Polk-Burnett Electric Cooperative 82nd Annual Meeting
July 8, 2020

Member Q&A Forum with General Manager Steve Stroshane

Why is your monthly service availability charge more than other cooperatives or neighboring utilities? What not have a higher per kWh energy charge?

Whether you are a cooperative or an investor owned utility (IOU) like Xcel or Northwestern (NWE), the cost to build, operate, and maintain a mile of line is about the same. What matters is the density of the customer base (customers/mi) and the type of customer. See the table below for the density comparison. The table shows the three utilities that serve Polk County. Xcel and Northwestern serve all the high-density areas through the Cities and Villages. Polk-Burnett serves in the rural towns except for the top of the hill in St. Croix Falls and north of the Village of Siren

Description	Xcel	Northwestern	Polk-Burnett
Customers	260,217	14,300	20,722
Miles of Line	10,463	967	3,410
Density (cust/mi)	24.9	14.8	6.1

Furthermore, making comparison between utilities is difficult because of the type of consumer. The IOUs serve the municipalities that not only have greater density but also larger commercial and industrial customers. In contrast, 40% of Polk-Burnett's 20,722 customers are seasonal cabins meaning the residences are vacant with minimal usage most days of the year, yet our facilities need to be sized and maintained for any hour of the day if they decide to visit their cabin. ***This is the primary reason for the difference in the monthly service availability charge. All the infrastructure must be installed and ready 24/7/365 in case anyone needs power, yet the cost is only shared by 6 customers per mile (a density 24% of Xcel and 41% of NWE).*** Decreasing the monthly service availability charge and shifting it to a per kWh energy charge significantly cost shifts to full time members and greatly benefits the seasonal members.

Why is the service availability charge so high?

The service availability charge is set based on what it takes to establish and maintain the lines just to have access to a source of power. It doesn't matter how often you use the power or how much you use. The lines have to be there 24 hours a day, 7 days a week. They are all fixed costs, as is all of the infrastructure from the power plants, transmission lines, and substations to get the power from the generating plants to your home. All of this infrastructure has to be in place even before you flip a switch to turn on the lights. The service availability charge to all of our single-phase services doesn't care if you are a seasonal resident, a full-time resident, or a telephone pedestal. The lines have to be there no matter how much power you use. Polk-Burnett performs a study to calculate this value and then sets rates based on the study results. The service availability charge to three-phase, commercial customers is different and their rates are also structured different. However, the number one goal is minimizing subsidization and to be as fair as possible in allocating our costs. In addition, as discussed in the previous question on rates, density matters. If you only have six customers per mile sharing in the cost of that line versus 14 customers or 25 customers, the costs are different.

How do your rates compare to others?

When you compare Polk-Burnett to the other cooperatives in the state and the major IOUs, we rank near the top of the monthly service availability charge but when you look at the average monthly bill using our average monthly usage of 1,000 kWh, we are much more competitive (bottom 30% in the state). See the attached Chart 1 and 2. Again, density and the amount of commercial loads are large factors. Note: Utility 1 in Chart 1 is not the same as Utility 1 in Chart 2.

Chart 1

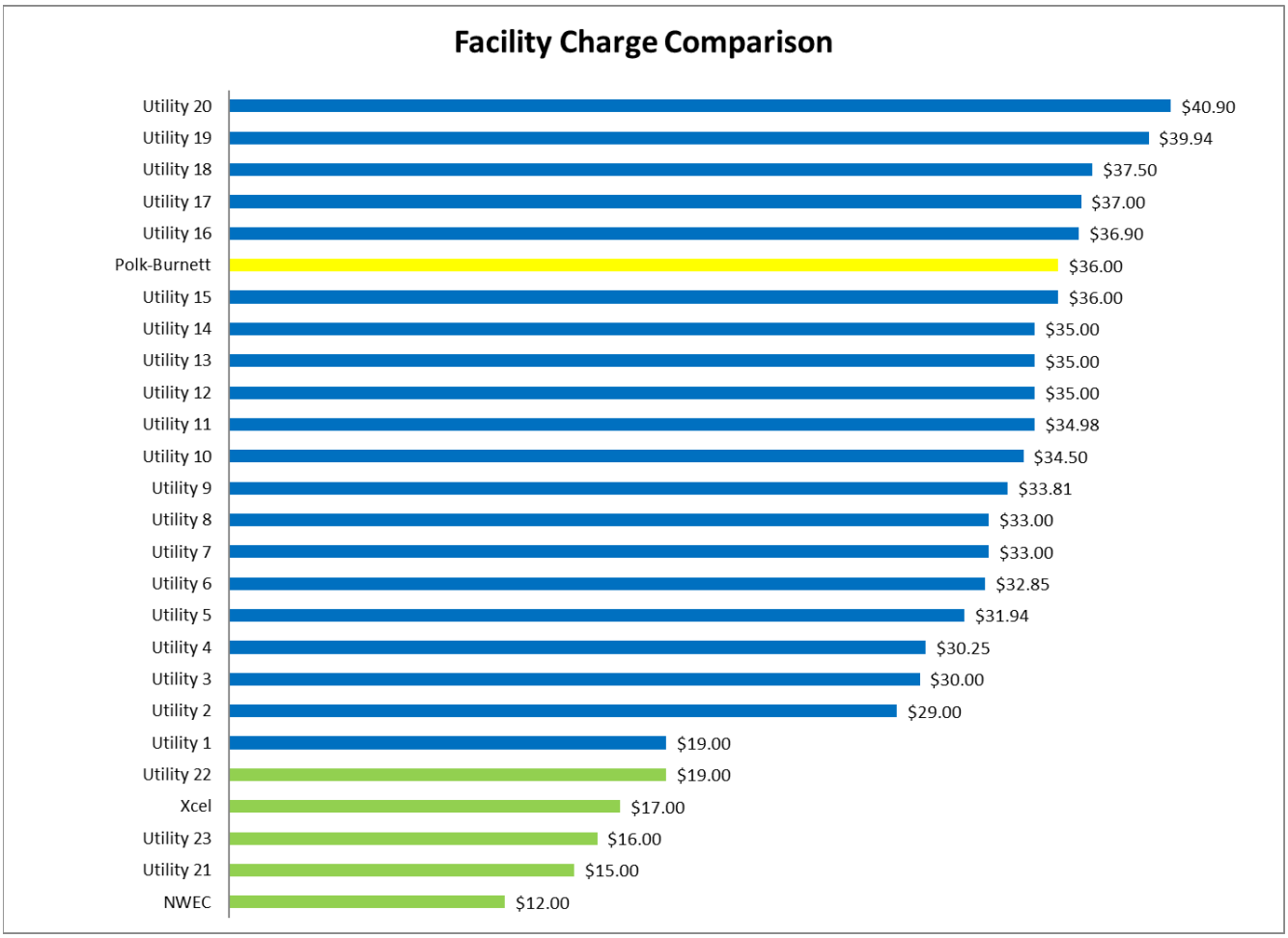
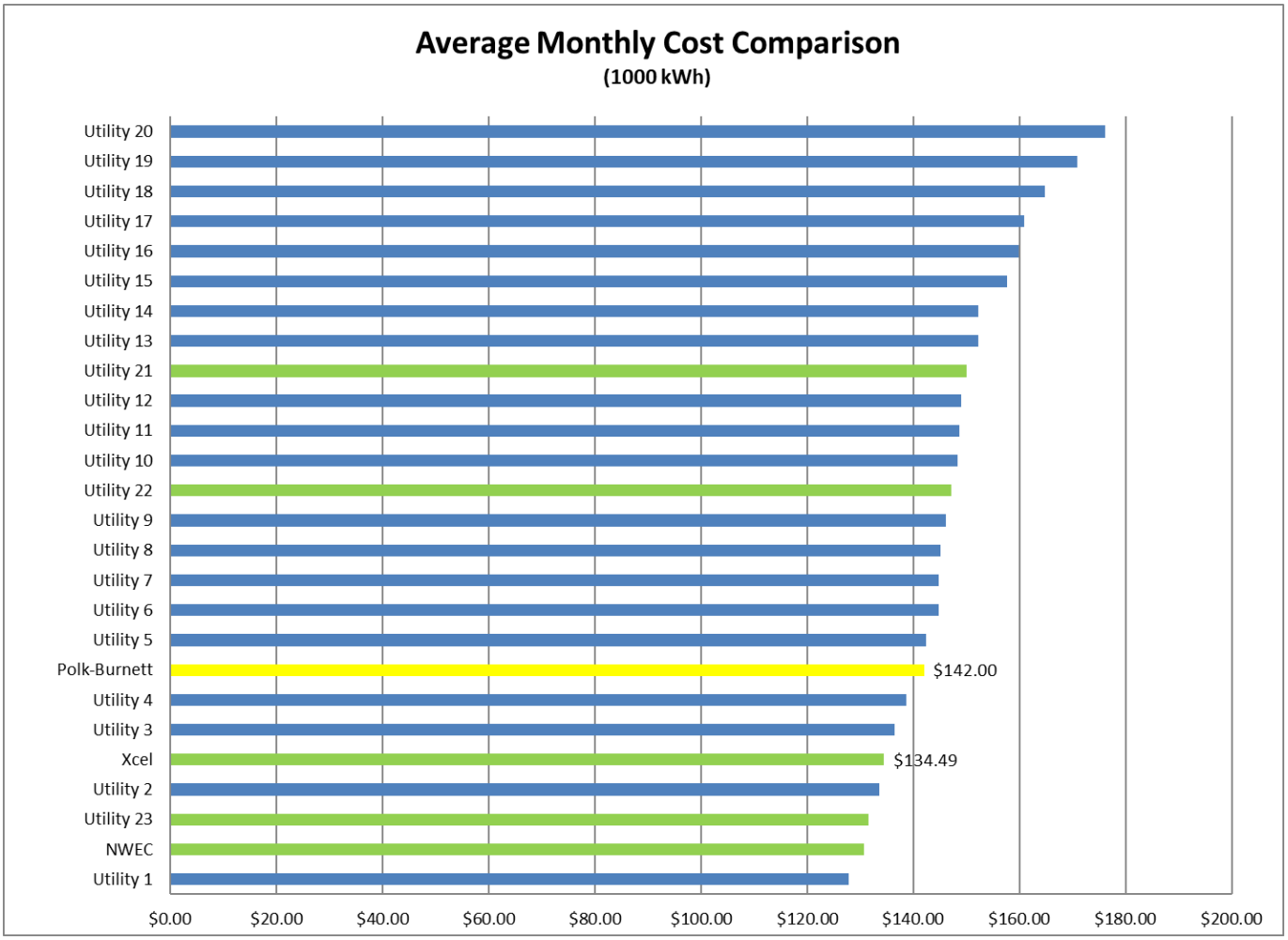


Chart 2 shows that with Polk-Burnett's currents rates and the average monthly usage, its total cost is very competitive even with much larger and diverse investor owned utilities.

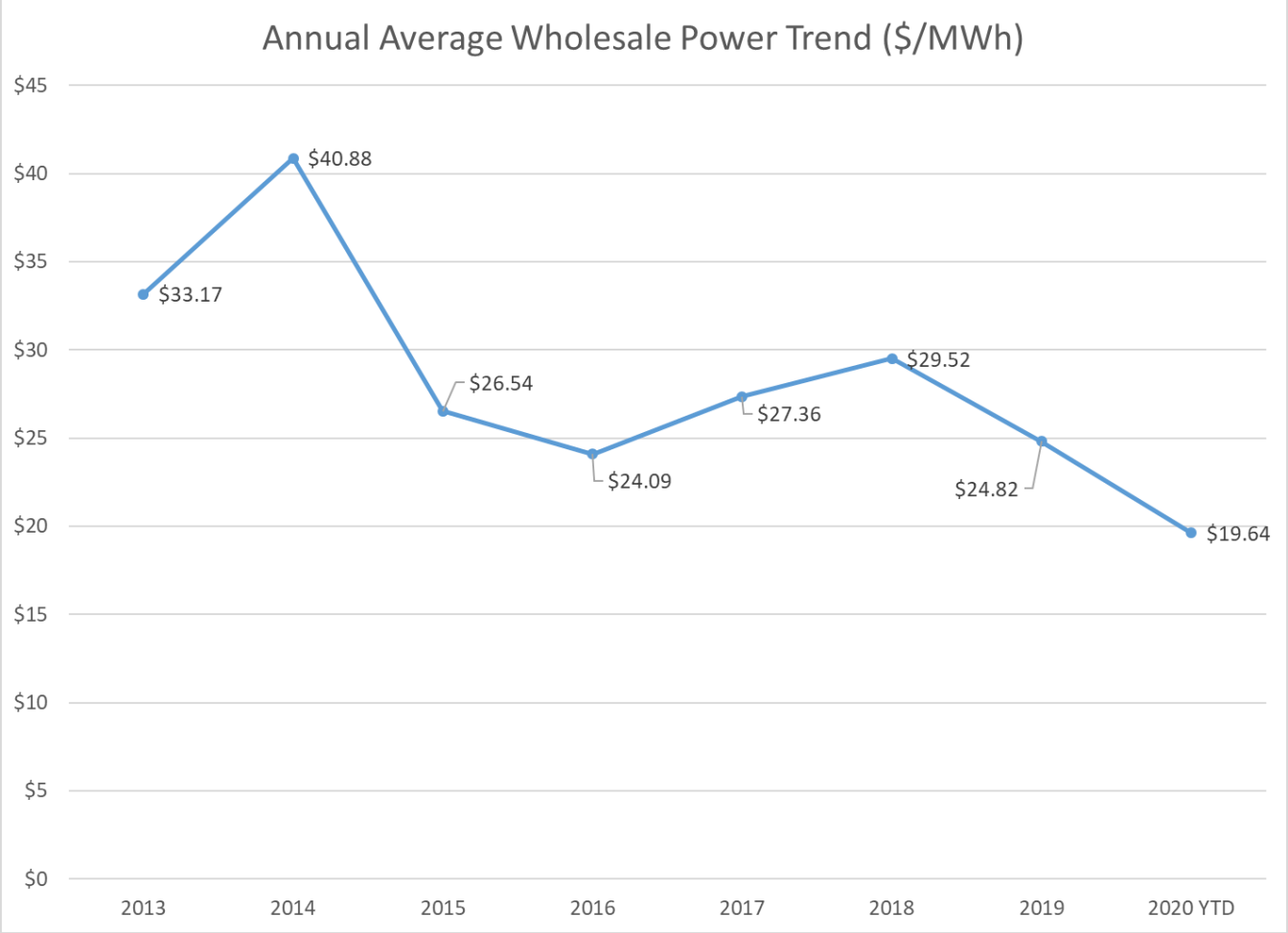
Chart 2



Why don't they keep eliminating coal plants?

The number of coal plants in service continues to decline. One primary reason for this is the amount of generation available in the wholesale power market. The cost to run baseload coal plants is greater at times than other options and thus the coal plants run less and less. However, the baseload plants are still needed at times of peak load which can often occur when renewable generation is not present. A good example of this was the last polar vortex event. It was -20 degrees, which was below the operating parameters of the wind generators, so they were not running. It had recently snowed and was cloudy so the solar plants were not producing and thus, the base load plants were required. However, they are becoming less economical to run and is even more prevalent with the current market during the pandemic. With business activity decreased resulting in less demand yet still the same amount of supply, the market price has decreased. You can see the trend in the Chart 3 below.

Chart 3



Why doesn't Polk-Burnett payback more for excess renewable generation?

This is a very common question we receive. We are often asked why we don't pay full retail price for excess energy from a home. We try to be as fair as possible to all our members while still supporting renewable energy. Currently, we buy excess energy at the same price Dairyland Power Cooperative (our power supplier) buys it at from the wholesale power market. The power market prices have been falling (see Chart 3 above) and thus, the price we pay for excess renewable energy. We don't pay full retail rate for the excess because it would have to be subsidized by all the other members. As we do surveys, the number one concern of our members is ***rates*** so paying above market rates for excess energy generated would cost other members more money.

How come Polk-Burnett doesn't allow seasonal members to be on the board?

Just like a local school board or town board, you must have permanent residency in the district to be a member of the board of directors. Seasonal members still can vote in the director elections and

member meetings, but they cannot be on the board. Polk-Burnett's board of directors has reviewed this question multiple times over the past five years and just recently reviewed it again as part of an overall examination of its governance practices.

As a cooperative, Polk-Burnett is governed by a board of directors elected by the members. We have nine directors, representing nine districts. Directors serve three-year terms and attend monthly meetings. Board responsibilities include:

- Setting the co-op's mission, vision and values
- Developing policies
- Maintaining legal, regulatory and internal compliance
- Setting electric rates
- Approving the annual budget and system improvements
- Hiring the general manager and evaluating performance

Directors represent the best interests of all members when making decisions for the co-op, and our leaders respond to local issues–such as economic development and renewable energy–with hometown values. When decision makers are local and elected by members, you can be certain our local community is represented. Co-op directors live in the communities we serve and want to see our local communities thrive.

How did the electric system perform with the recent heat wave and what caused the outage to the McKinley area over the weekend?

The electric system experienced peak loads 25% higher than last summer and 6.5% higher than the previous highest peak from 2012 resulting in significant demands on the system. We experienced a couple transformer overloads and a small storm caused a few outages on Monday, July 6. However, at 8 pm on July 3, a substation east of Balsam Lake experienced a one-hour outage resulting in a loss of power for 3,500 members. On July 4 at 12 pm, another one-hour outage occurred at the same substation. In both cases, the cause of the problem has yet to be discovered. While the substation was heavily loaded, it was not overloaded. Polk-Burnett's Operations Department and Dairyland's engineering staff continue to search for the cause.

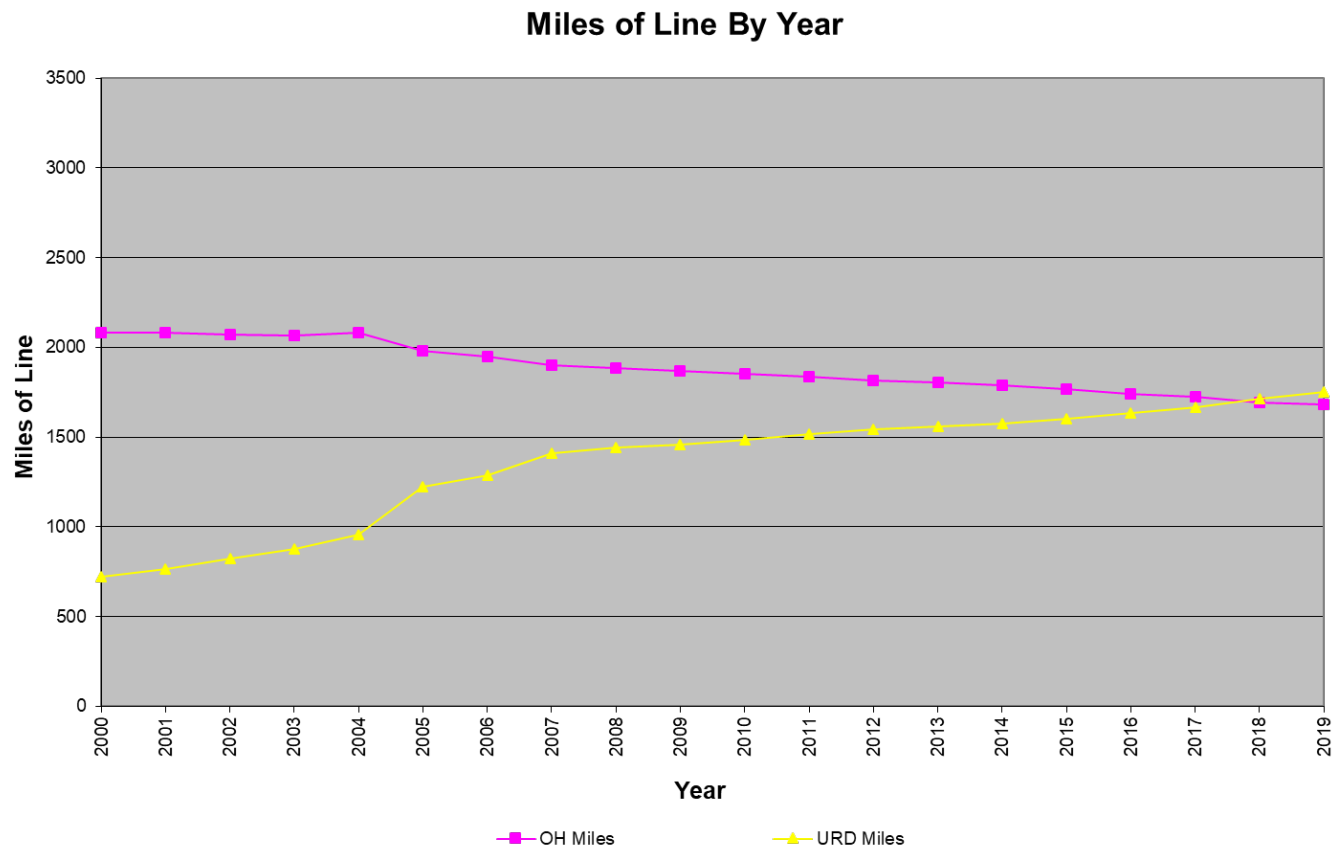
What was the purpose of filing a lien on the property of your top 100 customers? I understand that many of our local farmers received a letter regarding this.

When the pandemic started and the states shutdown non-essential businesses, the health of the overall economy was uncertain. All members of Polk-Burnett are bound by our bylaws. The bylaws today have an unsecured lien on capital credits for every member. This language allows Polk-Burnett to offset any unpaid balances with a member's capital credits. Example. Member A moves out and doesn't pay his/her last bill of $100. Instead of all 20,000 members having to take that loss, the bylaws allow Polk-Burnett to use Member A's accumulated capital credits to offset the loss. So, that language exists in the bylaws today as a way of protecting all 20,000 members from someone that refuses to pay their bill. However, it is *unsecured* meaning if someone were to file bankruptcy, a secured creditor could get in line ahead of Polk-Burnett and claim the capital credits and thus, we wouldn't have any recourse to use

the capital credits for any unpaid bill. During the last recession (2008-2010), one of our top users filed for bankruptcy and we took an $18,000 loss on it. Our normal write-offs for a year are only $14,000-$18,000 so one large bankruptcy could double our write-offs. Given the economic uncertainty at the beginning of the pandemic, management thought it to be a prudent step to protect our 20,000 members and file a form to "secure" the capital credits on our top 100 members of which 20% were dairy farmers. Again, we already have an unsecured lien today so the only difference is another lender, in the event of a bankruptcy could not get access to the capital credits (i.e. be ahead of us in line). Filing this form did not put a lien on any tangible property and only secured a lien that we already have today.

Why are we spending money on overhead lines and not using all underground?

We believe our overhead to underground conversion program has had positive impacts on reliability and aesthetics. However, it is still necessary to maintain and rebuild overhead lines. Installing underground is not practical in some areas and it may cost more. In addition, when it comes to carrying large amounts of power between substations, overhead lines are more cost effective. Every year when the construction plan is developed, an evaluation process is performed considering many factors. The trend in the following chart clearly illustrates Polk-Burnett's preference and trend and we believe we will continue to convert more miles of overhead line to underground.



How many electric vehicles are using off-peak?

We have about 30 electric vehicles (EV) using off-peak charging today. This is an area that we believe we will continue to see growth as the market continues to evolve. Presently we offer a $400 rebate for an EV charger put onto off-peak electric service. https://www.polkburnett.com/e-vehicle-charger

Thank you for the scholarship program.

While not a question, I agree this is one of the great programs Polk-Burnett can offer to the sons and daughters of our members using unclaimed capital credits. New this year is the ability for members to donate their capital credits to the scholarship program. It's a great way to support the next generation of leaders in our area. https://www.polkburnett.com/donate-capital-credits-polk-burnetts-scholarship-fund

How much input do co-ops have in Dairyland's decision making?

Like Polk-Burnett, Dairyland is a cooperative governed by a representative of each of its 24 member cooperatives. Ed Gullickson, Polk-Burnett's board president, is our representative and has also been elected Board President of the Dairyland Board. It is important to have a voice in how Dairyland is managed because power supply expenses are $0.57 of every dollar of revenue we collect.

La Crosse-based Dairyland Power Cooperative is Polk-Burnett's wholesale power provider. As a distribution cooperative, we do not generate power.

Thank You Members

Polk-Burnett's Board, management team, and all the employees would like to thank our members for your support. We have worked hard to not have an increase over the past 10 years while improving reliability by 55% and increasing levels of customer service. We hope to build upon these improvements as we try to automate our substations to reduce outage time and give our members more convenient ways to interact with us. Once again, thank you for your support.