

KEM Country LINES

KEM Electric Cooperative, Linton, N.D.

JULY 2011



John J. Knox
CEO/General Manager

Manager's report...by John Knox, CEO/General Manager

Annual meeting is unique

Why is the annual meeting so unique? Because it is your annual meeting, where you have a voice and a vote that means something. There are very few meetings where you can exercise your thoughts, concerns and ask questions. First, I would like to thank those members who came out to participate with us in Napoleon on Thursday, June 16. With that said, I encourage those members who did not attend to make it a point next year to attend.

Important issues we are dealing with which were presented at the annual meeting are in the article following. Another concern is the Missouri River, and the impact it is having on KEM Electric. The mighty Mo is getting wider, faster and is affecting some of our lines and transformers. We are relocating or removing these items to protect the system and the river.

Another water issue is the amount of water we have to our east side of the system. I have never seen nor experienced such an impact on the distribution system because of the standing water. It is proving difficult to keep the system in power when so many storms in that area affect us, especially when damage is done. Nevertheless, we keep working on it. Our crews are doing a fantastic job when it comes to keeping the lights on for you after all of these damaging storms. This year already we have had over \$100,000 damage, none of which we will get any reimbursement from FEMA.

One of the other issues is how the river is influencing power production from Basin Electric and its generation portfolio and from Western Area Power Administration and the hydro production. The dams are producing more energy than ever as they move the massive amount of water through them. The other side to this is that Basin has had to shut down, or back down the generation from its power plants. When this happens, it greatly

affects the operational cost to Basin and eventually to us here at KEM Electric. Because of this, it will have a significant impact on our rates in the future; how much, I do not know yet as I explained to the members at the annual meeting.

Because of all these challenges and difficulties, I want to stress one very important subject – SAFETY! Everyone needs to be very conscious of their safety and others safety. One concern is moving large equipment in fields and around the power lines. We know that people are getting behind in their farm work, but hurrying in the fields could end up costing a lot more, even someone's life if you come in contact with poles and wires or other electric structures. So look up, look around, and slow down. The other water safety issue deals with the recreation we so enjoy around here. The river is moving very fast, and it's changing daily in shape and size. There is also a lot of submerged and floating debris that can change things quickly if you encounter it while out in a boat or other watercraft. So make sure that you wear a personal flotation device – PFD while on the water.

And let's pray that calmer weather arrives so the forage can get harvested, crops continue to grow and mature, and people have an opportunity to enjoy the summer.

Let's also pray for relief to those North Dakotans who are being impacted by the flooding.

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KEM Electric Cooperative members celebrate annual meeting

KEM Electric Cooperative members gathered in Napoleon June 16 to celebrate their cooperative's 67th annual meeting. With 174 members officially registered, Chairman Dean Dewald presided over the meeting, which included an overview of the cooperative and the issues facing members today.

"Family, I think, is everything and that's what a cooperative is, it's a large extended family," commented John Knox, chief executive officer and general manager of KEM Electric Cooperative, as he welcomed members.

Weather, rates impact co-op

"It's been a busy year," Knox said. "We're still cleaning up after last year's ice storm." The January 2010 storm cost \$3.2 million in repairs. With a reimbursement of \$2.3 million from the Federal Emergency Management Agency, KEM Electric's share totaled \$845,000. Several other winter and spring storms caused an additional \$100,000 in damages to the system, with no federal assistance.

And Mother Nature's havoc continues.

"We also have flooding issues," Knox pointed out. Some areas have become inaccessible due to rising water and the cooperative is implementing plans to keep power flowing as the Missouri River continues to flood.

As the cooperative works to keep system reliability in place during these natural catastrophes, other issues are also important, Knox said.

"It's like putting a very hard puzzle together and sometimes people keep changing the pieces on you ... and you still have to get that puzzle put together right," he pointed out.

Among those puzzle pieces are rising electric costs. "It's a hard fact that electric rates around the nation are rising. The same holds true for our region," he said. Basin Electric Power Cooperative, a wholesale power provider, increased its wholesale rates in January 2011 and another increase will be implemented by September. The Western Area Power Administration, which supplies hydropower to KEM Electric, has been increasing rates steadily since 2004, mostly in the form of a drought adder, which will continue for several years to cover the additional expenses incurred during previous drought years.

KEM Electric's cost of wholesale electric power increased from \$2.6 million in 2009 to \$2.9 million in 2010. Purchased power costs include 43 percent of the cooperative's expenses, an increase from 41 percent last year. Of the cooperative's 2,139 members, 54 percent are residential and farm accounts.

"You can see the cost of wholesale electric power has risen dramatically and it's going to continue to rise," KEM Electric's manager said.

"We're preparing for it the best we can," Knox said. With 58 percent of KEM Electric's wholesale power coming from Basin Electric and 42 percent from the Western Area Power Administration, environmental regulations will greatly affect coal-powered electricity.

"There are many who want to change the way we produce



John Knox, chief executive officer and general manager of KEM Electric Cooperative, visits with members about issues facing the cooperative.



Manager of Member Services Brian Jacob, right, visits with a member about energy efficiency information available from the cooperative.



John Gross gives a friendly wave as he registers for the annual meeting.



Chairman Dean Dewald presides over the annual meeting of KEM Electric members.



Director Milton Brandner, left, visits with members prior to the meeting.

our energy," he said. Proposed Environmental Protection Agency regulations could greatly impact the cooperative's supply of inexpensive energy, he commented.

"We need to protect that resource of ours that keeps our rates lower," Knox said.

Other issues

Other important issues facing KEM Electric Cooperative include:

• **System reliability.** The average age of KEM Electric's poles date to the 1950s, Knox said. To keep the aging system reliable, KEM Electric conducts regular maintenance, including tree trimming, reclosure testing and pole testing.

"Right now, KEM Electric has one of the best pole testing rates around the state, anywhere from 2 percent or less poles are rejected. ... Our poles are sound and good," he said.

The cooperative has developed a long-range plan to

guide construction work and financial requirements for the future. During the next 35 years, the cooperative expects to spend \$100 million to keep the plant in good operation, Knox said.

• **New technologies.** KEM Electric has deployed an automated meter reading system, or smart metering, to meet the needs of both consumers and the utility. But how KEM operates with new technology won't be the same in the future, Knox said, as the technology continues to change. Outside factors could start determining time-of-use or time-of-day rates, which would implement higher rates when the demand is high. "These type of rates won't be decided by KEM," he said.

• **Work force.** "KEM Electric's work force, along with cooperatives from around North Dakota will be changing," Knox said. An aging work force means more retirements in the future and lineworkers will be in demand.

• **Transportation.** "One of the other issues is the rising costs of transporting the coal to our power plants," Knox said. "Railroads have been charging enormous prices to transport the coal." The cooperative network has made positive strides in lowering rates, he said, through court cases and legislative work.



Basin Electric Power Cooperative's Michael Riedmann demonstrates the Segway.

A strong co-op

"KEM had another good year, but the next several years will prove to be difficult because of the unknowns," Knox said. "Looking at what savings we can implement is one of my strongest priorities."

Refinancing \$2.3 million long-term debt, with projected savings of \$400,000 over the next 10 years, he pointed out, and the cooperative continues to look for other ways to save money.

"I don't have a crystal ball. I can tell you the cost of energy will go up," Knox said. "What we do know is that KEM Electric with your board of directors and KEM Electric employees will work hard to control our costs, to make sure that reliability is a top priority to us and to you, and keep your cooperative financially strong."



PHOTOS BY LAVYN MUDDER

Dennis Hill, general manager of the North Dakota Association of Rural Electric Cooperatives, visits with members about legislative goals.

Legislative goals outlined

“What a wonderful thing to celebrate, 67 years of success,” Dennis Hill, general manager of the North Dakota Association of Rural Electric Cooperatives (NDAREC), told KEM Electric members during the annual membership meeting last month. NDAREC, which represents and provides services to 21 electric distribution and generation and transmission cooperatives in the state, protects the interests of cooperative members with legislative goals.

“I’d say the legislative agenda that electric cooperatives are trying to achieve in this session of Congress is a well-balanced approach, built around some serious issues,” Hill told members.

“The laws Congress passes or fails to pass certainly can have an impact on the cost of delivering electric power to rural areas like KEM Electric serves,” he said.

Hill outlined three items important to helping cooperatives provide power:

1) Rural Utilities Service (RUS) funding. The Rural Utilities Service is still an important source of loan funds to co-ops like KEM Electric, Hill said.

“Across the state, we expect our co-ops will invest about \$1 billion over the next three years in line construction, repairs and upgrades – much of that being invested in the oil patch of western North Dakota,” he pointed out.

Cooperatives are asking Congress to provide \$6.5 billion in lending authority to RUS in the next fiscal year, and co-ops will pay back \$100 million more in interest than it costs the government to provide the loans.

“That’s certainly good news for deficit reduction,” Hill said.

2) Regulation of coal ash. When coal is burned to produce electricity, one of the residuals is coal ash. Currently, the generation and transmission cooperatives in the state dispose of this ash in pits or use it in recycled materials like concrete or other building materials. Recently, the Environmental Protection Agency (EPA) proposed regulations that would treat coal ash as a hazardous material.

“Regulatory treatment of coal ash as a hazardous waste will create significant compliance costs – some say even to the point of rendering certain coal plants uneconomic,” Hill said.

“We believe the current practice will provide electric cooperatives with regulatory certainty concerning the treatment of coal, preserve its beneficial uses, and protect the environment at the least cost to consumers,” Hill said.

3) Comparable incentives for nonprofit utilities to invest in renewable energy. Electric cooperatives are nonprofit utilities, and therefore can’t take advantage of corporate income tax credits made available to investor-owned utilities to invest in renewable energy generation – like wind power.

Cooperatives are asking Congress to allow nonprofit cooperatives to have access to comparable incentives given to investor-owned utilities that can help make renewable energy more affordable for consumers of electric cooperatives.



KEM Electric’s John J. Knox, right, presents Dennis Hill with a gift basket following Hill’s comments to the members.



Jessica Long, Kintyre, sang the national anthem for members.



KEM Electric scholarship winners Lindsey Jo Hulm, the daughter of Al and Pam Hulm, Linton, and Amber Platz, the daughter of Randy and Coleen Platz, receive congratulations from Chairman Dean Dewald and CEO/General Manager John J. Knox.



Tony Schaffner, chairman of Operation Round Up, shares information about the program during the annual meeting.



The current board of directors includes (left to right): District 4, Victor J. Wald; District At-Large, Dean Hummel; attorney Tom Bair; District At-Large Carmen Essig; District 3, Milton Brandner; District 1, Adolph Feyereisen; District 5, Dean Dewald; District 2, Carter Vander Wal; and CEO/General Manager John J. Knox.



Curtis Kaiser dishes up the roast beef dinner served prior to the annual meeting.

Fast facts:

- Re-elected to the board of directors were incumbents Victor J. Wald in District 4, Dean Dewald in District 5 and Carmen Essig in the District At-Large.
- Jessica Long, Kintyre, sang the national anthem.
- Lisa Long, with Kintyre 4-H, provided entertainment for the children during the annual meeting.
- Members of the KEM Community Service Organization who assisted with the meeting included Rita Mastel and Carol Mock.
- Tony Schaffner, chairman of Operation Round Up, told members about 58 percent of KEM Electric's members are enrolled in the program.
- Scholarship winners Lindsey Jo Hulm, the daughter of Al and Pam Hulm, Linton, and Amber Piatz, the daughter of Randy and Coleen Piatz, were recognized.
- Elisabeth Bender, a student at Zeeland High School and the daughter of Donavon and Lorie Bender, Venturia, the winner of the trip to Washington, D.C., as part of the Youth Tour, was also recognized.



Adolph Feyereisen, left and Milton Brandner, right, with Dennis Hill, have represented KEM Electric on the statewide association's board.



Members re-elected three directors to the board: Victor J. Wald, Dean Dewald and Carmen Essig.

KEM Electric Cooperative annual meeting PRIZE WINNERS

Prize/Donor

Winner

George Forman grill—WESCO	Gottlieb and Doris Dockter
25-foot trouble light	Jake and Elsie Wittmier
Pack of CFL light bulbs	Floyd Lang
Screwdriver set—Border States	Lorraine Reis
\$25 energy credit	Frank and Magdalena Kuhn
KEM Electric captain's chair	Vance Graham
25-foot extension cord	Blair and Doreen Bechtle
\$25 gas card—CoBank	Bill and Alicia Becker
10-in-1 screwdriver—Border States	Kevin and Bernice Vetter
Digital power strip	Steve Nieuwsma
Ceramic heater	John and Carola Dendinger
Electric knife	Dana Schoenhard
50-foot extension cord	Johnny and Luella Nagel
LED worklight	Frances Schaffer
Pack of CFL light bulbs	Draeger Brothers
26-inch fan	Roger and Janice Koester
\$25 energy credit	Peter and Rose Reis
Screwdriver set—Border States	Albert and Angeline Feist
Fire extinguisher	Harold Zoller
KEM Electric captain's chair	Frank Braun
\$25 gas card—CoBank	Albert and Lois Clark
Surge protector	Mr. and Mrs. Pius Schmidt
\$25 energy credit	Joe and Irene Kuhn
50-foot extension cord—Border States	Curtis Kaiser
Rechargeable spotlight	Marvin Winterberg
53-piece tool set—RESCO	John and Margaret Gross
George Forman grill—HDR	Clemens Silbernagel
22-inch TV	Gerard and Linda Goldade



PHOTOS BY LAYN MUDDER

Gottlieb and Doris Dockter won a George Forman grill during the prize drawings. Below: Rita Mastel and Carol Mock assisted with the door prize drawings.



Chairman Dean Dewald, left, and General Manager John J. Knox, right, congratulate the winner of the 22-inch TV, Gerard Goldade.



Thank you to all the members who attended your cooperative's 67th annual meeting!



Play up outdoor electrical safety to children

Warm, sunny days beckon the child in all of us to head outside and play. Safe Electricity recommends that families review and stress to children to follow simple electrical safety rules for safe outdoor play.

“Help keep your kids out of harm’s way when they play outdoors,” said Molly Hall, executive director of Safe Electricity. “Children often do not understand the dangers of electricity. Make them aware of overhead power lines and electrical equipment, and emphasize they should never climb or play near them.”

Safe Electricity recommends that children be taught to follow these rules:

- Never climb trees near power lines. Even if the power lines are not touching the tree, they could touch when more weight is added to the branch.
- Fly kites and model airplanes in large open areas like a park or a field, safely away from trees and overhead power lines. If a kite gets stuck in a tree that’s near power lines, don’t climb up to get it. Contact your local electric cooperative for assistance.
- Never climb a utility pole or tower.
- Don’t play on or around pad-mounted electrical equipment.

- Never go into an electric substation for any reason. Electric substations contain high-voltage equipment, which can be deadly. Never rescue a pet or retrieve a ball or toy that goes inside. Call your local electric cooperative instead.

When designing an outdoor play area for your children, do not install playground equipment or swimming pools underneath or near power lines. Protect all family members from serious shock and injuries by installing and using outdoor outlets with ground-fault circuit interrupters (GFCI). Use portable GFCIs for outdoor outlets that don’t have them.

Be careful using electrical appliances outdoors, even if plugged into GFCI-equipped outlets.

“Water always attracts kids, but water and electricity never mix,” Hall warns. “Teach older children to exercise caution before plugging in a radio, CD player or any electrical gadget outdoors, and keep all electrical appliances at least 10 feet away from hot tubs, pools, ponds, puddles and wet surfaces.”

Make sure all of your family members know to stay away from downed power lines and wires, and tell children to report to an adult any fallen or dangling wires.

A safety message from KEM Electric Cooperative



April 26

- Reviewed report from the Voucher Review Committee
- Approved one capital credit estate retirement
- Approved the special equipment summary
- Adopted revised Policy Bulletin 1-2 – Board of Directors-General Manager/CEO Relationship
- Adopted Policy Bulletin 11-26 – Interconnection of Distributed Generation Facilities
- Reviewed the functions of the directors

May 24

- Reviewed report from the Voucher Review Committee
- Approved some capital credit estate retirements
- Approved the special equipment summary
- Reviewed the safety report and the pole testing report
- Adopted CoBank resolution

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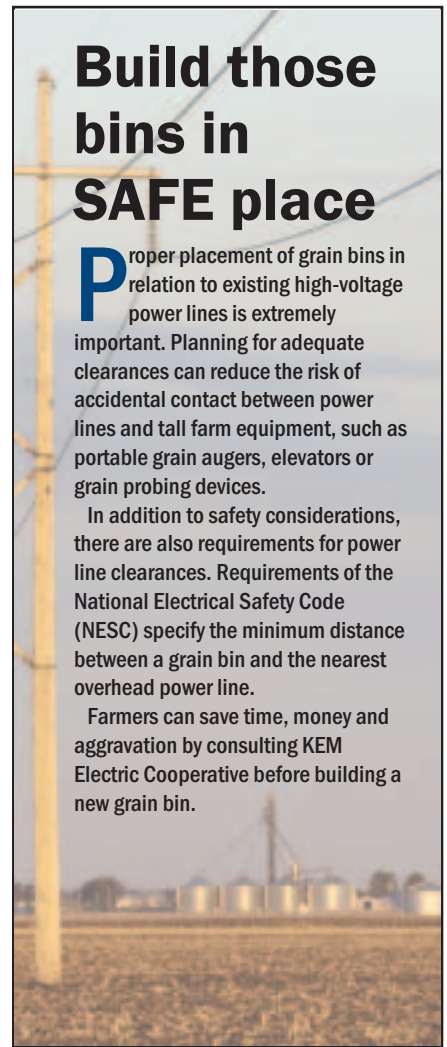
Call KEM Electric Cooperative today!
(701) 254-4666
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Build those bins in SAFE place

Proper placement of grain bins in relation to existing high-voltage power lines is extremely important. Planning for adequate clearances can reduce the risk of accidental contact between power lines and tall farm equipment, such as portable grain augers, elevators or grain probing devices.

In addition to safety considerations, there are also requirements for power line clearances. Requirements of the National Electrical Safety Code (NESC) specify the minimum distance between a grain bin and the nearest overhead power line.

Farmers can save time, money and aggravation by consulting KEM Electric Cooperative before building a new grain bin.



KEM ELECTRIC COOPERATIVE INC.

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DIRECTORS:

- Dean Dewald, ChairmanSteele
- Milton Brandner, Vice Chairman...Zeland
- Carter Vander Wal, Sec.-Treas.Pollock
- Carmen Essig, DirectorLehr
- Adolph Feyereisen, DirectorBraddock
- Dean Hummel, DirectorHague
- Victor Wald, Director.....Napoleon
- Bair Law Firm, Atty.Mandan
- HDR Engineers Inc., Consulting Engr.....Bismarck
- John Knox, CEO/General Mgr.Linton

Report outages to the following toll-free number: (800) 472-2673

Hazleton, Linton and Strasburg exchanges' phone number: (701) 254-4666

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