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Manager's Message

Rick Banke



Cooperative Returns Nearly \$1 Million To Members

Each year when the Cooperative returns Capital Credits to its membership, I find myself making a comparison between the Cooperative form of business and other electric utilities. As a consumer, you are member-owners of the Cooperative. The Cooperative is governed by a Board of Directors elected from the membership. As a non-profit organization we can focus on the best interest of our consumers and not prioritize profits for outside shareholders. I like to call this the *Cooperative Difference*. This past year has been no different with the distribution of capital credits and the launch of our new Co-op Connections program.

Capital Credits

In late November, 24,887 capital credit checks totaling \$950,000 were mailed to current and past Stearns Electric Association members. Returning margins is an underlying principle of the Cooperative business model. The past several years we have refunded approximately one-half the total refund to the oldest capital recorded on our books and the balance to the more current capital assigned. This past fall we refunded the balance of 1984 and a portion of 1985 capital as well as a portion of the capital assigned between the years of 2006-2010, to be sure our current members experience the cooperative difference as well. If your capital credit refund was at least \$5.00, you would have received a refund. If less than that, we simply hold the amount, add it to next year and if it then exceeds \$5.00, we will send the refund. This year's average capital credit check was nearly \$40.

Since our first distribution, Stearns Electric Association has returned capital credits to its members totaling more than \$23.1 million.

If you have any questions regarding the capital credit checks that were mailed in late November, please contact our Melrose office at 320-256-4241 or toll free at 800-962-0655.

Looking ahead to 2012

The past few months my staff and I, along with the Board of Directors, have been making plans and in discussions regarding the 2012 budget. On a positive side, it looks like Stearns will be able to go another year without raising our portion of your rate. As you may recall, the Cooperative has not raised its rate since 2008. I wish the news would be the same regarding the portion of your rate we cannot control, the wholesale power rate. Our primary wholesale power supplier, Great River Energy (GRE), recently informed us that the rates they charge Stearns Electric Association will increase by 8.8% over their 2011 rates. This was more than we had anticipated and will increase the amount you pay for electricity next year since we will need to pass this increase on to our members through the monthly Power Cost Adjustment (PCA). I wanted to inform you of this and explain some of the reasons for the increase.

GRE invested in a significant amount of new generation assets over the past 5 to 10 years to meet the rapid growth in electrical consumption that was expected for many years to come. Then the economy went into a recession and the assets built were more than is needed today. Those costs must be paid for even without the anticipated growth, which would have offset much of these increased costs. This puts upward pressure on rates.

Another factor is a requirement that Minnesota utilities spend 1.5% of their revenues annually to help members reduce their consumption by 1.5% annually. Do you know any other business that has to spend money, to sell less of their product? As I mentioned earlier, the lack of growth results in all of these costs being spread over fewer units, which increases the cost per unit. Encouraging members to use less through conservation and efficiency is a noble goal and helps keep money in your pocket but is a compounding factor that further increases the unit cost of electricity.

State mandates also require utilities to invest in large amounts of renewable energy sources. Although well intentioned this mandate has resulted in increased costs to GRE which must be passed on. Unfortunately many times when the wind blows the demand for electricity is low. As a result, utilities like GRE, must pay fixed prices to a wind farm developer for the wind energy they don't need and turn around and sell it in a depressed market at less than they paid for it. Lastly another factor is the increasing cost of the coal required to run GRE's base load coal plants. It is costing more and more to mine the coal, increasing the overall cost of each ton extracted.

Overall, the effect on retail rates will be around 6.5% in 2012. As I mentioned above, it looks like Stearns will be able to go another year without raising our portion of your rate. Wholesale power now represents about 70% of the rate you pay and Stearns' needs are covered by the remaining 30% so the effect of GRE's rate increase to our members will be about 6.5% in 2012. Again, I wish this was better news but the wholesale power portion of the bill we have little control over. Even with the increase in wholesale costs is electricity still a good value? Absolutely! Think of what you pay each month and all electricity does to improve our lives. I know some people pay as much or more each month for their cell phones, TV and Internet plans combined than they pay for electricity so still a good value, even though the price is going up.

Wishing you and your family a very Blessed and safe Holiday Season!

- Rick Banke