



## BOARD MEETINGS

December 21 – 9:30 a.m.  
at Virginia service center

January 29 – 9:30 a.m.  
at Grand Rapids service center

February 22 – 9:30 a.m.  
at Kettle River service center

*Editor's Note: Co-op events, including board meeting schedules, are posted at [www.lakecountrypower.coop](http://www.lakecountrypower.coop). Go to "Community & Kids" and click "Events."*

## HOLIDAYS OBSERVED

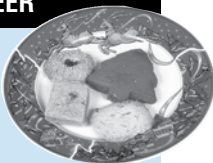
All LCP offices will be closed Tuesday, December 25, for Christmas Day and Tuesday, January 1, for New Year's Day.

If you experience a power outage, please use our IVR (interactive voice response system) during and after normal business hours and on weekends. Our phones are answered 24 hours a day.



## HOLIDAY CHEER

Please stop in our service centers for holiday greetings, Christmas goodies and a warm cup of coffee.



Virginia: Dec. 3 – 7

Grand Rapids: Dec. 17 - 21

Kettle River: Dec. 17 – 21

## Inside

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## Power factor: a closer look at energy costs

Great River Energy is dedicated to providing reliable, competitively priced energy to its 28 member cooperatives, including Lake Country Power. With that dedication comes the need for necessary investments to improve operations, reliability and increase efficiency. Investing in the future today will ensure adequate power supply for years to come.

As a result, Great River Energy anticipates passing on an average rate increase of 8.5 percent to its member co-op systems in 2008. (*Editor's Note: GRE's rate increase to Lake Country Power will actually be closer to 11 percent based on seasonal demand and time of use. It's expected this will account for an additional \$3 million impact to Lake Country Power's 2008 budget.*) There are three primary reasons for the increase in Great River Energy's wholesale rate.

- 1) Regular system maintenance, such as outages for routine plant maintenance, helps ensure the system's reliability. However, when a generation facility is offline for maintenance, Great River Energy must purchase higher priced replacement power from the open market, which is costly. In 2008, Great River Energy will experience an extended outage for approximately 70 days at its primary generation facility in North Dakota.

- 2) Increasing costs to mine coal will also affect Great River Energy's finances in 2008. The coal that is being mined for Great River Energy's North Dakota operations is getting farther away from the plant and deeper in the ground, so the cost of mining that coal is rising. About 25 percent of the overall wholesale power cost increase is related to mining coal next year. The mining industry is also experiencing increases in the cost of the equipment used to mine the coal.

- 3) In 2008, Great River Energy will realize a full cost of ownership for Cambridge Station, a new natural gas peaking plant near Cambridge, Minn. As transmission and generation projects are completed, the impact of rising interest payments is also reflected in the member rate.



## Wholesale Power Cost Rider

The expected increase in the cost of wholesale power planned for 2008 will have a tremendous impact on Lake Country Power and its members. For 2008, we are estimating that the price of wholesale power will be 45 percent higher than what we paid in 2001. Over this time period, LCP has implemented several local initiatives in an effort to absorb the rising cost of wholesale power. This has included reducing operating margins, cutting local costs and expenses, and increasing general service rates.

For 2008, it is expected that Great River Energy's increased price for wholesale power will be passed on to Lake Country Power members through a Wholesale Power Cost Adjustment or "Rider," which will appear on

monthly electric bills. Many utilities across the country and within Minnesota use this strategy to pass on the rising cost of wholesale power.

How will it work? The "rider" will appear on monthly electric bills as an additional line item, and will reflect the additional cost of wholesale power in 2008.

For 2008, it is expected that Lake Country Power's general service rates – the monthly facility charge and the energy charges will be sufficient to cover any local cost increases. We do however, expect to see a slight increase in the prices for the Energy Wise program rates in 2008 to compensate for wholesale power cost increases for controlled heating and cooling programs.

# Subsidiaries: A governance view



**Sherm Liimatainen,**  
Holding Company  
Board President

As president of the Lake Country Power Holding Company, I believe it's important to keep members informed on the results of the cooperative's subsidiary operations, which are operated independently of

Lake Country Power.

That is one reason we have asked the managers of the co-op's for-profit subsidiaries to submit year-end updates in this issue of *Newsline*. The three companies, Lake States Tree Service, Lake States Construction and Shelter Companies, operate in different for-profit business environments, but their ultimate purpose is the same - deliver added value to members.

That's an important and challenging objective for the subsidiaries: to maximize value to Lake Country Power members, while also limiting the co-op's exposure to risk.

Financially, we expect the subs to be profitable in 2007, but Shelter


Companies will declare a non-cash goodwill impairment of \$627,215, which is in accordance with a 2001 financial accounting standards rule change related to the amortization of goodwill. The write down reflects the fact Shelter didn't meet projections because of a downturn in housing and construction markets.

This doesn't mean we've had to write actual impairment checks. The write-down appears on-paper only. It hasn't affected the operations or cash flow of either the cooperative or the subsidiary businesses.

## The next step

Each of the subsidiaries faces fierce competition and a challenging business environment. As directors, we are constantly aware of, and concerned about, the risk. But we also feel we have confident leaders who are executing solid business plans as well as the proper level of oversight with the subsidiary boards reporting to the Holding Company.

Ultimately, our goal is to see the subs contribute to a point where the Lake Country Power Board can debate

how to address or use dividends on an annual basis. That comes back to the core challenge of increasing value to co-op members while also limiting the potential for risk. It's not an easy task, but the bar has been set in the effort to maximize the value of the subsidiaries for co-op members. 

## Lake States Tree Service:

Tree removal, right-of-way clearing and complete vegetation control programs for commercial customers. Headquartered in Grand Rapids, Minn.

## Lakes States Construction:

Underground and overhead power line construction for electric utilities. Headquartered in Grand Rapids, Minn.

## Shelter Companies:

Distributor and wholesaler of air quality products to homeowners, builders and subcontractors. Shelter sells ventilation equipment and specialized energy-efficient building products that improve a home's indoor air quality. Headquartered in Burnsville, Minn.

## SUBSIDIARY UPDATE

# Shelter Companies business recap of 2007



**Dan Miller, CEO**  
Shelter Companies

Shelter Companies' key business driver is to provide the highest quality products and services to make homes and buildings healthier and energy efficient. Shelter's board of directors and employees continue

to focus the company's efforts on expansion into new markets, adding new Energy Star products and providing Lake Country Power members with energy-saving programs and product rebates.

One of the key successes for 2007 has been the rapid growth of our industry's award-winning Westinghouse


heating and air conditioning systems. The Westinghouse product line includes air-source heat pumps, ten-year warranties and the industry's highest-rated air conditioners - 21 SEER. The product line is supported throughout Lake Country Power by trained professional contractors and comes with a money-savings rebate exclusively for Lake Country Power members.

We also saw the success of the LG "Art Cool" ductless air conditioning line for homes and cabins that use radiant heat sources. The LG "Art Cool" product was one of the best new product introductions for Shelter and continues to sell strong well into the fall season.

We also added the Thermolec line of quality electric boilers and plenum heaters to take advantage of Lake

Country Power's Dual Fuel rate, providing even more savings for members. Also, look for great energy savings and rebates on the other products we carry including Marathon electric water heaters, Santa Fe dehumidifiers, Venmar whole-house ventilation products and Honeywell thermostats and humidifiers.

This continued focus on new markets, new products and programs for the co-op have helped the company weather through the prolonged downturn in residential new construction and has positioned Shelter well for continued value and added growth.

For more information about Shelter Companies, our products, our programs or our services, please visit us at [www.sheltersupply.com](http://www.sheltersupply.com) or call us toll-free at 1-800-762-8399. 

# A Subsidiary snapshot of 2007



**Scott Larson, LSC and LSTS General Manager**

Lake States Construction and Lake States Tree Service are subsidiary businesses owned by Lake Country Power since the late 1990s. Both companies are reporting a successful year and working to meet and achieve the goals established in the five-year business plan.

The companies are committed to ensure Lake Country Power receives a return on its investment through the subsidiary portfolios.

## Lake States Construction

The construction company is working hard to meet contractual deadlines for Lake Country Power and another electric cooperative in northwestern Minnesota where the project focus is a transmission line. LSC provided storm assistance to Lake Country Power this summer during several major power outages and the company expects to finish 2007 with a strong safety record.

The company currently employs about 30 people. In order to meet the company's

long-term growth strategy, we are diligently looking at recruitment methods that are "outside-the-box" to attract and retain lineworkers. The market is currently very competitive for lineworkers. Due to the shortage of lineworkers, the company expects to be short on revenues in 2007.

Aside from its staffing challenges, the company has been doing more construction jobs for Lake Country Power in an effort to help the co-op finish its automated meter reading project by year-end.


## Lake States Tree Service

The tree service is meeting and achieving its financial goals in sales and profitability. The company has a strong workload with Lake Country Power, as well as other cooperatives and investor-owned utilities in Minnesota and Wisconsin. About 30 percent of its revenue is with Lake Country Power, which will save the co-op more than \$100,000 in sales tax this year.

Like construction, tree service employees are working safer too. There's been a reduction in work place injuries.

The tree service is also faced with the challenge to attract and retain quality employees. We currently have 117 employees. Interested individuals can obtain an

application by calling 218-326-5872 or visiting the subsidiary section of Lake Country Power's web site at [www.lakecountry-power.coop](http://www.lakecountry-power.coop).

In closing, the employees are working well together under one building, which has reduced our overhead costs and achieved other cost savings in multiple areas. I thank Lake Country Power for its business and the board's support to help make both companies strong and profitable. 

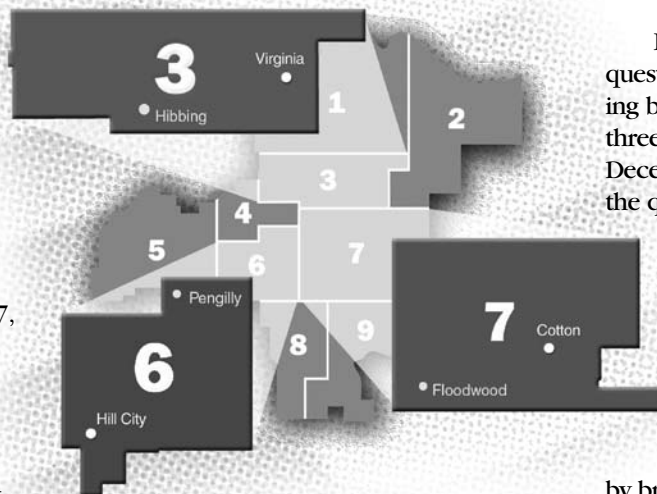
## What's small, but uses lots of electricity? Electric space heaters!

With the rising cost for heating fuel this winter, some members are turning to electric space heaters for supplemental heat. However, these space heaters use a lot of electricity and can quickly rack up your monthly electric bills. Just one 1,500 watt space heater that runs 24 hours for 30 days will cost more than \$99 to operate. Before using space heaters, talk to our member service department. We have alternative options so you don't have to be surprised by high electric bills caused by electric space heaters. Call us today at 800-421-9959.

# Election process underway

The nomination process for Lake Country Power board of director positions begins December 11, 2007. The three-year board terms of George Harvey in District 3, Don Simons in District 6 and Richard Wallin in District 7 are expiring. Any Lake Country Power member who has voting rights in Districts 3, 6 and 7, and is interested in seeking nomination for the board of directors should follow these procedures:

1. Complete a qualification questionnaire confirming you meet all qualifications for director as described in Article III, Sections 2 of the Bylaws of Lake Country Power.




2. Submit a nomination petition signed by 15 Lake Country Power members. If a husband and wife have a joint membership, it will be counted as one signature.

3. Submit a board candidate biography of no more than 180 words in length.

Nomination petitions, qualification questionnaires and instructions regarding biographies will be available at all three service center locations beginning December 11. The deadline for submitting the qualification questionnaire, nomination petition and biography form is February 8, no later than 4:30 p.m.

The notice of the annual meeting and ballots for electing directors will be mailed to all members of Lake Country Power on or before April 1.

Members may vote by mail or by bringing their ballot to the annual meeting on April 19 at the Lincoln Junior High School Auditorium in Hibbing, Minnesota. If you have questions regarding the director elections or annual meeting, please contact Tami Zaun at 1-800-421-9959, ext. 7152. 

# Need energy assistance?

In 1991, the Minnesota Legislature passed a law that includes electric cooperatives in the Cold Weather Rule.

The law provides that utilities must not disconnect and must reconnect the utility service of a residential customer during the period between October 15 and April 15 if the disconnection affects the primary heat source for the residential unit and certain conditions are met.

For details, visit [www.lakecountry-power.coop](http://www.lakecountry-power.coop) (Go to "My Account" in the secondary navigation area and then click "Heating Assistance Providers."). Or you may contact Lake Country Power with questions about the Cold Weather Rule.

## Heating Assistance Providers:

AEOA, Virginia	800-662-5711
Aitkin County Social Services, Aitkin	800-328-3744
Bi County CAP	800-332-7161
Carlton County Human Services, Cloquet	800-642-9082
Cass County	888-547-1340
Fond Du Lac Reservation, Cloquet	218-878-2668 or 878-2603
Itasca County Social Services, Grand Rapids	218-327-2941

Kootasca Community Action Council, Grand Rapids . . . . . 800-442-0312

Lake County . . . . . 218-834-8400

Lake & Pines Community Action Council, Mora . . . . . 800-832-6082

Leech Lake . . . 218-335-3783 or 866-864-8668

Legal Aid Service . . . . . 218-749-3270 or 800-886-3270

Mille Lacs Band, Onamia . . . . . 320-532-4163 or 888-622-4163

Pine County Social Services, Sandstone . . . . . 320-629-5600

Salvation Army, Cloquet . . . . . 218-879-1693

Salvation Army, Duluth . . . . . 218-722-7934

Salvation Army, Hibbing . . . . . 218-263-5096

Salvation Army, Virginia . . . . . 218-741-1889

St. Louis County Social Services, Duluth . . . . . 218-624-7625 or 218-729-5509

St. Louis County Social Services, Ely . . . . . 218-365-8220

St. Louis County Social Services, Hibbing . . . . . 218-262-6000

St. Louis County Social Services, Virginia . . . . . 218-749-7137

## CONDENSED BOARD MINUTES

### September 21, 2007 Regular Monthly Meeting

#### The following reports were given:

President Bruckbauer reported he attended two building committee meetings and attended the Great River Energy member meeting.

Holding Company President Sherman Liimatainen said that between the three subsidiaries, they've conducted business in seven states in 2006. Liimatainen also said it's been recommended the write-down of the remaining goodwill on the books of Shelter Companies, about \$630,000, take place.

General Manager Lemonds stated that Great River Energy reported being \$10 million over budget, demand is 4 percent over 2006 and energy is 5 percent over 2006. Lemonds

also reviewed business strategies that Northland Connect is pursuing to maintain positive cash flow.

#### The following actions were taken:

Approved Directors Hankner and Simons to attend the North Star Electric annual meeting October 12.

Approved to amend the 2007 budget to include an additional \$500,000 for the right-of-way program following the wide spread power outages that occurred August 27 and 28.

*Editor's Note: These board minutes have been condensed. A full copy of the board minutes can be read at [www.lakecountrypower.coop](http://www.lakecountrypower.coop) in the "Member's Area." You'll need to sign up for access if you haven't already. Or call 800-421-9959 for a printed copy.*

## Consolidated Operating Statement

### Year-to-Date – September 2007

(Preliminary and un-audited – prepared for *Newsline* prior to board acceptance)

	2007	2006
Electric Operating Revenue	\$46,007,903	\$41,965,587
Cost of Purchased Power	\$23,721,466	\$21,392,453
Distribution Expense —		
Operations and Maintenance	6,028,568	5,522,659
Consumer Accounts Expense & Informational	2,028,101	1,743,814
Administrative and General Exp.	3,150,686	3,307,606
Depreciation, Amortization and Interest Expense	9,035,158	7,738,648
<b>TOTAL ELECTRIC OPERATING EXPENSES</b>	<b>\$43,963,979</b>	<b>\$39,705,180</b>
Net Electric Operating Margins	2,043,924	2,260,407
Non-Operating Margins	714,431	198,177
<b>TOTAL MARGINS BEFORE SUBSIDIARIES</b>	<b>\$2,758,355</b>	<b>2,458,584</b>
Net Income (Loss) from Subsidiaries (reported quarterly)	(149,431)*	(27,000)
<b>TOTAL MARGINS</b>	<b>\$2,608,924</b>	<b>\$2,485,584</b>

\* Note: Reflects an asset reduction charge of \$627,215 in accordance with a 2001 financial accounting standards rule change related to the amortization of goodwill.

Editor's Note: These financials are condensed. A complete set of financials can be viewed at [www.lakecountrypower.coop](http://www.lakecountrypower.coop) in the "Member's Area." You'll need to sign up for access if you haven't already. Or call 800-421-9959 for a copy.

## AMR INSTALLATION UPDATE

The installation of automated meters is nearly complete. Visit [www.lakecountry-power.coop](http://www.lakecountry-power.coop) for an update about the project. The article is posted under the red "News & Information" tab. Click "News Releases."



## Newsline

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Editor: Tami Zaun

[tzaun@lakecountrypower.com](mailto:tzaun@lakecountrypower.com)

**Lake Country Power Service Centers:**  
Grand Rapids • Kettle River • Virginia  
800-421-9959

[www.lakecountrypower.coop](http://www.lakecountrypower.coop)

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