

2020 Dairyland Director Report

February 5, 2020

Dairyland focused on being #FutureReady

The energy industry continues to transform in many ways. Dairyland Power Cooperative, our wholesale power cooperative, continues to focus on strengthening its safety programs, further diversifying energy resources, modernizing systems and ensuring competitive rates.

Some of the changes Dairyland is preparing for are these “Four Ds”: Decarbonization, Deregulation, Digitalization and Decentralization.

Several business initiatives will be implemented in 2020 to achieve the Strategic Imperatives established by the Board. The three top 2020 #FutureReady priorities focus on enhancing efficiency today and positioning Dairyland for future success.

- **Sustainable Generation Plan** – The Sustainable Generation Plan is a broad strategic effort to ensure Dairyland is best positioned to serve our members for generations to come. Dairyland is preparing for the transformation of energy resources by strategically developing power supply plans, determining future energy mix and anticipating members’ long-term needs.
- **Dairyland Systems Modernization** – Dairyland is enhancing efficiency with a multi-year implementation of a comprehensive Enterprise Resource Planning program. A series of projects will ensure financial, business and technical environments are optimal for long-term success.
- **Strategic Workforce Planning** – This cooperative-wide initiative includes analyzing, forecasting and planning workforce supply and demand, assessing gaps and determining talent management activities. The goal is to ensure Dairyland has the right people with the right skills, in the right places to achieve the cooperative mission.

In addition to these top priorities, business plans continue in all areas of operations to fulfill Dairyland’s Strategic Imperatives:

Cooperative Purpose - Dairyland reorganized in late 2019, focused on exceeding member expectations and reducing overall cost. The new structure supports Dairyland’s Mission to be responsive to members and to efficiently achieve sustainability goals. Dairyland staff are focused on improving communities and the quality of life in Dairyland’s four-state region. This is also an opportunity to emphasize the significance of our 24 member cooperatives.

Employee Development – Dairyland is concentrating on attracting, developing and retaining talented leaders who are focused on serving co-op members. The new organizational structure enhances opportunities for employee development and skill growth.

Resource Diversification – The Board has set goals to continue to diversify Dairyland’s energy portfolio, reduce its carbon footprint and be even more sustainable. As resource decisions are made, four criteria for sustainability are balanced: Economics, Environment, Social and Technical considerations.

A major component of the Sustainable Generation Plan has been evaluating how long Dairyland should continue to operate existing assets. In January, the difficult decision was made to retire the 345 MW coal-fired Genoa Station #3 when the contracted fuel supply is depleted. The estimated retirement is June-December 2021.

Before making this decision, an expert energy consultant conducted a detailed market and financial analysis. In addition to impacts on employees and communities, many factors were considered when making this decision. These include age of the facility, system capacity requirements, regulatory requirements, projected maintenance needs and costs, fuel supply, overall cost of power production and regional market prices for energy.

Genoa Station #3’s over 50 years of safe operation is a testament to the dedication of highly skilled staff, thoughtful planning and maintenance.

Now that the decision has been made, the Dairyland team is focused on the continued safe operation of the plant, the impacts on employees and the communities. Human Resources programs will help ensure a smooth, safe and economical transition to plant retirement.

Dairyland announced two major renewable energy investments in 2019: a power purchase agreement (PPA) with Ranger Power for the 149 MW Badger State Solar facility (Wisconsin) and a PPA with Avangrid Renewables for the proposed 52 MW Tatanka Ridge Wind energy facility (South Dakota). The Badger State Solar facility received approval from the Public Service Commission of Wisconsin in January.

Other recent additions to Dairyland’s renewable energy portfolio include the 98 MW Quilt Block Wind Farm (PPA with EDP Renewables) and 80 MW Barton Wind Farm (PPA with Avangrid Renewables). In addition, 18 new solar energy facilities are online in our system (PPAs with ENGIE and groSolar). Many of these sites also include community solar projects.

As Dairyland transitions to a low-carbon future, safety, reliability and competitiveness will remain at the forefront. The proposed Nemadji Trail Energy Center is integral to the Sustainable Generation Plan. It will serve as the “power behind the power” supporting our renewable energy investments. It will provide reliable and competitively-priced power when the wind isn’t blowing and the sun isn’t shining.

Dairyland and ALLETE’s Minnesota Power (Duluth, Minn.) announced the proposed natural gas facility in June 2017. The plant is an up to 625 MW combined-cycle natural gas facility scheduled to be in service by 2025, contingent on regulatory approvals.

The approval for the Nemadji Trail Energy Center in January by the Public Service Commission of Wisconsin is a positive step in the project timeline. Additional regulatory approvals and permits for the project are required from the City of Superior, the Wisconsin Department of Natural Resources (WDNR) and the U.S. Army Corps of Engineers.

Competitive Service - Ensuring rates and services are competitive is critical to the economic well-being of the region. A task force comprised of Dairyland Board members and managers from Dairyland member cooperatives – supported by Dairyland staff and a rate consultant – spent most of 2019 reviewing the current wholesale rate, which is nearly 10 years old. The wholesale rate is what Dairyland charges our cooperative to generate and deliver power to our local substations. In December, the Board approved a new wholesale rate design, which will go into effect in May 2021. The Task Force was assigned to develop a *Future Ready* rate that would allow Jump River Electric Cooperative and the rest of Dairyland’s members to reliably and innovatively serve our consumer-members.

The Board approved Dairyland’s 2020 budget that will result in an average estimated rate year *decrease* of 1.8 percent on May 1. The 2020 budget supports the initiatives outlined in Dairyland’s strategic business plan to serve Jump River Electric Cooperative.

Efficiency improvements and management of costs and risks are priorities. Dairyland is also investing in regional transmission opportunities that improve reliability and add value for members. By working with other utilities, regional transmission infrastructure has been strengthened to absorb changing generation sources and strengthen reliability. Last fall, the Public Service Commission of Wisconsin approved the issuance of a Certificate of Public Convenience and Necessity for the proposed 345 kilovolt (kV) Cardinal-Hickory Creek transmission line (Dubuque, Iowa, to Middleton, Wis.). Regional transmission projects, such as the CapX2020 line running from the Twin Cities to Rochester to La Crosse, the Badger Coulee line from La Crosse to Madison, and the Cardinal-Hickory Creek line are opportunities that both improve reliability and add value for members.

Financial Strength - Maintaining financial strength and competitive access to capital are critical to delivering Dairyland’s strategic plans. Dairyland has credit ratings of “A3” with a stable outlook from Moody’s and “A+” also with a stable outlook from Standard and Poor’s. Dairyland’s Board and management work to balance building financial strength with competitive rates and sound operations.

Growth: Dairyland staff are working with its members to support economic development opportunities that will help communities grow by adding businesses and jobs. Innovative beneficial electrification strategies, including electric vehicle charging stations, are also a focus.

Dairyland’s system will grow by about 10 percent in the next few years with the addition of service territory acquired by member cooperatives, mostly in southern Minnesota.

Safety Culture - Safety of employees, members and the public is the highest priority at Dairyland. Employees continue to educate, promote and maintain a culture of safety as they strive for an operational goal of “zero incidents.”

Operational Excellence – The reliable performance of Dairyland’s power plants and transmission system is a 24/7 priority. The men and women who operate and maintain Dairyland’s facilities are focused on safety, while holding high standards for reliable operations.

Transmission Construction crews work to safely rebuild, construct and upgrade approximately 50 miles of 69 kV transmission line each year. Each mile takes approximately two weeks to complete with roughly 17 poles per mile.

In 2020, Dairyland will begin a programmatic approach for adding middle-mile fiber optic communications to its existing transmission infrastructure primarily for electric operation communication purposes. As the program progresses, excess fiber optic communication capacity may then be available to enable rural broadband service providers for access to the communities Dairyland serves.

The Dairyland Board of Directors has a goal to be more flexible, agile and *Future Ready* for Dairyland’s 24 member cooperatives, including Jump River Electric Cooperative.

Dairyland will have a significant transition in mid-2020 with the retirement of Barb Nick, President and CEO. Over the past five years, Barb has developed a strong management team and continues to work closely with the Board to ensure Dairyland is in a solid financial position to maintain future success. As the Board seeks Dairyland’s next leader, thoughtful strategic planning will guide Dairyland to be *Future Ready* and provide **safe, reliable** and **sustainable** electricity that remains **affordable** for members of Jump River Electric Cooperative.