomas Vandamme). Minnkota is ahead of the game in reaching the renewable mandates. Other utilities have not taken the leap yet, but they will have to invest in renewable energy. Their rates will rise at that time.

Conservation Improvement Program (CIP) costs (State of Minnesota)

At the same time that we are losing millions of dollars on surplus energy in the wholesale power market, we're also mandated by the state's CIP to spend millions to further reduce energy sales and revenue.

Our statewide organization, the Minnesota Rural Electric Association, is currently working on legislation in St. Paul that would reduce the economic burden CIP is creating for rural electric cooperatives. **Please contact your state legislators and urge them to support reform of the Minnesota CIP.**

Highest Cost Expenses



Help us Do Something About It

Contact your legislators.

*Tell your state legislators that:

Minnesota needs a more balanced approach to energy, with policies that balance cost, competitiveness, reliability and environmental stewardship more evenly and that recognize the realities of the energy market. Trying to push unproven technologies and policies before the market is ready only leads to expensive experiments paid for by consumers. That's what is happening now with Minnkota Power Cooperative and the Minnesota Renewable Energy Standard. Please tell your legislators to stop the one-size-fits-all mandates and begin building a more balanced energy future for Minnesota.

Tell Congressman Peterson and your U.S. Senators Klobuchar and Franken that:

The Environmental Protection Agency (EPA) is already wreaking havoc on your electric prices and is gaining steam to do even more damage to rural areas with carbon taxes, all without significantly improving the environment.

Proposed residential bill comparisons

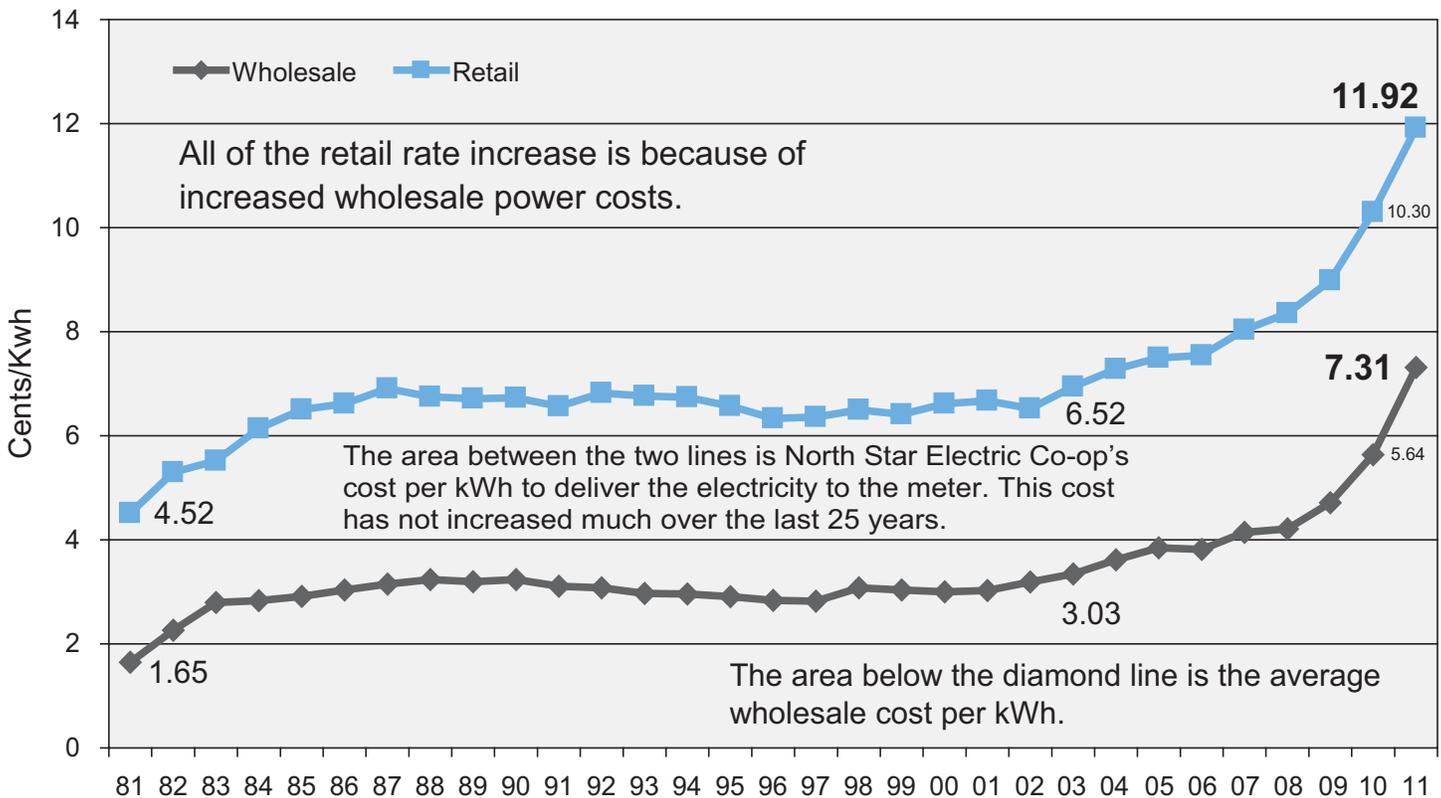
kWh usage	0	750	2,000	10,000
Old Rates	\$35	\$108	\$229	\$1,005
New Rates	\$36	\$125	\$272	\$1,216
\$ Incr.	\$1	\$17	\$43	\$211
% Incr.	<3%	16%	19%	21%

Is off-peak heat still the best value?

Yes! Even with the March 20 increase, you would have to be able to buy LP for \$1.20 a gallon to get the same heat from a 70 percent efficient propane furnace (\$1.55 for 90 percent efficiency). Please continue to use your off-peak heat. As we sell less energy, that puts more pressure on your rates.

Minnkota is ahead of the game in reaching the renewable mandates. Other utilities have not taken the leap yet, but they will have to. Their rates will rise at that time.

Average Electricity Rates/kWh Sold



*Please urge them to support Minnesota Rural Electric Association's efforts to reform their Minnesota CIP (Conservation Improvement Program).

Operation Round Up

helps local programs



The North Star Electric Community Trust Board met on Jan. 10, 2011, to review the 17 applications, which it received requesting funding for various programs. The total amount requested was more than \$24,000. The board had about \$9,000 to work with, so it was not an easy task selecting which group would get funding and what amount they would receive.

Many local programs and organizations benefit from Operation Round Up, a voluntary, member-driven fundraising program of North Star Electric Cooperative, Inc., that is designed to provide financial assistance for worthwhile projects and charities in the area. Donations are given to organizations to help make the area a more pleasant and safe place to live.

All funds for Operation Round Up are contributed by the member-owners of North Star Electric and the money is put into a trust fund that is separate from electric accounts. The trust is administered by its own board of directors comprised of people from across the area.

Operation Round Up directors are appointed by North Star's board members and must be members of the cooperative. The cooperative's general manager is a non-voting member of the board.

Organizations from the area may apply for a donation from the Operation Round Up Trust. The applicant must be charitable in nature and be working to meet a need in our area. The Operation Round Up Board meets twice a year and decides if an application meets the guidelines of the trust and if funds are available.

If a member chooses to be part of Operation Round Up, their bill is "rounded up" to the next highest dollar. For example, if a bill is \$96.47, the computer will round up the bill to \$97. The additional 53 cents will be placed in the trust and distributed to local charitable and community-based programs.

About 80 percent of North Star's members have chosen to participate in Operation Round Up and it is expected that contributions will be about \$18,700 each year. That money goes right back into our community.

The average annual contribution from a member is about \$6. The most that could be contributed in a year by a member is \$11.88 (12 months x 99 cents).

If a member of North Star Electric or a non-member of the cooperative would like to make an additional contribution, please give our office a call.



North Star Electric Community Trust Board members from left to right: Peter Granger, president; Marjie Sporlein, secretary/treasurer; Julie Lepisto; Zelfha Crawford; Sande Moyer; Gretchen Thompson, vice president.



Front row from left to right: Marsha O'Connell, Littlefork Saddle Club; Julie Lepisto, North Star Electric Community Trust Board; Wendy Boorman, Littlefork Kids Plus; Ruth Hartmann, Moose Creek Quilters. Second row: Tom Donahou, Littlefork Ambulance Service; Kimberly Perkins, Littlefork Medical Center; Bruce Grotberg, Littlefork Fire Department; Sande Moyer, North Star Electric Community Trust Board.

At the January meeting, \$8,855 in Operation Round Up funds were distributed to various qualifying programs and organizations throughout the area including:

- Lake of the Woods Food Shelf – *Food stocking*
- LSS Senior Nutrition Program – *Senior meals*
- Williams Senior Meals – *Senior meals/fridge*
- Lake of the Woods School 6th grade – *State Capitol trip*
- Lake of the Woods Head Start – *Gym equipment*
- Pequana Playhouse – *Children Theater*
- Lake of the Woods Humane Society – *Security light*
- Lake of the Woods Community Health – *Patient outings*
- Kootasca – *Reach out for warmth*
- Littlefork Ambulance Service – *Stretcher replacement*
- Littlefork Fire Department Auxiliary – *Update training facility*
- Littlefork Medical Center – *Electric fireplace*
- Littlefork Kids Plus – *After school enrichment program*
- Moose Creek Quilters – *Warm the body/warm the heart*
- Littlefork Saddle Club – *PA system*



Front row from left to right: Nicole Gate, Lake of the Woods Head Start; Sue Johnson, Sanford Health; Gretchen Thompson, North Star Electric Community Trust Board; Laura Jo Piper, Lake of the Woods School 6th grade; Odetta Freier, Lake of the Woods Humane Society. Second row: Sandy Haman, Sanford Health; Grace Webb, Lake of the Woods Humane Society; Gayle Wicklund, LSS Senior Nutrition Program.

Staff Report

Allan Baumgartner
Littlefork District
Operations Supervisor



Work plan

Our crews spent some time this summer getting ready for the primary voltage conversion from 7,200 to 14,400 volts down the Ash River Trail and into the Axis NOVA Detector site. The project went well. Our crews had our three-phase power line and services converted to 14.4 kV Nov. 20, 2010, and the main service for the underground lab was energized Jan. 25, 2011. Lots of work will be done inside the building this summer by construction workers getting the lab ready to operate. Later this summer, east end crews will be upgrading some power lines in the Rainy Lake area because of load and to replace some 1973 and 1976 underground cables that we have had trouble with in the past. West end crews will be working on the U.S. Highway 11 road job, along with other various line improvements in our new four-year work plan. The Highway 11 project will be the main focus for the next few years.

Line maintenance

Last winter, the west end crew finished changing out rejected poles in the Warroad area, and this winter our east end crews have got a good start on the 300 rejected poles in the Littlefork substation area. Pole testing gets done on a 10-year rotation for each substation area in our system, so

it will be a while before they are back to Warroad and Littlefork again. Crews have been mowing brush under our right of way on both ends of our system, although we have had to temporarily stop because of the deep snow this winter on our side. Annual line inspections will start up later this winter. We would like to get going on it while road restrictions are on in our area.

New services and upgrades

During each of the past two years, North Star Electric crews have built 55 new services and upgraded approximately that many also. Considering where the economy and housing market has been at, the numbers seem pretty good to me. Some electric cooperatives have been declining. Our biggest problem facing us now is how to get our electric rates stabilized without letting our system get back into bad shape, while facing large rate increases from Minnkota. The state highway and county road improvements will have to be done, but the rest of the work plan will be getting a hard look at by Dan, Steve and myself based on co-op needs at this time and not on future speculative growth.



Problems paying your electric bill?

Energy assistance may be available!

If you are receiving a low income or suffering from a temporary financial shortfall, the following agencies may be able to assist you with your electric bill. We urge you to contact them immediately to avoid disconnection if you feel you are eligible for aid.

Lake of the Woods County Community Services

P.O. Box G-0200
Baudette, MN 56623
634-2642

Northwest Community Action Council

P.O. Box 67
Badger, MN 56714-0067
800-568-5329

Koochiching County Community Services

1000 5th St.
International Falls, MN 56649
283-7000

Kootasca Community Action, Inc.

2232 2nd Ave. E.
P.O. Box 44
International Falls, MN 56649
283-9491 or 800-559-9491

Kootasca Community Action, Inc.

1213 SE 2nd Ave.
Grand Rapids, MN 55744-3984
800-422-0312

Arrowhead Economic Opportunity Agency

702 3rd Ave. S.
Virginia, MN 55792-2797
800-662-5711

NORTH STAR ELECTRIC COOPERATIVE POLITICAL LEADERS

Federal legislators

Senator Al Franken

320 Hart Senate Office Building
Washington, D.C. 20510
www.franken.senate.gov
202-224-5641
Fax: 202-224-0044

Senator Amy Klobuchar

302 Hart Senate Office Building
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www.klobuchar.senate.gov
202-224-3244
1-888-224-9043 (Minnesota office)
Fax: 202-228-2186

Congressman Chip Cravaack

508 Cannon House Office Building
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Fax: 202-225-0699

Congressman Collin Peterson

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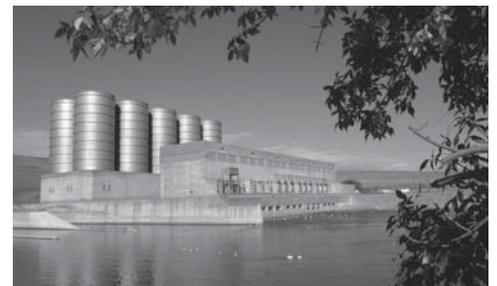
We are offering all North Star Electric members an exceptional summer opportunity that's fun for all ages. This year's power plant tour is three days, which will make the trip more relaxing.

The tour is scheduled for Monday through Wednesday, June 27-29. The first day, we will tour Minnkota Power headquarters load control center and diesel generating plant at Grand Forks, and then it's off to the beautiful Seven Seas Hotel & Waterpark in Mandan, N.D.

On the second day, we will visit the Milton R. Young Station near Center, N.D., where most of our electricity is generated. This will include a tour of the open pit mines, where machines strip the coal and reclaim the land so it can once again be used for agriculture. This is where we will see the huge electric dragline, Liberty, with its 300-foot boom and 70-cubic-yard bucket, which is used to remove the overburden soil from the coal. Then, it's off to see the Garrison Dam and tour the hydroelectric plant. We will end our day by returning to the Seven Seas for supper.

On the third day, we will visit the Ashtabula Wind Energy Center near Lake Ashtabula, where some of our energy is generated (795-29-004-04, Lucille Oveson). The wind towers are 250 feet tall with 120-foot blades. After that, we're off to Grand Forks for lunch, and then back home.

The cost to members is just \$100 per person or \$175 per couple, which covers your cost of the bus, hotels, tours and meals. Members who have not been on this trip in the past are encouraged to go.



For further details, contact Wayne Haukaas at 634-2202 or 1-888-634-2202.

Please print names of participants the way you would like them to appear on your name tags. Your deposit will be refunded if the tour is cancelled or if you should find that you cannot make the trip. We will send further details prior to departure. Return with check for \$100 per person or \$175 per couple to:

North Star Electric Co-op
P.O. Box 719 • Baudette, MN 56623

Name _____

Name _____

Address _____

City _____ Zip _____

Phone No. _____

Room Preference: Smoking Non-smoking

Have you enjoyed this trip in the past? No/Yes If yes, what year? _____