



BOARD BULLETIN

2012 CIPCO Power Supply Report From Allen Albers

As the electric utility industry moves from being commodity-driven to customer-driven, the light switch is symbolic of our business—it puts power in the hands of the consumer. We all expect electricity to be there at the flip of a switch to light our homes and businesses, charge our cell phones, heat and cool room temperatures, and operate computers, televisions, and any number of household appliances. My job, as an elected cooperative director, is to worry about everything behind the light switch so you can enjoy the convenience of power at your fingertips.

In addition to serving on the ECI REC board of directors, I also serve on the board of Central Iowa Power Cooperative (CIPCO), East-Central Iowa REC's wholesale power supplier. CIPCO manages a fleet of electric generation facilities and nearly 2,000 miles of high voltage transmission lines to deliver reliable electricity to its 13 member cooperatives and associations.

The power resources of CIPCO comprise a balanced and diverse mix of traditional and alternative fuel sources including coal, nuclear, wind, hydro, and natural gas. Today, over 95% of our electricity is generated from units owned by CIPCO or from long-term contracts, which means our market exposure is limited and prices more stable. Recent contract purchases from Iowa-based wind farms push our generation from carbon-free and emissions-free resources over 50% of our total portfolio.

One of the board's biggest decisions involved retiring Fair Station, a 52-year-old coal power plant in Montpelier, Iowa, later this year. The 66-megawatt plant has been a reliable source of electricity since

CIPCO purchased it in 1982. However, a recent evaluation of the plant concluded it is no longer efficient to operate given today's energy markets and intensifying federal regulations.

A key part of keeping your lights on requires significant capital investment in technologies to improve the dependability of the transmission system. Over time, weather conditions, tree branches, and normal wear can take a toll on aging lines. CIPCO implemented a new-to-replace-old program years ago to methodically reinvest in transmission infrastructure to maximize reliability and efficiency. As a result, CIPCO members experienced the lowest average transmission outage time in seven years with an average rate of 0.45 hours per customer.

In an industry facing tremendous market and regulatory pressures, CIPCO remains financially strong and cost competitive as affirmed by Standard & Poor's recent "A" credit rating. Electric sales reached 2.76 million megawatt hours in 2012 and set a new record peak demand in July of 610 megawatts. The average system rate of 65.60 mills per kilowatt hour was up slightly from the prior year. CIPCO

ended the year with a healthy margin of \$23.94 million, which resulted from higher-than-expected sales and expenses coming in under budget.

One important benefit of cooperative membership is any profits or excess revenue is credited back to members in patronage dividends. The CIPCO board recently authorized \$20 million in patronage allocations for 2012. The board also approved payment of the 1997 deferred patronage allocation of \$1.8 million and a 2012 patronage allocation of \$4.7 million to members. Since forming in 1946, CIPCO has paid out a total of \$41 million in patronage to its members.

Going forward, the cost of any type of new electric generation will be higher than what we have today, which means your electric bill will likely increase. We understand the strain that puts on your home or business, and we are doing our best to manage the cooperative in a way that keeps electricity affordable now and well into the future. Our commitment is to deliver the lifestyle you expect at the flip of a light switch by providing superior value through cooperative membership.