



ANNUAL REPORT
2016

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LETTER FROM OUR CEO

STEVE'S LETTER TO MEMBERS



If you watch a plant grow, you'll hardly notice its transformation as time goes by. But if you check on it once and don't return for quite a while, you'll notice it has undergone a remarkable change.

The same can be said about CMMPA. We, along with our members have changed substantially over the past year, but it's not until we look back and reflect on those changes that it becomes apparent how far we have come.

2016 was a great year for CMMPA, its members and the communities they serve. Some of the many things we accomplished together include:

- Increasing the net position of CMMPA by \$3.7 million, 38.66% higher than in 2015.
- Actively reducing costs for CMMPA members, who now have the lowest quartile of cost when compared to other regional municipal power agencies in a five-state area.
- Posting a 1.18% energy savings for members' commercial and residential retail customers who participated in CMMPA's Conservation and Energy Efficiency program.
- Launching a Retail Community Solar Program (R4 Solar), which is set to bring more cost-efficient and scalable renewable energy to multiple communities.

Without the combined strategy created by our team and the hard work of all our members, 2016 would not have been half as successful. We want to say thanks to our employees, members and all the communities we serve together.

Where do we go from here? When Xcel Energy gave notice that it would terminate its long-term legacy contracts in 2003, CMMPA began the long rigorous process of developing long-term power supply portfolios for each of its members. Every year since then, we have succeeded in working with members to minimize their wholesale power costs, manage future risks and best serve their municipal customers.

We look forward to what we can make happen in 2017 as we complete the rollout of R4 Solar, continue to explore better energy investments and explore expansive growth opportunities for both CMMPA and its members.

Sincerely,
Steve Thompson
Chief Executive Officer
CMMPA

ABOUT OUR COMPANY

OUR MANAGEMENT

Central Minnesota Municipal Power Agency (CMMPA) is managed under a service contract arrangement with Central Municipal Power Agency and Services (CMPAS), an energy management services company. CMPAS provides a wide range of services including strategic management, long term power supply planning and procurement, project development and administration, accounting and finance and MISO market related services including daily energy scheduling and transmission services. CMPAS's specialized expertise in long term power supply planning and energy markets is important for CMMPA's long term success.

VISION

Serves our municipal members in a consultative role as their utility's portfolio adviser providing specialized planning and procurement services for power supply and transmission.

MISSION

Identify strategies that minimize wholesale power cost and manage future risks and provide our members with stable and competitive wholesale whiles allowing each utility board flexibility and autonomy to customize their own electric portfolios.

COMMITMENT

Acts as their strategic advisor in a fiduciary role delivering unbiased and independent portfolio solutions for their municipal utilities.

MEET OUR BOARD

CMPAS currently manages the portfolios of 12 member municipals and provides power supply related services to non-member affiliates in Minnesota, Iowa and Wisconsin. With headquarters in Blue Earth, Minnesota, the Agency is governed by a 12-member board comprised of a representative from each of its member's cities.

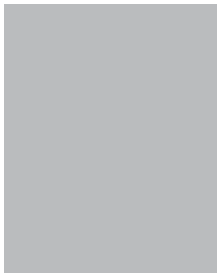
Bob Elston
Sleepy Eye, MN



Brent Brown
Windom, MN



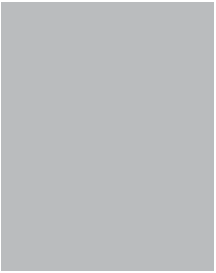
Crystal Johnson
Granite Falls, MN



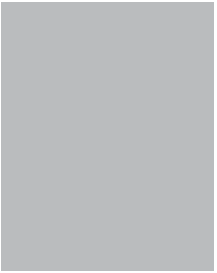
Dave Meyer
Glencoe, MN



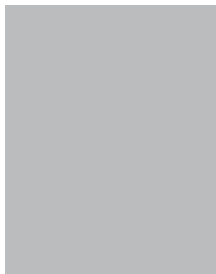
Joel Grejtak
Fairfax, MN



Jonathan Ness
Delano, MN



Nate Zimmerman
Janesville, MN



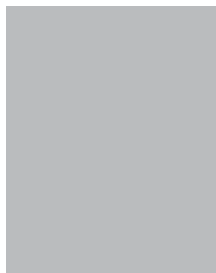
Randy Eggert
Kenyon, MN



Scott Johnson
Springfield, MN



Theresa Coleman
Kasson, MN



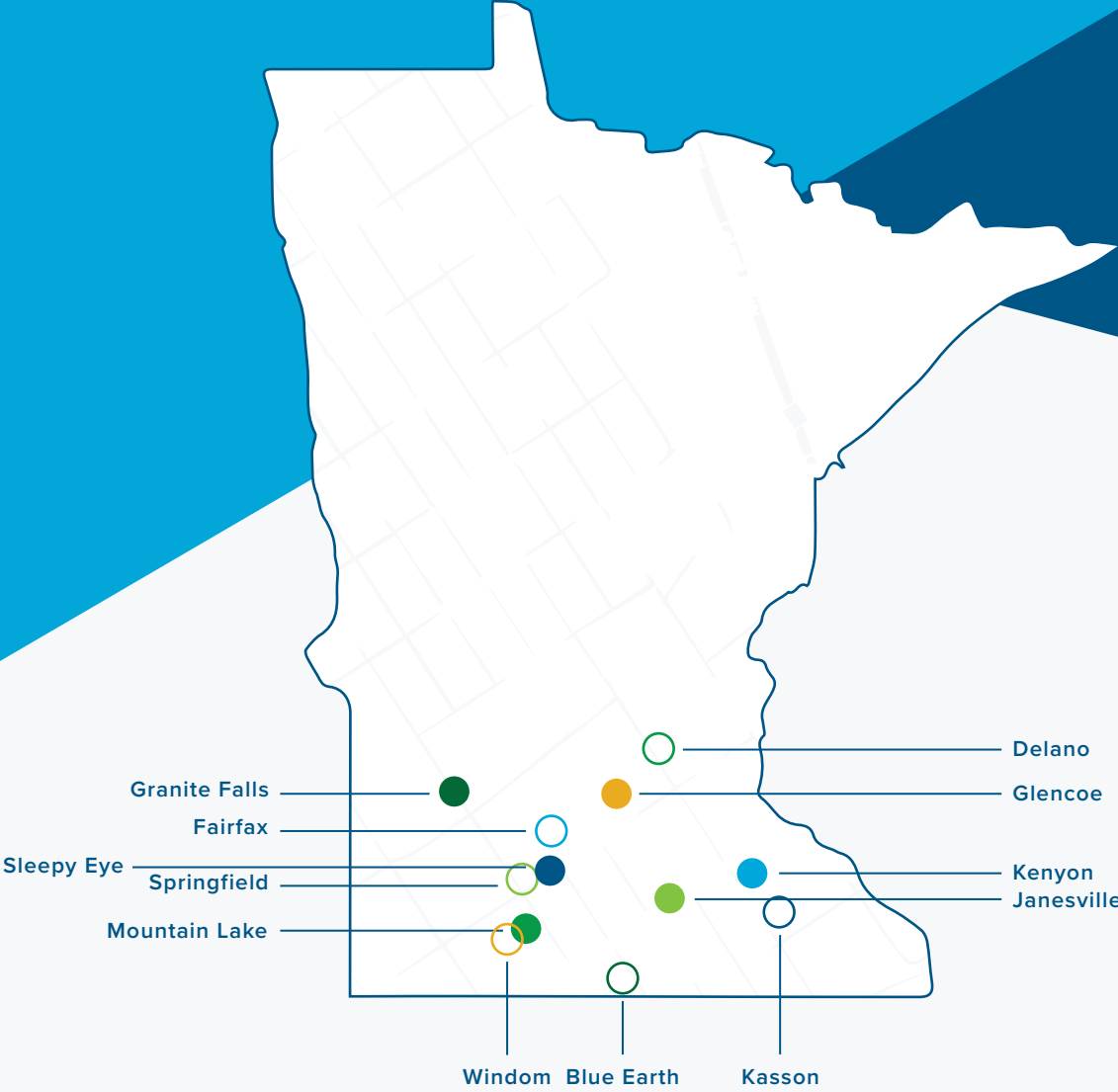
Tim Stoner
Blue Earth, MN



Wendy Meyer
Mountain Lake, MN



OUR MEMBERS



2016 CMMPA HIGHLIGHTS

THE YEAR IN REVIEW

This past year was another busy and successful year for CMPAS staff. Some of the achievements CMPAS's staff were able to attain for CMMPA were:

In 2016 CMMPA progressed in the development of a community solar program that will rollout in June 2017.

REVENUE

CMMPA reached its unrestricted working cash goal in 2016 without assessing its members by utilizing non-traditional revenue sources:

- Revenues (\$620,000) from the sale of excess energy sales resulting exercising contract rights from our contract with Xcel Energy.
- Revenue (\$800,000) from MISO for our CAPX Brookings Regulatory Asset for recovery of our pre-commercial, transmission related A & G costs and overheads.
- Revenues (\$275,000) from UPES management fees.

STAYING COMPETITIVE

CMMPA's A & G costs remain competitive when compared to other regional municipal power agencies in the 5 state area, despite being one of the smaller regional municipal power agencies. CMMPA was able to be competitive by partially offsetting a portion of CMMPA's current year A & G costs using non-traditional revenue streams:

- Revenues from non-member scheduling fees and services (\$275,000.)
- Revenues from MISO for current year recovery of transmission related A & G and overheads.

ENERGY SAVINGS

In 2016, members participating in CMMPA's Conservation and Energy Efficiency program helped save their commercial and residential retail customers 1.18% energy savings (3,736,871 kwh). In addition, CMMPA's participating members saved an additional .54% energy savings (1,717,113 kwh) on improvements on the utility side of the meter. In total CMMPA's participating members saved 1.72% energy (5,453,984 kwh.)

ENVIRONMENTAL

Other Environmental accomplishments were:

In 2016, 20% of CMMPA members' energy needs were provided by either agency sponsored renewable resources or member local renewable resources. In addition another 17% of members energy needs were provided from member WAPA hydro contracts.

FINANCE

CMMPA sold its 50% ownership interest in Utilities Plus Services for \$2 million. Over the last 16 years CMMPA and its members received \$2.6 million dollars in management fees and member rebates. In total, CMPAS received \$4.6 million in return for its \$400,000 start-up loan it invested in the partnership 16 years ago.

CASH POSITION

CMMPA increased its unrestricted working cash to \$6 million (two months working cash) meeting its recent 2014 board policy. This represented a \$4 million dollar increase in the agency's cash position over the years 2015 and 2016.

SOLAR PROGRAM

CMMPA also made significant progress in 2016 in the product development of a retail community solar project partnership with SMMPA with a scheduled in-service date and rollout of June 2017.

COSTS

CMMPA's members' average wholesale costs continue to be in the lowest quartile of cost when compared to other regional municipal power agencies in the 5 state area.

INDUSTRY CHALLENGES + FORCES AT PLAY

When planning for CMMPA member' future power supply CMPAS continuously monitors issues that could have an impact our member's needs and future power costs. **Some of these forces and industry challenges that we are closely monitoring are:**

The Economy

We are seeing stagnant or declining growth resulting from a slow economic recovery and increase in energy efficiency improvements.

Public Energy Policy

Numerous changes in Public Policy could have substantial impacts on your future :

- Carbon regulation
- Renewable Mandates
- Tax incentives for renewables

New Technologies

New disruptive technologies such as distributed solar generation has the potential to significantly impact your future.

- As solar penetrations increase stranded fixed costs will place increased pressures on how we recover our fixed costs in our retail rate designs.

Natural Gas Market

The recent over supply of natural gas caused by

fracking technology has reduced the cost of natural gas to historical lows. The future of natural gas appears optimistic, however there are reasons to be cautiously optimistic over the mid to long term.

Changing Economics

The changing relative economics of traditional and renewable generation resources is changing the composition of tomorrows generation fleet. This has the potential to affect your future powers supply costs and portfolio decisions.

Reliability

The changes in the generation fleet are raising reliability concerns:

- A lack of generation portfolio diversification is resulting in a significant increase in the reliance on natural gas.
- Integration of large penetrations of renewables onto the grid are creating operating challenges and concerns.
- The adequacy of regional capacity reserve margins as economics and environmental regulation forces older generation to be prematurely retired and replaced by more economic and cleaner generation.

Electric Infrastructure Build Out

The future rebuilding of utilities generation portfolios and necessary transmission build out is likely to significantly increase future capacity market costs and transmission tariff costs as the new facilities go into service and into the rate base.

Market Reform Industry Challenge

Public Policy is having unintended consequences. Tax incentives for renewables is depressing market energy prices, resulting in inadequate margins to incent new generation to be built or retain existing nuclear generation from retiring.

Current capacity market constructs do not provide adequate market signals to incent/retain needed baseload generation. If adjustments are not made to Public Policies the sustainability of traditional utility business model maybe challenged the utility sector may face future capacity shortages resulting in reliability challenges and high capacity market prices.

Structural changes are needed to the electric capacity markets. Current capacity constructs do not reflect all intrinsic values:

- Lack of carbon regulation results in nuclear generation not receiving credit for it carbon free energy.

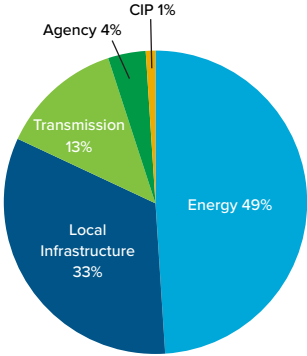
- Capacity/energy markets do not value the reliability value of fuel diversity (coal and gas.)
- The capacity market does not adequately compensate generation for:
The reliability value of providing back-up for intermittent renewables.
The reliability value of deferring retirement until replacement generation can be into service.

As part of our strategic planning, CMPAS is continually monitoring these issues and considering their potential impacts on CMMPA's future power supply decisions. In an increasingly uncertain world, CMPAS is finding itself placing an increased emphasis on not just identifying portfolios which minimize cost but also performing risk analysis to determine strategies that balance least cost and portfolio risk. Portfolio diversification and risk hedging strategies are becoming an increasingly more important factor in our planning.

WHOLESALE POWER

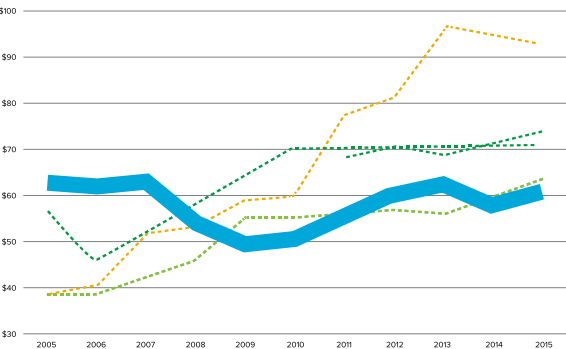
WHOLESALE POWER & RESOURCES MIX

Wholesale Power and Transmission costs represent about 65% of your member’s total costs. Planning for a diversified, hedged long-term power supply at a reasonable cost and manageable risk is our core responsibility to our members.



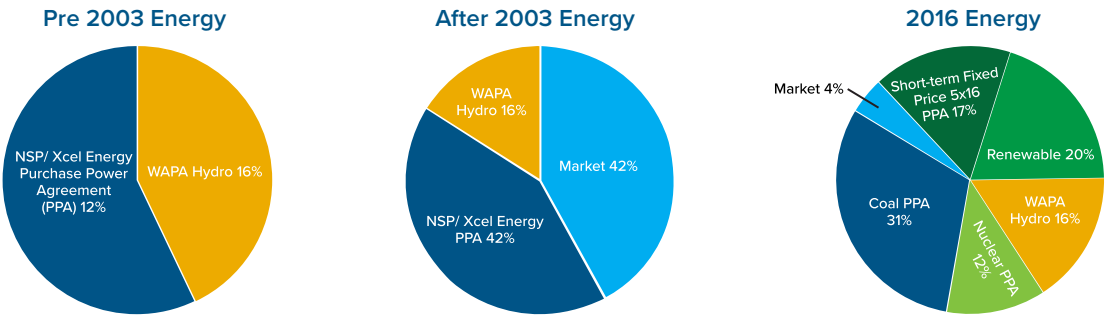
CMPA is a relatively young agency, and our members’ portfolios have evolved dramatically over the years. In just over 10 years, CMPA has evolved from an all requirement customer of NSP/Xcel Energy, to a diverse portfolio which is well hedged against market, gas price, and possible carbon risks.

As a result of CMMPAS’ Resource Planning efforts, we have been able to reduce its members wholesale cost at a time when other utilities cost have increased. CMPAS is looking to fix or hedge our member portfolios in the 2020 to 2040 time frame with a goal of have about 75% of energy needs addressed with long-term contracts.



The CMMPA portfolio is well also positioned against continued regulatory risk. Our diversified portfolio of resources does not have any one dominant generation source with limited exposure to potential “sunk” cost issues. NC2 is the only resource with likely regulatory exposure. The portfolio is also conducive hedging long term risks such as fuel risk, transmission congestion, capacity prices and regulatory risk.

Energy information





ADDITIONAL MEMBER SERVICES

OUR SERVICES

As we focus on your future, an important initiative is the development of the additional services for members. Such services include Distribution Mapping and Planning Service, SCADA/EMS Services, and rate studies for members.

The Distribution Mapping and Planning Service will allow smaller utilities to do the kind of planning analysis which is commonly done at larger utilities. The Agency has developed a fully integrated IT System/Database Software platform to host member system and load data in a centralized database. The platform will then be used for planning analysis of member infrastructure improvements, budgeting and

long range capital planning.

CMPAS is also implementing SCADA/EMS Services to develop a fully integrated platform. CMPAS would provide SCADA Database Administration packages where multiple cities could make use of a Common SCADA Master for collection and archiving of field data in each city. This will eventually allow us to integrate the SCADA/EMS values for each member into planning and operational analysis.

CMPA TRANSMISSION OWNERSHIP

The Brookings project was energized in 2015. This is a 250-mile, 345-kilovolt (kV) line between the Brookings County Substation near Brookings, S.D. and the Hampton Substation, south of the Twin Cities. Brookings is one of six projects constructed under the CapX banner, the largest transmission expansion in the upper Midwest in more than 40 years. The Brookings County-Hampton project was energized in 2015. In all, CapX encompasses six major projects that will develop more than 800 miles of new transmission facilities at a cost of approximately \$2.2 billion, of which CMPA invested \$35 million

CMPA is one of the 11 regional utilities participating in the effort. The projects have been in the works for more than a decade. Transmission investment brings significant benefits to both the Agency and the Participants. The Agency recovers all direct transmission related costs and a portion of our Agency overhead costs through the MISO tariff. Our member and non-member participants earn regulated return on investment to protect against future transmission cost increases. Transmission ownership is the only long-term hedge against rising transmission rates.

INTRODUCING **R4** SOLAR

RENEW » REDUCE » RESPECT » REPEAT
POWERED BY CMP[®]

Some retail customers are showing interest in solar for reasons that are not always driven by economics. This interest is only going to increase as solar prices drop and retail electric rates increase. For these reasons, we created a sustainable community solar program, R4 Solar, that allows residential and commercial utility customers to purchase subscriptions to a shared, community-based solar resource.

Finance

By Minnesota state law, utilities are required to compensate owners of rooftop solar panels for their solar output at the full retail electric rate. This results in under recovery of fixed costs on the energy rooftop installation displaces and over compensation for the fixed cost on the excess energy rooftop installation produces. It also results in “stranded fixed costs,” which in turn leads to rate cross-subsidization. In the end, the customers not installing solar end up subsidizing those customers who install solar. **With R4 Solar, customers can sign up for a paid subscription that covers their proportional share of the fixed costs for installing an R4 Solar project in the community.** Customers would in turn receive a credit on their utility bill for being a part of the program.

A COST-EFFECTIVE COMPETITOR TO ROOFTOP SOLAR PANELS

Solar Prices have dropped significantly over recent years and are projected to continue to drop. Despite the significant drop, the economics do not support putting solar into our wholesale portfolios at this time; with prices continuing to drop 10% per year it is advantageous to wait.

Despite unfavorable wholesale economics, it is still a good strategy to offer a community solar option to our retail customers.

The costs are competitive with those associated with installing rooftop panels, but the program eliminates the installation and maintenance hassles.

A Solar Solution

If retail customers are demanding solar, we need to be part of the solution. Utility scale solar is much more cost effective than rooftop solar. As a proactive and defensive strategy, we should be offering retail customers a more economical alternative to installing rooftop solar by making utility-scale cost advantages available to retail customers. By doing so, we will be able to avoid the potential negative consequences of net metering, rate cross-subsidization and erosion of our retail revenues.

R4 Solar accomplishes all of this by allowing municipal utilities to sponsor small to medium sized utility-scale solar projects for the purpose of selling solar subscriptions to their retail customers. The subscriptions cover the fixed cost of the installed panel(s), and the cost benefits to customers appear in the form of credits on their monthly bill, which accounts for the output of the entire solar project.

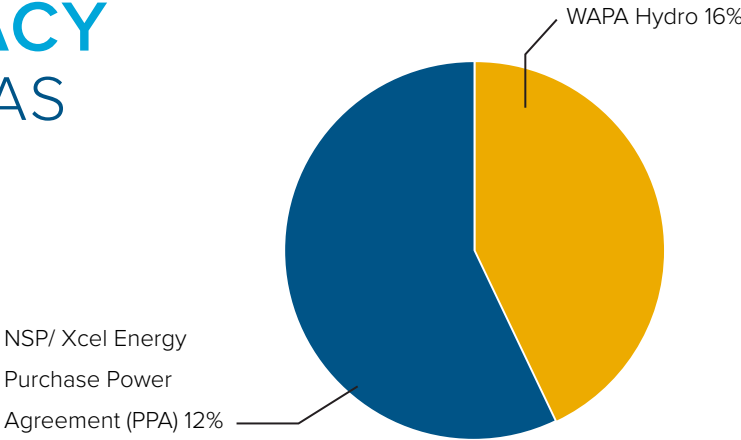
R4 Solar gives municipal utilities the flexibility to compensate the retail customer for the true value or wholesale value of the solar output (versus compensating at full retail value). **Due to the significant cost advantages of utility-scale solar, the retail customer can realize a similar economic payback even when**

being compensated at the lower wholesale value for the solar output payers.

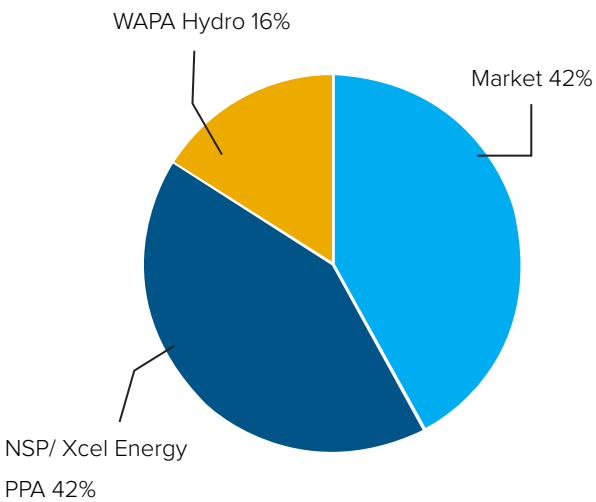
Offering a community solar program is also a PR strategy, where the solar subscriber ends up paying for the “green premium” and not other rate payers. R4 Solar is a win for the solar subscriber and a win for the municipal utilities’ other rate payers.

In an effort to increase the size of the project to gain economy of scale advantages, CMPAS is partnering with SMMPA in a utility-scale solar project. The project entails CMMPA signing a one-year Power Purchase Agreement with SMMPA with options to renew annually for solar energy from SMMPA’s solar project in Owatonna, scheduled to go into service June of 2016. Six out of 12 CMMPA’s members are subscribing to this CMPAS-sponsored project with CMMPA. The project also includes the added flexibility of having the option to install a 4 kW “Billboard” project locally in each city. This partnership with SMMPA has enabled CMMPA to jumpstart a retail solar program and gain economies of scale without prematurely having to lock into a 25-year contract before test marketing the community solar program with our retail customers. It also allows us to defer locking into a long-term price when prices are declining.

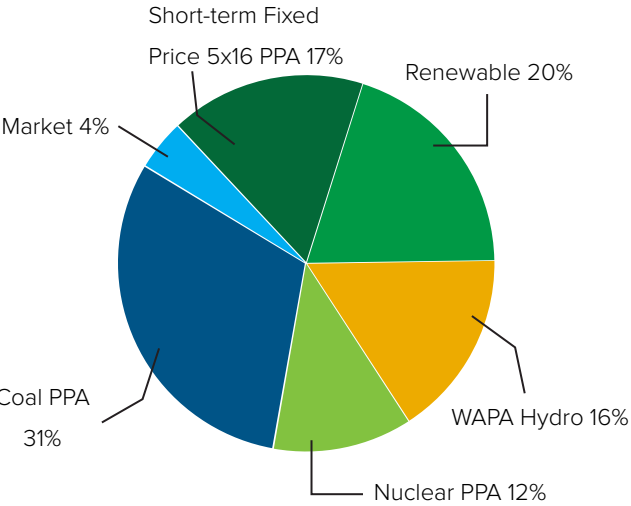
30 YEAR LEGACY OF CMMPA/CMPAS



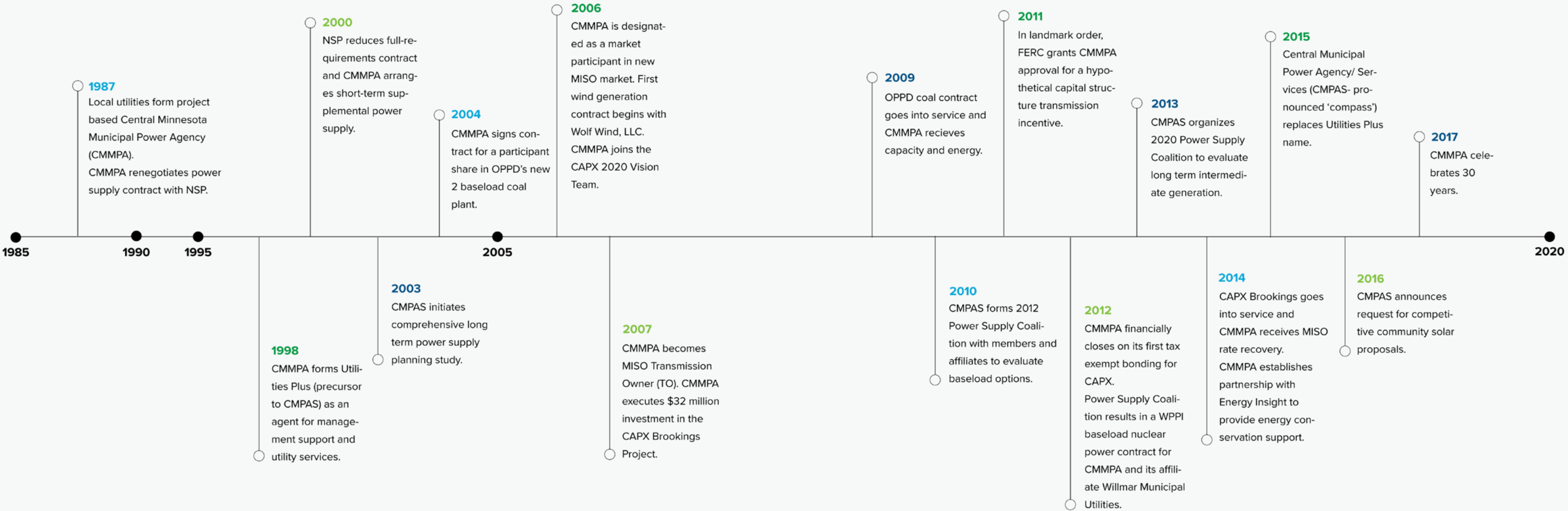
PRE 2003 PORTFOLIO



AFTER 2003 PORTFOLIO



CURRENT MEMBER-OWNED PORTFOLIO





FINANCIAL STRENGTH

CMMPA has a strong financial position, long term member contracts, member unity, business partnerships, and a high performing team. Being a Joint Action Project-Oriented Agency, provides the solid foundation for our financial strength and performance.

For the 2016 calendar year, CMMPA posted a favorable change in net position of \$3.7 million which is 38.66% higher than the net position for year-end 2015. This increase primarily resulted from the stabilization of the balance tariff-recoverable costs from prior years into a regulatory asset account.

This recovery will occur primarily over the period 2014-2018. However, the increase was partially offset by the restatement of net position as of January 1, 2015 due to the change in accounting principle related to Governmental Accounting Standards Board Statement (GASB) No.68.

The average long-term wholesale power rate was approximately 6.05 cents per kilowatt-hour (kWh) in 2016 compared to 6.28 cents per Kwh in 2015. The decrease in cost is attributed to management of our individual member portfolios. Focusing on resource adequacy risk management at the lowest sustainable cost.

RATE STABILIZTION FUND

In 2016, CMMPA Board of Directors approved to establish and fund a rate stabilization account. This fund allows the Agency to strategically forecast stable rates. The goal of CMMPA's rate stabilization account is to mitigate volatile price changes to members.

OPERATING REVENUE

Power sales revenue for 2016 was approximately \$34.3 million, compared to \$34.9 million in 2015. The decrease in revenue is primarily attributed to the optimization of our member's individual portfolio. The flexibility of being a Project-Oriented Agency enabled us to negotiate and procure a seasonal 5 by 16 on peak fixed price contract. Which significantly reduced member costs through effectively managing their resources and risk management.

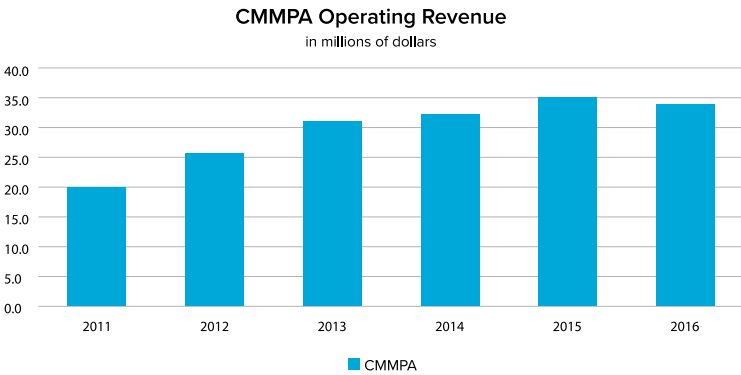
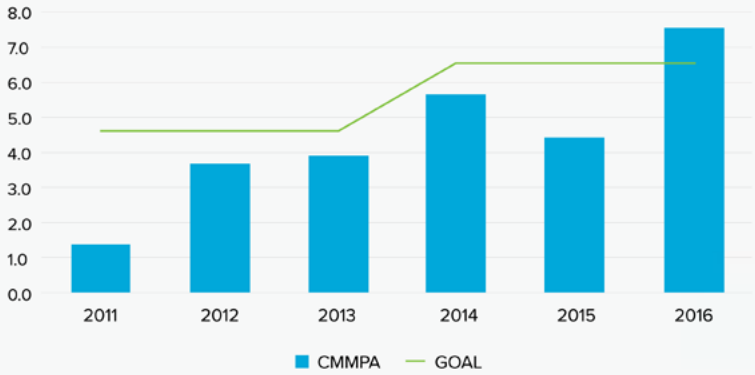
UPES (UTILITIES PLUS ENERGY SERVICES)

In 2016, CMMPA sold its 50% ownership interest in UPES for \$2 million. Over the last 16 years CMMPA and its members received \$2.6 million dollars in management fees and member rebates. In total, CMMPA received \$4.2 million in return for its \$400,000 start-up loan it invested in the partnership 16 years ago.

STRONG CASH POSITION

CMMPA had more than \$7.5 million in unrestricted cash and cash equivalents at the end of 2016. Exceeding a 2014 board policy of two months working cash and a \$500 thousand-dollar emergency fund. CMMPA increased working cash through non-traditional sources of revenue which included; exercising contract rights through Xcel Energy, CAPX Brookings Regulatory Asset Recovery, and UPES management fees.

CMMPA Working Cash
in millions of dollars



LOOKING AHEAD TO 2017

2017

OUR SERVICES

In 2017, CMPAS will continue to focus on strategically planning for CMMPA members' future generation and transmission needs. Looking forward some of our top priorities for 2017 are:

- Complete the rollout of our Retail Community Solar Program - R4 Solar.
- Complete the current contract negotiations and contract development for our members' by extending/replacing a current 4 year 5 by 16 on-peak fixed price contract with Nextera expiring in 2020.
- Continue to explore future transmission investment

opportunities and long term transmission partnership opportunities so we can become further hedged from the significant future increases in MISO transmission network charges.

- Continue to look for future growth opportunities in new members or in non-member services.

Expand member services in the areas of :

- GIS Mapping and Distribution Electrical Modeling and Planning
- SCADA support services

CMPMA's Contact Information

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