

highline

MARCH 2017

NEWS FROM YOUR FRIENDS AT PEOPLE'S ENERGY COOPERATIVE

celebrating
80 YEARS
STRONG

PROUDLY SERVING COMMUNITIES FROM 1936 TO 2016



**People's Energy
Cooperative**

Your Touchstone Energy® Cooperative 

- 2016 ANNUAL REPORT -



THE 2016 PEC EMPLOYEES & BOARD OF DIRECTORS **SERVING YOU**



Jerome Wooner
 Eyota
 DISTRICT 5
 Board Chair

Eugene Miller
 Theilman
 DISTRICT 4

Arthur Friedrich
 Rochester
 DISTRICT 6

Jeffery Orth
 Rochester
 DISTRICT 7

Kenneth Wohlers
 Hayfield
 DISTRICT 2
 Secretary & Treasurer

Robert Hoefs
 Mazeppa
 DISTRICT 3
 Vice Chair

Joseph Book
 Rochester
 DISTRICT 1



People's Energy Cooperative

Your Touchstone Energy® Cooperative 

80th Annual Meeting Notice March 22, 2017 • Rochester International Event Center

– MARK YOUR CALENDARS & SAVE THE DATE –

People's Energy Cooperative's Annual Meeting will be held Wednesday, March 22, 2017, at the Rochester International Event Center at 7333 Airport View Drive SW, Rochester, Minnesota. Registration begins at 10:00 a.m. The one-hour business meeting will begin promptly at 11:00 a.m. with a light lunch to follow the meeting.

THE OFFICIAL ORDER OF BUSINESS AT THE ANNUAL MEETING:

Welcome, Announcements & Introductions.....	Gwen Stevens, <i>Director of Member Relations</i>
Invocation.....	Kenneth Wohlers, <i>Secretary/Treasurer</i>
Pledge of Allegiance.....	Kenneth Wohlers, <i>Secretary/Treasurer</i>
Announcement of Quorum.....	Jerome Wooner, <i>Board Chair</i>
Call to Order and Meeting Rules.....	Jerome Wooner, <i>Board Chair</i>
Approval of Annual Meeting Minutes.....	Kenneth Wohlers, <i>Secretary/Treasurer</i>
Financial Report.....	Kenneth Wohlers, <i>Secretary/Treasurer</i>
Board Chair Report.....	Jerome Wooner, <i>Board Chair</i>
President and CEO Report.....	Elaine J. Garry, <i>President/CEO</i>
Introduction of Director Candidates.....	Elaine J. Garry, <i>President/CEO</i>
Questions and Answers.....	<i>President/CEO and Board Chair</i>
Announcement of Director Election Results.....	Daniel E. Berndt, <i>Attorney</i>
Unfinished Business.....	Jerome Wooner, <i>Board Chair</i>
New Business.....	Jerome Wooner, <i>Board Chair</i>
Adjourn.....	Jerome Wooner, <i>Board Chair</i>

Are you in need of a special accommodation? See back cover for details.



Your Board of Directors takes great pride in representing you.

*We work hard to ensure we set policy and give direction to management that ensures you have **RELIABLE, AFFORDABLE ENERGY** at your homes and businesses.*

As the Chair of the People's Energy Board of Directors, I am proud of what the Cooperative has accomplished in recent years and happy to report that 2016 was another successful year.

I am also proud of the fact that all the people who represent you on the Board have taken their responsibility seriously. All seven of us have completed our Credentialed Cooperative Director (CCD) Certification and five of us have completed the Board Leadership Certification (BLC). These training programs enable us to effectively govern the Cooperative by educating us on topics such as board operations and duties, strategic planning, financial analysis and decision making, power supply, technology, environmental concerns, the cooperative business model and legislation.

This past year, we again reviewed the Cooperative's Bylaws to ensure they are current and reflect the best interests of the membership. We also reviewed every policy of the Cooperative as we do every year. This ensures that every Board member is familiar with the policies of the Cooperative and that they reflect current practices and laws.

Several years ago, our Board established a Member Advisory Committee (MAC). We utilize these members as a sounding board for new ideas, concepts, programs, etc. We educate them about issues affecting the Cooperative including legislative issues and power supply changes so they can communicate with our policy makers as well as you, the members. A lot of cooperatives have a MAC; however, we take it one step further. Every year, each member of the MAC is invited to attend a Board meeting. This gives them the opportunity to learn more about the Cooperative, the Board's role and to give us feedback.

We also invite employees to attend a Board meeting. This gives us a chance to learn a little more about the people who work for us and it gives the employees the opportunity to learn more about the Board's role.

For the past three years, your Board of Directors has been heavily involved with the Alliant acquisition project. We were required to step outside of our comfort zone and make decisions that were riskier than normal. The decisions your Board made were difficult, but well-vetted. After one year of ownership of the Alliant service territory, I can tell you that I am very pleased with the results. I am confident that this purchase decision will bring long-term benefits to the Cooperative through growth, density improvements and more efficient use of our human and physical resources.

Thank you for the confidence that you have placed in me and the rest of the Board of Directors.

Sincerely,

Jerome Wooner, Board Chair
jwooner@peoplesrec.com





Today, it hardly seems like we can do anything without electricity.

*When the power goes out, our lives change. As Board members and employees of the Cooperative, we realize the **IMPORTANCE AND VALUE** we bring to your lives.*

2016 was an outstanding year for your Cooperative! The following highlights some of the work done on your behalf to ensure your cooperative remains strong now and into the future.

ALLIANT ACQUISITION UPDATE: In 2012, Southern Minnesota Energy Cooperative (SMEC), consisting of 12 electric distribution cooperatives, was formed specifically to purchase Alliant Energy's electric accounts and electric plant in southern Minnesota. This was done so only one entity was negotiating with Alliant Energy. On July 31, 2015, SMEC closed the deal with Alliant Energy. On January 1, 2016, your cooperative then purchased the Alliant service territory from SMEC and People's Energy became the sole owner of the electric plant within the boundaries of our service territory.

STRENGTHENED WORKFORCE: We have welcomed 11 new employees into our work group this past year – six were added to help us serve our expanded membership. We are also celebrating the anniversary of two employees who have been with the Cooperative for 40 years!

SYSTEM INVESTMENTS: To ensure reliable service, we invested another \$10 million in new construction or replacement of existing electric plant. Additionally, we spent \$1.66 million clearing trees from within the right-of-way under our electric lines to help reduce outages and blinks. We invested in a new automated metering infrastructure (AMI) that uses the newest technology to help you manage your accounts and enables us to measure energy use and demand for better analytics.

COMMUNITY SOLAR INSTALLATION: Although we experienced some delays with the construction, we successfully built a community solar array that allows members to purchase renewable energy. The energy

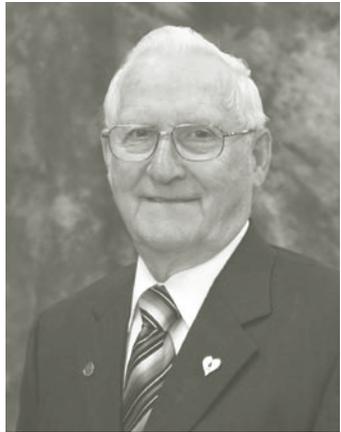
generated from the panels subscribed to by an individual member is offset on their monthly bill – offering a hedge against future energy cost increases.

LEGISLATIVE RELATIONS: Over the years, we have developed positive working relationships with the majority of our local legislators. Those relationships helped us get legislation passed that ensures all members contribute equitably to the fixed costs your Cooperative incurs regardless of the amount of energy we sell. We have already begun getting to know our new legislators and look forward to working with them.

ECONOMIC DEVELOPMENT: We continue to work hard to assist the cities in our service area to grow their commercial and industrial businesses. That growth helps your communities in terms of tax base and it helps your cooperative to balance the residential electric use and lower wholesale power costs.

STRATEGIC FINANCING: We are pleased and proud to let you know that your cooperative's cost of borrowing money is one of the lowest in the country. When our economy was suffering through the recession, decisions were made at People's Energy that could be considered atypical. We constructed a new headquarters building and invested heavily in replacing old electric plant during a time when interest rates were very low. In 2016, we locked in on a long-term interest rate for the loan to buy the Alliant service territory. Again, timing was great. Although our equity dipped lower than the Board's policy minimum when we took out this loan, our cost of borrowing is in the lowest 10 percent of the country for rural electric cooperatives.

IMPROVED RESPONSE TIME: We transitioned from having all lineworkers report to our Oronoco office to having six area crews who report from their home or a local garage to start their day. *(continued on page 7)*



DAIRYLAND POWER

COOPERATIVE

CELEBRATING 75 YEARS OF LEGACY & FOUNDATION

In recognition of its 75th anniversary, Dairyland Power Cooperative (DPC) honored its legacy and the strong foundation built by past cooperative leaders during 2016. At the same time, DPC has been executing business plans that align with the strategic guidance of the Board and member cooperatives.

As your representative on the DPC Board of Directors, I am pleased to report that DPC's rates will remain stable for 2017. I assure you that DPC staff is dedicated to providing a safe, reliable and sustainable supply of electricity that remains affordable for members of People's Energy Cooperative. DPC is implementing business plans in all areas of operations to achieve the cooperative's top strategic priorities.

COOPERATIVE PURPOSE: Exceeding members' expectations is DPC's vision. DPC staff are committed to living the seven cooperative principles and leveraging the cooperative advantage. They are focused on improving communities and the quality of life in our region.

EMPLOYEE DEVELOPMENT: DPC is focusing on attracting, developing and retaining talented leaders who are focused on serving cooperative members. Maintaining and improving performance depends on a skilled and motivated work force.

RESOURCE DIVERSIFICATION: Diversifying the energy resource mix and expanding the use of renewable energy are strategic priorities. DPC staff have developed a long-term "preferred plan" for generation resources that diversifies intentionally and thoughtfully by using the best economic decisions for a sustainable resource mix.

In 2016, DPC announced agreements for 15 new solar installations with total solar generation of 20 MW. As a cooperative initiative, the solar facilities are being built in the service areas of DPC's member cooperatives. The advantages of multiple projects in separate locations include: diverse weather patterns, distributed grid infrastructure impacts and locally-based renewable energy.

Together, the solar facilities will be able to produce enough renewable energy to power over 3,000 homes. The solar installations will range between 0.5 MW to 2.5 MW in scale. They will be tracking systems which follow the path of the sun to increase energy production. All are expected to be operational by summer 2017. Although these projects constitute DPC's largest solar investments to date, DPC also purchases energy from other major solar installations (*in Westby, WI., Galena, IL and from Minnesota Three located just north of our office in Oronoco*).

DPC's Solar for Schools renewable energy and education initiative is establishing solar generation at three high schools and one college campus in its western Wisconsin service territory. In addition, there are over 900 consumer-owned distributed generation solar installations in DPC's service area.

DPC's leadership role with solar energy supports part of its strategy to diversify generation resources. Efforts continue to further diversify resources without stranding the assets and investments of members.

In addition to the solar projects, a power purchase agreement with EDP Renewables for the output of the Quilt Block 98 MW wind power project in southwest Wisconsin was announced at DPC's 75th Annual Meeting in June.

DPC's preferred plan is also designed to provide members value in terms of costs, which can be a challenge. Other options are being evaluated, including natural gas generation, additional wind and other renewable resources.

COMPETITIVE SERVICE: Ensuring rates and services are competitive is critical to the economic well-being of the region as well as the long-term viability of DPC and our cooperative members. Stable rates for 2017 reflect DPC's focus on efficiency improvements and wise management of controllable costs and risk. DPC is also investing in prudent transmission opportunities that will improve reliability and add value for members.

Local and regional transmission improvements/projects, purchased power and transmission costs all have significant impacts on the bottom line. However, fuel to operate its generating facilities continues to be DPC's largest annual expense, with barge and rail transportation of coal constituting a significant portion of that cost. DPC's plants used about 2.2 million tons of coal in 2016, including its 30 percent share of the Weston 4 power plant (*this is the same amount used in 2015*).

Net margins in 2016 were \$23.1 million, compared to 2015 margins of \$26.7 million. DPC's total net generation and purchased power was fairly stable at 5.7 billion kilowatt-hours (*kWh*), compared to 5.9 billion kWh in 2015. A mild winter and decreased energy use by some commercial customers contributed to slightly lower energy loads.

The loads associated with the Cooperatives that are owners of DPC were also fairly stable with a slight increase to 4.8 billion kWh from 4.7 billion kWh. Total operating revenues for 2016 decreased to \$414.8 million, as compared to \$418.3 million in 2015.

FINANCIAL STRENGTH: Maintaining financial strength and competitive access to capital are critical to delivering on DPC's Strategic Plans. However, building DPC's financial strength must be balanced with maintaining competitive rates and service for members.

To ensure long-term financial strength, the DPC Board has implemented a Strategic Financial Plan to maintain "A" ratings from Moody's and Standard & Poors credit rating agencies. DPC has been taking steps to increase margins and has developed access to market-based financing through the adoption of a bond indenture to provide additional funding flexibility and availability. DPC also implemented a syndicated line of credit which provides cost-effective short-term financing. This access to capital is critical for DPC's ability to provide service today and continue to upgrade the system in the future.

GROWTH: Opportunities to improve efficiencies and provide competitive costs and service can be created through growth of the system. DPC is pursuing a

"smart growth" strategy to grow and add businesses and jobs that benefit the entire system. DPC is also partnering with others to strengthen the transmission infrastructure in our region.

SAFETY CULTURE: The safety of employees, members and the general public remains a foundational value. DPC employees continue to educate, promote and maintain the safety focus as they strive for an operational goal of "zero incidents."

OPERATIONAL EXCELLENCE: DPC strives for high availability and reliable performance of its power plants and transmission system, as well as the overall performance of the organization. The expectation is that DPC's operational performance will be 100 percent compliant and in the top tier for the industry.

The Genoa Station #3 (*G-3*) and John P. Madgett (*JPM*) coal-fired generating stations once again achieved "World Class Status" for their minimal forced outage rates due to boiler tube failures (*BTFs*) in 2016. As DPC tracks operational performance at its plants, lowering forced outage rates is a key objective.

A scheduled major turbine overhaul and maintenance outage was completed at G-3 in January 2017. These significant projects are contracted every eight years to ensure operational efficiency and reliability.

Partnerships in transmission infrastructure projects support our strategies for operational excellence as well as growth. DPC is an 11 percent owner of the CapX2020 Hampton-Rochester-La Crosse 345 kV line which was completed in 2016. A segment of the 345 kV line from North Rochester to Briggs Road (*La Crosse area*) was completed and put into service in the fall of 2015. The line was built to serve local load and is delivering expected results by reducing congestion, enhancing reliability and providing access to economic energy, including renewable resources. As part of the project, CapX2020 rebuilt approximately 24 miles (*Alma south to Marshland*) of DPC's existing line as a double circuit 345/161 kV transmission line, saving DPC's members millions of dollars.

DPC is participating in two other regional 345 kV transmission projects which are in various phases. DPC is a five percent participant in a portion of the Badger Coulee Project (*La Crosse to north Madison*). DPC also is a nine percent participant in the Cardinal-Hickory Creek project (*Madison to Dubuque*) which is going through the approval process. (*continued on page 8*)

Minutes from the 79th Annual Meeting

PEOPLE'S ENERGY COOPERATIVE HEADQUARTERS, APRIL 16, 2016

The 79th Annual Meeting of the stockholders (hereinafter referred to as "members") of People's Energy Cooperative was held at the International Events Center in Rochester, Minnesota, on April 16, 2016, pursuant to notice mailed to each and every member of the Cooperative at least fifteen (15) days prior to the holding of the meeting.

- Gwen Stevens, director of member and community relations, facilitated the meeting. She welcomed the group and reminded members that the registration gift of a \$10 credit on their electric bill would automatically be applied to the May bill. The Cooperative's Board of Directors and special guests in attendance were introduced.
- Secretary Kenneth Wohlers gave the invocation and led the membership in reciting the Pledge of Allegiance and the National Anthem was sung by members of the Honors Choirs of Southeast MN.
- According to Article II, Section 5 of the Bylaws of the Cooperative, it was announced that there was a sufficient number of members present (422 registered members) to constitute a quorum and to transact any pertinent business that may come before the membership. Therefore, the meeting was officially called to order by Jerome Wooner, chair of the Board of Directors, at 10:11 a.m. A motion to accept the agenda was received along with a second. The motion carried.
- Kenneth Wohlers, secretary/treasurer of the Board of Directors, read the Notice of Annual Meeting together with proof of the mailing to all members. The minutes of the Annual Meeting of April 21, 2015, appeared in the Annual Report issue of the Cooperative's newsletter, Highline Hi-Lites. A motion was made and seconded to dispense with the reading of the minutes and to approve these minutes as they appeared in the Annual Report. The motion passed.
- Kenneth Wohlers, secretary/treasurer of the Board of Directors, gave the financial report of the Cooperative. The Highline Hi-Lites Annual Report contained the results of the Cooperative's annual audit. A motion was made and seconded to approve the financial report as read. The motion passed.
- Chair of the Board, Jerome Wooner addressed the membership and talked about Cooperative Principle 2, Democratic Member Control, and 7, Concern for Community. He reminded the members that the Cooperative is a democratic organization controlled by the members by electing Directors who are accountable to the membership. Members have the right to vote and can take an active part by participating on various Cooperative committees and boards. Chair Wooner also talked about how the Cooperative is active in the communities it serves by awarding scholarships, sponsoring a student on a NRECA Youth Tour in Washington, D.C., supporting the 4-H livestock blue ribbon program, providing safety demonstrations, actively supporting local growth, providing low cost economic development loans, and supporting employees who actively participate in their hometowns.
- Elaine Garry, president and CEO, spoke to the membership about what makes our Cooperative strong now and in the future. She shared the success of the Alliant acquisition by the 12 cooperatives who formed Southern Minnesota Energy Cooperative (SMEC) and how the efforts made by employees and Directors made the acquisition happen. She said that it's important for both the Cooperative and members to be engaged with our legislators. She talked about the grid access fee to make sure that distributed generation owners pay their fair share of the fixed costs of the Cooperative.
- Garry went on to talk about the People's Community Solar project to provide green energy for members who subscribe. She also shared information on the six service areas and the improvement being made in response to power outages.

Minutes

CONTINUED...



CEO Report

CONTINUED FROM PAGE 3

- The CEO's report closed with letting members know that we will continue to operate by the Cooperative Principles, pursue beneficial growth opportunities, develop positive legislative relations and seek out innovative energy solutions. She then recognized employees Keith Dickman and Gary Schurhammer for their 40 years of service to the Cooperative and the six employees who had retired in the past 12 months.
- The amendments to the Bylaws were reviewed and the Nominating/Credentials Committee and candidates running for election to the Board of Directors were introduced. A video of the NRECA Youth Tour program was shown to the audience.
- Dan Berndt, attorney with the Dunlap & Seeger Law Firm, who oversaw the counting of the ballots, was called upon to announce the results of the director election. Elected to the Board of Directors for three-year terms were Joseph Book from District 1 and Art Friedrich from District 6.
- As the business meeting concluded, Mr. Wooner asked for any old, unfinished, or new business. There was none.
- The 79th Annual Meeting of People's Energy Cooperative was adjourned at 10:59 a.m.
- Mr. Wooner opened the meeting to questions.

These 12 lineworkers are assigned responsibility for maintenance of the electric plant in their assigned area. They are also responsible for responding to outages in their area whenever possible.

We have documented a significant improvement in response time for outages since this new practice was implemented and members are noticing! Thanks to all of you who have taken the time to show your appreciation to the lineworkers for their dedication to restoring service for you.

Through a power cost adjustment (PCA), we raised rates to our legacy members (*those members who were part of our Cooperative before the Alliant acquisition*) to allow the Board to ensure the financial stability of the Cooperative while not overcharging members. By using this method, the Board adjusted the PCA up or down monthly depending upon our financial situation because our financials are significantly impacted by weather and energy sales.

LOOKING AHEAD: In just one year, we have seen the value in growing our electric system and the number of people we serve. As we move into 2017, we have several priority projects that we will tackle to continue to move the Cooperative toward a positive, financially-sound future.

As part of the approval of the Alliant acquisition, the Minnesota Public Utilities Commission required that we hold the distribution rates stable for three years for the new Alliant members. We can pass through any increase or decrease in power and transmission costs, but not any cost increases at the local distribution level. Since Alliant Energy had not adjusted rates since 2010, this means the former Alliant members will not have had a rate increase for eight years when the time comes for us to adjust their rates to bring them in line with costs. In 2017, we will begin to work on a cost-of-service study that will allocate costs appropriately to the different classes of service. We will then use the results of that study to form our rate philosophy and new rates for all members.

On behalf of the employees of the Cooperative, thank you for your membership and support. It is a pleasure serving you.

Sincerely,

Elaine J. Garry, President & CEO

egarry@peoplesrec.com



Director Report

CONTINUED FROM PAGE 5



Every year, DPC also rebuilds, constructs or upgrades approximately 50 miles of 69 kV transmission lines to improve service and reliability. DPC works closely with the local member cooperative, landowners, local officials and state departments of natural resources to meet their expectations during the construction of these projects.

PLANT DECOMMISSIONING: Projects are underway to successfully complete decommissioning of the La Crosse Boiling Water Reactor (LACBWR) and the Alma Station in a manner that ensures public safety and compliance with all regulatory requirements, while minimizing the cost impact on DPC’s members and reducing future liabilities.

DPC has contracted with EnergySolutions, a national radioactive waste services contractor for the final decommissioning of LACBWR. It has not operated since 1987; however, the used fuel had remained on-site until it was transferred to the Independent Spent Fuel Storage Installation (ISFSI) on the south end of the Genoa Site in 2012. The fuel is monitored around the clock at the ISFSI, in accordance with NRC regulations.

In October 2016, DPC accepted a settlement offer of \$73.5 million from the U.S. Court of Federal Claims for damages related to the government’s breach of contract with LACBWR, DPC’s shutdown nuclear facility. The net proceeds of the settlement are being returned to DPC’s member cooperatives in February 2017. Although our Board (PEC) has not taken official action yet, it is likely

that we will invest the dollars that will be returned to People’s Energy and use them over the next five to six years to offset rate increases. The Nuclear Waste Policy Act of 1982 gave the government responsibility for storage of the nation’s spent nuclear fuel, with a deadline of Jan. 31, 1998, to begin accepting the fuel.

The settlement is the result of DPC’s second round of litigation with the U.S. government regarding LACBWR. It represents the 2007-2012 time frame for expenses related to the development of the Independent Spent Fuel Storage Installation (ISFSI) dry cask storage site and the transfer of fuel to casks. It also includes DPC’s ongoing costs related to spent fuel storage.

I am pleased that DPC is financially and operationally sound and assure you that DPC continues to work hard to ensure future energy needs are met.

Sincerely

Eugene Miller, Dairyland Board Representative
gmiller@peoplesrec.com

DAIRYLAND POWER COOPERATIVE: ANNUAL MEETING INFORMATION

76th Annual Meeting

WOULD YOU LIKE TO ATTEND IN 2017?

If you would like to attend, please contact the Cooperative office at 507-367-7000 or email memberrelations@peoplesrec.com.

People’s Energy Cooperative will be traveling to La Crosse, Wisconsin, on **Wednesday, June 7**, to participate in Dairyland Power Cooperative’s 76th Annual Meeting. A chartered bus will leave People’s Oronoco headquarters at 7:30 a.m. and return around 4:00 p.m. Limited seating is available to members interested in serving as People’s delegates at the meeting. If you have not attended before, we encourage you to consider this opportunity to learn more. Lunch will be provided.



EXPLANATION OF THE 2017 VOTING PROCEDURE

You have the option to vote online or by using a paper ballot to elect nominated members to the Board.

We have contracted with Survey and Ballot Systems (SBS) from Eden Prairie, Minnesota, to utilize their electronic voting system. SBS has worked with cooperatives in various business sectors from all across the country such as CHS, Inc., Land O'Lakes, MEDICA, Health Partners and a host of rural electric cooperatives.

Our purpose in doing this is to provide members an alternative voting method as more and more people prefer to conduct business online.

Utilizing SBS eliminates the manual counting of ballots by the Nominating Committee. Paper ballots will be read by a scanner much like government election ballots making it secure and efficient.

BALLOT MATERIALS: Election materials should arrive in your mailbox by the first week in March. The materials include a:

- BROCHURE with candidate information;
- BALLOT with the Annual Meeting registration card attached at the top; and
- Postage-paid return ENVELOPE.

When using the paper ballot, make sure to use blue or black ink or a #2 pencil to completely fill in the circle next to your selections. If you are voting with your paper ballot by mail or at the Annual Meeting, please use the business reply envelope provided to submit your ballot.

ONLINE VOTING: When voting online, you must use your member number and election passcode located near your name and address on the ballot/registration card in order to login to the online voting system.

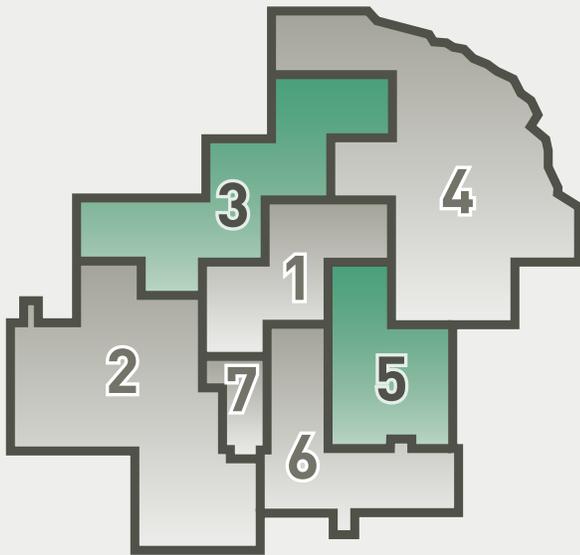
Please be assured that no cooperative employee, Board member or cooperative attorney will know or have access to who you voted for. Your credentials are only used to login and record that you voted, **NOT** who you voted for. The Cooperative attorney will only receive the final tallies from SBS.

ONLINE VOTING WILL BE AVAILABLE UNTIL 10:30 A.M. ON TUESDAY, MARCH 21.

IMPORTANT ITEMS TO NOTE: Please note that **only the first vote received will be counted**. For example, if you vote online and later mail in the ballot or bring it to the Annual Meeting, only the online vote will count because it was received first.

*Whether you vote online or use the paper ballot, **be sure to retain the registration card at the top of the ballot to gain access to the Annual Meeting** and receive your \$10 credit for attending. If you have any questions about the election process, please feel free to contact the Cooperative office.*

2017 DISTRICTS 3 & 5 Director Elections



DISTRICT 3 INCLUDES THE FOLLOWING: *Gilford, Hyde Park, Milton, Mazeppa, New Haven, Oronoco, West Albany and sections one through 18 of Kalmar*

DISTRICT 5 INCLUDES THE FOLLOWING: *Dover, Elmira, Eyota, Orion, and Viola.*

While candidates represent geographic regions, they are elected by the membership at large. Members should vote for ONE candidate from EACH director district.

2017 BOARD CANDIDATES, DISTRICTS 3 & 5



District 3

Robert Hoefs, Incumbent
By Nomination • Mazeppa, MN
Cooperative Member for 50 years

Personal: I live near Mazeppa and am an active member at St. John's Lutheran Church. I served in the Army National Guard for four years and was honorably discharged.

Occupation/Career/Education: I'm retired after a 30-year career as a John Deere dealer.

Leadership Positions: I've served on the People's Energy Cooperative Board since 2002, and have completed all course-work to be recognized as a Credentialed Cooperative Director by the National Rural Electric Cooperative Association. During my time on the Board, I have served as secretary/treasurer for two years, and vice-chair since 2011. I also serve on the Mazeppa Cemetery Board and on an advisory committee for the Zumbrota-Mazeppa School vocation house construction.

What issues do you see the Board dealing with in the future? Continued loss of service territory to RPU as Rochester continues to grow; mandates from the state and federal government with regard to renewable energy standards; maintenance of the poles, lines and equipment that serve our members; and new technology.

My priorities for the future of the Cooperative include: Working to ensure that People's remains financially strong; protecting the member base from loss to Rochester Public Utilities; accomplishing our aggressive construction work plan; and working with Dairyland Power Cooperative to stabilize wholesale power costs.

What talents/attributes/qualities would you bring to the Board? I bring over 15 years of experience serving on the Board. During that time, I have been actively involved in making strategic business decisions that benefit the Cooperative including: the addition of 7,000 new members through the acquisition of the Alliant service territory; cost-effectively building the headquarters in Oronoco; a new automated metering infrastructure; and installing two solar arrays.

Why you would like to be elected to the Board? I am committed to the People's Energy Cooperative community, and can continue to make a difference on behalf of its members. I want to continue to serve on the Board to ensure that all members have quality, reliable power at affordable prices. Thank you for your past support and I ask for your support, now and in the future.



District 3

Ron Jensen

By Nomination • Rochester, MN
Cooperative Member for 17 years



District 5

Jerome Wooner, Incumbent

By Nomination • Eyota, MN
Cooperative Member for 23 years

Personal: I grew up on a farm in western Iowa before receiving an electrical engineering degree. My wife, Marlene, and I have two married, adult sons and three grandchildren. We have lived in various areas of the US and now love the many aspects of nature at our Lake Zumbro home.

Occupation/Career/Education: I have a Bachelors degree in Electrical Engineering from Iowa State and a Masters degree from Syracuse University. After a 41-year career at IBM, I retired to spend more time with family, travel, and pursue volunteer activities.

Leadership Positions: At IBM, I held the title of Chief Engineering Manager and served in various management roles. I was the President of my 4,400-member church and chaired stewardship for both the congregation and synod. In addition to being a parliamentarian for several groups, I was President of Rochester Youth Soccer and of IEEEUSA (a 190,000-member technical organization). I have been active in Boy Scouts as a Scout Den Leader, Cubmaster, Scoutmaster, Gamehaven Council Executive Committee member, Council President, Central Region Board of BSA member, and am presently Area VP of Marketing. Currently, I serve on the education committee for the Zumbro Watershed Project.

What issues do you see the Board dealing with in the future? The effects of climate change which may cause greater storm damage and increased power demand for air conditioning will require good planning. Increased wind and solar generation which could lead to lower costs are another issue that needs to be planned well.

What talents/attributes/qualities would you bring to the Board? I understand power generation and distribution. I bring a good understanding of strategic planning to Board actions and know how to ask questions so all options are understood and considered. I love southeastern Minnesota and have explored the area so I understand the geography and the members, businesses, and farms that are served by People's.

Why would you like to be elected to the Board? I can make a contribution to serve all cooperative members using skills that I have learned during my engineering, management and volunteer career. I want to use my skills to build productive relationships between volunteer boards and our professional staff to ensure our cooperative is effective and efficient.

Personal: I've lived in the Dover-Eyota area for 34 years (except for the five years I spent in the Marine Corps) and enjoy living and doing volunteer work in my community.

Occupation/Career/Education: I served five years in the United States Marine Corps, where I graduated as an electronic technician and worked on the FA-18 fighter jet. While in the service, I cross-trained as an electrician earning the Navy Achievement Medal. After leaving the Marine Corps, I worked as an electrician and several other electronic positions for another nine years. I have been employed by the Olmsted County Sheriff's Office for 13+ years.

Leadership Positions: I have served on the Cooperative Board for six years and as the Board Chair for the past four. In my role as a sergeant with the Olmsted County Sheriff's Office, I supervise 14 detention deputies. I have been an emergency medical technician (EMT) for the Eyota Volunteer Ambulance Service for the past 20+ years. For 16 years, I was a deacon for the Plainview Church of Christ. I was on the Viola Gopher Count Committee for over nine years; five as the committee president.

What issues do you see the Board dealing with in the future? There are several areas of concern for the Cooperative in the future. Government and regulatory policy (renewable energy, net metering, etc.) will make it difficult to keep electric rates affordable and reliable. Working with and educating local, state and national legislators on the issues facing the Cooperative will be a priority for years to come.

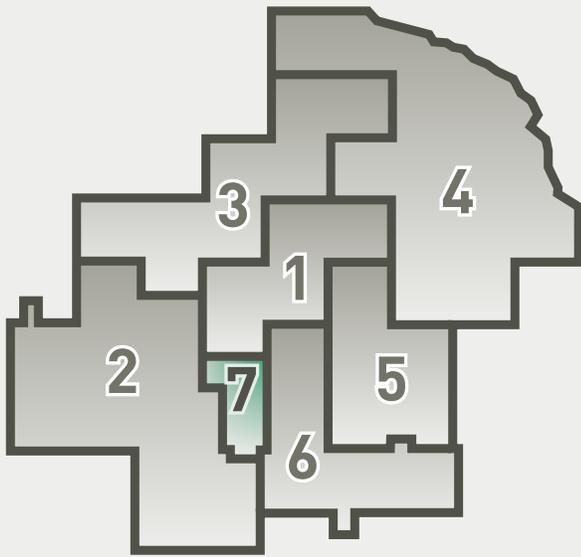
What talents/attributes/qualities would you bring to the Board? I'm currently the Board Chairman for PEC and have achieved my Credentialed Cooperative Director (CCD) through the National Rural Electric Cooperative Association (NRECA) as well as their Board Leadership Certificate (BLC). I have the knowledge, skill and leadership skills obtained through the Marine Corps and Sheriff's Office to understand what is needed to be a productive member of the Board of Directors.

Why you would like to be elected to the Board? I enjoy working with my fellow Board Members and hope to continue to do so to ensure the Cooperative provides the most reasonably priced, reliable energy to our members with the best possible customer service for years to come.

2017

DISTRICT 7

Director Elections



DISTRICT 7 INCLUDES THE FOLLOWING: *Stewartville, Sections one through four, nine through 16, 21 through 28, and 33 through 36 of High Forest, sections 19 through 36 of Rochester and sections one through three of Racine.*

2017 BOARD CANDIDATES, DISTRICT 7



District 7

Jeffery Orth, Incumbent
By Nomination • Rochester, MN
Cooperative Member for 33 years

Personal: I am a native of Austin, Minnesota, and currently live on the southwest side of Rochester.

Occupation/Career/Education: I graduated from St. Olaf College in 1976. After several years in public and private accounting, I became a Deputy Registrar for the State of Minnesota in 1981 and now operate six license bureaus in the state. In 1985, our family moved from Byron, Minnesota, to Rochester Township and I have actively farmed in the southwest Rochester area to the current date.

Leadership Positions: I have been a cooperative Board member for six years and am a Credentialed Cooperative Director through the National Rural Electric Cooperative Association (*NRECA*). I have served on the Rochester Township Board since 1990. Since the mid 1990's, I have served on the Minnesota Deputy Registrar's Association (*MDRA*) Board and have held the positions of President, Secretary, and Legislative Chair of the MDRA during my tenure.

What issues do you see the Board dealing with in the future?

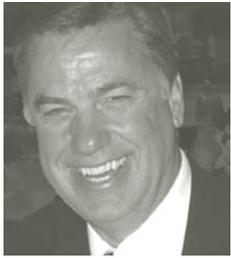
Major issues face People's. These issues include: timely replacement of poles and aging copper wire; timely upgrade of trucks and equipment; embracing the new meter system and amending billing methods accordingly; distributed generation; blending other generation into the Dairyland system; adjusting to the price volatility of electricity that will ultimately result as more reliance is placed upon natural gas as a power source as opposed to coal; and ensuring the Minnesota voice is heard at the Dairyland Board.

What talents/attributes/qualities would you bring to the Board?

Working for years as a small businessman, farmer, township officer, and association board member, I have developed strengths and the reputation for being a "numbers person" who is not afraid to get involved and do the "heavy lifting" needed to meet organizational goals and get the job done.

Why you would like to be elected to the Board?

Being a PEC Director is one way for a strong business leader like myself to give back to the greater community and to do so willingly. It is my opinion that it is very helpful to have individuals serve on the Board who are active in the business community and currently operating a business.



District 7

Joe Jacobson

By Nomination • Stewartville, MN
Cooperative Member for 16 years

Personal: I reside in Stewartville with my wife of 30 years, Brenda. We grew up in southeastern Minnesota and raised four children who are strong in faith and work ethic, and appreciate the outdoors. I have two grandchildren and enjoy spending my free-time with my family, in a deer stand, in a fishing boat or at Best Buy checking out the latest gadget.

Occupation/Career/Education: I began my career in 1986 at Rochester Business Products, later IKON Office Solutions, Inc. As the company grew, so did I, becoming a Major Accounts Manager responsible for 20 people and exceeding \$25 million annual sales goals. In 2007, I became the administrator of a privately-owned business group that includes Rochester City Lines, Richfield Bus Company, Heartland Tours and Travel and Owner's Auto Mart.

Leadership Positions: From a Sales Manager to an administrator of more than 150 people, I have maintained leadership roles for more than 25 years of my career. I have continued to grow in my understanding and leadership of people in addition to my creative problem-solving, and ability to streamline processes.

What issues do you see the Board dealing with in the future? I see increasing buying power as an upcoming challenge for the Board. The Cooperative must balance cost-effectiveness without compromising quality customer service to provide the highest value to its members.

What talents/attributes/qualities would you bring to the Board? I am adaptive to change and have an eye for system and process improvement. With a Six Sigma green belt, I have been trained to identify areas for optimization using statistical analysis rather than guesswork. I also have diverse experience with wages, budgets, information technology, employee standard operating procedures, compliance, insurance, employee manuals, major proposals and social media.

Why would you like to be elected to the Board? As a member of both Southeast Minnesota Together and the Transportation and Communication committee for Journey to Growth, I believe that I could provide insight into the challenges members in this region face. It would be a privilege to help guide the Cooperative to supply clean, safe, cost-effective power to this region, which would act as a catalyst for community prosperity, enabling members to be more connected.



District 7

Theresa Hornberg

By Nomination • Stewartville, MN
Cooperative Member for 1.5 years

Personal: My husband, Brian, and I moved to Stewartville in 2009 where we currently reside with our three children: Graysen (age 5), Alaura (3) and Rayden (7 months).

Occupation/Career/Education: I am a full-time parent as well as a volunteer with First Alliance Credit Union, where I serve on the Board of Directors. Previously, I worked for over four years as the office manager at Goodwill South in Rochester. I have two Bachelors of Science degrees from the UW-La Crosse College of Business Administration (Marketing in 2003; Management in 2006).

Leadership Positions: I have been a member of First Alliance Credit Union's Board of Directors since 2015. I am an active member of Calvary Episcopal Church in Rochester where I have volunteered in many programs. I also serve as coordinator of a local social group.

What issues do you see the Board dealing with in the future? First and foremost, I see the Board continuing to work for fair rates and excellent service for People's Energy Cooperative members. Additionally, I foresee dealing with a number of issues including an aging power infrastructure, changing governmental regulations, evolving technologies and pressures on our service area. I also anticipate having to address the Cooperative's ability to hire/retain high-quality and well-qualified employees in a tight and competitive labor market.

What talents/attributes/qualities would you bring to the Board? I am hardworking, eager to learn and not afraid to express my opinion. I am familiar with the roles and responsibilities of a Board member and am able to balance the wants and desires of customers with the needs of the business.

Why would you like to be elected to the Board? I enjoy supporting member-owned organizations, whether they be power companies, grocery stores, or credit unions. I hope to continue this support within People's Energy Cooperative where I can add my unique viewpoint to the Board. In addition, I look forward to serving as liaison between you (the members) and PEC management and staff.

2016

From The Treasurer:

I am pleased to present the 2016 financial results for People's Energy Cooperative.

The 2016 financial statements were audited by the accounting firm Brady Martz & Associates, P.C., who also audited the *Operation Round Up*® financial records reported on page 16 of this annual report.

In their opinion, the 2016 financial statements present fairly, in all material respects, the financial position and results of operation for People's Energy Cooperative in conformity with generally accepted accounting principles.

Sincerely,



Kenneth Wohlers,
Secretary & Treasurer

Statement of Operations

FISCAL YEARS ENDED DEC. 31, 2016 & 2015

OPERATING REVENUES	2016	2015
	\$45,264,686	\$37,564,272
OPERATING EXPENSES		
- Cost of Power	\$26,308,191	\$21,987,184
- Distribution Expense - Operations	\$2,652,648	\$2,190,967
- Distribution Expense - Maintenance	\$3,459,767	\$2,872,743
- Consumer Accounts Expense	\$1,867,015	\$1,489,911
- Sales Expense	\$76,669	\$59,886
- Administrative and General Expense	\$2,215,137	\$2,076,837
- Depreciation Expense	\$4,419,906	\$3,567,126
- Other Deductions	\$17,929	\$25,457
Total Operating Expenses	\$41,017,263	\$34,270,111
OPERATING MARGINS <i>(before fixed charges)</i>		
	\$4,247,423	\$3,294,161
INTEREST ON LONG-TERM DEBT		
	\$2,803,501	\$2,645,212
OPERATING MARGINS <i>(after fixed charges)</i>		
	\$1,443,922	\$648,949
GENERATION, TRANSMISSION AND OTHER CAPITAL CREDITS		
	\$1,008,783	\$1,063,561
NET OPERATING MARGINS		
	\$2,452,705	\$1,712,510
NON-OPERATING MARGINS		
- Interest Income	\$317,665	\$327,536
- Other Non-Operating Margins	\$552,284	\$629,835
- Extraordinary Items	\$0	\$0
Total Non-Operating Margins	\$869,949	\$957,371
NET MARGINS		
	\$3,322,654	\$2,669,881

18,714 members
in over 22,202 homes and businesses

Balance Sheet

ENDED DEC. 31, 2016 & 2015

assets:
what we own

equities:
our net worth

liabilities:
what we owe

CORPORATE PROFILE

Incorporated on January 1, 1936, People's Energy Cooperative serves 18,714 members in over 22,202 homes and businesses through 2,970 miles of line covering a service territory of 1,090 square miles in Olmsted, Dodge, Fillmore, Mower, Wabasha, and Winona counties. The Cooperative has 29 substations.

Members are served within the communities of Byron, Chatfield, Douglas, Dover, Elgin, Eyota, Genoa, Hayfield, High Forest, Marion, Oronoco, Plainview, Pleasant Grove, Potsdam, Predmore, Rochester, Rock Dell, St. Charles, Salem Corners, Simpson, Stewartville, Theilman, and Viola.

ASSETS	2016	2015
UTILITY PLANT		
- Electric Plant in Service	\$145,628,173	\$133,878,400
- Construction Work in Progress	\$2,075,915	\$1,751,887
Total	\$147,704,087	\$135,630,287
- Less Accumulated Provision for Depreciation	(-)\$33,442,296	(-)\$27,506,992
Net Utility Plant	\$114,261,791	\$108,123,295
OTHER PROPERTY AND INVESTMENTS		
- Investment in Associated Organizations	\$16,406,423	\$14,808,382
- Other Investments	\$3,392,829	\$3,380,386
Total Other Property and Investments	\$19,799,252	\$18,188,768
CURRENT ASSETS		
- Cash and Cash Equivalents	\$4,443,289	\$2,702,161
- Accounts Receivable, Net	\$4,716,199	\$4,227,259
- Other Accounts Receivable, Net	\$157,695	\$1,912,840
- Materials and Supplies Inventory	\$616,376	\$719,570
- Other Current and Accrued Assets	\$1,088,028	\$880,421
Total Current Assets	\$11,021,587	\$10,442,251
DEFERRED DEBITS		
	\$1,319,886	\$1,528,860
TOTAL ASSETS	\$146,402,516	\$138,283,174
EQUITIES & LIABILITIES		
EQUITIES		
- Patronage Capital	\$26,623,403	\$25,294,159
- Other Equities	\$21,691,217	\$20,530,174
- Accumulated Other Comprehensive Margins	(-)\$100,300	(-)\$100,100
Total Equities	\$48,214,320	\$45,724,233
LONG-TERM DEBT (less current maturities)		
	\$87,621,459	\$83,183,539
OTHER NON CURRENT LIABILITIES		
- Accrued Post Retirement Benefits	\$617,600	\$584,300
CURRENT LIABILITIES		
- Current Maturities of Long-Term Debt	\$3,115,771	\$2,253,000
- Notes Payable	\$0	\$0
- Accounts Payable	\$3,698,598	\$3,528,728
- Consumer Deposits	\$345,932	\$275,137
- Other Current and Accrued Liabilities	\$1,869,977	\$1,828,618
Total Current Liabilities	\$9,030,278	\$7,885,483
DEFERRED CREDITS		
	\$918,859	\$905,619
TOTAL EQUITIES AND LIABILITIES	\$146,402,516	\$138,283,174

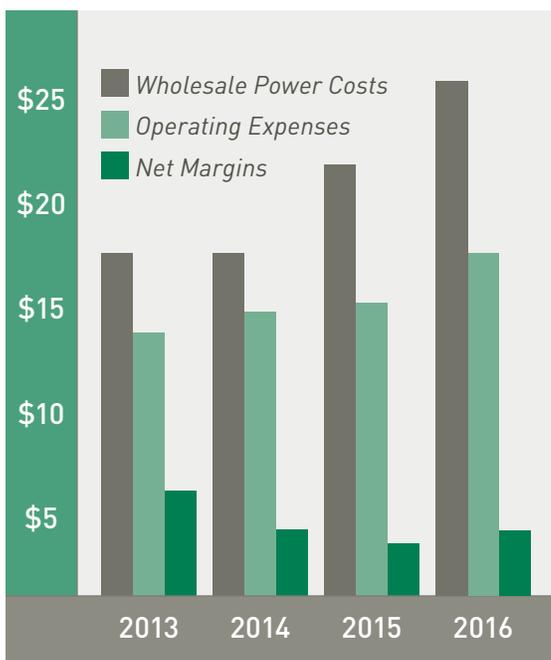
2016

Financial Results (continued)

FINANCIAL DATA & FIVE-YEAR GROWTH COMPARISON					
FISCAL YEARS 2016-2012	2016	2015	2014	2013	2012
TOTAL UTILITY PLANT	\$147,704,087	\$135,630,287	\$112,185,965	\$109,110,499	\$107,533,551
TOTAL REVENUE	\$45,264,686	\$37,564,272	\$33,337,015	\$32,329,108	\$31,020,413
COST OF PURCHASED POWER	\$26,308,191	\$21,987,184	\$17,463,369	\$17,466,514	\$17,156,659
TOTAL MARGINS	\$3,322,654	\$2,669,881	\$3,395,543	\$5,326,299	\$2,511,180
EQUITY RATIO (Equity/Total Assets)	32.9%	33.1%	37.3%	35.9%	34.4%
TOTAL INTEREST EXPENSE	\$2,806,061	\$2,646,650	\$2,669,428	\$2,695,076	\$2,562,593
INTEREST COVERAGE (TIER)	2.19	2.01	2.27	2.98	1.99
SERVICE INTERRUPTIONS (avg hours)	2.35	1.33	5.70	6.23	5.26
FULL-TIME EMPLOYEES	58	51	49	46	50
SERVICES IN PLACE	23,193	22,943	15,979	15,859	15,760
TOTAL MILES OF LINE (incl transmission)	2,970	2,978	2,682	2,681	2,689
KWH SOLD	346,442,407	279,447,683	239,738,922	232,004,338	219,802,448
CAPITAL CREDITS RETIRED	\$868,905	\$902,291	\$841,138	\$799,369	\$807,410

Financial Operating Trends

DOLLAR AMOUNT IN MILLIONS



Financial Report People's Energy Cooperative Trust

FOR THE YEAR ENDED DECEMBER 31, 2016

STATEMENT OF FINANCIAL POSITION: NET ASSETS	
- Cash	\$61,197
- Accounts Receivable	\$8,154
- Accounts Payable	-\$0
Net Assets	\$69,351
STATEMENT OF ACTIVITIES	
REVENUE	
- Contributions	\$100,201
- Investment Income	\$0
Total Revenue	\$100,201
EXPENSES	
- Charitable Giving	\$93,506
- Change in Assets	\$6,695
NET ASSETS, BEGINNING	\$62,655
NET ASSETS, ENDING	\$69,351



People's Energy Cooperative

Your Touchstone Energy® Cooperative 

Nondiscrimination Statement

In accordance with Federal civil rights law and U.S. Department of Agriculture (USDA) civil rights regulations and policies, the USDA, its Agencies, offices, and employees, and institutions participating in or administering USDA programs are prohibited from discriminating based on race, color, national origin, religion, sex, gender identity (*including gender expression*), sexual orientation, disability, age, marital status, family/parental status, income derived from a public assistance program, political beliefs, or reprisal or retaliation for prior civil rights activity, in any program or activity conducted or funded by USDA (*not all bases apply to all programs*). Remedies and complaint filing deadlines vary by program or incident.

Persons with disabilities who require alternative means of communication for program information (*e.g., Braille, large print, audiotape, American Sign Language, etc.*) should contact the responsible Agency or USDA's TARGET Center at 202-720-2600 (*voice and TTY*) or contact USDA through the Federal Relay Service at 800-877-8339.

Additionally, program information may be made available in languages other than English.

To file a program discrimination complaint, complete the USDA Program Discrimination Complaint Form, AD-3027, found online at http://www.ascr.usda.gov/complaint_filing_cust.html and at any USDA office or write a letter addressed to USDA and provide in the letter all of the information requested in the form. To request a copy of the complaint form, call 866-632-9992. Submit your completed form or letter to USDA by:

- (1) mail: U.S. Department of Agriculture Office of the Assistant Secretary for Civil Rights
1400 Independence Avenue, SW
Washington, D.C. 20250-9410;
- (2) fax: 202-690-7442; or
- (3) email: program.intake@usda.gov.

This institution is an equal opportunity provider.

mission

Our mission is to provide reliable electricity to our members and communities with superior customer service and innovative energy solutions at fair and reasonable prices.



People's Energy Cooperative

Your Touchstone Energy® Cooperative 

1775 Lake Shady Avenue South
Oronoco, Minnesota 55960

HIGHLINE HI-LITES • March 2017 • Vol. 81 • Issue 03

Highline Hi-Lites (USPS# 244-720) is published monthly. Special Edition issued in March.

Periodical Postage Paid in Rochester, Minnesota.

Postmaster: Please send address changes to:
*Highline Hi-Lites, 1775 Lake Shady Ave. S.
Oronoco, Minnesota 55960*

MANAGEMENT STAFF

Elaine J. Garry *President & CEO*
Gary Fitterer *Director of Engineering*
Mike Henke *Chief Financial Officer*
Michelle Olson *Director of Member Services*
Troy Swancutt *Director of Operations*
Gwen Stevens *Director of Member & Community Relations*

GENERAL INFORMATION

Office Hours *7:30 am – 4:00 pm, Mon – Fri*
Telephone *507-367-7000*
Toll-Free *800-214-2694*
Web Address *www.peoplesenergy.coop*
Gopher State One Call *1-800-252-1166*
(for digging & line location)

FEELING SOCIAL?



Be sure to visit PEC on Facebook and Twitter for up-to-date news, events, and cost-saving tips and tricks!



GOPHER STATE ONE CALL
This time and every time.

1.800.252.1166

ANNUAL MEETING: WEDNESDAY, MARCH 22, 2017

Special Accommodations

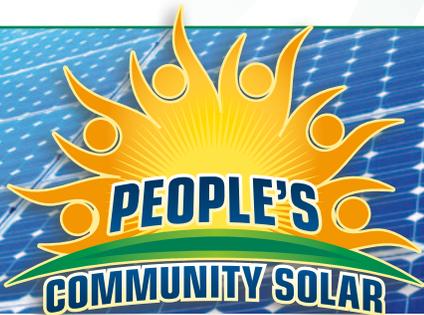
If you have special needs of accessibility, sign language, translation or other assistance, we will do our very best to accommodate you if you make your request by March 10th. Please contact People's Energy Cooperative at 507-367-7000 or email memberservices@peoplesrec.com.

**ROCHESTER INTERNATIONAL EVENT CENTER
7333 Airport View Drive SW • Rochester, MN**

2017 FOOD DRIVE • SUPPORT THOSE IN NEED



Please bring a nonperishable food item or monetary donation with you to the Annual Meeting.



SUBSCRIBE NOW & TAP INTO THE POWER OF THE SUN!

People's Community Solar enables you to harness the power of the sun through a subscription-based renewable program. Panels are available on a first come, first serve basis for \$750 per panel for 20 years and there are two payment options available for your convenience.

For more information, visit our website or call 800-214-2694.