

66th Annual Meeting Notice and Report

*Remembering where
we came from,*

*as we look to where
we're going*



Telford Anderson threw the switch to bring REA power to McKenzie Electric Cooperative.



Chairperson's Report

Contending with change

by Travis Thompson

Travis Thompson

In 2010, McKenzie Electric Cooperative (MEC) was again setting records for both growth and sales. Monthly revenues on occasion have eclipsed the \$2 million per month mark – something we haven't seen since the mid-1980s. The growth continues, and I wouldn't be surprised to see us go over that \$3 million amount soon. MEC is running at a frenzied pace that the cooperative has never experienced before. We have seven different contractors building lines in our service area. The number of substations needed to serve the membership will be increasing from 23 to 30. With everything from new homes and temporary housing to new oil wells, gas processing plants and new businesses moving in, the board of directors and staff of MEC have their hands full trying to keep everyone happy.

The board of directors is doing its best to accommodate the new loads while at the same time keeping your cooperative financially strong and making sure we don't forget about the members at the end of the line that built this cooperative.

As MEC grows and expands its system, the spending of available cash is constant and to the point where borrowing money has entered the picture. This winter, the board of directors instructed management to first, secure lines of credit from two lending institutions and second, to begin the process of structuring a series of short- to medium-term notes with a bank having the lowest interest rates.

Borrowing funds is something MEC hasn't had to do for almost 30 years. As we look to the future, the benefits that new plant and increased loads bring to the membership of MEC will be nothing

but positive. The ability to spread costs over more meters and kilowatt-hours, along with the luxury of upgrading and improving our transmission and distribution system, will help everyone over the long term.

As times change, it is important to make sure that the policies of MEC change accordingly, such that equity is maintained among members. As some of you already know, we have changed the line extension policy, which some people have questioned. The board discussed this issue at great length and we determined that the person requesting the line should be paying for that line, thereby ensuring that other members of the cooperative are not subsidizing the line extension. The board tries to be as fair as possible as we review any existing policies or as we create new policies.

In addition to the internal pressures of dealing with load growth, the board of directors and staff of MEC also deal with external pressures. One of the more significant pressures comes from our power supplier, Basin Electric Power Cooperative, and comes in the form of higher rates. Basin is in the process of expanding its generation and transmission facilities by building new coal plants and transmission lines to serve load growth throughout its system. The cost to build a coal generating facility (if it's even possible in the present "climate") can be in the billions of dollars, so Basin has no choice but to increase rates to its members like MEC so it can meet its financial requirements and keep the cooperative strong.

The hard fact of a Basin rate increase is that MEC, in turn, has to increase the rates to you, the membership. MEC was able to absorb a few of the past increases, largely because we are growing. With the recent and ensuing rate increases from Basin, MEC will more than likely be required to have a rate adjustment soon.

We will have more information at the annual meeting, so I and the rest of the board of directors hope to see you all there.

OFFICIAL NOTICE

McKenzie Electric Cooperative Inc.

2011 ANNUAL MEETING

Tuesday, June 21

Veterans' Memorial Building, Watford City

Registration and complimentary meal	5 p.m.	Cooperative update.....	John Skurupey
Children's movie	5:30 p.m.	Election of Directors	
Business meeting.....	6 p.m.	Service award presentation	
Invocation		2010 Youth Tour recipient	Tyler Flatland
Call to order		Operation Round Up report.....	Doreen Orf
National anthem		Scholarship awards	
Appointment of parliamentarian		Old and new business	
Approval of minutes		Adjournment	
Financial report by audit firm	Eide Bailly LLP	Drawing for grand prizes	
Board chairperson's report.....	Travis Thompson		



John Skurupey

Members see rate adjustments

by John Skurupey

Everything that affects your cooperative is important, but as I consider my composition of this report and the limited space, I struggle to decide which topics are most important and deserve mention.

You may have heard that we are in the midst of an oil boom. Like a lot of other businesses, we at McKenzie Electric Cooperative (MEC) are very busy. We are dealing with an unprecedented growth pattern that has many stretched to the extreme. To some, it's exciting to see all of the power lines being built or rebuilt.

There is also a sense of satisfaction to see the system that the MEC membership began to construct in 1945 is finally being upgraded and replaced. I have to admit, I once felt that excitement, but as the major projects literally pile up on the desk, the excitement turns to anxiety and wonder. When will this rampant activity and demand on everything from plant to people begin to moderate even a little? We'll get through this crazy time sure enough, but not without many of us at MEC occasionally dreaming of just a little bit slower times.

2010 saw the construction of nearly 160 miles of distribution line, nearly 10 miles of transmission line and one substation. To give you an idea of what is on the slate for 2011, we expect at a minimum to construct a similar amount of miles of distribution as 2010; 90 miles of transmission line and the equivalent of seven substations! For sure, those aren't the only tasks we have on our plates.

For nearly 20 years, MEC has operated a low-cost automated meter reading (AMR) system. The system was low cost due to the way in which it was implemented and for its capabilities, or lack thereof. In 2010, the decision was made to migrate to the next generation of AMR – one that is much more useful and responsive and which will eventually be used with an outage management software that will aid in narrowing down the location of outages.

The old AMR system that is still in operation is apparently going down swinging. As our system load has increased, our ability to retrieve readings from the old system became very erratic and, as a result, many of the members' bills ended up being estimated; some high and some low. So as MEC employees deal with implementing the new AMR system, they are also forced to pull out the bubble gum and duct tape in an effort to keep the old system operational. I hope the membership can be patient a little longer as we work to rein in these two AMR systems.

I would be remiss if I didn't mention easements. The largest impediment to constructing a power line is easements – by and large, the most time-consuming component of getting a line built. Do I understand why? Absolutely, it's your land. What does this mean for the members? It slows growth, which means those potential new loads can't begin paying their share of the fixed costs, which helps every member; and the additional time and resources put into each easement increases the cost of construction for everyone. So, although I understand many of the member concerns about easements, it is important to remember that MEC is a not-for-profit business focused on providing reliable power at the lowest possible cost and, by serving more loads with newer lines, accomplishes both. We certainly appreciate all of the easements that are granted as we grow your cooperative.

Some members have raised questions about why MEC doesn't construct more distribution lines with underground – the long and short is both the initial cost to install and the future cost to replace

the underground lines. We are seeing the actual average cost to install a mile of three-phase underground to be around \$15 per foot (provided conditions are perfect, such as no rock, road bores or frost), while three-phase overhead runs around \$8.50 per foot.

When this information is shared, members are quick to point out that these new lines are for oil and the oil companies will pay the additional cost. My first response is that the oil companies are members, too; secondly I project into the future what the system will be like should the oil load dwindle like it did in the '90s. Installing underground now at today's cost to serve oil loads is one thing, but the complete replacement of those lines in the future, something that is inevitable as underground has a 30- to 40-year life, MAY fall on the farmers and ranchers if the oil begins to disappear.

Mor-Gran-Sou Electric Cooperative must have received similar questions after its terrible ice storms in early 2010 and recently published (*North Dakota LIVING*, October 2010) what it believes its fixed cost would be per residential meter if it replaced all of its overhead lines with underground. Its cost estimate was \$120 to \$130 more each month per meter – that's over and above its existing residential fixed charge. Underground does have its applications, but it will always have a higher initial and replacement cost as well as higher maintenance costs.

We continue to see upward pressure on our wholesale power costs. MEC received a nearly 9 percent rate increase Jan. 1, 2011, due in large part to Basin Electric Power Cooperative. There was a forecasted rate increase projected for January 2012 as well, however that rate adjustment will likely need to be shifted to a September/October 2011 implementation date – yes, this year.

What this means is that MEC will have HDR Engineering update MEC's cost of service this summer- this will allow the board of directors to have the information they need to determine when and how much the rates MEC charges its members will need to be adjusted. It is important for everyone to remember that for nearly 20 years the wholesale power costs were stable and that period came right after a build cycle, much like the one we're experiencing right now.

What are we doing to control our own costs at MEC? Actually, we have been focused on cost-saving measures since the day I came back to work at MEC in 2006. Cost-saving measures range from reducing the fixed costs at our immediate power supplier by over \$300,000/year, to working with suppliers of materials to MEC to ensure the lowest possible cost, to installing low water use facilities in the restrooms and motion sensing light switches to reduce energy costs.

Presently, we are working on developing an electronic line staking and mapping process that will increase our efficiencies significantly. Every department at MEC is conscious of their costs and everyone works to ensure efficiency is a forethought and not an afterthought.

Thank you members for the easement you grant, you have no idea how much we appreciate your willingness to help your cooperative grow. Thank you employees of MEC for working to ensure the needs of the membership are met. Thank you board members for your time and commitment to making and keeping MEC one of the top cooperatives in the nation, your dedication is unsurpassed. And last but not least thank you to the contractors currently working on various projects for MEC: HDR Engineering, TeamWorks Consulting, Mountain Plains, Kadrmas Lee and Jackson, 4T Construction, Oster Brothers Construction, Badlands Electric, Aevenia, Hamlin Construction, Highmark Inc. and Timberline Construction.

McKenzie Electric Cooperative Inc. Nominating Committee report April 4, 2011

The Nominating Committee was convened for a telephonic meeting April 4, 2011. Those present were Joel Gorrell, Marlys Anderson, Nathan Brenna and cooperative attorney Dennis Johnson.

Attorney Johnson inquired of the committee members whether they had received and reviewed the pamphlet that set out the qualifications and requirements for persons to act as a director for McKenzie Electric. All present indicated they had received and reviewed the requirements and qualifications that a person must meet to be eligible to be on the board of directors

for McKenzie Electric.

Motion by Joel Gorrell, second by Nathan Brenna that the following be nominated as candidates to run for office as a member of the board of directors for McKenzie Electric:

- Travis Thompson, District 1C
- Clayton Mosen, District 2B
- Ray Tescher, District 3A

A vote was called for. The motion carried. The meeting was adjourned.



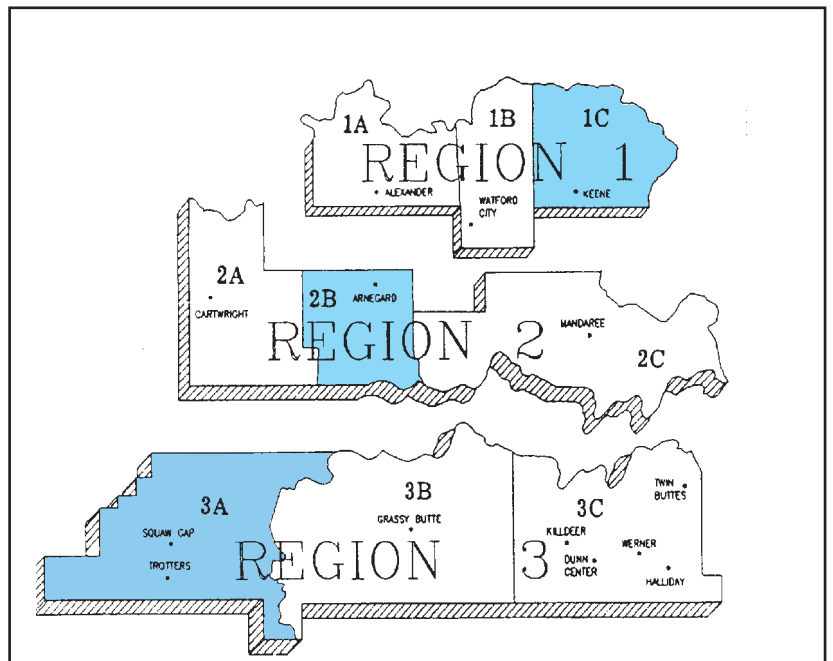
Thompson



Mosen



Tescher



Remembering where we came from...



Manager Ivan Omlid and board members Telford Anderson and Einar Dahl discuss an REA loan for the co-op.



Members registered for an annual meeting in the late 1950s.

Financial statements

Operating statement

	2010	2009
REVENUE FROM ELECTRIC SERVICE		
Revenue from electric service.....	\$28,940,126.....	\$22,793,236
Other electric revenue	36,249.....	27,464
Total gross operating revenue ...	\$28,976,375 ..	\$22,820,700
COST OF ELECTRIC SERVICE		
Cost of power.....	\$16,062,555.....	\$13,243,491
Operations and maintenance.....	2,898,512.....	2,608,256
Customer service and accounts	365,235.....	370,740
Administrative and general	1,033,890.....	1,137,284
Depreciation	2,943,091.....	2,371,580
Tax expense.....	445,471.....	387,171
Interest on long-term debt.....	381,065.....	393,442
Total cost of electric service.....	\$24,129,819 ..	\$20,511,964
OPERATING MARGINS		
BEFORE CAPITAL CREDITS.....	\$4,846,556 ..	\$2,308,736
G&T and other capital credits.....	\$814,644.....	\$1,453,705
Net operating margins	\$5,661,200 ..	\$3,762,441
NONOPERATING MARGINS	\$497,312	\$614,510
Provision for income taxes.....	-	17,539
TOTAL NET MARGINS	\$6,158,512 ..	\$4,359,412

Balance sheet

	2010	2009
ASSETS		
Electric plant in service	\$90,754,545	\$84,834,296
Construction work in progress.....	6,260,317.....	2,033,721
Less accumulated depreciation.....	(51,758,460).....	(49,830,338)
Total assets - electric plant	\$45,256,402	\$37,037,679
Other property and investments.....	12,297,441.....	11,609,840
Current assets, cash, cash equivalents, materials	11,486,710.....	13,370,296
TOTAL ASSETS.....	<u>\$69,040,553</u>	<u>\$62,017,816</u>
EQUITIES AND LIABILITIES		
Patronage capital and other equities	\$55,950,287	\$50,102,292
Long-term debt.....	5,490,056.....	6,474,427
Prepayment of debt	(4,828,145).....	(5,843,341)
Non-current liabilities including power cost reserve	3,120,806.....	3,533,503
Current liabilities including current maturities of long-term debt	4,085,215.....	4,055,529
Deferred credits	5,222,334.....	3,695,406
TOTAL EQUITIES AND LIABILITIES	<u>\$69,040,553</u>	<u>\$62,017,816</u>

Remembering where we came from



The original office was in the basement of the county courthouse.



The present office and shop remodeled and enlarged in 1982.

65TH ANNUAL MEETING MINUTES, JUNE 15, 2010

The McKenzie Electric Cooperative annual member meeting was held on June 15, 2010, at the Veterans' Memorial Building in Watford City, N.D.

Board of Directors Chairperson Travis Thompson called the meeting to order. The Rev. Adrian Timmons gave an invocation.

Chairperson Travis Thompson welcomed members to the 65th annual members meeting of McKenzie Electric Cooperative.

Upon calling the meeting to order, the members were informed that Paul Deutsch had been appointed parliamentarian for the meeting. It was also announced that cooperative attorney, Dennis Edward Johnson, had declared that a quorum was present for the meeting to be held pursuant to the rules and bylaws of McKenzie Electric.

A motion was made to waive the reading, and approve as printed, the meeting notice for the annual meeting and the minutes of the 64th Annual Meeting. Motion was seconded and upon vote, approved.

Attorney Dennis Johnson was then called upon to report on bylaw changes made by the cooperative Board of Directors the previous year. Attorney Dennis Johnson reported on the various bylaw changes and gave a brief explanation as to the reason why the changes were made. There were no questions from the members present in regard to the bylaw changes reported on by Attorney Johnson.

Chairperson Thompson next welcomed Adam Dever from Eide Bailly to give the financial report for McKenzie Electric. Dever went through the financial report and audit for McKenzie Electric for the preceding year. After the report, there were no questions. A motion was made to accept the financial report, seconded and upon vote carried.

Chairperson Travis Thompson next gave the Chairperson's Report for the cooperative. Chairperson Thompson in his address to the members stated the theme of his report this year was "Together We Save" as power costs were being adjusted this year. He reported on the capital credit buy down which had been offered to all of the members. The buy down had been a great success and helped to keep McKenzie Electric Cooperative in a strong financial position.

The level of oil activity in McKenzie Electric territory was reported as creating a great deal of excitement in the communities. The oil field is growing at an exponential rate with the discovery of the Bakken pay zone, and with new load requests, MEC staff and employees have proven they are up to the task of keeping up with such a big undertaking. He further reported that outside contractors had been hired to keep up with the frenzied pace of expanding the cooperative plant with the new demands for power.

Chairperson Thompson reported on the agonizing meetings and discussions on how to handle the increases in wholesale electric rates charged by Basin Electric Power Cooperative and Western Area Power Administration for the past three years. Given the fact that these wholesale power costs had increased, Thompson reported there was no choice but to make a rate increase. It is the first general rate increase since 1990 which is unheard in any business! Twenty years without an increase.

Chairperson Thompson promised the members that the Board of Directors and management would review the Cost of Service Study and electric rates to make sure MEC stays financially sound.

John Skurupey, General Manager and CEO of the McKenzie Electric Cooperative, was next called upon to give the General Manager's report. Skurupey pointed out to the members that he has been managing the cooperative for four years and that lately he had been hearing statements from various members that McKenzie Electric is expanding for the only purpose of serving oil and that oil is the only benefactor of McKenzie Electric's plant expansion. Skurupey went on to explain that this is not the case.

Although the oil load is requiring an expansion of McKenzie Electric's plant and expenditure of money, it is benefiting all members. He pointed out that there are other cooperatives within the oil area that decided not to serve any commercial loads other than those traditional loads – in particular, not to serve oil loads. McKenzie Electric did just the opposite in welcoming the oil loads and doing what it could to serve them. The comparison between the cooperative that did not greet the oil loads and take steps to serve them compared to McKenzie Electric was staggering.

The cooperative that decided not to serve the oil loads now has a total system load of less than 5 megawatts, compared to McKenzie Electric's 65 megawatts. It has an old distribution system compared to the system that serves MEC, which is new and modern and up to date. It has a residential fixed charge of \$21 per meter and an energy charge of 8.5 cents per kilowatt-hour! Skurupey pointed out that is nearly 32 percent higher than the average McKenzie Electric residential user pays under McKenzie Electric's new rates.

He went on to state there is another cooperative in the state that has no commercial loads other than irrigation. Today, that cooperative's residential fixed charge is \$30 per meter and their energy charge is 8.4 cents per kilowatt-hour.

Skurupey went on to explain the cost of building new line and upgrading new line. As the oil loads are being expanded, old lines are being rebuilt and brought up-to-date. He also pointed out that when oil companies request power to where there are no lines, the oil company pays 100 percent of the cost of that line extension; and when a request is for an area already served by single phase, the oil company pays for two-thirds the cost of a new three-phase line.

Getting new power lines at a fraction of the cost is of great benefit to all McKenzie Electric Cooperative members including those who are "non oil." Manager Skurupey went on to acknowledge that the employees and Board of Directors are doing a good job of taking care of the cooperative and the members. He asked for questions and invited members to stop in any time to discuss their concerns about McKenzie Electric Cooperative.

John Skurupey next called those McKenzie Electric staff who were then presented with service awards. These awards included: Bill Hanson, journeyman lineworker, 5 years; Rick Pokrzywinski, journeyman lineworker, 25 years; Warren Renbarger, meter technician, 30 years; Kurt Brew, Foreman, 30 years; Dwite Brew, key accounts/energy services rep, 30 years; Gary Thorson, special projects coordinator, 35 years.

Stephanie Deutsch, daughter of Paul and Nancy Deutsch, was next called upon to give the 2009 Youth Tour report. Stephanie gave a report in regard to her experiences in Washington, D.C., and the importance of electric cooperatives, her knowledge gained of what electrical cooperatives are about and how they serve their members.

Arlene Isaak next gave the Operation Round Up report. Arlene reported on the number of grants given this past year and the total amount of monies that have been raised by Operation Round Up as a result of members who chose to participate and contribute a few pennies a month to Operation Round Up.

Travis Thompson next resumed the podium. He then appointed the sergeant-at-arms for voting as follows: District 1A, Verlin Fossum, District 2A, Ken Haugen, and District 3C, Craig Pelton.

After the sergeant-at-arms were appointed, the election of those directors whose terms were expiring was the next order of business. Attorney Johnson explained the voting procedure according to the bylaws and how nominations are made for those people who wish to serve on the Board of Directors. After that, the elections were held.

There was no opposition to the directors who were seeking

**BOARD
OF
DIRECTORS**



Thompson



Link



Hanna



Tescher



Aamodt



Johnson



Monsen



Houghton



Wasem

Board report

March 30

The regular meeting of the McKenzie Electric Cooperative (MEC) board of directors was held at the headquarters building in Watford City.

Directors present were: Travis Thompson, Donald Link, Rondee Hanna, Ray Tescher, Dennis Johnson, Tim Wasem, Clayton Monsen, Glenn Aamodt and Glen Houghton.

Also present were: Cooperative General Manager/Chief Executive Officer (CEO) John Skurupey, attorney Dennis Edward Johnson and several staff members.

Preliminaries: The agenda for the meeting was approved by the board of directors. Minutes of the February board meeting were reviewed and approved.

Director issues: The board approved director expenses as presented.

Director reports: A number of association meetings/annual meetings had been held during March. The board discussed several presentations from the North Dakota Association of Rural Electric Cooperatives (NDAREC) annual meeting. Presentations highlighted issues that will impact McKenzie Electric and other North Dakota electric cooperatives. Director Link reported on the NDAREC board meeting that was held prior to the annual meeting. Directors attending the National Rural Electric Cooperative Association (NRECA) annual meeting discussed events and presentations outlining issues at the national level that will impact McKenzie Electric. Several board members also attended the annual meeting of Upper Missouri G&T Electric Cooperative, MEC's generation and transmission cooperative. Chairperson Thompson reported on the Upper Missouri board meeting held in conjunction with the annual meeting.

Attorney's report: Attorney Johnson reported on several issues that he has been involved with during the past month affecting the cooperative, including financing, easements, and delinquent account issues.

Office report: Financial and statistical reports for February were reviewed with the board along with the comparison of actual-to-budget expenses. Sales of electricity have increased significantly as compared to the same period of the preceding year. Eide Bailly completed its audit of MEC and will formally present the audit to the board at its April meeting. An update was given on the document preparation for the construction financing approved by the board. It was reported that MEC is approaching 3,500 miles of energized line and currently there are 6,778 meters on MEC's system. The board also reviewed the status of delinquent accounts and approved special capital credit retirements. The board took action to approve the allocation of margins earned for the year 2010.

Engineering report: The written engineering department report was reviewed by the board. There were 96 requests for new connections, with most of them being related to the continuing oil activity. Several current and anticipated large loads were discussed by management with the board; the need for additional substations was discussed and plans to meet those needs were approved by the board of directors. An updated report on automated meter reading issues was reviewed by the board.

Operations report: The operations department report was reviewed. There were 25 completed construction projects. An update on projects currently being built by contractors was given: Oster Brothers Construction is building line in the Killdeer area; 4T Construction has been working north of Alexander; Badlands Electric has been installing underground power line in the Watford City and Killdeer areas; Avenia has completed the Garden Creek transmission line and is currently constructing the Blue Buttes to Moccasin Creek transmission line; and Hamlin Construction will be starting the Mountain to Figure 4 transmission line. Repairs to the Banks transmission line have been completed. MEC crews continue building and installing new connects, retiring line, maintenance, outages and repairing damages associated with snow removal.

Member service report: The written member services report was reviewed by the board. MEC will be hosting power plant tours for area schools. The \$1,000 Basin Electric Power Cooperative scholarship was awarded to Courtney Berg, daughter of Darryl and Diane Berg of Killdeer. MEC personnel participated in the cooperative booth at the Farm & Ranch Show in Williston. MEC will also sponsor a booth at Watford City's Spring Fling. Plans are being made for MEC's annual member meeting to be held in June of this year.

General manager/CEO report: Skurupey reported on several items that are impacting MEC and its members. Skurupey indicated that there is a pending rate increase proposed by Basin Electric which will impact MEC's power supplier, Upper Missouri. The board approved an Avian Protection Policy that purposes to establish and implement an Avian Protection Plan. The Avian Protection Plan is being written by HDR engineers and its purpose is to reduce the operational and avian risks that result from avian interactions with MEC electrical facilities.

Next meeting date: The next meeting date was set for April 27 at the Watford City headquarters building.

Adjournment: There being no further business, the meeting was adjourned.



**908 4th Ave. NE
Watford City, N.D. 58854**

**Phone: (701) 444-9288
Toll-free: (800) 584-9239**

**Web page:
<http://www.mckenzieelectric.com>
E-mail:
mec@mckenzieelectric.com**

OFFICERS AND DIRECTORS:

- Travis Thompson, Chairperson
Director, District 1C, Charlson.....675-2373
Upper Missouri G&T Director
- Donald Link, Vice Chairperson
NRECA Director, Statewide Director
Director, District 2A, Alexander.....828-3427
- Rondee Hanna, Sec.-Treas.
Director, District 2C, Watford City.....675-2516
- Ray Tescher, Director-At-Large
Director, District 3A, Beach565-2342
- Glenn Aamodt
Director, District 1A, Alexander572-3066
- Dennis Johnson, Alternate Statewide Director
Director, District 1B, Watford City842-2055
- Clayton Monsen
Director, District 2B Arnegard586-3336
- Glen Houghton
Director, District 3B, Grassy Butte.....863-6606
- Tim Wasem,
Director, District 3C, Halliday938-4376

GENERAL MANAGER/CEO:

John Skurupey
(701) 842-4848



MEMBER SERVICES DEPARTMENT:

Brenda Berquist, Member Services
Coordinator444-4033
Myra Anderson, Contributing Editor.....675-2267



**McKenzie Electric Cooperative
WILL BE CLOSED
May 30 in observance of
Memorial Day.**