

2023 ANNUAL REPORT

POWERING PROGRESS WITH IMPACT





As we embark on another year of serving our member-consumers and our community, I am honored to present the Stearns Electric Association Annual Report, a reflection of the collaborative efforts and achievements of 2023. This report proudly showcases the impact we have made in the areas that matter most to us – reliability, financial health, member experience, community involvement, safety and culture.

Our unwavering dedication to you, our member-consumers, is the cornerstone of our mission. Providing reliable electricity is not merely a service but a testament to the profound impact we have on individuals' daily lives and the prosperity of our communities.

In 2023, our focus on future preparedness took center stage. Strategic evaluations addressed energy opportunities, facility needs, property taxes on distribution infrastructure, rates and reliability. We implemented new technologies and forward-thinking strategies to enhance operational efficiency. Upgrading infrastructure, improving technology and managing costs efficiently were key highlights for the year, ensuring reliable electric service now and in the future.

Our impact extends beyond providing electricity, emphasizing a deep-rooted commitment to community service and empowerment. Through diverse outreach programs, we aimed to make a meaningful difference in the lives of those we serve. Whether supporting local causes, forging community partnerships or actively participating in economic development initiatives, our Cooperative and employees continued to make a positive difference in the places we call home.

As we review the achievements and challenges of the past year, let us celebrate the strides we have made together. Looking forward, we are energized and inspired to continue making a lasting impact in the areas that matter most to our community.

Thank you for your continued support.

Matt O'Shea, Chief Executive Officer

KEY FIGURES

MISSION

To safely provide competitively priced and reliable electric service, beneficial energy solutions and a positive member experience.

MEMBER-CONSUMERS
28,413

MEMBERS
PER MILE **6.8**

68 DEDICATED
EMPLOYEES

7 COOPERATIVE PRINCIPLES

1. Open and Voluntary Membership
2. Democratic Member Control
3. Members' Economic Participation
4. Autonomy and Independence
5. Education, Training and Information
6. Cooperation Among Cooperatives
7. Concern for Community

TOTAL MILES OF LINE
4,228

MILES OF
OVERHEAD LINE
2,581

MILES OF
UNDERGROUND LINE
1,647

SERVICE AREA
2,000+ SQ. MILES

FOUNDED
1937

VISION

Stearns Electric Association is a critical asset to our members and our communities.

9 MEMBER-ELECTED
DIRECTORS

WORK PLAN INVESTMENT
\$6,146,155

NEW
SERVICES **261**

33
SUBSTATIONS

VALUES

1. Dedicated Service to our Member-Consumers
2. Adherence to Cooperative Principles
3. Respect for Others
4. Meaningful Community Involvement
5. Sound Business Ethics
6. Commitment to Employee and Public Safety
7. Accountability

TOTAL REVENUE
\$65,039,772

TOTAL
MARGINS
\$5,985,270

SYSTEMS ON
LOAD CONTROL
25,809

REBATES
TO MEMBERS
\$306,621

CAPITAL CREDITS
RETIRED
\$2,701,122



2023 COOPERATIVE EMPLOYEES



Average tenure of employees in 2023 was 10.8 years.

2023 MEMBER-ELECTED DIRECTORS



GREG BLAINE

District 1



ARLYN LAWRENZ

District 2



MICHAEL CRAMER

District 3, Secretary/Treasurer



RANDY ROTHSTEIN

District 4, Vice President



JEFF KOEHLER

District 5



BOB NIEHAUS

District 6



SCOTT DIRKES

District 7



ERIC PETERSON

District 8, President



JERRY FRIES

District 9

Average tenure of the Board in 2023 was 7 years.



2023 STRATEGIC HIGHLIGHTS

The energy industry is ever-changing and 2023 was no different. We continue to build on the strong foundation the Cooperative has established, and make strategic, and sometimes difficult, decisions to keep moving Stearns Electric forward. Notable strategic decisions in the last year included:

- Like many of our members over the past couple of years, Stearns Electric Association has been impacted by rising prices and supply chain disruptions. In 2023, the Board commissioned a Cost-of-Service study to determine the level of revenue needed to maintain the quality of the Cooperative's distribution system.
- After careful consideration and much discussion, the Board approved a rate increase of 7.2% in March following the Cost-of-Service study recommendations to address the impact of inflation on the price of energy and critical electrical distribution equipment.
- The Board unanimously approved the building of a new operations center and headquarters facility in Melrose to replace the over 50-year-old facility on land already owned by the Cooperative. With cramped facilities and outdated equipment impacting the efficiency and cost-effectiveness of service, it was determined that new construction was the best option. In 2023, the Board selected architect GLTArchitects and construction manager W Gohman Construction for the pre-construction building process. We anticipate the new facility will be complete in mid-2025, but the final decision to move forward with the project will be made after the bidding process is completed in early 2024. The Cooperative plans to sell or lease the existing facility. The 2023 rate adjustment included the anticipated cost of the new headquarters facility.



2023 FINANCIAL REPORT

Delivering an affordable and reliable supply of electricity requires the foundation of financial strength to meet our members' needs both today and well into the future.

A defining feature of your Cooperative membership, and a principle that guides us, is your economic participation. The partnership we have with you, as member-consumers of Stearns Electric, rests on our commitment to wisely use the resources you provide.

Our 2023 total operating revenue was \$65,039,772. Our internal costs increased 6.3%, leaving us with a solid operating margin of \$2,130,459.

CliftonLarsonAllen LLP conducted the year-end audit of the Cooperative's financial statements, and issued an unmodified opinion noting no audit adjustments.

The Co-op is in good financial condition as it is preparing to build a new headquarters facility. Much focus on the long-range financial forecast took place in 2023, ensuring the Co-op remains financially strong and positioned for the future.

As a result of the Cooperative's sound and stable financial condition, we returned \$2,125,000 in general retirement Capital Credits, which included \$950,000 from Great River Energy, to our member-consumers in November. That adds up to more than \$43 million returned over the years - quantifiable proof that you are a member of a successful, effective organization.

CONSOLIDATED BALANCE SHEET

Fiscal Year Ended December 31, 2023 & 2022

ASSETS	2023	2022
Electric Plant in Service	\$161,864,437	\$151,087,386
Construction Work in Progress	1,156,590	1,252,314
Less Accumulated Provision for Depreciation	(51,735,655)	(48,473,839)
NET UTILITY PLANT	111,285,372	103,865,861
Investments in Associated Organizations	31,696,546	30,385,498
Investments in Related Companies	2,054,883	1,399,240
Investments in Economic Development Projects	2,874,451	1,261,388
Restricted Investments	2,600,000	1,000,000
Other Investments and Loans	117,739	97,576
TOTAL INVESTMENTS	39,343,619	34,143,702
Cash and Cash Equivalents	1,568,470	1,199,557
Temporary Investments	693,520	8,079,157
Consumer Accounts Receivable, Net	6,164,795	5,284,080
Other Accounts Receivable, Net	208,625	491,925
Materials and Supplies Inventory	3,940,563	3,601,551
Prepaid Expenses	551,321	406,912
Interest Receivable	12,332	12,332
TOTAL CURRENT ASSETS	13,139,626	19,075,514
Deferred Debits	659,770	815,275
TOTAL ASSETS	\$164,428,387	\$157,900,352
EQUITIES AND LIABILITIES	2023	2022
Patronage Capital	\$76,786,485	\$73,502,337
Other Equities	2,357,386	2,216,742
TOTAL EQUITIES	79,143,871	75,719,079
Long Term Debt (Less Current Maturities)	66,655,448	68,015,393
Accumulated Provisions for Pension and Benefits	443,979	416,479
Current Maturities of Long-Term Debt	3,193,056	2,612,863
Accounts Payable	7,481,420	5,963,041
Other Accrued Liabilities	2,751,930	2,756,210
TOTAL CURRENT LIABILITIES	13,426,406	11,332,114
Deferred Credits	4,758,683	2,417,287
TOTAL EQUITIES AND LIABILITIES	\$164,428,387	\$157,900,352

CONSOLIDATED STATEMENT OF OPERATIONS

Fiscal Year Ended December 31, 2023 & 2022

	2023	2022
Electric Energy Revenue	\$66,232,124	\$61,317,928
Other Electric Service Revenue	(1,192,352)	1,447,707
TOTAL OPERATING REVENUE	65,039,772	62,765,635
Cost of Power	41,815,404	40,533,066
Distribution Expense - Operations	4,197,138	3,743,662
Distribution Expense - Maintenance	3,736,995	3,576,057
Consumer Account Expense	1,268,119	1,127,131
Customer Service and Informational Expense	948,607	940,489
Sales Expense	105,226	80,950
Administrative and General Expense	3,745,781	3,445,027
Depreciation Expense	5,067,594	4,829,693
Other Deductions	10,810	6,113
TOTAL OPERATING EXPENSES	60,895,674	58,282,188
OPERATING MARGINS BEFORE FIXED CHARGES	4,144,098	4,483,447
Interest on Long-Term Debt	2,013,639	2,023,019
OPERATING MARGINS AFTER FIXED CHARGES	2,130,459	2,460,428
G&T and Other Capital Credits	2,624,689	991,069
NET OPERATING MARGINS	4,755,148	3,451,497
Interest and Other Income	403,929	420,794
Income (Loss) from Equity Investments	826,193	171,580
TOTAL NON-OPERATING MARGINS	1,230,122	592,374
NET MARGINS	\$5,985,270	\$4,043,871

ASSETS
what we own

EQUITIES
our net worth

LIABILITIES
what we owe

AUDIT

The 2023 financial statements were audited by the accounting firm CliftonLarsonAllen, LLP.

WHAT MAKES UP THE REVENUE

RESIDENTIAL 49.9%



FARM 24.2%



LARGE COMMERCIAL 14.4%



SMALL COMMERCIAL 7.3%



OTHER 4.2%



WHERE YOUR DOLLAR GOES

COST OF POWER 64.3%



OPERATING EXPENSES 21.5%



DEPRECIATION 7.8%



OPERATING MARGIN 3.3%



INTEREST 3.1%



551,840,851

KWHS SOLD

\$65,039,772

OPERATING REVENUE

\$41,815,404

COST OF POWER

\$60,895,674

OPERATING EXPENSE

\$5,985,270

NET MARGINS

\$2,701,122

CAPITAL CREDITS
RETURNED

IMPACTING RELIABILITY

At Stearns Electric, we deeply care about keeping your lights on. We understand that your daily life and businesses depend on a steady power supply. To make sure we deliver quality service, we responsibly invest in and rigorously maintain our distribution system.

Every year, Stearns Electric spends countless hours and millions of dollars working to maintain the power grid that brings electricity to our local homes and businesses. Our 2023 construction work plan represented a \$7.6 million commitment to reliable electric service. This investment was used to upgrade, enhance and repair our distribution system in a variety of ways - all of which strengthen our ability to serve you and provide reliable, affordable electricity.





CONSTRUCTION AND MAINTENANCE HIGHLIGHTS

- 7,982 poles were inspected and tested for strength and durability, of which 92 were identified for replacement.
- 1,711 miles of overhead line were patrolled for hazards and safety concerns. These inspections identified 538 items in need of maintenance, of which 509 were repaired in 2023.
- 261 new electric services were installed and 320 member alterations of service were completed.
- 761 projects were designed, staked and constructed.
- 9.0 miles of single-phase overhead, 0.6 miles of three-phase overhead, 29.9 miles of single-phase underground and 6.6 miles of three-phase underground power line were constructed.
- 3,700 feet of conductor cover, 1,655 bushing covers and 495 pole wraps were installed on our system in 2023 to reduce the number of outages caused by birds and small animals.



SUBSTATION IMPROVEMENT

Substation improvements play a pivotal role in shaping the distribution system. By strengthening reliability, we proactively stay ahead of escalating electric load demands and membership growth, and ensure a resilient infrastructure.

- In 2023, we collaborated with our wholesale power provider Great River Energy to replace two metering buildings in our substations.
- Two new feeders originating from the Five Points substation were successfully installed, expanding our distribution network.
- Two feeders were upgraded exiting our Big Fish substation, ensuring increased reliability and efficiency.
- Annual substation transformer oil analyses and infrared inspections were completed at all 33 substations.
- In 2023, we made supervisory control and data acquisition (SCADA) enhancements at six substations, enabling more effective remote monitoring and control.
- Preparations for upcoming transmission system enhancements were made by upgrading the Westwood I transformer.
- Monthly and quarterly substation inspections were conducted, ensuring ongoing reliability and identifying potential issues.

VEGETATION MANAGEMENT

The impact of Right-of-Way management on reliability cannot be overstated. By proactively clearing vegetation away from and maintaining unobstructed access to power lines, the potential for outages caused by trees or branches is significantly reduced.

- In 2023, we actively addressed the serious infestation of emerald ash borer in our service area by incorporating specific measures into routine clearing rotations and updating policies on Right-of-Way tree clearing and infested ash trees.
- Drought conditions over the past few years have heightened stress on trees, making them more vulnerable to diseases and pests. The consequences of this stress are predicted to lead to a significant decline in tree survival and an increased risk to our distribution system in the coming years.
- Dry conditions provided an unexpected advantage by allowing planners and crews to access areas that are typically too wet, which enhanced operational efficiency.



767

RIGHT-OF-WAY
MILES CLEARED

12,285

PROBLEM TREES
ADDRESSED

210

MEMBER TREE
CLEARING REQUESTS

5,389

PARCELS INSPECTED
AND SPRAYED

64.3%

IN 2023, 64.3% OF EVERY DOLLAR COLLECTED BY STEARNS ELECTRIC WAS USED TO PURCHASE WHOLESALE POWER.



GENERATION, TRANSMISSION AND LEGISLATIVE IMPACT ON RELIABILITY

The reliability of the power system is influenced by numerous factors extending beyond Stearns Electric's distribution operations. These factors include changes in energy generation, transmission system growth and maintenance, and legislative decisions. Notable highlights impacting reliability from 2023 include:

- New wind resources were incorporated into Great River Energy's portfolio, adding 300 MW of generating capacity.
- The Minnesota Legislature passed a bill that requires Minnesota's energy sector to be 100% Carbon Free by 2040.
- Federal Energy Regulatory Commission (FERC) approved financial structure for Great River Energy's transmission project buildout, allowing Great River Energy to earn a return on the Northland Reliability Project investment.
- Great River Energy and its member co-ops, including Stearns Electric, registered Commercial & Industrial Interruptible Program participants as registered assets in the MISO Market. This equals a combined total of 142 MW of capacity that can be dispatched in a reliability emergency.
- Certificate of Need applications and Route Permits were submitted to the Minnesota Public Utilities Commission for three transmission line projects: Northland Reliability (180-mile, 345 kV line from Northern MN to Central MN); Alexandria to Big Oaks (I-94 circuit from Alexandria to Freeport, deviating south to Becker); and Minnesota Energy Connection (potential route through the southeast portion of Stearns Electric's service territory).
- The Cooperative continued to challenge the Minnesota Department of Revenue's change in interpretation, imposing property tax on co-op-owned meters, streetlights and other equipment previously exempt under a 1939 statute. Despite legal proceedings and legislative efforts, we estimate a cumulative impact of \$450,000 in additional property taxes for Stearns Electric from 2021-2023. We are urging officials to pass an agreement clarifying the exemption in the 2024 session.

POWER OUTAGE CAUSES 2023

39.60%

SCHEDULED

15.90%

EQUIPMENT

12.70%

OTHER/UNKNOWN

11.12%

TREES

7.17%

ANIMALS

6.34%

WEATHER

5.30%

PUBLIC

1.87%

POWER SUPPLIER

- In 2023, the occurrence of weather-related outages decreased due to a relatively calm year, resulting in fewer disruptions caused by falling trees, wind and summer storms.
- Outages attributed to equipment failure encompass various issues such as broken or damaged equipment, electrical overload, corrosion or equipment failure.
- The high percentage of scheduled outages reflects the continued commitment placed on communication with members and our priority to keep our employees and the public safe.



Jake Thoennes, lineman, won the August 2023 best photo challenge with this image published in the Rural Electric national magazine.

99.99%

OVERALL, MEMBERS HAD
POWER 99.99% OF THE
TIME IN 2023.

IMPACTING ENERGY USE

At Stearns Electric, we understand the importance of innovation in addressing the evolving challenges of energy consumption. As we navigate the dynamic energy landscape, our focus remains on fostering positive change and making a lasting impact on how energy is used and managed. A few ways that Stearns Electric has done this is by offering residential EnergyWise® programs, Commercial, Industrial and Agricultural (CI&A) grant opportunities, and innovative energy solutions.

We experienced growth in many of our programs in 2023 as members took advantage of special promotions and attractive rebates to invest in effective, efficient and affordable energy solutions.

The Cooperative had 25,809 systems controlled under load management, with 311 new systems installed in 2023, resulting in an additional 2,900 kWh of controlled load.



RESIDENTIAL

- 732 rebates totaling \$156,660 were disbursed to members for making energy efficiency changes, which saved over 1.7 million kWh of energy annually.
- 82 new Cycled AC, 94 new Dual Fuel and 45 new Stored Water participants enrolled in our standard EnergyWise® programs.
- 77 air source heat pumps and two ground source heat pumps were installed.
- The in-home electric vehicle level-two charging program, ChargeWise, gained popularity, growing to 80 total enrollments.



COMMERCIAL AND AGRICULTURE

- 86 farm and business energy efficiency rebates were approved for a total of \$149,961.
- By making these efficiency improvements and investments, farmers and businesses will save 2.8 million kWh and over \$17,545 annually on their electric bills.
- Commercial lighting retrofits continued to be popular in achieving energy savings and some area businesses have made progress in electrifying their forklift fleet, removing nearly all propane powered units.
- We added 16 members to the Interruptible Program bringing the total for 2023 to 128 participants. These accounts are seldom called upon, but remain available to reduce our overall energy demand levels by over 10,000 kW if system requirements require a load control.

RENEWABLE ENERGY

- 20.9 MWh of electricity was produced by Stearns Electric's SolarWise Community Solar Array in 2023.
- 12 member-owned wind turbines and 193 member-owned solar arrays operated on Stearns Electric's system with a total capacity of 3,060 kW.
- The Nova Power Portal was launched to manage member requests to install solar panels and navigate the interconnection process.



ENERGY SERVICES HIGHLIGHTS

- New Dual Fuel enrollments were streamlined with a digital service order this year, enabling the scanning of off-peak meters and demand response units in the field. This automated upload process into NISC enhances efficiency and accuracy.
- Every Energy Services field employee became licensed by the state of Minnesota as a Journeyman or Master electrician.
- All Interruptible Irrigation sites were successfully upgraded with state-of-the-art demand response unit (DRU) installations. Concurrently, all associated load control wiring was brought up to code compliance. These enhancements resulted in record-low uncontrolled irrigation load during control periods, and significantly improved issue identification and resolution speed.
- In 2023, demand response unit (DRU) changeouts continued. Despite facing significant supply chain disruptions and equipment shortages, 2,360 of the 14,169 load controllers that need to be changed out by January 1, 2026 were completed.
- A successful pilot project in collaboration with Mean Green Electric Mowers, Great River Energy and Lynx National Golf Club in Sauk Centre was completed. The summer initiative involved supplying Lynx Golf Club with an electric lawn mower, testing user experience, range, mowing capabilities and more, aligning with our commitment to explore new electric technologies and sustainable solutions.

IMPACTING CULTURE

At Stearns Electric, our main goal is to focus on our members. We have a team of 68 hardworking employees behind the scenes, making sure our members' needs are met. This not only affects how we operate in the office, but also has an impact on the community around us. We aim to be open and clear in our decisions, creating better relationships, making things run smoother and ultimately making our members happier. Whether it's within our workplace or in the broader community, we understand how our actions shape culture.



COOPERATIVE HIGHLIGHTS

- Stearns Electric emphasizes a thriving organizational culture called “Stronger Together,” centered on four key principles: respect, accountability, team and impact. This culture aims to create a positive workplace where employees not only learn and grow, but also contribute to the overall success of the Cooperative. In 2023, the “Stronger Together Playbook” was introduced marking a significant internal milestone for employees of Stearns Electric.
- In 2023, our Cooperative Scorecard provided a quick and concise way to measure key performance indicators. We focused on power outage notification accuracy, a benefit review of paid time off, member satisfaction, system reliability, workplace culture, financial equity and our internal commitment to evaluate policies and procedures.
- Every year, we track our overall member satisfaction with a member satisfaction survey through the National Rural Electric Cooperative Association (NRECA). In 2023, the survey was executed completely online for the first time and 84.5% of members surveyed rated their overall Cooperative experience as either satisfied or very satisfied.

330,298

WEBSITE PAGE VIEWS

93,176

FACEBOOK REACH

36,112

OUTAGE MAP VISITS

17,249

SMARTHUB USERS

12,704

AUTOPAY USERS

5,499

PAPERLESS USERS

4,966

FACEBOOK FOLLOWERS



INFORMATION TECHNOLOGY HIGHLIGHTS

- In 2023, we introduced a new outage notification feature for our members. By December 31, 2023, an impressive 1,224 members actively enrolled through SmartHub, demonstrating strong engagement and the value of power outage notifications to our members.
- Cutting-edge upgrades were implemented to servers, storage and network infrastructure, ensuring optimal performance, reliability and scalability.
- An Information Security Steering Committee was established to review and formulate new policies and procedures. This initiative is essential for proactively addressing evolving cyber threats, safeguarding sensitive information and ensuring compliance with industry regulations.
- Data protection was enhanced by implementing a backup solution to safeguard against data loss and unforeseen disasters.

IMPACTING COMMUNITY

As a cooperative, Stearns Electric Association was founded on the seven cooperative principles. One of those principles is 'concern for community.' What began as a promise to power rural communities across our service territory has grown into several programs focused on making an impact in Central Minnesota - building a better place to live, work and play.

OPERATION ROUND UP®

Stearns Electric's Operation Round Up® (ORU) program and our member-consumers celebrated a major milestone in July. Since the program's inception in 1993, the ORU program, funded by the generous contributions of our members, has awarded over \$3 million to local non-profit organizations and community service programs. In 2023, 181 community organizations shared \$166,273 in Operation Round Up® funds. This program is made possible by over 79% of members that round up their monthly bill. This milestone was celebrated in coordination with our Member Appreciation Pancake Feed in August and an ORU Recipient Open House in November.





ENERGY EDUCATION

In January and February, 1,763 4th grade students in 33 schools participated in energy efficiency and safety demonstrations provided at no cost by the Cooperative.

MY CO-OP CARES

Three times per year, Stearns Electric sends teams of employees out to local organizations and charitable causes to share their time and talents with others. In 2023, 30 employees spent time volunteering for the Salvation Army, Central MN Habitat for Humanity and INDY Foundation.



MEMBER APPRECIATION

Nearly 1,700 members joined us for our Annual Member Appreciation Pancake Feed, with pancakes and sausage prepared by the Kimball Lions Club. Members appreciated the local vendor and high quality food. Children enjoyed seeing line trucks and gear our lineworkers use every day, and receiving free school supplies.

SAFETY DEMONSTRATION

In May, over 100 area first responders attended a live safety demonstration, presented by Connexus Energy. The event is designed to teach electrical safety habits, demonstrate the power of electricity, and show the potential hazards associated with unsafe actions around power lines and household circuitry.



YOUTH TOUR

Travis Bellefeuille, son of Kris and Molly Bellefeuille of Swanville, represented Stearns Electric at the Rural Electric Youth Tour in Washington, D.C. June 13-18, 2023. During the trip, Travis visited Capitol Hill, met with several of Minnesota's congressional leaders and toured Washington, D.C.'s famous monuments and museums.

EMPLOYEE GIVING

In November, we raised nearly \$6,500 for Soldier's 6 through our Annual Charity Event. Soldier's 6 is a MN-based organization that provides specially trained K-9's to honorably discharged veterans, police officers, firefighters, paramedics, correctional officers and 911 dispatchers.





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**PERIODICALS
POSTAGE PAID**

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87TH ANNUAL MEETING **THURSDAY, APRIL 4**

MELROSE AREA HIGH SCHOOL AUDITORIUM
7 P.M. BUSINESS MEETING (DOORS OPEN AT 6:30 P.M.)
8 P.M. SOCIAL

Bring this Annual Report for registration.