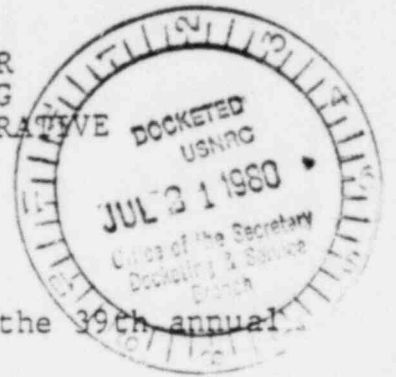


REPORT OF GENERAL MANAGER FRANK LINDER
BEFORE THE THIRTY-NINTH ANNUAL MEETING
OF THE MEMBERS OF DAIRYLAND POWER COOPERATIVE
ON JUNE 18, 1980



RELATED CORRESPONDENCE

INTRODUCTION

Good morning, ladies and gentlemen. Welcome to the 39th annual meeting of your Dairyland Power Cooperative.

Your attendance here today is deeply appreciated. I know that many of you face enormous demands on your time, especially during this growing season. By taking the time to be here today you have re-affirmed your year-around commitment to cooperative rural electrification.

This continuing commitment means a great deal to the management and staff of Dairyland Power, especially those persons who put in many hours preparing for this annual meeting.

This is my second report to you as Dairyland's general manager. I recognize it as both an honor and a responsibility. It is with that sense of responsibility that I want to begin by providing you with a summary of what has taken place since my last report.

Then, I would like to offer some perspectives on the problems and progress of rural electrification as we stop for a short while on the threshold of a new decade, nearing a new century.

RECORD DEMAND AND REVENUES

The year 1979 was one in which Dairyland Power Cooperative established new records for both energy sales and revenues.

Despite the many factors in our national economy which tend to reduce growth, our overall energy sales in 1979 reached 4.3 billion kilowatt hours during the year.

Energy sales to member cooperatives were 2.7 billion kilowatt hours--a 5.4% gain over 1978 electric sales.

This increase is all the more significant in that it is entirely consumer motivated. We no longer urge people to use more electricity. Instead, we urge people to use it wisely and we stress conservation.

Despite the many individual efforts that are being made--whether it's simply a better job of flipping off the light switches or installing more energy efficient heating systems--we still experienced an increase in energy sales.

This was also the first year that Dairyland Power topped the \$100 million revenue mark, with a considerable improvement in total margins, especially in comparison to last year.

Total income from sales rose more than 20%, to \$100.7 million. Total margins advanced to \$3.4 million compared to \$591,139 in 1978.

While this revenue record should be noted as an indicator of Dairyland Power's growth, it should be placed in a proper context.

In a generation and transmission cooperative such as Dairyland Power, every member is also a consumer, providing a share of each year's revenue. The increases in both revenues and margins were due to a rate increase and, also, to improved operation of our plants.

Tracing the problem back to its origin, it will probably come as no surprise to you that our national pattern of unremitting inflation was the major factor which made it necessary to seek an increase in rates.

The restructuring of our wholesale rates for sales to member distribution cooperatives was completed, and the new rates took effect on June 1, 1979. These new rates are far more cost related than the previous ones.

The distribution cooperatives are modifying their retail rates to reflect this change. Independent decisions by the local distribution cooperatives can give consumers new incentives to apply conservation measures.

There are many inflationary factors that continue to increase our expenses. We have increased our efforts to reduce expenses and increase the efficiency of our power supply operations so that the necessary rate increases will be the absolute minimum.

The total cost of providing electric service, which includes both operating and nonoperating expenditures, climbed to more than \$97 million, which is an increase of nearly 18% over similar 1978 expenses.

Dairyland Power's coal-fired stations consumed 1.6 million tons of fuel, nearly a quarter of a million tons more than in 1978, at an average cost of \$25.16 per ton burned. Only 10 years ago, in 1969, the cost of a burned ton was \$6.39.

Dairyland Power also felt the cost of increased interest rates. Interest expenses for both long and short term debt totaled more than \$6 million, almost doubling 1978's interest costs. This sharp increase was due primarily to the increased cost of financing various projects through the Federal Finance Bank and the Cooperative Finance Corporation.

Another sizeable nonoperating expense, amounting to \$1.9 million in 1979 alone, is the result of the Wisconsin Public Service Commission's rejection of the Tyrone Energy Park. Dairyland Power had invested nearly \$12 million for its 13% share. The \$12 million must be charged off the books over a 60 month period.

By its own action, our supposedly rate-conscious commission raised your electric bill and gave you nothing in return.

MADGETT STATION

Turning to our 1979 operations, the John P. Madgett station at Alma went on line on November 1 of last year, giving us a total system net capacity of 1,043,350 kilowatts.

On January 12 of this year, after a startup that was even better than expected, a boiler mishap put the 350,000 kilowatt station out of service, forcing us to purchase more electricity than we had anticipated from other utilities. Despite some minor setbacks, we were able to return the Madgett station to full generating capacity by the middle of May, and I am pleased to report today that we have not experienced any major difficulties since then.

Plans for a formal dedication are now in the works. Perhaps we should call it a thanksgiving, because we finally have a surplus of generating capacity and a plant which is expected to meet our needs at least through 1982. This is the first time since 1973 that we have enjoyed a surplus.

PROJECT '87 SITE SELECTION

As many of you know, our Alma site has taken on a new significance as the result of a consultant's study begun last year and made public in April of this year.

That site selection study was the first step in our plans to put a new coal-fired plant, ranging between 400 and 650 megawatts, on line by 1987. We call it Project '87. Our project name reflects a bit of optimism, because putting a coal-fired plant in operation in seven years will be some task.

Stanley Consultants did the study, using a complex set of criteria with a heavy emphasis on environmental factors. Using these criteria, they found 20 possible sites, then they reduced that number to six. And when the final analysis was completed, our Alma site in Buffalo County emerged as the top choice, ranking substantially above two alternative sites, one in Barron County and the other in Dunn County. Your Dairyland staff concurs with the consultant's recommendations because of the accessibility of the site, our ownership of the property, and the availability of transportation, fuel, and water.

The study is already being examined by a number of agencies, including the State Public Service Commission and Department of Natural Resources. This coming year will be a crucial one in seeking approval from these and other agencies.

The plan has been welcomed by many persons in Alma. It will provide new jobs for the operation of the plant, and up to 500 persons would be employed during its construction.

NEW PARTNERSHIP WITH MUNICIPALS

Project '87 also marks the beginning of a new relationship between Dairyland Power and several municipal utilities that we serve. These "municipals" will actually own a share of the new project.

They will be working directly with Dairyland Power in a partnership which will assure everyone a lower cost power supply than each of us could obtain separately. Recently approved state legislation gives these municipal bodies a collective strength and identity that they deserve.

With increased flexibility, our municipal partners can, for the first time, join together as if they were a large utility. And they can now interchange power with neighboring suppliers.

We welcome the municipals into our partnership.

LACBWR

* Our recently approved plan to close down the La Crosse Boiling Water Reactor (LACBWR) by 1990 is predicated on the assumption that Project '87 will be in operation by that time. The anticipated cost of continuing to meet new federal regulations was another major factor in this decision. I'll have more to say on that in a few minutes.

As I noted in my written message for 1979, it was a frustrating year for our staff at LACBWR, but I want to add here, that it was also a year of successful operation, not only in terms of the cost of power produced, but in light of several recent developments.

The federal Nuclear Regulatory Commission (NRC) eventually approved the expansion of our spent fuel storage racks. This job is now nearing completion and will give us room for storage for more than a decade.

We also received official notification that the NRC staff had concluded that LACBWR does not pose an environmental hazard. That determination is one of a number that must be made in our application for a full term operating license. This finding provides us with renewed confidence.

In addition, LACBWR has met all of the most crucial safety requirements imposed as a result of the Three Mile Island mishap.

Neither of these favorable NRC findings could have been made if LACBWR's staff, under the excellent leadership of Plant Manager Richard Shimshak, hadn't fulfilled the responsibility of documenting our case.

We anticipate a very good operating year at LACBWR, as well as from our other generating facilities.

TRANSMISSION LOAN

Our transmission activities received a substantial boost this past May with the news that the Rural Electrification Administration (REA) had approved a \$56,738,000 transmission loan request.

This loan will allow us to move ahead with transmission, substation, and communications projects through 1982. The loan includes \$36.8 million for transmission related construction, including about \$8 million for 201 miles of new 69 kilovolt and 161 kilovolt lines. New substations will cost about \$14 million. Our plans also call for rebuilding about 156 miles of existing line.

Another \$1.7 million will be used to improve Dairyland's communications system.

The loan will enable us to improve our transmission of electrical power throughout our four state area. We will be able to continue to guarantee a high level of transmission service.

LOAD MANAGEMENT

One unique feature of this loan is \$12.5 million for an extensive central load control program which we plan to have in operation no later than 1983. I reported on the load management program in some detail last year. Now it is fast becoming a reality.

Many of you are already familiar with the concept--the interruption of certain appliances during periods of peak demand.

Using electronic remote control, Dairyland, in cooperation with the distribution cooperatives, will be able to interrupt power for brief periods of time on loads that can be turned off without inconveniencing the consumer.

Our daily peak electrical demand occurs at the time you do your morning and evening farm chores. The annual peak demand occurs during the coldest weather in the winter. Reducing the unnecessary load at the time of peak demand will decrease the amount of very expensive new generating capacity that will be needed to serve future loads. Also, supplying additional energy at nonpeak times by central load control spreads our costs over more kilowatt hours and thus reduces the cost per kilowatt hour.

We will encourage installation of residential heating systems using the dual fuel or heat storage units. Dual fuel heat systems use electricity most of the time, but have another fuel backup, either coal, gas, oil, or wood. Electric heat storage systems will store enough heat during the low energy usage night period to supply all of the heat requirements in the house during the day. Water heaters, irrigation pumps, and crop drying are examples of other loads that can, in most cases, be controlled during the peak load period.



Our Information Department people recently completed a slide and sound presentation on load management. It has been shown to the distribution cooperative managers, and to a few boards. It will serve as a main feature of our load management education program. It is available to any interested group.

RATE

As a final note on load management, we feel that for our type of load, it provides a more effective way of controlling energy use patterns than other methods, such as time-of-use rates.

* A rural electric cooperative has demand and use patterns which differ sharply from those of some urban oriented investor-owned utilities, making time-of-use rates impractical and ineffective.

Lower night time rates are easy for some people to take advantage of. It doesn't take a dramatic change in lifestyle to delay starting the dishwasher or clothes dryer until after the ten p.m. news.

Milking 60 cows after ten p.m. isn't quite so easy.

CONSERVATION

Conservation is still another area where we must encourage further development, while keeping in mind the unique use characteristics of our consumer members.

The conservation of all forms of energy use, including electricity, should be given the highest national priority in an all-out effort to reduce America's dependence on oil.

Dairyland Power uses very little oil for the generation of electricity. When we buy electricity from other utilities, however, that electricity is often generated by oil fired units.

It is encouraging to note that we have experienced a reduction in the rate of our load growth. We believe that this is due to the efforts of our consumers to use electricity wisely.

ALTERNATE ENERGY

Load management and conservation are just two ways of meeting our energy challenge. We are also exploring new sources for generation of power.

We are investigating federal funding for further study of a \$21 million hydroelectric plant at U.S. Army Corps of Engineers Lock and Dam No. 8 near Genoa. A preliminary consultant's study indicates that it is technically and environmentally feasible to construct a 10 megawatt powerhouse addition there.

Further study is necessary to determine if it can be constructed and economically justified, especially when delays in the approval process could increase that cost to more than \$39 million by 1987. Initially, the power cost would be higher than our other generating alternatives. We are encouraged, though, by preliminary projections which show that this hydroelectric facility could become cost competitive with coal-fired plants by the turn of the century.

While construction of a second Dairyland hydroelectric facility is possible in the coming decade, this most recent study also helped confirm my assessment last year of our extremely limited hydroelectric potential.

This may seem unreasonable to many of you who can still remember the limited generation of some now abandoned hydroelectric sites. Unfortunately, we continue to contend with the simplistic assertions of some people who want very much to believe that we can simply drop turbine generators over the side of every existing dam site and produce unlimited power.

As I noted last year, there are 25 dam sites in our Wisconsin service area which were retired for economic reasons. If all of them had been operating in 1978 they would have supplied only 16% of the increase in 1978 energy sales over 1977 sales.

Over 100 of these small plants would have to be developed each year just to keep up with load growth.

We have continued to study the development of wind and solar power during the past year. We are encouraged by some of the research and development.

Several small wind generation installations were made on our system during the past year.

Dairyland Power is providing special metering equipment on these installations so that we can complete economic evaluations. We hope that these evaluations will help both Dairyland Power and individual members to assess the long term potential for residential wind systems.

We are pleased to have consumer members install wind generators and solar systems on our system, but we also caution them to thoroughly investigate the system before making a purchase so that they will know what to expect from its operation.

We are continuing to monitor the experience of the large experimental wind generation installations that the federal government is sponsoring at several locations in the United States. Information that we have received to date does not indicate that such systems will be commercially available soon in order that they may be considered in near term generation planning.

NEW SERVICE BUILDING

As a final note to this section of my report, I am pleased to report that the La Crosse Common Council has given initial approval to issuance of up to \$8 million in revenue bonds for our new \$4 million service building and the eventual renovation and expansion of our existing headquarters. We plan to begin construction of the new service building this summer.

This 70,000 square foot building will provide badly needed space for a central warehouse, maintenance and testing work, garage, and serve as a new home for an expanded environmental testing laboratory. The new building will have office space for about 50 people which will relieve overcrowded conditions at our present headquarters. Remodeling and renovation there will be scheduled for some time after completion of the new service building.

A TIME OF UNCERTAINTY

Looking back over the past 18 months, it would seem that we have a great deal to be proud of and reason to be optimistic. And we do.

We are financially sound. Our margins have improved substantially.

Our newest plant is now operating and for a brief time, at least, we have surplus power to sell. Site selection for Project '87 is moving along well.

Our nuclear facility continues its fine operating record and we hope that we will be able to resolve a difference of opinion with federal authorities over what should be done about the very unlikely possibility of an earthquake at Genoa.

We have a load management program underway and a new service building in the works.

Many other utilities might envy our situation.

Yet, in my written report, I characterized 1979 as a year of disappointment and uncertainty, as well as one of opportunity. We have touched on the disappointments and the opportunities.

It is time that we examined this most troublesome word--uncertainty.

It is, perhaps, the one word that best describes the effect that the energy dilemma has had on our international relations, our domestic policies, our business enterprise and our family life.

It is that uncertainty that presents that largest challenge to all of Dairyland Power Cooperative's objectives.

Unless we master it, uncertainty will play into the hands of both regulators and agitators.

These people want us to stop all efforts to maintain reliability until all of the answers are in. Since progress automatically generates new questions which can't be answered without further development, they are knowingly asking for the impossible--a super sanitary, fail-safe world in which we still maintain a decent standard of living for all Americans.

We also seem to be confronted with a hybrid of Murphy's law.

As our tools for predicting future energy growth become more sophisticated, the job of predicting that growth becomes increasingly complex.

Our system analysts now use a broad matrix of factors, including weather patterns, alternate energy development, conservation trends and economic conditions in their efforts to forecast future energy requirements.

Our forecasts are based on the sum of 29 independent systems forecasts, involving a great many people, both from the distribution cooperatives and from consulting firms. The Rural Electrification Administration's forecasting process also allows a great deal of grass roots participation.

Last year, however, was indicative of the uncertainty that we face, despite our increasing sophistication and widely based input.

In 1979, we found that the number of consumers increased by 2,591, which is a 1.6% increase over 1978. The Dairyland Power system supplied the electric energy needs of 160,943 consumer members by the end of 1979, excluding municipals.

But this increase in new consumers is less than our Power Requirements Studies forecast of 2.8% for 1977-1987. And this follows two years of new consumer growth that were above normal.

Despite this decline in new consumer growth, energy sales to member consumers, excluding sales to interconnected municipals, increased by 5.1% in 1979, compared to our projected increase of 5.8%.

Our peak demand for the calendar year grew by 5.5%. Our forecast had called for a 5.9% increase, the last figure taking into account the anticipated effects of load management and conservation.

While some of these projections were fairly close to what actually did occur, we do see some signs that our load growth patterns are changing, which indicate our future growth may be lower than our last forecast. I consider the accurate forecasting of our future loads to be one of the most important factors in determining Dairyland's future because of the effect it has on our new generation planning and



on future power costs. It is especially important as the time approaches to make a final decision on the size and completion date for Project '87.

It is extremely difficult to accurately predict the long term effect on the use of electricity from such things as: (1) At the present time there is a substantial amount of wood being burned to supplement or replace electric heat. What is the long term use of wood for heat? (2) How much will the increasing cost of electricity effect the amount of electricity used? (3) What effect will the increasing cost of gasoline have on people living in rural areas and commuting to the city to work? (4) Will people convert to electric heat if the cost of fuel oil and gas continue to increase faster than the cost of electricity? These factors can have a tremendous effect on our future growth, and our need for new generating and transmission facilities.

I want to assure you that we are giving this problem top priority in the future planning process. Load forecasting is a continuous study process. We will keep our new facility planning as flexible as possible so that changes can be made when indicated and we will delay decisions on a final commitment for new transmission and generation projects as long as possible. Unfortunately, the long regulatory process for state and federal approvals requires us to make some of these decisions much earlier than would otherwise be necessary.

REGULATORY OVERKILL

This brings me to the second key topic that I want to comment on--over regulation, or, overkill.

As some of you may recall, last year I spoke briefly about the problems encountered in obtaining the necessary approval for two 161 kilovolt lines, our Alma to Crystal Cave transmission line, and the Genoa to Lansing line.

A year later, neither line is complete, although I should be able to report the completion of the Alma to Crystal Cave line at our next annual meeting. The Genoa line still has a way to go.

Remember that our original plan to run the line down the east side of the Mississippi River, with a crossover at Lansing, was denied by the U.S. Fish and Wildlife Service. That forces us to take the present route through Minnesota and Iowa, which is 50% longer.

This year I asked our Right-of-Way people to list the various entities, agencies and regulatory bodies that we must secure approval from or file with in order to progress with all or part of the line.

With no guarantee that we remembered everybody, it reads like this:

The Department of the Interior, U.S. Fish and Wildlife Service; the Department of the Army, U.S. Corps of Engineers; the State of Minnesota Department of Natural Resources, forestry section; the State of Minnesota, Department of Natural Resources, hydrology section; Houston County, Minnesota; the Minnesota Fire Marshall; the Iowa Commerce Commission; historic preservation officers for both Iowa and Minnesota; state conservationists for both states--there's more--the respective highway departments for each township, county and state.

Oh, yes, we also need a permit from the Milwaukee Road to cross their tracks at two locations.

One of the major conclusions of the NRECA/CFC Power Supply Study Committee is frightening. It reads: "Barring a major business recession, we face the prospect of major shortages of electrical energy within the next ten years (1980 to 1990) as well as unnecessary and otherwise avoidable further increases in the cost of electricity unless regulatory procedures are overhauled, environmental requirements limited to a more reasonable level and basic decisions are made on the direction of future nuclear technology without further delay."

It's rather sad to note that unless regulatory bodies become more reasonable, only a major business recession will save us from power outages. In other words, we won't have to worry about brownouts and blackouts if enough businesses shut down and enough people are put out of work.

The report also noted that: "Ten years ago the electric utilities were bringing coal-fired generating plants on line that had been planned, designed and built in 3 to 5 years. Nuclear plants had been planned and constructed in 5 to 7 years.

Today, that time requirement has stretched out to time frames of 7 to 10 years for coal-fired plants and 12 to 14 years for nuclear facilities."

Today, Dairyland Power Cooperative is struggling against the combined effects of uncertainty and regulatory overkill. The same thing can be said for virtually every other utility in our nation.

While the regulators design and enforce new laws and regulations in an impossible attempt to remove every element of risk from our daily lives, the so-called decision makers delay vital decisions on such matters as the permanent storage of nuclear wastes and the development of the breeder reactor, which could guarantee us an adequate supply of energy for centuries to come.

Not only do these two factors create a delay in the construction of new facilities, they also threaten to suffocate plants already in existence.

Our own nuclear facility is a case in point. Based on our past, and especially our most recent experience with the NRC, we have concluded that by the time the new Project '87 is on line, the anticipated

capital costs required to meet the flow of new regulations on top of regulations will make it difficult to operate LACBWR on a justifiable cost-benefit basis.

Our reactor may, in fact, become a monument to both overkill and uncertainty.

OUR NUCLEAR COMMITMENT

Does our plan to close LACBWR by 1990 mean that Dairyland Power Cooperative has written off all interest in nuclear power? I think you already know the answer to that.

We had a strong commitment to the Tyrone Energy Park. I believe the day will come when most people will agree that the Wisconsin Public Service Commission's decision not to grant a permit for the construction of Tyrone was a big mistake.

During the past year, I was honored to represent all rural electric cooperatives on the Three Mile Island Ad Hoc Nuclear Oversight Committee, established by the utility industry itself to oversee and coordinate efforts to address the impact and lessons learned from Three Mile Island. This experience has reinforced my belief that nuclear power is the safest, cleanest, most reliable, and most economical way we have of producing electricity.

While I do not minimize the seriousness of the accident at the Three Mile Island (TMI) nuclear power plant, the truth is that no one was injured. Indeed, in more than two decades of commercial operation in the U.S., no one had ever been injured by a reactor accident, although this is not to say that it could never happen.

In the short term, TMI has slowed the development of nuclear power. However, in the long term, I believe it will have beneficial effects for at least three reasons.

First, much has been learned from the accident, and this knowledge is already being put to good use in making nuclear power an even safer technology.

The number of investigations completed or in progress is impressive. Besides President Carter's Kemeny Commission, several congressional task forces and Nuclear Regulatory Commission study groups have thoroughly examined the accident and recommended ways to improve reactor safety.

In addition, various nongovernmental agencies, such as industry trade associations, the Electric Power Research Institute, individual utilities, independent advisory panels, and nuclear equipment vendors have conducted studies and made suggestions, or are in the process of doing so. Some recommendations growing out of these diverse examinations have already been adopted while others are being considered for future implementation.

Second, while, as a result of TMI, the public has become keenly aware of the risks of nuclear power, we believe it also is developing an awareness that these risks must be compared with the great benefits of nuclear generation and with the risks associated with other methods of energy production.

For example, coal mining accidents and black lung disease take hundreds of miners' lives each year. Moreover, the burning of coal causes pollution, despite advances in precipitator technology and other clean-air systems. Although the mining and burning of coal causes more harm day in and day out than nuclear power, coal's risks have been accepted because they are familiar and less frightening to the public.

The third reason TMI will be beneficial in the long term is because it has focused attention on the important role nuclear power must play in the nation's search for an adequate energy supply.

* The choice is not merely whether to be for or against nuclear power. Rather, we must choose from extremely limited number of alternatives for producing additional electricity between now and the year 2000.

One such alternative is imported oil, which endangers national security, worsens the U.S. balance of payments deficit, and contributes to inflation and the instability of the dollar.

* Another alternative is to rely on those technologies not yet adequately developed, which could lead to power shortages, rising unemployment and a dangerous downward economic spiral.

A third possibility is to develop only coal-fired generation. However, the problem with this alternative is that although coal has vast potential, it cannot do the job by itself over the next 20 years or so. Thus, it seems to me that the practical alternative for increased power production is to use a combination of coal and nuclear power.

In conclusion as we look back over this past year, and as I look across this auditorium at our most important asset--you, our consumer members--I feel that we have the wherewithal to combat the effects of uncertainty and over-regulation, not only in the area of nuclear power development, but in every aspect of the many constructive actions which we must take to insure reliable power delivery to other members.

To borrow from our own story. The Dairyland Power Story, by Harvey Schermerhorn there was a time when the critics and observers said that cooperative rural electrification just couldn't be accomplished.

But, we didn't know it couldn't be done.

That's why we are all assembled here today, a living success story, a major chapter in American rural electrification's history.

We have the technology and the communications tools to write the next chapter.

We know that with your support it can be done.

Thank you for your attention and support today and in the days ahead.