
Annual Report to the Membership

from Board President Tom Ryan and General Manager Ronald Kunkel

CHALLENGES AHEAD FOR REALIBILITY AND STABLE RATES 24/7 Electricity In The 21st Century Is Not A Given

Weather and storms are real challenges to reliable electric systems, including Woodbury County REC. We are fortunate to have 401 miles of underground lines in our electric system. That leaves 738 miles of overhead lines with 15,000 poles that are still exposed to wind and ice.

Our storms are coming more often and seem to be getting nastier. Replacing electric lines will always be pricy. Three phase underground line now costs less than overhead lines. We will continue to install underground lines as the first choice when looking at constructing new or replacement electric lines.

On average, Woodbury County REC installs \$1 million in new electric facilities each year. Construction does impact retail rates. We must continue to use existing lines until reliability dictates an upgrade. Replacing our 738 miles of overhead



A \$19 Million Investment

lines with underground would cost \$19 million, at today's costs. So we must move ahead with caution to keep rates affordable.

We have been fortunate over the last 30 years with our underground facilities. It is not fault proof, but storms do not knock it down. The underground has paid for itself many times just from being out of harms way from wind and ice. During major storms, we have sent linemen to other RECs who have relied on overhead lines. Being hit with the same storms, we have rebounded and were able to send help to others: like Nebraska, South Dakota, Iowa, and Mississippi. When there's a power outage, at the very least, it's

inconvenient. Depending on how long it lasts, it can get a little annoying. For business owners, where every second without power is a second of lost productivity, it can be downright aggravating. I think the vast majority, if not all, of Woodbury County REC member-consumers think that keeping the lights on at member-consumers' homes, farms and businesses 24 hours a day, seven days a week should be the co-op's No.1 priority. We agree, as long as the delivery of the electricity is done in a safe manner, because if someone is critically injured or killed because unnecessary risks were taken to restore power after an outage, family and friends of that person would wish the inconvenience of a power outage had not impacted their lives.

**No. 1 Priority
Safe - reliable
electricity**

In the electric utility business in general, and at your electric co-op specifically, because electricity reliability is so important, we follow electric utility industry reporting standards that measure the frequency and length of power outages. That's important because that information, combined with knowing what caused the power outage, guides our system construction, maintenance and improvement practices.

We think you'll be pleased to know that electric co-ops in Iowa, according to the reliability data compiled by the Iowa Utilities Board, keep the power on more than 99.9 percent of the time. We are pleased with that statistic, but not completely satisfied because it's not 100 percent. Our work to keep the lights on continuously is ongoing, especially when thunderstorms and ice storms hit and remind us the lack of control we have over the weather and how much damage it can leave in its wake.

What we can control is the commitment we have to providing reliable electric service to all co-op member-consumers. We have a total of \$19 million dollars invested in your electric system. We continue

to inspect, maintain, and operate this combination overhead and underground line system at a cost of over \$3.1 million per year.

The price of electricity is always a concern and more money could be spent in the hopes of achieving a “bullet-proof” system that can withstand any shot the weather takes at it. But in the end, electricity must be affordable and affordability is always a concern. Safe, reliable, and affordable electric service is our goal. But, the price tag always ends up in the rates. The need to provide reliable and affordable electricity to co-op member-consumers is what got electric co-ops started, and it’s exactly what’s still driving us today.

Since 2004, your electric rates have risen 39%. In that same 7 year period, the wholesale cost to purchase your electricity from NIPCO, WAPA and Basin Electric, who generate and deliver your wholesale power to substations in Woodbury County rose 59%.

With the slowdown in the economy, and the long recession, some of the housing and commercial developments in Middle America have been put on hold or cancelled. The mood in Congress to stop coal as a source for electricity generation has pushed Basin Electric to use more natural gas as the fuel source for new generating plants.

Once again in 2011, 50 percent of the electricity produced and sold in this country comes from coal. An additional 25% comes from natural gas and 20% comes from nuclear. The remaining 5% comes from all other sources such as wind, solar and biomass. Here in the Great Plains, 80% of our electric power comes from coal.

We need an energy program that uses, and does not abandon, our homegrown resources of coal and natural gas and combines them with nuclear, wind, solar and biomass energy resources. CO2 capturing technology currently does not exist for the size of generating plants now in service in this nation. The only existing clean coal technology, that removes CO2, is on a small 1 mega watt (MW) plant in the east. Our plants are in the 500 MW range. We have no guarantee that the hundreds of millions needed to be gambled on unproven clean coal technology will work on our

generating plants. Basin Electric has placed, on the back burner, an experiment to add CO2 removal equipment on its \$1 billion coal fired 1000 MW Antelope Valley Generating Station. The cost of that experiment would be \$300 million and the technology is not proven and would only clean 25% of one of the plants two generators.

A farm which consumes 3,000 kilowatt hours of electricity per month creates 3 tons of CO2. The cost to remove that 3 tons of CO2 is projected to be between \$10 and \$60 per ton or \$30 to \$180 per month for the average farm. That \$30 to \$180 per month is on top of an existing utility bill of \$156 per month. It could easily double the average monthly utility bill to pay for clean technology.

Because of legislative uncertainties, Basin Electric has moved to natural gas and wind to meet its new generating requirements. These new generating plants have doubled the balance sheet cost of its generation and transmission facilities. The cost of a new power plant went from \$2.5 billion in 2005 to \$5.4 billion in 2011. The \$700 million in wind generation is backed up by \$700 million in natural gas generation because the wind doesn’t always blow but electricity is needed 24/7 if the wind is blowing or not. Basin Electric will be spending another \$1.5 billion for a new combined cycle natural gas fired generator. The price tag for these generating facilities ends up in the rates. Basin Electric will raise its rate to NIPCO approximately 12% this fall. That increase will cause the power Woodbury County REC purchases from NIPCO to rise by approximately 9.5%. That means that in late 2011 our wholesale power cost since 2005 will have risen 68.5%. Some time in 2012, Woodbury County REC will also be adjusting its retail rates to reflect these changes. We will keep you informed as these events happen.

All these factors combined means that it is becoming increasingly difficult to fulfill our responsibility of maintaining a safe and reliable supply of power. Being able to hold down electric bills is even more difficult. It also spells trouble for the economic health of our member/owners as electric cooperatives have traditionally served more low-income consumers than other sectors of the electric utility industry.
