

YOUR VOTE IS YOUR POWER

A review of Lakeland REA in response to ATCO's proposal to purchase our facilities and associated assets

October 2019

PROPOSAL TO PURCHASE

ATCO Electric Ltd. (ATCO) has submitted a proposal to purchase Lakeland Rural Electrification Association (REA). The proposal was unsolicited. The Board of Directors did not ask ATCO to take an interest in our co-op. Lakeland REA is busy serving its membership and not looking to sell its assets.

The proposal was also unexpected. ATCO made a similar offer four years ago in June 2015. The membership voted in March 2016 and did not sell. Now, we have a second offer and another important choice to make.

As a member and owner of Lakeland REA, your vote is powerful. You can choose a one-time payout from ATCO or elect to keep control of your own power system.

YOUR VOTE IS YOUR POWER!

We can KEEP LOCAL CONTROL or take a ONE-TIME MONEY PAYOUT.

Lakeland REA Annual General Meeting

Date	November 6, 2019
Registration	5:30 p.m.
Time	7:00 p.m.
Location	Vegreville Social Centre 4802-47A St Vegreville, Alberta

Please take the time to read documents received from Lakeland REA.

Misinformation is circulating, and your Board of Directors wants to ensure you have the facts.

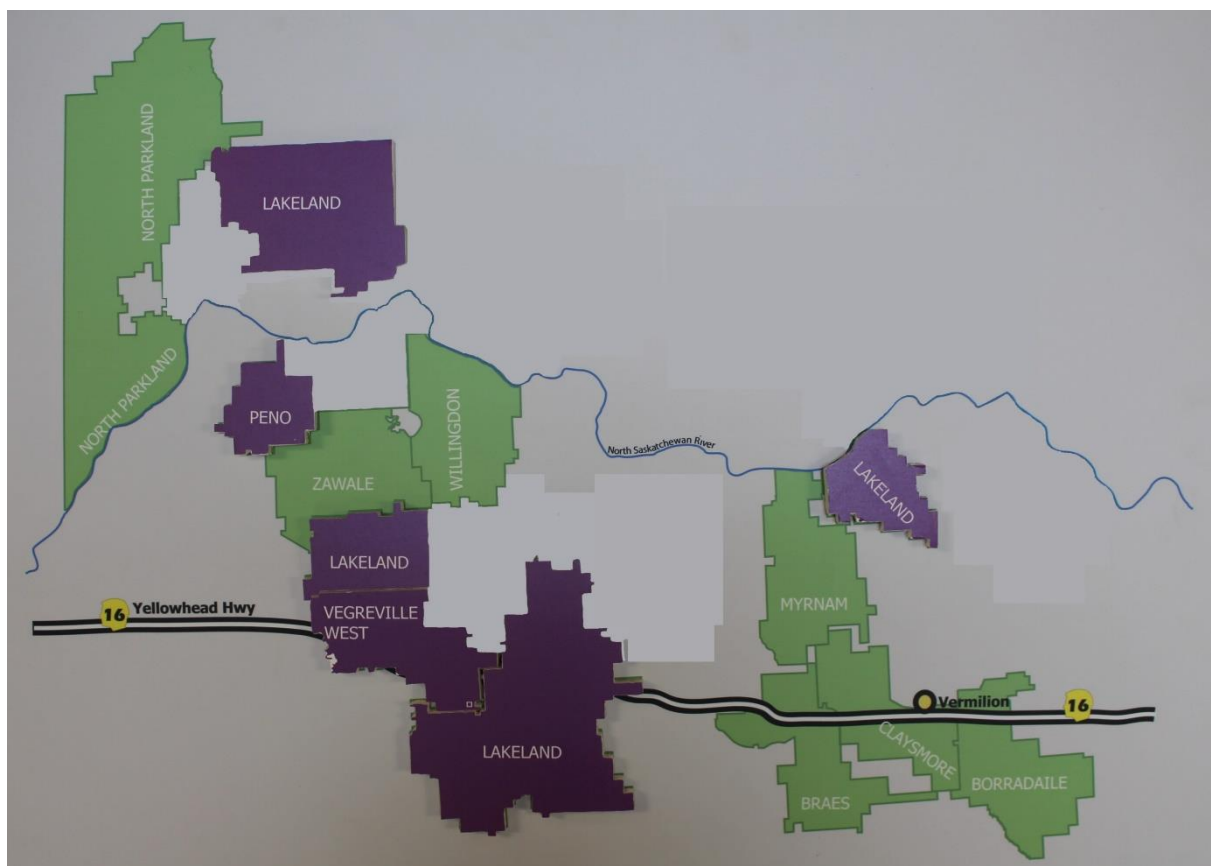
1.0 WHY LAKELAND RURAL ELECTRIFICATION ASSOCIATION (REA)

1.1 WHO WE ARE

Lakeland REA is a self-operating, member-owned electricity co-operative that looks after member interests. The REAs that make up Lakeland have been in business for nearly 70 years. Lakeland REA's main business is distribution—delivering electricity from substations to your homes, businesses and farms. But we're also a retailer that prepares bills and answers customer calls.

In 2001, five REAs amalgamated to form Lakeland REA. They were Lavoy, Barich (Smoky Lake), Hilliard, Martins (Holden and Bruce) and Derwent. In 2010, Lakeland REA grew when it merged with Peno REA and Vegreville West REA.

Lakeland REA has the potential to amalgamate with surrounding REAs to build a stronger co-op. Lakeland REA is the only self-operating REA in the ATCO territory. If Lakeland REA is sold to ATCO, ATCO would then have a monopoly in their territory.



1.2 BOARD OF DIRECTORS

Under the *Rural Utilities Act* 15.1, the Board of Directors has responsibility for the general direction and supervision of the affairs and business of the Association.

The Board of Directors has a legal duty to the Association and must act honestly, in good faith and in the best interest of the Society to preserve its assets, further its objective and promote its purposes for which it formed.

(For more information, please visit: www.qp.alberta.ca/documents/acts/R21 and http://www.qp.alberta.ca/documents/Regs/2000_151.pdf.)

LAKELAND REA BOARD OF DIRECTORS			
Name	Position	Zone	Contact Information
Bernie Klammer	President	Director at-large #1	780.603.7833
Greg Farion	Vice President	Zone 7 - Vegreville West	780.632.4563
Robert Peyton	Secretary-Treasurer	Zone 6 - Peno	780.686.6743
Robert Coppock	Director	Zone 5 - Martins	780.632.6122
Kendall Freed	Director	Zone 4 - Lavoy	780.632.9262
John Homeniuk	Director	Zone 3 - Hilliard	780.764.2422
John Grykuliak	Director	Zone 2 - Derwent	780.210.0115
Dennis Holowaychuk	Director	Zone 1 - Barich	780.656.0101
Bill Jenkins	Director	Director at-large # 2	780.547.4434

1.3 VISION AND MISSION

Board members represent the membership and commit to carrying out the Vision and Mission. The Board feels control and ownership of your electrical co-op is very important and trusts members agree with this vision.

VISION: To be a value leader in member-owned rural electric service co-operative ensuring integrity, honesty and good governance.

MISSION:

- To ensure Lakeland REA is a valued, viable member-owned rural electrification association
- To provide good governance of the Lakeland REA that is financially accountable and cost efficient
- To provide an electrical energy service to all rural members within the Lakeland Rural Electrification Association area in a safe, efficient and cost-effective manner
- To provide reliable electrical utility service to our members
- To maintain local ownership of the electrical distribution system and promote rural development
- To promote and protect the spirit of co-operation and sustainability within the REA community and rural Alberta by pursuing related business opportunities

1.4 RELIABILITY

One of the key benefits of Lakeland REA is reliability. We provide dependable power. In 2019, nearly 100 per cent of survey respondents said they were satisfied with Lakeland REA's service.

Four, full-time linemen serve 1,481 members. That's one lineman for every 360 members, when the industry average is one for every 600 customers.

Outages

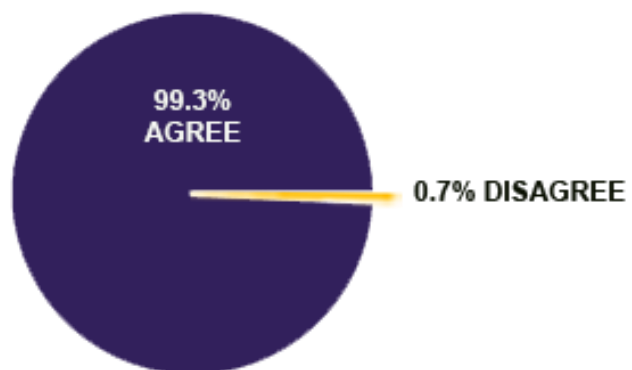
Lakeland REA's 24/7 toll-free answering service responds quickly to power problems.

More than 95 per cent of members who experienced outages were happy with the response time and service.

Lakeland REA does not delay the dispatch. If you call at 2:00

a.m., we go right out to diagnose and solve the problem. For any planned power outages for maintenance or high-load moves, we contact you at least 48 hours before the outage.

RELIABLE ELECTRICITY



MEMBERS WHO EXPERIENCED OUTAGES	Satisfied	Dissatisfied
Response time	97.3%	2.7%
During regular business hours	95.9%	4.1%
After business hours call centre service	95.9%	4.1%

Lakeland REA has cash available to rebuild our system. As of July 31, 2019, we had \$3,058,616—enough to replace more than 3,000 poles or 21 per cent of our distribution lines. At 10 poles per kilometre, we could change out roughly 305 kilometres or 189 miles of poles.

Compared to Central and Eastern Canada, Alberta experiences fewer extreme weather events. It’s rare to have troubles in two areas at the same time. Thunderstorms, tornadoes and freezing rain are typically localized in small pockets.

Lakeland REA crews are dedicated to our membership. Our linemen can address member needs immediately, while ATCO deals with the mainlines and towns. While the substations and mainlines are restored, REA staff are focusing on your rural systems to minimize outage times.

Disaster Response

With major disasters, governments typically do not let towns, associations and individuals stand on their own. After the October 2019 snowstorm, Manitoba Hydro asked the provincial government to declare a state of emergency. Government assistance following the Fort McMurray wildfire topped \$100 million.

Lakeland REA has been part of the Alberta Utility Company Multi-Lateral Mutual Emergency Assistance Agreement since September 2014. In this agreement, Alberta utility companies have agreed to provide emergency assistance to each other in the event of an emergency requiring prompt co-ordination of action to protect the health, safety or welfare of people or to limit damage to property. Battle River Power Coop, EQUUS, North Parkland Power and the City of Red Deer are a few of the companies included in this agreement.

Investor Owned Utilities (IOUs) can ask the AUC to approve a Z factor rate adjustment to recover costs of rebuilding or replacing utilities. After the Fort McMurray fire, ATCO applied for a Z factor to recoup \$15 million. (Decision 21609-D01-2019) Through the Z factor, ATCO eventually recovers its cost from its customers.

Insurance

Lakeland REA uses its own equity to rebuild after weather damage. It is not possible for any utility to purchase insurance to cover standing powerlines. Like other REAs, we recognize and manage this risk.

We are part of the Alberta Federation of Rural Electrification Associations (AFREA). AFREA's 24 members serve 24,691 sites and manage 14,071 kilometres of distribution lines. We are working with these other co-operatives to explore self-insurance.

Recently, AFREA approached Aon, a global firm providing risk solutions. Aon poured over data, calculated costs and recommended reciprocal insurance—a type of self-insurance. Reciprocal insurance isn't new. More than 100 years ago, like-minded businesses and individuals joined to fill a void in the market and establish reciprocal insurance. Currently, approximately 21 reciprocal insurance programs are registered with the Alberta government.

AFREA is still investigating options, and Lakeland REA is willing to participate with 13 operating REAs if the costs are reasonable.

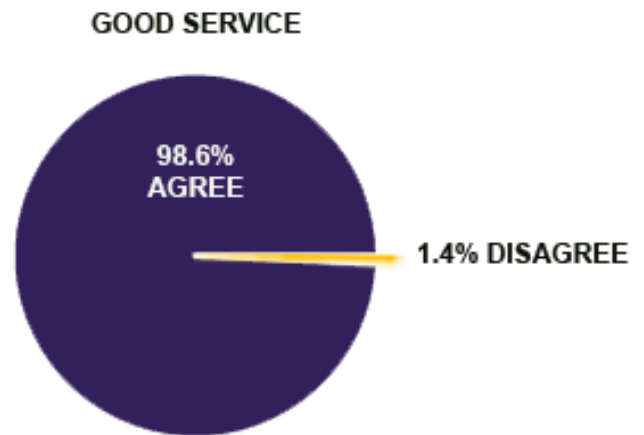
1.5 CUSTOMER SERVICE

Lakeland REA has an office in Vegreville, a shop north of Vegreville and eight full-time staff who live in the area. In 2019, nearly 100 per cent of respondents said they were satisfied with our service.

Our office staff have 18 years of combined experience with Lakeland REA. Our linemen have 43 years combined experience with Lakeland REA and 99 years of combined experience in the trade. All Lakeland REA linemen have their Canada Red Seal in Power Line Technician certification, which means they have all demonstrated the knowledge required for the national standard in this trade.

Lakeland REA members are neighbours. Our linemen are local. They know that electricity is an essential service and that delays can become critical quickly.

We keep business in Alberta. Our billing company and call centre are both here. If you have questions, you call locally, not overseas. Many members visit our office every month to pay bills and ask questions.



2.0 THE LAKELAND REA SYSTEM

2.1 THE VALUE

Lakeland REA's value is more than \$30 million. As a member of the co-op, you own that healthy, financially sound business. The profits go back to you and your neighbours and become reinvested in the system. We provide an essential service with a guaranteed recurring monthly revenue, which automatically adds to the market value of Lakeland REA.

The co-op is also a valuable reminder of local determination, self-reliance and ingenuity. In the 1940s and early '50s when the Investor Owned Utilities (IOUs) did not want to serve rural areas, our parents, grandparents and great grandparents borrowed money, planted poles and brought power to their homes, farms and businesses.

The Alberta Federation of Rural Electrification Associations (AFREA) reminds us that co-operatives aren't just businesses. They depend on members who are socially motivated to share resources and are committed to being member-owners.

Read more at <http://www.lakelandrea.com>.

2.2 SAFETY

Lakeland REA provides safe power service. Field staff patrol lines and check sites to ensure the powerlines are safe and the power reliable. Through our

accreditation with the Alberta Safety Codes Council, we conduct yearly patrols and inspections in accordance with our Quality Management Plan.

2.3 CHARGES AND RATES

Lakeland REA is within an ATCO area. Our distribution lines tie into ATCO's system. Each Lakeland REA bill, therefore, includes ATCO transmission and distribution charges. These are beyond our control.

Members elect the Board of Directors, which sets Lakeland REA's distribution rates to cover the costs of supplying power to member-owners. Lakeland REA has not increased distribution rates in the last nine years.

ATCO owns transmission lines, and the Alberta Utilities Commission (AUC) gives it permission to charge members for the costs it incurred building those lines. The charges first appeared in 2012 and go up every year. Members with smaller transformers have seen the greatest percentage increases.

	2012	2019	% Increase
Lakeland REA Minimum Fixed Charges 3kVA			
Lakeland Distribution	46.22	46.22	0%
Lakeland Brushing Tariff	20.00	5.50	-72.50%
Lakeland REA Deposit Reserve	15.00	5.50	-63.33%
ATCO Transmission	14.57	31.12	114%
Lakeland REA Minimum Fixed Charges 7.5kVA (most common breaker size)			
Lakeland Distribution	56.12	56.12	0%
Lakeland Brushing Tariff	20.00	5.50	-72.50%
Lakeland REA Deposit Reserve	15.00	5.50	-63.33%
ATCO Transmission	27.18	48.65	79%
Lakeland REA Minimum Fixed Charges 25kVA			
Lakeland Distribution	77.05	77.05	0%
Lakeland Brushing Tariff	20.00	5.50	-72.50%
Lakeland REA Deposit Reserve	15.00	5.50	-63.33%
ATCO Transmission	76.20	116.79	53%

Lakeland REA Member Charges

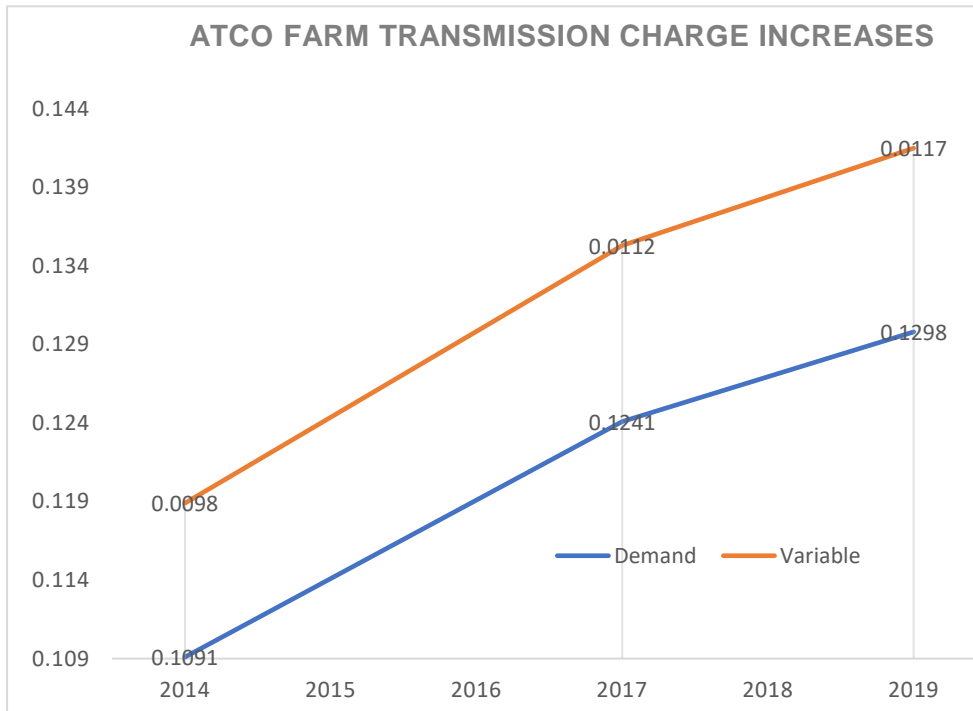
Lakeland REA is a mix of farms with larger and smaller transformers. Some members with smaller kVA transformers currently pay more than they would as ATCO customers.

As ATCO continues to raise its rates, however, that could change. As ATCO customers, larger farms would pay more. For the 25kVA farm, 2021 kWh would cost \$37.34 more under ATCO's current prices.

Lakeland and ATCO Electric Non-Energy Charges Comparison			
<i>ATCO Electric D56 Farm Service is equivalent to Lakeland REA.</i>	7.5 kVA	15 kVA	25 kVA
	409 kWh	1257 kWh	2021 kWh
ATCO Electric D56 Farm Service Tariff Charges			
Customer charge	22.81	22.81	22.81
Demand charge	64.37	128.75	214.58
Variable D&T charge	6.75	20.74	33.35
Balancing Pool (Rider B)	1.26	3.86	6.2
Temporary Adjustment (Rider G)	0.8	2.45	3.94
SAS Deferral (Rider S)	0.83	2.55	4.1
	96.82	181.16	284.98
Lakeland REA Charges			
LREA distribution charges	60.1	81.22	96.7
Deposit reserve	5.5	5.5	5.5
Brushing tariff	5.5	5.5	5.5
ATCO transmission charges	34.69	75.22	124.37
ATCO distribution charges	8.09	8.77	9.37
Balancing pool allocation rider	1.26	3.86	6.2
	115.14	180.07	247.64
DIFFERENCE	-18.32	1.09	37.34
	Lakeland REA higher	ATCO Electric higher	ATCO Electric higher

Performance Based Regulation (PBR)

Since 2013, ATCO and other distribution utilities in Alberta have been under Performance Based Regulation (PBR). Through PBR, the AUC provides incentives to ATCO to reduce its capital costs. PBR should put additional downward pressure on rates over time. However, PBR has not resulted in cost reductions to customers or lower rates.



(You can find ATCO's rates at <https://www.atco.com/en-ca/for-home/electricity/rates-billing/regulatory.html>. The AUC address is <http://www.auc.ab.ca>.)

2.4 RIGHT OF WAY

Right-of-way gives REAs access to your land. As a member and REA owner, you have a say over distribution systems placed on your land. If Lakeland REA transfers to ATCO, that right-of-way will also transfer, and ATCO will register a caveat for the Utility of Right of Way.

2.5 SERVICE AND FARM EXTENSIONS

If members choose Lakeland REA's investment policy, it helps members finance upgrades and extensions. Members pay 25 per cent upfront, and Lakeland amortizes costs at prime +3 per cent. ATCO has a company

investment policy based on 30-year investment.

(See AUC Decision 23895-D01-2018 ATCO Terms and Conditions page 69:

[http://www.auc.ab.ca/Shared%20Documents/ATCOElectric-CustomerTermsandConditionsService.pdf#search=Decision%2023895%2DD01%2D2018\)](http://www.auc.ab.ca/Shared%20Documents/ATCOElectric-CustomerTermsandConditionsService.pdf#search=Decision%2023895%2DD01%2D2018)

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3.0 VOTING

3.1 YOUR VOTE

On August 22, 2019, ATCO Electric Ltd. made an offer to buy Lakeland REA. As a member and owner, you have a say. Your Board of Directors manages Lakeland REA on your behalf and represents all members.

The *Rural Utilities Act* governs Lakeland REA, and we must follow a legal process.

The Rural Utilities Regulation, Schedule 3, Section 4 (1) and (2), states that a Special General Meeting (SGM) may be called:

- 1) by the Board of Directors when the Board considers it necessary or advisable
- 2) when requested by the membership with a petition of at least 25 per cent of the membership stating clearly the extraordinary resolution

A vote to sell the REA is an *extraordinary resolution*. The *Rural Utilities Act* 1(d), defines extraordinary resolution as:

a resolution passed by a majority of not less than 2/3 of the votes cast at a general meeting of which not less than 15 days' written notice specifying the intention to propose the resolution as an extraordinary resolution has been given.

Written notice for an SGM must be given to the membership not less than 15 days of the SGM.

(For more information, please visit: www.qp.alberta.ca/documents/acts/R21 and http://www.qp.alberta.ca/documents/Regs/2000_151.pdf.)

3.2 BOARD RECOMMENDATION

The Board of Directors directs and supervises Lakeland REA. It advises membership on the REA business.

WHEREAS Lakeland REA is viable, sustainable and financially sound—

AND WHEREAS more than 95 per cent of our membership is satisfied and happy with the service our staff provides—

AND WHEREAS Lakeland REA's rates are on par with ATCO rates—

THEREFORE, BE IT RESOLVED that the majority of the Board of Directors feels that the membership should reject ATCO's purchase offer at this time.

Your REA co-operative is not bottom-line driven; it is community driven. It was founded based on community need and continues to serve by providing affordable electricity to rural Alberta.

The future depends on you. Get plugged into your REA. Get involved to energize your REA for the future. Who owns LREA is of key importance.

3.3 AGM

Our Annual General Meeting (AGM) is November 6, 2019, in Vegreville. At the AGM, we will discuss the ATCO offer under New Business.

At the AGM, there can be a motion from the membership to:

- reject the sales offer—OR
- investigate the offer

Members will then vote on the motion. A majority vote would be a recommendation to the Board as to the direction Lakeland REA will take.

Lakeland REA Annual General Meeting

Date	November 6, 2019
Registration	5:30 p.m.
Time	7:00 p.m.
Location	Vegreville Social Centre 4802-47A St Vegreville, Alberta

3.1 QUESTIONS

Lakeland REA
4932-50 Ave
Vegreville, Alberta

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