

MCLEOD COOPERATIVE POWER NEWS

NOVEMBER 2022



MCLEOD CO-OP POWER BOARD AUTHORIZES \$370,000 CAPITAL CREDIT RETIREMENT

Members make investments in the Cooperative annually that are reflected through capital credit allocations. These allocations are based on the margin that the Cooperative made for the most recent fiscal year. The Cooperative then uses allocated capital credits over a period of time to maintain and operate the electrical system.

Ultimately, the Cooperative pays back members for their capital credit investments through a process called General Retirement. This is calculated through a retirement schedule where the oldest year in that schedule will receive the remaining balance of their investment and 20% from the last fiscal year. This means we are using 80% of your most recent allocation for roughly the next two decades before that year's allocation is fully paid out.

At the September meeting, the Board of Directors approved the general retirement of capital credits totaling \$370,000. This total breaks down to roughly \$233,000 from fiscal year 2003 and the remaining is from fiscal year 2021. This means that if you were a member in 2003, you will see your part of these retirements.

The refund will show up as a bill credit on your December power bill for active members. Please contact our office during regular business hours at (800) 494-6272 if you have any questions regarding capital credits.

A defining feature of your Co-op membership and a principle that guides us is your economic participation. The partnership we have with you, as member-owners of McLeod Co-op Power, rests on our commitment to prudently use the resources you provide. Capital Credits are quantifiable proof that as a member of McLeod Co-op Power, you are an owner of a successful, effective organization.

SAFETY IN THE FIELDS
THIS FALL

03

COLD WEATHER RULE
REMINDER

04

Happy Thanksgiving!

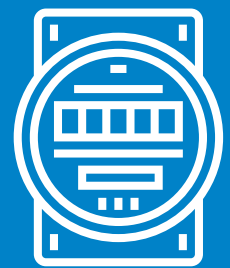
McLeod Cooperative Power Office Closed

McLeod Cooperative Power will be closed on Thursday, November 24, and Friday, November 25, 2022, in observance of Thanksgiving. Please call (800) 927-5685 in the event of an outage or emergency.

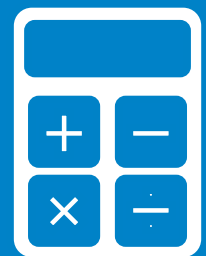
Rebates are Now Closed

Our rebate program has ended for 2022 and we are no longer accepting rebate submissions. We will resume the rebate program in 2023. Thank you for your participation!

HOW CAPITAL CREDITS WORK



1. McLeod Co-op tracks how much electricity you use through the year.



2. Each year, after expenses are paid, McLeod Co-op calculates margins.



3. Margins are used to invest in the system and allocated to members based on their usage.



4. If financial conditions allow, McLeod Co-op retires (returns) capital credits to members.



CEO MESSAGE

The old crystal ball that we use to look into future to make plans, how good is it? When we make plans, we use the best information we have at the time. A couple of months ago I shared with you that we were expecting to have to raise rates for 2023, and while we are expecting some changes; in general, we are planning to keep rates where they are at today.

So, I would like to share with you what we have been doing for the past six months. Early in the year we worked on a Cost-of-Service study. This is a study that allows us to understand how each rate is performing. Whether certain rates are collecting more or perhaps not collecting enough. There is a lot of effort to do the study and it does take a bit of time. One of the basic building blocks of that study is a financial model that uses what we call a “test year”. The test year takes all the data for a year and removes anything that was not normal for that year. One of the first steps in the study is to plug that test year into a financial model. At that point our crystal ball was starting to show we needed to increase overall revenue around 8% - a rate increase. Being who we are, we got to work and really looked at that conclusion.

Since the Cost of Service uses a test year that removes “not normal” things, we plugged back in our deferred revenue plan into our financial model and moved that 8% to 5% at that point. From here we started to work on the second part of the Cost-of-Service model. That part attempts to answer the question “Who creates what costs?”. This eventually leads to suggestions around how rates should be designed, such as having a “System Delivery Charge (SDC)” along with the normal energy charge.

Note: We have a stand-alone article in this newsletter that expands on the SDC.

So, with the 5% increase in revenue at the “Who creates what costs?” question we got to work on designing rates for 2023. While we don’t like having to increase rates, this is the most interesting part of the process for me. This is where we really start to consider the potential of newer rate designs that can



CEO RON MEIER

be put in place that can help our members save money while still getting what they need from us. A good example is a Time of Use rate. It doesn’t take much thought to realize that the price of electricity varies throughout the day and from that we can look at having a rate that reflects that reality. More to come on this type of rate in the Spring of 2023.

During this time as we were able to study rates and projected financials, we started to get more information related to 2023. The crystal ball became clearer. One of the drivers in our financials is the cost of purchase power which is 64% of our yearly expenses. Great River Energy (GRE) and Western Area Power Administration (WAPA) both are raising rates next year, but because GRE is a cooperative, we did receive a healthy allocation of capital credits and along with their management of their costs in 2022 they have been able to issue a margin refund. This is the main reason why we are concluding that we won’t need a rate increase for most of our rates in 2023. We are still having to look at our Rate 3 – Interruptible and Storage Rate. I am afraid we still probably need to adjust this rate for 2023 but it still looks like it will be a great value for those members who are able to use that rate.

We still have some work to do on Rate 3, and won’t have a full picture until late November, so hang in there. While we continue to hold off against the inflationary pressures, we see in our cost of providing safe and reliable electricity to our members, there will be a time when we will not be able to avoid a general rate increase.

Cooperatively,

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OCTOBER 2022 BOARD MEETING HIGHLIGHTS

The Regular Meeting of the Board of Directors of McLeod Cooperative Power Association was held on October 27, 2022, at McLeod Co-op headquarters. Nine board members, the attorney, CEO Ron Meier, and department managers participated in the meeting.

Highlights of the meeting included:

- The outage report for September 2022 was reviewed with a total of 67 outages, affecting 134 consumers.
- Operations Manager Brady discussed the purchase of a transformer for the Bell Substation rebuild project. Star Energy assisted with a request for proposals for the purchase of a transformer resulting in five bids. A motion was carried to approve Resolution 2022-10-02 Transformer Purchase for Bell Substation Rebuild Project at a price of \$446,003.00.
- CEO Meier explained to the board that after the completion of the Financial Forecast that no rate increase will be necessary for 2023 as originally projected outside of Rate 3 and Rate 21 which will likely need to be adjusted due to expected GRE pricing changes.
- A motion was carried to approve CEO Meier to enter into a service agreement with Finances Made Simple, LLC to apply for the Employee Retention Credit (ERC).
- Manager of Finance Jakel presented the Operating Statement and Balance Sheet for September 2022 as well as the updated financial forecast.
- A motion was carried to approve Resolution 2022-10-01 Approving the Prairie Island Energy Power Purchase Agreement.
- A motion was carried to increase Director Per Diem by \$10 for each meeting category effective November 2022.



THIS IS THE SEASON OF ENERGY SAVINGS
SAVE 10% ON LED HOLIDAY LIGHTS

The holiday season is one of the most energy-intensive times of the year, but that doesn’t mean you should keep your twinkling, strobing and glittering decorations packed away. Instead, use up to 90% less electricity by switching from incandescent models to durable, longer-lasting LED holiday lighting. And now for a limited time, you can save 10%!

Give yourself the gift of energy savings at energywisemnstore.com.

Offer valid Nov. 1 – Dec. 31, 2022. No coupon code necessary. Discount applied at checkout. Customer assumes responsibility for all sales tax. While supplies last.

THE NEW YEAR IS JUST AROUND THE CORNER

GET YOUR CALENDAR!

McLeod Cooperative Power 2023 calendars are now available featuring scenic landscape photos from our service territory!

Stop by the office to pick up a copy today. Calendars are available on a first-come, first-serve basis while supplies last.



EASY WAYS TO PAY YOUR BILL

McLeod Co-op Power offers several convenient payment options. To avoid late fees, always pay your electric bill by the due date. If you have questions about your bill, please call our office at (800) 494-6272.



AUTOPAY

Payments can be made automatically on the 28th of each month through a checking or savings account. To enroll, members need to complete an authorization form (available at www.mcleodcoop.com/i-want-to/pay-options/) and attach a voided check or savings withdrawal slip.

SMARTHUB

McLeod Co-op's account management program, SmartHub, makes it easy to pay your bill online. Register online or through the app to make payments. Those enrolled can also view information on their energy usage, receive notifications, and manage their account while on the go.

PAYNOW

One-time online payments can be made without a SmartHub account by clicking on the "Pay Now" button at the top of our website.

PHONE

Make secure credit card payments 24 hours a day with our automated phone payment system by calling (800) 494-6272 and choose option #2. To use the automated system, you will need to know your account number, which is in the top right section of your bill statement.



ENERGY EFFICIENCY

Is your home heating system ready for the winter chill? If your home is heated through warm-air registers, baseboard heaters or radiators, remember to clean regularly to boost efficiency.



SYSTEM DELIVERY CHARGE: UNDERSTANDING YOUR ELECTRIC BILL

This article reviews the System Delivery Charge (SDC) to help members understand this portion of their bill. It should be noted that the last time the SDC increased was back in 2017, so we hope that this article serves as a refresher on this fixed amount that appears on your monthly bill.

SYSTEM DELIVERY CHARGE (SDC) = This charge is the cost for the cooperative to get power to you. Regardless of whether you use electricity or not. It is a fixed charge. The amount covers the equipment you see each day like substations, poles, wires, and other line equipment used to safely power your home, farm, or business.

McLeod Co-op Power has an average of fewer than 4 consumers per mile of line compared to higher density electrical utilities that serve cities which serve on average 32 or more consumers per mile. When there are more people per mile, more people are helping to cover those fixed costs for the same equipment. See the graph below for a visual of this comparison.

Because density can vary greatly and have an influence on an electrical utility's SDC, it's best to compare us to neighboring cooperatives that are like our size. These neighbors charge between \$35- \$44/month for their SDC.

As most of us know, inflation has impacted Americans in many ways. Whether it's the cost of gas, groceries, building materials, or

many of the other purchases we make in our daily lives, our cost of living has increased over the past few years.

McLeod Co-op Power hasn't been immune to these same inflation pressures. We have experienced considerably increased costs for operating and maintaining our electrical system over the past couple of years. Increases in gasoline and materials are great examples.

To give some perspective, MCPA has roughly 30,000 poles on our electrical system. We replaced approximately 315 poles in 2021 for safety and reliability reasons. The average pole cost has increased by 44% over the past five years.

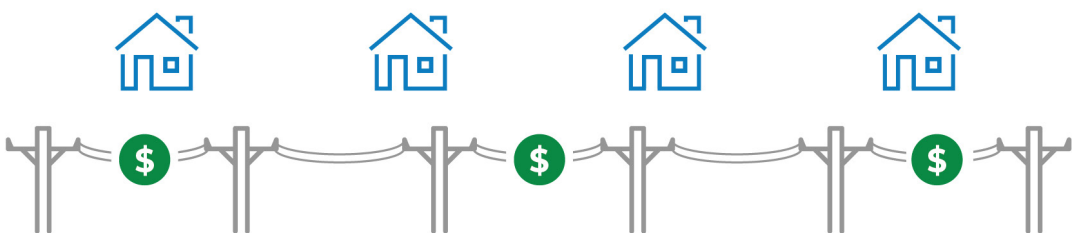
Wire is another essential material that we purchase. Last year, our co-op installed 109,313 ft. of underground wire. The cost of wire also has increased by 39%.

Other examples, like pad-mounted transformers (the green box you might see near your home) have increased by 70%. Even smaller items like ground rods, lightning arrestors, and crossarms have increased by an average of 36%.

There is a lot that goes into the cost of the lines regardless of whether you use any energy, and most of these costs are paid through the System Deliver Charge on your bill.

Number of Consumers Sharing Costs for Delivering Power

McLeod Co-op Power serves an average of 4 members per mile of line



On average, other Electrical Utilities serve 32 or more consumers per mile of line

WINTER ENERGY SAVING TIPS

The colder months often bring higher energy bills for homeowners. Living in Minnesota means harsh winters and heating your home may be more expensive than cooling it in the summer. What's more, many people are at home more during the winter months, which can drive up energy use. Add shorter days and long, dark nights, along with a string of holidays, and it's easy to see how you could use more energy than other times of year.

The following tips will save money and energy while staying comfortable during the cool fall and cold winter months. Many of these tips can be used on a daily basis to increase your savings; others are simple and inexpensive actions you can take to ensure maximum savings through the winter.

- 1 Set the ceiling fan to run in reverse to create an updraft that helps move warm air trapped near the ceiling back out and around the room.
- 2 Lower your thermostat a few degrees, ideally to 68 degrees or lower.
- 3 Adjust your programmable thermostat to automatically lower the temperature while you are away or while you sleep.
- 4 During daylight hours, open drapes, and blinds to maximize heat from direct sunlight. To retain heat, keep them closed when it is dark.
- 5 Keep interior doors open to help circulate air more freely and maintain constant heating levels.
- 6 Seal cracks and openings to prevent cold air from leaking into your home.
- 7 Add caulk or weatherstripping to seal air leaks around doors and windows.



MINNESOTA LAW OFFERS SHUT OFF PROTECTION FOR MILITARY PERSONNEL



When a household member has been ordered into active duty, for deployment or for a change of duty station, some member-consumers may find it hard to pay their utility bills. Minnesota law protects these military personnel from shut-off if they cannot pay their utility bills in full.

HOW TO APPLY

Contact McLeod Co-op Power at (800) 494-6272 for an application, and to make and keep a payment plan.

PAYMENT PLANS

- If your household income is below the state median household income and you pay ten percent of your household's gross monthly income toward your gas/electric bill; or
- If you receive energy assistance and you pay ten percent of your household's gross monthly income toward your gas/electric bill; or
- If your household income is above the state median household income and you make and keep a payment plan.

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3515 11th St. East
Glencoe, MN 55336

WWW.MCLEODCOOP.COM

The McLeod Cooperative Power News (USPS 2220) is published monthly by McLeod Cooperative Power Association, 3515 11th St. East, Glencoe, MN 55336-0070. Subscription rate: \$6.10 per year for members and \$12.20 per year for non-members.

Periodicals Postage Rate is at Hutchinson, MN, 55350 and additional mailing offices.

POSTMASTER: Send address changes to: McLeod Coop Power News, 3515 11th Street E, Glencoe, MN 55336-0070