



CONQUERING NEW FRONTIERS

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DAIRYLAND POWER COOPERATIVE
1996 ANNUAL REPORT

FACTUALLY SPEAKING

Dairyland Power Cooperative provides the wholesale electrical requirements and other services for 28 electric distribution cooperatives and 19 municipal utilities which supply the energy needs of more than half a million people.

Electricity from Dairyland's four generating stations—979 megawatt capacity—produce electricity which is transmitted via 3,227 miles of transmission lines to 318 substations located throughout the system's 44,500 square mile service area.

Dairyland's service area encompasses 62 counties in five states (Wisconsin, Minnesota, Iowa, Illinois and Michigan). Dairyland has provided low-cost, reliable electrical energy and services to its customers in the upper Midwest for 56 years.

1996 FINANCIAL SYNOPSIS

	1996	1995
	(in thousands)	
Total Assets	\$474,075	\$477,930
Equity	\$ 87,343	\$ 91,675
Liabilities	\$386,732	\$386,255
Total Equity & Liabilities	\$474,075	\$477,930
Equity % of Total Assets		18.4%
Total Revenue	\$186,089	\$165,343
Net Margins	\$ 2,019	\$ 3,110
Times Interest Earned Ratio	1.11	1.16
Debt Service Coverage	1.46	1.51
Class A Sales-MWh	3,365,291,658	3,268,193,700
Total Sales-MWh	6,141,500,617	4,703,184,311

GENERATING STATIONS

Type	Station	Units	Capacity-Megawatts
Coal	Alma	5	204
Coal	JPM	1	377
Coal	G-3	1	377
Hydro	FHS	3	21
Total		12	979

Coal burned - tons in 1996 1,796,507

Load management capability 105 MW

TRANSMISSION/SUBSTATIONS

Transmission lines 3,227 miles
as constructed

Substations (plant/transmission/
distribution) 318

OTHER FACTS*

Founded	Dec. 16, 1941
Geographic service area	44,500 square miles (62 counties in Wisconsin, Minnesota, Iowa, Illinois and Michigan)
Employees	573
Customers in system	219,464
Economic development loans approved	19 (totalling more than \$1.8 million)
Annual meeting	June 18, 1997 June 10, 1998 June 9, 1999
Board meeting	third Friday of month

*For year ending Dec. 31, 1996



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VISION, MISSION & VALUES

OUR VISION...

...is to be the *provider of choice* for energy and services to our customers.

OUR MISSION...

...is, as a cooperative organization, to provide competitively priced energy and services to our customers and maximum value to our owners, consistent with the wise use of resources.

We will work with our members to improve the quality of life of their customers and the economic and social well-being of the region.

OUR VALUES

Our members are the reason for our existence. We will strive to provide services that exceed their expectations,

emphasizing honesty, quality and other sound business principles.

Our employees and the people we serve are vital to our success. To promote excellence, we will support and encourage employee development for the purpose of matching qualified people to the right jobs while being sensitive to the importance of job satisfaction. We will encourage open, honest and timely two-way communication. Working as a team, we will respect each other and balance empowerment with accountability.

As we conduct our business, we will be responsible members of our community, good stewards of the environment and follow sound safety practices, while continually improving our processes and services.

EXECUTIVE MANAGEMENT

William L. Berg
General Manager

John P. Leifer
Assistant General Manager, Generation

Robert C. Mueller
Assistant General Manager, Finance & Administration

Charles V. Sans Crainte
Assistant General Manager, Transmission

Alison J. Thimis
Assistant General Manager, Customer Services & Planning

Richard J. Boettcher
Director, Information Technology

Mary L. Lund
Director, Human Resources

IF SOMEONE SHOULD ASK...

FACTS & FIGURES

Dairyland Power Cooperative
Administration Building
PO Box 817
3200 East Avenue South
La Crosse, WI 54602-0817

Telephone: 608-788-4000

FAX: 608-787-1221

Web Site: www.dairynet.com

VISITORS WELCOME



FORWARD

As the electric utility industry moves toward the competitive frontier of the 21st century, Dairyland Power Cooperative's board of directors, senior management team and stellar workforce continue to focus on the needs of their customers...their guiding stars.

This report offers an opportunity to learn more about Dairyland's accomplishments, challenges and opportunities on their quest to conquer new frontiers.

WHO WE ARE...

Dairyland Power Cooperative, La Crosse, Wisconsin, provides the wholesale electrical requirements and other services for 28 electric distribution cooperatives and 19 municipal utilities which supply the energy needs of more than half a million people.

Dairyland was formed in December 1941. Today, electricity from the generation and transmission cooperative's four generating stations—979 megawatt capacity—produce electricity which is transmitted via 3,227 miles of transmission lines to 318 substations located throughout the system's 44,500 square mile service area.

Dairyland's service area encompasses 62 counties in five states (Wisconsin, Minnesota, Iowa, Illinois and Michigan). Dairyland has provided low-cost, reliable electrical energy and related services to its customers in the upper Midwest for nearly 56 years.

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OUR GUIDING STARS

Throughout history, successful explorers have utilized the stars to guide them as they pioneered and conquered new challenges. As we venture into the new frontier of increased competition and opportunities in the utility industry, our reference and guiding stars are our customers.

For 56 years, the member cooperatives and customers of Dairyland Power Cooperative have brought safe, reliable and cost-effective electricity to their customers' homes and businesses. Our goal is to not only reliably and efficiently meet their energy needs, but to create energy solutions to meet today's challenges.

As their wholesale energy supplier, Dairyland Power Cooperative works closely with our member cooperatives and municipal utility customers to exceed the high expectations of today's society and to prepare for a rapidly changing marketplace. We have implemented a number of strategic initiatives to reduce costs, increase reliability, add new energy-related products and services, enhance customer service and keep our wholesale electric rates among the lowest in the country.

GEN~SYS, our partnership with Cooperative Power, a neighboring Minnesota generation and transmission cooperative, is in its second year of operation. This alliance has helped strengthen our competitive position with generation costs well below the national average. Through GEN~SYS' combined resources, Dairyland is marketing power to serve municipal utilities and is seeing success with the addition of four new municipal utility customers in 1996.

In the past few years, Dairyland has strengthened its long-term competitive position by implementing actions to ensure growth, contain costs, and add or improve services. Dairyland is listening to and communicating with our member distribution cooperatives, directors and customers about industry changes.

A year ago (March 1996), Dairyland management, directors and distribution cooperative managers initiated a system-wide strategic planning process to develop the strategies and organizational structures to position us to succeed in the new frontier of competition.

We are looking closely at the needs of today's customers and are seeing results in reducing costs, improving reliability and reducing wholesale rates. Actions implemented to achieve these targets have included a buyout of our John P. Madgett Station coal contract resulting in substantial cost savings, completion of the sale of the E.J. Stoneman Station in Cassville, Wis., and entering into a new transmission network agreement.



*Bill Berg, General Manager, and
Gerald Koeller, President.*

1996 AT A GLANCE

Dairyland member systems	28
Municipal customers	19
Total consumer meters	219,464
Approximate population served	550,000
Peak demand (reported to MAPP)	711 MW (Dec. 20, 1996)
Power sales	6.1 million MWh
Total operating revenue	\$186 million
Net margins	\$2 million
Dairyland assets	\$474 million
Owned generation capacity (coal)	979 MW
Owned generation capacity (hydro)	21 MW
Municipals under contract (diesel)	78 MW
Miles of transmission line	3,227
Substations	318
Employees	573

Satisfying customer needs is our guiding star. We realize today's customer wants more than reliable electricity from their power provider. As you will see throughout this report, new energy management and consulting services have been developed to assist our wholesale customers attract and retain retail customers. Power quality, standby generation and key account management are among recent efforts.

Educating customers has always been a key cooperative principle. We have been leaders in developing and implementing effective new regional marketing and national "branding" efforts to communicate the benefits of electricity and the advantages of electric cooperatives to consumers.

Reliability and responsiveness of their energy provider are what today's consumers expect. Dairyland continues to be aggressive in not only maintaining but increasing the reliability of its transmission system.

We are proud to be recognized among the top 10 generation & transmission cooperatives named best positioned for competition by *Resource Data International*, a provider of market and competitor intelligence to the utility industry.

We realize we must continue to be responsive to the changing environment and are confident that system unity is the key to meeting the challenges ahead. At Dairyland, we continue to provide leadership as we work closely with our customers to actively promote changes to electric utility regulation which will provide benefits to all customers. That's what being a cooperative is all about.

We compliment the dedication of Dairyland's workforce, which continues to be responsive to the changing industry environment and is flexible in considering new ways of doing things. The success of our partnership with our labor union, IBEW 953, has received national attention, and the ratification of a five-year labor agreement through January 2001 has enhanced our focus on the future.

Dairyland was created to meet the needs of our customers nearly 56 years ago. Today, with customer satisfaction as our guiding star, we are exploring new opportunities and energy solutions for our customers as we conquer the new frontier.

Gerald C. Koeller

President

William L. Berg

General Manager

BOARD OF DIRECTORS

Gerald Koeller
President
Grant-Lafayette REC

Art Riemer
First Vice President
Bayfield REC

George Webb
Second Vice President
Chippewa Valley REC

Judy Murphy
Secretary
Richland REC

Robert Anderson
Treasurer
Tri-County REC

Mary Sexton
Assistant Secretary
Dairyland Power

Niles Berman
Legal Counsel

Sandra Davidson
Crawford REC

Richard Dierauer
Buffalo REC

John Donner
Jump River REC

Dennis Engel
Taylor REC

Dean Fisher
Hawkeye Tri-County REC

Francis Hager
Pierce-Pepin REC

Robert Kelbel
Vernon REC



Front row, from left: Mary Sexton, Gerald Koeller and Judy Murphy. Back row, from left: Niles Berman, Robert Anderson, George Webb and Art Riemer.



Front row, from left: Robert Kelbel, Sandra Davidson and Dean Fisher. Back row, from left: Francis Hager, Dennis Engel, John Donner, Roland Kelley and Richard Dierauer.



Front row, from left: Quentin Rucker, Francis Klatt and John Roberts. Back row, from left: Ervin Schultz, Selmer Nelson, Irvin Schnick, Leonard Ricke, Robert Schroeder and Bernard Welsh.



Front row, from left: Raymond Tolley, Roger Solomonson and Wayne Weber. Back row, from left: Gordon Yost, Ken Sonsalla, Duane Solum and Ralph Woik.

Roland Kelley
Oakdale REC

Francis Klatt
St. Croix REC

Selmer Nelson
Barron REC

Leonard Ricke
Jo-Carroll REC

John Roberts
Eau Claire REC

Quentin Rucker
People's REC

Irv Schnick
Jackson REC

Robert Schroeder
Cedar Valley REC

Erv Schultz
Price REC

Roger Solomonson
Winnebago REC

Duane Solum
Polk-Burnett REC

Ken Sonsalla
Trempealeau REC

Ray Tolley
Class B Members

Wayne Weber
Dunn County REC

Bernard Welsh
Allamakee-Clayton REC

Ralph Woik
Clark REC

Gordon Yost
Freeborn-Mower REC

CONQUERING NEW FRONTIERS

A new frontier of changes, challenges, freedoms and opportunities awaits Dairyland Power Cooperative, its customers and the electric utility industry. This competitive journey to uncharted frontiers has Dairyland focusing on the changing needs of its customers—its guiding stars.

Dairyland management has set a course of action by implementing a multitude of strategic initiatives in 1996 which are resulting in substantially lower costs, innovative new products, enhanced customer service, increased system reliability and significant system growth.

In 1996, Dairyland staff made great advances in positioning Dairyland as one of the leading generation and transmission cooperatives (G&Ts) in the nation, including the implementation of GEN~SYS, a strategic generation and power marketing alliance, with a neighboring G&T.

In early 1997, Dairyland was named one of the top 10 G&Ts *best positioned for competition* (source: *Resource Data International*). Low wholesale power rates, combined with innovative new wholesale rate options that meet the needs of the new marketplace, provide a strong foundation for our quest to conquer new frontiers.

EXECUTIVE MANAGEMENT TEAM MEMBER



William L. Berg
General Manager

Dairyland management, directors and distribution cooperative managers have expanded the strategic planning process with a focus that has produced real results, including aggressive retail and wholesale rate targets.

Actions implemented to achieve these targets have included the buyout of the coal contract for the John F. Madgett Station (JPM) resulting in substantial savings, closure on the



Power surges can be devastating to electronic equipment and can also result in loss of valuable business or personal data.

Power surges and dips can be produced by nearby lightning strikes, as well as inadequate wiring in the house or many other common causes. Trees, birds and animals can cause surges by interfering with power lines. Surges may be carried by phone, cable TV or satellite TV hardware.

Dairyland's newly introduced *Secure Home*™ program offers customers surge protection packages for their most common applications including: Home Entertainment, Multi-Media, Home Office and Farm. Dairyland has partnered with leading equipment makers throughout the U.S. to develop these packages including Best Power Company, Necedah, Wis., a customer of Oakdale Electric Cooperative.

sale of the E.J. Stoneman Station, regulatory asset write-down plans, innovative new rate options and a transmission network agreement with Northern States Power to reduce transmission costs and enhance access to competitively priced energy.

During the past year, Dairyland management explored the opportunities of several new business

frontiers. Some routes help shape the future direction of the industry, while others impact Dairyland's strategic direction and directly benefit its members.

Dairyland has been a leader in supporting industry changes that will result in lower costs for *all consumers*. Dairyland continues to work with its members and customers to shape the future regulation of the electric utility industry and will continue to strive to protect the interests of all consumers.

TOOLS FOR THE NEW FRONTIER

The management and staff at Dairyland realize that each cooperative and municipal utility in the system needs different tools to be successful in the new frontier of competition.

EXECUTIVE MANAGEMENT TEAM MEMBER



*Alison J. Thimis
Assistant General
Manager, Customer
Services & Planning*

Dairyland has packaged innovative new products with value-added services to assist its member cooperatives and municipal utilities in attracting and retaining customers. Staff are partnering with leading equipment makers throughout the country to develop a variety of power protection packages. Among these partners is

Best Power Company (Necedah, Wis.), a member of Oakdale Electric Cooperative.

Some of Dairyland's *Beyond the Meter* services include power quality, standby generation, key account management, economic development, competitive pricing, marketing, *KeyRater* freight management, graphic design, printing, mail services, engineering, energy management, human resources, safety training and billing. Throughout this report, the benefits of many of these services are highlighted.

Dairyland has implemented a number of strategic initiatives to ensure growth, contain costs and improve service. For several years, Dairyland has been actively educating distribution cooperatives, Dairyland directors and municipal customers to better understand industry trends, anticipate major challenges and reposition their organizations to ensure success.

Successful utility strategies, the changing utility industry, federal and state deregulation perspectives, managing key accounts and utilities in the 21st century were among the topics presented at *The New Frontier*, a two-day educational symposium held in February 1997.



Dairyland's annual customer symposiums are recognized as an exceptional resource for members and customers throughout our region. Nearly 350 people attended The New Frontier in February 1997, Dairyland's fourth annual customer symposium.

Dairyland's annual customer symposiums are recognized as an exceptional resource for members and customers throughout our region. They are one of many ways Dairyland offers our distribution cooperatives' staffs and directors and municipal customers an opportunity to be better informed about competition and industry-related issues. Major customer forums such as the symposium and annual meeting are augmented by workshops, newsletters, magazines and videos.

Dairyland recognizes the importance of reaching energy users in this new frontier and is participating in and helping to develop a national "brand identity" with the National Rural Electric Cooperative Association (NRECA). Dairyland has also put its advertising dollars to work more efficiently by initiating a regional marketing and advertising group with other generation and transmission cooperatives to position electricity as the energy of choice and cooperatives as the providers of choice.

In addition to its Internet web site (www.dairynet.com), Dairyland continues to upgrade the capabilities of *DPC Online*, a unique personal computer-based network developed to facilitate information transfer among Dairyland, its member cooperatives, municipal customers, alliance partners, vendors and consultants. This is accomplished

**EXECUTIVE
MANAGEMENT
TEAM MEMBER**



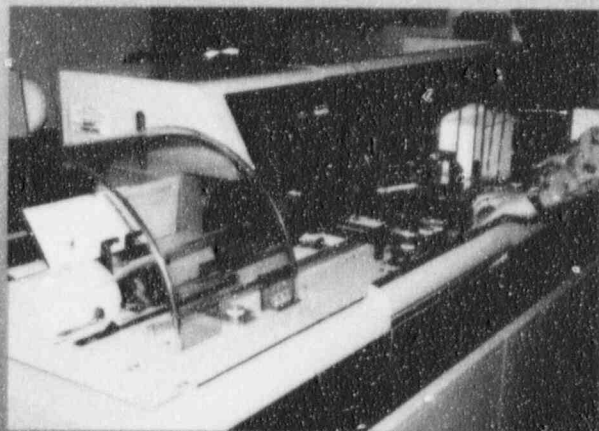
*Richard J. Boettcher
Director, Information
Technology*

through file transfers, E-mail and electronic bulletin board forums which enable participants to share experiences on such issues as safety, power quality and member service.

DPC Online continues to provide customers instant access to business information including industry news, an electronic shopping mall to purchase products online, sample service agreements and

access to monitor breaker status for the transmission system.

This innovative utilization of technology provides users throughout Dairyland's five-state system access to information which allows them to respond more efficiently and effectively to their consumers' needs.



Technology continues to drive change in all businesses. An example is the postal industry, with the most recent change affecting business mailers. Dairyland enhanced its state-of-the-art mailing facilities to maximize savings for its customers.

By automating and bar-coding their mail, Dairyland's Mail Services is saving its current customers over \$125,000 per year in postage. Classification Reform, which went into effect July 1, 1996, could have had a large financial impact on Dairyland and its customers.

The basic principal behind the reform is that the Postal Service wants mailers to automate their mail and offers incentives to do so. By complying with the new regulations, Dairyland reduced its postage costs by 11 percent, rather than seeing an increase of 13 percent over prior postal rates.

Member cooperatives are able to utilize Dairyland's Human Resources expertise for assistance in a diverse variety of people-related issues. During 1996, Dairyland became the Job Training and Safety (JT&S) provider for all 25 Wisconsin electric cooperatives. The JT&S instructors, previously employees of the Wisconsin Electric Cooperative Association, have become Dairyland employees.

Dairyland safety staff are a resource center for Dairyland employees, member cooperatives and municipal utilities in the areas of safety, security, OSHA and other regulatory compliance issues.

Human Resources provides expertise for diverse requests including: developing protective clothing guidelines and internal policies for other regulatory-related measures, drug screening, creating and updating cooperative board and administrative policies, workers' compensation issues, recruitment and testing. Dairyland will continue to provide these services and develop other Human Resources-related services to meet the latest requirements.

ECONOMIC DEVELOPMENT PROGRAMS SPUR GROWTH

While competitive rates continue to be one of Dairyland's best contributions to the economy of the region, Dairyland's economic development program helps attract new businesses and expand others in rural communities, improving the quality of life of its consumers and the economic and social well-being of the region. In 1996, the Dairyland board of directors granted 19 economic development loans (including one large industrial customer) providing nearly \$1.8 million of low-interest, 10-year funds which will promote economic growth in rural areas. These funds will help create 279 new jobs and generate new annual sales of 74.8 million kilowatt-hours.

In addition, economic development specialists assisted member cooperatives with a number of other development projects and major new customer opportunities as well as applications for economic development financial assistance from other sources for projects in their service areas.

POWER MARKETING FRONTIER

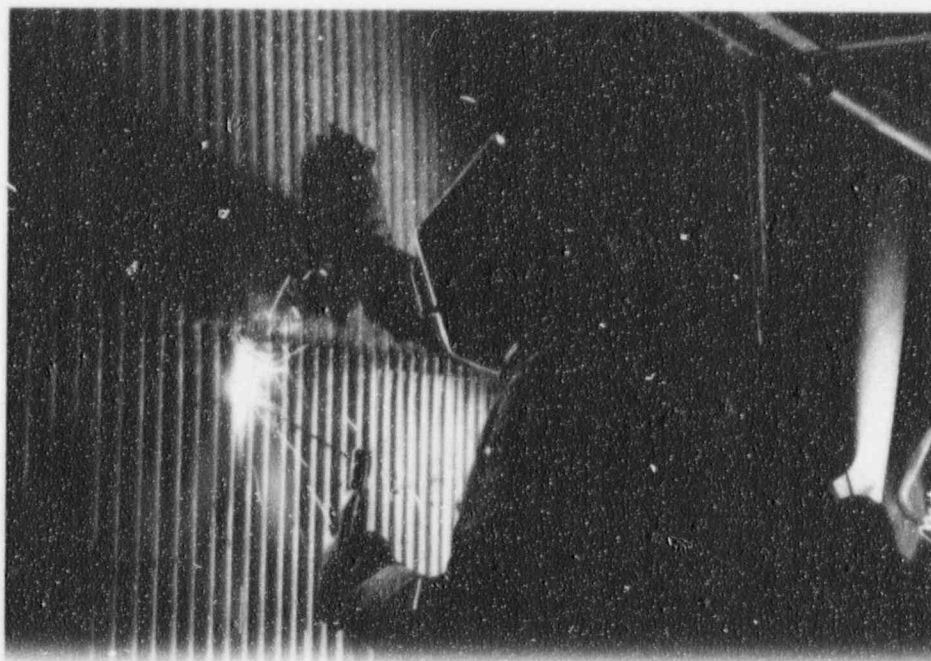
Dairyland has successfully positioned itself as a leading competitor in the region's rapidly growing power marketing frontier.

Taking an innovative approach to an increasingly competitive industry, Dairyland created GEN~SYS, a strategic generation operation and power marketing alliance with Cooperative Power (CP) of Eden Prairie, Minn., which combined resources of the two utilities on January 1, 1996. The immediate benefits achieved through this alliance quickly positioned GEN~SYS as the leading edge model for "synthetic mergers" within the industry.

GEN~SYS provides an opportunity to enhance Dairyland's already strong position as a regional power marketer. Since January 1996, a power marketing team has been jointly marketing power for GEN~SYS. Dairyland's members are already seeing savings generated from the power marketing arm of GEN~SYS. Three new municipal utility customers are now receiving power from GEN~SYS: St. Charles and Rushford, Minn., and McGregor, Iowa. In addition, Grove City, Minn., has signed a letter of intent to purchase power.



There is an emphasis on increased efficiency in all areas of operations at Dairyland. Rigorous maintenance inspections contribute to Dairyland's cost-effective, reliable electric generation.



By integrating their generation resources, Dairyland became more cost efficient. Dairyland's seasonal and daily demand patterns are complemented by CP's. Savings result from combining Dairyland's 979 megawatts (MW) of efficient coal and hydro generating capacity in Wisconsin with the low-cost generation from CP's 56 percent share of Coal Creek Station, an 1,100 MW lignite-fired power plant in North Dakota.

Joint power marketing, economic dispatch of energy, coordinated power plant maintenance scheduling, purchasing efficiencies and the optimization of federal sulfur dioxide allowances for all generating facilities all result in benefits for Dairyland's members.

Assuring the needs of Dairyland's existing members and municipal customers are being met and attracting new wholesale customers to the system are keys to success and tied directly to Dairyland's aggressive growth and development strategy.

ENHANCED GENERATION EFFICIENCY

There is an emphasis on increased efficiency in all areas of operations at Dairyland. In 1996, Dairyland reduced fuel costs per kilowatt-hour (kWh) produced at its coal-fired generating stations by implementing new operational strategies which enhance availability and operations of the units.

Rigorous maintenance inspections contribute to Dairyland's cost-effective, reliable electric generation. During a scheduled outage and inspection at the 377 MW Genoa Station No. 3 (G-3), staff found an area of potential future failure in the boiler where water wall tubing was too thin.

Extremely thin tubes were replaced and special tube protection methods have been implemented to help reduce future damage. In addition, special test ports have been installed to help monitor boiler

EXECUTIVE MANAGEMENT TEAM MEMBER



*John P. Leifer
Assistant General
Manager, Generation*



Recognizing customers' needs for reliable, low-cost power, Dairyland developed a new standby power program to assist its members in attracting and retaining key customers.

This program was developed in partnership with leading engineers, equipment specialists and contractors. This team of nationally-recognized experts has found a way to offer energy users in the Dairyland system the reliability of a standby generator and potential cost savings by helping to reduce peak demand. Dairyland's energy professionals provide total project management, working with customers to design the most efficient, reliable and cost-effective system for their needs.

The recently completed Jackson Correctional Institution served by Jackson Electric Cooperative, Black River Falls, Wis. took advantage of the generator concept of load control. It rewards the consumer with lower electric bills and enhances service reliability.

combustion and help optimize the nitrogen oxide control system which contributed to the tube erosion, resulting in enhanced future reliability.

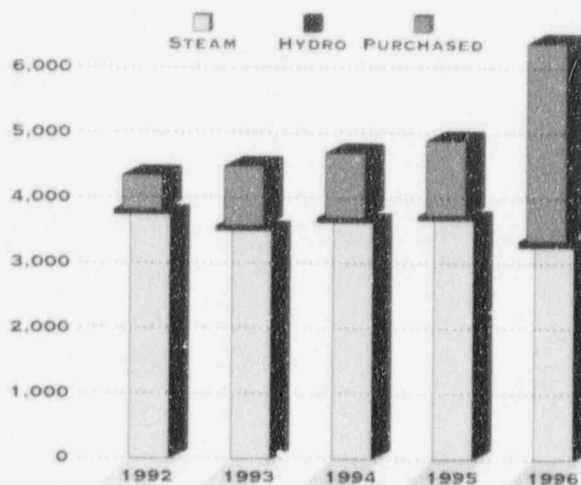
Dairyland staff implemented new coal unloading operations at G-3 in 1996. During the year, 610 barges were unloaded by Dairyland employees rather than a contractor, resulting in savings of over \$250,000.

The 377 MW John P. Madgett Station (JPM) underwent a turbine overhaul in spring 1996. The facility achieved significant improvement in plant performance due to these maintenance procedures. In addition, fuel costs were reduced substantially due to the negotiation of a contract with a new fuel supplier.

Dairyland's combination of generating facilities provides system flexibility. The 204 MW Alma Station was utilized more in 1996 in response to load growth, as well as maintenance outages at G-3 and JPM, combined with price and availability of purchased power.

Employees require quick and reliable information to meet customer needs in today's fast-paced electric utility industry. An Automated Maintenance Planning System (AMPS) has been installed throughout Dairyland's three coal-fired

POWER GENERATED & PURCHASED
(Thousands of MWh)



generating facilities to provide information for efficient maintenance. AMPS allows Dairyland to reduce inventory investment and to more cost effectively utilize equipment, facilities and the expertise of Dairyland personnel.

Dairyland continues to invest to improve the capabilities of the state-of-the-art control and security functions of our Energy Management System (EMS). Several EMS functions have been automated, including load control notices, municipal billing, dispatch log distribution and outage notices.

RELIABILITY AND RESPONSIVENESS

A reliable delivery system is a major ingredient to success in an increasingly competitive industry. Dairyland achieved significant improvements to its transmission system, increasing reliability, reducing costs and supporting new customers.

In 1996, federal regulators took a major step in deregulating the electric industry and introducing increased competition into wholesale power markets.

The Federal Energy Regulatory Commission (FERC) issued governing rules regarding stranded cost recovery, open access to transmission networks and electronic information networks.

Although electric cooperatives have not traditionally been regulated by FERC, provisions in the new rules indicate that generation and transmission cooperatives must adhere to open access rules if they wish to take advantage of them.

To reduce transmission costs and gain access to a larger wholesale market, Dairyland entered into a transmission network agreement with Northern States Power (NSP) during 1996. This agreement also provides interconnections to our GEN~SYS partner, Cooperative Power.

Also, in step with current federal and state regulatory trends, Dairyland has supported the development of a Regional Transmission Group by the Mid-Continent Area Power Pool (MAPP). This will help to ensure compensation to providers of transmission service within MAPP.

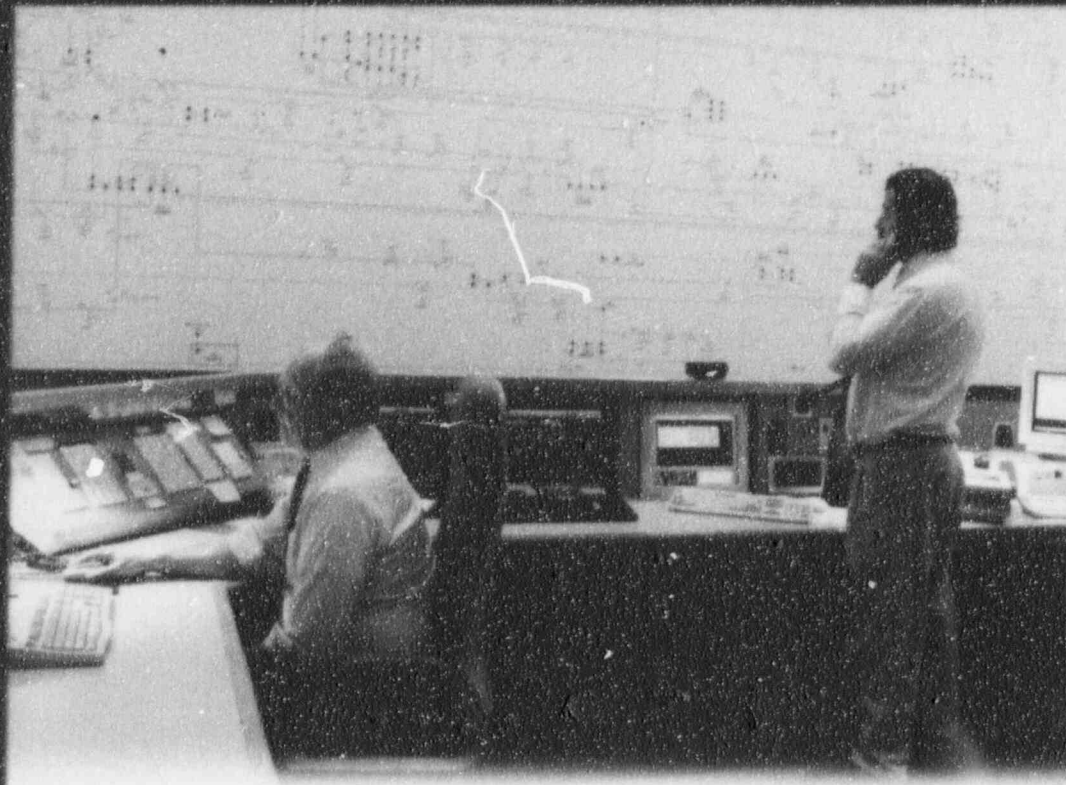
EXECUTIVE MANAGEMENT TEAM MEMBER



*Charles V. Sans Crainte
Assistant General
Manager, Transmission*

*Electricity has helped
enhance the quality of
life in our region.
Dairyland works with
its customers to create
energy solutions to
meet their consumer's
changing needs.*





Generation and transmission dispatchers in Dairyland's System Operations Center monitor and control Dairyland's complex generation, power sales/purchases and transmission systems.

Dairyland staff continues to provide customers with competitive prices on transmission and ancillary services.

To enhance system reliability, Dairyland is pursuing an accelerated program to rebuild aging transmission facilities. Dairyland is augmenting the efforts of its own design and construction teams with the services of an engineering consulting firm and construction contractor to improve transmission performance. There were 71 miles of transmission line rebuilt/upgraded and 9.6 miles of new line built in 1996, resulting in substantial improvements in reliability and lower costs through reduced energy loss. (These line projects were completed at 11 member cooperatives including: Grant-Lafayette, Oakdale, Polk-Burnett, Clark, Vernon, Barron, Eau Claire, Chippewa Valley, Allamakee-Clayton, Hawkeye Tri-County and Freeborn-Mower).

Increased utilization of technology continues to play a key role in improving transmission reliability, enhancing all phases from the survey process through final design.

GENERATING STATIONS

Type	Station	Total Net Capacity in MW (Winter)	Net MWh (000's)	% of Total
Coal:	Alma	204	406	6.36
	JPM	377	1,182	18.52
	Genoa #3	377	1,671	26.18
Total Coal		961	3,259	51.06
Hydro:	Flambeau	21	88	1.38
Total Generation		979	3,347	52.44
Purchased Power			3,036	47.56
Total Requirements			6,383	100.00

TRANSMISSION LINES

Miles as Voltage-KV	Miles as Constructed
161	606.52
69	2,559.56
34.5	60.63
	3,227.91

SUBSTATIONS

Type	Number	Total Capacity KVA
Plant	3	954,000
Transmission	30	1,383,000
Distribution	285	909,250
Total	318	3,246,250

Dairylands' new switching trailer provides hands-on training for member cooperative lineworkers throughout the system. Here, Hawkeye Tri-County Electric Cooperative personnel learn techniques to enhance response time.



In 1996, additional radio repeaters were installed to improve mobile communications in northern Wisconsin. Transmission system security was also enhanced with the installation of electronic control and communication devices at more than a half-dozen sites throughout the service territory, allowing enhanced communication between Dairyland's Energy Management System computer in La Crosse and the remote sites.

Since Dairyland's transmission system is interconnected to other utilities, staff works with neighboring utilities to ensure Dairyland's customers have continued reliable transmission service. Currently, Dairyland is working with NSP to enhance transmission reliability in northwestern Wisconsin and eastern Minnesota. Growing business and residential electrical use in this region has enhanced the need for the proposed *Chisago Project*.

The proposal calls for constructing a 230-kilovolt transmission line from NSP's Chisago County (Minn.) substation to Dairyland's Apple River substation near Amery, Wis. These structures could also carry a 115-kilovolt line from the Chisago County substation to a proposed new substation near Taylors Falls. The proposal includes a 161-kilovolt line from NSP's Stone Lake substation near Hayward, Wis., to NSP's Bay Front substation in Ashland, Wis. Permitting has begun for the project in Minnesota and Wisconsin.

Working together to enhance response time, Dairyland's Transmission Division and Safety employees designed a switching training trailer that replicates a working substation on wheels. This facility allows performance-based training for member cooperative lineworkers throughout the Dairyland system.

Once distribution cooperative employees complete the half-day training, they are certified to do specific emergency work during outages, greatly enhancing reliability for Dairyland's members.

The training trailer was a recommendation by the Outage Restoration Team during the Competitive Advantage Program, Dairyland's business process re-engineering. It was completed in January of 1997 and through April, 24 of Dairyland's 28 member cooperatives have used the trailer for training.

PROTECTING THE FUTURE

Dairyland remains committed to the wise use of resources. While providing its customers with competitively priced energy and services, it operates its coal-fired units with lower emissions than federal and state environmental standards require. With over \$50 million invested in pollution control equipment, Dairyland remains committed to

increasing efficiency, consistent with the wise use of our Earth's resources.

Highlighting Dairyland's acid rain program compliance is the cooperative's ability to control sulfur dioxide (SO₂) emissions significantly below the level authorized by the Environmental Protection Agency. Dairyland used less than half of

the issued SO₂ allowances, representing an increase in Dairyland's SO₂ balance of over \$2 million for 1996.

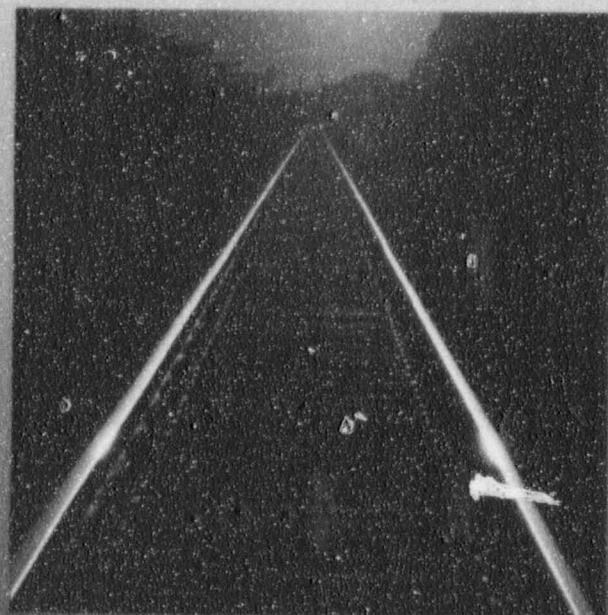
In 1996, Dairyland lowered its SO₂ generating system emission rate to 1.02 lbs/MBtu, the lowest ever for the system. Dairyland's SO₂ emission rate has declined steadily over the past 25 years due primarily to burning coals with lower sulfur content.

Switching the coal blend at G-3 to 50 percent Powder River Basin coal and 50 percent southern Illinois coal in 1996 has contributed to the decrease in emissions, as well as more than \$600,000 in fuel savings.

Similarly, nitrogen oxide (NO_x) emissions have continued to decline due to the installation of low-NO_x burners and a shift of Dairyland's generation mix from higher emitting units to lower emitting units.

Dairyland has an option to recycle or landfill the ash resulting from its three coal-fired generating facilities. Forty-five percent of the coal ash produced by Dairyland's three coal-fired generating stations was recycled in 1996. The ash is used as a strength enhancer in many concrete applications and as a substitute for crushed limestone in road building projects. This means Dairyland is landfilling less ash, saving our members money and delaying the need for additional landfill capacity farther into the future.

All remaining PCB (polychlorinated biphenyl) capacitors in the Dairyland system have been retired from service and sent for proper disposal in 1996. Dairyland was committed to phasing out all PCB capacitors by 1998, and is proud that this goal has been met two years ahead of schedule. Dairyland continues to replace generating station PCB-filled transformers. The Genoa and Flambeau sites are PCB free.



Realizing significant savings in shipping costs, Dairyland extended to its customers in 1996 the opportunity to participate in the *KeyRater* freight management program. The simple software program is designed to use zip code locations and shipping weights to determine the most cost-effective method of moving inbound or outbound material.

KeyRater has demonstrated savings of 15-30 percent for current users. Forty-four different carriers are participating in the program, which is endorsed by the National Rural Electric Cooperative Association.

Many state and federal resource agencies as well as environmental groups have been working to save and recover several species of native prairie grasses in western Wisconsin and southeastern Minnesota. Dairyland is assisting in this environmental effort by maintaining its closed ash pond at Genoa, Wis., as a prairie, revegetated with about 60 species of native prairie plants.

Dairyland is proud of its hydro-electric facility and recreational opportunities provided to the public. Environmental monitoring is currently underway and is key in the five-year relicensing process of Dairyland's 21 MW Flambeau Hydroelectric Station at Ladysmith, Wis. To renew the station's license, which expires in February 2001, Dairyland staff are conducting studies and preparing reports for the Federal Energy Regulatory Commission (FERC). The license application will be filed with FERC in January 1998.

The Flambeau Station, for 46 years, continues to be an efficient low-cost facility, generating 88,000 MWh in 1996, the sixth highest in the plant's history.

Dairyland provides a 2,000-acre reservoir at the Flambeau Hydroelectric Station. In partnership with Rusk County, Wis., Dairyland and the county jointly maintain several areas adjacent to the reservoir and downstream of the plant.

PRIVATE FUEL STORAGE INITIATIVE

Genoa FuelTech, a subsidiary of Dairyland, is among 10 U.S. utilities which have formed Private Fuel Storage, Limited Liability Company. This group has signed a lease agreement for the potential development of a temporary storage facility for spent nuclear fuel on the Skull Valley Reservation of the Goshute Indians in Utah.

Dairyland's involvement in this project is a strategic measure to reduce long-term costs for its members. Dairyland owns the 50 MW La Crosse Boiling Water Reactor at Genoa, Wis., which has been shut down since April of 1987. Spent nuclear fuel is maintained on site and Dairyland has the potential responsibility of maintaining it for another 25-30 years. Dairyland has been reviewing more cost effective options for fuel storage which currently costs Dairyland approximately \$2.8 million annually.

PARTNERS FOR THE NEW FRONTIER

The innovative and forward-thinking Partnership Agreement signed in 1995 between Dairyland and labor union IBEW 953 has received national attention during the past year. The agreement allows greater flexibility to meet customer needs in an atmosphere of creativity and security for employees.

Major components of the partnership include no layoffs for the duration of the labor agreement and the pursuit of safe multi-skilling of personnel. The mission of the agreement is to make Dairyland "a more successful, responsive business through the combined, focused efforts of all of Dairyland's workforce by continuing to build an environment of mutual trust and understanding."

As part of enhancing Dairyland's focus on customer service, employees are learning new technical and personal skills to implement into their daily activities. Employees have the opportunity to enhance skills and knowledge, to increase their responsibility and authority levels in their positions, while working to exceed customer expectations.

EXECUTIVE MANAGEMENT TEAM MEMBER



*Mary L. Lund
Director, Human
Resources*

FINANCIAL HIGHLIGHTS

Dairyland's members are harvesting the rewards of Dairyland's successes in conquering the new frontier. Dairyland has reduced its wholesale rate for its member cooperatives four times since 1995,

achieving a wholesale rate 21 percent below 1986 levels.

EXECUTIVE MANAGEMENT TEAM MEMBER

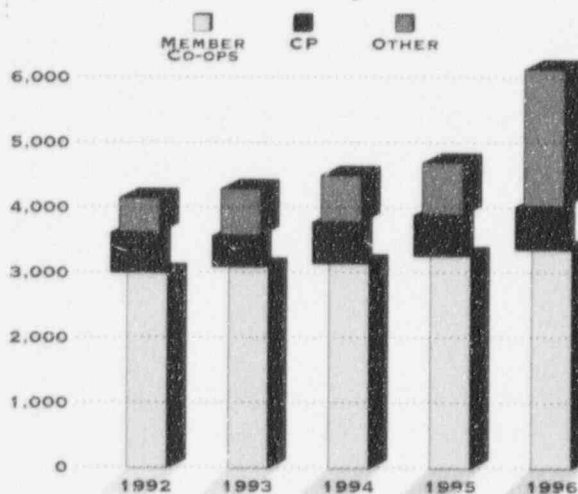


Robert C. Mueller
Assistant General
Manager, Finance &
Administration

Sales and revenue milestones were achieved in 1996. Dairyland's total operating revenues increased 12.5 percent to \$186.1 million in 1996, while total electric sales increased 29.8 percent to 6.1 billion kWh. These substantial increases were primarily due to sales that Dairyland made on behalf of GEN~SYS, Dairyland's alliance with Cooperative Power.

Total margins, the difference between revenues and expenses were \$2 million in 1996 compared to \$3.1 million in 1995. Dairyland's margins continue to be positively influenced (\$6.6 million) by the income from its investment program.

POWER SALES (Thousands of MWh)



Revenues from energy sales to Dairyland's 28 Class A member cooperatives (Dairyland's owners) increased slightly in 1996 to \$126.3 million.

Revenues from sales to Class C (G&Ts), D (municipal utilities) & E (investor-owned utilities) members increased 50 percent to \$55.9 million, with much of this increase due to activity related to GEN~SYS. These members include the Western Wisconsin Municipal Power Group, Cooperative Power, other members of the Mid-Continent Area Power Pool and interconnected municipal systems.

By changing its transportation arrangements and taking advantage of more favorable coal supply options, Dairyland has been successful in reducing delivered coal costs in eight of the last 10 years.

Sales to Class C, D & E members increased to 2.7 billion kWh in 1996.

Electric sales to Class A members were 3.4 billion kWh, a slight increase over the 1995 sales of 3.3 billion kWh. Class A sales constitute 56 percent of total energy sales.

The cost of fuel burned, the largest single annual expense item at Dairyland, amounted to \$47.2 million or 25.4 cents of each revenue dollar in 1996. Dairyland took delivery of 1,958,000 tons of coal in 1996 from mines in Wyoming and Illinois, approximately 43 percent of which was delivered via unit train to JPM and the other 57 percent by barge to Dairyland's coal-fired plants at Alma and Genoa, Wis. The cost of coal delivered to JPM by Dairyland's 245-car unit train fleet decreased nearly 10 percent on a unit of energy basis. At the barge plants a 4.2 percent decrease in delivered cost was achieved. System-wide, delivered fuel costs in 1996 were 7.1 percent lower than 1995 on a unit of energy basis.

A major contributing factor to the reduction in fuel expense was the successful termination of a long-term, high-cost coal supply agreement. New arrangements permitted the purchase of replacement coal at lower current market prices. In addition, rail and barge transportation agreements,

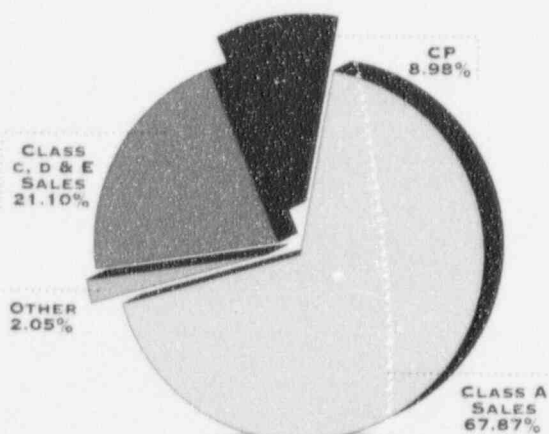
which account for a major portion of delivered coal costs, were renegotiated at more favorable rates.

By changing its transportation arrangements and taking advantage of more favorable coal supply options, Dairyland has been successful in reducing delivered coal costs in eight of the last 10 years. As noted earlier in this report, Dairyland's commitment to the environment and its members is reflected in its fuel supply strategies which includes not only selecting low-cost sources, but also blending various types of coal to achieve favorable economic and environmental goals. These efforts have directly lowered costs, contributing to wholesale rate decreases passed on to Dairyland's members.

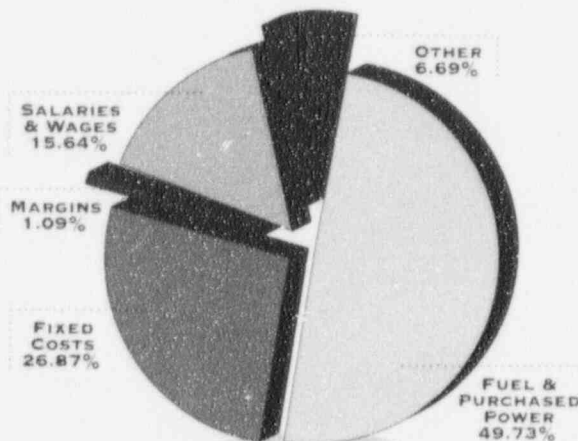
Dairyland's financial credentials are excellent as reaffirmed by Standard & Poor's AA bond rating. While the financial ratings of many other utilities have been downgraded due to the volatility of the industry, Dairyland remains one of the only two G&Ts in the country with a AA bond rating.

The accompanying pages highlight the 1996 audited financial statements of Dairyland's operations.

1996 REVENUE DOLLAR



1996 EXPENSE DOLLAR



VISION, MISSION & VALUES

OUR VISION...

...is to be the provider of choice for energy and services to our customers.

OUR MISSION...

...is, as a cooperative organization, to provide competitively priced energy and services to our customers and maximum value to our owners, consistent with the wise use of resources.

We will work with our members to improve the quality of life of their customers and the economic and social well-being of the region.

OUR VALUES

Our members are the reason for our existence. We will strive to provide services that exceed their expectations, emphasizing honesty, quality and other sound business principles.

Our employees and the people we serve are vital to our success. To promote excellence, we will support and encourage employee development for the purpose of matching qualified people to the right jobs while being sensitive to the importance of job satisfaction. We will encourage open, honest and timely two-way communication. Working as a team, we will respect each other and balance empowerment with accountability.


As we conduct our business, we will be responsible members of our community, good stewards of the environment and follow sound safety practices, while continually improving our processes and services.

GLOSSARY

- *Capacity* - Facilities in place to serve electric customers.
- *Fixed capital cost per kilowatt (kW)*. Known as "demand charges."
- *Capitalization* - the total of long-term debt, preferred stock and common stock equity.
- *Cogeneration* - joint production of electricity and commercially useful heat from a common source.
- *Decommissioning costs* - expenses incurred in connection with the removal and disposal of components of a nuclear power plant that has permanently stopped producing electricity.
- *Demand-side management* - managing electric demand with programs that help customers use energy more efficiently or shift usage to non-peak times, reducing the need for additional generation supply.
- *Energy* - Delivered power measured in kilowatt-hours (kWh). Typically priced at variable cost (fuel and O&M).
- *FERC* - Federal Energy Regulatory Commission—a federal agency created in 1977 to regulate, among other things, interstate wholesale electric rates that investor-owned utilities charge other wholesale utilities. Also licenses hydro-electric projects. Formerly the Federal Power Commission.
- *GEN~SYS* - Strategic alliance of the generating resources and power marketing activities of Dairyland Power Cooperative and Cooperative Power.
- *IBEW* - International Brotherhood of Electrical Workers.
- *kilowatt (kW)* - a unit of power or capacity. A kilowatt-hour (kWh) is equal to one kW of power supplied for one hour. A 100-watt light bulb burned for 10 hours uses 1 kWh. One thousand kW's is a megawatt (MW). One thousand kWh's is a megawatt-hour (MWh).
- *MAFP* - Mid-Continent Area Power Pool.
- *Peak demand* - the maximum amount of electricity required during periods of highest usage.
- *Reliability* - a measure of a utility's ability to deliver uninterrupted electric service to its customers.
- *Retail wheeling* - the delivery of electricity to end-users by a third party using the local utility's transmission system.
- *Stranded Costs* - Investment in electric generation and transmission facilities that is not price competitive in a market-based economy.
- *WWMPG* - Western Wisconsin Municipal Power Group

DAIRYLAND POWER COOPERATIVE SYSTEM MAP

MEMBER DISTRIBUTION COOPERATIVES

 Indicates Shaded Service Areas

Class A Members

Wisconsin

1. Barron Electric Cooperative/Barron
2. Bayfield Electric Cooperative, Inc./Iron River
3. Buffalo Electric Cooperative/Alma
4. Chippewa Valley Electric Cooperative/Cornell
5. Clark Electric Cooperative/Greenwood
6. Crawford Electric Cooperative/Gays Mills
7. Dunn County Electric Cooperative/Menomonic
8. Eau Claire Electric Cooperative/Fall Creek
9. Grant-Lafayette Electric Cooperative/Lancaster
10. Jackson Electric Cooperative/Black River Falls
11. Jump River Electric Cooperative, Inc./Ladysmith
12. Oakdale Electric Cooperative/Oakdale
13. Pierce-Pepin Electric Cooperative/Ellsworth
14. Polk-Burnett Electric Cooperative/Centuria
15. Price Electric Cooperative, Inc./Phillips
16. Richland Electric Cooperative/Richland Center
17. St. Croix Electric Cooperative/Baldwin
18. Taylor Electric Cooperative/Medford
19. Trempealeau Electric Cooperative/Arcadia
20. Vernon Electric Cooperative/Westby

Iowa

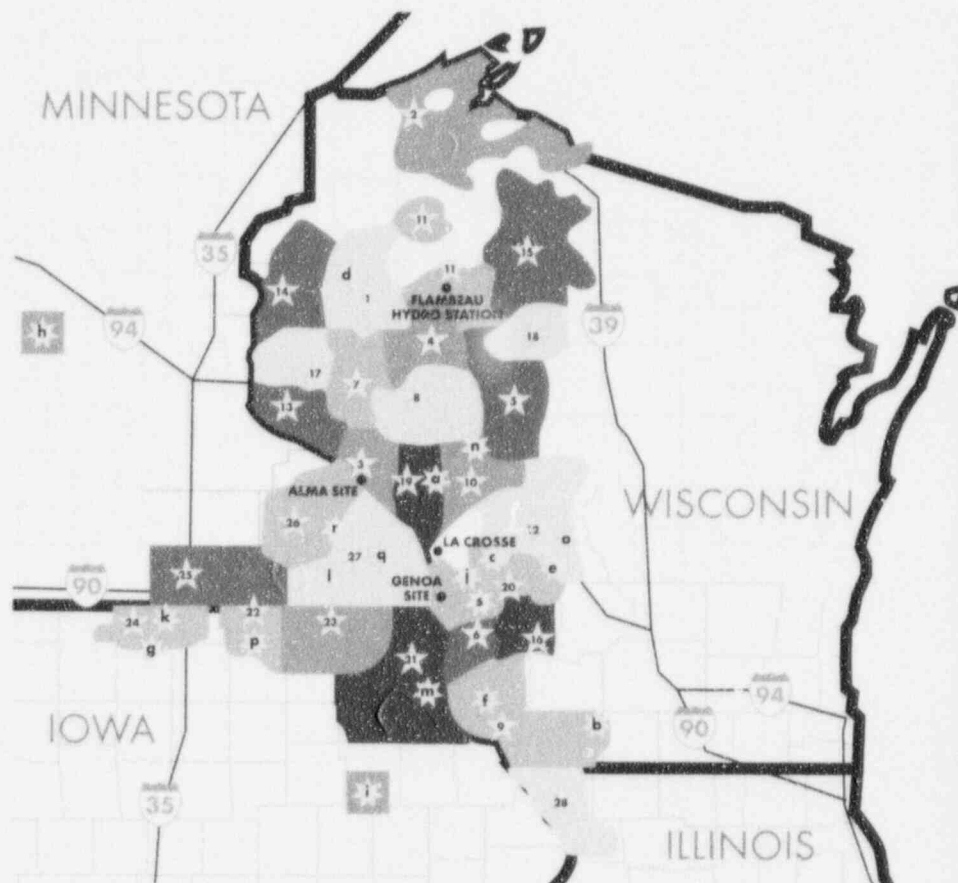
21. Allamakee-Clayton Electric Cooperative, Inc./Postville
22. Cedar Valley Electric Cooperative/St. Ansgar
23. Hawkeye Tri-County Electric Cooperative/Cresco
24. Winnebago Rural Electric Cooperative Association/Thompson

Minnesota

25. Freeborn-Mower Electric Cooperative/Albert Lea
26. Pelee's Cooperative Power Association/Rochester
27. Tri-County Electric Cooperative/Rushford

Illinois

28. Jo-Carroll Electric Cooperative, Inc./Elizabeth



Class B Members


- Adams-Columbia Electric Cooperative/Friendship, Wis.
Central Wisconsin Electric Cooperative/Iola, Wis.
Oconto Electric Cooperative/Oconto Falls, Wis.
Rock County Electric Cooperative Association/Janesville, Wis.

G & T COOPERATIVES

Class C Members


- Cooperative Power/Eden Prairie, Minn.
Minnikota Power Cooperative, Inc./Grand Forks, N.D.
United Power Association/Elk River, Minn.

DAIRYLAND FACILITIES

 Indicates Facility Location

- Headquarters/La Crosse, Wis.
Alma Generating Site
Flambeau Hydro Station
Genoa Generating Site

MUNICIPAL CUSTOMERS

 Indicates Municipal Customers

Class D Members

- a. City of Arcadia, Wis.
- b. Village of Argyle, Wis.
- c. Village of Cashton, Wis.
- d. City of Cumberland, Wis.
- e. City of Elroy, Wis.
- f. City of Fennimore, Wis.
- g. City of Forest City, Iowa
- h. Grove City, Minn.*
- i. City of Independence, Iowa
- j. City of La Farge, Wis.
- k. City of Lake Mills, Iowa
- l. City of Lanesboro, Minn.
- m. City of McGregor, Iowa*
- n. Village of Merrillan, Wis.
- o. City of New Lisbon, Wis.
- p. City of Osage, Iowa
- q. City of Rushford, Minn.*
- r. City of St. Charles, Minn.*
- s. Village of Viola, Wis.

* GEN-SYS customers

FINANCIAL REPORT

REPORT OF MANAGEMENT RESPONSIBILITY

Management is responsible for the preparation and integrity of the financial statements and representations in the annual report. Management uses the best judgement and resources to ensure that such statements present fairly the financial positions, results of operations and cash flow of Dairyland Power Cooperative.

Dairyland maintains a system of internal controls which is designed to provide reasonable assurance that transactions are recorded in accordance with management's authorization, that financial statements are prepared in conformity with generally accepted accounting principles applied on a consistent basis and that assets are safeguarded.

The board of directors, through its Audit Committee, has responsibility for determining that management fulfills its responsibilities for preparation of financial statements and financial control of operations. The Audit Committee meets regularly with management, Dairyland's internal auditor and the Cooperative's independent public accountants to discuss internal control, financial reporting and auditing matters.

DAIRYLAND POWER COOPERATIVE

La Crosse, Wisconsin
February 28, 1997

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Members and Board of Directors of Dairyland Power Cooperative:
We have audited the accompanying consolidated balance sheets of Dairyland Power Cooperative (a Wisconsin cooperative) and Subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of revenues, expenses and patronage capital and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dairyland Power Cooperative and Subsidiaries as of December 31, 1996 and 1995, and the results of their revenues, expenses and patronage capital and their cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report on our consideration of the Cooperative's internal control structure and a report on its compliance with laws and regulations, both dated February 28, 1997.

ARTHUR ANDERSEN LLP

Minneapolis, Minnesota
February 28, 1997

CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31	
	1996	1995
	(In Thousands)	
ELECTRIC PLANT:		
Plant and equipment, at original cost	\$ 602,146	\$ 582,500
Less- Accumulated depreciation	(332,029)	(315,139)
Nuclear decommissioning trust (Notes 1, 2 and 9)	44,591	36,925
	314,708	304,286
Construction work in progress	10,711	16,889
Total electric plant	325,419	321,175
OTHER ASSETS:		
Marketable securities (Notes 1 and 2)	52,435	61,294
Economic development loans and other investments	9,822	4,664
Investments in capital term certificates of National Rural		
Utilities Cooperative Finance Corporation	9,856	9,856
Pollution Control Bond proceeds on deposit with trustee	2,291	2,140
Deferred charges	14,223	24,239
Total other assets	88,627	102,193
CURRENT ASSETS:		
Cash and cash equivalents	1,115	2,093
Accounts receivable-		
Energy sales	16,336	15,821
Other	2,894	906
Inventories, at average cost-		
Fossil fuel	29,629	24,755
Materials and supplies	9,220	9,925
Prepaid expenses	835	1,062
Total current assets	60,029	54,562
	\$ 474,075	\$ 477,930

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

CAPITALIZATION AND LIABILITIES

	December 31	
	1996	1995
	(In Thousands)	
CAPITALIZATION:		
Member and patron equities-		
Membership fees	\$ 11	\$ 11
Patronage capital	87,184	90,262
Net unrealized gain on marketable securities (Notes 1 and 2)	148	1,402
Total member and patron equities	87,343	91,675
Long-term obligations	334,188	316,899
Total capitalization	421,531	408,574
DEFERRED CREDITS	4,622	21,765
COMMITMENTS AND CONTINGENCIES (Note 7)		
CURRENT LIABILITIES:		
Current maturities of long-term obligations	12,178	12,083
Short-term borrowings	16,000	10,500
Advances from member cooperatives	1,656	2,723
Accounts payable	7,934	9,492
Accrued expenses-		
Payroll and vacation pay	5,264	4,565
Taxes	2,202	1,963
Interest	767	4,235
Other	1,921	2,030
Total current liabilities	47,922	47,591
	\$ 474,075	\$ 477,930

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND PATRONAGE CAPITAL

	For the Years Ended December 31	
	1996	1995
	(In Thousands)	
OPERATING REVENUES:		
Sales of electric energy	\$ 182,282	\$ 162,385
Other	3,807	2,958
Total operating revenues	<u>186,089</u>	<u>165,343</u>
OPERATING EXPENSES:		
Fuel	47,235	54,762
Purchased and interchanged power	45,295	17,922
Other operating expenses	34,608	36,235
Maintenance	13,281	10,922
Depreciation and amortization	21,970	22,068
Taxes, other than income	7,856	7,669
Total operating expenses	<u>170,245</u>	<u>149,578</u>
Operating margin before interest and other deductions	<u>15,844</u>	<u>15,765</u>
INTEREST AND OTHER DEDUCTIONS (INCOME):		
Interest	20,844	20,363
Other, net	(245)	12
Total interest and other deductions	<u>20,599</u>	<u>20,375</u>
Operating deficit	<u>(4,755)</u>	<u>(4,610)</u>
NONOPERATING MARGIN, principally investment income		
Net margin	<u>6,774</u>	<u>7,720</u>
	2,019	110
PATRONAGE CAPITAL, beginning of year		
Retirement of capital credits	<u>90,262</u>	<u>87,474</u>
	<u>(5,097)</u>	<u>(322)</u>
PATRONAGE CAPITAL, end of year, including margins		
assignable of \$2,019 and \$3,110	\$ 87,184	\$ 90,262

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH

	For the Years Ended December 31	
	1996	1995
	(In Thousands)	
OPERATING ACTIVITIES:		
Net margin	\$ 2,019	\$ 3,110
Adjustments to reconcile net margin to net cash provided by operating activities-		
Depreciation and amortization	21,970	22,068
Other	1,727	762
Changes in current operating elements:		
Accounts receivable	(2,503)	1,324
Inventories	(4,169)	(6,123)
Prepaid expenses	227	(73)
Accounts payable	(1,558)	4,152
Accrued expenses	(2,639)	(733)
Net cash provided by operating activities	<u>15,074</u>	<u>24,487</u>
INVESTING ACTIVITIES:		
Electric plant additions	(18,266)	(15,957)
Purchase of investments	(17,429)	(11,690)
Sale of investments	22,202	16,880
Advances to nuclear decommissioning trust	(5,578)	(6,077)
Proceeds from sale of plant	3,670	-
Additions to deferred charges	(17,371)	-
Net cash used in investing activities	<u>(32,772)</u>	<u>(16,844)</u>
FINANCING ACTIVITIES:		
Short-term borrowings, net	5,500	6,650
Borrowings under long-term obligations	34,372	5,000
Repayments of long-term obligations	(16,988)	(16,908)
Retirement of capital credits	(5,097)	(322)
Funds refunded under cost sharing agreement, net	-	(1,900)
Advances to member cooperatives	(1,067)	(381)
Net cash provided by (used in) financing activities	<u>16,720</u>	<u>(7,861)</u>
Net decrease in cash and cash equivalents	(978)	(218)
CASH AND CASH EQUIVALENTS:		
Beginning of year	2,093	2,311
End of year	<u>\$ 1,115</u>	<u>\$ 2,093</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest, net of amounts capitalized	\$ 24,312	\$ 20,583

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization and Business

Dairyland Power Cooperative (the Cooperative) is an electric generation and transmission cooperative association organized under the laws of Wisconsin and Minnesota. The Cooperative, whose principal offices are located in Wisconsin, provides wholesale electric service to Class A members engaged in the retail sale of electricity to member consumers located in Wisconsin, Minnesota, Iowa, Illinois and Michigan and provides electric and other services to Class C, D and E members.

The accounting records of the Cooperative are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission as adopted by the Rural Utilities Service (RUS), the Cooperative's principal regulatory agency.

Effective January 1, 1996, the Cooperative entered into an integrated generation alliance agreement with Cooperative Power (CP). This agreement integrates the power generation capabilities of the Cooperative and CP, leading to increased efficiency of both entities' power generation systems and reduced operational costs.

During 1995, the Cooperative, along with 12 other utilities, invested in the Mescalero Project (the Project) for the purpose of establishing a site to store spent nuclear fuel. During 1996, the Cooperative abandoned the Project, wrote off its investment of \$365,000, and invested, along with the same 12 other utilities, \$407,000 in Private Fuel Storage LLC for the same purpose.

Principles of Consolidation

The consolidated financial statements include the accounts of the Cooperative and its wholly owned subsidiaries, Curtis Telecommunications, Inc. and Genoa FuelTech, Inc. All intercompany balances and transactions have been eliminated in consolidation.

Income Taxes

The Cooperative is generally exempt from federal and state income taxes and, accordingly, no provision for such taxes is recorded in the consolidated financial statements.

Property Additions

The cost of renewals and betterments of units of property (as distinguished from minor items of property) is charged to electric plant accounts. The cost of units of property retired, sold or otherwise disposed of, plus removal costs, less salvage, is charged to accumulated depreciation. No profit or loss is recognized in connection with ordinary retirements of property units. Maintenance and repair costs and replacement and renewal of minor items of property are charged to operating expenses.

Depreciation

Depreciation is provided based on the straight-line method at rates which are designed to amortize the original cost of properties over their estimated useful lives and includes a provision for the cost of removing and decommissioning the properties. The provision for depreciation averaged 3.9% of depreciable plant balances in 1996 and 1995.

Allowance for Funds Used During Construction

Allowance for funds used during construction represents the cost of external and internal funds used for construction purposes and is capitalized as a component of electric plant. The amount of such allowance is included in interest and other deductions; approximated \$674,000 in 1996 and \$299,000 in 1995; and is determined by applying a rate (6.5% in 1996 and 5% in 1995) to certain electric plant additions under construction.

Cash and Cash Equivalents

Cash equivalents include all highly liquid investments with original maturities of three months or less. Cash and cash equivalents consist

primarily of commercial paper, stated at market, which approximates cost. The Cooperative classifies certain cash and cash equivalents as investments when they relate to trust funds held for long-term purposes (see Note 2).

Investments

Investments in marketable debt and equity securities are classified as held-to-maturity-securities purchased with positive intent and ability to hold to maturity; trading-securities bought with the intention of selling in the near term to generate a profit; or available-for-sale-securities not classified as trading or held-to-maturity. Securities classified as held-to-maturity are reported at amortized cost; securities classified as trading are reported at fair value, with unrealized gains and losses included in nonoperating margin; and securities classified as available-for-sale are reported at fair value, with unrealized gains and losses excluded from margins and reported as a separate component of member and patron equities.

At December 31, 1996 and 1995, all marketable equity and debt securities have been categorized as available-for-sale and, as a result, are stated at fair value. Unrealized holding gains and losses are included as a component of member and patron equities until realized.

Regulatory Assets

The Cooperative's accounting policies and the accompanying consolidated financial statements conform to generally accepted accounting principles applicable to electric cooperatives in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for Certain Types of Regulation." In the event that a portion of the Cooperative's operations is no longer subject to the provisions of SFAS No. 71 as a result of the effects of competition, the Cooperative could be required to determine any impairment to assets and write down the assets to their fair value.

SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which became effective for 1996, establishes accounting standards for the recognition of impairment of long-lived assets. SFAS No. 121 also requires that regulatory assets which are no longer probable of recovery through future revenues be charged to earnings. Initial adoption of the provisions of SFAS No. 121 did not have a material effect on the Cooperative's financial position or results of operations.

During 1996, the Cooperative entered into a settlement agreement with one of its coal suppliers to buy out the remainder of its contract by making a lump-sum payment in December 1996 to fulfill this obligation. In May 1996, the Cooperative also sold a nonoperating coal-fired electric generating plant to an unrelated third party. The gain recognized from the sale of the plant and the amount of the coal contract settlements have been deferred and are being recovered in service rates over three years.

In 1996, the Cooperative's board of directors authorized a plan whereby all regulatory assets or liabilities reflected as deferred charges or credits would be accumulated and recovered in service rates over a period no longer than three years. Accordingly, previously deferred charges consisting primarily of coal contract settlements, debt repricing penalties and early retirement costs totaling \$24,764 were recognized as extraordinary expense. Deferred credits consisting primarily of advanced transmission payments and the gain from the sale of plant totaling \$24,764 were recognized as extraordinary income. Remaining deferred charges of \$7,879 are being amortized to expense with appropriate recognition in service revenues over the next three years. The net impact of the extraordinary items had no impact on the statement of revenues, expenses and patronage capital and, therefore, are not shown on this statement.

Revenue Recognition

Revenue from electric energy deliveries is recognized when such electric energy is delivered.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncement

Effective January 1, 1997, the Cooperative will adopt the provisions of Statement of Position (SOP) 96-1, "Environmental Remediation Liabilities." This statement provides authoritative guidance for the recognition, measurement, display and disclosure of environmental remediation liabilities in financial statements. Adoption of these provisions is not expected to have a material impact on the Cooperative's financial position or results of operations.

NOTE 2. MARKETABLE SECURITIES:

Investments classified as available-for-sale, including the nuclear decommissioning trust, at December 31 include the following (in thousands):

	1996		1995	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	\$ 6,082	\$ 5,686	\$ 4,173	\$ 3,690
U.S. government securities	48,222	48,327	72,924	71,808
Corporate bonds	24,983	25,148	9,341	9,236
Common stock	17,739	13,096	11,781	9,549
	<u>\$97,026</u>	<u>\$92,257</u>	<u>\$98,219</u>	<u>\$94,283</u>

Since the Cooperative intends to adjust rates in the future to reflect changes in the market value of investments held in its nuclear decommissioning trust, unrealized gains of \$4,622,000 and \$2,534,000 at December 31, 1996 and 1995, respectively, on these investments are included in deferred credits.

The contractual maturities of marketable debt securities, which include U.S. government securities and corporate bonds, at December 31, 1996, were as follows (in thousands):

	Fair Value	Cost
Due within one year	\$ 12,823	\$ 12,845
Due after one year through five years	34,071	34,132
Due after five years through ten years	15,829	16,037
Due after ten years	10,482	10,461
	<u>\$ 73,205</u>	<u>\$ 73,475</u>

Gross unrealized gains and losses at December 31 (excluding investments in the nuclear decommissioning trust) were as follows (in thousands):

	1996	1995
Unrealized gains	\$ 485	\$ 1,480
Unrealized losses	(337)	(78)
Net	<u>\$ 148</u>	<u>\$ 1,402</u>

Unrealized gains and losses during 1996 and 1995 were as follows (in thousands):

	1996	1995
Net unrealized gain (loss) at beginning of year	\$ 1,402	\$ (1,913)
Net unrealized gain (loss) during year	(1,254)	3,315
Net unrealized gain at end of year	<u>\$ 148</u>	<u>\$ 1,402</u>

Information regarding the sale of marketable securities classified as available-for-sale for the years ended December 31 is as follows (in thousands):

	1996	1995
Proceeds from sale of securities (substantially all of which have been reinvested)	\$22,202	\$16,880
Realized gains	489	442
Realized losses	345	78

For the purposes of determining gross unrealized gains and losses, the cost of securities sold is based upon specific identification.

NOTE 3. LINES OF CREDIT:

To provide interim financing, the Cooperative has arranged lines of credit aggregating \$35 million, principally through the National Rural Utilities Cooperative Finance Corporation (NRUCFC) at a rate no greater than prime plus 1%. Borrowings outstanding were \$16 million at December 31, 1996 and \$10.5 million at December 31, 1995. Average borrowings outstanding were \$12 million in 1996 and \$6.0 million in 1995. Compensating balance requirements and fees relating to the lines of credit were not significant in 1996 or 1995.

The Cooperative also allows member cooperatives to prepay their power bills and pays interest on these prepayments based on current short-term borrowing rates. Interest expense on member cooperative advances (\$385,000 in 1996 and \$459,000 in 1995) has been included in interest expense.

NOTE 4. LONG-TERM OBLIGATIONS:

Long-term obligations at December 31 consisted of the following (in thousands):

	1996	1995
Federal Financing Bank obligations, 6.0% to 9.9%	\$207,858	\$205,692
RUS obligations, 2%	31,720	36,753
RUS obligations, 5%	26,657	27,624
NRUCFC obligations, 6.4%	2,046	2,694
NRUCFC intermediate loan, 6.4%	32,304	10,704
City of Alma, Wisconsin, Pollution Control Bonds:		
Fixed rate, 5.9%	8,445	8,620
Adjustable rate, 4.0% at December 31, 1996	13,900	13,900
City of La Crosse, Wisconsin, Industrial Development Revenue Bonds, adjustable rate, 4.0% at December 31, 1996	4,160	4,160
Other, rates ranging from 4% to 8%, due in installments through 2025	18,576	18,835
	<u>346,366</u>	<u>328,982</u>
Less: Current maturities	(12,178)	(12,083)
Total long-term obligations	<u>\$334,188</u>	<u>\$316,899</u>

Quarterly principal and interest payments on the long-term obligations to the Federal Financing Bank (FFB) extend through 2021. Long-term obligations to the RUS are payable in equal quarterly principal and interest installments through 2016. Principal and interest payments on the NRUCFC obligations are payable quarterly through 2001. The fixed rate Pollution Control Bonds are payable in increasing annual amounts through 2008.

The adjustable-rate Pollution Control Bonds and Industrial Development Revenue Bonds mature in 2015 unless previously called for redemption. Bank letters of credit aggregating \$20 million, which expire in February 1997, have been issued on behalf of the Cooperative to the trustee to provide funds for payment of principal of any such bonds redeemed or repurchased prior to that date.

Substantially all of the Cooperative's assets are pledged as collateral for these obligations. The Cooperative is required to and has maintained certain financial ratios related to earnings and liquidity in accordance with the covenants of its loan agreements.

Scheduled maturities of the Cooperative's long-term obligations at December 31, 1996 were as follows (in thousands):

Year	Amount
1997	\$ 12,178
1998	12,813
1999	23,781
2000	13,122
2001	13,648
Thereafter	270,824
Total	\$ 346,366

NOTE 5. FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS:

The fair value of the Cooperative's financial instruments other than marketable securities and short-term borrowings, based on the similar rates for similar securities, is estimated to be as follows at December 31 (in thousands):

	1996		1995	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>Assets:</i>				
Economic development loans and other investments	\$ 9,822	\$ 8,413	\$ 4,664	\$ 3,776
Investments in capital term certificates of NRUCFC	9,856	7,500	9,856	8,061
Pollution Control Bond proceeds on deposit with trustee	2,291	2,291	2,140	2,140
<i>Liabilities:</i>				
Long-term obligations	346,366	340,349	328,982	332,027

NOTE 6. RETIREMENT OF CAPITAL CREDITS:

The Cooperative's board of directors has adopted a policy of retiring capital credits allocated to members on a first-in, first-out basis so that at no time will the Cooperative retain as patronage capital any capital contributed or deposited more than 20 years prior to the current year. Accordingly, 1976 and 1975 capital credits were retired in 1996 and 1995. Implementation of this policy is subject to annual review and approval by the board of directors and the RUS, and no cash retirements are to be made which would impair the financial condition of the Cooperative or violate any terms of its agreements.

NOTE 7. COMMITMENTS AND CONTINGENCIES:

The Cooperative's estimated 1997 construction program is \$28.6 million. Financing of construction is expected to be provided by borrowings from the FFB and internally generated funds.

The Cooperative has been named a defendant in several lawsuits and claims, primarily related to construction and operation of its electric plant. Although the outcome of these matters cannot be determined at the present time, management and legal counsel believe these actions can be successfully defended or resolved without a material effect on the financial position or results of operations of the Cooperative.

NOTE 8. PENSION PLAN AND POSTRETIREMENT BENEFITS:

Pension benefits for substantially all employees are provided through participation in the National Rural Electric Cooperative Association (NRECA) Retirement and Security Program. Contributions are determined in accordance with the provisions of the program and are based on the salaries, as defined, of each participant. A moratorium on plan contributions was in effect from July 1, 1987 through October 1994 and was reinstated May 1, 1995. Accordingly, normal pension expense was substantially reduced in 1996 and 1995. Pension costs for this pension plan were \$732,000 and \$1,182,000 in 1996 and 1995, respectively. As of January 1, 1996, the date of the last available actuarial valuation, net assets of the plan exceeded the actuarial present value of accumulated plan benefits.

Effective January 1, 1995, the Cooperative offered a special early retirement plan (the 1995 Plan) to employees meeting certain predetermined criteria. The incremental cost of benefits under the 1995 Plan of \$8.9 million was deferred and is being amortized to expense over three years beginning in 1995, with appropriate recognition in rates charged to members for electric service. The cost of these benefits will be funded through the NRECA Retirement and Security Program, and the unpaid portion is included in long-term obligations in the accompanying consolidated balance sheets.

NOTE 9. NUCLEAR REACTOR:

The La Crosse Boiling Water Nuclear Reactor (LACBWR) was voluntarily removed from service by the Cooperative effective April 30, 1987. The intent was to terminate operation of the reactor and a "possession only" license was obtained from the Nuclear Regulatory Commission in August 1987. The facility is in a "safe storage" status and is expected to remain so until at least the year 2019, at which time decommissioning is expected to commence, although the manner of decommissioning has not been determined. All LACBWR-related assets, totaling \$18.4 million, were transferred to a deferred charge in 1987 and are being amortized to operating expense over a ten-year period ending in 1997, with appropriate recognition in rates charged to members for electric service.

The provision for depreciation to provide for the estimated costs of decommissioning the nuclear generating facility is equal to the amounts contributed to the nuclear decommissioning trust as well as the related earnings of the trust. The provision for the cost of decommissioning was \$5.8 million in 1996 and \$6.0 million in 1995. The Cooperative has adopted a policy of funding decommissioning costs currently, and the related investments of \$44.6 million are included as a component of total electric plant, while the decommissioning reserve of \$40.1 million is included in accumulated depreciation.

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Dairyland Power Cooperative
La Crosse, Wisconsin