



71st Annual Meeting

June 21, 2016

Official Notice of Annual Meeting

To the members of McKenzie Electric Cooperative Inc.:

You are hereby notified that the 71st annual meeting of McKenzie Electric Cooperative will be held Tuesday, June 21, 2016, at Outlaws' Bar & Grill Ballroom, 120 N. Main St. in Watford City, with the following agenda:

Registration and complimentary meal.....5 p.m.	Board president's report.....Clayton Monson
Children's movie5:30 p.m.	Cooperative updateJohn Skurupey
Business meeting6 p.m.	Election of directors
Invocation	Service award presentation
Call to order	Operation Round Up report
National anthem	Scholarship awards
Appointment of parliamentarian	Old and new business
Approval of minutes	Clean Power Plan Update Mike Eggl, Basin Electric
Report on bylaw changes ... Dennis E. Johnson, attorney	Adjournment
Financial report by audit firmEide Bailly LLP	Drawing for door prizes



McKenzie Electric Cooperative

Connections



Clayton Monsen

President report

Clayton Monsen

On behalf of the board of directors, I would like to invite you, the membership, to the 71st annual meeting of McKenzie Electric. Serving with a Strategy, the theme to this year's annual meeting, has been a way of life at your cooperative and it has been magnified with the expansion of the oil and gas industry. Over the last several years, developing a plan to construct infrastructure with which to serve the members has been a big task. The demand for electric power was increasing at a rapid pace - a pace where the workload was hard to keep up with. There have been many accomplishments made over the last few years and the rate that this has been done has been second to none in the Bakken area. Hats off to the entire McKenzie Electric staff!

As reported in the past, the cooperative is in the process of developing and building a new headquarters facility. The cooperative has run out of space both in the office building and outside for equipment, inventory and supplies. This will be a big step forward in helping the workload move along smoothly and safely.

Timeline:

The cooperative has been utilizing the lay down yard and outside storage at the new headquarters site since last summer. The warehouse and vehicle storage/shop will be ready for move in this summer. The transition into the administration building will be later this year. This move is much anticipated and will be a benefit to the members as well as the staff. In the upcoming months, MEC will be actively moving forward with the sale of the current headquarters.

The strategy that we have used in the past to accomplish the building of the power lines and substations has worked very well and we will continue this strategy going forward. Along with this the cooperative will use new technology to make your power systems work smarter and more efficiently. The accomplishments of this cooperative comes down to the hard work of the employees and the willingness of the member owners to work with the coop. As always a big thank you. ■

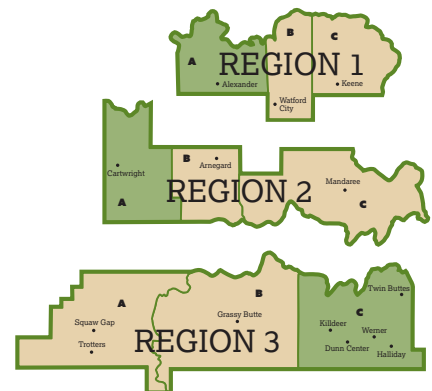
Nominating Committee report

The Nominating Committee for McKenzie Electric Cooperative met telephonically March 29, 2016. The meeting was called to order by cooperative attorney Dennis Edward Johnson. Roll call was taken. All members of the committee were present: Ann-Marie Balcer, Carla Stomley and Jim Schaper.

Attorney Johnson acted as President for the committee. Nominations were asked for those director positions which are up for election. After discussion, motion by Jim Shaper, second by Ann-Marie Balcer, that the following persons be nominated as candidates for election for the districts indicated:

- District 1A – Cameron Wahlstrom
 - District 2A – Christopher Link
 - District 3C – Tim Wasem
- Motion carried unanimously.

There being no further business for the committee, the meeting was adjourned.



Terms expiring



District 1A
Cameron Wahlstrom



District 2A
Don Link



District 3C
Tim Wasem



John Skurupey

CEO report

John Skurupey

2015 was yet another year of foot-to-the-floor construction. Our load continues to move in steps, as opposed to gradual growth and, although 2016 appears to be similar, we have every expectation that the chaos will transform into something more manageable and less stressful for everyone – if the price of oil stays low. As we look back over the past several years and reflect on our progress and development, we see quite a picture.

There is no doubt that you've all seen the miles of line and substations that have been, or are being constructed, throughout roughly three-quarters of our service territory. Some of you may have also seen the infrastructure being constructed by our power supplier, Basin Electric – which includes not only transmission lines and substations, but also an electrical generating station. All of this infrastructure came about after careful planning and consideration and certainly, with the members' best interests at heart.

The Basin infrastructure along with our own transmission and substation additions are a result of needs caused by a capacity deficiency and reliability enhancement. Basin's high-voltage transmission line that extends from the Antelope Valley generation plant at Beulah to Williston was needed because the existing transmission system was inadequate to serve the region. Basin's other high-voltage transmission line, coined the North Killdeer loop, addresses some 4,000 deficiencies in the bulk electric system for the region, even with the aforementioned Antelope Valley to Williston line in place. Need is driving infrastructure improvements.

Our own system improvements also address capacity deficiencies and incorporate reliability enhancements. With the addition of multiple bulk delivery points, we have tied in our own transmission system to those points, which reduces the risk of transmission outages that would otherwise impact a larger member group. By strategically placing transmission, substation and distribution facilities, we are able to minimize the outage exposure to each and every

member meter.

Now that the dust is starting to settle, we are able to turn our attention to addressing distribution reliability by placing line protection devices at strategic locations to once again lessen the outage risk. Also, we are well into the installation and implementation of our supervisory control and data acquisition, or SCADA system, which will allow us to not only monitor your system better, but to eventually operate substation and line devices remotely. We're not stopping there. We look forward to implementing an outage management system that will aid in outage notification and restoration. All of these initiatives and enhancements are for the single purpose of serving the end user in the best possible manner.

You'll be happy to know that the progress we've all had to endure over the past 10 years has all been a result of forward thinking and planning – a strategy of how your cooperative would be able to meet the present and future needs of all the members. Oil and gas loads have been the big drivers of your system build-out and your board of directors and management have and continue to be aware of that fact, working diligently to ensure that the cost causer is the cost payer. With oil prices being so low, we are confident that we have positioned your cooperative such that the only likely source of rate pressure will be from external forces beyond our control, such as wholesale power cost increases.

Legislation and more heavy-handed administrative rules coming out of Washington, D.C., will surely have an impact on your future power costs. We all need to be aware of the source of increasing rates when the time comes and remember that your cooperative has done nearly everything within its means to ensure safe, reliable and low cost power to the end user.

Though commodity prices are low, we are still living in interesting times. I hope you will be able to attend the annual meeting to hear more about your cooperative and the successes it's had and the challenges it faces in the near future as we continue to provide service with a strategy.

YOUR COOPERATIVE



\$1.12 million

Capital credits
returned to members



4,023

members



12,217

Active meters



2.9

meters/mile of line



2,729 miles
Overhead line

1,089 miles
Underground line

358 miles
Transmission line



Donated

\$12,750

from Operation Round Up
in 2015



Rondee Hanna

Treasurer report

Rondee Hanna, director

McKenzie Electric Cooperative, Inc. (MEC) experienced another record year in sales resulting in a solid financial performance. Table 1 is a simplified representation of how your cooperative performed in 2015 and 2014.

	2015	2014
Revenue	\$168.9	\$124.6
Wholesale Power Cost	\$122.6	\$88.3
Operating Expenses exclusive of Wholesale Power Cost	\$22.4	\$15.5
Other Income & G&T Capital Credits	\$6.2	\$4.9
Margin	\$30.1	\$25.7

Table 1 Summary numbers represented in millions

To summarize, electric revenue increased 36 percent while expenses increased 40 percent. Over 50 percent of the operating expense increase came from depreciation while the remainder came from consultants, operations, maintenance and labor force increases.

73 cents of every dollar MEC receives in revenue is used to pay for the wholesale power purchases. The remaining 27 cents is used to pay all other operating expenses plus a margin. MEC strives to keep operating expenses well within budget guidelines which results in sufficient margins to meet the required financial metrics per our loan covenants.

A January 1, 2016, wholesale power increase of 7.1 percent from Basin Electric will bring a 3.8 percent overall rate increase to the membership in the second quarter of 2016.

The reasons MEC's members will not see the full wholesale increase is because of growth, controlling costs and reducing margins.

Growth benefits the membership because as more kilowatt-hours are sold and, as we hold the line on controllable costs, those fixed costs are able to be spread over more energy sales – which helps hold rates steady.

The price of oil has created a slow-down in many areas of the country including McKenzie Electric's service territory; however growth isn't going away for MEC. There are major projects yet to be completed and we anticipate increased electric sales in 2016 as these projects come on line.

MEC has added \$133.2 million to its plant during 2015. This plant growth has been paid for with margins, contributions from members and debt. Current outstanding long-term debt at the end of the year totaled \$41.2 million. 2016 will see more debt added to our loan portfolio as we complete construction on the new headquarters and add to cooperative owned plant.

All data in this report is unaudited as Eide Bailly had not completed their examination at the time of this writing. It has been an exciting year and 2016 is shaping up to be another interesting and challenging year. ■

Bylaw updates

The McKenzie Electric board of directors recently reviewed the bylaws in their entirety. When completed, this review resulted in several format changes, updated language and naming consistency when it comes to the officers of the cooperative, along with eliminating gender-specific references. Substantive changes to the bylaws include changes to:

- 1) Termination of membership
- 2) How to fill a director vacancy
- 3) Special meetings of the board of directors
- 4) Donated capital credits

At your annual meeting on June 21, a full report on bylaw changes will be made available, along with a complete copy of the bylaws indicating all changes, for your review. ■

MEETING MINUTES

June 16, 2015

The 70th Annual Meeting of the members of the McKenzie Electric Cooperative Inc. was called to order on June 16, 2015, at the Outlaws' Conference Room in the lower level of First International Bank.

President Clayton Mosen called the meeting to order.

Pastor Rob Favorite of the First Lutheran Church gave the invocation for the meeting.

The national anthem was performed by Sam Caywood.

President Clayton Mosen welcomed the members of the Cooperative to the 70th Annual Meeting. Paul Duetsch was appointed Parliamentarian for the meeting by Chairman Tescher. It was confirmed by Cooperative Attorney Dennis Edward Johnson that a sufficient number of members were present to declare a quorum for business to be held pursuant to the Bylaws of McKenzie Electric Cooperative, Inc.

A motion was asked to adopt the agenda for the meeting. Motion was made from the floor, seconded and carried by voice vote.

President Mosen requested a motion to adopt the meeting rules as printed. A motion from the floor was made and a second was received to that motion that the meeting rules as published be adopted. After a vote, motion carried.

A motion was made to waive the reading and approve as printed the meeting Notice for the Annual Meeting and Minutes of the 69th Annual Meeting. Motion from the floor was made, seconded and upon vote was approved.

President Mosen next called Mark Martens from Eide Bailly to give the financial report for McKenzie Electric. Mr. Martens reviewed the financial report audit for the McKenzie Electric's books from the preceding year. Mr. Martens commented that the Board of Directors of McKenzie Electric have done well in managing the budget and financial matters of McKenzie Electric in a manner that it has given the tremendous growth and expansion of the cooperative in the past year. After the report there were no questions from the floor by the membership in regard to the financial report.

Chairman Mosen requested a motion be made to approve the financial report as presented by Mr. Martens. A motion from the floor was made to approve the financial report and was seconded. Upon vote the motion carried.

Chairman Mosen next recognized and thanked Outlaws managers Aaron and Angie Pelton and staff for the dinner and the accommodations. A thank you was also extended to Kurt Capouch and Greg Basaye for the audio and technical support. The Wolf Pup Daycare was thanked for providing the children's movie chaperones. The MEC employees were thanked for their service to membership for the past year. Several guests were then recognized.

Chairman Mosen then gave the Board President's

report. Mosen reported that there was steps being taken in Washington concerning coal fired electric generation plants that if made rules, would impact significantly the cost of electricity, and possibly even the availability of electricity for McKenzie Electric members. The cooperative is working closely with other cooperatives through the North Dakota Association of Rural Electric Cooperatives and the National Rural Electric Cooperative Association to proactively look out for the concerns of McKenzie Electric members.

Mosen reported that 2014 was a stellar year for the cooperative. Miles of lines were built and plant additions such as many substations were constructed in 2014. A new headquarters building is being built. However, the Board of Directors and Management at McKenzie Electric are very cognizant of the slowdown in the oil industry and are also working proactively to assure that that slowdown impacts McKenzie Electric as little as possible.

Mosen also reported on the difficulty in getting easements on the Fort Berthold Indian Reservation, which has brought power available due to growth on the reservation to a near standstill. Mosen assured the members that McKenzie Electric was working to alleviate those difficulties and move forward with line and power growth on the reservation.

Mosen closed his report giving thanks to the cooperative employees, management and to the members for all that they do for the cooperative.

John Skurupey then came to the podium to present the General Manager's/CEO report.

John Skurupey presented a power point presentation. Skurupey discussed how the cooperative still had many of its long term employees, but many new faces had been added to the employment pool adding not just diversity. The members are what make the cooperative. As one employee stated: "I believe the sole purpose for which the cooperative was established (is) to better serve our community, which is lived (in) and owned by our members. Our members give McKenzie Electric the opportunity to keep growing and reinventing our ways to better serve them and their utility needs. I know that by exceeding at their requests and expectations, we all grow together as a community." Skurupey said that a great cooperative employee is one who puts the membership first.

Line extension costs were explained by Skurupey to the membership. The cost of a single phase now compared to pre-oil boom has seen an increase by 230%. Material costs and labor costs have risen dramatically along with the distance from existing power lines and right of way acquisition. Skurupey explained what McKenzie Electric is

doing to try and hold those costs down. And it is, as of 813 cooperatives nationwide reporting, McKenzie Electric was the 17th lowest in cost of residential power to its consumers.

McKenzie Electric has went from 5170 total meters in 2004 to 10,800 meters in 2014. To keep the cost down new members are asked to “buy in” to the cooperative and pay for the cost of the new lines up front. It is the mission of McKenzie Electric to keep the electrical rates as low as it can.

Skurupey discussed the Basin Electric work of bringing a couple of 345KV lines into McKenzie Electric territory. Without these new lines Skurupey indicated that new power requests would need to be turned down and growth for McKenzie Electric would stop. In addition the new lines will add to the reliability and dependability of McKenzie Electric’s power supply system.

Skurupey next thank the members for their continued support of the cooperative, reminding them that this is “their” cooperative. Adding that allowing right of way easements for power lines assures the reliability and capacity of McKenzie Electric lines will be improved. Skurupey also thanked the Board of Directors for their commitment and concern for the cooperative. A special thank you was extended to outgoing director Dennis Johnson. Thank you was also extended to Upper Missouri, Basin Electric and Western Area Power Administration for working hard to assure capacity and reliability to McKenzie Electric territory.

Skurupey also thanked all of the long-term employees and the new employees for their hard work and dedication.

The floor was then turned back to Chairman Monsen who next appointed the Sargent at Arms for voting. They were: District 1B – Craig Sorenson, District 2C – Cameron Dodge, and District 3B – Rorrie Sabrosky.

Attorney Dennis Johnson was called to the podium to explain the voting procedures and also to explain how Director candidates are nominated.

Attorney Johnson reported that the candidate for District 1B had withdrawn as a candidate and that because of the timing of the withdrawal and bylaws, no new candidates could be nominated in time for the election at the annual meeting. Johnson explained that those members in Region 1 would be having a special members meeting to be held at a later date after candidates were found to be nominated.

For Region 2, District 2C the candidate was Rondee Hanna. A motion from the floor was made to cast a unanimous ballot, the motion received a second and upon vote the motion carried.

For Region 3, District 3B the candidate was Glen Houghton. A motion from the floor was made to cast a unanimous ballot. The motion received a second and upon

vote the motion carried.

Chairman Monsen, with the assistance of manager John Skurupey, next presented the service awards. They were presented as follows:

Bill Hanson – 10 years

Rick Pokrzywinski – 30 years

Dwite Brew – 35 years

Chairman Monsen next recognized Asha Smith, daughter of Justin and Angela Smith as the 2014 Youth Tour recipient. Asha gave a brief report of her participation in the Youth Tour.

It was announced that Trevor Alveshere, son of Lloyd and Ardyce Alveshere had been awarded a \$500 scholarship from McKenzie Electric and Sawyer Flynn, son of Scott and Dona Flynn was the recipient of the \$1,000 scholarship from Basin Electric.

President Monsen turned the podium over to Maureen Moe who reported on Operation Round Up. Ms. Moe gave a report on the Operation Round Up success and then reported the following had been awarded gifts from Operation Round Up:

Missoula Children’s Musical – Production Costs - \$750

Medical Expenses- Connie Alley - \$1,000

President Monsen resumed the podium. Monsen thanked the members for reporting wire breaks, poles being down, for reporting hazardous situations and helping crews that were stuck and in other situations, and for granting easements for the projects.

There being no further business to come before the membership, the meeting was adjourned.

Door prizes were drawn for at the end of the meeting. Many door prizes were won by members. Steve Holen won the Deadwood Trip and Ray Walker won the \$1,000 cash prize. ■



Ray P. Walker accepts his \$1,000 Prize



Monsen



Link



Hanna



Thompson



Wahlstrom



Sanford



Tescher



Houghton



Wasem

March 30, 2016

The regular meeting of the McKenzie Electric Board of Directors was held at the Headquarters Building in Watford City, North Dakota. Directors present were: Clayton Monsen, Rondee Hanna, Travis Thompson, Ray Tescher, Glen Houghton, Cameron Wahlstrom, Tim Wasem, Donald Link and Ken Sanford. CEO John Skurupey, Attorney Dennis Johnson and staff personnel of McKenzie Electric were also present.

PRELIMINARIES: The agenda for the meeting and minutes of the previous board meeting were approved by the Board of Directors. Director expenses were also approved.

DIRECTOR DISCUSSIONS: The Board continued with its policy review and discussed two proposed revised Board policies. After review, the Procurement and Director Expense policies were approved. Attorney Dennis Johnson gave the nominating committee report. The following individuals were nominated as Director candidates: District 1A – Cameron Wahlstrom, District 2A – Christopher Link, and District 3C – Tim Wasem.

COST OF SERVICE STUDY: Kirk Dewey, HDR Engineering, presented the Cost of Service Study to the Board of Directors. Mr. Dewey reviewed the basis of the study and explained how all expenses are allocated to each rate class along with their contribution to margins. With the January 1, 2016, wholesale power rate increase from Basin Electric, the Cost of Service showed that rate adjustments are needed for most rate classes. After extensive evaluation and discussion, the Board approved a rate adjustment effective April 1, 2016.

ASSOCIATED ORGANIZATIONS: Director Donald Link reported on the recent North Dakota Association of Rural Electric Cooperatives (NDAREC) board meeting. Items of interest included a report on the study committees reviewing North Dakota One-Call legislation, the extension of natural gas services into rural communities, federal legislation, NRECA manager search and the June primary ballot measure regarding corporate farming.

POWER SUPPLY: Director Travis Thompson reported on the recent Upper Missouri Power Cooperative board meeting and discussed several issues. Director Ray Tescher also reported on issues related to the Mid-West Electric Consumers Association.

ATTORNEY'S REPORT: Attorney Dennis Johnson reported on several issues relating to easements. Per the Board's request, Attorney Johnson reviewed MEC's bylaws and presented proposed revisions that result in updated language, clean-up of such items as naming consistency when it comes to the officers of the Cooperative along with eliminating gender specific references. Substantive changes to the

bylaws included changes to 1) termination of membership; 2) how to fill a director vacancy; 3) special meetings of the Board of Directors; 4) donated capital credits. After lengthy review and discussion of proposed revisions, the Board approved the revisions to the bylaws. A complete report of bylaw revisions will be given at the upcoming annual meeting of MEC members on June 21, 2016.

CEO REPORT: CEO John Skurupey reported on a recent Upper Missouri Manager's Advisory Committee meeting and a Basin Electric Rate Subcommittee meeting. The increase in Basin Electric wholesale power costs have impacted Basin's entire membership, and Basin has indicated an additional increase may happen in 2016. A report was also provided on updated timelines for Basin Electric's new 345kV delivery point substations.

OFFICE REPORT: Financial and statistical reports for February were reviewed with the Board along with a budget-to-date comparison and the comparative cash report. A review of the headquarters project and project to date expenses were provided to the Board. MEC's independent auditors were on site during March and will present their audit to the Board of Directors at their April board meeting. An update was given on delinquent accounts in light of the slow-down in the local economy; the Board directed staff to review billing cycles, delinquent accounts and the disconnect policy to mitigate any possible increases in delinquent accounts. The Board authorized the attorney and CEO to hire out-of-state counsel to assist with a bankruptcy proceeding.

ENGINEERING REPORT: A report was given on the progress of the headquarters building, fleet management, asset management, cybersecurity and substation distribution planning. Staff is attempting to decommission the old automatic meter reading system within the next two months.

OPERATIONS/CONTRACT MANAGEMENT REPORT: An update was provided on projects currently being worked on by MEC contractors and a work order progress report. The report also indicated the following: MEC energized the transmission line from Oakdale Substation to the new Halliday Substation; a fire had started south of Moccasin Creek Substation while crews were working on an energized pole. Crews continue to respond to outages, maintenance issues and work order projects.

SPECIAL PROJECTS COORDINATOR: An update was given on the continuing process to develop policies and programs for MEC to become NERC (North American Electric Reliability Corporation) compliant – the Asset Management Program continues to be populated, staff is reviewing compliance requirements that dictate which facilities require Sequence of Events Recorders and Fault Recorder data, staff is reviewing one-line and switching diagrams to ensure

inventory of all assets falling under NERC is correct. An update was given on the status of substation land acquisition and the progress of right of way acquisition for transmission projects. The Board approved a road easement and two lease agreements.

MEMBER SERVICE REPORT: The winner of the Basin Electric scholarship was Karissa Monsen, daughter of Clayton and Vicki Monsen. All scholarship recipients are selected by Basin Electric staff with no input from MEC. A power plant tour is being planned for a group of Watford City High School juniors and seniors. Annual meeting details were reviewed with the Board; the annual meeting is scheduled for June 21, 2016, at Outlaws' Bar & Grill in Watford City.

NEXT MEETING DATE: The next meeting date was set for April 27, 2016, at the Watford City Headquarters building.

ADJOURNMENT: There being no further business, the meeting was adjourned. ■



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OFFICERS AND DIRECTORS:

Clayton Monsen, President
Director, District 2B, Armegard..... 586-3336

Donald Link, Vice President
Statewide Director
Director, District 2A, Alexander..... 828-3427

Rondee Hanna, Sec.-Treas.
Director, District 2C, Watford City..... 675-2516

Travis Thompson, Director-At-Large
Director, District 1C, Charlson..... 675-2373
Upper Missouri G&T Director

Cameron Wahlstrom
Director, District 1A, Alexander..... 770-6631

Ken Sanford
Director, District 1B, Watford City..... 842-2581

Ray Tescher
Director, District 3A, Beach..... 565-2342

Glen Houghton
Director, District 3B, Grassy Butte 863-6606

Tim Wasem,
Director, District 3C, Halliday..... 938-4376

GENERAL MANAGER/CEO:

John Skurupey
701-570-3542

