

2022 Dairyland Director Report

January 25, 2022

Dairyland Priorities: Safety, Reliability and Cost Management

With an overarching goal of Sustainability, Dairyland Power Cooperative's leadership team and the Board of Directors are focused on providing safe and reliable electricity for Dairyland's 24 member cooperatives while transitioning to a low-carbon future.

Dairyland's Sustainable Generation Plan provides a framework for **Asset Reliability and Energy Diversification**, considering the economic impact on members, technological feasibility, social implications and environmental responsibility.

On June 1, 2021, Dairyland safely retired the coal-fired Genoa Station #3 (G-3). Decommissioning of the facility is in progress, with a focus on reuse and donations of materials that benefit the community. A study is also underway to find a positive future site plan for both Dairyland and the Genoa community.

Following the closing of G-3, Dairyland's purchase of the RockGen Energy Center, a 503 megawatt (MW) natural gas plant in Cambridge, Wis., was a strategic fit for its power supply portfolio. RockGen supports the growth of wind and solar energy in the region and provides reliable electricity in all weather conditions.

Renewable additions include the Tatanka Ridge Wind Farm (Deuel County, S.D.) which began operation in 2021. Dairyland has a power purchase agreement (PPA) to receive energy from a 52 MW portion of the wind farm. Dairyland also has a PPA with Ranger Solar for the 149 MW Badger State Solar facility (Jefferson, Wis.), which is scheduled to be operational in 2023.

The regulatory approval process continues for the Nemadji Trail Energy Center. Basin Electric Power Cooperative has joined Dairyland and Minnesota Power as a project partner for the proposed 525-625 MW natural gas generation facility (Superior, Wis.) which is planned to be operational in 2025.

Dedicated facility maintenance strengthens power plant reliability. In 2021, the John P. Madgett Station and Elk Mound Generation Station both set power production records, reliably serving Dairyland's members during extreme temperatures.

Nothing is sustainable without a culture of **Safety**, which remains the highest priority at Dairyland. In 2021, Dairyland achieved 245+ days without a lost-time injury as they strive for an operational goal of "zero incidents." Dairyland has implemented a behavior-based safety program to strengthen and maintain a culture of safety. While addressing the continuing challenges of the pandemic, Dairyland consistently demonstrated its agility and commitment to safety and regulatory compliance while reliably delivering critical power.

Financial and Competitive Strength are critical to sustainability. Dairyland balances building financial strength with ensuring competitive rates and sound operations.

The Board approved a budget supporting Dairyland's strategic business plan, which resulted in an estimated 0.4% percent decrease in the average wholesale rate for Dairyland's member cooperatives beginning Jan. 1, 2022. A new wholesale rate design was also implemented in May 2021 to provide additional flexibility for member cooperatives.

Cost management actions and sound 2021 fiscal performance resulted in strong margins. As a result, Dairyland provided \$4 million of rate credits to members in 2021, reduced future expenses and is investing in business development opportunities. In addition, Dairyland maintained its cash retirement of Capital Credits of 2 percent resulting in 2021 cash retirements of \$4.7 million and had four power cost adjustments (PCA) credits totaling \$3.7 million. As part of its new rate design, Dairyland also instituted the revenue volatility adjustment (RVA). All told, the RVA returned an additional \$9.2 million to the members.

Dairyland has credit ratings of "A3" with a stable outlook from Moody's and "A+" also with a stable outlook from Standard and Poor's. Dairyland's Board and leadership team balance building financial strength with competitive rates and sound operations. Management of costs and risks and modernizing processes to enhance efficiency are key areas of focus.

Dairyland is also investing in regional transmission opportunities. By working with other utilities, regional transmission infrastructure has been strengthened to absorb changing generation sources while maintaining reliability and adding value for members.

Construction began on the 345-kilovolt (kV) Cardinal-Hickory Creek transmission line (Dubuque, Iowa, to Middleton, Wis.) in 2021 with an in-service date of 2023. Regional transmission projects, such as the CapX2020 line running from the Twin Cities to Rochester to La Crosse, the Badger Coulee line from La Crosse to Madison, and the Cardinal-Hickory Creek line are opportunities that both improve reliability and add value for members.

Transmission Construction crews work to safely rebuild, construct and upgrade approximately 50 miles of 69 kV transmission line each year. Each mile takes approximately two weeks to complete with roughly 17 poles per mile.

The Board supported accelerating the build-out plan for middle-mile fiber optic communications on Dairyland's transmission infrastructure, primarily for communication. As the program progresses, fiber optic communication capacity could support rural broadband service providers in the communities Jump River Electric Cooperative and Dairyland's other member cooperatives serve.

Growth and Innovation foster sustainable business and long-term competitive rates for members. Dairyland has expanded shared services for members in Information Technology, Human Resources and Publication Services, and established a Business Development Fund to seek new revenue opportunities.

Jump River Electric Cooperative and Dairyland were among 31 cooperatives to create CHARGE EV, LLC, in 2020, to build interest in the growth of electric vehicles (EV). The CHARGE™ network of cooperative-powered EV chargers is growing in rural areas. Additionally, Dairyland is working with local businesses to help them learn more about adding EVs to their fleets.

Dairyland also expanded economic development support for its members to pursue opportunities that will help communities grow by adding businesses and jobs which benefit the entire Dairyland system.

By seeking innovative solutions and implementing effective project management to achieve its strategic priorities, Dairyland will be sustainable, adaptable and competitive as the energy industry transforms.

In 2021, Dairyland deployed a new three-year strategic planning process with a focus on measurement and accountability that aligns with Dairyland's Mission, Vision and Core Values. Dairyland's **People 1st** culture is member-focused, clarifies employee roles and goals, and is enhancing communication throughout the organization.

While Dairyland evolves, our **Cooperative Principles** and member satisfaction remain at the forefront. Dairyland is committed to transparent governance and strong relationships with members. As a Touchstone Energy® cooperative, Dairyland makes positive impacts in its local communities and improves the quality of life for cooperative members.

As your representative on the Dairyland Board of Directors, I am confident that Dairyland will continue to provide our cooperative with safe, reliable, affordable and sustainable power today and for future generations.