NEW ISSUE-BOOK-ENTRY ONLY

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2015 A Bonds (as defined herein) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and from taxable net income of individuals, estates and trusts for Minnesota income tax purposes. In the further opinion of Bond Counsel, interest on the 2015 A Bonds is not a specific preference item for purposes of the federal or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the 2015 A Bonds is included in net income for purposes of the Minnesota franchise tax imposed on corporations and financial institutions. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the 2015 A Bonds. See "TAX MATTERS" herein.

Southern Minnesota Municipal Power Agency

$97,840,000 Power Supply System Revenue Bonds, Series 2015 A

Dated: Date of Delivery Due: January 1, as shown on the inside cover page

The Southern Minnesota Municipal Power Agency (the "Agency") Power Supply System Revenue Bonds, Series 2015 A (the "2015 A Bonds") are issuable as fully registered bonds and when initially issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC is serving as the initial securities depository for the 2015 A Bonds. Purchases of the 2015 A Bonds will be made in book-entry form only, in the principal amount of $5,000 or any integral multiple thereof, through brokers and dealers who are, or who act through, DTC participants. Beneficial Owners of the 2015 A Bonds will not be entitled to receive physical delivery of bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the 2015 A Bonds. Semiannual interest on the 2015 A Bonds is payable each January 1 and July 1, commencing January 1, 2016. So long as DTC or its nominee is the registered owner of the 2015 A Bonds, references herein to Bondholders or registered owners shall mean Cede & Co., as aforesaid, and payments of principal of and interest on the 2015 A Bonds will be made directly to DTC by Wells Fargo Bank, N.A., Minneapolis, Minnesota, as Trustee and Paying Agent. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC participants (see "THE 2015 A BONDS – General" herein and "Book-Entry Only System" in APPENDIX H hereto).

The 2015 A Bonds are subject to redemption at the election of the Agency as more particularly set forth herein.

The 2015 A Bonds will be issued to provide funds sufficient, when combined with interest earnings thereon, to provide for (i) the refunding of certain of the Agency's outstanding Bonds (as defined herein), (ii) the payment of certain of the Agency's Power Supply System Commercial Paper Notes and (iii) for the payment of certain Costs of Acquisition and Construction of the System (as such terms are defined herein) including, but not limited to, a portion of the costs of certain transmission projects as more particularly described herein, and the payment of costs of issuance of the 2015 A Bonds. The 2015 A Bonds will be payable from and secured by the revenues of the Agency derived from the ownership and operation of its power supply system, subject to prior payment therefrom of operating expenses, and other moneys and securities pledged under the Resolution (as defined herein). Such revenues include payments received by the Agency from its eighteen Members (as defined herein) pursuant to power sales contracts (the "Power Sales Contracts"), which provide that the Agency will set rates for the sale of power and energy thereunder to produce revenues which are sufficient, with other available funds, to cover all of the Agency's costs relating to the system, including debt service on Bonds. Under its Power Sales Contract, payments by each Member will constitute an operating expense of its electric or integrated utility system, payable solely from the revenues thereof. See "THE AGENCY – Power Supply Operations – *Obligations Under Power Sales Contracts*" herein for a description of the Members' obligations under their respective Power Sales Contracts.

Neither the State of Minnesota nor any political subdivision thereof (other than the Agency) nor any Member of the Agency shall be obligated to pay the principal of or premium, if any, or interest on the 2015 A Bonds and neither the faith and credit nor the taxing power of the State of Minnesota or any political subdivision thereof or any Member is pledged to the payment of the principal of or interest on the 2015 A Bonds. The Agency has no taxing power.

MATURITY SCHEDULE – See Inside Front Cover

The 2015 A Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel. Certain legal matters in connection with the 2015 A Bonds will be passed upon by Dorsey & Whitney LLP, Minneapolis, Minnesota, counsel to the Agency, and McGrann Shea Carnival Straughn & Lamb, Chartered, Minneapolis, Minnesota, counsel to the Underwriters. It is expected that the 2015 A Bonds will be ready for delivery through the facilities of DTC on or about October 14, 2015.

Morgan Stanley **US Bancorp**
Dougherty & Company LLC **Goldman, Sachs & Co.**

October 8, 2015

Southern Minnesota Municipal Power Agency
Maturities, Amounts, Interest Rates, Yields and CUSIPS

Dated: Date of Delivery | Due: January 1, as shown below

$97,840,000
Power Supply System Revenue Bonds, Series 2015 A

Maturity	Principal Amount	Interest Rate	Yield	CUSIP Number*	Maturity	Principal Amount	Interest Rate	Yield	CUSIP Number*
2016	$ 165,000	2.000%	0.170%	843375ZX7	2025	$6,460,000	5.000%	2.360%	843375A89
2017	785,000	3.000	0.460	843375ZY5	2026	6,790,000	5.000	2.520	843375A97
2018	810,000	4.000	0.750	843375ZZ2	2027	5,025,000	5.000	2.670†	843375B21
2019	840,000	4.000	1.020	843375A22	2028	5,275,000	5.000	2.780†	843375B39
2020	2,470,000	4.000	1.240	843375A30	2029	5,540,000	5.000	2.900†	843375B47
2021	1,500,000	3.000	1.500	843375A48	2030	5,815,000	4.000	3.220†	843375B54
2021	3,930,000	5.000	1.500	843375C46	2031	1,465,000	5.000	3.090†	843375B62
2022	2,500,000	4.000	1.760	843375A55	2032	1,540,000	5.000	3.150†	843375B70
2022	3,170,000	5.000	1.760	843375C53	2033	1,615,000	5.000	3.200†	843375B88
2023	2,235,000	3.000	2.000	843375A63	2034	1,695,000	5.000	3.250†	843375B96
2023	3,690,000	5.000	2.000	843375C61	2035	1,780,000	5.000	3.300†	843375C20
2024	2,500,000	4.000	2.200	843375A71	2036	1,870,000	5.000	3.350†	843375C79
2024	3,680,000	5.000	2.200	843375C95					

$10,850,000 5.000% 2015 A Term Bond due January 1, 2041 – Yield 3.490%†
CUSIP Number* - 843375C87

$13,845,000 5.000% 2015 A Term Bond due January 1, 2046 – Yield 3.540%†
CUSIP Number* - 843375C38

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* CUSIP numbers have been assigned by an organization not affiliated with the Agency and are included solely for the convenience of the holders of the 2015 A Bonds. The Agency is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to their correctness in the 2015 A Bonds or as indicated above.

† Priced at the stated yield to the January 1, 2026 redemption date at a redemption price of 100%.

SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY
500 First Avenue SW
Rochester, Minnesota 55902
(507) 285-0478

Board Of Directors

Richard D. Kittelson	President
Mark E. Nibaur	Vice President
Mark J. Fritsch	Secretary
Joseph A. Hoffman	Treasurer
Mark R. Kotschevar	Director
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Stuart T. Smith	Director

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David P. Geschwind	Executive Director & CEO
Mark S. Mitchell	Director of Operations & COO
Christopher P. Schoenherr	Director of Agency and Government Relations
John D. Winter	Director of Finance and Accounting & CFO

Counsel

Dorsey & Whitney LLP
Minneapolis, Minnesota

Bond Counsel

Orrick, Herrington & Sutcliffe LLP
New York, New York

Financial Advisor

Public Financial Management
Philadelphia, Pennsylvania

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This Official Statement does not constitute an offer to sell the 2015 A Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the 2015 A Bonds, and, if given or made, such information or representation must not be relied upon.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information set forth herein has been furnished by the Agency, the Members referred to in this Official Statement and other sources which are believed to be reliable, but is not guaranteed as to its accuracy or completeness. The information contained herein is subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Agency or such Members since the date hereof.

THE UNDERWRITERS HAVE ADVISED THE AGENCY THAT IN CONNECTION WITH THE OFFERING OF THE 2015 A BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2015 A BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

TABLE OF CONTENTS

OFFICIAL STATEMENT

Relating to

SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY

$97,840,000
Power Supply System Revenue Bonds,
Series 2015 A

INTRODUCTION

General

The purpose of this Official Statement, which includes the cover page and inside cover page hereof and the Appendices hereto, is to set forth information concerning Southern Minnesota Municipal Power Agency (the "Agency") and the Agency's Power Supply System Revenue Bonds, Series 2015 A (the "2015 A Bonds") described herein. See "THE 2015 A BONDS" herein for a description of the terms and provisions of the 2015 A Bonds. Capitalized terms used but not defined herein shall have the meanings given to such terms in APPENDIX F to this Official Statement.

The 2015 A Bonds are to be issued pursuant to Minnesota Statutes, Chapter 453, as amended (the "Act"), and the Agency's Power Supply System Revenue Bond Resolution adopted May 11, 1983, as amended and supplemented (the "Resolution"). The Resolution authorizes the issuance of additional bonds for the purpose of financing costs incurred or to be incurred by the Agency in connection with its power supply system, including developmental costs, costs of acquisition and construction, operating costs and retirement costs and for the purpose of refunding outstanding bonds. The 2015 A Bonds and any bonds heretofore or hereafter issued pursuant to the Resolution and secured on a parity with the 2015 A Bonds are herein referred to as the "Bonds."

The Agency was organized pursuant to the Act for the purpose of securing and supplying adequate, economical and reliable electric power and energy to its eighteen member municipalities (the "Members"). The Agency has entered into Power Sales Contracts (hereinafter defined) with all of the Members. Fifteen of the eighteen Members have a Power Sales Contract that remains in effect until April 1, 2050 and thereafter until terminated upon one year's prior notice by either party. Three of the Members, Austin, Rochester and Waseca, have a Power Sales Contract that remains in effect until April 1, 2030.

The agency agreement under which the Agency was organized (the "Agency Agreement") permits any Minnesota city authorized to engage in the local distribution and sale of electric energy to become a member of the Agency upon the approval of the Member Representatives (as defined herein). See "THE AGENCY – Membership" herein. Although not now permitted by the Agency Agreement, the Act also permits any city located outside of Minnesota which is authorized to engage in the local distribution and sale of electric energy to become a member of a municipal power agency.

The Agency commenced power and energy sales to ten Members on November 1, 1982, to five additional Members on September 20, 1984 and to the remaining three Members on May 1, 1985. Subject to exceptions described herein, under the original Power Sales Contracts (the Power Sales Contracts entered into by the eighteen Members between 1981 and 1985), each Member was required to purchase from the Agency, and the Agency was required to supply, the total power and energy required by the Member in the operation of its municipal electric system through 1999. Seventeen Members (Austin, Blooming Prairie, Fairmont, Grand Marais, Lake City, Litchfield, Mora, New Prague, North Branch, Owatonna, Preston, Princeton, Redwood Falls, Spring Valley, Saint Peter, Waseca and Wells; collectively, the "Extended Members") elected to extend the total requirements provision of the original Power Sales Contract to 2030, subject to certain limitations discussed herein, and their Power Sales Contracts were amended accordingly. Fifteen of these seventeen Members (all but Austin and Waseca) have amended their Power Sales Contracts to extend the term of their Power Sales Contracts to 2050. The original Power Sales Contracts for the eighteen Members, as amended, are hereinafter collectively referred to as the "Power Sales Contracts." One Member, Rochester, operates under the post-1999 partial requirements provision of its Power Sales Contract. Rochester's Contract Rate of Delivery (as defined herein) is 216 megawatts ("MW"). Austin also will operate at a Contract Rate of Delivery of 70 MW, effective January 1, 2016. See "THE AGENCY – Power Supply Operations – *Obligations Under Power Supply Contracts*" herein for a discussion of certain provisions in the Power Sales Contracts.

Two exceptions to the total requirements obligation of the Agency and the Members are provided in the Power Sales Contracts. First, each Member may acquire or construct hydro-electric facilities and utilize the capacity thereof, in an amount not exceeding 5 MW at any time, in the operation of its system. Second, three Members, Redwood Falls, Litchfield, and Fairmont, each of which has an allotment of power from the Western Area Power Administration ("WAPA"), may purchase power and energy from WAPA, up to 8.9 MW for Redwood Falls, up to 12.7 MW for Litchfield, and up to 0.9 MW for Fairmont. As of December 31, 2014, WAPA supplied approximately 53 percent of Litchfield's power and energy, approximately 60 percent of Redwood Falls' power and energy and approximately two percent of Fairmont's power and energy. In the event that Redwood Falls', Litchfield's, and Fairmont's allocation from WAPA is reduced or terminated, the Agency will be required to supply the power and energy requirements no longer supplied by WAPA.

The Agency owns a 41 percent undivided ownership interest in the Sherburne County Generating Unit No. 3 ("Sherco 3") in Becker, Minnesota, with a tested net capability of approximately 910 MW. Sherco 3 commenced commercial operation on November 1, 1987. Northern States Power Company ("NSP"), a Minnesota corporation and a wholly-owned subsidiary of Xcel Energy Inc. ("Xcel"), owns the remaining 59 percent undivided ownership interest in Sherco 3 and is the construction and operating agent under the Ownership and Operating Agreement (the "Sherco 3 Agreement") between the Agency and NSP. See "NORTHERN STATES POWER COMPANY" herein. The Agency is obligated to pay 41 percent of the cost of improvements to Sherco 3 and is entitled to 41 percent of the power and energy produced by Sherco 3.

The Agency's Fairmont Energy Station consists of two existing dual fuel (diesel/natural gas) engines totaling 12 MW and four new high efficiency, natural gas-fired spark-ignited engines totaling 25 MW that went into commercial operation in 2014. The Agency also is developing four high efficiency natural gas engines totaling 38 MW similar to the Fairmont Energy Station near Owatonna (the "Owatonna Energy Station").

The Agency has entered into a twenty-year agreement with Wapsipinicon Wind Project, LLC ("Wapsipinicon"), a subsidiary of EDF Renewable Energy, Inc. ("EDF"), to purchase the output of a 100.5 MW wind farm located near Dexter, Minnesota expiring on February 20, 2029. EDF is involved in developing clean energy projects in the United States, including in the Midwest. See "THE AGENCY – Power Supply Operations – *Present Power Supply and Transmission Operations*" herein.

The Agency also has pass-through capacity purchase agreements (the "Pass-through Capacity Purchase Agreements") for 85 MW of capacity and quick-start capacity purchase agreements (the "Quick-Start Capacity Purchase Agreements") for 57 MW of capacity with certain of its Members that own electric generating resources. See the discussion under "THE POWER SUPPLY SYSTEM – Power Supply Resources – *Power Purchase from Members*" herein.

In 2006, the Agency became a transmission-owning member of the Midwest Independent Transmission System Operator, Inc. ("MISO") and has transferred the operational control of its transmission system to MISO and is subject to the MISO Open Access Transmission Tariff ("OATT"). See "THE POWER SUPPLY SYSTEM – Transmission – *MISO*" herein.

The Agency is a party to a shared transmission agreement with Dairyland Power Cooperative ("Dairyland") (the "STS Agreement"). The Agency has certain rights to use transmission facilities included within the shared transmission system, regardless of ownership, in serving the Members. The Agency also has a 13% ownership interest in the 345 kV transmission line between Hampton, Minnesota and La Crosse, Wisconsin through its participation in the CapX 2020 project (the "Hampton/La Crosse Line") which is expected to be placed in service in 2016. The Agency also obtains network services from MISO. See "THE POWER SUPPLY SYSTEM – Transmission" herein.

The Badger Coulee transmission line project (the "Badger Coulee Project") is a planned 345 kV transmission line to be constructed in Wisconsin by Northern States Power Company, Wisconsin, and American Transmission Company LLC. Wisconsin laws do not permit a non-Wisconsin entity to own transmission within the state. As a result, the Agency has formed SMMPA Wisconsin LLC ("SMMPA Wisconsin"), a Wisconsin limited liability company which is a wholly-owned subsidiary of the Agency, in order to acquire a 6.5% undivided ownership interest in the Badger Coulee Project. The Agency's entitlement to the rights and benefits from SMMPA Wisconsin's undivided ownership interest in the Badger Coulee Project is called the "BC Project Interest." The Agency has been in discussions with Rochester and Austin regarding continued participation in the BC Project Interest by these two Members after the expiration of their Power Sales Contracts with the Agency in 2030. As a result, the Agency has decided to finance its rights to entitlement and other benefits from the BC Project Interest on a "project" basis and not under the Resolution. See "THE POWER SUPPLY SYSTEM – Transmission – *Badger Coulee Project*" herein.

As of June 30, 2015, the aggregate principal amount of Bonds outstanding was approximately $610,409,769, which includes the accreted value of the capital appreciation bonds to such date and, taking into account the full amount of accreted value calculated to maturity for capital appreciation bonds, such aggregate principal amount was approximately $804,915,000. For additional information with respect to the Agency's debt, see Note (4) in the Notes to Financial Statements in APPENDIX B hereto. The Agency estimates that the Revenues (as defined herein) of the Agency and certain other funds of the Agency, together with the issuance of commercial paper and the potential for the issuance of additional Bonds or notes described below under "Future Financing," will be sufficient to complete the financing of its transmission and long-term power supply needs through 2020.

Continuing Disclosure

Pursuant to a Continuing Disclosure Resolution to be adopted by the Agency prior to the delivery of the 2015 A Bonds (the "Continuing Disclosure Resolution"), the Agency will covenant for the benefit of the Holders and the Beneficial Owners (as defined herein) of the 2015 A Bonds to provide certain financial information and operating data relating to the Agency and each of the Largest Members (as defined in APPENDIX C hereto) by not later than nine months after the end of the Agency's and each of the Largest Member's fiscal years (presently by each September 30), all commencing with the report for the fiscal year ending December 31, 2015 (the "Annual Report"). As of the date of this Official Statement, the Largest Members are Austin, Owatonna and Rochester. See "THE MEMBERS – Description of the Largest Members" herein.

The Agency also will covenant to provide notices of the occurrence of certain enumerated events with respect to the 2015 A Bonds (each an "Event Notice"), if material. The Annual Report and each Event Notice will be filed by or on behalf of the Agency with the Municipal Securities Rulemaking Board (the "MSRB"), through the MSRB's Electronic Municipal Market Access ("EMMA") website, currently located at http://emma.msrb.org. The specific nature of the information to be contained in the Annual Report and the notices of material events is set forth in the Continuing Disclosure Resolution, the form of which is included in its entirety in APPENDIX C hereto. These covenants have been made in order to assist the Underwriters (as defined herein) in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Any failure by the Agency to perform in accordance with the Continuing Disclosure Resolution shall not constitute a default or an "Event of Default" under the Resolution and shall not result in any acceleration of payment of the 2015 A Bonds, and the rights and remedies provided by the Resolution upon the occurrence of such a default or an Event of Default shall not apply to any such failure. As provided in the Continuing Disclosure Resolution, if the Agency fails to comply with any provision of the Continuing Disclosure Resolution, any Holder or Beneficial Owner of the 2015 A Bonds may seek mandamus or specific performance by court order to cause the Agency to comply with its obligations under the Continuing Disclosure Resolution. However, the Continuing Disclosure Resolution provides that no Holder or Beneficial Owner of the 2015 A Bonds will have the right to challenge the content or the adequacy of the information contained in any Annual Report or any Event Notice by judicial proceedings unless the Holders or Beneficial Owners of the 2015 A Bonds representing at least 25 percent in aggregate principal amount of all 2015 A Bonds then outstanding join in such proceedings.

"Beneficial Owner" is defined herein and in the Continuing Disclosure Resolution to mean any person holding a beneficial ownership interest in the 2015 A Bonds through nominees or depositories (including any person holding such interest through the book-entry only system of The Depository Trust Company ("DTC")). IF ANY PERSON SEEKS TO CAUSE THE AGENCY TO COMPLY WITH ITS OBLIGATIONS UNDER THE CONTINUING DISCLOSURE RESOLUTION, IT IS THE RESPONSIBILITY OF SUCH PERSON TO DEMONSTRATE THAT IT IS A BENEFICIAL OWNER WITHIN THE MEANING OF THE CONTINUING DISCLOSURE RESOLUTION. As described in APPENDIX H hereto, upon initial issuance, the 2015 A Bonds will be issued in book-entry only form through the facilities of DTC, and the ownership of one fully registered 2015 A Bond for each maturity (and, if applicable, each interest rate within a maturity), in the aggregate principal amount thereof, will be registered in the name of Cede & Co., as nominee for DTC. For a description of DTC's current procedures with respect to the enforcement of bondholders' rights, see APPENDIX H hereto.

As of the date hereof, the Agency has not failed to comply, in any material respect, during the last five years with any previous continuing disclosure undertakings made by it pursuant to the provisions of Rule 15c2-12. However, on October 5, 2010, Moody's Investors Service ("Moody's") changed its rating on the Agency's Bonds from A2 to A1 and the Agency failed to file promptly an Event Notice. Upon discovery of this oversight, the Agency filed an Event Notice relating to this ratings upgrade.

Plan of Finance

The proceeds of the 2015 A Bonds are expected to be used for the following purposes:

Refunded CP Notes. The 2015 A Bonds are being issued for the purpose of providing funds to provide for the payment on October 15, 2015 of $33 million in aggregate principal amount of the Agency's Power Supply System Commercial Paper Notes, Series B (the "Refunded CP Notes"). The Agency currently has outstanding $68 million of its Commercial Paper Notes, Series B (the "Series B CP Notes") which were issued as Subordinated Indebtedness under the Resolution. The Refunded CP Notes were issued initially to pay Costs of Acquisition and Construction of the System including $29.0 million in costs relating to the Hampton/La Crosse Line and $4.0 million for other transmission projects.

The Refunded Bonds. The 2015 A Bonds also are being issued for the purpose of providing funds to refund a portion of the Agency's Power Supply System Revenue Bonds, Series 2006 A and Series 2009 A, listed in the following table (collectively, the "Refunded Bonds"). The Refunded Bonds were issued to refund Bonds issued to finance or refinance a portion of the Costs of the Acquisition and Construction of the Agency's ownership interest in Sherco 3, the acquisition and construction of certain transmission facilities and certain other improvements to the System.

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Refunded Bonds

Series	Maturity Date (January 1)	Interest Rate	Principal Amount Outstanding	Redemption Date	Redemption Price
2006 A	2020	4.125%	$ 1,700,000	1/1/17	100%
2006 A	2021	4.125	1,770,000	1/1/17	100
2006 A	2022	4.250	1,845,000	1/1/17	100
2006 A	2023	4.250	1,920,000	1/1/17	100
2006 A	2026	4.250	6,275,000	1/1/17	100
2009 A	2021	5.00%	$ 2,915,000	1/1/19	100%
2009 A	2022	5.00	3,060,000	1/1/19	100
2009 A	2024	5.00	3,990,000	1/1/19	100
2009 A	2024	5.50	2,605,000	1/1/19	100
2009 A	2030	5.25	24,335,000	1/1/19	100

Pursuant to the terms of an Escrow Deposit Agreement (the "Refunded Bonds Escrow Agreement") to be entered into between the Agency and the Trustee, the refunding of the Refunded Bonds will be effected by depositing with the Trustee, a portion of the proceeds of the 2015 A Bonds, together with other available funds of the Agency, which will be used to purchase certain direct obligations of the United States of America (the "Government Obligations"). The Government Obligations will mature at such times and in such amounts and will bear interest at such rates as will be sufficient to pay when due the Redemption Prices of and interest on the Refunded Bonds as described in the table above.

The Government Obligations and moneys deposited with the Trustee, pursuant to the Refunded Bonds Escrow Agreement will be deposited in an irrevocable escrow account established under the Refunded Bonds Escrow Agreement and pledged to secure the payment of the Redemption Prices of and interest on the Refunded Bonds as described in the table above with amounts held in such escrow account. Upon such deposit of Government Obligations and moneys in the escrow account established under the Refunded Bonds Escrow Agreement and compliance with other provisions of the Resolution, the Refunded Bonds will be deemed paid and will cease to be entitled to any lien, benefit or security under the Resolution and all covenants, agreements and obligations of the Agency to the holders of the Refunded Bonds shall cease, terminate and become void and be discharged and satisfied.

Grant Thornton LLP, Minneapolis, Minnesota, will verify that the Government Obligations and moneys deposited with the Trustee in the escrow account established under the Refunded Bonds Escrow Agreement will be sufficient to pay when due the Redemption Prices of and interest on the Refunded Bonds. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein.

Bonds for Costs of Acquisition and Construction. A portion of the proceeds of the 2015 A Bonds will also be used to provide the funds to complete the cost of the Hampton/La Crosse Line expected to be placed in service in 2016.

In addition, a portion of the proceeds of the 2015 A Bonds will be used to pay costs of issuance of the 2015 A Bonds and, if necessary, to make a deposit into the Initial Subaccount in the Debt Service Reserve Account in the Debt Service Fund established pursuant to the Resolution concurrently with the issuance of the 2015 A Bonds. See "THE 2015 A BONDS – Security for the Bonds – Debt Service Reserve Account" herein.

Estimated Sources and Uses of Funds

Sources of Funds:		
Principal amount of the 2015 A Bonds	$	97,840,000.00
Plus: Original Issue Premium		15,207,102.15
Other Available Funds		622,237.51
Total Sources of Funds	$	113,669,339.66
Uses of Funds:		
Deposit to Subordinated Indebtedness Fund for payment of Refunded CP Notes	$	33,000,000.00
Deposit to Escrow for Refunded Bonds		56,671,365.81
Deposit to Construction Fund		20,210,841.71
Deposit to Initial Subaccount in Debt Service Reserve Account		2,939,100.00
Financing costs including Underwriters' discount		848,032.14
Total Uses of Funds	$	113,669,339.66

Future Financing

The Agency's current anticipated construction program for the period 2015 through 2020 as set forth below consists primarily of financing of (i) planned capital improvements and replacements to its 41 percent share of Sherco 3, (ii) the acquisition and construction of the Owatonna Energy Station, (iii) investment in Members' facilities, (iv) the acquisition and construction of Member transmission facilities, (v) the Agency's participation in the Hampton/La Crosse Line, a portion of which will be financed with the proceeds of the 2015 A Bonds, (vi) other transmission projects and (vii) general plant additions and improvements. The Agency's estimated capital expenditures for the years 2015 through 2020 are projected to be approximately $151.6 million excluding the cost of the acquisition by the Agency of an interest in the Badger Coulee Project. See "THE AGENCY – Power Supply Operations – *Additional Power Supply*" for a discussion of the Agency's plans for the Owatonna Energy Station.

The Board of Directors of the Agency (the "Board") has a capital financing policy in place which, among other things, sets forth a policy for financing capital expenditures. See "THE AGENCY – Strategic Financial Policies" herein. In February 2010, the Board approved a plan to finance Sherco 3 capital expenditures with cash from capital reserves with the goal of reducing the Agency's debt ratio and increasing the equity ratio over the period of 2010 – 2020. The capital expenditures for Sherco 3 for the period set forth below are estimated to be approximately $50.9 million. Capital expenditures relating to the Owatonna Energy Station are expected to be approximately $44.0 million of which $11 million will be funded from reserves of the Agency and of which $33.0 million will be funded from the proceeds of commercial paper. Capital expenditures in connection with the completion of the Hampton/La Crosse Line (estimated to be approximately $20.2 million) which will be funded from proceeds of the 2015 A Bonds. Capital expenditures during this period for investment in Members' facilities (estimated to be approximately $3.4 million) and general plant additions and improvements are expected to be funded with funds on deposit in the Equity Construction Account in the General Reserve Fund. Capital expenditures during this period for the acquisition and construction of other transmission facilities (estimated to be approximately $16.5 million) are expected to be funded by proceeds of commercial paper.

Not included in the estimated capital expenditures shown below is the cost (approximately $32.5 million) of the acquisition by SMMPA Wisconsin of its interest in the Badger Coulee Project which will be financed under the BC Project Resolution. See "THE POWER SUPPLY SYSTEM – Transmission – *Badger Coulee Project*" herein.

Capital Expenditures[(1)]
(Thousands of Dollars)

	Projected						
	2015[(2)]	2016	2017	2018	2019	2020	Total
Generation	$12,444	$32,445	$22,939	$ 7,064	$ 9,612	$18,843	$103,347
Transmission Lines and Substations	24,011	10,397	3,000	3,000	3,000	3,000	46,408
General Plant	897	178	183	187	192	197	1,834
Total	$37,352	$43,020	$26,122	$10,251	$12,804	$22,040	$151,589

(1) Our independent auditors have not examined, compiled or otherwise applied procedures to the projected capital expenditures presented above and, accordingly, do not express an opinion or any other form of assurance on it.
(2) A major portion of the forecasted expenditures for 2015 has been funded through the issuance of commercial paper by the Agency, which will be refunded with the proceeds from the 2015 A Bonds.

The Agency's plan of finance will rely on its commercial paper program along with Revenues and certain other available funds of the Agency, including the potential for the issuance of additional Bonds or notes, to complete the capital expenditures for the Agency's construction program through 2020. See "THE AGENCY – Power Supply Operations – *Future Power Supply Operations*" herein.

As described above, the Agency has in place a tax-exempt commercial paper program pursuant to which the Agency has outstanding $68 million in Series B CP Notes. $33 million in aggregate principal amount of such notes will be refunded through the issuance of the 2015 A Bonds. The Series B CP Notes were issued as Subordinated Indebtedness under the Resolution. Payments with respect to the Agency's Series B CP Notes are subordinate to payments on the Agency's Bonds. The Agency's current commercial paper program provides that the Agency may issue up to $68 million in aggregate principal amount of commercial paper. However, the Board and the Member Representatives have authorized an increase in the amount of commercial paper that may be issued under the commercial paper program up to an aggregate principal amount of $100 million.

The proceeds of the existing commercial paper program are limited to financing long-lived assets and may be used (i) to finance and refinance a portion of the Costs of Acquisition and Construction of the System of the Agency, (ii) to provide for the retirement of certain of the Agency's outstanding Bonds, and (iii) to pay other amounts as permitted by the Subordinated Indebtedness Resolution No. 2, adopted by the Agency on May 10, 1995. It is expected that the Agency will, in the near future, utilize commercial paper for the Agency's on-going construction program after the proceeds from the 2015 A Bonds have been expended. The Agency has an agreement with a bank to provide liquidity for up to $68 million of its commercial paper. One of the "events of default" under the liquidity agreement that may lead to termination by the bank of its commitment is the withdrawal, suspension or reduction in the rating of any two of the ratings assigned to the Agency's Bonds to below investment grade by Moody's, Standard & Poor's Ratings Services, a division of the McGraw Hill Companies Inc. ("S&P") or Fitch Ratings. The liquidity agreement expires on November 24, 2017. As described under "Plan of Finance" herein, a portion of the proceeds of the 2015 A Bonds will provide for the payment of the Refunded CP Notes.

THE 2015 A BONDS

General

The 2015 A Bonds will be issued in the aggregate principal amount of $97,840,000 will be dated the date of delivery thereof, and will bear interest at the rates per annum set forth on the inside cover page hereof, payable semiannually on January 1 and July 1 of each year, commencing January 1, 2016 and will mature on January 1 in each of the years and in the principal amounts set forth on the inside cover page hereof. Interest on any 2015 A Bond will be paid to the person in whose name such 2015 A Bond is registered on the applicable record date, which is December 15 for interest due on January 1, and June 15 for interest due on July 1.

The 2015 A Bonds are subject to redemption at the election of the Agency as more particularly described under "Redemption of 2015 A Bonds" below.

Except as described in "Discontinuation of the Book-Entry Only System" in APPENDIX H hereto, the 2015 A Bonds will be issuable only in fully registered form and, when issued, will be initially registered in the name of Cede & Co., as nominee for DTC. For so long as a book-entry system is used for determining beneficial ownership of the 2015 A Bonds, the principal or redemption price, if any, of and interest on the 2015 A Bonds shall be payable to DTC or its nominee, or a successor thereto. Disbursement of such payments to DTC Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners of the 2015 A Bonds is the responsibility of DTC Participants or the Indirect Participants. See APPENDIX H hereto.

Wells Fargo Bank, N.A. is the Trustee, Paying Agent and Bond Registrar for the Bonds including the 2015 A Bonds.

Registration and Transfer

The 2015 A Bonds may be transferred only on the books of the Agency at the principal corporate trust office of the Trustee, as Bond Registrar. Neither the Agency nor the Bond Registrar will be required (a) to transfer or exchange 2015 A Bonds (1) for a period beginning with the close of business on the fifteenth day of the calendar month next preceding any interest payment date and ending on such interest payment date, or (2) for a period beginning with a date selected by the Trustee not more than fifteen nor less than ten days prior to a date fixed by the Trustee for the payment of any interest which, at the time, is payable but which has not been punctually paid or provided for, and ending with the date fixed for such payment, (b) to transfer or exchange 2015 A Bonds for a period beginning fifteen days before the first mailing of any notice of redemption and ending with the mailing of such notice, or (c) to transfer or exchange any 2015 A Bonds called for redemption.

Security for the Bonds

The Pledge and Security Interest Under the Resolution. The 2015 A Bonds, together with all other series of Bonds, will be payable from and secured by a pledge of and security interest in (i) the proceeds of the sale of the Bonds, (ii) the Revenues of the Agency, (iii) the Agency's accounts and general intangibles, as those terms are defined in the Minnesota Uniform Commercial Code, including all of the Agency's right, title and interest under the Power Sales Contracts, and (iv) all Funds established by the Resolution (other than the Debt Service Reserve Account in the Debt

Service Fund and any Decommissioning Fund which may be established), including the investments and income thereof (collectively, the "Trust Estate") subject to provisions of the Resolution permitting application thereof for the purposes and on the terms and conditions set forth in the Resolution. The Resolution establishes a Construction Fund, a Revenue Fund, an Operation and Maintenance Fund, a Debt Service Fund including a Debt Service Reserve Account, a Subordinated Indebtedness Fund, a Reserve and Contingency Fund and a General Reserve Fund. The 2015 A Bonds shall be additionally secured by amounts in the Initial Subaccount in the Debt Service Reserve Account as described below under "*Debt Service Reserve Account.*" For a description of such Funds and other provisions of the Resolution, including definitions of the terms "Revenues," "Net Revenues," and "Pro Forma Net Revenues" see APPENDIX F hereto.

The Bonds will be payable solely from the Trust Estate and, in the case of the 2015 A Bonds and all Bonds outstanding on the date of issuance of the 2015 A Bonds and any Bonds hereinafter issued which are additionally secured by amounts in the Initial Subaccount, the Initial Subaccount in the Debt Service Reserve Account, and neither the State of Minnesota nor any political subdivision thereof (other than the Agency) nor any Member shall be obligated to pay the principal of or premium, if any, or interest on the Bonds and neither the faith and credit nor the taxing power of the State of Minnesota or any political subdivision thereof or any Member is pledged to the payment of the principal of or premium, if any, or interest on the Bonds. The Agency does not have any taxing power.

Debt Service Reserve Account. Pursuant to the Resolution, the 2015 A Bonds are additionally secured by amounts on deposit in the Initial Subaccount in the Debt Service Reserve Account in the Debt Service Fund, including the investments thereof, which amounts are pledged to the Trustee as additional security for the payment of the principal or redemption price of, and interest on, the 2015 A Bonds, subject to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution. The Initial Subaccount secures all of the Agency's outstanding Bonds, and upon the issuance thereof, will secure the 2015 A Bonds and may, at the option of the Agency, secure additional Bonds of any series hereafter issued. Pursuant to the Resolution, the Bonds of any series hereafter issued are not required to be additionally secured by amounts on deposit in any separate subaccount in the Debt Service Reserve Account. However, the Agency may provide, at its option, in the Supplemental Resolution authorizing the Bonds of any series hereafter issued that the Bonds of such series will be additionally secured by amounts on deposit in any separate subaccount to be designated therefor in the Debt Service Reserve Account, including the Initial Subaccount. In the event that the Bonds of a series hereafter issued are to be additionally secured by amounts on deposit in the Initial Subaccount in the Debt Service Reserve Account, it will be a condition to the issuance of such Bonds that the amount on deposit in the Initial Subaccount, after giving effect to the issuance of such Bonds, equals the Debt Service Reserve Requirement for such subaccount. See "*Initial Subaccount in the Debt Service Reserve Account*" below.

Initial Subaccount in the Debt Service Reserve Account. The Resolution requires the Agency to deposit and maintain in the Initial Subaccount in the Debt Service Reserve Account an amount equal to the Debt Service Reserve Requirement for the Initial Subaccount. The Debt Service Reserve Requirement for the Initial Subaccount is defined in the Resolution, as of any date of calculation, as an amount equal to the maximum Adjusted Aggregate Debt Service on the Bonds of all series secured thereby for the current or any future fiscal year. As of June 30, 2015 the amount on deposit in the Initial Subaccount was $72,321,119, which amount is at least equal to the Debt Service Reserve Requirement for the Initial Subaccount, without taking into consideration the issuance of the 2015 A Bonds.

The Resolution provides that in lieu of the required deposit to the Initial Subaccount in the Debt Service Reserve Account, the Agency may cause to be deposited therein for the benefit of the Holders of the Bonds secured thereby an irrevocable surety bond, an insurance policy, a letter of credit or any other similar obligation satisfying the conditions set forth therein, in an amount equal to the difference between the Debt Service Reserve Requirement for the Initial Subaccount and the sums of money or value of Investment Securities then on deposit in the Initial Subaccount, if any.

The Debt Service Reserve Requirement as of date of issuance of the 2015 A Bonds will be $73,738,766.

Amounts in the Initial Subaccount in the Debt Service Reserve Account in excess of the Debt Service Reserve Requirement, after giving effect to any reserve fund credit instrument credited thereto, for such subaccount may be applied to make up deficiencies in the Subordinated Indebtedness Fund, the Renewal and Replacement Account in the Reserve and Contingency Fund, the Reserve Account in the Reserve and Contingency Fund and the Decommissioning Fund, if any, in that order. Any balance of such excess will be credited to the General Reserve Fund.

Other subaccounts in the Debt Service Reserve Account may be created to secure other Bonds. Such subaccounts will not secure the 2015 A Bonds.

See APPENDIX F hereto for a definition of the term "Adjusted Aggregate Debt Service" and a description of the method of valuation of investment securities and reserve fund credit instruments in the Debt Service Reserve Account. Investment securities in any separate subaccount in the Debt Service Reserve Account are to be valued as of each December 31 or at such other times as the Agency shall determine. If the value of investment securities in any separate subaccount in the Debt Service Reserve Account on any valuation date is less than the required amount for any reason other than moneys having been transferred to the Debt Service Account, the deficiency is to be made up in equal monthly installments over the balance of the calendar year. Amounts in the Debt Service Reserve Account are to be used to make up any deficiencies in deposits in the Debt Service Account for the payment of debt service on the Bonds.

See "THE POWER SUPPLY SYSTEM – Transmission – *Badger Coulee Project*" herein for a discussion of the financing by the Agency of the BC Project Interest.

Power Sales Contracts. Each Power Sales Contract between the Agency and a Member requires the Agency to supply to the Member, and the Member to take from the Agency, power and energy in the amounts and during the periods described below under "THE AGENCY – Power Supply Operations" and in APPENDIX D hereto. The Agency is authorized to set rates which will produce revenues sufficient, together with other available funds, to provide for the payment of the Agency's Revenue Requirements which include, without limitation, debt service on the Bonds, deposits required to be made into the Funds established under the Resolution and such additional amounts as are necessary to satisfy any debt service coverage requirement in the Resolution or as the Agency may deem desirable in the marketing of the Bonds. The Agency is required to give notice to the Members at least 90 days prior to the implementation of any change in rates. Each Member is required to make payments under its Power Sales Contract solely from the revenues of its municipal electric system (or any integrated utility system of which the electric system is a part) and from other funds of such system legally available therefor and such payments will be made as operating expenses of such system.

As described more fully in APPENDIX D hereto, the Agency's remedies following the failure by a Member to pay any amount due under its Power Sales Contract include discontinuing service to such Member upon fifteen days' advance written notice and, if the amount remains unpaid 120 or more days after the due date, terminating the Power Sales Contract upon 30 days' advance written notice. If the Agency's rates and charges are not sufficient to recover its Revenue Requirements incurred after such discontinuance or termination, the Agency may revise its rates and charges to its other Members as necessary to provide for such recovery. Pursuant to the Power Sales Contracts, each Member has agreed to maintain rates for the sale of power and energy sufficient to enable it to pay all amounts owing to the Agency thereunder and all other amounts constituting a lien or charge upon the net revenues of its electric or integrated utility system. For a more complete description of the Power Sales Contracts, see APPENDIX D hereto.

The Agency may not amend or consent to any waiver of any provision of the Power Sales Contracts except that the Agency may waive the obligation of any Member to make payments in respect of debt service due solely by reason of the acceleration of the Bonds or any other indebtedness of the Agency and may make other amendments and waive other provisions if certain conditions are met. See "Certain Other Covenants – Power Sales Contracts; Amendment" in APPENDIX F hereto.

Rate Covenant and Coverage under the Resolution. The Agency has agreed under the Resolution to establish and collect rates, fees and charges under the Power Sales Contracts and otherwise to charge and collect rates, fees and charges for the use or sale of the output, capacity or service of its power supply system which, together with other available Revenues, are reasonably expected to yield Net Revenues for the twelve-month period commencing with the effective date of such rates, fees and charges equal to at least 1.10 times the Aggregate Debt Service on all Bonds for such period and, in any event, sufficient, together with other available funds, to pay all other indebtedness, liens and charges payable out of Revenues. For purposes of such covenant, amounts required to pay Refundable Principal Installments may be excluded from Aggregate Debt Service to the extent that the Agency intends to make such payment from sources other than Revenues. The Agency is required to review and, if necessary, revise its rates, fees and charges upon the occurrence of a material change in circumstances, but in any case at least once every twelve months. See "Covenant as to Rates, Fees and Other Charges" in APPENDIX F hereto.

Additional Bonds; Conditions to Issuance

The Agency may issue additional Bonds for the purpose of paying all or a portion of the cost of acquisition and construction of the System or for the purpose of refunding outstanding Bonds. All series of such Bonds will be payable from the same sources and secured on a parity with all other series of Bonds (except for the debt service reserve subaccounts established for such series of Bonds). Set forth below are certain conditions applicable to the issuance of additional Bonds.

Historical Debt Service Coverage. The issuance of any series of additional Bonds (except for Refunding Bonds (as defined in the Resolution)) is conditioned upon the delivery by the Agency of a certificate to the effect that, for any period of twelve consecutive months within the 24 months preceding the issuance of Bonds of such series, Net Revenues (or, at the option of the Agency, Pro Forma Net Revenues) were at least equal to 1.10 times Aggregate Debt Service during such period, excluding for this purpose principal of any Bonds which was paid from sources other than Revenues.

Projected Debt Service Coverage. The issuance of any series of additional Bonds (except for Refunding Bonds) is further conditioned upon the delivery by the Agency of a certificate of the

Consulting Engineer to the effect that, for each fiscal year in the period beginning with the fiscal year in which the additional series of Bonds is to be issued and ending on the later of the fifth full fiscal year thereafter or the first full fiscal year in which less than ten percent of the interest coming due on Bonds then outstanding is to be paid from Bond proceeds, Net Revenues are estimated to be at least equal to 1.10 times Adjusted Aggregate Debt Service for each such fiscal year.

For purposes of estimating future Net Revenues, the Consulting Engineer may base its estimate upon (a) Revenues under existing power sales contracts with the Agency's Members and with other utilities which will result in compliance with the rate covenant under the Resolution (see "Covenant as to Rates, Fees and Other Charges" in APPENDIX F hereto) except that, for any required increase in Revenues from the Members above those which would result under existing rate schedules, the Consulting Engineer must be of the opinion that such increases will result in total costs of power and energy per kilowatt-hour ("kWh") which will be reasonable in comparison to such costs for power and energy being supplied by other utilities in the region or which is the most economical power and energy reasonably available to the Agency's Members, and (b) Revenues estimated to result from assumed sales of power and energy not covered by existing contracts, but only if such Revenues are based upon estimated costs of power and energy per kWh which are reasonable in comparison to that available to assumed purchasers from alternative sources during the same period and the Revenues from such assumed sales for any fiscal year do not exceed 25 percent of the total Revenues estimated for such fiscal year. The 2015 A Bonds are not Refunding Bonds within the meaning of the Resolution and, as a result, the historical and projected debt service coverage tests must be met upon the issuance of the 2015 A Bonds.

Debt Service Reserve. If any series of additional Bonds is to be additionally secured by amounts on deposit in the Initial Subaccount in the Debt Service Reserve Account (or any other subaccount established in the Debt Service Reserve Account), the issuance of any series of additional Bonds of such series is further conditioned upon the deposit of an amount in the Initial Subaccount in the Debt Service Reserve Account (or any other subaccount established in the Debt Service Reserve Account) such that the balance in such subaccount equals the Debt Service Reserve Requirement for such subaccount calculated immediately after delivery of such Bonds.

No Default. In addition, Bonds may be issued only if the Agency certifies that no event of default exists under the Resolution or that any such event of default will be cured through application of the proceeds of such Bonds.

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Debt Service Requirements

The following table shows the annual debt service requirements (calculated on a cash flow basis) for the Agency's Bonds that will be outstanding after the issuance of the 2015 A Bonds and the refunding of the Refunded Bonds and the annual debt service requirements for the 2015 A Bonds.

Year Ending January 1	Outstanding Bonds Principal and Interest, as of June 30, 2015[(1)(2)]	2015 A Bonds Principal	2015 A Bonds Interest[(2)]	2015 A Bonds Total	Less Refunded Bonds	Total Debt Service[(2)(3)]
2016	$ 68,113,030	$ 165,000	$ 994,006	$ 1,159,006	$1,244,475	$ 68,027,561
2017	69,072,729	785,000	4,644,000	5,429,000	2,488,950	72,012,779
2018	69,756,988	810,000	4,620,450	5,430,450	2,488,950	72,698,488
2019	70,676,714	840,000	4,588,050	5,428,050	2,488,950	73,615,814
2020	70,656,573	2,470,000	4,554,450	7,024,450	4,188,950	73,492,073
2021	70,629,764	5,430,000	4,455,650	9,885,650	7,103,825	73,411,589
2022	70,606,243	5,670,000	4,214,150	9,884,150	7,105,063	73,385,331
2023	70,576,151	5,925,000	3,955,650	9,880,650	7,103,650	73,353,151
2024	70,548,781	6,180,000	3,704,100	9,884,100	7,104,950	73,327,931
2025	70,517,866	6,460,000	3,420,100	9,880,100	7,104,063	73,293,904
2026	70,481,587	6,790,000	3,097,100	9,887,100	7,103,600	73,265,087
2027	48,031,768	5,025,000	2,757,600	7,782,600	4,834,600	50,979,768
2028	9,964,519	5,275,000	2,506,350	7,781,350	4,832,750	12,913,119
2029	9,921,926	5,540,000	2,242,600	7,782,600	4,835,138	12,869,389
2030	9,872,916	5,815,000	1,965,600	7,780,600	4,830,975	12,822,541
2031	4,991,941	1,465,000	1,733,000	3,198,000	–	8,189,941
2032	4,940,519	1,540,000	1,659,750	3,199,750	–	8,140,269
2033	4,888,610	1,615,000	1,582,750	3,197,750	–	8,086,360
2034	4,834,560	1,695,000	1,502,000	3,197,000	–	8,031,560
2035	4,774,393	1,780,000	1,417,250	3,197,250	–	7,971,643
2036	4,715,169	1,870,000	1,328,250	3,198,250	–	7,913,419
2037	4,654,130	1,965,000	1,234,750	3,199,750	–	7,853,880
2038	4,585,979	2,060,000	1,136,500	3,196,500	–	7,782,479
2039	4,520,717	2,165,000	1,033,500	3,198,500	–	7,719,217
2040	4,447,752	2,275,000	925,250	3,200,250	–	7,648,002
2041	4,372,083	2,385,000	811,500	3,196,500	–	7,568,583
2042	4,298,413	2,505,000	692,250	3,197,250	–	7,495,663
2043	4,221,151	2,630,000	567,000	3,197,000	–	7,418,151
2044	–	2,765,000	435,500	3,200,500	–	3,200,500
2045	–	2,900,000	297,250	3,197,250	–	3,197,250
2046	–	3,045,000	152,250	3,197,250	–	3,197,250
	$909,672,972[(3)]	$97,840,000 [(3)]	$68,228,606[(3)]	$166,068,606[(3)]	$74,858,888[(3)]	$1,000,882,692[(3)]

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(1) For purposes of the foregoing table, interest on the Agency's Power Supply System Revenue Bonds, Series 2006 A, maturing on January 1, 2012 through January 1, 2019, inclusive (the "CPI Bonds"), was calculated based on the fixed rates that the Agency is required to pay pursuant to the swap agreement entered into in connection with the CPI Bonds. The CPI Bonds bear interest at a variable rate based on changes in the Consumer Price Index.

(2) In 2010, the Agency issued $67,990,000 in aggregate principal amount of Power Supply System Revenue Bonds, Series 2010 A on a taxable basis as Issuer Subsidy-Build America Bonds (the "2010 A Bonds"). The cash subsidy payments from the United States Treasury in respect of interest on the 2010 A Bonds have not been deducted from the table above. Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, automatic reductions to the net of cash subsidy payments from the United States Treasury in respect of interest on the 2010 A Bonds commenced on March 1, 2013 ("sequestration rate changes"). Such sequestration rate changes are subject to congressional action and may be subject to further changes. Accordingly, the Agency has chosen not to deduct the subsidy payments in respect of interest on the 2010 A Bonds shown in the table above.

(3) Totals may not foot due to rounding.

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Redemption of 2015 A Bonds

Optional Redemption. The 2015 A Bonds maturing on and after January 1, 2027 will be redeemable at the election of the Agency on and after January 1, 2026 upon not less than thirty nor more than sixty days' notice, at any time, as a whole or in part (if in part, the maturities to be redeemed to be selected by the Agency in its sole discretion), at the redemption price of 100 percent of the principal amount of the 2015 A Bonds so to be redeemed, together with accrued interest to the redemption date. Notice of redemption will be given by first-class mail to each Holder of 2015 A Bonds to be redeemed. In the event that less than all of the 2015 A Bonds of such maturity are to be redeemed, the 2015 A Bonds of such maturity to be redeemed shall be selected by the Trustee in such manner as the Trustee deems fair and appropriate.

Sinking Fund Redemption. The 2015 A Bonds maturing January 1, 2041 will be subject to redemption through mandatory sinking fund installments on January 1, 2037 through January 1, 2040. The 2015 A Bonds maturing January 1, 2046 will be subject to redemption through mandatory sinking fund installments on January 1, 2042 through January 1, 2045. The redemption price will be 100 percent of the principal amount of the 2015 A Bonds to be redeemed plus accrued interest, if any, to the redemption date.

Such sinking fund installments will be sufficient to redeem the following principal amounts of the 2015 A Bonds maturing January 1, 2041:

2015 A Bonds Maturing January 1, 2041

Year	Amount
2037	$1,965,000
2038	2,060,000
2039	2,165,000
2040	2,275,000

Such sinking fund installments will be sufficient to redeem the following principal amounts of the 2015 A Bonds maturing January 1, 2046:

2015 A Bonds Maturing January 1, 2046

Year	Amount
2042	$2,505,000
2043	2,630,000
2044	2,765,000
2045	2,900,000

The foregoing schedules respectively leave $2,385,000 principal amount of 2015 A Bonds maturing January 1, 2041 and $3,045,000 principal amount of 2015 A Bonds maturing January 1, 2046 to be retired at maturity. Giving effect solely to the respective sinking fund schedules set forth above, the average life of the 2015 A Bonds maturing (i) January 1, 2041, calculated from the date of issue is 23.311 years and (ii) January 1, 2046, calculated from the date of issue is 28.311 years.

In determining the amount of 2015 A Bonds to be redeemed with any sinking fund installment, there will be deducted the principal amount of any 2015 A Bonds to which such sinking fund installment applies which have been purchased, to the extent permitted by the Resolution, with amounts in the Debt Service Account with respect to such sinking fund installment (together with amounts accumulated therein with respect to interest on the 2015 A Bonds for which such sinking fund installment was established). In addition, if there is any redemption or purchase with amounts contained in the General Reserve Fund of any 2015 A Bonds for which sinking fund installments have been established, such 2015 A Bonds may be credited against any future sinking fund installment as specified by the Agency.

Notice of Redemption

Notice of redemption will be given by first-class mail by the Trustee, not less than 30 nor more than 60 days prior to the redemption date, to each Holder of 2015 A Bonds which are to be redeemed in whole or in part, at their last addresses, if any, appearing upon the registry books. Failure to give notice of redemption by mail, or any defect in such notice, will not affect the validity of the proceedings for the redemption of any other Bonds.

For so long as a book-entry only system is in effect with respect to the 2015 A Bonds, the Trustee will mail notices of redemption only to DTC or its successor. Any failure of DTC to convey such notice to any DTC Participants, any failure of DTC Participants to convey such notice to any Indirect Participants or any failure of DTC Participants or Indirect Participants to convey such notice to any Beneficial Owner will not affect the validity of the redemption of 2015 A Bonds. See "Book-Entry Only System" in APPENDIX H hereto.

THE AGENCY

Background

The Agency was incorporated under the Act on June 2, 1977 for the purpose of providing an adequate, economical and reliable supply of electric energy to its membership.

Under the Act, the Agency is a municipal corporation and political subdivision of the State of Minnesota with the power, in addition to other powers, to (1) acquire, construct and operate generation and transmission facilities, (2) purchase, sell, exchange and transmit electric energy within and outside the State of Minnesota and (3) issue its obligations, including the 2015 A Bonds, to carry out any of its corporate purposes and powers. The Agency may exercise the power of eminent domain in the purchase of property. Minnesota property of the Agency is exempt from property taxes; however, the Agency is required to make payments in lieu of taxes in the amounts which would be payable as taxes if its property were owned by a private person. The Agency does not have any taxing power.

Membership

The Agency's Members consist of eighteen Minnesota municipalities, each of which owns and operates an electric utility system. Power Sales Contracts have been signed by the Agency with the eighteen Members. Prior to the dates on which the Members commenced purchasing power and energy from the Agency, the Members satisfied their power and energy requirements through various methods ranging from total self-generation to total purchase from another supplier. Three of such Members are interconnected with ITC Midwest LLC, a subsidiary of ITC Holdings Corp. ("ITC

Midwest"), four are interconnected with Dairyland, six are interconnected with NSP and five are interconnected with GRE.

Organization and Management

The Agency's organizational structure consists of the following: (1) a representative from each Member municipality (collectively, the "Member Representatives"), (2) a seven member Board comprised of Member Representatives and (3) the Agency's staff (the "Staff"). Policy decisions are made by the Board. In certain instances, some of which are described below, decisions of the Board must be approved by the Member Representatives, and certain other decisions are reserved solely to the Member Representatives. The Executive Director & CEO and Staff are charged with the responsibility of executing decisions of the Board and Member Representatives.

Certain Board decisions, including the issuance of bonds or notes and the execution of contracts payable primarily from assessments from Members and having a term extending beyond the current fiscal year, require the approval of the Member Representatives by a majority of the votes cast under the weighted voting formula provided for in the Agency Agreement. Rochester and Austin, two of the three Members which have declined to renew their Power Supply Contracts beyond 2030, currently account for a majority of the weighted votes. Decisions reserved exclusively to the Member Representatives include the admission of Members and the adoption of amendments to the Agency Agreement (which also requires the approval of the Members) or the bylaws. These actions require a two-thirds vote of the Member Representatives based upon both one vote for each Member Representative and weighted voting, except for amendments to the bylaws which require a majority of each.

Under the Agency Agreement, the Member Representatives from the three Members with the greatest number of votes under the weighted voting formula in the Agency Agreement (currently Rochester, Owatonna and Austin) each have a seat on the Board. The remaining four Board members are elected by the Member Representatives on the basis of one vote for each Member Representative. Voting on Board matters is based upon one vote per Board member. Current members of the Board are:

Individual	City	Position	Years in Electric Utility Industry
Mark E. Nibaur	Austin	General Manager, Austin Utilities	28
Richard D. Kittelson	Blooming Prairie	General Manager, Blooming Prairie Public Utilities	42
Troy G. Nemmers	Fairmont	Public Works Director/City Engineer Fairmont Public Utilities	7
Mark J. Fritsch	Owatonna	General Manager, Owatonna Public Utilities	37
Joseph A Hoffman	Preston	General Manager, Preston Public Utilities	12
Mark R. Kotschevar	Rochester	General Manager, Rochester Public Utilities	34
Stuart T. Smith	Spring Valley	Superintendent, Spring Valley Utilities	28

The Executive Director & CEO of the Agency reports to the Board on a wide range of issues including contract negotiations, project status, fulfillment of obligations under agreements, financial status, staffing and budgeting requirements and the general condition of the Agency. Under the supervision of the Executive Director & CEO, the Director of Operations & COO, the Director of Agency and Government Relations and the Director of Finance and Accounting & CFO, and their respective Staff, conduct the Agency's business pursuant to established policies and procedures. In addition, the Executive Director & CEO serves as a member of the management committee established under the Sherco 3 Agreement to oversee the operation of Sherco 3.

The Agency has implemented systems to meet its responsibilities under the Power Sales Contracts, the Pass-through Capacity Purchase Agreements and the Quick-Start Capacity Purchase Agreements. Computerized billing, accounting, financial and engineering applications permit the accumulation, reporting and analysis of information relating to the Agency's ongoing operations. The Agency has also implemented automated collection of metered data, load monitoring and load dispatching.

The principal members of the Staff, with information concerning their background and experience, are listed below:

DAVID P. GESCHWIND is Executive Director & CEO. He joined the Agency in 1998 as Director of Planning, Contracts and Marketing and later served as Director of Operations and COO. In 2011, Mr. Geschwind was selected as the Executive Director and CEO. In this role, he reports to the Board and is responsible for the overall operation of the Agency. In addition, Mr. Geschwind serves as the president of the board of directors of the Western Fuels Association ("Western Fuels"), serves on the board of managers of SMMPA Wisconsin and serves on the Executive Committee of the Transmission Access Policy Study Group. Mr. Geschwind is a registered professional engineer and has a Bachelor of Science degree in electrical engineering from the University of Illinois and a Master's degree in business administration from the University of Kansas.

MARK S. MITCHELL is Director of Operations & COO. He joined the Agency in November 2011. He came to SMMPA with nearly 30 years of public power experience including serving as the Executive Director of the Arizona Power Authority and a variety of staff and management positions with the Salt River Project. As Director of Operations & COO, Mr. Mitchell reports to the Executive Director and is responsible for the generation, transmission and market operations of the Agency. Mr. Mitchell has served on the boards of several industry organizations, including a generation and transmission electric cooperative. He currently serves on the board of directors of Western Fuels and serves on the board of managers of SMMPA Wisconsin. Mr. Mitchell holds a Bachelor of Science degree in electrical engineering from New Mexico State University and a Master's degree in engineering management from the University of Colorado.

CHRISTOPHER P. SCHOENHERR is Director of Agency and Government Relations. He joined the Agency in 2015 with a primary responsibility of developing and managing relationships with members, legislators, legislative leadership, regulators and governmental agency staff. In addition, he oversees communications, human resource functions, demand side management initiatives, and non-operations center computer systems. Prior to joining SMMPA, he served as Deputy Secretary of the Department of Administration in the administration of Wisconsin Governor Scott Walker from January 2011 through January of 2015. In that capacity he served as the Governor's chief energy advisor as well as having responsibility for a wide variety of government operations. Mr. Schoenherr was employed by Alliant Energy from 2000 through 2011 and held various positions in communications, regulatory affairs, customer relations and account management located in both Madison, Wisconsin and in Washington, DC. He spent the first 20 years of his career at We Energies in Milwaukee, Wisconsin where he was involved in a variety of areas including investor relations, system and project development, government relations, communications, infrastructure siting, and strategic planning. Mr. Schoenherr has a degree in economics from the University of Wisconsin – Madison.

JOHN D. WINTER is Director of Finance and Accounting & CFO. He joined the Agency in 2007. He directs and oversees treasury, cash management, banking, investments, debt functions, rates, financial planning and forecasting, budget and control, accounting activities, risk management, and the Agency's administrative functions. In this position he also assists the Executive Director & CEO in the development and implementation of policies, procedures, and programs to ensure protection of the assets of the Agency and to fulfill the Agency's goals and objectives. Mr. Winter has over 30 years of experience in the utility industry most recently as Vice President of MCR Performance Solutions where he developed an extensive practice focused on utility strategy, asset management, transmission pricing and regulatory affairs, and regional transmission organization participation. Mr. Winter has served on the boards of several organizations and currently serves on the board of managers of SMMPA Wisconsin. Mr. Winter has a Bachelor of Science degree in accounting from the University of Minnesota, has completed extensive post graduate studies in business and economics, and holds an inactive CPA certificate in Minnesota.

LAURA M. SANDWICK is Manager of Accounting. She joined the Agency in 1996 as General Accountant, was promoted to Accounting Supervisor in 2000 and promoted to her present position in 2003. She is responsible for managing all accounting functions to ensure compliance with regulatory agencies and Agency policies and practices. Her responsibilities include managing and directing financial reporting, general accounting, payroll, accounts payable, accounts receivable, and purchasing. Ms. Sandwick has Bachelor of Science degrees in business administration from Bemidji State University and in accounting from Winona State University and holds an inactive CPA certificate.

Strategic Financial Policies

The Agency utilizes three governing financial policies adopted by the Board that provide guidance for: (1) the use of Agency funds for financing capital projects, (2) investment management decisions, and (3) liquidity targets for the Agency's General Operating Reserves ("GOR") and Capital Reserves ("CR"). These policies are intended to assure that the Agency is utilizing its capital resources effectively, is investing its funds to achieve the highest possible return at risk levels consistent with a joint action agency serving municipal Members, and has sufficient liquidity. The Board reviews the status of the policies periodically.

Capital Financing Policy. The Capital Financing Policy, initially adopted on October 20, 2006, and approved with changes on February 13, 2013, sets forth specific debt ratio targets of 85 percent by 2015 and 80 percent by 2020 by utilizing internally generated funds, such as retaining coverage as asset management funding, to enhance the Agency's equity ratio. The policy also consists of conservative decision making criteria that will be considered along with the Agency's other objectives in determining the optimal means of financing capital additions. The policy emphasizes reliance on fixed-rate debt, limits variable-rate debt, specifies the use of a portion of capital reserves for Sherco 3 capital expenditures, specifies the use of cash for short-lived assets, and lays out criteria for debt refinancing. In particular, the policy specifies that commercial paper will be used for long-lived asset financing with the exception of a large generation unit or major transmission investments. For large investments, the Board has the option to issue Bonds specifically to fund those investments. For short-lived assets and Member generation, the policy specifies that cash from revenue will be used to fund those asset investments. Cash from the Asset Management Fund, as described below, may also be used as a source for cash funding of short-lived assets and Member generation projects. The policy also governs the size of the Agency's commercial paper program (presently $68 million with Member Representative and Board approved expansion to $100 million available if needed). The policy also sets forth the need for annual Board review of the commercial paper liquidity facility. As a matter of practice, the Board is routinely informed as to the status of the Agency's capital funding positions.

Investment Policy. The Investment Policy was initially adopted by the Board on March 10, 2010 and is reviewed every three years, most recently on March 20, 2013. The Agency's investment goals are to preserve capital, maintain liquidity and meet capital obligations while maximizing returns within the constraints and objectives of the Investment Policy. The Agency views financial liquidity as a major risk management component and seeks to maintain sufficient cash and investments in restricted and unrestricted funds to meet its needs including financial risk management. The Investment Policy sets forth certain low risk investment categories that will allow the Agency to maximize yield. The income from investments is used as an offset to Revenue Requirements in determining Member rates. The Agency's investments currently are in securities rated "AAA" and most are backed by the full faith and credit of the United States government. These securities provide sufficient yield and flexibility to comply with the Investment Policy and still provide adequate liquidity to meet the Agency's cash flow needs.

Financial Reserves Policy. The Financial Reserves Policy was initially adopted on October 15, 2004 and updated every three to four years since then. Most recently the Board approved the policy, with changes on July 9, 2014. The policy, in general, emphasizes optimal liquidity to maximize financial risk management, and sets forth separate financial reserves target for GOR and CR.

The GOR is intended to address short-term financial variability resulting from unexpected operating results specifically related to: (1) reductions in overall customer demand, (2) changes in total system load resulting from actions of large customers, (3) failure to achieve budgeted level of net power marketing revenues, (4) cost of unhedged power marketing transactions or counter-party defaults, (5) changes in interest income or transmission revenues, (6) cost exposure if Sherco 3 does not operate as planned, (7) potential higher replacement power costs during scheduled outages or overhauls at Sherco 3, (8) potential financial impact of differences between budgeted and actual fuel costs, (9) general operating exposures such as a timing mismatch between revenue receipts and expense payments, unforeseen maintenance costs, regulatory compliance costs, and (10) other unexpected increases in the operating budget. The preferred GOR funding level is set at $64 million.

The CR is established to address uninsured or unbudgeted capital expenditures and conditions that could lead to unexpected increases or acceleration in capital requirements. The policy establishes the preferred CR range of $15 to $18 million. The large components of CR are the Asset Management Account and the Equity Construction Account.

The Board has implemented a +/- ten percent bandwidth around the GOR and CR targeted levels for month-to-month and year-to-year compliance with the reserve requirements. Consistent with the policy, each month the Board is informed as to the status of both the GOR and CR and total financial reserves as they relate to their targeted bandwidths. The Financial Reserves Policy also specifies replenishment steps if needed. Replenishment typically relies upon rate increases over time to assure that the GOR and CR are within the prescribed bandwidths. In addition the policy sets forth optional uses of cash including debt management, long-term rate stability, sustained rate reduction, or distribution of cash to Members. The preferred funding levels and underlying methodology of determining the GOR and CR are reviewed and re-evaluated every three years following updates to the Agency's Integrated Resource Plan ("IRP") or more often as indicated in the event of a change in financial risk exposure.

As of June 30, 2015, total financial reserves were $68 million, which is below the targeted combined level of $72.8 million. The GOR balance was $50.8 million, which is below the $57.8 million minimum of the GOR bandwidth. The CR balance as of June 30, 2015, was $17.2 million, which is above the $15 million maximum of the CR bandwidth. As of June 30, 2015, $48.3 million in Sherco 3 expenditures have been funded since the revised Capital Financing Policy was approved by the Board at its February 2010 meeting. GOR and CR information is reviewed and discussed monthly with the Board and considered annually when the Board reviews the Agency's Revenue Requirements for rate setting in the following year. In addition, in December 2008, the Board and Member Representatives authorized an increase in the amount of commercial paper that may be issued up to an aggregate principal amount of $100 million, thus expanding this potential liquidity source in compliance with the CR portion of the Financial Reserves Policy as discussed above.

Power Supply Operations

Obligations Under Power Sales Contracts. The Agency has power sales contracts (the "Power Sales Contracts") with each of the eighteen Members.

Term of the Power Sales Contracts. The term of the Power Sales Contracts with Austin, Rochester and Waseca extends to April 1, 2030, and thereafter until terminated upon one year's prior notice by either party. The remaining 15 Members have extended their Power Sales Contracts to expire in 2050, and thereafter until terminated upon one year's prior notice by either party.

Subject to the exceptions and limitations noted below, each Power Sales Contract requires the Agency to sell to the Member, and the Member to purchase from the Agency, all electric power and energy required by such Member for the operation of its municipal electric system for the term of the applicable Power Sales Contract.

Exceptions to Total Requirements Provision. Two exceptions to this total requirements obligation of the Agency and the Members are provided in the Power Sales Contracts. First, each Member may acquire or construct hydro-electric facilities and utilize the capacity thereof, in an amount not exceeding 5 MW at any time, in the operation of its system. Second, three Members, Redwood Falls, Litchfield, and Fairmont, each of which has an allotment of power from Western Area Power Administration ("WAPA"), may purchase power and energy from WAPA, up to 8.9 MW for Redwood Falls, up to 12.7 MW for Litchfield, and up to 0.9 MW for Fairmont. As of December 31, 2014, WAPA supplied approximately 53 percent of Litchfield's power and energy, approximately 60 percent of Redwood Falls' power and energy and approximately two percent of Fairmont's power and energy. In the event that Redwood Falls', Litchfield's, and Fairmont's allocation from WAPA is reduced or terminated, the Agency will be required to supply the power and energy requirements no longer supplied by WAPA.

Limitation on Total Requirements Provisions of Certain Members. Two Members have limitations on the amount of power and energy the Agency is required to sell and the Member is required to purchase.

Rochester is still operating under its original Power Sales Contract which provides that, after 1999, the maximum amount of electric power the Agency is required to sell and Rochester is required to purchase is limited to the "Contract Rate of Delivery," as defined therein. Rochester's "Contract Rate of Delivery" is 216 MW.

Austin will operate under a "Contract Rate of Delivery" of 70 MW, effective January 1, 2016.

Rights of Other Members to Set Contract Rates of Delivery. All Members other than Rochester and Austin have amended their Power Sales Contracts to extend the total requirements provisions through the terms of their respective Power Sales Contracts. Thus, Waseca's total requirements provision extends into 2030 and the total requirements provision for each of the remaining fifteen Members extends into 2050, in each case subject to the right to establish a Contract Rate of Delivery as described below. These amendments to the Power Sales Contracts provide that at any time, unless the Agency is developing a resource for the production or transmission of electric power and energy to be used to supply power and energy under the Power Sales Contracts (a "Power Supply Resource"), the Agency or the Member may, by seven years' notice to the other party, limit the amount of power the Agency is obligated to supply, and the Member is obligated to purchase, to the Member's Contract Rate of Delivery. Under the amended Power Sales Contracts, "Contract Rate of Delivery" is defined to mean the peak demand of the Member, as determined by the Agency, for the calendar year immediately preceding the calendar year in which the Contract Rate of Delivery limitation is to take effect. Neither the Member nor the Agency may give to the other a notice electing to initiate such Contract Rate of Delivery limitation during any period of time when the Agency is developing a Power Supply Resource. Such period shall commence no earlier than the date on which the Agency first enters into a contract to sell Bonds to finance any costs associated with such Power Supply Resource and shall end no later than the earlier of the actual date on which the Agency first receives power and energy or transmission services, as the case may be, from such Power Supply Resource or the date on which the Agency determines not to proceed with the development of such Power Supply Resource.

Present Power Supply and Transmission Operations. The Agency's principal power source is its share of the output of Sherco 3. See "THE POWER SUPPLY SYSTEM – Power Supply Resources" for a description of Sherco 3.

The Agency currently has Pass-through Capacity Purchase Agreements with ten Members that own electric generating resources.

Most of the Agency's Member-owned capacity is covered by Pass-through Capacity Purchase Agreements that provide for the pass-through of certain costs from the particular Member to the Agency. Under the Pass-through Capacity Purchase Agreements, the applicable Member has the responsibility for maintaining the facilities in readily operable condition and to provide the necessary personnel to operate the facilities, while the Agency will (i) have sole authority for hourly scheduling and dispatching of generation; (ii) be responsible for operation and maintenance costs as well as certain renewal and replacement costs as specified under the Pass-through Capacity Purchase Agreements; and (iii) be responsible for procuring all fuel necessary for the facility and for the cost of the fuel and the cost of delivering the fuel to the facility. Under these Pass-through Capacity Purchase Agreements, the Member retains 100 percent ownership of the applicable facility; however, in most cases, all items of equipment, additions to the facility, improvements thereto and other property added to or replacing part of the facility after the date ("Turnover Date") such unit was dedicated to the Agency under such Capacity Purchase Agreement or a previous similar contract (the Turnover Dates vary from 1991 through 1995, depending on the applicable unit) pursuant to the renewal and replacement budget and paid for by the Agency are the sole property of the Agency (subject to certain repurchase obligations of such Member). Under the Pass-through Capacity Purchase Agreements, the Member agrees to indemnify the Agency for certain costs, expenses and/or liabilities incurred by the Agency as a result of any contamination and/or clean-up, imposition of liens and/or third party claims, arising out of the existence or claimed existence of hazardous substance in the plant or on the plant site occurring before the Turnover Date with certain exceptions, all according to the terms of the Pass-through Capacity Purchase Agreements. The Pass-through Capacity Purchase Agreements extend through the earlier of the retirement date of the applicable resource or five years after written notice of termination given by either party. The Agency may shorten the notice requirement to one year if the renewal and replacement budget required to keep the plant operational is determined by the Agency to be uneconomical.

The Agency currently has Pass-through Capacity Purchase Agreements with (i) Owatonna for its gas-fired combustion turbine unit and (ii) Blooming Prairie, Litchfield, Mora, New Prague, Preston, Princeton, Redwood Falls, Spring Valley, and Wells for their respective diesel and dual fuel (diesel and natural gas) units for a total of 85 MW of capacity.

In addition, the Agency has entered into Quick-Start Capacity Purchase Agreements with Blooming Prairie, Grand Marais, Litchfield, North Branch, Princeton, Redwood Falls, Saint Peter and Spring Valley for new diesel units with ten minute start capability. Under these agreements, each such Member finances, builds and operates its unit(s) at its sole expense and provides the output of the unit(s) exclusively to the Agency in exchange for a fixed dollar-per-kilowatt monthly payment to the applicable Member and payment of fuel costs. The Quick-Start Capacity Purchase Agreements are otherwise similar to the Pass-through Capacity Purchase Agreements but have a minimum term of twenty years and can be renewed by the Agency for successive five-year periods thereafter. A total of approximately 57 MW of diesel generation was installed and put into operation during 2003 through 2012 as part of the Quick Start Capacity Purchase Agreements.

In total, approximately 141 MW of dedicated capacity is available to the Agency, including 53 diesel and dual fuel units with an aggregate rating of approximately 124 MW and one combustion turbine unit with an aggregate rating of approximately 17 MW.

The Fairmont Energy Station consists of four new high efficiency natural gas-fired spark-ignited engines totaling 25 MW and two dual fuel (diesel and natural gas) powered generators (12 MW total capacity) that were existing at the time of purchase of the facilities from Fairmont. The four new engines were purchased from Caterpillar Inc. ("Caterpillar"). The new facilities, along with all ancillary fuel, cooling and emissions control systems went into commercial operation in 2014.

In order to meet its power supply obligations, the Agency has also implemented certain demand side management programs and has entered into certain medium-term power purchases from other utilities.

The Minnesota Legislature's establishment of the Renewable Energy Standard ("RES") in 2007 requires that the Agency purchase or produce increasing percentages of its energy from renewable resources.

The Agency owns six wind turbines (8.5 MW of capacity) installed between 2003 and 2005 and a landfill gas generation project (1.6 MW of capacity) located near Mora, Minnesota and installed in 2012. To meet the RES, the Agency uses energy from: the wind turbines it owns, the Agency-owned landfill gas generator, bio-diesel fueled generation contracted to the Agency, a purchased power agreement from a waste-to-energy facility located in a Member's community, an agreement with Wapsipinicon to purchase the output from a 100.5 MW wind farm located near

Dexter, Minnesota, renewable energy certificates ("RECs") purchased from a Member hydroelectric facility, and purchases from the REC market. The combination of production and allowed banking of associated certificates from this portfolio of resources, along with the market purchase of RECs, is projected to meet the Agency's RES requirement through 2020.

The Agency offers its Members the opportunity to purchase RECs for customers interested in supporting renewable energy in addition to that supplied as a part of Agency base energy delivery.

In 2013, the Minnesota Legislature made some changes to Minnesota's net metering rules and established a Solar Energy Standard ("SES"). The 2013 legislation did not change the net metering rules for cooperative and municipal utilities, and the SES only applies to Minnesota's investor owned utilities. While not covered by the SES, the Agency, working with its Board and Members, is developing a strategy for adding solar resources to its portfolio as early as 2016.

Future Power Supply Operations. Current projections indicate that the Agency will require additional resources beginning in 2020. To meet a portion of this projected need, the Agency will construct the Owatonna Energy Station. In addition, the Agency will likely enter into one or more purchase power agreements. See "THE POWER SUPPLY SYSTEM – Power Supply Resources – *Additional Power Supply*" and "– Projected Loads and Resources" herein.

Rates and Trends

Each Member is required to pay for power and energy furnished by the Agency at rates established by the Agency. Such rates are required to be established at a level which will provide for the recovery of all the Agency's total Revenue Requirements, including debt service on the Bonds and other amounts required to be deposited in funds established under the Resolution. For additional information concerning payments by the Members under the Power Sales Contracts, see "Payments by the Members" in APPENDIX D hereto. The Agency's Revenue Requirements include amounts required to comply with any rate covenant of the Agency. Under the Resolution, the Agency has covenanted to establish and collect rates, fees and charges for the output of the System which, together with other available Revenues, are reasonably expected to yield Net Revenues for the twelve-month period commencing with the effective date of such rates, fees and charges equal to at least 1.10 times Aggregate Debt Service on Bonds for such period and, in any event, as required, together with other available funds, to pay or discharge all other indebtedness, charges and liens payable out of Revenues. For purposes of this covenant, amounts required to pay Refundable Principal Installments may be excluded from Aggregate Debt Service to the extent that the Agency intends to make such payments from sources other than Revenues. The Agency is required to review and, if necessary, revise its rates, fees and charges upon the occurrence of a material change in circumstances, but in any case at least once every twelve months. See APPENDIX F hereto for definitions of the terms "System," "Net Revenues," "Aggregate Debt Service" and "Refundable Principal Installment."

Members are billed for power and energy furnished by the Agency primarily under the "Base Rate" established under Schedule B of the Power Sales Contracts (the "Base Rate"). The 2015 Base Rate (effective January 1, 2015) consists of a power supply demand charge of $10.66 per kW/month, an on-peak power supply energy charge of $0.05413 per kWh, an off-peak energy charge of $0.04046 per kWh, and a transmission charge of $2.66 per kW/month. Under the 2015 Base Rate schedule, the power supply billing demand for any monthly billing period is the greater of the metered demand coincident to the Agency's highest demand measured for the period or 74 percent of the metered demand coincident to the Agency's highest metered demand measured during the most recent full summer season (June through September). The transmission billing demand for any monthly billing period is 100 percent of the metered demand coincident to the Agency's highest metered demand measured during the most recent full summer season (June through September). Designated on-peak hours are those hours between 10:00 a.m. and 10:00 p.m. Monday through Friday, excluding certain designated holidays. The current Base Rate schedule also includes an electric cost adjustment under which the amounts billed to Members are adjusted each month so that the average rate per kWh, in total, is the same as was budgeted for that month. Changes in the total average rate due to the cost adjustment are limited to 2 mills/kWh per month. The Agency may implement changes in its rates after 90 days' notice to the Members. There have been no increases in the Agency's rates since 2010. The Agency is considering a possible increase in the Base Rate in 2016 of approximately 5-6%. Any such increase would have to be approved by the Board.

The average cost of power and energy provided by the Agency to the Members through 2014 has increased by 56.2 percent since 2005, an average of slightly over 5 percent per year.

The following table sets forth the annual average cost of power and energy provided by the Agency to the Members along with the annual percentage change for the 2005 through 2014 time period.

Members' Historical Average Cost of Power and Energy from the Agency

Year	Average Cost of Power and Energy (cents/kWh)	Annual Percent Change
2005	4.537	(0.8)
2006	5.343	17.8
2007	5.994	12.2
2008	6.129	2.3
2009	6.631	8.2
2010	7.024	5.9
2011	7.039	0.2
2012	7.089	0.7
2013	7.107	0.3
2014	7.086	(0.3)

The Average Cost of Power increases between 2006 and 2010, shown in the above table, were the result of factors impacting the electric industry as a whole on a regional and national basis. Changes in the Average Cost of Power in 2011 through 2014 were due to kWh sales volume differences between those years and the relative amount of sales on and off peak.

At the end of 2005, the Agency entered into a wholesale marketing agreement with TEA, a Georgia nonprofit corporation founded by public power utilities in 1997. Under that agreement, TEA assists the Agency with wholesale marketing activities. Specifically, TEA is exclusively responsible for the Agency's real-time and medium-term energy transactions. TEA brings to the Agency significant expertise in markets such as the MISO market which uses locational marginal pricing. The Agency remains directly involved in energy marketing activities, working closely with TEA on a day-to-day basis. The TEA risk management services are coordinated with the periodic review of the Agency's financial reserves as performed by the Agency's financial advisor, Public Financial Management, Inc.

TEA also provides the Agency with risk management services related to the Agency's power supply portfolio. These services are focused on identifying ways in which the Agency can reduce its cash flow at risk from areas primarily outside of the Agency's control such as, among others, unplanned generating unit outages, market price fluctuations and fuel price fluctuations.

Rate Stabilization

The Agency reviews its rates and Revenue Requirements continuously to ensure that it complies with the rate covenant under the Resolution. In addition to increases in Revenue Requirements resulting from normal recurring factors such as inflation, the Agency may experience unusually large increases in certain years. Some of these large increases in Revenue Requirements may be anticipated far in advance of when the increases occur; other increases, such as those due to lengthy unscheduled outages, may not be anticipated.

To reduce the risk of significant fluctuations in the Agency's rates, the Agency established a Rate Stabilization Account. Under the Resolution, if the Agency's Revenues during any period exceed the amount necessary to comply with its rate covenant, whether as a result of off-system sales or any other reason, it may deposit the excess amounts in the Rate Stabilization Account and such amounts are excluded from Net Revenues for such period for purposes of the rate covenant. These amounts may be used to meet unanticipated increases in Revenue Requirements in subsequent periods, thus reducing or eliminating the rate increases that would otherwise be necessary in such periods to produce the Net Revenues required to meet the rate covenant or reduce debt or any other lawful purposes. The amount in the Rate Stabilization Account is a major component of the available GOR amounts. See "Rates and Trends" and "Strategic Financial Policies" above.

Rate Regulation

The authority of the Agency and each of the Members to determine, fix, impose and collect rates and charges for electric power and energy is not subject to the regulatory jurisdiction of the Minnesota Public Utilities Commission (the "MPUC"), or any other regulatory agency or authority of the State of Minnesota, except as the Minnesota Legislature may otherwise provide, including the following: (i) a Member may elect to have its accounting and depreciation practices regulated by the MPUC, (ii) ten percent of the consumers located outside the city limits of a Member or 25 such consumers, whichever is less, may petition the MPUC with respect to rates charged by such Member, (iii) the MPUC may set rates of a Member for certain purchases of electric energy from and sales of electric energy to qualifying cogeneration and small power production facilities if the Member has not adopted rules consistent with rules of the MPUC on cogeneration and small power production, (iv) each Member is required to spend and invest operating revenues from the sale of electricity for energy conservation improvements, (v) Members are required to adopt a distributed generation tariff addressing issues included in a MPUC order on that subject, and (vi) involuntary disconnection of a residential customer by a Member during cold weather periods (October 15 to April 15) and during periods of excessive heat declared by the National Weather Service is subject to restrictions imposed by Minnesota statutes. See "Minnesota Legislative Matters" below.

As subdivisions of a state, the Agency and the Members are exempt from status as "public utilities" under the Federal Power Act. As a result, rates and charges for the sale or transmission of electricity by the Agency or the Members are not subject to regulation by the Federal Energy Regulatory Commission ("FERC"), except with respect to (1) transmission service that is ordered by FERC under the Energy Policy Act of 1992 and (2) sales of electricity to qualifying cogeneration and small power production facilities as mandated by Section 210 of the federal Public Utility Regulatory Policies Act of 1978.

Other Regulatory Matters

In addition to the regulatory matters that are discussed below, the Agency is subject to various other federal, state and local laws and regulations applicable to many of its activities. For information with respect to certain regulatory matters applicable to the construction and operation of Sherco 3 and transmission projects undertaken by the Agency, see "THE POWER SUPPLY SYSTEM" herein. Under the Sherco 3 Agreement, NSP is responsible for making application to the various federal, state and local authorities for all permits, licenses and approvals required for the operation of Sherco 3. See also, "Rate Regulation" above and "FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY" herein and "Minnesota Legislative Matters" below.

Minnesota law requires utilities with the capability of generating 100,000 kW or more of electric power and serving, either directly or indirectly, the needs of 10,000 retail customers in Minnesota to file a resource plan with the MPUC, subject to the rules of the MPUC. This resource plan must take into account environmental costs to be established by the MPUC and other external factors, and must contain the "least cost plan" for meeting 50 percent to 75 percent of all new and refurbished capacity needs through a combination of conservation and renewable energy resources. The MPUC has established a range of values to be used for certain environmental costs. The MPUC has the authority to approve, reject or modify the plan of such a utility that sells at retail. The order of the MPUC regarding the resource plan of municipalities and an entity such as the Agency, which sells only at wholesale, is advisory and the order's findings and conclusions constitute prima facie evidence which may be rebutted by substantial evidence in all other proceedings. The Agency's most recent IRP was filed on November 27, 2013 with the MPUC and on February 10, 2015 the MPUC accepted the 2014-2028 IRP maintaining the IRP's base case scenario for demand-side management energy savings. The Agency must file its next resource plan no later than December 1. 2017.

Prior to the construction in Minnesota of any new electric power generating plant with a capacity of 50 MW or more, or any transmission line with a voltage level of 100 kV or more with more than 10 miles in length in Minnesota or that crosses a state line, or any transmission line with a voltage level of 200 kV or more and greater than 1,500 feet in length, the Agency, as well as other utilities, is required to obtain a certificate of need from the MPUC.

The Agency is subject to environmental regulation by federal, state and local authorities, including those regulations administered by the United States Environmental Protection Agency (the "EPA") and the State of Minnesota. For example, the Minnesota Pollution Control Agency, has established air pollution control regulations relating to, among other matters, the acceptable amount of sulfur dioxide ("SO_2"), nitrogen oxides ("NOx") and particulate discharges. The inability to comply with environmental standards or deadlines could result in reduced operating levels or complete shutdown of individual generating units not in compliance. In addition, compliance with environmental standards or deadlines may substantially increase capital and operating costs. For a further discussion of environmental matters, see "FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Environmental Matters" herein.

Prior to the construction of any new electric power generating facilities with a capacity of 50 MW or more or any route for any transmission line with a voltage level of 100 kV or more that is greater than 1,500 feet in length, the Agency must obtain a certificate from the MPUC as to the environmental compatibility of such site and route. In general, the MPUC may designate sites or routes as proposed by power suppliers or from a list of potential sites and routes developed by the MPUC.

Minnesota Legislative Matters

General. In 1994 the Minnesota Legislature established a Legislative Electric Energy Task Force ("Task Force"). The Task Force initially was directed to address future state energy policy, generally, and in particular, nuclear waste management, state energy self-sufficiency and the designation of conservation and renewable fuels as preferred alternatives in addressing energy production and consumption requirements. Over the years, the Task Force, with the assistance of a technical advisory work group comprised of legislative staff, state agency staff, utility experts and interested parties evaluated issues of competitive electric markets (although no action was taken on competition or industry restructuring) and reliability as they affect Minnesota electric consumers. The Task Force was renamed the Legislative Energy Commission in 2008, and its duties changed to some extent, specifically including monitoring achievement of renewable energy goals and greenhouse gas ("GHG") reduction goals.

Conservation Legislation. The Members are required to spend and invest 1.5 percent of their gross operating revenues on energy conservation improvements. The Minnesota Legislature has also declared that annual energy savings of 1.5 percent are a part of the state's energy policy. Consequently, the Members are also required to establish and satisfy an annual energy savings goal of 1.5 percent of gross annual retail energy sales. By agreement, the Agency may perform Member conservation obligations in the aggregate and does so for 15 Members. Each Member must file a conservation improvement program report on its energy conservation efforts with the Department of Commerce Division of Energy Resources ("DER"), annually. DER is authorized to make recommendations to increase the effectiveness of these conservation plans.

Renewable Energy Standard and the Next Generation Energy Act of 2007. In 2001, the Minnesota Legislature established a Renewable Energy Objective ("REO") applicable to municipal power agencies (such as the Agency), investor-owned utilities and electric cooperative association generation and transmission utilities which required utilities to make a good faith effort to meet defined renewable energy production goals beginning in 2005. The REO was modified in 2007 to create a mandatory RES, requiring such utilities to achieve twelve percent of energy produced from renewable resources by 2012, seventeen percent by 2016, twenty percent by 2020 and 25 percent by 2025. Additionally, the MPUC was authorized to establish a program for tradable RECs which can be used to satisfy the REO and RES. The MPUC participated with other regulatory bodies in the Midwest to create the Midwest Renewable Energy Tracking System ("M-RETS").

The MPUC established that M-RETS would be the compliance vehicle for the REO/RES and that all covered utilities, including the Agency, must register all their renewable energy generation units with M-RETS by March 2008. By May 1 of each calendar year, covered utilities, including the Agency, must retire a sufficient number of RECs into their M-RETS retirement account to demonstrate compliance. Compliance reports are filed with the MPUC by June 1 of each calendar year. The MPUC is directed to enforce the REO and RES obligations and may impose financial penalties for violations of its orders. In 2009, legislation required utilities covered by the REO/RES, including the Agency, to file with the MPUC, a standardized contract for the purchase of electricity from wind power projects with a name plate capacity of 5 MW or less. The Agency has filed a standardized contract with the MPUC.

In the Next Generation Energy Act of 2007 ("Next Generation Energy Act"), the Minnesota Legislature specifically addressed GHG emissions. It declared a goal for Minnesota to reduce GHG emissions statewide to a level fifteen percent below 2005 levels by 2015, 30 percent below 2005 levels by 2025 and 80 percent below 2005 levels by 2050. A group of state agencies was directed to promptly submit to the Minnesota Legislature a climate change action plan. Effective August 1, 2009, a moratorium was declared on the construction of new coal-fired plants and transmission facilities supporting such plants, on importation of energy from new coal-fired plants in other states and new long-term power purchase agreements that would increase power sector carbon dioxide ("CO_2") emissions. The moratorium will run until a comprehensive federal or state law or rule is enacted or adopted which will limit and reduce power sector CO_2 emissions or until the moratorium is repealed. The North Dakota Attorney General's Office filed suit in Federal Court challenging the Next Generation Energy Act's import restrictions under the Commerce Clause of the U.S. Constitution. In April 2014, a Federal judge ruled in favor of North Dakota. The State of Minnesota, joined by a number of other entities, appealed the decision and the appeal process is ongoing.

The Next Generation Energy Act further refines the state's energy policy to include (1) reducing per capita use of fossil fuel as an energy input by fifteen percent in the year 2015 through increased energy efficiency and renewable energy and (2) 25 percent of total energy used in the state be derived from renewable energy resources by 2025.

In response to legislation, the Agency has continued the development of its renewable portfolio which is currently in excess of the requirement. In 2013, the Minnesota Legislature directed that a renewable integration study be performed to assess the impacts of increasing the RES from 25 percent in 2025 to 40 percent by 2030. The study was completed on October 31, 2014 and concluded that the addition of wind and solar (variable renewable) generation to supply 40 percent of Minnesota's annual electric retail sales can be reliably accommodated by the electric power system. The results show that, with upgrades to existing transmission of approximately $373 million, the power system can be successfully operated for all hours of the year (no unserved load, no reserve violations, and minimal curtailment of renewable energy) with wind and solar resources increased to achieve 40 percent renewable energy in Minnesota and with current renewable energy standards fully implemented in neighboring MISO North/Central states. Further analysis would be needed to ensure system reliability at 50 percent of Minnesota's annual electric retail sales from variable renewables. With wind and solar resources increased to achieve 50 percent renewable energy in Minnesota and 25 percent renewable energy in MISO North / Central (10 percent above current renewable energy standards in neighboring states), production simulation results show that, with significant transmission upgrades and expansions in the five state area costing approximately $3 billion, the power system can be successfully operated for all hours of the year (no unserved load, no reserve violations, and minimal curtailment of renewable energy). The study was concluded prior to the release of the EPA's final rule on the Clean Power Plan and as such did not include any specific analysis as to potential impacts of the Clean Power Plan on generation portfolios or the transmission system that may arise from implementation of EPA's final rule. The Agency participated as a member of the technical review committee along with other Minnesota utilities. See "INTRODUCTION – Future Financing", "THE POWER SUPPLY SYSTEM – Power Supply Resources – *Wind Power Program*" and "FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Environmental Matters – *Climate Change*" herein.

Other Minnesota Legislative Matters. In 2005 the Minnesota Legislature passed an Omnibus Energy bill that focused on the need for building a stronger transmission backbone. That legislation provided rate recovery for investor-owned utilities prior to the completion of a transmission project, including recovery for construction work in progress. This legislation gave CapX 2020 the ability to move forward because investor-owned utilities are now certain they will be able to recover project costs and those costs can begin to be recovered prior to completion of projects. See "THE POWER SUPPLY SYSTEM – Transmission – *CapX 2020*" herein.

Legislation has also focused on supporting smaller Community Based Energy Development ("CBED") facilities, primarily wind development. This legislation requires all investor-owned utilities, municipal power agencies, and generation and transmission cooperatives to implement CBED tariffs (standardized contract described above), in order to encourage the development of CBED projects. The purpose of the legislation is to optimize local, regional, and state benefits from renewable energy development and to facilitate widespread development of community-based renewable energy projects throughout Minnesota. This is done by developing "front-end" loaded twenty-year power purchase agreements where developers would receive higher payments in the first ten years of the agreement and lower payments during the remaining ten years of the agreement.

In an effort to encourage additional distributed generation, particularly solar, the 2013 Legislature made changes to Minnesota's net metering rules and established a Solar Electric Standard ("SES") which applies only to investor-owned utilities. The SES requires investor owned utilities to derive 1.5 percent of retail electric sales from solar by 2020. Thresholds for qualifying projects for investor-owned utilities were raised from 40kW to 1000kW. Net metering thresholds for cooperative and municipal utilities remain unchanged at 40kW. While not covered by the SES, the Agency, working with its Board and Members, is developing a strategy for adding solar resources to its portfolio as early as 2016.

In 2015, the Legislature made further changes to Minnesota's net metering rules that would allow municipal utilities and electric cooperative associations to charge an additional fee to qualifying facilities of 40 kW or less to recover fixed costs not already being recovered through existing rates. The fee must be "reasonable and appropriate" for that class of customer based on the utility's most recent cost of service study. The changes also allow a net metering customer with a facility having a capacity below 40 kW that is interconnected with a cooperative association or municipal utility to elect to be compensated for power sold to the utility via a kilowatt-hour credit on the customer's bill that is carried forward each month. Any kilowatt-hour credits carried forward by the customer cancels at the end of the calendar year with additional compensation.

The 2015 Legislature also extended a statutory provision through June 30, 2017, that allows the Minnesota Department of Commerce ("MDOC") to assess up to $1 million per fiscal year on utilities, including generation and transmission cooperative electric associations and municipal power agencies, for MDOC's activities representing the interests of Minnesota energy consumers before regional, national, and international bodies that make energy policy decisions that affect Minnesota.

In 2006 the Minnesota Legislature passed the Minnesota Mercury Emissions Reduction Act, which targeted 90 percent mercury removal from Minnesota's largest electric generation facilities, including Sherco 3. While not specifically targeted by the requirement, the Agency worked with Xcel to submit a mercury reduction plan for Sherco 3. Control equipment was installed in 2010, well in advance of proposed federal mercury standards.

See also "FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Environmental Matters."

Financial Results of the Agency's Operations

The following table sets forth Summary of Operations and Net Position for the years ended December 31, 2012 through December 31, 2014 and for the six-month periods ended June 30, 2014 and June 30, 2015. The Summary of Operations and Net Position for the years ended December 31, 2012, 2013 and 2014 are derived from audited annual financial statements. The Summary of Operations and Net Position for the six months ended June 30, 2014 and 2015, are derived from the Agency's unaudited financial statements. The following Summary of Operations and Net Position are qualified in their entirety by reference to the audited financial statements for the years ended December 31, 2014 and 2013, included as APPENDIX B to this Official Statement.

SUMMARY OF OPERATIONS AND NET POSITION

	Six Months Ended June 30		Years Ended December 31,		
	2015	2014	2014	2013	2012
	(unaudited)	(unaudited)			
Operating revenues					
Power sales	$109,233,998	$123,387,634	$242,631,302	$244,877,804	$241,436,566
Rate stabilization (contributions)/distributions	5,075,921	(1,697,499)	(475,547)	8,131,052	(184,994)
Total operating revenues	114,309,919	121,690,135	242,155,755	253,008,856	241,251,572
Operating expenses:					
Production fuel	21,687,406	26,465,396	46,410,022	7,111,814	892,210
Power production	26,239,364	33,133,999	67,471,136	120,112,839	126,608,034
Other operating expenses	29,944,972	26,142,059	56,568,777	49,892,022	44,275,363
Depreciation and amortization	7,937,877	8,092,974	16,339,677	15,232,595	15,729,147
Deferred costs expensed in current period	2,888,277	2,041,622	3,725,759	2,634,378	972,236
Total operating expenses	88,697,896	95,876,050	190,515,371	194,983,648	188,476,990
Operating income	25,612,023	25,814,085	51,640,384	58,025,208	52,774,582
Nonoperating income:					
Investment earnings	683,944	613,420	1,251,575	1,059,704	1,569,104
Miscellaneous income	606,050	607,240	1,219,580	1,209,449	1,306,908
Total other revenues	1,289,994	1,220,660	2,471,155	2,269,153	2,876,012
Nonoperating other expenses:					
Interest expense	5,232,460	6,436,952	12,793,818	16,143,581	19,670,487
Deferred costs expensed in current period	3,555,070	2,766,860	5,129,352	4,511,075	1,347,137
Amortization of long-term debt issuance costs	512,660	534,597	1,093,474	1,128,501	1,202,645
Amortization of discount/premium on long-term debt	12,871,116	12,531,446	25,646,738	25,013,451	25,033,835
Total nonoperating expenses	22,171,306	22,269,855	44,663,382	46,796,608	47,254,104
Change in net position	4,730,711	4,764,890	9,448,157	13,497,753	8,396,490
Net Position					
Beginning of period	98,390,713	88,942,556	88,942,556	75,444,803	67,048,313
End of period	$103,121,424	$93,707,446	$98,390,713	$88,942,556	$75,444,803

Management Discussion of Agency Operations

The operating results of the Agency reflect the results of past operations and are not necessarily indicative of results of operations for any future period. Future operations will be affected by factors relating to changes in rates, fuel and other operating costs, environmental regulations, increased competition in the electric utility industry, population and economic growth of the Members, weather and other matters, the nature and effect of which cannot at present be determined. In addition, operating revenues and expenses may fluctuate from year to year, based on the power and energy requirements provided by the Agency to the Members.

The Agency's highest peak demand was 529 MW in 2011 and peak demand in 2014 was 506 MW. Peak demand is largely a result of the effects of hot summer weather. Energy sales have not increased appreciably from 2011 to 2014. A key reason is that the Agency continues to work with its Members to meet the required 1.5% reduction in annual retail sales as a result of its conservation programs. See "Minnesota Legislative Matters – *Conservation Legislation*" herein and "THE MEMBERS – Members' Historical Power and Energy Requirements" herein.

In accordance with the Resolution, the Agency establishes rates, which together with other revenues, are reasonably expected to pay its operating costs (not including depreciation and amortization) and at least 1.10 times its Aggregate Debt Service. Costs in excess of the current principal payment of the Agency's revenue bonds are deferred and shown as expenses to be (recovered) incurred in future periods. See "Summary of Operations" above.

Six Months Ended June 30, 2015 And 2014

Operating revenues, power sales, decreased by approximately $7.4 million between 2015 and 2014. Operating revenues, power sales, consist principally of Member power sales revenue, power sales to nonmembers, other transmission revenue, and contributions to, or distributions from, the Rate Stabilization Account. Sales to nonmembers include the Agency's participation in the MISO day 2 market.

In 2015, before the effects of distributions from the Rate Stabilization Account, operating revenues, power sales, decreased by approximately $14.1 million, primarily due to decreases in member sales by $2.9 million, transmission service agreement revenues by $1.0 million, and in MISO energy market sales of $10.2 million. The decrease in 2015 member sales was due to cooler than normal weather and the decrease in MISO energy market sales was due to lower LMP's (locational marginal price). There was a net distribution of approximately $5.1 million from the Rate Stabilization Account in 2015 compared with a net contribution of $1.7 million in 2014. Contributions to the Rate Stabilization Account decrease the amount of operating revenues, power sales, whereas distributions from the Rate Stabilization Account increase the amount of operating revenues, power sales as funds are added to, or subtracted from, the Rate Stabilization Account, which is included in deferred inflows.

Other revenues were slightly higher in 2015 compared to 2014. Other revenues include the Build America Bonds interest subsidy and rental income.

Operating expenses decreased by approximately $7.2 million between 2015 and 2014. Operating expenses consist of production fuel, power production, other operating expenses, depreciation and amortization, and expenses to be recovered in future periods. The decrease observed in 2015, compared with 2014, was the net result of decreases in production fuel expense of approximately $4.8 million, power production expenses of approximately $6.9 million reflecting lower LMP's, offset by an increase in other operating expenses of approximately $3.8 million (consisting mainly of an increase of approximately $1.0 million in transmission expenses, a decrease of approximately $0.3 million in Agency owned generation operating and maintenance expenses, an increase in administrative and member services of approximately $0.6 million and an increase of approximately $2.5 million of demand side management expenses) and a combined increase of approximately $0.7 million in depreciation and expenses to be recovered in future periods.

Years Ended December 31, 2014 and 2013

Operating revenues, power sales, decreased by approximately $10.9 million between 2014 and 2013. Operating revenues, power sales, consist principally of Member power sales revenue, power sales to nonmembers, other transmission revenue, and contributions to, or distributions from, the Rate Stabilization Account. Sales to nonmembers include the Agency's participation in the MISO day 2 market.

In 2014, before the effects of contributions made to the Rate Stabilization Account, operating revenues, power sales, decreased by approximately $2.2 million, primarily due to decreases in the member sales by $1.8 million and transmission service agreement revenues by $2.2 million, offset by increases in MISO energy market sales of $1.8 million. In 2013, before the effects of distributions made from the Rate Stabilization Account, operating revenues, power sales, increased by approximately $3.4 million, primarily due to an increase in MISO energy market sales by approximately $1.4 million, by an increase of approximately $1.1 million in transmission revenue, and by an increase in power sales to Members of approximately $0.9 million. There was a net contribution of approximately $0.5 million to the Rate Stabilization Account in 2014 compared with a net distribution of $8.1 million in 2013. Contributions to the Rate Stabilization Account decrease the amount of operating revenues, power sales, whereas distributions from the Rate Stabilization Account increase the amount of operating revenues, power sales as funds are added to, or subtracted from, the Rate Stabilization Account, which is included in deferred inflows.

Other revenues increased by approximately $0.2 million between 2014 and 2013. Other revenues include the Build America Bonds interest subsidy and rental income.

Operating expenses decreased by approximately $4.5 million between 2014 and 2013. Operating expenses consist of production fuel, power production, other operating expenses, depreciation and amortization, and expenses to be recovered in future periods. The decrease observed in 2014, compared with 2013, was the net result of an increase in production fuel expense of approximately $39.3 million with Sherco 3 back on line, offset by a decrease in power production expenses of approximately $52.6 million reflecting reduced energy market purchases with Sherco 3 back on line, an increase in other operating expenses of approximately $6.7 million (consisting mainly of an increase of approximately $1.9 million in transmission expenses, an increase of approximately $3.0 million in Sherco 3 operating and maintenance expenses, an increase in administrative and member services of approximately $0.8 million and an increase of approximately $0.6 million of demand side management expenses) and a combined increase of approximately $2.2 million in depreciation and expenses to be recovered in future periods.

Years Ended December 31, 2013 and 2012

Operating revenues, power sales, increased by approximately $11.8 million between 2013 and 2012. Operating revenues, power sales, consist principally of Member power sales revenue, power sales to nonmembers, other transmission revenue, and contributions to, or distributions from, the Rate Stabilization Account'. Sales to nonmembers include the Agency's participation in the MISO energy market.

Before the effects of distributions made from the Rate Stabilization Account, operating revenues, power sales, increased by approximately $3.4 million, primarily due to an increase in the MISO energy market by approximately $1.4 million, by an increase of approximately $1.1 million in transmission revenue, and by an increase in power sales to members of approximately $0.9 million. There was a net distribution of approximately $8.1 million from the Rate Stabilization Account' in 2013 compared with a net contribution of $0.2 million in 2012. Contributions to the Rate Stabilization Account' decrease the amount of operating revenues, power sales, whereas distributions from the Rate Stabilization Account' increase the amount of operating revenues, power sales as funds are added to, or subtracted from, the Rate Stabilization Account, which is included in deferred inflows.

Other revenues decreased by approximately $0.6 million between 2013 and 2012. Other revenues include the Build America Bonds interest subsidy and rental income.

Operating expenses increased by approximately $6.5 million between 2013 and 2012. Operating expenses consist of production fuel, power production, other operating expenses, depreciation and amortization, and expenses to be recovered in future periods. The increase observed in 2013 compared with 2012 was the net result of an increase in production fuel expense of approximately $6.2 million, a decrease in power production expenses of approximately $6.5 million, an increase in other operating expenses of approximately $5.6 million (due to a decrease of approximately $0.6 million in transmission expenses, an increase of approximately $5.5 million in Sherco 3 operating and maintenance expenses, an increase of approximately $0.5 million of other Agency owned generation, a decrease in administrative and member services of approximately $0.4 million and an increase of approximately $0.6 million in in-lieu of property taxes) and a combined increase of approximately $1.2 million in depreciation and expenses to be recovered in future periods.

For additional information, see "Management's Discussion and Analysis" in APPENDIX B hereto.

Forward-Looking Statements and Associated Risks

This Official Statement contains forward-looking statements. These forward-looking statements may encompass, among other things, statements containing projections or estimates, and statements regarding anticipated trends in the business of The Agency, and may include statements concerning sales, customer growth, economic recovery, current and proposed environmental regulations and related estimated expenditures, access to sources of capital, financing activities, start and completion of construction projects, plans and estimated costs for new generation resources, estimated sales and purchase of power and energy, and estimated construction and other expenditures. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "estimated," "scheduled," "potential," or "continue" or the negative of these terms or other similar terminology. These forward-looking statements are based largely on the expectations of the Agency and are subject to risks and uncertainties, a number of which are beyond the control of the Agency. There are various factors that could cause actual results to differ materially from those anticipated by these forward-looking statements. In light of these risks and uncertainties, there can be no assurance that events anticipated by the forward-looking statements contained in this Official Statement will in fact transpire. Such factors include:

- the impact of recent and future federal and state regulatory changes or judicial opinions, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry; implementation of the Energy Policy Act of 2005 (the "2005

Act"); environmental laws and regulations affecting water quality, coal combustion byproducts, and emissions of SO_2, NOx, GHGs, particulate matter and hazardous air pollutants ("HAPs") including mercury; financial reform legislation; and also changes in tax and other laws and regulations to which the Agency and the Members are subject, as well as changes in application of existing laws and regulations

- current and future litigation, regulatory investigations, proceedings, or inquiries
- the effects, extent, and timing of the entry of additional competition in the markets in which the Agency and the Members operate
- variations in demand for electricity, including those relating to weather, the general economy and recovery from the recent recession, population and business growth (and declines), the effects of energy conservation measures, and the installation of customer-owned distributed generation
- available sources and costs of fuels
- effects of inflation
- ability to control costs and avoid cost overruns during the development and construction of facilities, including those relating to unanticipated conditions encountered during construction, risks of non-performance or delay by contractors and subcontractors and potential contract disputes
- investment performance of the Agency's invested funds
- advances in technology
- regulatory approvals and actions
- the ability of counterparties of the Agency to make payments as and when due and to perform as required
- the direct or indirect effect on the Agency's business resulting from terrorist incidents and the threat of terrorist incidents, including cyber intrusion
- interest rate fluctuations and financial market conditions and the results of financing efforts, including the Agency 's credit ratings
- the impacts of any potential U.S. credit rating downgrade or other sovereign financial issues, including impacts on interest rates, access to capital markets, impacts on currency exchange rates, counterparty performance, and the economy in general
- the ability of the Agency to obtain additional generating capacity at competitive prices
- the ability of the Agency to hedge the price risk of being in two regional energy markets

- catastrophic events such as fires, earthquakes, explosions, floods, hurricanes, droughts, pandemic health events such as influenzas, or other similar occurrences

- the direct or indirect effects on the Agency's business resulting from incidents affecting the U.S. electric grid or operation of generating resources

- the effect of accounting pronouncements issued periodically by standard setting bodies

- other factors discussed elsewhere herein

The Agency expressly disclaims any obligation to update any forward-looking statements.

THE MEMBERS

General

The eighteen Members of the Agency are located in central and southern Minnesota, except for Grand Marais, which is located in the northeastern corner of the State. This region is bounded on the east by the Mississippi River and extends westward three quarters of the way across the State. The Members are located within sixteen of Minnesota's 87 counties. Eleven Members of the Agency serve as the seats of their respective county governments.

The economy of the region is largely dependent upon agriculture. In addition, there is significant industrial and other commercial activity. As reflected by a large IBM facility in Rochester, Mayo Clinic in Rochester and several satellite clinics in other Member cities, and the Hormel Foods processing plant in Austin, the region's economy has developed a high technology and service-based element which complements the traditional agricultural segment. Manufacturing activity involves the manufacture of electronic components, chemicals and plastics. Each of Rochester, Austin and Owatonna have one customer accounting for more than 10% of its operating revenues for the year ended December 31, 2014. The percentages of operating revenues of such customers for Rochester, Austin and Owatonna are 16.2%, 30.5% and 28.5%, respectively. The Agency has been advised that Minnesota Statutes, Section 13.685 does not allow the disclosure of the identity of such customers.

It is not uncommon for large industrial customers to supply a portion of their own electric generation needs. A large customer in Rochester supplies a portion of its electrical needs and until recently, a large customer in Austin operated its own electric generators to meet a portion of its peak needs. However, in summer 2015, that customer sold its generators to an out of state entity and has no current plans to replace them. The Agency is not aware of any other industrial customers having plans to add generation to serve a portion of their load.

According to the Minnesota State Demographic Center and Metropolitan Council, the eighteen Members had a combined population of approximately 245,700 in 2014. As of December 31, 2014, the Members provided electric service to approximately 113,100 residential, commercial, industrial and other customers.

As reflected in the following table, Rochester accounted for approximately 42.3 percent of the Members' energy requirements and three Members together accounted for approximately 69.30 percent of the Members' energy requirements. Austin, Rochester and Waseca have notified the

Agency that they do not wish to extend the terms of their Power Sales Contracts beyond the current expiration date of April 1, 2030. Austin has set its "Contract Rate of Delivery" at 70 MW, effective January 1, 2016.

2014 Energy Requirements of the Members

Member	Energy MWh	Energy Percentage
Rochester	1,243,686	42.3%
Owatonna	371,872	12.6%
Austin	342,249	11.6%
Fairmont	153,295	5.2%
Lake City	152,746	5.2%
Litchfield	132,189	4.5%
Saint Peter	95,551	3.3%
Redwood Falls	73,451	2.5%
New Prague	65,650	2.2%
Waseca	62,658	2.1%
Mora	56,526	1.9%
Princeton	54,786	1.9%
North Branch	28,165	1.0%
Blooming Prairie	27,090	0.9%
Grand Marais	25,241	0.9%
Spring Valley	20,685	0.7%
Wells	19,581	0.7%
Preston	14,936	0.5%
TOTALS	2,940,362	100.0%

The percentages shown are based upon the total energy requirements of each City in 2014, including energy supplied through purchases from WAPA.

Electric Systems and Management

Municipal electric systems form an integral part of the power supply system in Minnesota and are among the oldest utilities in the State. Each Member of the Agency has been in operation for 60 years or more with Rochester (1893), Saint Peter (1891), Waseca (1894) and Wells (1895) in operation in excess of 100 years.

Fourteen Members of the Agency own generating facilities that are under contract to the Agency and will be operated as the Agency deems necessary. In addition, each Member owns and operates distribution facilities. For further information relating to the generating facilities of the Members, see, "THE AGENCY – Power Supply Operations – *Present Power Supply and Transmission Operations*" and "THE POWER SUPPLY SYSTEM – Projected Loads and Resources" herein.

Management of each Member's electric system is vested in either its city council or utilities commission. Except as described under "THE AGENCY – Rate Regulation" above, the Members' rates are not regulated by the MPUC or any other political subdivision of the State of Minnesota and each Member's city council or utilities commission has the exclusive right to fix rates and charges.

Description of the Largest Members

Selected data and information on the Largest Members is contained in APPENDIX A hereto. As discussed herein, the Agency's Power Sales Contracts with Austin, Rochester and Waseca are set to expire in April 2030. At such time, Austin and Rochester will no longer be two of the Largest Members. Based on the 2014 energy requirements of the Members (exclusive of energy supplied through purchases from WAPA), the Largest Members after April 1, 2030 are expected to be Owatonna, Fairmont and Lake City.

Service Areas

The State of Minnesota has delineated exclusive service areas for each utility in the State. The Members of the Agency furnish electric service both within and outside their corporate limits in accordance with the defined service areas. Changes in existing service areas may be accomplished by agreement of the parties, by petitioning the MPUC or by condemnation proceedings. No electric utility can render or extend retail service within the assigned area of another utility without its written consent, except under certain limited exceptions. A customer located outside a municipality and requiring electric service with a connected load of 2,000 kWh or more may petition the MPUC for a determination that it is not in the public interest to take electric service from its assigned electric utility. When a municipality that owns and operates an electric utility extends its corporate boundaries through annexation and the annexed area is already receiving electric service from another electric utility, the municipality may reach agreement with the displaced utility on the terms of transfer, petition the MPUC to change the service territory boundaries, or acquire the facilities and service territory rights through condemnation. Under Minnesota statutes, each Member has the authority to acquire, construct, establish, enlarge, improve, maintain, own and operate those facilities necessary to serve electric power and energy within its assigned service area.

Outstanding Debt

For the outstanding electric or combined utility system revenue bonds of the Largest Members, see APPENDIX A hereto.

Members' Historical Power and Energy Requirements

The following table set forth below summarizes the growth in the aggregate power and energy requirements of the Members' electric systems during the period 2010 through 2014.

Members'
Historical Power and Energy Requirements from the Agency
Inlet to Member Systems

	Peak Demand (1)		Energy	
Year	(MW)	Percent Change	(MWh)	Percent Change
2010	516	5.1	2,823,926	3.2
2011	529	2.5	2,827,619	0.1
2012	519	(1.9)	2,822,105	(0.2)
2013	522	0.6	2,826,831	0.2
2014	506	(3.1)	2,809,219	(0.6)
Average Annual Compound Growth Rate: 2010-2014:		(0.5)		(0.1)

(1) The peak demand is the sum of the coincident peak demands for each of the Members during the month when the Agency's demand is higher than any other month of the year.

THE POWER SUPPLY SYSTEM

Power Supply Resources

Sherco 3. Sherco 3 is a coal-fired steam electric generating unit jointly developed and owned by NSP and the Agency, which was placed in commercial operation on November 1, 1987. Sherco 3 is located at the Sherburne County Generating Station in Sherburne County, Minnesota, in the city of Becker, Minnesota. The Agency's 41% share of the output of Sherco 3 is approximately 373 MW based on Sherco 3's tested net capability of 910 MW.

Sherco 3 commenced commercial operation on November 1, 1987. NSP owns the remaining 59 percent undivided ownership interest in Sherco 3 and is the construction and operating agent under the Ownership and Operating Agreement between the Agency and NSP. The Agency is obligated to pay 41 percent of the cost of improvements to and fixed operating costs for Sherco 3 and is entitled to 41 percent of the power and energy produced by Sherco 3. The Agency also pays 20% of the cost of improvements and fixed operating costs of certain other facilities, which are used jointly by Sherco 3 and two other generating units owned by NSP located on the same site as Sherco 3. Such percentage is subject to adjustment in the event of the addition of other generating units at the site or other major change to operations. Variable operating costs are generally allocated in accordance with the relative power and energy scheduled and taken by the respective owners.

On October 2, 2015 NSP, the co-owner of Sherco 3, made a filing in its currently pending integrated resource plan with the MPUC. In this plan NSP proposed, subject to all required approvals, the shutting down of Sherco 1 and 2, the two other coal-fired units located at the Sherburne County Generating Station, in 2026 and 2023, respectively. Due to the timing of the filing of the proposed plan, the Agency has had an opportunity to make only a preliminary analysis of the plan and the impact of the shutdown of Sherco 1 and 2 on the operations of Sherco 3 and the cost of power from Sherco 3. Based on its preliminary analysis, the Agency does not believe that the shutdown of Sherco 1 and 2 will have a material adverse impact on the operations of and cost of power from Sherco 3.

Sherco 3 operates based on an overhaul cycle of one major planned overhaul every three years. The most significant last planned overhaul occurred in the fall of 2011 and included a retrofit of the intermediate and high pressure turbine sections intended to increase net power output, without an increase in fuel consumption. In addition, a detailed inspection of the boiler was conducted in order to help identify the remaining useful life of various boiler sections. This information will be used to perform a life cycle analysis of the boiler and plan for future section replacements. A new step-up transformer was also installed to allow for the increased power output due to the new turbine sections. The old step-up transformer has been retained on site for back up purposes.

On November 19, 2011, Sherco 3 experienced a catastrophic failure as the unit was being returned to service following the planned overhaul. The event caused extensive damage to the turbine, generator, exciter and some associated plant systems. No injuries occurred, however two workers were treated for smoke inhalation from a fire associated with the incident.

The nearly two-year long restoration project has been completed and the unit returned to commercial operation in the fall of 2013.

Insurance has covered the vast majority of the costs for repairs.

While Sherco 3 was out of service, the Agency, working with its power marketing partner, TEA, was able to purchase replacement capacity and energy in the forward market and effectively hedge the potential market price exposure.

Subsequent to completion of the restoration project, the Agency joined NSP and certain of the insurance companies that covered the cost of the restoration in filing a lawsuit against General Electric ("GE") based on the findings of the root cause analysis of the turbine failure. The case is currently in the discovery phase and is scheduled for trial in late 2016.

In addition to the GE lawsuit, the insurance companies that provide business interruption insurance to Westmoreland Resources (the entity providing coal to Sherco 3 for both the Agency and NSP) issued a demand for arbitration to Western Fuels (the entity through which the Agency procures coal and rail service for Sherco 3), NSP and the Agency. Because Sherco 3 was out of operation for approximately two years, it was not burning coal and the Agency/Western Fuels and NSP ceased coal procurement from Westmoreland Resources during the restoration project. The insurers of Westmoreland Resources are seeking to collect from Western Fuels, NSP and the Agency the money it paid out to Westmoreland Resources during the Sherco outage. The parties are negotiating an agreement to toll the arbitration proceeding until completion of the GE lawsuit. The Agency does not expect the outcome of this litigation to have an impact on its finances.

While Sherco 3's equivalent availability and capacity factors have historically been at or above the national average for similar facilities, these factors have been significantly impacted by this extended outage. For the five-year period of 2010 through 2014, Sherco 3's equivalent availability factor, including unscheduled outages and the planned overhauls, was 54.3 percent with a net capacity factor of 42.3 percent. The national five-year averages for similar-sized coal plants for the period of 2010 through 2014 were 83.0 percent and 69.0 percent, respectively. The national five-year averages for all coal-fired plants for the period of 2010 through 2014 were 83.4 percent and 61.4 percent, respectively. Sherco 3's equivalent availability and net capacity factors were 87.37 percent and 64.7 percent, respectively, for the period January 1 through December 31, 2014.

The steam generator for Sherco 3 is fired with low sulfur, sub-bituminous coal. The Agency and NSP have agreed to provide independently for their respective coal and transportation requirements. The Agency has entered into a contract for the long-term supply of coal for Sherco 3 with Western Fuels. To provide this coal, Western Fuels has a coal purchase agreement with Westmoreland Resources that expires December 2017. The Agency delivers its portion of coal for Sherco 3 primarily with an Agency-owned unit train leased to Western Fuels, which schedules and maintains the required railroad cars. The Agency also uses a share of a Western Fuels leased "pool" train along with three other Western Fuels members. Western Fuels has a contract with Burlington Northern Santa Fe Railroad to provide the rail transportation for delivery of coal to Sherco 3 which will expire on December 31, 2017.

Pollution control equipment has been installed and is operated at Sherco 3 to control SO_2, NOx, mercury and particulate matter. These control systems consist of a dry scrubber, low NOx burners, a sorbent injection system and a bag house, which allow Sherco 3 to meet all existing environmental regulations that pertain to those pollutants.

See "FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Environmental Matters – *Prevention of Significant Deterioration*" for a discussion of an EPA Notice of Violation ("NOV") of the Clean Air Act relating to Sherburne County Generating Station (at which Sherco 3 is located).

The disposal of coal ash, or Coal Combustion Residuals ("CCR") from Sherco 3 is authorized under MPCA Permit No. SW-293. The existing fly ash disposal facilities consist of three adjoining solid waste landfill cells covering an area of 94 acres. These cells are lined with a composite liner system consisting of a geosynthetic clay liner overlain by a 60 mil high density polyethylene flexible membrane liner. A leachate collection system is constructed over the base liner designed to contain leachate within the lined area, preventing release to the underlying soil and groundwater. The leachate collection system consists of a permeable sand drainage layer, perforated collection pipes and central collection sumps with leachate pumps. The leachate is eventually pumped to the plant for use in plant operations and is not discharged to the environment. The existing three solid waste landfill cells contain enough capacity to dispose of CCR from Sherco 3 for approximately five to six more years. A new cell #4 which has been permitted and is slated for construction in the 2020 timeframe, will add an additional six to seven years of disposal capacity. Cell #5, which has not yet been permitted, will yield an additional 12 to 13 years of disposal capacity. The site facilities currently have space set aside for up to nine disposal cells. Bottom ash is disposed of separately from fly ash and is collected in temporary settling ponds jointly used by Sherco 1, 2 and 3. The majority of the bottom ash is put to beneficial use in the construction of berms and as road base on the plant site. Bottom ash that is not used is stored in the Sherco 1 and 2 storage ponds located on the plant site.

See "FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Environmental Matters" for a discussion of the impact of current and proposed environmental laws and regulations on Sherco 3.

Fairmont Energy Station. The Fairmont Energy Station, located near Fairmont, consists of four high efficiency, natural gas engines totaling 25 MW and two dual fuel (diesel/natural gas) engines totaling 12 MW. The four new engines went into commercial operation in 2014.

Power Purchase from Members. The Agency currently has Pass-through Capacity Purchase Agreements and Quick-Start Capacity Purchase Agreements in effect with certain of its Members totaling 142 MW of dedicated capacity available to the Agency. For a discussion of such agreements, see "THE AGENCY – Power Supply Operations – *Present Power Supply and Transmission Operations*" herein.

Power Purchases from Third Parties. In addition to the agreement with Wapsipinicon for the purchase of 100.5 MW of wind capacity described under the caption *"Wind Power Program"* below, the Agency has entered into two other power purchase agreements for capacity from third parties.

One agreement is with the Hutchinson, Minnesota Utilities Commission and runs from June 2015 through May 2020. This agreement provides the Agency with 30 MW of capacity initially and increases to 40 MW and gives the Agency the ability to schedule energy from this capacity when needed.

The second agreement is with NextEra Energy Resources for 30 MW of capacity from June 2013 through May 2018.

Wind Power Program. In 2001, the Minnesota Legislature established the REO and in 2007 the RES, both of which are applicable to the Agency. In effect, the REO and RES periodically increase the required portion of Agency power and energy derived from renewable resources. See "THE AGENCY – Minnesota Legislative Matters" and "– Power Supply Operations – *Present Power Supply and Transmission Operations*" herein.

In 2003, the Agency installed two 950 kW wind turbines which were interconnected to the City of Fairmont's distribution system. In late 2004 and early 2005 the Agency installed four 1,650 kW wind turbines, two interconnected to the City of Fairmont's distribution system and two more interconnected to the City of Redwood Falls' distribution system. In addition, the Agency has entered into a twenty-year power purchase agreement with EDF (expiring on February 20, 2029) to supply the Agency all the capacity and energy from a 100.5 MW wind farm located near Dexter, Minnesota. The average annual output from the wind farm is approximately 307,000 megawatt hours. The wind farm consists of 67 GE 1.5 MW turbines.

The Agency's portfolio approach to meet its Minnesota RES compliance also includes the Agency's 1.6 MW landfill gas generator located near Mora, Minnesota and the purchase of 520,000 RECs in late 2011. The Agency expects that, with the REC banking provisions of the Minnesota RES, the output from the EDF wind farm, combined with the energy from the Agency's other renewable resources, will allow the Agency to comply with the Minnesota RES through the end of 2020. The Agency continues to evaluate additional renewable energy options.

Additional Power Supply. The Agency is considering a variety of resources to meet its future power supply needs and diversify its resource base. The resources under consideration by the Agency include both traditional and renewable resource options, such as additional natural gas fired reciprocating engines, short-term and long-term power purchases, expansion of the wind power program through additional long-term contracts, and other renewable projects consistent with Minnesota's REO and RES requirements.

The Agency is currently in the process of acquiring and constructing the Owatonna Energy Station, a new spark-fired natural gas engine facility of approximately 38 MW to be located near Owatonna. In March 2015, the Board approved a resolution authorizing the Agency to move forward with the project, and the Members voted to approve the necessary financing for the project. The project is currently estimated to cost approximately $44 million and is projected to be in service in late 2017. The Agency has a contract in place with Caterpillar and has received the required air permit. Approximately $3.5 million of the Refunded CP Notes were issued to finance a portion of the Owatonna Energy Station.

The Agency's capital expenditures through 2020 are estimated in the "Capital Expenditures" table contained under the caption "INTRODUCTION – Future Financing" herein. Included in the capital expenditures for "Generation" is the estimated remaining $40.5 million expenditure for the Owatonna Energy Station.

In addition, the Agency is seeking to add the first solar facility to its resource mix. Under the direction of the Agency board and a solar working group consisting of board members, member representatives and Agency staff, the Agency issued a request for proposals for a 5 MW solar project to be in service by the end of 2016. The Agency plans to purchase the output of the project under a long-term contract. Contract negotiations are currently underway.

Transmission

General. The Agency's Members are located in the local balancing areas of the Agency, NSP, Great River Energy ("GRE") and Alliant Energy Services ("Alliant Energy"). The Members are connected to the electric transmission systems of the Agency, NSP, Dairyland, GRE, and ITC Midwest, a subsidy of ITC Holdings Corp ("ITC Midwest"), which purchased the transmission assets of Alliant Energy's Interstate Power and Light in December 2007.

Various transmission lines and associated substation investments have been made by the Agency at a cost of over $140 million (excluding CapX 2020 investments), financed primarily from the proceeds of Bonds.

The Agency entered into the STS Agreement with Dairyland in 1982. The agreement includes provisions for (i) certain initial payments and investments to compensate the owner of existing transmission facilities for the use of capacity in the existing system; (ii) providing sufficient transmission capacity to deliver the firm power and energy requirements of the utility's customers and the Agency's Members; (iii) formation of the coordinating committee to jointly plan facilities in the geographic areas where the Agency and the utility's service areas overlap; (iv) each utility to construct and own transmission facilities required to be added to the system in proportion to the respective load growth of each system; (v) certain requirements and remedies for maintaining balance of ownership of the transmission facilities included in the shared transmission system; (vi) annual adjustments to be applied to the investment responsibility of a party which is under-invested to recognize escalation in the costs of construction and transmission carrying charges for the use of the over-invested party's system by the under-invested party; (vii) a term of 50 years, after which it continues unless terminated with five years notice by either party; and (viii) operating the shared transmission system and metering of the electricity delivered by the shared transmission system. The

Agency and Dairyland are both participants in the CapX 2020 Hampton/La Crosse Line described below, and have agreed that, upon the successful completion and energization of the Hampton/La Crosse Line, both parties' obligations under the STS Agreement will be equalized. The Agency and Dairyland agree that, at that time, the STS Agreement and any future associated investment obligations will be frozen. Although the final segment of the Hampton/La Crosse Line will not be completed and energized until mid to late 2016, both parties agree that future STS Agreement funding obligations will be frozen at the end of 2015.

The remainder of the Agency's loads, not covered by the STS Agreement, are covered by MISO network service.

CapX 2020. In 2006, the Agency joined CapX 2020. Other participants in various aspects of the organization include Central Minnesota Municipal Power Agency, Dairyland, GRE, Minnesota Power, Minnesota Power Cooperative, Missouri River Energy Services, Otter Tail Power Company, Rochester Public Utilities, WPPI Energy and NSP. CapX 2020 was established in 2004 in order to assist in the development of transmission resources needed to promote future electric reliability for Minnesota and the surrounding region. Studies estimate that there could be between 4,000 to 6,000 MW of additional demand in Minnesota and parts of surrounding states by 2020. To accommodate this growth, the transmission "backbone" required major upgrades and expansion.

CapX 2020 received regulatory approval for and constructed three projects, totaling approximately 640 miles of 345 kV line in Minnesota, with short segments in North Dakota, South Dakota and Wisconsin, plus 43 miles of 161 kV lines in Minnesota. The aggregate cost of these facilities is approximately $1.9 billion.

These approved projects include the Hampton/La Crosse Line (previously referred to as the "SE-TC – Rochester La Crosse Transmission Project"). In March 2007, the Agency executed a Project Development Agreement with CapX 2020 and other participating utilities (the "Project Development Agreement") for the Hampton/La Crosse Line and executed the Project Agreements in December 2012. The Agency is participating with a 13% ownership share in the Hampton/La Crosse Line. Other project participants include NSP, Dairyland, Rochester Public Utilities and WPPI Energy. This approximately $500 million project includes 120 miles of 345 kV line that runs between a new substation in Hampton, Minnesota (Hampton substation) and a new substation north of Pine Island, Minnesota (North Rochester substation), and continues on to cross the Mississippi River near Alma, Wisconsin. A single circuit 345 kV line was built in Wisconsin to a new substation north of La Crosse, Wisconsin (Briggs Road substation). A new 161 kV line is being constructed between North Rochester substation and the existing Northern Hills substation in northwest Rochester, Minnesota. Also a new 161 kV line was constructed between North Rochester substation and the existing Chester substation in northeast Rochester, Minnesota.

Pursuant to the Project Agreements, NSP is identified as the development manager for this project, responsible for managing the permitting process, engineering, procurement and construction of the project facilities. Most of the Hampton/La Crosse Line has been constructed and some segments have been energized. The final segment of 345 kV line (Hampton – North Rochester) is scheduled to be completed and placed in service in 2016. The Agency's share of the Hampton/La Crosse Line is approximately $75 million.

MISO. The Agency transferred operational control of its transmission facilities to MISO on April 1, 2006, when the Agency became a MISO transmission-owning member. MISO oversees approximately 65,800 miles of interconnected, high-voltage transmission lines in approximately fifteen states and the Canadian province of Manitoba. The non-profit MISO provides industry consumers with unbiased regional grid management and open access to the transmission facilities under MISO's functional supervision. The goal of MISO is to optimize the efficiency of the interconnected system, provide regional solutions to regional planning needs, and minimize risks to reliability. Many utilities in the Upper Midwest have become transmission-owning utilities under MISO. These members have transferred the operational control of their transmission systems to MISO and are also under the MISO OATT.

The Agency also participates in the MISO Ancillary Services Market ("ASM"). The MISO ASM began on January 6, 2009. This market allows participants to offer various ancillary services into the marketplace in addition to their normal energy offerings. Generators can offer products such as regulation, spinning reserves, and supplemental reserves. MISO calculates the required amount of each product on a five-minute basis and then awards these bids to the lowest price generators. Given that MISO is now providing these ancillary services to the region, each individual balancing area, such as the Agency's, is no longer required to perform these functions for itself. Participation in the MISO ASM has resulted in savings for the Agency.

Beginning in 2013, MISO converted its monthly capacity market to an annual market. This new annual market, which covers capacity requirements beginning June 1 and ending May 31 of each planning year, requires MISO participants to offer their generating capacity into the auction and to purchase their capacity requirements from the auction. An entity can hedge the cost of capacity from the auction by holding sufficient capacity rights to meet its obligations prior to the auction and offering those rights into the auction at a price that ensures they will clear in the market. For the 2013-2014 and 2014-2015 planning years, the Agency held sufficient capacity rights to meet its capacity obligations through existing generating resources and bilateral contracts, and was able to hedge its exposure to potentially high market clearing prices.

Badger Coulee Project. The Badger Coulee Project is a planned 345 kV transmission line to be constructed in Wisconsin by Northern States Power Company, Wisconsin, and American Transmission Company LLC. The line will run from the Briggs Road substation near La Crosse, Wisconsin to North Madison substation near Madison, Wisconsin. By virtue of its ownership in the CapX 2020 Hampton/La Crosse project, the Agency was afforded an opportunity to invest in the Badger Coulee Project. In order to own utility facilities in Wisconsin, an entity must be a Wisconsin utility, as determined by the Public Service Commission of Wisconsin. The Agency formed SMMPA Wisconsin LLC in order to acquire an undivided 6.5% ownership interest in the Badger Coulee Project. The Agency is participating in the Badger Coulee Project through SMMPA Wisconsin LLC in order to derive benefits from owning a share of a multi-value project in the MISO market. Multi-value projects are determined through the MISO transmission planning process to provide broad value to the entire MISO region and therefore the costs are recovered from all entities in MISO. Revenues derived by the Agency from its Badger Coulee Project ownership will help offset costs from other multi-value projects that will be partially borne by the Agency and its Members. The Agency has been in discussions with Rochester and Austin regarding continued participation in the BC Project Interest by these two Members after the expiration of their Power Sales Contracts with the Agency in 2030. As a result, the Agency has decided to finance its rights to entitlement and other benefits from the BC Project Interest on a "project" basis and not under the Resolution. The Agency adopted the Badger Coulee Project Bond Resolution on August 12, 2015 (the "BC Project Resolution"). Financing for the Agency's rights to entitlement in the BC Project Interest is expected to be secured under the BC Project Resolution. Rochester and Austin are expected to enter into project agreements prior to the incurrence of any long-term debt for the Agency's entitlement to the BC Project Interest. The project agreements will set forth the entitlement to and obligations relating to the BC Project Interest of each of Rochester and Austin after the expiration of each of their Power Sales Contracts in 2030. It is expected that interim financing will initially be obtained pursuant to an agreement between the Agency and U.S. Bank National Association relating to financing the Agency's 100% cost and entitlement share to rights and other benefits from the BC Project Interest. Payments to the bank under the bank agreement are expected to be secured under the BC Project Resolution. Upon the expiration of the bank agreement, the Agency expects to issue long-term bonds under the BC Project Resolution. Until the 2030 expiration dates of the Rochester and Austin Power Sales Contracts, the Members (including Rochester and Austin) will obtain benefits from the Agency's entitlement to the BC Project Interest under the Power Sales Contracts. After 2030, the project agreements entered into by Rochester and Austin will govern each of Rochester's and Austin's benefits from and obligations relating to their respective entitlements to the BC Project Interest. The Agency's payments with respect to costs of BC Project Interest will be payable under the Resolution as Operation and Maintenance Expenses of the System which will be payable prior to payment of Debt Service on the Bonds. The Agency has authorized the issuance under the BC Project Resolution of up to $32.5 million of project debt for the acquisition by the Agency of the BC Project Interest. It is expected that the Badger Coulee Project will be completed by 2018.

NERC. The initial set of mandatory reliability standards became enforceable by NERC in June 2007. As an owner and operator of generation and transmission facilities, the Agency is subject to certain of the NERC reliability standards. The Agency expects that as greater emphasis is placed on securing electrical grid infrastructure, these standards will become stricter and more numerous over time. The financial impact of mandatory compliance with such standards cannot currently be determined. If mandatory reliability standards are increased in the future, a substantial effect on the Agency's operations and financial cash flows could result. In addition, failure to comply with the reliability standards could result in the imposition of fines and penalties.

NERC and its regional entities, such as Midwest Reliability Organization ("MRO"), periodically audit compliance with reliability standards. The Agency was audited by the MRO in February 2015 and there were no findings of violations or potential violations.

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Projected Loads and Resources

The following table sets forth a comparison of the Agency's total projected power requirements associated with its obligations under the Power Sales Contracts and the Agency's existing and projected power supply resources available to meet such requirements as described above.

Southern Minnesota Municipal Power Agency
Projected Loads and Resources: 2015-2020
(Megawatts at Time of Summer Peak Load)

	Agency Controlled Resources					Agency Requirements			
Year	Agency Resources(1)	Member Capacity(2)	Purchased Capacity(3)	DSM(4)	Total	Member Demand(5)	Reserves(6)	Total Requirements	Surplus or (Deficiency)
2015	403	148	77	26	654	567	40	607	47
2016	403	148	82	26	659	571	40	611	48
2017	408	148	103	27	686	573	40	613	73
2018	441	148	57	27	673	577	40	617	56
2019	441	148	57	28	674	580	40	620	54
2020	441	148	17	30	636	582	40	622	14

(1) Agency resources include current MISO Unforced Capacity ("UCAP") ratings for Sherco 3, a landfill gas unit, and the Fairmont Energy Center, and Agency-owned wind generators.

(2) Member capacity includes MISO UCAP ratings for dedicated and planned Member generation available under Capacity Purchase Agreements and Quick-Start Capacity and Energy Purchase Agreements with Members including a combustion turbine, and diesel and dual-fuel reciprocating engine generating units. Member capacity also includes WAPA allocations for Fairmont, Litchfield, and Redwood Falls. See "THE AGENCY – Power Supply Operations – *Present Power Supply and Transmission Operations*" herein.

(3) Purchased capacity represents two, five-year capacity purchases and capacity accreditation for contracted wind and biomass units.

(4) Represent projected incremental additions in Agency demand side management activities.

(5) Projected power requirements of Members from the Agency (taking into account existing demand side management resources) expressed in coincident peak demand at the inlet to Member systems, plus transmission losses. Member demand also includes load served by WAPA allocations for Fairmont, Litchfield, and Redwood Falls.

(6) Reserve requirements of 7.3 percent of Member demand.

On November 27, 2013, the Agency filed its seventh IRP with MPUC. Included in the plan are descriptions of the Agency's efforts under Minnesota law relating to REO and RES requirements. See "THE AGENCY – Minnesota Legislative Matters" herein. See also, "THE AGENCY – Power Supply Operations – *Present Power Supply and Transmission Operations*" herein. The IRP identifies the anticipated power supply and delivery needs of the Members' retail municipal electric customers for the 2014 through 2028 time period. The IRP details action items implemented as a result of the Agency's previous resource plan filings and specific action items that the Agency intends to complete within the first five years of the planning period. The IRP also outlines potential resources that might be used for years six through fifteen of the planning horizon.

Results from the filed IRP indicated a deficit in the summer of 2015. However, the first new conventional resource would not needed until 2020. The plan assumed minor deficits from 2015 through 2019 would be filled with DSM activities and capacity purchases. Ultimately the Agency plans that a majority of the new resource need will be met with the new 38 MW Owatonna Energy Station. This new generation is being installed early (in late 2017) to ensure preservation of existing transmission rights to deliver the output. To meet the remaining portion of its future needs, the Agency will consider both traditional and renewable resource options, such as bi-lateral and market power purchases, possible ownership in gas-fired resources (such as combined cycle and reciprocating engines), expansion of the wind power program, and other renewable projects, including solar, consistent with Minnesota's REO and RES requirements.

See "INTRODUCTION – Future Financing" herein and "THE POWER SUPPLY SYSTEM – Power Supply Resources – *Additional Power Supply*" herein for a discussion of the Agency's future projects and capital expenditures and how the Agency anticipates paying such costs.

Since 1991, the Agency and the Members have focused attention on Demand Side Management ("DSM") as an important component of the Agency's resource base. The three major components of the DSM program consist of Member Direct Load Control ("DLC") systems, Energy Management ("EM") programs and other Member curtailments. The Member DLC system is used to cycle customer equipment (primarily central air-conditioners and electric water heaters) at the time of peak demand to reduce Member and system demand. The EM program operates as an interruptible program with Member retail customer load. Participating customers designate equipment to be curtailed during interruptible periods and establish a firm service level that they will not exceed. Program participants employ a mixture of curtailing loads and/or using backup or emergency generation to meet their firm service level. Curtailment periods are dispatched by the Agency. The EM program provides the Agency with an additional resource to help ensure, in the event that the Agency would face extreme weather, the Agency can continue to meet its planning and operating reserve requirements. Four Members, Austin, New Prague, Owatonna and Rochester operate their own EM program for their respective utilities. The Members have several resources that the Agency considers and treats as curtailment to load. These resources fall into three categories: (1) WAPA allocations to Members, (2) retail customer-owned distributed generation and (3) Member-owned hydroelectric plants. The Agency works with the Members to ensure that these curtailable resources are dispatched in a cost-effective manner to benefit both the Members and the Agency.

NORTHERN STATES POWER COMPANY

The Agency and NSP own undivided ownership interests in Sherco 3 equal to 41 percent and 59 percent, respectively (subject to some variation in the case of certain common facilities at the plant site). See APPENDIX E for a brief description of the Sherco 3 Agreement, including provisions dealing with NSP's role as project manager, procedures to replace the Project manager and other remedies for default.

Xcel and NSP, a wholly-owned subsidiary of Xcel, are subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith file reports and other information with the Securities and Exchange Commission. In addition, Xcel, as a public utility holding company under the Public Utility Holding Company Act of 2005, is subject to regulation by, and is required to file reports and information with, FERC. NSP is subject to regulation by, and is required to file reports and information with, FERC, the MPUC, the Public Service Commission of North Dakota and the Public Utilities Commission of South Dakota.

Neither Xcel nor NSP is an obligor with respect to the 2015 A Bonds.

FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

General

Many external factors affect the financial condition of electric utilities such as the Agency and the Members. These factors include, among others, changing fuel costs, changing transportation costs, increasing competition, related regulatory changes, changing construction requirements for new generation and transmission facilities, and changing policies and regulations concerning GHG emissions and energy independence. Public power utilities also are affected by factors related to their ability to issue tax-exempt obligations and by restrictions on the ability to sell, to non-governmental entities, electricity from generation facilities that are financed with outstanding tax-exempt debt. It is impossible to predict the impacts that these factors will have over time on the Agency and the Members. The competitive position of the Agency and the Members could be adversely affected by changes in the law and uncertainties regarding legal requirements, including environmental laws or regulations, and the adoption of federal or state legislation or regulations to restructure the electric utility industry nationally or in Minnesota. The Agency and the Members also could be adversely affected by technological or market developments that change the relative costs of electric power and energy provided by the Agency to the Members in comparison with the costs of other utilities in Minnesota.

The following is a brief discussion of certain recent regulatory developments. This discussion does not purport to be comprehensive or definitive. These matters are subject to change subsequent to the date hereof.

Environmental Matters

The operations of electric utilities, including the Agency's operations and the operations of the electric utility systems of the Members, are subject to environmental regulation. Federal, state and local environmental standards and procedures that regulate Sherco 3 and other forms of generation and transmission facilities used by the Agency are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. The Agency cannot predict at this time whether any additional legislation or rules will be enacted at the state or federal level that will affect the Agency's operations or the operations of the Members, and if such rules or laws are enacted, what the cost of such actions to the Agency or the Members might be in the future. Consequently, there is no assurance that the units in operation or contemplated herein will remain subject to the regulations currently in effect, will always be in compliance with future regulations or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in reduced operating levels, higher operating costs or the complete shutdown of individual non-compliant electric generating units.

Additionally, when changes or projects at an Agency facility need regulatory approvals, the timeline for obtaining such approvals is uncertain, and there may be additional or more stringent requirements for the final approvals than were originally anticipated. This can result in higher capital or operating costs for a project, and additional costs due to delays in implementation. It is also possible that approval for a particular project could be denied, or that conditions placed on a project's approval could cause the Agency to reconsider its decision to proceed with such project.

Acid Deposition, Clean Air Act Title IV. Title IV of the Federal Clean Air Act (the "Clean Air Act") contains provisions for allocating emission allowances to power plants based on historical or calculated levels. An allowance is defined as the authorization to emit one ton of SO_2. The Agency has an ownership interest in Sherco 3 (the "Affected Unit"), which is subject to Title IV restrictions. The EPA has issued rules allocating SO_2 allowances to Affected Units.

Based on analyses of future SO_2 emissions from the power supply system and the allowances allocated by the EPA with respect to the Affected Units, the Agency believes that it has received sufficient allowances for the operation of Sherco 3, at projected capacity factors well into the future. The Agency believes that there will not be significant future operating or maintenance expenses or additional capital expenditures for any pollution control equipment required to meet the SO_2 allowance provisions of Title IV.

Also under Title IV, the EPA developed annual NOx emission standards for all coal-fired units based on low NOx burner technology. As with the SO_2 control programs, compliance was to be achieved in two stages: Phase I and Phase II. The Agency neither owns nor has under contract any Phase I units. The Agency has an ownership interest in one Phase II unit, Sherco 3. Sherco 3 is currently meeting the Phase II NOx requirements.

Cross-State Air Pollution Rule. On July 6, 2011, the EPA promulgated the Cross-State Air Pollution Rule ("CSAPR"), which imposed federal requirements on air pollution emissions that cross state lines. CSAPR was intended to reduce power plant emissions that contribute to ozone and fine particle pollution. CSAPR requires a total of 28 states to reduce SO_2 and NOx emissions to assist in attaining clean air standards. The EPA issued a supplemental rulemaking on December 15, 2011 to require certain states to reduce summertime NOx emissions under CSAPR. After a series of legal challenges, CSAPR became effective January 1, 2015. Sherco 3 is subject to the SO_2 and NOx emissions limits, but is not subject to the summertime NOx rules. The Agency and NSP hold sufficient emission allowances to address emissions at Sherco 3 with existing control equipment and without significant future operating or maintenance expenses. On July 28, 2015, EPA issued a final Notice of Data Availability, detailing 2015 allowance allocations for new units under Phase 1 of the regulations; no allowances were granted to Minnesota during the Phase 1 period. The EPA has not yet announced allowances for units under Phase 2 of the program.

Mercury and Air Toxics. In December 2011, EPA finalized its Mercury and Air Toxics Standards ("MATS"), which established maximum achievable control technology limits for certain hazardous air pollutants at coal and oil-fired electric generating units. For coal units, the rule set stringent emission limits to control various hazardous air pollutants such as mercury, non-mercury metals and acid gases, and specified work practice standards to control organics and dioxins. Affected generating units had until April 16, 2015 to comply, unless they obtained extensions. After industry challenged the MATS rule, the U.S. Court of Appeals for the District of Columbia upheld it in April 2014. However, on June 29, 2015, the Supreme Court overturned the D.C. Circuit's decision, finding that the EPA failed to properly consider costs when promulgating the rule, and remanding the case to the D.C. Circuit and EPA for further proceedings. The results of this remand on the implementation of the MATS program is unclear, but the remand could result in a new or modified final rule.

In 2006, the Minnesota Legislature enacted the Mercury Emissions Reduction Act that calls for an up to 90 percent reduction by December 31, 2009 for the first unit and December 31, 2010 for the second unit of mercury emissions from certain dry scrubbed units owned by investor-owned utilities. In 2007, Xcel filed with the MPUC a mercury reduction plan for Sherco 3 pursuant to Minn. Stat. §216B.682 of the Mercury Emissions Reduction Act. Under the plan, Xcel installed in

2009 a sorbent injection system to remove approximately 81–90 percent of the mercury, when measured on a fuel input basis. The Agency's share of the operation and maintenance costs of this system is negligible. The Agency believes that the existing mercury reduction system, scrubber technology, and baghouse should favorably position Sherco 3 relative to future EPA mercury, acid gas, and non-mercury metals standards, including a new MATS rule after the D.C. Circuit Court of Appeals and EPA act on the remand.

National Ambient Air Quality Standards (NAAQS) . The Clean Air Act requires the EPA to set National Ambient Air Quality Standards (NAAQS) for six common air pollutants: particulate matter, ground-level ozone, carbon monoxide, sulfur dioxide, nitrogen dioxide and lead. Many of the NAAQS have recently been revised or are in the process of being revised to be more stringent. For example, in December 2014 EPA proposed more stringent standards for the ozone NAAQS. Recently, EPA has also adopted new fine particulate matter NAAQS and is in the process of implementing the 2010 sulfur dioxide NAAQS. More stringent NAAQS, such as this proposed ozone NAAQS or the fine particulate matter NAAQS, could cause certain areas in the Minnesota or surrounding states to be reclassified as "nonattainment," possibly requiring additional emissions reductions from Agency facilities, like Sherco 3, to bring those areas into "attainment." The costs and impacts of any additional pollution control equipment that could be required due to new or revised NAAQS cannot be determined at this time.

Prevention of Significant Deterioration ("PSD"). The Clean Air Act requires persons constructing new major air pollution sources or implementing significant modifications to existing air pollution sources to obtain a permit prior to such construction or modifications. Significant modifications include operational changes that increase the emissions expected from an air pollution source above specified thresholds. In order to obtain a permit for these purposes, the owner or operator of the affected facility must undergo "new source review," which requires the identification and implementation of Best Available Control Technology ("BACT") for all regulated air pollutants and an analysis of the ambient air quality impacts of a facility. EPA has periodically announced specific enforcement programs targeting electric utilities on the basis that equipment replacement and other plant refurbishments made to coal-fired power plants occurred without completing a required new source review under the PSD program. Under Section 114 of the Clean Air Act, the EPA has the authority to request from any person who owns or operates an emission source, information and records about operation, maintenance, emissions, and other data relating to such source for the purpose of developing regulatory programs, determining if a violation occurred (such as the failure to undergo new source review), or carrying out other statutory responsibilities.

On June 14, 2011, the EPA issued a NOV to Xcel and NSP, alleging violations of the Clean Air Act at the Sherburne County Generating Station and at another generating station owned by Xcel. As to Sherco 3, the NOV alleges that a project undertaken at the unit in the mid-2000s required a permit under the New Source Review ("NSR") process. NSP reported that it believes it has acted in full compliance with the Clean Air Act and NSR process. NSP also reported that it believes that the projects identified in the NOV fit within the routine maintenance, repair and replacement exemption contained within the NSR regulations or are otherwise not subject to the NSR requirements. NSP further reported that it disagrees with the assertions contained in the NOV and will vigorously defend its position.

The Agency attended a meeting between NSP and the EPA in August 2011, at which NSP stated and defended its position in relation to the Sherco 3 allegation. The Agency is not aware of additional contact with or communication from the EPA on this matter since that meeting. The current status of this matter is unclear and the potential impact on Sherco 3 has not yet been determined.

Regional Haze. The regional haze program is designed to address widespread haze that results from emissions from a multitude of sources. EPA's regional haze rule requires the development of plans for imposing emissions reductions on sources in the state to improve visibility in national parks and wilderness areas, including upon electric generating units. The State of Minnesota developed a State Implementation Plan effective until 2018 that is intended to reduce emissions of particulate matter, SO_2 and NOx to reduce haze. Although Minnesota's plan did not require additional control equipment at Sherco 3, EPA's approval is the subject of an appeal pending before the 8th Circuit Court of Appeals. If the court were to reverse EPA's approval of Minnesota's plan, EPA would need to re-evaluate Minnesota's plan and that might result in a revised SIP amendment. Future implementation plans or plan revisions may apply directly to Sherco 3 and may adversely affect output or increase their capital or operating costs in order to achieve or maintain compliance. However, any potentially required upgrades or costs cannot be determined at this time.

Reasonably Attributable Visibility Impairment (RAVI). The RAVI rules are intended to address observable impairment from a specific source such as a distinct, identifiable plume from a source's stack to a national park. In December 2012 environmental groups sued the EPA to try to force the EPA to require NSP to install Best Available Retrofit Technology ("BART") at Sherco 1 and 2 using the RAVI rules. The case was settled in 2015 without NSP having to install additional emissions control equipment, in part, by NSP and the Agency agreeing to accept a reduction in the emission limit for SO2 emissions for Sherco 3 that would be achieved by implementing changes in the operation of the Sherco 3 scrubber. Implementation of the settlement requires a rulemaking to be completed by EPA, which introduces uncertainty as to the timing and final contents of a final rule.

Climate Change. The EPA regulates greenhouse gas emissions as "air pollutants" under the Clean Air Act. Under current regulations, major stationary sources and sources that undergo major modifications must complete New Source Review, which requires those sources to obtain pre-construction permits and implement BACT or lowest achievable emission rates. Permits issued under NSR, in certain circumstances, may impose greenhouse gas emissions standards and control or mitigation requirements. These regulations could affect the ability to add new capacity or implement major modifications of fossil fuel-fired facilities.

On August 3, 2015, the EPA released final regulations, the Clean Power Plan, which set a schedule under which states are required to submit plans to reduce greenhouse gas emissions from existing fossil fuel-fired power plants. The rules are effective 60 days after publication in the Federal Register, which has not yet occurred. The aggregate emissions reduction goals are 32 percent from their 2005 levels by 2030, with incremental interim goals for the years from 2022 through 2029. Under the rule, each state is required to develop plans to reduce state-wide carbon dioxide emissions to meet a specified average emissions target set by EPA. The plans implemented in states where purchasers of electricity are located may impose restrictions upon sources of that electricity, resulting in reductions in the demand for electricity from more carbon-intense energy sources.

The Minnesota Pollution Control Agency began stakeholder group meetings in February of 2015 to begin the process of developing a SIP with the goal of having it prepared for potential submission to the EPA in the summer of 2016. The final rule allows states to make an initial filing in September 2016 and request an extension to file the final state SIP until September 2018.

The Clean Power Plan is one of the most complex and wide ranging regulations ever promulgated by EPA under the Clean Air Act, and is based upon limited statutory authorization. It is anticipated that additional litigation will commence after the EPA publishes the rule. The outcome of any subsequent challenges cannot be determined at this time; however, it could have a material impact on operations, including increased operating costs, additional investment in new generation (natural gas and renewables), investment in energy efficiency programs and decreased operation, or closure of coal-fired plants.

Additional regulatory restrictions on the use of coal or emissions of greenhouse gases are foreseeable, either under current legislative authority, or as a result of future federal or state legislation, judicial determinations or international agreements. The Agency's electricity generating operations could be materially affected by such regulations. The impact to operations will depend on the development and implementation of applicable regulations and available technologies and cannot be determined at this time.

Clean Water Act. The federal Clean Water Act regulates the discharge of wastewater and storm water through the National Pollutant Discharge Elimination System ("NPDES") program. The NPDES permit program covers facility-specific storm water and wastewater discharge streams, construction storm water, aquatic life protection and water body impairments. The federal and state water quality regulations require owners and operators of facilities to implement certain best management practices and treatment technologies to meet discharge limits and protect existing water sources for drinking, recreation, agriculture and industrial use. These regulations require continual evaluation, including monitoring and sampling of discharge and background water quality, to ensure protection of water sources for existing and proposed facilities or projects. Additional pollution control or mitigation requirements may be imposed by the regulating authority for waters deemed by the state not to meet the water quality standards applicable to designated uses.

Section 316(b) of the Clean Water Act requires the EPA to ensure that the location, design, construction and capacity of cooling water intake structures for power plants reflect the best technology available to protect aquatic organisms from being killed or injured by impingement or entrainment. In May 2014, the EPA issued final regulations establishing standards for cooling water intake structures at existing large generating facilities. The rule provided several compliance alternatives for existing plants such as using existing technologies, adding fish protection systems or using restoration measures. Sherco 3 is the only Agency facility to which these regulations applies. NSP, as the operating agent of Sherco 3, is required to submit general information about the existing intake system design and characterization of the water source (the Mississippi River), but because Sherco 3 uses a closed-cycle cooling system, no additional improvements or upgrades are anticipated as a result of these regulations.

In addition to the Clean Water Act, the federal Oil Pollution Act ("OPA") imposes clean-up liability for release of oil or petroleum to surface waters and requires the implementation of pollution prevention and response strategies. Compliance with OPA requires facilities to implement a spill prevention, control and countermeasure program. The Agency has spill prevention plans in place for all substation and generation sites where such plan is required and has contracted with an entity specializing in clean up, countermeasures and reporting to address any spills that may occur.

Other Environmental Matters.

The Comprehensive Environmental Response, Compensation and Liability Act. The Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA" or "Superfund"), requires cleanup of sites from which there has been a release or threatened release of hazardous substances and authorizes the EPA to take any necessary response action at Superfund sites, including ordering potentially responsible parties ("PRPs") liable for the release to take or pay for such actions. PRPs are broadly defined under CERCLA to include past and present owners and operators of, as well as generators of wastes sent to, a site. Past releases at the Agency's facilities or at off-site locations may result in liability for cleanup or removal of hazardous substances at these locations. As a result, the Agency may incur substantial, but presently unknown, costs as a participant in the cleanup of such sites.

Coal Ash. Sherco 3, in which the Agency owns an undivided ownership interest, produces coal ash waste that requires disposal. For a discussion of the disposal of coal ash at Sherco 3, see "THE POWER SUPPLY SYSTEM – Power Supply Resources – *Sherco 3*" herein.

On April 17, 2015, the EPA published final regulations governing the disposal of coal combustion residuals ("CCRs"), which regulated CCRs as ordinary solid waste, and not as regulated "hazardous waste." The rule establishes technical requirements for the construction and management of impoundments for CCRs, including requirements for liners under any expansion or extension of a coal ash repository. The rule requires monitoring of groundwater, and could trigger requirements for response actions in the event that CCR constituents are found to have migrated to soil or groundwater from a CCR repository. The CCR requirements will affect future expansions or modifications of our coal ash repositories, and may require action with respect to current facilities if releases to soil or groundwater are detected. The total impact of the rule cannot be determined at this time; it could, however, have a material impact on operations, including increased operating costs.

FERC Transmission Initiatives

In 1996, FERC issued two significant rules on transmission access. Order No. 888 requires all FERC-jurisdictional transmitting utilities to provide all transmission service on a non-discriminatory basis. Order No. 889 established rules of conduct for FERC-jurisdictional transmitting utilities, including a requirement that these utilities separate transmission functions from other functions. Since 1996, FERC has continued to refine its rules on transmission access and rules of conduct.

In 1999, FERC issued Order No. 2000, which encourages all FERC-jurisdictional transmitting utilities – as well as municipal utilities, electric cooperatives and other public power entities – to join regional transmission organizations ("RTOs"). Order No. 2000 establishes minimum characteristics and functions for RTOs, while preserving flexibility with respect to structure, operations, geographic scope, and transmission rates. MISO has been approved by FERC as an RTO, and the Agency has joined MISO as a transmission-owning member. See "THE POWER SUPPLY SYSTEM – Transmission" herein.

In 2007, FERC issued Order No. 890, which requires transmission planning on a region-wide basis. Non-jurisdictional utilities may be compelled to participate. The Agency participates through MISO. In 2008, FERC approved a plan that encourages coordinated generation planning for MISO, by enabling MISO to establish reserve requirements and for requiring utilities that fail to meet reserve requirements for a month to purchase reserves from other utilities.

Energy Policy Act of 2005

The 2005 Act repealed the Public Utility Holding Company Act of 1935 ("PUHCA 1935"), which established registration requirements for multi-state utility holding companies. While repealing PUHCA 1935, the 2005 Act (1) authorized FERC and state commissions to oversee the books and records of companies with a holding company system that includes a utility, and (2) authorized FERC to oversee inter-company transactions in a holding company system that includes a utility. These authorizations are known as "PUHCA 2005." The Agency does not operate as a holding company system and therefore is not subject to PUHCA 2005.

The 2005 Act requires the creation of an electric reliability organization that has authority to establish and enforce mandatory reliability standards on a nation-wide basis. The electric reliability organization is subject to FERC's oversight. FERC has approved the NERC as the electric reliability organization and has approved nation-wide reliability standards. FERC has also approved NERC's delegation of certain functions to regional reliability organizations, including the MRO. The standards that are administered by NERC and the MRO apply to all users, owners and operators of the bulk power system, including the Agency.

The 2005 Act requires the Department of Energy to designate national interest electric transmission corridors, where constraints or congestion adversely affect consumers. FERC may authorize the siting of transmission facilities within those corridors if the states have failed to act. The courts held that FERC may not act when a state, rather than failing to act, has denied an application for siting. It is anticipated that FERC will continue to assert broad authority to authorize the siting of transmission facilities and that Congress might act expressly to expand FERC's authority.

The 2005 Act requires price transparency and prohibits market manipulation for all wholesale markets. The requirements apply to all entities that participate in those markets, including the Agency.

New and Emerging Generation Technologies

There are a number of emerging generation and storage technologies on the electric utility horizon. These technologies provide both challenges and opportunities for the utility industry and consumers. While the penetration of smaller distributed resources (small wind, solar, storage) within the Members' retail service territories are relatively low, interest among consumers and communities is growing. The Agency is monitoring developments in these technologies and in their deployment in other parts of the country where penetrations levels are higher. The Agency has an internal strategic planning group that tracks and evaluates renewable and emerging technologies. In addition, the Agency has formed a solar working group made up of Board members, Member Representatives and Staff to identify and evaluate specific solar opportunities that may meet Member and Agency strategies and goals.

UNDERWRITING

Morgan Stanley & Co. LLC, U.S. Bancorp Investments, Inc., Dougherty & Company LLC and Goldman, Sachs and Co. (collectively, the "Underwriters") have jointly and severally agreed, subject to certain conditions, to purchase the 2015 A Bonds at an aggregate underwriting discount of $443,666.55 from the initial public offering prices or yields set forth on the inside cover page of this Official Statement. The Bond Purchase Agreement provides that the Underwriters will purchase all of the 2015 A Bonds if any are purchased. The public offering prices may be changed, from time to time, by the Underwriters.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC., an underwriter of the 2015 A Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2015 A Bonds.

"US Bancorp" is the marketing name of U.S. Bancorp and its subsidiaries including U.S. Bancorp Investments, Inc., which is serving as an Underwriter for the 2015 A Bonds.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the Agency and to persons and entities with relationships with the Agency, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the Agency (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the Agency. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

LITIGATION

There is no litigation pending or, to the knowledge of the Agency, threatened in any court to restrain or enjoin the issuance or delivery of any of the 2015 A Bonds or the collection of revenues pledged or to be pledged to pay the principal of and premium, if any, and interest on the 2015 A Bonds or in any way contesting or affecting the validity of the 2015 A Bonds or the Resolution or the power to collect and pledge the revenues to pay the 2015 A Bonds or contesting the powers or authority of the Agency to issue the 2015 A Bonds or adopt the Resolution.

There is no litigation pending, nor, to the knowledge of the Agency, threatened in any court which, if determined unfavorably to the Agency would, in the opinion of the Agency, materially adversely affect the financial condition of the Agency.

LEGALITY FOR INVESTMENT

Pursuant to the provisions of the Act, the 2015 A Bonds are securities in which the State of Minnesota and all its public officers, governmental units, agencies and instrumentalities, all banks, trust companies, savings banks and institutions, savings associations, investment companies, and other persons carrying on a banking business, all insurance companies, insurance associations, and other persons carrying on an insurance business, and all executors, administrators, guardians, trustees and other fiduciaries may legally invest any funds belonging to them or within their control, and the 2015 A Bonds are authorized security for any and all public deposits.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2015 A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the 2015 A Bonds is not a specific preference item for purposes of the federal or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the 2015 A Bonds is excluded from taxable net income of individuals, estates and trusts for Minnesota income tax purposes, but is included in net income for purposes of the Minnesota franchise tax imposed on corporations and financial institutions. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX G hereto.

2015 A Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2015 A Bonds. The Agency has made certain representations and has covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2015 A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2015 A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2015 A Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) or other matters coming to Bond Counsel's attention after the date of issuance of the 2015 A Bonds may adversely affect the value of, or the tax status of interest on, the 2015 A Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the 2015 A Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the 2015 A Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2015 A Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. For example, the Obama Administration's budget proposals in recent years have proposed legislation that would limit the exclusion from gross income of interest on the 2015 A Bonds to some extent for high-income individuals. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the 2015 A Bonds. Prospective purchasers of the 2015 A Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2015 A Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Agency, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Agency has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the 2015 A Bonds ends with the issuance of the 2015 A Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Agency or the Beneficial Owners regarding the tax-exempt status of the 2015 A Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Agency and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Agency legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2015 A Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2015 A Bonds, and may cause the Agency or the Beneficial Owners to incur significant expense.

APPROVAL OF LEGAL PROCEEDINGS

All of the legal proceedings in connection with the authorization and issuance of the 2015 A Bonds are subject to the approval of Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel. Certain legal matters in connection with the 2015 A Bonds will be passed upon by Dorsey & Whitney LLP, Minneapolis, Minnesota, counsel to the Agency, and McGrann Shea Carnival Straughn & Lamb, Chartered, Minneapolis, Minnesota, counsel to the Underwriters. Bond Counsel and Dorsey & Whitney LLP undertake no responsibility for the accuracy, completeness or fairness of this Official Statement. Dorsey & Whitney LLP has represented, represents and may, in the future, represent the Underwriters and the Trustee on matters unrelated to the 2015 A Bonds.

Counsel to the Underwriters has represented, and continues to represent, the Agency before the Minnesota Legislature and certain State offices, and has represented and continues to represent certain of the Members, on matters not related to the issuance or offering of the 2015 A Bonds.

RATINGS

Moody's, S&P and Fitch Ratings have assigned ratings of "A1," "A+" and "A+" respectively, to the 2015 A Bonds.

The respective ratings by Moody's, S&P and Fitch Ratings of the 2015 A Bonds reflect only the views of such organizations and any desired explanation of the significance of such ratings and any outlooks or other statements given by the rating agencies with respect thereto should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, 7 World Trade Center at 7 World Trade Center at 250 Greenwich Street, New York, New York 10007, Standard & Poor's, 55 Water Street, New York, New York 10041 and Fitch Ratings, One State Street Plaza, New York New York 10004. Generally, a rating agency bases its rating and outlook (if any) on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings will be in effect for any given period of time or that they will not be revised upward or downward or withdrawn entirely by such rating agencies if, in the judgment of such agencies, circumstances so warrant. Any such downward revision or withdrawal of any ratings may have an adverse effect on the market price of the 2015 A Bonds.

MISCELLANEOUS

The descriptions included in this Official Statement of the 2015 A Bonds, the Power Sales Contracts, the Sherco 3 Agreement and the Resolution do not purport to be complete and are qualified in their entirety by reference to each such document, copies of which may be obtained from the Agency at the address printed on the inside front cover hereof and from its Financial Advisor, Public Financial Management, 11540 North Community House Road, Suite 250, Charlotte, North Carolina 28277 (telephone (704) 541-8339), Attention: Michael Mace.

The information contained in this Official Statement has been compiled or prepared from information obtained from the Agency, NSP and the Members and other sources deemed to be reliable and, while not guaranteed as to completeness or accuracy, is believed to be correct as of this date. Any statements involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. The execution and delivery of this Official Statement have been duly authorized by the Agency.

SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY

By /s/ David P. Geschwind
Executive Director & CEO

THE LARGEST MEMBERS

The Largest Members' Statistical and Financial Information

The statistical information presented in Table 1 was prepared on the basis of information submitted by the Largest Members to the Agency. The selected statistics of the Largest Members presented in Table 1 provide the system requirements, number of customers and energy sales by customer category for each Largest Member for the years ended December 31, 2012, 2013, and 2014 and the population for the years 1990, 2000 and 2010.

The information presented in the Largest Members' Summary of Financial Information, Table 2, summarizes and conforms to a standard, comparative format the audited operating results and financial condition of the Largest Members for the three fiscal years ended December 31, 2014. For the City of Austin a combined statement of net position is included which reflects the financial position of the city's combined system. A statement of net position for only the electric system of Austin is unavailable.

Table 3 sets forth a summary of the combined audited operating results for the "integrated utility system" of the city of Austin for the three fiscal years ended December 31, 2014. Each Power Sales Contract provides that the Largest Members' payments under its Power Sales Contract is made as an operating expense from the revenues of its electric utility system or other integrated utility system of which the electric utility system may be a part.

The information in Tables 2 and 3 for the three fiscal years ended December 31, 2014 was extracted from audited financial statements of the respective Largest Members. The independent public accountants of each of the Largest Members have delivered unqualified opinions in connection with their examination of such financial statements. Neither the Agency nor the Underwriters have verified the data contained in Tables 2 and 3 nor make any representations as to the correctness of the information presented.

The basis of accounting utilized in the Largest Members' audit reports, with respect to their electric funds, was full-accrual. The information on each Largest Member in Table 2 is stated consistently with the basis of accounting as noted. The line item, Payments in Lieu of Taxes, represents cash transfers to other governmental and proprietary activities of the Largest Members.

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TABLE 1
SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY
Largest Members' Population, System Requirements, Customers, Megawatt-Hour Sales

	Austin	**Owatonna**	**Rochester**
Population			
2010 (US Census)	24,718	25,599	106,769
2000 (US Census)	23,314	22,434	85,806
1990 (US Census)	21,907	19,386	70,745
2014:			
System Requirements			
Peak Demand (kW)	64,340	70,080	258,746
Energy (MWh)	342,249	371,872	1,243,686
Number of Customers			
Residential	10,544	10,661	46,035
Commercial and Industrial	1,248	1,254	4,761
Other	570	1	4
Total	12,362	11,916	50,800
MWh Sales			
Residential	77,574	82,920	341,452
Commercial and Industrial	248,516	277,685	849,657
Other	6,216	2,021	15,252
Total	332,306	362,626	1,206,361
2013:			
System Requirements			
Peak Demand (kW)	67,300	74,040	278,600
Energy (MWh)	345,262	362,922	1,260,736
Number of Customers			
Residential	10,544	10,665	45,651
Commercial and Industrial	1,254	1,237	4,727
Other	581	1	4
Total	12,379	11,903	50,382
MWh Sales			
Residential	78,939	84,513	348,952
Commercial and Industrial	249,394	268,270	866,292
Other	7,650	2,032	15,442
Total	335,983	354,815	1,230,686
2012			
System Requirements			
Peak Demand (kW)	70,500	72,660	287,800
Energy (MWh)	349,242	353,118	1,274,990
Number of Customers			
Residential	10,524	10,583	45,244
Commercial and Industrial	1,244	1,211	4,742
Other	578	1	4
Total	12,346	11,795	49,990
MWh Sales			
Residential	79,223	84,514	342,986
Commercial and Industrial	257,624	263,254	871,258
Other	13,999	2,025	16,199
Total	350,846	349,793	1,230,443

TABLE 2
SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY
Members' Summary of Financial Information

Austin Utilities:	**2014**	**2013**	**2012**
Combined Statements of Net Position (1)			
Assets:			
Current Assets:			
Cash & Investments	$7,373,553	$5,644,666	$5,701,423
Accounts Receivable	3,963,529	4,258,963	3,230,253
Materials and Supplies	1,650,131	2,172,997	2,432,156
Prepaids	252,203	270,296	291,689
Interest Receivable	—	—	—
Other Current Assets	—	—	—
Total Current Assets	**13,239,416**	**12,346,922**	**11,655,521**
Noncurrent Assets:			
Restricted Investments	13,663,010	12,738,251	17,857,447
Capital Assets			
Electric Plant in Service	95,536,826	93,816,144	88,029,096
Less: Depreciation	49,845,347	48,971,731	48,333,587
Net Utility Plant	45,691,479	44,844,413	39,695,509
Construction Work in Progress	651,857	—	—
Total Capital Assets	**46,343,336**	**44,844,413**	**39,695,509**
Other Assets	1,258,580	1,462,750	1,671,532
Total Noncurrent Assets	**61,264,926**	**59,045,414**	**59,224,488**
Total Assets	**74,504,342**	**71,392,336**	**70,880,009**
Deferred Outflows:	—	—	**—**
Total Assets and Deferred Outflows	**$74,504,342**	**$71,392,336**	**$70,880,009**
Liabilities:			
Current Liabilities:			
Accounts Payable	$4,365,443	$5,101,368	$4,469,629
Accrued Interest Payable	—	—	—
Long Term Debt-Current Portion	355,479	350,479	310,479
Other Current Liabilities	1,553,079	1,651,515	1,706,809
Total Current Liabilities	**6,274,001**	**7,103,362**	**6,486,917**
Noncurrent Liabilities:			
Long Term Debt	4,665,293	5,020,772	5,371,251
Other Long Term Liabilities	3,906,266	3,730,667	3,413,627
Total Noncurrent Liabilities	**8,571,559**	**8,751,439**	**8,784,878**
Total Liabilities	**14,845,560**	**15,854,801**	**15,271,795**
Deferred Inflows:	—	—	**—**
Net Position:	**59,658,782**	**55,537,535**	**55,608,214**
Total Liabilities, Deferred Inflows, and Net Position	**$74,504,342**	**$71,392,336**	**$70,880,009**

(1) Combined Utility Systems Statements of Net Position.

TABLE 2
SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY
Members' Summary of Financial Information

Austin Utilities:	**Years Ended December 31, 2014**	**2013**	**2012**
Summary of Operating Results			
Operating Revenues:			
Residential	$10,371,135	$9,947,516	$9,821,796
Commercial and Industrial	22,333,778	21,466,549	22,271,839
Other	674,646	697,457	1,025,376
Rate Stabilization	—	—	—
Total Sales	33,379,559	32,111,522	33,119,011
Other Operating Revenue	1,089,337	629,685	559,471
Total Operating Revenues	**$34,468,896**	**$32,741,207**	**$33,678,482**
Operating Expenses:			
Purchased Power	23,241,610	23,598,681	23,548,976
Generation	1,066,288	1,354,007	1,968,948
Other Operating	7,493,740	6,715,408	6,362,025
Depreciation	1,149,926	1,300,644	1,186,178
Amortization of Regulatory Assets	—	—	—
Total Operating Expenses	**$32,951,564**	**$32,968,740**	**$33,066,127**
Net Operating Income	1,517,332	(227,533)	612,355
Plus: Non Operating Revenue	823,005	116,698	137,298
Less: Other Deductions:			
Interest on Debt	—	—	—
Amortization of Regulatory Assets	—	—	—
Other	259	635	268
Total Other Deductions	$259	$635	$268
Net Income (Loss)	$2,340,078	($111,470)	$749,385
Other Adjustments	—	—	—
Rate Stabilization	—	—	—
Change in Net Position	**$2,340,078**	**($111,470)**	**$749,385**
Debt Service Coverage:			
Cash Available for Debt Service:			
Change in Net Position	$2,340,078	($111,470)	$749,385
Interest Expense	—	—	—
Depreciation	1,149,926	1,300,644	1,186,178
Amortization of Regulatory Assets (Operating Expense)	—	—	—
Total Available	**$3,490,004**	**$1,189,174**	**$1,935,563**
Debt Service:			
Interest Expense	—	—	—
Principal	—	—	—
Total Debt Service	**$ —**	**$ —**	**$ —**
Debt Service Coverage	N/A	N/A	N/A
Supplemental Information:			
Basis of Accounting	Accrual	Accrual	Accrual
Electric Debt Balance (1)	$ —	$ —	$ —
Payments in Lieu of Taxes (2)	$1,246,997	$1,255,519	$1,288,083
% of Operating Revenue	3.62%	3.83%	3.82%

(1) In 2012, issued General Obligation Water Revenue Bonds of $5,600,000 for capital expenditures
(2) Included in Other Operating Expenses.

TABLE 2
SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY
Members' Summary of Financial Information

Owatonna Public Utilities:	**2014**	**2013**	**2012**
Statements of Net Position			
Assets:			
Current Assets:			
Cash & Investments	$3,866,713	$8,310,679	$13,448,873
Accounts Receivable	9,181,463	9,236,153	4,371,723
Materials and Supplies	554,380	565,937	523,420
Prepaids	—	—	—
Interest Receivable	—	—	—
Other Current Assets	242,656	193,248	150,929
Total Current Assets	**13,845,212**	**18,306,017**	**18,494,945**
Noncurrent Assets:			
Restricted Investments	151,150	145,440	143,752
Capital Assets			
Electric Plant in Service	47,928,972	45,815,727	51,405,490
Less: Depreciation	25,824,013	24,120,220	29,151,773
Net Utility Plant	22,104,959	21,695,507	22,253,717
Construction Work in Progress	14,032,524	6,365,607	1,153,536
Total Capital Assets	**36,137,483**	**28,061,114**	**23,407,253**
Other Assets	—	—	8,568
Total Noncurrent Assets	**36,288,633**	**28,206,554**	**23,559,573**
Total Assets	**50,133,845**	**46,512,571**	**42,054,518**
Deferred Outflows:	**—**	**48,672**	**97,344**
Total Assets and Deferred Outflows	**$50,133,845**	**$46,561,243**	**$42,151,862**
Liabilities:			
Current Liabilities:			
Accounts Payable	$4,432,675	$4,083,736	$3,803,278
Accrued Interest Payable	3,672	7,116	10,434
Long Term Debt-Current Portion	146,873	137,746	132,767
Other Current Liabilities	2,185,049	312,541	552,409
Total Current Liabilities	**6,768,269**	**4,541,139**	**4,498,888**
Noncurrent Liabilities:			
Long Term Debt	—	150,616	292,105
Other Long Term Liabilities	47,351	32,889	28,060
Total Noncurrent Liabilities	**47,351**	**183,505**	**320,165**
Total Liabilities	**6,815,620**	**4,724,644**	**4,819,053**
Deferred Inflows:	—	**—**	**—**
Net Position:	**43,318,225**	**41,836,599**	**37,332,809**
Total Liabilities, Deferred Inflows, and Net Position	**$50,133,845**	**$46,561,243**	**$42,151,862**

TABLE 2
SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY
Members' Summary of Financial Information

	Years Ended December 31,		
Owatonna Public Utilities:	**2014**	**2013**	**2012**
Summary of Operating Results			
Operating Revenues:			
Residential	$9,685,032	$9,805,691	$9,788,457
Commercial and Industrial	23,624,976	22,917,615	23,012,843
Other	374,983	376,550	375,529
Rate Stabilization	—	—	—
Total Sales	33,684,991	33,099,856	33,176,829
Other Operating Revenue	2,071,477	1,487,044	1,474,310
Total Operating Revenues	**$35,756,468**	**$34,586,900**	**$34,651,139**
Operating Expenses:			
Purchased Power	26,554,458	26,287,811	25,981,246
Generation	623,532	520,479	531,809
Other Operating	5,305,280	5,839,090	5,255,301
Depreciation	1,815,720	1,778,387	1,538,276
Amortization of Regulatory Assets	—	—	—
Total Operating Expenses	**$34,298,990**	**$34,425,767**	**$33,306,632**
Net Operating Income	1,457,478	161,133	1,344,507
Plus: Non Operating Revenue	44,894	4,372,018	325,715
Less: Other Deductions:			
Interest on Debt	20,746	(3,627)	6,573
Amortization of Regulatory Assets	—	32,988	28,704
Other	—	—	—
Total Other Deductions	$20,746	$29,361	$35,277
Net Income (Loss)	$1,481,626	$4,503,790	$1,634,945
Other Adjustments	—	—	—
Rate Stabilization	—	—	—
Change in Net Position	**$1,481,626**	**$4,503,790**	**$1,634,945**
Debt Service Coverage:			
Cash Available for Debt Service:			
Change in Net Position	$1,481,626	$4,503,790	$1,634,945
Interest Expense	20,746	(3,627)	6,573
Depreciation	1,815,720	1,778,387	1,538,276
Amortization of Regulatory Assets (Operating Expense)	—	—	—
Total Available	**$3,318,092**	**$6,278,550**	**$3,179,794**
Debt Service:			
Interest Expense	20,746	(3,627)	6,573
Principal	137,745	132,767	123,639
Total Debt Service	**$158,491**	**$129,140**	**$130,212**
Debt Service Coverage:	20.94	48.62	24.42
Supplemental Information:			
Basis of Accounting	Accrual	Accrual	Accrual
Electric Debt Balance	$146,873	$288,362	$424,872
Payments in Lieu of Taxes (1)	$1,023,345	$1,043,019	$1,107,073
% of Operating Revenue	2.86%	3.02%	3.19%

(1) Included in Other Operating Expenses.

TABLE 2
SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY
Members' Summary of Financial Information

Rochester Public Utilities:	**2014**	**2013**	**2012**
Statements of Net Position			
Assets:			
Current Assets:			
Cash & Investments	$38,644,257	$42,737,080	$43,251,479
Accounts Receivable	8,110,443	6,785,750	6,781,055
Materials and Supplies	5,667,947	5,761,750	7,922,717
Prepaids	22,878	76,640	126,925
Interest Receivable	—	—	4,305
Other Current Assets	5,484,280	4,844,353	4,641,358
Total Current Assets	**57,929,805**	**60,205,573**	**62,727,839**
Noncurrent Assets:			
Restricted Investments	21,954,491	33,364,625	2,508,848
Capital Assets			
Electric Plant in Service	319,001,970	308,090,342	303,036,783
Less: Depreciation	183,700,045	176,168,260	166,947,020
Net Utility Plant	135,301,925	131,922,082	136,089,763
Construction Work in Progress	32,364,447	24,478,297	8,485,018
Total Capital Assets	**167,666,372**	**156,400,379**	**144,574,781**
Other Assets	12,283,656	12,274,586	11,920,988
Total Noncurrent Assets	**201,904,519**	**202,039,590**	**159,004,617**
Total Assets	**259,834,324**	**262,245,163**	**221,732,456**
Deferred Outflows:	**1,140,733**	**1,272,422**	**1,382,772**
Total Assets and Deferred Outflows	**$260,975,057**	**$263,517,585**	**$223,115,228**
Liabilities:			
Current Liabilities:			
Accounts Payable	$13,130,423	$13,054,656	$11,570,534
Accrued Interest Payable	424,211	429,794	296,357
Long Term Debt-Current Portion	3,765,000	4,558,123	4,503,032
Other Current Liabilities	2,859,124	2,725,479	2,656,254
Total Current Liabilities	**20,178,758**	**20,768,052**	**19,026,177**
Noncurrent Liabilities:			
Long Term Debt	114,438,372	118,784,540	80,202,150
Other Long Term Liabilities	1,145,916	1,708,190	1,444,366
Total Noncurrent Liabilities	**115,584,288**	**120,492,730**	**81,646,516**
Total Liabilities	**135,763,046**	**141,260,782**	**100,672,693**
Deferred Inflows:	**556,115**	**592,535**	**628,955**
Net Position:	**124,655,896**	**121,664,268**	**121,813,580**
Total Liabilities, Deferred Inflows, and Net Position	**$260,975,057**	**$263,517,585**	**$223,115,228**

TABLE 2
SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY
Members' Summary of Financial Information

	Years Ended December 31,		
Rochester Public Utilities:	**2014**	**2013**	**2012**
Summary of Operating Results			
Operating Revenues:			
Residential	$42,818,865	$42,344,833	$41,924,195
Commercial and Industrial	82,011,839	80,904,989	81,857,826
Other	5,617,573	5,614,439	5,698,238
Rate Stabilization	—	—	—
Total Sales	130,448,277	128,864,261	129,480,259
Other Operating Revenue	12,512,939	12,113,781	13,122,498
Total Operating Revenues	**$142,961,216**	**$140,978,042**	**$142,602,757**
Operating Expenses:			
Purchased Power	87,392,206	88,020,377	88,282,511
Generation	4,706,943	5,984,531	5,886,538
Other Operating	25,786,599	24,473,526	21,087,539
Depreciation	10,058,878	10,184,577	10,556,355
Amortization of Regulatory Assets	386,745	380,299	367,781
Total Operating Expenses	**$128,331,371**	**$129,043,310**	**$126,180,724**
Net Operating Income	14,629,845	11,934,732	16,422,033
Plus: Non Operating Revenue	—	—	—
Less: Other Deductions:			
Interest on Debt	3,390,694	3,421,412	3,678,511
Amortization of Regulatory Assets	111,006	130,487	84,774
Other	8,136,517	8,532,145	7,740,261
Total Other Deductions	$11,638,217	$12,084,044	$11,503,546
Net Income (Loss) Before Special Item	$2,991,628	($149,312)	$4,918,487
Special Item – Impairment Loss (1)	—	—	(35,536,828)
Rate Stabilization	—	—	—
Change in Net Position	**$2,991,628**	**($149,312)**	**($30,618,341)**
Debt Service Coverage:			
Cash Available for Debt Service:			
Change in Net Position	$2,991,628	($149,312)	(30,618,341)
Interest Expense	3,390,694	3,421,412	3,678,511
Depreciation and Amortization of Regulatory Assets (Operating)	10,445,623	10,564,876	10,924,136
Payments in Lieu of Taxes	8,263,570	8,307,133	8,305,490
Special Item – Impairment Loss (1)	—	—	35,536,828
Total Available	**$25,091,515**	**$22,144,109**	**$27,826,624**
Debt Service:			
Interest Expense	5,178,012	4,491,844	3,711,980
Principal	4,270,000	4,190,000	4,025,000
Total Debt Service	**$9,448,012**	**$8,861,844**	**$7,736,980**
Debt Service Coverage:	2.66	2.55	3.60
Supplemental Information:			
Basis of Accounting	Accrual	Accrual	Accrual
Electric Debt Balance (2)	$118,203,372	$123,342,663	$84,705,182
Payments in Lieu of Taxes (3)	$8,263,570	$8,307,133	$8,305,490
% of Operating Revenue	5.78%	5.89%	5.82%

(1) In 2012, Impairment loss for Silver Lake Plant
(2) In February 2013, $4.0 million in bonds were issued to refund the outstanding 2002A bonds
In May 2013, $38.4 million in bonds were issued for the CapX 2020 project
(3) Included in Other Operating Expenses.

TABLE 3
SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY
Summary of Combined Operating Results of Integrated Utility System

City of Austin:

	2014	**2013**	**2012**
Operating Revenue:			
Electric	$34,468,896	$32,741,207	$33,678,482
Water	3,998,961	3,705,645	2,807,120
Central Heat	—	—	—
Gas	24,056,300	17,401,568	14,134,078
Total Revenues	**$62,524,157**	**$53,848,420**	**$50,619,680**
Operating Expenses:			
Purchased Power	$23,241,610	$23,598,681	$23,548,976
Generation	1,066,288	1,354,007	1,968,948
Other Operating	33,512,144	26,572,168	22,362,985
Depreciation	1,947,701	2,177,030	1,957,334
Amortization of Regulatory Asset	—	—	—
Total Operating Expenses	**$59,767,743**	**$53,701,886**	**$49,838,243**
Net Operating Income (Loss)	$2,756,414	$146,534	$781,437
Plus: Non Operating Income	1,415,558	(216,082)	302,571
Less: Other Deductions			
Interest on Debt	—	—	24,885
Amortization of Regulatory Asset	—	—	—
Other	50,725	1,131	710
Total Other Deductions	$50,725	$1,131	$25,595
Net Income (Loss)	$4,121,247	($70,679)	$1,058,413
Other Adjustments	—	—	—
Rate Stabilization Adjustment	—	—	—
Change in Net Position	**$4,121,247**	**($70,679)**	**$1,058,413**
Debt Service Coverage:			
Cash Available for Debt Service			
Change in Net Position	$4,121,247	($70,679)	$1,058,413
Interest Expense	—	—	24,885
Depreciation	1,947,701	2,177,030	1,957,334
Amortization of Regulatory Asset (Operating Expense)	—	—	—
Total Available	**$6,068,948**	**$2,106,351**	**$3,040,632**
Debt Service:			
Interest Expense	—	—	24,885
Principal	345,000	305,000	—
Total Debt Service	**$345,000**	**$305,000**	**$24,885**
Debt Service Coverage:	17.59	6.91	122.19

SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY

Financial Statements

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY

Table of Contents

KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Board of Directors
Southern Minnesota Municipal Power Agency:

Report on Financial Statements

We have audited the accompanying financial statements of Southern Minnesota Municipal Power Agency (the Agency), which comprise the statements of net position as of December 31, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern Minnesota Municipal Power Agency as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matter

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Minneapolis, Minnesota
March 5, 2015

Financial Statements Overview

This discussion and analysis of Southern Minnesota Municipal Power Agency's (the Agency) financial performance provides an overview of the Agency's activities for the fiscal years ended December 31, 2014 and 2013. The information presented should be read in conjunction with the basic financial statements and the accompanying notes to the financial statements.

The basic financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The Agency complies with all applicable pronouncements of the Governmental Accounting Standards Board (GASB). This includes GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA pronouncements issued on or before November 30, 1989, which does not conflict with GASB pronouncements. The Agency also follows the guidance of GASB Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The Agency follows the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC).

The Agency's basic financial statements include the statement of net position, the statement of revenues, expenses, and changes in net position, and the statement of cash flows. The statement of net position provides information about the nature and amount of assets and obligations (liabilities) of the Agency as of the end of the year. The statement of revenues, expenses, and changes in net position reports revenues and expenses for the current year. The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

Summary of Significant Capital and Financing Activities

The Agency has a number of capital projects with an existing and/or ongoing effect on the financial statements. A brief summary of each is as follows:

Sherco 3

In November 2011, during post overhaul testing of Sherco 3, a failure occurred with the unit's steam turbine and generator. As a consequence of the Sherco 3 turbine and generator failure, Sherco 3 was idled while the unit underwent restoration. Sherco 3 was resynchronized to the electric grid in the fall of 2013. Insurance proceeds received by the Agency as of the end of 2014 were approximately $82.0 million, which is a substantial portion of the Agency's expected total cost. As of December 31, 2014, an additional $11.2 million in proceeds were expected from the insurers. Final payment is expected in 2015.

Fairmont Energy Station

The 25MW Fairmont Energy Station began operations in January 2014. Three of the four high efficiency natural gas fired spark-ignited engines were accepted from the vendor, Caterpillar, and entered into commercial operation on September 8, 2014. The fourth unit went into commercial operation on December 13, 2014. Fairmont is a member municipality.

CapX 2020

Following execution of participation agreements in December 2012, construction of the CapX 2020 Hampton to La Crosse transmission line commenced. Upon completion, it is anticipated the Agency will own 13% of the 345 kV and 161 kV facilities in the project. CapX 2020 consists of twelve transmission owning utilities in Minnesota and Wisconsin. The Hampton to La Crosse line is the last of several high voltage transmission projects to be constructed. Hampton, Minnesota is located south of the Minneapolis/St. Paul area. The line runs south from a new substation near Hampton to Rochester, MN, and east into Wisconsin to a substation located north of La Crosse, WI. The CapX 2020 projects will significantly increase transmission transfer capability and regional electrical reliability. Capital expenditures incurred by the Agency in 2014 and 2013 pertaining to this project were approximately $12.3 million and $21.1 million, respectively. Construction work in progress includes $36.9 million and $24.6 million pertaining to this project as of December 31, 2014 and 2013, respectively.

Other Capital Projects

- **Proposed Owatonna Energy Station**

  The Agency finalized site selection and the planning process for a high efficiency gas fired energy station near Owatonna, Minnesota, an Agency member community. The approximately 35 MW unit will be similar to the Fairmont Energy Station if constructed. The Agency plans to seek member and board approval for the project during 2015.

- **Wisconsin Transmission Project**

  During 2014, the Agency formed SMMPA Wisconsin LLC (the LLC) in order to participate as an investor and passive owner in a 345 kV transmission project in Wisconsin. The Agency subsequently filed before the Public Service Commission of Wisconsin (the Commission) to have the LLC declared a public utility so that it may own utility assets in Wisconsin. The Commission approved the Agency's request on February 12, 2015. As currently structured, the Agency would own 6.5% of the project, which is designated as a multi-value project by the Midwest Independent System Operator (MISO). The Agency's investment in the project would be approximately $36.0 million. As of December 31, 2014 no capital activity has occurred.

Agency Financings

The Agency did not issue any new debt or refund existing debt during either 2014 or 2013. In 2014, the Agency renewed its existing commercial paper liquidity facility and credit agreement through November 2017.

Financial Highlights

Condensed Statements of Net Position
($ millions)

		2014	2013	2012	2014 to 2013 change	2013 to 2012 change
Current assets	$	216.1	230.7	267.8	(14.6)	(37.1)
Noncurrent assets:						
Capital assets, net		477.7	471.4	403.3	6.3	68.1
Noncurrent investments		72.0	71.7	89.7	0.3	(18.0)
Deferred outflows:						
Future recoverable costs – noncurrent		220.3	232.1	240.7	(11.8)	(8.6)
Decrease in fair value of derivative instruments – noncurrent		0.7	0.9	0.8	(0.2)	0.1
Total assets and deferred outflows	$	986.8	1,006.8	1,002.3	(20.0)	4.5
Current liabilities	$	137.5	120.6	93.4	16.9	27.2
Long-term liabilities:						
Long-term debt, net		592.4	618.7	642.2	(26.3)	(23.5)
Derivative instruments – swap liability		0.7	0.9	0.8	(0.2)	0.1
Other long-term obligations		—	17.8	23.3	(17.8)	(5.5)
Deferred inflows:						
Deferred credits rate stabilization		93.0	92.5	100.6	0.5	(8.1)
Deferred gain on involuntary conversion of plant assets		64.8	67.4	66.6	(2.6)	0.8
Total liabilities and deferred inflows		888.4	917.9	926.9	(29.5)	(9.0)
Net position:						
Net investment in capital assets		95.1	43.8	(9.9)	51.3	53.7
Restricted		66.8	58.8	55.8	8.0	3.0
Unrestricted		(63.5)	(13.7)	29.5	(49.8)	(43.2)
Total net position		98.4	88.9	75.4	9.5	13.5
Total liabilities, deferred inflows, and net position	$	986.8	1,006.8	1,002.3	(20.0)	4.5

Condensed statements of net position highlights are as follows:

- The assets of the Agency exceeded its liabilities at the close of 2014 by approximately $98.4 million, at the close of 2013 by approximately $88.9 million, and at the close of 2012 by approximately $75.4 million (net position).
- Current assets decreased by approximately $14.6 million in 2014 and by approximately $37.1 million in 2013. Current assets include deposits and investments held in revenue and operating funds of approximately $27.6 million at December 31, 2014 to be used for operating, maintenance, and working capital needs of the Agency, and increased by approximately $3.6 million in 2014. Current assets at December 31, 2014 also

include deposit and investments held in restricted funds of approximately $65.5 million in accordance with the bond resolution for debt service requirements. In 2013, current assets include deposits and investments held in revenue and operating funds of approximately $24.0 million to be used for operating, maintenance, and working capital needs of the Agency and also include deposits and investments held in restricted funds of approximately $57.7 million in accordance with the senior bond resolution for debt service requirements.

- The insurance claim receivable, which is also part of current assets, decreased by approximately $2.1 million during 2014 and represents the Agency's estimate of its proportionate share of the insurance claim receivable. During 2013, the insurance claim receivable decreased by approximately $35.1 million to $13.3 million at December 31, 2013. The decreases are a result of receipt of insurance proceeds for repairs that were made to Sherco 3's turbine and generator.

- Capital assets, net, increased by approximately $6.3 million during 2014. Capital assets, net, include the Agency's 41% undivided ownership interest in the Sherburne County Generating Unit No. 3 (Sherco 3) plant with a historical cost of approximately $552.0 million as of December 31, 2014. The Agency also has approximately $209.3 million on a historical cost basis of substation facilities, transmission lines, land, wind turbines, buildings, upgrades to members' generating units under contract, and general office equipment recorded as of the end of 2014. In addition, the Agency capitalizes improvements made to member owned generation under Agency contract. Capital assets, net, increased by approximately $68.1 million during 2013. The Agency's 41% undivided ownership interest in the Sherco 3 plant was approximately $531.8 million as of December 31, 2013. Capital assets, net, also included approximately $181.4 million on a historical cost basis of substation facilities, transmission lines, land, wind turbines, buildings, upgrades to members' generating units under contract, and general office equipment at the end of 2013.

  For 2014, the increase in capital assets, net, is the result of an increase in electric plant and equipment, net, of approximately $33.1 million and a net decrease in construction in progress of approximately $26.7 million. The increase in electric plant and equipment, net, is a result of an increase of approximately $20.2 million for Sherco 3 repairs and capital improvements made, an increase of approximately $31.4 million for the construction of Fairmont Energy Station, a decrease of approximately $3.8 million in transmission assets, and an increase of approximately $0.3 million in other capital improvements, offset by an increase in accumulated depreciation of approximately $15.0 million. For 2013, the increase in capital assets, net, is the result of an increase in electric plant and equipment, net, of approximately $79.6 million and a net decrease in construction in progress of approximately $11.5 million. The increase in electric plant and equipment, net, is a result of transfers from construction in progress as well as an increase of approximately $82.5 million for Sherco 3 repairs and capital improvements made, an increase of approximately $6.5 million in transmission assets, an increase of approximately $2.4 million in other capital improvements, offset by an increase in accumulated depreciation of approximately $11.8 million.

- Noncurrent investments include investments held in restricted funds in accordance with the bond resolution for debt service and capital construction projects, increased by approximately $0.3 million in 2014 and decreased by approximately $18.0 million in 2013 due to reimbursement of capital construction projects.

- Deferred outflows, future recoverable costs decreased by approximately $11.8 million in 2014 and $8.6 million in 2013. Deferred outflows, future recoverable costs are costs in excess of the amounts currently billable to the members that are to be recovered from future revenues by setting rates sufficient to provide funds for the related debt service payments.

(Continued)

- Deferred outflows, decrease in fair value of derivative instruments decreased, by approximately $0.2 million in 2014 and increased by approximately $0.1 million in 2013. Deferred outflows of resources result from hedging of cash flows associated with the Agency's variable interest rate debt through the use of pay-fixed, receive-variable interest rate swaps. This amount offsets the fair value of the Agency's interest rate swaps at December 31.

- Current liabilities increased by approximately $16.9 million in 2014. The current portion of long-term debt of approximately $51.9 million and $48.5 million at December 31, 2014 and 2013, respectively, and commercial paper notes payable are included in current liabilities. Attributable to the total increase in total current liabilities was a $3.7 million decrease in accounts payable – power production, an $18.4 million increase in accrued liabilities and other payables, an increase of approximately $3.4 million in current maturities of long-term debt, offset by a decrease of approximately $1.2 million in accrued interest payable. The increase in accrued liabilities of $18.4 million is primarily due to the reclassification of a $12.6 million liability for the Agency's obligation under a shared transmission system agreement with Dairyland Power Cooperative from other long-term liabilities to current liabilities. Under terms of a memorandum of understanding with Dairyland, it is anticipated that the liability will be settled by the end of 2015. The obligation decreased by approximately $5.2 million during 2014. Current liabilities increased by approximately $27.2 million in 2013. The current portion of long-term debt of approximately $48.5 million and $45.0 million of commercial paper notes payable are included in current liabilities. Attributable to the net increase in total current liabilities was a $2.9 million decrease in accounts payable – power production, a $3.0 million increase in accrued liabilities and other payables, an increase of $24.0 million in commercial paper notes payable, an increase of approximately $4.2 million in current maturities of long-term debt, and a decrease of approximately $1.1 million in accrued interest payable.

- The carrying value of long-term debt at the end of 2014 was approximately $592.4 million. Scheduled principal payments of approximately $48.5 million were made in 2014. The carrying value of long-term debt at the end of 2013 was approximately $618.7 million. Scheduled principal payments of approximately $44.3 million were made in 2013. The carrying value of the long-term debt was also impacted by the effect of bond discount/premium amortization.

- Deferred inflows, deferred credits rate stabilization, current and long-term, increased by approximately $0.5 million. The increase was a result of net contributions to the account during 2014. During 2013, deferred inflows, deferred credits rate stabilization, current and long-term decreased by approximately $8.1 million, resulting in net distributions from the fund.

- Deferred inflows, gain on involuntary conversion of plan assets, current and long-term decreased by approximately $2.6 million in 2014 and increased by approximately $0.8 million in 2013. The deferred gain, which represents the difference between the amount of the estimated insurance recovery and the carrying value of the capital assets impaired, will be amortized by the Agency into income over the remaining life of Sherco 3 at the time of the 2011 incident.

Condensed Statements of Revenues, Expenses, and Changes in Net Position

($ millions)

		2014	2013	2012	2014 to 2013 change	2013 to 2012 change
Operating revenues, power sales	$	242.1	253.0	241.3	(10.9)	11.7
Other revenues		2.5	2.3	2.9	0.2	(0.6)
Total revenues		244.6	255.3	244.2	(10.7)	11.1
Operating expenses		190.5	195.0	188.5	(4.5)	6.5
Other expenses		44.6	46.8	47.3	(2.2)	(0.5)
Total expenses		235.1	241.8	235.8	(6.7)	6.0
Change in net position		9.5	13.5	8.4	(4.0)	5.1
Beginning net position		88.9	75.4	67.0	13.5	8.4
Ending net position	$	98.4	88.9	75.4	9.5	13.5

Condensed statements of revenues, expenses, and changes in net position highlights are as follows:

- Operating revenues, power sales, decreased by approximately $10.9 million between 2014 and 2013 and increased by approximately $11.7 million between 2013 and 2012. Operating revenues, power sales, consist principally of member power sales revenue, power sales to nonmembers, other transmission revenue, and contributions to, or distributions from, the rate stabilization account. Sales to nonmembers include the Agency's participation in the MISO Day 2 market.

  In 2014, before the effects of contributions made to the rate stabilization account, operating revenues, power sales, decreased by approximately $2.2 million, primarily due to decreases in the member sales by $1.8 million and transmission service agreement revenues by $2.2 million, offset by increases in MISO energy market sales of $1.8 million. In 2013, before the effects of distributions made from the rate stabilization account, operating revenues, power sales, increased by approximately $3.4 million, primarily due to an increase in MISO energy market sales by approximately $1.4 million, by an increase of approximately $1.1 million in transmission revenue, and by an increase in power sales to members of approximately $0.9 million. There was a net contribution of approximately $0.5 million to the rate stabilization account in 2014 compared with a net distribution of $8.1 million in 2013 and net contribution of $0.2 million in 2012. Contributions to the rate stabilization account decrease the amount of operating revenues, power sales, whereas distributions from the rate stabilization account increase the amount of operating revenues, power sales as funds are added to, or subtracted from, the rate stabilization account, which is included in deferred inflows.

- Other revenues increased by approximately $0.2 million between 2014 and 2013 and decreased by approximately $0.6 million between 2013 and 2012. Other revenues include the Build America Bonds (BABs) interest subsidy and rental income.
- Operating expenses decreased by approximately $4.5 million between 2014 and 2013 and increased by approximately $6.5 million between 2013 and 2012. Operating expenses consist of production fuel, power production, other operating expenses, depreciation and amortization, and expenses to be recovered in future periods. The decrease observed in 2014, compared with 2013, was the net result of an increase in production fuel expense of approximately $39.3 million with Sherco 3 back on line, offset by a decrease in power production expenses of approximately $52.6 million reflecting reduced energy market purchases with Sherco 3 back on line, an increase in other operating expenses of approximately $6.7 million (consisting mainly of an increase of approximately $1.9 million in transmission expenses, an increase of approximately $3.0 million in Sherco 3 operating and maintenance expenses, an increase in administrative and member services of approximately $0.8 million and an increase of approximately $0.6 million of demand side management expenses) and a combined increase of approximately $2.2 million in depreciation and expenses to be recovered in future periods. The increase observed in 2013 compared with 2012 was the net result of an increase in production fuel expense of approximately $6.2 million, a decrease in power production expenses of approximately $6.5 million, an increase in other operating expenses of approximately $5.6 million (due to a decrease of approximately $0.6 million in transmission expenses, an increase of approximately $5.5 million in Sherco 3 operating and maintenance expenses, an increase of approximately $0.5 million of other Agency owned generation, a decrease in administrative and member services of approximately $0.4 million and an increase of approximately $0.6 million of in-lieu of property taxes) and a combined increase of approximately $1.2 million in depreciation and expenses to be recovered in future periods.

Debt Administration

As of December 31, 2014 and 2013, the carrying value of the Agency's total long-term debt outstanding, including current maturities, was approximately $644.4 million and $667.2 million, respectively. The decrease in 2014 is the net result of the scheduled principal payments of approximately $48.5 million made in January 2014, and the effect of bond discount/premium amortization of approximately $25.6 million. Similarly, in 2013 the decrease is the net result of the scheduled principal payments of approximately $44.3 million made in January 2013 and the net effect of bond discount/premium amortization of approximately $25.0 million. The total short-term commercial paper notes outstanding as of December 31, 2014 and 2013 were $45.0 million and $21.0 million in 2012.

During 2014, the Agency added Fitch Ratings as a third rating agency for the Agency's bond issuances. Fitch Ratings released a public rating of A+/Stable on the Agency's 2010 Series A and B bonds in November 2014. Standard and Poor's and Moody's Investor Services affirmed the Agency's A+/Stable and A1/Stable long term ratings, as well as the Agency's A-1 and P-1 short term ratings, respectively.

Contact Information

This financial report is designed to provide a general overview of the Agency's finances. Questions or requests for additional information should be addressed to the Manager of Accounting, 500 First Avenue Southwest, Rochester, Minnesota 55902.

SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY

Statements of Net Position

December 31, 2014 and 2013

Assets	**2014**	**2013**
Current assets:		
Cash	$ 23,534	32,678
Investments:		
Unrestricted funds:		
Revenue and operating funds	27,626,275	23,981,024
Rate stabilization	71,334,565	70,369,245
Other	9,129,642	27,209,367
Restricted funds	65,533,852	57,738,495
Power sales revenue receivables	16,329,840	17,030,963
Accrued interest receivable	347,857	323,009
Fuel stock	6,447,410	12,196,330
Material inventory	5,755,364	4,674,604
Prepaids	1,162,561	1,744,832
Other current assets	1,213,842	1,654,671
Escrow deposit	—	499,551
Insurance claim receivable	11,152,000	13,284,000
Total current assets	216,056,742	230,738,769
Noncurrent assets:		
Capital assets:		
Electric plant and equipment	761,317,916	713,208,591
Less accumulated depreciation and amortization	336,406,698	321,367,601
Electric plant and equipment – net	424,911,218	391,840,990
Construction work in progress	52,784,314	79,527,884
Total capital assets	477,695,532	471,368,874
Restricted investment funds	71,972,985	71,717,610
Total noncurrent assets	549,668,517	543,086,484
Total assets	765,725,259	773,825,253
Deferred Outflows		
Future recoverable costs – noncurrent	220,318,013	232,131,706
Accumulated decrease in fair value of derivative instruments – noncurrent	749,177	907,264
Total assets and deferred outflows	$ 986,792,449	1,006,864,223
Liabilities		
Current liabilities:		
Accounts payable – power production	$ 2,699,178	6,392,738
Accrued liabilities and other payables	30,253,167	11,877,723
Accrued interest payable	7,591,537	8,824,191
Notes payable	45,000,000	45,000,000
Current maturities of long-term debt	51,935,000	48,520,000
Total current liabilities	137,478,882	120,614,652
Long-term liabilities:		
Long-term debt, net	592,431,723	618,719,985
Derivative instruments – swap liability	749,177	907,264
Other long-term obligations	—	17,791,793
Total long-term liabilities	593,180,900	637,419,042
Total liabilities	730,659,782	758,033,694
Deferred Inflows		
Deferred credits rate stabilization – current	—	130,131
Gain on involuntary conversion of plant assets – current	3,239,108	3,209,701
Deferred credits rate stabilization – noncurrent	92,959,803	92,354,124
Gain on involuntary conversion of plant assets – noncurrent	61,543,043	64,194,017
Total deferred inflows	157,741,954	159,887,973
Total liabilities and deferred inflows	888,401,736	917,921,667
Net Position		
Net investment in capital assets	95,046,707	43,818,585
Restricted by bond agreements	66,830,123	58,779,391
Unrestricted	(63,486,117)	(13,655,420)
Total net position	98,390,713	88,942,556
Total liabilities, deferred inflows, and net position	$ 986,792,449	1,006,864,223

See accompanying notes to financial statements.

SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended December 31, 2014 and 2013

		2014	2013
Operating revenues, power sales	$	242,155,755	253,008,856
Operating expenses:			
Production fuel		46,410,022	7,111,814
Power production		67,471,136	120,112,839
Other operating expenses		56,568,777	49,892,022
Depreciation and amortization		16,339,677	15,232,595
Deferred costs expensed in current period		3,725,759	2,634,378
Total operating expenses		190,515,371	194,983,648
Operating income		51,640,384	58,025,208
Nonoperating (income) expenses:			
Investment earnings		(1,251,575)	(1,059,704)
Miscellaneous income		(1,219,580)	(1,209,449)
Interest expense		12,793,818	16,143,581
Amortization of long-term debt issuance costs		1,093,474	1,128,501
Amortization of discount/premium on long-term debt		25,646,738	25,013,451
Deferred costs expensed in current period		5,129,352	4,511,075
Total nonoperating expenses		42,192,227	44,527,455
Change in net position		9,448,157	13,497,753
Total net position, beginning of year		88,942,556	75,444,803
Total net position, end of year	$	98,390,713	88,942,556

See accompanying notes to financial statements.

SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY

Statements of Cash Flows

Years ended December 31, 2014 and 2013

		2014	2013
Cash flows from operating activities:			
Receipts from members	$	200,030,282	199,904,137
Receipts from others		43,742,973	43,421,198
Payments for fuel		(40,661,102)	(8,594,541)
Payments for other power production		(72,245,456)	(123,014,060)
Payments for other operating expenses		(35,492,929)	(32,441,014)
Payments for maintenance		(7,372,698)	(7,519,673)
Payments in-lieu of property taxes		(7,331,476)	(7,140,254)
Net cash provided by operating activities		80,669,594	64,615,793
Cash flows from noncapital financing activity:			
Miscellaneous income		1,219,580	1,209,449
Net cash provided by noncapital financing activity		1,219,580	1,209,449
Cash flows from capital and related financing activities:			
Capital asset additions		(24,473,514)	(49,692,334)
Proceeds from issuance of notes payable		—	24,000,000
Principal payments for long-term debt		(48,520,000)	(44,285,000)
Interest payments		(16,503,962)	(18,793,724)
Net cash used in capital and related financing activities		(89,497,476)	(88,771,058)
Cash flows from investing activities:			
Proceeds from sale/maturity of investments		252,330,356	283,087,645
Purchase of investments		(246,457,476)	(271,154,930)
Interest received		1,226,727	1,029,693
Escrow withdrawals		499,551	9,991,012
Net cash provided by investing activities		7,599,158	22,953,420
Change in cash		(9,144)	7,604
Cash, beginning balance		32,678	25,074
Cash, ending balance	$	23,534	32,678
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	51,640,384	58,025,208
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		16,339,677	15,232,595
Deferred costs expensed in current period		3,725,759	2,634,378
Change in deferred credits		475,548	(8,131,052)
Changes in operating assets and liabilities:			
Power sales revenue receivables		701,123	(1,266,984)
Fuel stock		5,748,920	(1,482,727)
Material inventory		(1,080,760)	49,903
Prepaids		582,271	(223,374)
Other current assets		440,829	(285,485)
Accounts payable – power production		(3,693,560)	(2,951,124)
Accrued liabilities and other payables		5,789,403	3,014,455
Total adjustments		29,029,210	6,590,585
Net cash provided by operating activities	$	80,669,594	64,615,793
Supplemental disclosures of noncash items:			
Other long-term obligations due within one year included with accrued liabilities and other payables	$	12,586,041	—
Capitalized interest		2,477,490	1,578,828

See accompanying notes to financial statements.

(1) Organization and Significant Accounting Policies

(a) Organization and Operation

Southern Minnesota Municipal Power Agency (the Agency) was created as a municipal corporation and a political subdivision of the State of Minnesota by an agency agreement recorded with the Secretary of the State of Minnesota on June 2, 1977. The Agency's purpose is to secure an adequate, economical, and reliable supply of electric energy for its member municipalities. The Agency is made up of 18 Minnesota municipalities that purchase power from the Agency under power sales contracts.

The Agency sells power to its members under power sales contracts that initially extended to April 1, 2030. In December 2008, the board of directors approved a request for the member cities to consider extending their contracts an additional 20 years from April 1, 2030 to April 1, 2050. Of the 18 members, 15 have elected to extend their contracts. The board of directors approved the contract extensions in January 2011. The three members that have elected not to extend their contracts are cities of Austin, Rochester, and Waseca.

Under the terms of these contracts, with certain minor exceptions, the Agency is obligated to furnish, and each member is obligated to take and pay for, the total power and energy required by the member through the term of the contract. However, for the city of Rochester, the maximum amount of power required to be delivered by the Agency and taken and paid for by that member through the term of the contract is 216 megawatts. Beginning in 2016, the city of Austin will limit its maximum amount of power to 70 megawatts.

The Agency has entered into an ownership and operating agreement with an investor-owned utility, which entitles the Agency to a 41% undivided ownership interest in Sherburne County Generating Unit No. 3 (Sherco 3). The 41% undivided ownership interest is included in capital assets. The Agency's share of the total net tested capability of Sherco 3 is approximately 373 megawatts. The Agency also purchases some power for resale under capacity purchase agreements with its members, who own and operate generating units.

On August 6, 2014, the Agency formed SMMPA Wisconsin, LLC (the LLC), which is a wholly owned subsidiary of the Agency. The purpose of the LLC is to undertake investment in, and ownership of, electric transmission facilities in the state of Wisconsin. Companies are required to be public utilities incorporated in Wisconsin in order to own utility facilities in the state. On February 12, 2015, the Public Service Commission of Wisconsin (the Commission) approved a request by the LLC to be designated as a public utility in Wisconsin. The LLC will not provide retail electric service. As of December 31, 2014, the LLC had not engaged in any business transactions, and therefore, there were no effects on the Agency's financial statements.

(b) Basis of Accounting

The Agency follows the Federal Energy Regulatory Commission's Uniform System of Accounts and maintains accounting records on an accrual basis, in conformity with U.S. generally accepted accounting principles, as applicable to governmental entities, including the application of the Government Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA*

Pronouncements, as the guidance relates to regulated operations. The guidance allows for deferral of revenues and expenses to future periods in which the revenues are earned or the expenses are recovered through the rate-making process.

(c) Capital Assets

Capital assets are recorded at cost, including interest capitalized on borrowed funds during construction.

In reporting its capital assets, the Agency follows the guidance of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* (GASB 42). In November 2011, during post-overhaul testing of Sherco 3, a failure occurred within the unit's steam turbine and generator. The failure resulted in a fire on the turbine and generator. The turbine and generator were extensively damaged and required significant restoration. As a consequence of the Sherco 3 turbine and generator failure, Sherco 3 was idled while the unit underwent restoration. Sherco 3 was resynchronized to the electrical grid on September 4, 2013. Under GASB 42, the capital assets damaged by the turbine and generator failure were considered impaired. The Agency has utilized the restoration cost approach to measure the impairment. Under the restoration cost approach, the amount of the impairment is derived from the estimated costs to restore the utility of the affected capital assets.

The property and casualty insurer of the Sherco 3 turbine and generator has acknowledged that the damage is subject to insurance coverage. Accordingly, the Agency has received cumulative insurance proceeds of $82.0 million, and $79.5 million as of December 31, 2014 and 2013, respectively. The estimated remaining insurance claim receivable was $11.2 million and $13.3 million for those years. The Agency has established a regulatory liability for the difference between the amount of the estimated insurance recovery and the carrying value of the capital assets impaired and reported such amount at December 31, 2014 and 2013 in the statements of net position as a deferred gain on involuntary conversion of plant assets of $64.8 million and $67.4 million, respectively.

The original cost of utility plant retired, plus removal costs, less salvage, is charged to accumulated depreciation. Depreciation is provided over the estimated useful life of the utility plant by use of the straight-line method. Depreciation is deferred to the extent that it exceeds current principal payments of the Agency's revenue bonds. This method correlates with the Agency's rate-making philosophy in that debt service requirements, as opposed to depreciation or amortization, are a cost for rate-making purposes.

(d) Deposits and Investments

Deposits and investments include cash, money market funds, and investments. Investments are reported at fair value based on quoted market prices.

(e) Restricted Investments

The Agency's bond resolution requires the segregation of bond proceeds and prescribes the application of the Agency's revenues. Amounts classified as restricted funds on the statements of net position represent investments whose use is restricted by the bond resolution. It is the Agency's policy to use restricted resources first for debt service, and then unrestricted resources as they are needed.

(f) Power Sales Revenue Receivables

Power sales revenue receivables, representing power sales to members for the period between the last billing date and the end of the period, are accrued in the period sold.

(g) Fuel Stock and Material Inventory

Fuel stock is valued at average cost, which does not exceed market. Material inventory is valued at average cost, which does not exceed market.

(h) Escrow Deposit

In 2012, the Agency deposited funds into an equipment purchase escrow account with J. P. Morgan related to a portion of the equipment needed for the Fairmont Energy Station. The final escrow payment was made in 2014.

(i) Compensated Absences

The Agency records a liability for vacation as the benefits accrue to employees. The Agency compensates all employees upon termination for unused vacation. Employees who have been employed by the Agency for at least five consecutive years who are leaving the Agency and who are eligible to retire as defined by the Public Employees' Retirement Association, or the estate of any such employee who dies while employed by the Agency, will receive a contribution to their retirement healthcare savings equal to one-third of the value of their remaining unused sick leave.

(j) Income Taxes

The Agency is exempt from federal and state income taxes, as it is a political subdivision of the State of Minnesota.

(k) Rates

The Agency designs its wholesale electric service rates to recover estimated costs of providing power supply services. In compliance with the power sales contract, rates and charges for providing wholesale power supply are reviewed annually by the Agency's board of directors. Any changes must be approved by the board of directors. In accordance with its senior bond resolution, the Agency shall establish rates that, together with other revenues, are reasonably expected to pay its operating costs (not including depreciation and amortization) and at least 1.10 times its aggregate debt service requirements. Power supply services provided by the Agency are not subject to state or federal rate regulation.

(l) Operating Revenues and Expenses

Operating revenues result from exchange transactions associated with the principal activity of the Agency, the sale of electricity. Reported operating revenues are affected by the contributions to, or distributions from, the rate stabilization account. Operating expenses are defined as expenses directly related to, or incurred in support of, the production and transmission of electricity to the participating members. All other expenses are classified as nonoperating expenses.

(m) Deferred Costs to be Recovered in Future Periods

Costs in excess of the amounts currently billable to the members are to be recovered from future revenues by setting rates sufficient to provide funds for the related debt service requirements. As allowed through the applications of the provisions of GASB 62, current costs in excess of funding are deferred and shown as deferred costs to be recovered in future periods on the accompanying statements of net position and as expenses to be recovered in future periods on the statements of revenues, expenses, and changes in net position. These costs represent depreciation of electric plant and equipment, amortization of long-term debt issuance costs, and amortization of long-term debt discount/premium in excess of amounts currently billed to members.

(n) Deferred Credits – Rate Stabilization

The Agency intends for its electric service rates to recover costs, as defined above, of providing power supply services. As part of its rate-making process, the Agency budgets an amount as a contribution to or a distribution from the rate stabilization account. The amount of the contribution to, or distribution from, the rate stabilization account is determined by the amount of revenues needed to meet the 1.10 coverage required by the debt service requirements. Revenue associated with amounts designated as contributions to the rate stabilization account are deferred and reported as an addition to the deferred credits-rate stabilization account on the statements of net position. In the event actual operating expenses exceed the 1.10 coverage required by the debt service requirements, the Agency has the ability to supplement its operating revenues, power sales, through the use of accumulations in its rate stabilization account. Usage of the rate stabilization results in the recognition of additional amounts of operating revenues, power sales, and a corresponding reduction in deferred credits-rate stabilization on the statements of net position. For the years ended December 31, 2014 and 2013, the Agency contributed $475,548 to, and distributed $8,131,052 from, its rate stabilization account, respectively.

(o) Deferred Gain on Involuntary Conversion of Plant Assets

In November 2011, the Agency experienced damage to its turbine and generator at Sherco 3. Pursuant to GASB 62, the Agency established a regulatory liability, which represents the deferred gain resulting from the involuntary conversion of plant assets. The gain will be amortized by the Agency into income over the remaining life of Sherco 3 at the time of the incident.

(p) Cash Flows

For purposes of the statements of cash flows, the Agency does not consider investments in money market funds or other investments with original maturities of three months or less as cash equivalents.

(q) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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 these estimates.

(r) Recently Issued Accounting Standards

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27*. The Agency will be required to report a liability for their proportionate share of the net pension liability of the defined benefit pension plan (note 7) as well as the related pension expense and any deferred inflows or deferred outflows of resources. The Agency historically has only included their required contributions as an expense. The Agency will adopt GASB 68 effective January 1, 2015.

(2) Deposits and Investments

The agency agreement that established the Agency and the bond resolution, under which the Power Supply System Revenue Bonds were issued, provides for the creation and maintenance of certain funds and accounts. The funds and accounts consist principally of deposits and investments in accordance with the agency agreement, bond resolution, and applicable state law. Funds and accounts are reported in the statements of net position as follows:

		2014	2013
Current assets:			
Cash	$	23,534	32,678
Investments:			
Unrestricted funds:			
Revenue and operating funds		27,626,275	23,981,024
Rate stabilization		71,334,565	70,369,245
Other		9,129,642	27,209,367
Total unrestricted funds		108,090,482	121,559,636
Restricted funds:			
Debt service account		65,224,463	57,429,170
Debt service reserve		309,389	309,325
Total restricted funds		65,533,852	57,738,495
Total current investments		173,647,868	179,330,809
Noncurrent investments:			
Restricted funds:			
Debt service reserve		71,972,985	71,717,610
Total noncurrent investments		71,972,985	71,717,610
Total	$	245,620,853	251,048,419

(a) Deposits

In accordance with applicable Minnesota Statutes, the Agency maintains deposits at depository banks authorized by the Agency's board of directors.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit insurance or corporate surety bonds.

Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Deposit balances are as follows:

		2014	2013
Carrying amount of cash	$	23,534	32,678
Bank balance		597,548	237,720

At December 31, 2014 and 2013, all deposits for the Agency were insured or collateralized by securities held by the Agency.

(b) Investments

Minnesota Statutes authorize the Agency to invest in the following types of investments:

- Direct obligations or obligations guaranteed by the United States of America or its agencies
- Shares of investment companies registered under the Federal Investment Company Act of 1940 whose only investments are securities described in (a) above
- General obligations of the State of Minnesota or any of its municipalities
- Bankers' acceptances of U.S. banks eligible for purchase by the Federal Reserve System
- Commercial paper issued by U.S. corporations or their Canadian subsidiaries, of the highest quality and maturing in 270 days or less
- Guaranteed investment contracts issued or guaranteed by U.S. commercial banks or domestic branches of foreign banks or U.S. insurance companies or their subsidiaries
- Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers
- Future contracts sold under authority of Minnesota Statutes 471.56, subd. 5.

(Continued)

The Agency's investments are potentially subject to various risks, including the following:

- Custodial credit risk – The risk that in the event of a failure of the counterparty to an investment transaction (typically a brokerage firm or financial institution), the Agency would not be able to recover the value of the investment or collateral securities. The Agency's investment policy does not limit the value of investments that may be held by an outside party.
- Credit risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations.
- Concentration of credit risk – The risk of loss attributed to the magnitude of the Agency's investment in a single issuer.
- Interest rate risk – The risk that changes in interest rates will adversely affect the fair value of an investment.

The Agency has an internal investment policy that limits investment choices and addresses these potential risks beyond the statutory limitations described above. The Agency's policy requires that investments be diversified to avoid unreasonable risks inherent in overinvesting in specific instruments, individual financial institutions, or maturities. For U.S. government and federal agency securities, the Agency places no limit on the amount that may be invested in any one issuer. The maximum percentage in which the portfolio can be invested, in specific instruments, is as follows:

U.S. government and federal agency securities	100%
Public agency or municipality, new housing authority bonds, and project notes	50
Direct or general obligation of any U.S. state	50
Commercial paper	50
Certificates of deposit – negotiable or nonnegotiable	50
Bankers' acceptances	50
Repurchase agreements	50

Investments are summarized as follows:

	2014		2013	
	Amortized cost	**Fair value**	**Amortized cost**	**Fair value**
Money market funds	$ 82,027,844	82,027,844	70,029,211	70,029,211
U.S. government securities	163,723,814	163,569,475	181,595,327	180,986,530
Total investments	$ 245,751,658	245,597,319	251,624,538	251,015,741

The following table presents the Agency's investment balances at December 31, 2014 and information relating to potential investment risks:

Investment	Interest rate risk: Less than 1 year	Interest rate risk: 1–5 years	Concentration risk: Over 5% of portfolio	Credit quality rating: S&P	Credit quality rating: Moody's	Carrying value
Government securities:						
Federal Home Loan Bank	$ —	28,898,250	11.8%	AA+	AAA	$ 28,898,250
Federal Farm Credit Bank	—	21,917,510	8.9%	AA+	AAA	21,917,510
Federal Home Loan Mortgage Corporation	—	20,967,620	8.5%	AA+	AAA	20,967,620
Federal National Mortgage Association	10,113,800	41,365,805	16.8%	AA+	AAA	51,479,605
United States Treasury Note	—	40,306,490	16.4%	AA+	AAA	40,306,490
Cash management funds:						
Wells Fargo Advantage Treasury Plus Money Market	82,027,844	—	N/A	N/R	N/R	82,027,844
						$ 245,597,319

N/A Not applicable
N/R Not rated

The foregoing investments are held by the Agency's counterparty, but not in the name of the Agency.

The following table presents the Agency's investment balances at December 31, 2013 and information relating to potential investment risks:

Investment	Interest rate risk: Less than 1 year	Interest rate risk: 1–5 years	Concentration risk: Over 5% of portfolio	Credit quality rating: S&P	Credit quality rating: Moody's	Carrying value
Government securities:						
Federal Home Loan Bank	$ —	12,944,470	5.2%	AA+	AAA	$ 12,944,470
Federal Home Loan Bank Discount Notes	14,998,710	—	6.0%	A-1+	P-1	14,998,710
Federal Farm Credit Bank	2,002,080	25,916,970	11.1%	AA+	AAA	27,919,050
Federal Home Loan Mortgage Corporation	12,036,120	20,835,590	13.1%	AA+	AAA	32,871,710
Federal National Mortgage Association	3,998,120	73,214,470	30.8%	AA+	AAA	77,212,590
United States Treasury Bill	4,999,800	—	No	AA+	AAA	4,999,800
United States Treasury Note	10,040,200	—	No	AA+	AAA	10,040,200
Cash management funds:						
Wells Fargo Advantage Treasury Plus Money Market	70,029,211	—	N/A	N/R	N/R	70,029,211
						$ 251,015,741

N/A Not applicable
N/R Not rated

The foregoing investments are held by the Agency's counterparty, but not in the name of the Agency.

(3) Capital Assets

Capital asset activity was as follows:

2014	Beginning balance	Additions	Transfers	Retirements	Ending balance
Nondepreciable:					
Land and land rights	$ 5,928,698	154,300	221,760	—	6,304,758
Construction work in progress	79,527,884	28,156,617	(54,900,187)	—	52,784,314
Depreciable:					
Utility plant in service	707,279,893	1,033,314	54,678,427	(7,978,476)	755,013,158
Less accumulated depreciation for utility plant in service	(321,367,601)	(18,138,727)	—	3,099,630	(336,406,698)
Capital assets, net	$ 471,368,874	11,205,504	—	(4,878,846)	477,695,532

2013		Beginning balance	Additions	Transfers	Retirements	Ending balance
Nondepreciable:						
Land and land rights	$	5,928,698	—	—	—	5,928,698
Construction work in progress		91,075,738	89,126,473	(100,674,327)	—	79,527,884
Depreciable:						
Utility plant in service		615,878,481	100,674,327	—	(9,272,915)	707,279,893
Less accumulated depreciation for utility plant in service		(309,607,181)	(13,881,512)	—	2,121,092	(321,367,601)
Capital assets, net	$	403,275,736	175,919,288	(100,674,327)	(7,151,823)	471,368,874

(4) Long-Term Debt

The Agency has issued the following Power Supply System Revenue Bonds to finance portions of its construction activities:

		2014	2013
Series 2002A, 2.00% – 5.25%, due January 1, 2004 to 2018	$	142,535,000	185,430,000
Series 2006A, 3.65% – 4.25%, due January 1, 2011 to 2027		30,945,000	32,925,000
Series 2009A, 2.00% – 5.50%, due January 1, 2011 to 2030		52,000,000	54,145,000
Taxable Series 2010A, (Build America Bonds), 3.774% – 5.926%, due January 1, 2018 to 2043		67,990,000	67,990,000
Series 2010B (Tax-Exempt), 2.00% – 4.00%, due January 1, 2013 to 2017		4,760,000	6,260,000
		298,230,000	346,750,000
Less unamortized discount/premium		6,683,512	10,791,615
		291,546,488	335,958,385
Series 1994A, 6.65% – 6.70%, CABs due January 1, 2019 to 2027		503,300,000	503,300,000
Series 2002A, 4.65% CABs, due January 1, 2018		55,320,000	55,320,000
		558,620,000	558,620,000
Less unamortized discount		205,799,765	227,338,400
		352,820,235	331,281,600
		644,366,723	667,239,985
Less current maturities		51,935,000	48,520,000
	$	592,431,723	618,719,985

Power Supply System Revenue Bonds are the major source of financing for the Agency's construction activities. These are secured by all funds and revenues of the Agency derived from the ownership and operation of its power supply system.

Long-term debt issuance costs attributable to refunded bonds, long-term debt issuance costs, and the discount/premium on long-term debt are amortized over the terms of the related bond issues under the effective-interest method.

Revenue bond debt service requirements to maturity are as follows:

		Principal	Interest
2015	$	51,935,000	15,229,145
2016		55,530,000	12,583,031
2017		59,305,000	9,767,729
2018		62,985,000	6,771,988
2019		64,210,000	6,466,714
2020–2024		324,835,000	28,182,512
2025–2029		189,330,000	19,587,666
2030–2034		17,765,000	11,763,546
2035–2039		15,890,000	7,360,388
2040–2043		15,065,000	2,274,399
	$	856,850,000	119,987,118

Long-term liability activity for the years ended December 31, 2014 and 2013 was as follows:

2014		Beginning balance	Additions	Reductions	Ending balance
Long-term revenue bonds	$	905,370,000	—	(48,520,000)	856,850,000
Less:					
Current maturities		(48,520,000)	(3,415,000)	—	(51,935,000)
Unamortized discount, net		(238,130,015)	—	25,646,738	(212,483,277)
Long-term revenue bonds, net	$	618,719,985	(3,415,000)	(22,873,262)	592,431,723
Derivative instruments – swap liability	$	907,264	—	(158,087)	749,177
Other long-term obligations		17,791,793	—	(17,791,793)	—

(Continued)

2013		Beginning balance	Additions	Reductions	Ending balance
Long-term revenue bonds	$	949,655,000	—	(44,285,000)	905,370,000
Less:					
Current maturities		(44,285,000)	(4,235,000)	—	(48,520,000)
Unamortized discount, net		(263,143,466)	—	25,013,451	(238,130,015)
Long-term revenue bonds, net	$	642,226,534	(4,235,000)	(19,271,549)	618,719,985
Derivative instruments – swap liability	$	817,280	89,894	—	907,174
Other long-term obligations		23,288,281	—	(5,496,488)	17,791,793

(5) Notes Payable

Since 1995, the Agency is authorized to borrow and reborrow from time to time up to $68,000,000 at any one time outstanding, evidenced by the issuance of Commercial Paper Notes, Series B. The Commercial Paper Notes, Series B bear interest payable at maturity at a maximum rate not in excess of 15% per annum, and shall mature not more than 270 days after issuance. The interest rate on the $45,000,000 outstanding at December 31, 2014 was 0.08%.

Commercial Paper Notes, Series B activity for the years ended December 31, 2014 and 2013 was as follows:

Activity for fiscal year		Beginning balance	Issues	Maturities	Ending balance
2014	$	45,000,000	270,000,000	(270,000,000)	45,000,000
2013		21,000,000	150,000,000	(126,000,000)	45,000,000

(6) Derivative Instruments

The Agency applies GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The tables below summarize derivative instrument activity for the years ended December 31, 2014 and 2013 and balances at end of 2014 and 2013:

	Changes in fair value for year ended December 31, 2014			Fair value at December 31, 2014			Notional
	Classification		Amount	Classification		Amount	amount
Cash flow hedges:							
Pay-fixed interest rate swaps	Deferred outflow	$	(158,087)	Long-term liabilities	$	(749,177)	17,435,000

	Changes in fair value for year ended December 31, 2013			Fair value at December 31, 2013			Notional
	Classification		**Amount**	**Classification**		**Amount**	**amount**
Cash flow hedges:							
Pay-fixed interest rate swaps	Deferred outflow	$	89,984	Long-term liabilities	$	(907,264)	19,415,000

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

(a) Objectives

In order to better manage its interest rate exposure and to reduce the overall costs of its financings, the Agency has entered into five separate pay-fixed, receive-variable interest rate swaps.

(b) Terms

Certain key terms relating to the outstanding hedging derivative instruments are presented below:

Associated financing issue		Notional amounts	Effective date	Fixed rate paid	Rate received	Swap termination date	Final maturity of bonds
Hedging derivatives:							
Cash flow hedges, pay-fixed interest rate swaps:							
Series 2006A	$	3,145,000	9/6/2006	3.82	CPI Rate (1) + 0.62%	1/1/2015	1/1/2015
Series 2006A		4,230,000	9/6/2006	3.87	CPI Rate (1) + 0.66%	1/1/2016	1/1/2016
Series 2006A		5,030,000	9/6/2006	3.93	CPI Rate (1) + 0.71%	1/1/2017	1/1/2017
Series 2006A		3,395,000	9/6/2006	3.98	CPI Rate (1) + 0.76%	1/1/2018	1/1/2018
Series 2006A		1,635,000	9/6/2006	4.02	CPI Rate (1) + 0.79%	1/1/2019	1/1/2019
Total	$	17,435,000					

(1) CPI rate is defined by the swaps' letter agreement and is generally defined as the percentage change in the CPI index over a rolling 12-month period computed every six months beginning with the semiannual calculation on January 1, 2007 using the October 2006 and 2005 CPI indices.

(c) Credit Risk

Credit risk can be measured by actual market value exposure or theoretical exposure. When the fair value of any swap has a positive market value, then the Agency is exposed to the actual risk that the counterparty will not fulfill its obligations. As of December 31, 2014, the Agency had no net exposure to actual credit risk on its hedging derivatives because each had a negative fair value.

(d) Interest Rate Risk

All hedging derivatives are pay-fixed, receive-variable, cash flow hedges hedging a portion of the Agency's variable-rate debt. The Agency believes it has significantly reduced interest rate risk attributable to the principal amount being hedged by entering into these pay-fixed, receive-variable interest rate swaps.

(e) Basis Risk

The Agency is exposed to basis risk when the variable interest received on a swap is based on a different index than the variable interest rate to be paid on the associated variable rate debt obligation. As of December 31, 2014, the associated debt used the same index for all Consumer Price Index (CPI) referenced swaps. As a result, there is no significant exposure to basis risk as of December 31, 2014.

(f) Termination Risk

The Agency or counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. In such cases, the Agency may owe or be due a termination payment depending on the fair value of the swap at that time. The termination payment due to a counterparty may not be equal to the fair value. If any of the swaps were terminated, the associated variable rate financings would no longer carry synthetic interest rates.

(g) Rollover Risk

The Agency is exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated financings. When these swaps terminate, or in the case of the termination option, if the counterparty exercises its option, the Agency will not realize the synthetic rate offered by the swaps on the underlying issues. The Agency is exposed to rollover risk on its swaps should they be terminated prior to the maturity of the associated financings.

(h) Foreign Currency Risk

All derivatives are denominated in U.S. dollars, and therefore, the Agency is not exposed to foreign currency risk.

(7) Pension Plan

(a) Plan Description

All full-time and certain part-time employees of the Agency are covered by a defined benefit plan administered by Public Employees' Retirement Association (PERA). PERA administers the General Employees Retirement Fund (GERF), which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits, as well as disability benefits, to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For GERF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree for which no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, MN 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

(b) Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The Agency makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members are required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2014. In 2014, the Agency is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The Agency's contributions to GERF for the years ended December 31, 2014 and 2013 were $343,371 and $329,166, respectively. The Agency's contributions were equal to the contractually required contributions for each year as set by state statute.

(8) Deferred Compensation Plans

The Agency offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Agency employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All assets and income of the plan are held in a trust established for the exclusive benefit of eligible employees and their beneficiaries in accordance with Internal Revenue Code Section 457(g). Participants' rights under the plan are equal to the fair market value of the deferred account for each participant. The trust shall not revert to the Agency or be used for or diverted to purposes other than the exclusive benefit of participants and their beneficiaries. The plan is managed by third-party administrators. Plan assets were $10,764,009 and $9,944,972 at December 31, 2014 and 2013, respectively. The Agency contributed $106,649 and $103,889 to the plan for the years ended December 31, 2014 and 2013, respectively.

During 2011, the Agency adopted a tax qualified defined contribution plan created in accordance with Internal Revenue Code Section 401(a). The plan, available to all Agency employees with six months of continuous service, permits them to defer a portion of their salary until future years. The amount deferred is not available to employees until termination, retirement, death, or unforeseeable emergency. Participants' rights under the plan are equal to the fair market value of the account for each participant. The plan is managed by third-party administrators. Plan assets were $1,409,018 and $1,033,199 at December 31, 2014 and 2013, respectively. The Agency contributed $214,570 and $207,472 to the plan for the years ended December 31, 2014 and 2013, respectively.

(9) Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and others; and natural disasters. Cash and investments held in the Agency's unrestricted funds are available to cover uninsured losses. As noted in note (1)(c), in November 2011, the Agency experienced damage to Sherco 3's turbine and generator that is subject to insurance coverage. The estimated insurance claim receivable, net of applicable deductibles, has been reported in the statements of net position.

The Agency continues to carry commercial insurance for other risks of loss, including workers' compensation, property and liability, and employee health and accident. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Commitments

In 2012, the Agency entered into various agreements to participate in the construction of a 345 kV and 161 kV high voltage transmission line project and to suspend further investment obligations under a shared transmission agreement. The Agency's commitment for its portion of the high voltage transmission line construction project costs and investment obligations under the shared transmission agreement together are approximately $70.0 million. As of December 31, 2014 and 2013, the Agency had accrued approximately $12.6 million and $17.8 million, respectively, for this investment obligation associated with the shared transmission agreement and the high voltage transmission line project. When the high voltage transmission line project is completed in 2016, the parties have agreed to freeze the investment obligations and suspend the shared transmission agreement, which will alleviate the Agency's future investment obligations under this agreement.

(11) Contingency

The Agency purchases coal for its jointly owned Sherco Unit 3 from Western Fuels Association, a not-for profit cooperative that supplies coal and transportation services to consumer-owned electric utilities (Western Fuels). Western Fuels contracts with Absaloka Coal, LLC, a wholly owned subsidiary of Westmoreland Coal Company (Westmoreland) for deliveries of coal from its Absaloka coal mine to Sherco 3. Following the catastrophic failure of the Sherco 3 turbine and generator in November of 2011, Western Fuels invoked the force majeure clause of its contract with Westmoreland and halted deliveries of coal while the unit was undergoing restoration. In November 2014, the Agency was provided with a notice of a demand for arbitration and related pleadings seeking to pursue a claim for monetary damages against the Agency, Western Fuels and Northern States Power Company d/b/a Xcel Energy (Xcel), the co-owner of Sherco 3. The demand was made by certain insurance companies as subrogees for Westmoreland. The Westmoreland insurers claim that they incurred significant damages because of payments made to Westmoreland under a business interruption insurance policy when purchases of coal were interrupted

Because the Westmoreland insurers have only made an aggregate claim for damages against Xcel, Western Fuels, and the Agency, it is not possible to determine the amount of the claim, or the portion of damages, for which the Agency might be claimed to be liable. The Agency has significant procedural, substantive, and contractual defenses to the Westmoreland claims, and intends to defend the demand for arbitration vigorously. Because the potential liability cannot be reasonably estimated and because management of the Agency believes that the probability of a material adverse judgment against the Agency is remote, no liability has been reflected in the Agency's financial statements for this matter.

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SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY

Statements of Net Position

June 30, 2015 and 2014

Assets		**2015**	**2014**
Current assets:			
Cash	$	27,357	32,941
Investments:			
Unrestricted funds:			
Revenue and operating funds		26,222,576	25,407,209
Rate stabilization		58,003,795	73,447,751
Other		26,608,089	18,911,044
Restricted funds		34,409,327	33,919,480
Power sales revenue receivables		17,763,409	17,626,054
Accrued interest receivable		316,094	311,939
Fuel stock		15,634,986	3,163,949
Material inventory		5,816,372	4,676,947
Prepaids		4,208,992	4,126,530
Other current assets		960,613	1,101,938
Escrow deposit		—	499,551
Insurance claim receivable		11,152,000	13,284,000
Total current assets		201,123,610	196,509,333
Noncurrent assets:			
Capital assets:			
Electric plant and equipment		758,095,617	729,580,196
Less accumulated depreciation and amortization		342,124,063	326,935,094
Electric plant and equipment – net		415,971,554	402,645,102
Construction work in progress		61,083,789	74,555,826
Total capital assets		477,055,343	477,200,928
Restricted investment funds		71,775,775	72,113,270
Investment in SMMPA WI LLC		2,000	—
Total noncurrent assets		548,833,118	549,314,198
Total assets		749,956,728	745,823,531
Deferred Outflows			
Future recoverable costs – noncurrent		213,078,958	225,515,146
Accumulated decrease in fair value of derivative instruments – noncurrent		669,569	575,344
Total assets and deferred outflows	$	963,705,255	971,914,021
Liabilities			
Current liabilities:			
Accounts payable – power production	$	5,920,570	5,562,649
Accrued liabilities and other payables		23,372,069	10,450,325
Accrued interest payable		6,272,306	7,594,411
Notes payable		68,000,000	45,000,000
Current maturities of long-term debt		55,530,000	51,935,000
Total current liabilities		159,094,945	120,542,385
Long-term liabilities:			
Long-term debt, net		549,772,839	579,316,430
Derivative instruments – swap liability		669,569	575,344
Other long-term obligations		—	17,791,793
Total long-term liabilities		550,442,408	597,683,567
Total liabilities		709,537,353	718,225,952
Deferred Inflows			
Deferred credits rate stabilization – current		—	130,131
Gain on involuntary conversion of plant assets – current		3,239,108	3,224,404
Deferred credits rate stabilization – noncurrent		87,883,881	94,051,624
Gain on involuntary conversion of plant assets – noncurrent		59,923,489	62,574,464
Total deferred inflows		151,046,478	159,980,623
Total liabilities and deferred inflows		860,583,831	878,206,575
Net Position			
Net investment in capital assets		146,384,490	97,842,422
Restricted by bond agreements		35,508,388	35,356,036
Unrestricted		(78,771,454)	(39,491,012)
Total net position		103,121,424	93,707,446
Total liabilities, deferred inflows, and net position	$	963,705,255	971,914,021

SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2015 and 2014

	2015	2014
Operating revenues, power sales	$ 114,309,919	121,690,135
Operating expenses:		
Production fuel	21,687,406	26,465,396
Power production	26,239,364	33,133,999
Other operating expenses	29,944,972	26,142,059
Depreciation and amortization	7,937,877	8,092,974
Deferred costs expensed in current period	2,888,277	2,041,622
Total operating expenses	88,697,896	95,876,050
Operating income	25,612,023	25,814,085
Nonoperating (income) expenses:		
Investment earnings	(683,944)	(613,420)
Miscellaneous income	(606,050)	(607,240)
Interest expense	5,232,460	6,436,952
Amortization of long-term debt issuance costs	512,660	534,597
Amortization of discount/premium on long-term debt	12,871,116	12,531,445
Deferred costs expensed in current period	3,555,070	2,766,861
Total nonoperating expenses	20,881,312	21,049,195
Change in net position	4,730,711	4,764,890
Total net position, beginning of year	98,390,713	88,942,556
Total net position, end of year	$ 103,121,424	93,707,446

APPENDIX C

Upon delivery of the 2015 A Bonds, the Agency proposes to enter into a Continuing Disclosure Agreement with respect to such Bonds in substantially the following form:

MASTER RESOLUTION OF THE BOARD OF DIRECTORS OF SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY RELATING TO THE PROVISION OF CERTAIN CONTINUING DISCLOSURE INFORMATION WITH RESPECT TO CERTAIN DESIGNATED SERIES OF BONDS OF THE AGENCY

WHEREAS, the Board of Directors (the "Board") of the Southern Minnesota Municipal Power Agency, a municipal corporation and a political subdivision of the State of Minnesota (the "Agency"), heretofore has authorized the issuance of the Agency's Power Supply System Revenue Bonds, Series 2015 A (the "2015 Series A Bonds") pursuant to the Power Supply Revenue Bond Resolution adopted by the Agency on May 11, 1983, as amended and supplemented (the "Bond Resolution"), including a resolution supplemental thereto adopted by the Agency on September 9, 2015 entitled "Thirtieth Supplemental Power Supply Revenue Bond Resolution," relating to the 2015 Series A Bonds; and

WHEREAS, the Rule (as defined in Section 1 hereof) requires, for certain issues of municipal securities, that the participating underwriters (as defined in the Rule) for such securities reasonably determine that the issuer of such securities or certain "obligated persons" (as defined in the Rule) has or have undertaken to provide certain continuing disclosure information as required by the Rule; and

WHEREAS, the Rule is applicable to the 2015 Series A Bonds; and

WHEREAS, the Agency may hereafter issue one or more additional Series of Bonds under the Bond Resolution and intends that this Master Disclosure Resolution apply to each such additional Series of Bonds if the Board elects to cause this Master Disclosure Resolution to apply to such Series; and

WHEREAS, the Board hereby finds and determines that it is necessary that it adopt this resolution (a) to effectuate the agreements between the Agency and the respective Participating Underwriters (as defined in Section 1 hereof) for the 2015 Series A Bonds described above and (b) in connection with the authorization and sale of the Covered Bonds described in clause (b) of the definition thereof set forth in Section 1 hereof, in order to assist the Participating Underwriters thereof to comply with the Rule.

NOW, THEREFORE, be it resolved by the Board as follows:

SECTION 1. Definitions. In addition to the definitions set forth in the Bond Resolution, which apply to any capitalized term used in this Master Disclosure Resolution, unless otherwise defined in this Master Disclosure Resolution, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Agency pursuant to, and as described in, Sections 3 and 4 of this Master Disclosure Resolution.

"Audited Financial Statements" shall mean:

a. with respect to the Agency, the Agency's audited financial statements for its most recent fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time (or such other accounting principles as may be applicable to the Agency in the future pursuant to applicable law); and

b. with respect to each of the Largest Members, the audited financial statements of such Member's utility system (*provided*, *however*, if the audited financial statements of any such Member are presented on a combined system basis, such audited combined financial statements) for its most recent fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time (or such other accounting principles as may be applicable to Austin in the future pursuant to applicable law).

"Beneficial Owner" shall mean any person holding a beneficial ownership interest in Covered Bonds through nominees or depositories (including any person holding such interest through the book-entry only system of The Depository Trust Company), together with any other person who is intended to be a beneficiary under the Rule of this Master Disclosure Resolution.

"Covered Bonds" shall mean each of the following:

a. the 2015 Series A Bonds; and

b. each additional Series of Bonds issued by the Agency after the date of the initial issuance and delivery of the 2015 Series A Bonds, as to which the Board has specified, by resolution, that this Master Disclosure Resolution shall apply.

"Dissemination Agent" shall mean any person or entity appointed by the Agency and which has entered into a written agreement with the Agency pursuant to which such person or entity agrees to perform the duties and obligations of Dissemination Agent under this Master Disclosure Resolution.

"Final Official Statement" shall mean: (i) with respect to the 2015 Series A Bonds, the Official Statement of the Agency relating to such Bonds; and (ii) with respect to all other Series of Covered Bonds, the final official statement prepared and delivered by the Agency with respect thereto, in each of the cases referenced in the immediately preceding clauses (i) and (ii), as such official statements are amended, supplemented or updated.

"Largest Members" shall mean each Member whose energy requirements from the Agency (exclusive of energy supplied through purchases from the Western Area Power Administration) represents or is reasonably expected to represent ten percent or more of the total energy requirements of the Members supplied by the Agency for the then current or any future twelve month period ending on December 31. As of the date hereof, the Largest Members are the City of Austin, Minnesota ("Austin"), the City of Owatonna, Minnesota ("Owatonna") and the City of Rochester, Minnesota ("Rochester").

"Listed Events" shall mean any of the events listed in Section 5(a) of this Master Disclosure Resolution.

"Listed Event Notice" shall mean written or electronic notice of a Listed Event.

"Master Disclosure Resolution" shall mean this resolution, as the same may be amended or supplemented from time to time in accordance with the provisions hereof.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Participating Underwriter" shall mean, with respect to each Series of Covered Bonds, any of the original underwriters of such Covered Bonds required to comply with the Rule in connection with the offering of such Series of Covered Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time, together with all interpretive guidances or other official interpretations or explanations thereof that are promulgated by the SEC.

"SEC" shall mean the United States Securities and Exchange Commission.

SECTION 2. Purpose of this Master Disclosure Resolution; Obligated Persons; Master Disclosure Resolution to Constitute Contract.

a. This Master Disclosure Resolution is adopted by the Agency for the benefit of the Holders and Beneficial Owners of the Covered Bonds and in order to assist the Participating Underwriters for the Covered Bonds in complying with the Rule.

b. The Agency and each of the Largest Members are hereby determined by the Agency to be "obligated persons" within the meaning of the Rule (and are the only "obligated persons" within the meaning of the Rule for whom financial information or operating data is or will be presented in the respective Final Official Statements).

c. In consideration of the purchase and acceptance of any and all of the Covered Bonds by those who shall hold the same or shall own beneficial ownership interests therein from time to time, this Master Disclosure Resolution shall be deemed to be and shall constitute a contract between the Agency and the Holders and Beneficial Owners from time to time of the Covered Bonds; and the covenants and agreements herein set forth to be performed on behalf of the Agency shall be for the benefit of the Holders and Beneficial Owners of any and all of the Covered Bonds.

SECTION 3. Provision of Annual Reports.

a. The Agency hereby covenants and agrees that it shall, or shall cause the Dissemination Agent to, not later than nine months after the end of each fiscal year (presently, by each September 30; each such date being referred to herein as a "Final Submission Date"), commencing with the report for the fiscal year ending December 31, 2015, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Master Disclosure Resolution. The Annual Report must be submitted in electronic format and accompanied by such identifying information as is prescribed by the MSRB and may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Master Disclosure Resolution; provided that any Audited Financial Statements may be submitted separately from the balance of the Annual Report and later than the Final Submission Date if they are not available by that Date. If the fiscal year for the Agency or any of the Largest Members changes, the Agency shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

b. Not later than fifteen (15) business days prior to each Final Submission Date (each such date being referred to herein as a "Preliminary Submission Date"), the Agency shall provide the Annual Report to the Dissemination Agent, if any. If by a Preliminary Submission Date, the Dissemination Agent, if any, has not received a copy of the Annual Report, the Dissemination Agent shall contact the Agency to determine if the Agency is in compliance with subsection (a).

c. If the Agency or the Dissemination Agent (if any), as the case may be, has not furnished an Annual Report to the MSRB by a Final Submission Date, the Agency or the Dissemination Agent, as applicable, shall send a notice to the MSRB in substantially the form attached as Exhibit A.

d. The Agency (or, in the event that the Agency shall appoint a Dissemination Agent hereunder, the Dissemination Agent) shall file the Annual Report with the MSRB on or before the Final Submission Date. In addition, if the Agency shall have appointed a Dissemination Agent hereunder, the Dissemination Agent shall file a report with the Agency certifying that the Annual Report has been provided pursuant to this Master Disclosure Resolution, stating the date it was provided to the MSRB.

SECTION 4. Content of Annual Reports. The Agency's Annual Report shall contain or include by reference the following:

a. The Audited Financial Statements. If any Audited Financial Statements are not available by the Final Submission Date, the Annual Report shall contain unaudited financial statements for the Agency or any of the Largest Members, as applicable, in a format similar to the audited financial statements most recently prepared for such person, and such Audited Financial Statements shall be filed in the same manner as the Annual Report when and if they become available.

b. Updated versions of the type of information contained in the Final Official Statement for each Series of Covered Bonds then Outstanding relating to the following:

i. capital expenditures;

ii. the Agency's financing program;

iii. the amount of commercial paper outstanding;

iv. Debt Service Requirements on the Bonds (as defined in the Final Official Statement for each Series of Covered Bonds then Outstanding);

v. Members receiving power under the Contract Rate of Delivery of their Power Sales Contracts and other exceptions to the all requirements obligation of the Power Sales Contracts (as such terms are defined in the Final Official Statement for each Series of Covered Bonds then Outstanding);

vi. information relating to capacity purchases from the Agency's Members (as defined in the Final Official Statement for each Series of Covered Bonds then Outstanding);

vii. information relating to the Agency's rates;

viii. financial results of the Agency's operations;

ix. energy requirements of the Members (in MWH and in Percentages);

x. Members' Historical Power and Energy Requirements; and

xi. Operating results of Sherco 3 (as defined in the Final Official Statement for each Series of Covered Bonds then Outstanding).

c. Updated versions of the type of information for Austin contained in the Final Official Statement for each Series of Covered Bonds then Outstanding relating to the following:

i. information relating to customers representing over ten percent of Austin's operating revenues; and

ii. information for Austin contained in Appendix A to the Final Official Statement for each Series of Covered Bonds then Outstanding relating to the following

(1) system requirements, customers and megawatt hour sales;

(2) balance sheet for the combined utility system;

(3) summary of financial results of Austin's electric system; and

(4) summary of combined operating results of Austin's integrated utility system;

d. Updated versions of the type of information for Owatonna contained in the Final Official Statement for each Series of Covered Bonds then Outstanding relating to the following:

i. information relating to customers representing over ten percent of Owatonna's operating revenues; and

ii. information for Owatonna contained in Appendix A to the Final Official Statement for each Series of Covered Bonds then Outstanding relating to the following:

(1) system requirements, customers and megawatt hour sales; and

(2) summary of financial results of Owatonna Public Utilities.

e. Updated versions of the type of information for Rochester contained in the Final Official Statement for each Series of Covered Bonds then Outstanding relating to the following:

i. information relating to customers representing over ten percent of Rochester's operating revenues; and

ii. information for Rochester contained in Appendix A to the Final Official Statement for each Series of Covered Bonds then Outstanding relating to the following:

(1) system requirements, customers and megawatt hour sales; and

(2) summary of financial results of Rochester Public Utilities.

f. As for any Member of the Agency who becomes a Largest Member after the date hereof, information relating to customers representing over ten percent of such Largest Member's operating revenues, and with respect to any Largest Member who operates as a combined utility system, the information of the type set forth in Appendix A to the Final Official Statement for Austin or, as to any Largest Member who operates as a separate utility system, information of the type set forth in Appendix A to the Final Official Statement for Owatonna and Rochester.

Any or all of the items listed above may be included by specific reference to other documents, including annual reports of the Agency or any of the Largest Members, or official statements relating to debt or other securities issues of the Agency or any of the Largest Members or other entities, which have been submitted to the MSRB or the SEC. If the document included by reference is a final official statement (as defined in the Rule), it must be available from the MSRB. The Agency shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

a. Pursuant to the provisions of this Section 5, the Agency hereby covenants and agrees that it shall give, or cause to be given, notice of the occurrence of any of the following events with respect to any Series of the Covered Bonds in a timely manner not in excess of ten (10) business days after the occurrence of the event:

i. Principal and interest payment delinquencies;

ii. Non-payment related defaults**, if material**;

iii. Unscheduled draws on debt service reserves reflecting financial difficulties;

iv. Unscheduled draws on credit enhancements reflecting financial difficulties;

v. Substitution of credit or liquidity providers, or their failure to perform;

vi. Adverse tax opinions , ***the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other notices or determinations with respect to the tax status of the security***, or other events affecting the tax-exempt status of the security;

vii. Modifications to rights of security holders, ***if material***;

viii. Bond calls, ***if material, and tender offers***;

ix. Defeasances;

x. Release, substitution, or sale of property securing repayment of the securities, ***if material***;

xi. Rating changes;

xii. ***Bankruptcy, insolvency, receivership or similar event of the obligated person***;

<u>Note</u>: for the purposes of the event identified in subparagraph (12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person;

xiii. ***The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; or***

xiv. ***Appointment of a successor or additional trustee or the change of name of a trustee, if material.***

b. If the Agency learns of the occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(a) would be material under applicable federal securities laws, the Agency shall file a notice of such occurrence with the MSRB within ten (10) business days after the occurrence of the event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (a)(ix) need not be given under this subsection any earlier than the notice of the underlying event is given to Holders of affected Covered Bonds pursuant to the Bond Resolution.

c. Each Listed Event Notice shall prominently state the title, date and CUSIP numbers of the Covered Bonds.

SECTION 6. Management's Discussion of Items Disclosed in Annual Reports or as Significant Events. If an item required to be disclosed in the Agency's Annual Report under Section 4, or as a Listed Event under Section 5, would be misleading without discussion, the Agency additionally covenants and agrees that it shall provide a statement clarifying the disclosure in order that the statement made will not be misleading in the light of the circumstances under which it is made.

SECTION 7. Termination of Reporting Obligation. The Agency's obligations under this Master Disclosure Resolution to the Holders or Beneficial Owners of the Covered Bonds of any Series shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Covered Bonds of such Series. In addition, in the event that the Rule shall be amended, modified or repealed such that compliance by the Agency with its obligations under this Master Disclosure Resolution no longer shall be required in any or all respects then the Agency's obligations under this Master Disclosure Resolution shall terminate to a like extent. If either such termination occurs with respect to the Covered Bonds of any Series prior to the final maturity date of such Bonds, the Agency shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 8. Dissemination Agent. The Agency may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Master Disclosure Resolution, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

SECTION 9. Amendment; Waiver.

a. Notwithstanding any other provision of this Master Disclosure Resolution, the Agency may, by resolution hereafter adopted, amend this Master Disclosure Resolution, and any provision of this Master Disclosure Resolution may be waived:

i. if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws appointed by the Agency to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule taking into account any subsequent change in or official interpretation of the Rule, and

ii. as to any amendment to this Master Disclosure Resolution, the following conditions are complied with:

(1) The amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature,

or status of the Agency or any of the Largest Members, or type of business conducted;

(2) The undertaking, as amended, would have complied with the requirements of the Rule at the respective times of the primary offering of each Series of the Covered Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(3) The amendment does not materially impair the interests of Holders or Beneficial Owners of the Covered Bonds, as determined either by parties unaffiliated with the Agency (such as bond counsel to the Agency), or by approving vote of Bondholders pursuant to the terms of the Bond Resolution at the time of the amendment.

b. The Annual Report containing the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

SECTION 10. Additional Information. Nothing in this Master Disclosure Resolution shall be deemed to prevent the Agency from disseminating, or require the Agency to disseminate, any other information, using the means of dissemination set forth in this Master Disclosure Resolution or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Master Disclosure Resolution. If the Agency chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Master Disclosure Resolution, the Agency shall have no obligation under this Master Disclosure Resolution to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Default.

a. In the event of a failure of the Agency to comply with any provision of this Master Disclosure Resolution, any Holder or Beneficial Owner of any Outstanding Covered Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Agency to comply with its obligations under this Master Disclosure Resolution.

b. Notwithstanding the foregoing, no Holder or Beneficial Owner of the Covered Bonds of any Series shall have the right to challenge the content or adequacy of the information provided pursuant to Sections 3, 4 or 5 of this Master Disclosure Resolution by mandamus, specific performance or other equitable proceedings unless Holders or Beneficial Owners of Covered Bonds of such Series representing at least 25 percent in aggregate principal amount of the Covered Bonds of such Series shall join in such proceedings.

c. A default under this Master Disclosure Resolution shall not be deemed an Event of Default under the Bond Resolution, and the sole remedies under this Master Disclosure Resolution in the event of any failure of the Agency to comply with this Master Disclosure Resolution shall be those described in subsection (a) above.

d. Under no circumstances shall any person or entity be entitled to recover monetary damages hereunder in the event of any failure of the Agency to comply with this Master Disclosure Resolution.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent. Any Dissemination Agent appointed hereunder shall have only such duties as are specifically set forth in this Master Disclosure Resolution, and shall have such rights, immunities and liabilities as shall be set forth in the written agreement between the Agency and such Dissemination Agent pursuant to which such Dissemination Agent agrees to perform the duties and obligations of Dissemination Agent under this Master Disclosure Resolution.

SECTION 13. Beneficiaries. This Master Disclosure Resolution shall inure solely to the benefit of the Agency, the Dissemination Agent, if any, and the Holders and Beneficial Owners from time to time of the Covered Bonds, and shall create no rights in any other person or entity.

SECTION 14. No Previous Non-Compliance. The Agency represents that since September 9, 2010, it has not failed to comply, and it has no knowledge that any Largest Member has failed to comply, in any material respect with any previous undertaking in a written contract or agreement specified in the Rule, except as described in the Final Official Statement.

SECTION 15. Format for Filings with MSRB. Any report or filing with the MSRB pursuant to this Master Disclosure Resolution must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

SECTION 16. Governing Law. This Master Disclosure Resolution shall be deemed to be a contract made under the Rule and the laws of the State of Minnesota, and for all purposes shall be construed and interpreted in accordance with, and its validity governed by, the Rule and the laws of such State.

SECTION 17. Effective Date. This Master Disclosure Resolution shall become effective as to each Series of Covered Bonds upon the date of authentication and delivery of such Series of Covered Bonds.

Adopted by the Board of Directors of the Agency this 9th day of September, 2015.

SOUTHERN MINNESOTA MUNICIPAL
POWER AGENCY

By: /s/ RICHARD D. KITTELSON
President

EXHIBIT A

NOTICE TO THE MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Southern Minnesota Municipal Power Agency

Bonds to Which
Notice Relates: Power Supply System Revenue Bonds

Series	**Original Principal Amount**	**Date of Issuance**

NOTICE IS HEREBY GIVEN that Southern Minnesota Municipal Power Agency (the "Agency") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3(a) of the resolution, adopted by the Board of Directors of the Agency on September 9, 2015, relating to the above-named Bonds. [The Agency [has advised the undersigned that the Agency] anticipates that the Annual Report will be filed by _____________.]

Dated:_______________

[SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY] [_______________, as Dissemination Agent on behalf of Southern Minnesota Municipal Power Agency]

[cc: Southern Minnesota Municipal Power Agency]

CERTIFICATE

I, Mark J. Fritsch, am the duly elected, qualified and acting Secretary of the Board of Directors of the Southern Minnesota Municipal Power Agency, and do hereby certify that the foregoing resolution was duly adopted by the Board of Directors of the Southern Minnesota Municipal Power Agency at a meeting of said Board duly called and held on September 9, 2015, at which meeting a quorum was present and acting throughout.

By: /s/ MARK J. FRITSCH

Secretary, Board of Directors of
Southern Minnesota Municipal Power Agency

Date of Certificate:
September 9, 2015

[SEAL]

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE POWER SALES CONTRACTS

The following is a summary of certain provisions of the separate Power Sales Contracts, as amended (the "Power Sales Contracts"), between the Agency and its eighteen members (the "Members"). The summary does not purport to be a complete description of the terms of the Power Sales Contracts and, accordingly, is qualified by reference thereto. Copies of the Power Sales Contracts may be obtained from the Agency, its Financial Advisor and Morgan Stanley & Co. LLC.

Term

Power Sales Contracts for thirteen of the Members became effective as of April 1, 1981 and for the remaining five Members as of September 1, 1984. Each Member (other than Austin, Rochester and Waseca) has a Power Sales Contract that will remain in effect until April 1, 2050 and thereafter until terminated by either party upon one year's prior written notice to the other party. Each of Austin, Rochester and Waseca has a Power Sales Contract that remains in effect until April 1, 2030.

Purchase and Sale

Subject to the exceptions noted below, each original Power Sales Contract requires the Agency to sell to the Member, and the Member to purchase from the Agency, all electric power and energy required by such Member for the operation of its municipal electric system for the term of the Power Sales Contract. However, the original Power Sales Contracts provided that, after 1999, the maximum amount of electric power the Agency is required to sell and each Member is required to purchase will be limited to the "Contract Rate of Delivery," which is defined to be the peak demand of the Member for power and energy under the Power Sales Contract during the twelve billing periods preceding December 31, 1999 adjusted up or down by not more than ten percent to provide for optimal utilization of the Agency's resources. Rochester is the only Member currently operating under its post-1999 partial requirements provision of its Power Sales Contract. Rochester's "Contract Rate of Delivery" is 216 MW.

At various times the Agency and certain Members have entered into amendments to the Power Sales Contracts, pursuant to which the total requirements provisions were extended. All Members (other than Rochester) have executed amendments to their Power Sales Contracts to extend the total requirements provision through April 1, 2030, subject to certain exceptions. These amendments to the Power Sales Contracts provide that at any time, unless the Agency is developing a resource for the production or transmission of electric power and energy to be used to supply power and energy under the Power Sales Contracts (a "Power Supply Resource"), the Agency or the Member may, by seven years' notice to the other party, limit the amount of power the Agency is obligated to supply, and the Member is obligated to purchase, to the Member's Contract Rate of Delivery. Such "Contract Rate of Delivery" is defined to mean the peak demand of the Member, as determined by the Agency, for the calendar year immediately preceding the calendar year in which the Contract Rate of Delivery limitation is to take effect. Neither the Agency nor the Member may give to the other a notice electing to initiate such Contract Rate of Delivery limitation during any period of time when the Agency is developing a Power Supply Resource. Such period shall commence no earlier than the date on which the Agency first enters into a contract to sell Bonds to finance any costs associated with such Power Supply Resource and shall end no later than the earlier of the actual date on which the Agency first receives power and energy or transmission services, as the case may be, from such Power Supply Resource or the date on which the Agency determines not to proceed with the development of such Power Supply Resource. Seventeen Members (Austin, Blooming Prairie, Fairmont, Grand Marais, Lake City, Litchfield, Mora, New Prague, North Branch, Owatonna, Preston, Princeton, Redwood Falls, Spring Valley, St. Peter, Waseca and Wells; collectively, the "Extended Members") elected to extend the total requirements provision of the original Power Sales Contract to April 1, 2030, subject to certain limitations discussed herein, and their Power Sales Contracts have been amended accordingly. Austin will operate under a "Contract Rate of Delivery" of 70 MW effective January 1, 2016. See "THE AGENCY – Power Supply Operations – *Limitation on Total Requirements Provisions of Certain Members*" in the body of the Official Statement.

Fifteen of the Agency's eighteen Members have extended the term of their respective Power Sales Contracts to April 1, 2050 and thereafter until terminated upon one year's prior notice by either party. The Power Sales Contracts of the remaining three Members, Austin, Rochester and Waseca, expire in April 2030.

The foregoing is subject to certain exceptions. In the case of three Members, Redwood Falls, Fairmont and Litchfield, the amount of power and energy to be sold by the Agency and purchased by such Member is its requirements in excess of the portion served through purchases under an allocation from Western Area Power Administration, an agency of the Department of Energy of the United States. In addition, each Member may acquire or construct hydroelectric facilities and use the output thereof, or of existing hydroelectric facilities, in its own system so long as, at any time, the amount of capacity from such facilities being used does not exceed 5 MW.

Payments by the Members

Each Member is required to pay for electric power and energy furnished pursuant to its Power Sales Contract at its point or points of delivery according to rates to be established by the Agency. The rates of the Agency are to be reviewed at least once a year and, if necessary, revised so as to provide revenues sufficient, but only sufficient, together with other available funds of the Agency, to meet the estimated "Revenue Requirements" of the Agency. The term Revenue Requirements is broadly defined to include generally all costs and expenses paid or incurred or to be paid or incurred by the Agency resulting from the ownership, operation, maintenance, termination, retirement from service and decommissioning of, and repair, renewals, replacements, additions, improvements, betterments and modifications to, the Agency's system or otherwise relating to the acquisition and sale of power and energy and transmission services and performance by the Agency of its obligations under the Power Sales Contracts. The term Revenue Requirements includes, without limitation, debt service on the 2015 A Bonds offered hereby and all other evidences of indebtedness issued by the Agency to finance its system, all amounts required, under the Agency's Power Supply System Revenue Bond Resolution, to be deposited in funds established thereunder and amounts which must be realized by the Agency to satisfy any rate covenant with respect to debt service coverage or which the Agency deems advisable in the marketing of its evidences of indebtedness. The Agency is also required to bill each Member on a prompt and timely basis.

If a Member fails to take power and energy made available by the Agency which it is required to take under its Power Sales Contract, it will be obligated to pay the Agency for such availability an amount equal to the product of the demand charge in the Agency's rate schedule and the billing demand computed on the basis of the kilowatts that would otherwise have been taken from the Agency.

Payments by each Member under its Power Sales Contract are made as an operating expense from the revenues of its electric utility system (or, if the electric utility system is part of an integrated utility system, from the revenues of such larger system) and from other funds of such system legally available therefor.

The obligations of each Member to make payments under the rate schedule shall not be subject to any reduction, whether by offset, counterclaim, recoupment or otherwise, and shall not be otherwise conditioned upon the performance by the Agency under the Power Sales Contract or any other agreement.

Rate Covenant

Each Member has agreed to maintain rates for electric power and energy to its consumers which will provide revenues sufficient to meet its obligations to the Agency under its Power Sales Contract and all other operating expenses and to pay all obligations payable from or constituting a charge or lien on the net revenues of its system.

Restrictions on Disposition of Electrical System, Sales for Resale

Each Member has agreed that it will not sell, lease or otherwise dispose of all or substantially all of its electrical system except on 90 days' prior written notice to the Agency and unless all of the following conditions are met. The Member must assign the Power Sales Contract to the entity acquiring or leasing the system and such entity must assume the obligations of the Member under the Power Sales Contract. To the extent necessary to reflect the assignment and assumption the Agency and such entity must enter into an agreement supplemental to the Power Sales Contract to clarify the terms on which power and energy are to be sold under the Power Sales Contract to such entity. The senior debt of such entity must be rated in one of the three highest whole rating categories by a nationally recognized bond rating agency. The Agency must determine that the sale, lease or other disposition will not adversely affect the value of the Power Sales Contract as security for the payment of the Agency's bonds or affect the eligibility of interest on the Agency's bonds for federal tax-exempt status.

A Member may not sell at wholesale any power and energy delivered to it under its Power Sales Contract unless such sale is approved by the Agency.

Remedies

Upon failure of a Member to make any payment in full when due under its Power Sales Contract, the Agency may take all steps available to it under applicable law to collect such amount and, after giving fifteen days' advance notice in writing of its intention to do so, discontinue service under the Power Sales Contract. The Agency may, whenever any amount due remains unpaid for 120 or more days after the due date and after giving 30 days' advance notice in writing of its intention to do so, terminate the Power Sales Contract. No such discontinuance or termination shall relieve a Member from liability for payment for electrical power and energy furnished under its Power Sales Contract.

APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE SHERCO 3 OWNERSHIP AND OPERATING AGREEMENT

The following is a summary of certain provisions of the Sherburne County Generating Unit No. 3 Ownership and Operating Agreement dated as of January 10, 1983 as amended or supplemented as of March 20, 1984 and September 20, 1984, , among Southern Minnesota Municipal Power Agency (the “Agency”), Northern States Power Company (“NSP”) and United Minnesota Municipal Power Agency (“United Minnesota”), and as amended or supplemented by NSP and the Agency as of February 17, 1993, November 29, 1994, October 31, 1996, November 13, 1996, January 1, 1997, November 12, 1998, June 9, 2005 and November 2, 2007 (the “Sherco 3 Agreement”).

Pursuant to an Agreement of Combination dated as of June 1, 1984, United Minnesota has transferred all of its rights and duties under the Sherco 3 Agreement to the Agency effective September 20, 1984. The Agency and NSP are hereinafter collectively referred to as the “Co-Owners”. The summary does not purport to be a complete description of the terms of the Sherco 3 Agreement and, accordingly, is qualified by reference thereto. A copy of the Sherco 3 Agreement may be obtained from the Agency, its Financial Advisor and Morgan Stanley & Co. LLC.

General

The Sherco 3 Agreement provided for, among other things, the sale by NSP to the Agency and to United Minnesota of undivided ownership interests in Sherburne County Generating Unit No. 3 (“Sherco 3”), a nominally rated 910 MW coal-fired generating unit which was placed in commercial operation on November 1, 1987. For purposes of the Sherco 3 Agreement, the term Sherco 3 includes Unit 3, which consists of the turbine-generator, boiler, cooling facilities and other property; the land on which the principal parts of Unit 3 rest; certain common facilities to be used by Unit 3 in common with one or both of the other two units presently in operation on the plant site, which are owned by NSP; and certain intangible rights associated with Sherco 3. Under the Sherco 3 Agreement, the common facilities included in Sherco 3 are categorized as “Joint Common Facilities” and “Future Common Facilities” (new common facilities determined, after the date of the Sherco 3 Agreement, to be added to the plant site) and are collectively now designated as “Consolidated Common Facilities”. Other common facilities, categorized as “NSP Common Facilities,” owned by NSP and used with one or both of the other units on the plant site, will not be included in Sherco 3, although they will be used in the operation of Sherco 3.

Pursuant to the Sherco 3 Agreement and the transfer from United Minnesota, the Agency has acquired, and is obligated in respect of, a percentage undivided ownership interest in the Joint Common Facilities equal to 34.415 percent (its “Joint Common Facility Percentage”) and a percentage undivided ownership interest in all other components of Sherco 3 equal to 41 percent (its “Ownership Percentage”). NSP has retained an Ownership Percentage equal to 59 percent and a Joint Common Facility Percentage equal to 65.585 percent. The respective Joint Common Facility Percentages of the Co-Owners were originally determined with the objective that, when the total cost of construction of all common facilities (including NSP Common Facilities) allocable to Sherco 3, had been paid, the portion thereof paid by each Co-Owner would equal its Ownership Percentage of such costs.

Obligation to Pay Cost of Construction

Through 2005, each Co-Owner was obligated to pay its Joint Common Facility Percentage or Ownership Percentage, as applicable, of all construction costs paid in connection with Sherco 3, including costs of renewals and modifications. The parties amended the Sherco 3 Agreement in 2005 to provide that from and after January 1, 2006, Joint Common Facilities and Future Common Facilities would be combined and treated as "Consolidated Common Facilities" and construction costs relating thereto would be shared based on the parties respective "Consolidated Common Facilities Percentages" (twenty percent for the Agency and 80 percent for NSP). Such Consolidated Common Facilities Percentage would be subject to adjustment in the event of the addition of another generating unit to the Sherco plant site or other major change to operations. NSP is required to furnish budgets for such costs.

Alienation of Ownership Interests

NSP is precluded from conveying any portion of the land at the plant site not owned by the Agency which is needed for Sherco 3 unless the necessary rights for Sherco 3 are excepted and reserved from the conveyance.

Except in certain circumstances, the right of either Co-Owner to transfer all or any portion of its ownership interest in Sherco 3 is subject to first refusal rights of the other Co-Owner. The right of first refusal is not applicable to transfers by a Co-Owner of an interest in pollution control facilities or of fossil fuel in connection with fuel financing arrangements, transfers by a Co-Owner of an interest in Sherco 3 together with substantially all of its electric utility property for the purpose of securing obligations for borrowed money and transfers by a Co-Owner of its interest in Sherco 3, together with substantially all of its electric utility property, by sale or as a result of a merger, consolidation or corporate reorganization so long as the Co-Owner's obligations are assumed by the transferee. No transfer by NSP of any or all of its ownership interest will relieve it of its obligation to act as Project Manager under the Sherco 3 Agreement.

Any party which acquires an interest in Sherco 3 must assume and agree to be bound by the provisions of the Sherco 3 Agreement. A Co-Owner which disposes of an interest in Sherco 3 is required to indemnify the other Co-Owner for losses or liabilities incurred within ten years of the disposition by reason of the failure of the acquiring party to perform its obligations under the Sherco 3 Agreement.

Management Committee; Project Manager

The Sherco 3 Agreement establishes a Management Committee composed of one primary representative of each Co-Owner and one alternate for each primary representative. The Sherco 3 Agreement also appoints NSP as agent (the "Project Manager") with full authority and responsibility, subject to the authority granted to the Management Committee thereunder, for, among other things, the planning, licensing, design, construction, management, control, operation, maintenance and disposal of Sherco 3. The Project Manager is to consult with the Management Committee concerning significant decisions with respect to such matters. Except in certain circumstances, the Project Manager has sole responsibility for the acquisition of fuel for Unit 3.

In performing its responsibilities under the Sherco 3 Agreement, the Project Manager is required to comply with prudent utility practices and to carry out the terms of the Sherco 3

Agreement with the same degree of prudence and care it would exercise if it were constructing and operating Sherco 3 solely for its own benefit. The Project Manager will not be liable to the other Co-Owner for damages incurred as a result of the performance of its duties under the Sherco 3 Agreement except in cases of gross negligence or intentional wrongdoing and in no case will the Project Manager be liable for indirect or consequential damages incurred by the other Co-Owner.

NSP may be removed as Project Manager for gross negligence or intentional wrongdoing as well as for consistent or significant breaches of its obligations under the Sherco 3 Agreement which are not remedied through the action of the Management Committee. Any successor Project Manager is to be selected by the Management Committee, including NSP.

The Management Committee must approve, among other things, actions taken by the Project Manager involving certain renewals, additions, replacements or modifications of Sherco 3 after the Commercial Operation Date which cost $2,000,000 or more and disposals of any part of Sherco 3 at any time which cost more than $2,000,000. In addition, the Management Committee must approve settlement of any claims of $2,000,000 or more by or against the Co-Owners involving third parties relating to the matters over which the Project Manager has authority. An Operating Committee, established as a subcommittee of the Management Committee, has authority and responsibility for, among other things, establishing procedures for delivery of power and energy from Unit 3 in accordance with the Co-Owners' schedules and provision of operating reserves as scheduled by the Co-Owners from available operating capacity not used for power and energy scheduled.

Decisions by the Management Committee require the affirmative vote of representatives of Co-Owners with Ownership Percentages aggregating at least 65 percent. (Based on the current division of Ownership Percentages, unanimous agreement of the representatives of the Co-Owners is required.) The computation of such percentage is to be based solely upon the Ownership Percentages of Co-Owners not in default in the payment of amounts required under the Sherco 3 Agreement.

Entitlement to Output

Each Co-Owner is entitled to schedule and receive capacity and energy up to its Ownership Percentage of the total capacity and energy available at any time from Unit 3. If the Project Manager voluntarily ceases to operate Sherco 3 because the Project Manager has access to less expensive energy sources, the Project Manager will make available to the other Co-Owner replacement energy in the amount it requests (but no more than it would have been entitled to if Sherco 3 had not ceased operation) at a cost generally equal to the estimated cost which would have been incurred for energy generated by Unit 3. Each Co-Owner may dispose of any capacity and energy from Sherco 3 to which it is entitled through scheduled transactions with other systems or agencies, including the other Co-Owner.

Obligation to Pay Operating Costs

Fixed operating costs are generally to be paid by the Co-Owners according to their respective Ownership Percentages, except that fixed operating charges relating to Consolidated Common Facilities are to be paid according to the Co-Owners' Consolidated Common Facilities Percentages. Certain administrative costs are based upon a percentage of certain operating costs. Variable operating costs during any period are to be paid by the Co-Owners according to the relative amounts of capacity and energy scheduled and produced from Unit 3 for the respective Co-Owners during such period. NSP is required to furnish operating budgets.

Defaults

General. In the event that either Co-Owner defaults in making any payment under the Sherco 3 Agreement, the other Co-Owner is required to cover such default and, if a payment default should continue for 120 days or more, the Management Committee may elect to liquidate Sherco 3, without relieving the defaulting Co-Owner of liability. A Co-Owner may cure any default as provided below in "Defaults."

Adjustment of Ownership Percentages. If necessary to reflect uncured defaults, the Ownership Percentages of the Co-Owners will be adjusted according to a formula so that each Co-Owner's adjusted Ownership Percentage (which will determine its entitlement to the output of Unit 3) will reflect its investment in Sherco 3 relative to the total investment in Sherco 3 by both Co-Owners. The formula also provides for an appropriate adjustment in the Joint Common Facility Percentages of the respective Co-Owners.

Defaults. A Co-Owner in default for failure to make any payment which continues for a period of 60 days after the due date thereof will not be entitled to any capacity or energy from Unit 3. The other Co-Owner will have the right to use the capacity and energy unavailable to the defaulting Co-Owner. For a period of 730 days after such default, such use will be on an interruptible basis until all amounts in default are paid with interest. Thereafter, such use will be on a firm basis for one or more one-year periods, subject to the right of the defaulting Co-Owner to regain its entitlement by giving notice six months before the end of any such one-year period and paying all amounts in default, plus interest. Any secured party under a mortgage or other security instrument covering substantially all of the electric utility property of a Co-Owner who acquires the interest of such Co-Owner in Sherco 3 through the exercise of default provisions in such instrument will not be required to cure such Co-Owner's defaults and would not be liable for failure to pay any obligations of such Co-Owner under the Sherco 3 Agreement except those accruing during any period that such secured party is receiving energy from Unit 3 by exercising the rights of such Co-Owner under the Sherco 3 Agreement. In addition, any purchaser to whom such secured party conveys its interest would not be required to cure defaults of the Co-Owner and such secured party would not be required to hold the other Co-Owner harmless for failure of the purchaser to meet its obligations under the Sherco 3 Agreement.

Retirement

A determination to retire Sherco 3 is to be made by the Management Committee, but in no case before forty years following commencement of commercial operation unless the Co-Owners unanimously agree. Salvage Costs, offset by Salvage Credits, are paid in proportion of respective Ownership Percentages.

APPENDIX F

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a summary of certain provisions of the Resolution pursuant to which the Bonds will be issued. Summaries of certain definitions contained in the Resolution are set forth below. Other terms defined in the Resolution for which summary definitions are not set forth are indicated by capitalization. The summary does not purport to be a complete description of the terms of the Resolution and, accordingly, is qualified by reference thereto. Copies of the Resolution may be obtained from the Agency, its Financial Advisor and Morgan Stanley & Co. LLC.

Definitions

The following are summaries of certain definitions in the Resolution:

Accreted Value means, as of any date of computation with respect to any Capital Appreciation Bond, an amount equal to the principal amount of such Bond plus the interest accrued on such Bond from the date of original issuance of such Bond to the July 1 or January 1 next preceding the date of computation or the date of computation if a July 1 or January 1, such interest to accrue at the interest rate per annum of the Capital Appreciation Bonds set forth in the supplemental Resolution authorizing such Bonds, compounded on July 1 and January 1 of each year, plus, if such date of computation shall not be a July 1 or January 1, a portion of the difference between the Accreted Value as of the immediately preceding July 1 or January 1 (or the date of original issuance if the date of computation is prior to the first July 1 or January 1 succeeding the date of original issuance) and the Accreted Value as of the immediately succeeding July 1 or January 1, calculated based upon an assumption that Accreted Value accrues during any semi-annual period in equal daily amounts on the basis of a year of twelve 30-day months.

Accrued Aggregate Debt Service means, as of any date of calculation, an amount equal to the sum of the amounts of accrued Debt Service with respect to all series of Bonds, calculating accrued Debt Service with respect to each series at an amount equal to the sum of (1) interest on the Bonds of such series accrued and unpaid and to accrue to the end of the then current calendar month and (2) Principal Installments due and unpaid and that portion of the Principal Installment for such series next due which would have accrued (if deemed to accrue in the manner set forth in the definition of Debt Service) to the end of such calendar month. Principal Installments which are Refundable Principal Installments are excluded from the calculation.

Additionally Secured Series means (a) all Bonds Outstanding on the date on which the amendments to the Resolution effected by the Twenty-Fifth Supplemental Resolution became effective and (b) the Bonds of any series issued after such effective date for which the payment of the principal or sinking fund Redemption Price, if any, of, and interest on, the Bonds of such series shall be secured, in addition to the pledge created pursuant to subsection 1 of Section 501 of the Resolution in favor of all of the Bonds, by amounts on deposit in a separate subaccount to be designated therefor in the Debt Service Reserve Account in the Debt Service Fund.

Adjusted Aggregate Debt Service for any period means, as of any date of calculation, the Aggregate Debt Service for such period except that, if any Refundable Principal Installment for any series of Bonds is included in Aggregate Debt Service for such period, Adjusted Aggregate Debt Service will be determined as if each such Principal Installment had been payable, on a level debt service basis, over a period extending from the actual due date of the Principal Installment through the later of ten years thereafter or the 35th anniversary of the issuance of such series, using the average rate of interest actually payable on the Bonds to be refunded.

Aggregate Debt Service for any period means, as of any date of calculation, the sum of the amounts of Debt Service for such period on Bonds of all series.

Capital Appreciation Bonds means any bonds issued under the Resolution as to which interest is compounded semiannually and payable only at the maturity or prior redemption of such Bonds.

Cost of Acquisition and Construction, with respect to any part of the System, means the Agency's costs, expenses and liabilities paid or incurred or to be paid or incurred by the Agency in connection with the planning, engineering, designing, acquiring, constructing, installing, financing, operating, maintaining, retiring, decommissioning and disposing of any part thereof and the obtaining of all governmental approvals, certificates, permits and licenses with respect thereto.

Credit Obligation means any obligation of the Agency under a contract, having a term in excess of five years, to make payments for power and energy whether or not such power and energy is received.

Debt Service, for any period, as of any date of calculation and with respect to any series of Bonds, means an amount equal to the sum of (1) interest accruing during such period with respect to such series (except interest to be paid from proceeds of Bonds or Subordinated Indebtedness as provided in the Resolution) and (2) that portion of each Principal Installment for such series which would accrue during such period if such Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date (or, if there be no such preceding Principal Installment due date or the next preceding Principal Installment due date is more than one year prior to the due date of such Principal Installment, then from a date one year preceding the due date of such Principal Installment or from the date of issuance of the Bonds of such series, whichever is later).

Debt Service Reserve Requirement means (a) with respect to the Initial Subaccount in the Debt Service Account in the Debt Service Fund, as of any date of calculation, an amount equal to the maximum Adjusted Aggregate Debt Service coming due on Bonds then Outstanding in the then current or any future calendar year excluding interest to be paid from deposits in the Debt Service Account in the Debt Service Fund made from the proceeds of Bonds or Subordinated Indebtedness (including amounts, if any, transferred thereto from the Construction Fund) and (b) with respect to each additional subaccount, if any, in the Debt Service Reserve Account in the Debt Service Fund established after the amendments to the Resolution effected by the Twenty-Fifth Supplemental Resolution became effective, the amount specified in the Supplemental Resolution pursuant to which such subaccount shall be established.

Net Revenues for any period mean the Revenues during such period, determined on an accrual basis, plus (x) the amounts, if any, paid from the Rate Stabilization Account in the Revenue Fund into the Revenue Account in the Revenue Fund during such period (excluding from (x) amounts included in the Revenues for such period representing interest earnings transferred from the Rate Stabilization Account in the Revenue Fund to the Revenue Account in the Revenue Fund) and minus (y) the sum of (a) Operation and Maintenance Expenses during such period, determined on an accrual basis, to the extent paid or to be paid from Revenues and (b) the amounts, if any, paid from the Revenue Account in the Revenue Fund into the Rate Stabilization Account in the Revenue Fund during such period.

Operation and Maintenance Expenses mean all the Agency's costs and expenses for operation, maintenance, and ordinary repairs, renewals and replacements of the System, including all costs of producing and delivering electric power and energy from the System and payments into reserves in the Operation and Maintenance Fund for items of Operation and Maintenance Expenses the payment of which is not immediately required.

Pro Forma Net Revenues for any period mean the Net Revenues for such period adjusted to reflect the Revenues which would have been produced for such period assuming that there had been in effect throughout such period the rates for the sale of power and energy under the Power Sales Contracts which are in effect on the date of calculation of Pro Forma Net Revenues. If on such date of calculation the Board of Directors of the Agency has approved revised rates which are to become effective after the lapse of any minimum notice period specified in the Power Sales Contracts, then, for purposes of the calculation, the revised rates are deemed to be the rates in effect on such date of calculation.

Refundable Principal Installment means any Principal Installment for any series of Bonds which the Agency intends to pay with moneys which are not Revenues.

Revenues mean (i) all revenues, income, rents and receipts derived by the Agency from or attributable to the ownership and operation of the System, including all revenues attributable to the System or to the payment of the costs thereof received by the Agency under any contract for the sale of power, energy, transmission or other service from the System or any part thereof or any contractual arrangement with respect to the use of the System or any portion thereof or the services, output or capacity thereof, (ii) the proceeds of any insurance covering business interruption loss relating to the System, and (iii) interest received on any moneys or securities held pursuant to the Resolution and paid or required to be paid into the Revenue Account in the Revenue Fund.

Subordinated Indebtedness means an evidence of indebtedness referred to in, and complying with the provisions described under, "Subordinated Indebtedness" in this Appendix F.

System means all properties and interests in properties of the Agency, including all electric production, transmission, distribution, general plant and other related facilities and any mine, well, pipeline, plant, structure or other facility for the development, production, manufacture, storage, fabrication or processing of fossil, nuclear or other fuel of any kind, or any facility or rights with respect to the supply of water, in each case for use, in whole or in major part, in any of the Agency's generating plants, now existing and hereafter acquired by lease, contract, purchase or otherwise or constructed by the Agency, including any interest or participation of the Agency in any such facilities, together with all additions, betterments, extensions and improvements to said system or any part thereof hereafter made and together with all lands, easements, licenses and rights of way of the Agency and all other works, property or structures of the Agency and contract rights and other tangible and intangible assets of the Agency used or useful in connection with or related to said system. Notwithstanding the foregoing definition of the term System, such term shall not include any properties or interests in properties of the Agency which the Agency determines shall not constitute a part of the System for the purpose of the Resolution.

Trust Estate means (i) the proceeds of the sale of the Bonds, (ii) the Revenues, (iii) all of the Agency's accounts and general intangibles, as those terms are defined in the Uniform Commercial

Code, including all right, title and interest of the Agency under the Power Sales Contracts, and (iv) all Funds established by the Resolution (other than any Decommissioning Fund which may be established pursuant to subsection 2 of Section 502 of the Resolution or the Debt Service Reserve Account in the Debt Service Fund), including the investments and income, if any, thereof.

Twenty-Fifth Supplemental Resolution means the Power Supply System Revenue Bond Resolution adopted by the Agency on September 6, 2002 which became effective in December, 2002.

Under the Resolution, the Agency has covenanted that it will not make any determination, pursuant to the second sentence of the foregoing definition of the term System and the same definition of such term in the Power Sales Contracts, that any properties or interests in properties do not constitute a part of the System for the purposes of the Resolution or the Power Sales Contracts unless either (a) such determination is made prior to the acquisition of such properties or interests in properties or (b) such determination is made in accordance with the covenant described below under "Certain Other Covenants - Disposition of System".

In addition, the principal and interest portions of the Accreted Value of Capital Appreciation Bonds becoming due at maturity or by virtue of a Sinking Fund Installment shall be included in the calculations of accrued and unpaid and accruing interest or Principal Installments made under the definitions of Debt Service, Aggregate Debt Service and Accrued Aggregate Debt Service only from and after the date (the "Calculation Date") which is one year prior to the date on which such Accreted Value becomes so due, and the principal and interest portions of such Accreted Value shall be deemed to accrue in equal daily installments from the Calculation Date to such date.

Application of Revenues

Revenues are pledged by the Resolution to payment of principal of and interest and redemption premium on the Bonds of all series, subject to the provisions of the Resolution permitting application for other purposes. For the application of Revenues, the Resolution establishes a Revenue Fund, an Operation and Maintenance Fund, a Reserve and Contingency Fund and a General Reserve Fund, held by the Agency, and a Debt Service Fund and a Subordinated Indebtedness Fund, held by the Trustee. The Resolution also provides for the establishment of a Decommissioning Fund, in the event that the Agency acquires an interest in nuclear generating facilities. If and when established, the Decommissioning Fund will not be pledged as security for the Bonds.

Pursuant to the Resolution, all Revenues of the Agency are to be deposited into the Revenue Account in the Revenue Fund as received, and in any event within ten days after receipt. Each month the Agency is to make transfers from the Revenue Account to the Rate Stabilization Account (also in the Revenue Fund), or from the Rate Stabilization Account to the Revenue Account, in accordance with the then current Annual Budget or as otherwise determined by the Agency. Amounts in the Revenue Account in the Revenue Fund are to be paid monthly to the following Funds for application therefrom as follows:

1. *To the Operation and Maintenance Account and the Working Capital Account in the Operation and Maintenance Fund*, the respective amounts required to provide for Operation and Maintenance Expenses estimated to be paid through the next month and estimated working capital required for the next month and, in the case of the Working Capital Account, such additional amounts, for long-term purposes, as the Annual Budget shall require to be deposited in such Account. Amounts which the Agency determines to be excess in the Operation and Maintenance

Account and the Working Capital Account are to be applied by the Trustee in the same manner as Revenues.

Credit Obligations may be paid as Operation and Maintenance Expenses, but only if the Consulting Engineer certifies, at the time the Agency enters into the power sales contract relating thereto, to the effect that, if such Credit Obligation is so paid, estimated Net Revenues for each fiscal year beginning with the year in which the Credit Obligation becomes effective and ending with the later of the fifth full fiscal year thereafter or the first full fiscal year in which less than ten percent of the interest coming due on Bonds estimated to be outstanding is paid from Bond proceeds, are at least equal to 1.10 times Adjusted Aggregate Debt Service for each such fiscal year. The Consulting Engineer's estimate of Net Revenues may take into consideration factors outlined under "THE 2015 A BONDS - Additional Bonds; Conditions to Issuance - *Projected Debt Service Coverage*" in the Official Statement.

2. *To the Debt Service Account and the Debt Service Reserve Account in the Debt Service Fund,* the respective amounts required so that the balances in such Accounts equal the Accrued Aggregate Debt Service and the Debt Service Reserve Requirement for each separate subaccount in the Debt Service Reserve Account, respectively. Any deficiencies in any separate subaccount in the Debt Service Reserve Account (other than a deficiency resulting from a withdrawal therefrom to pay the principal or redemption price of, or interest on, the Bonds of an Additionally Secured Series secured thereby (including, for this purpose, a disbursement made pursuant to a surety bond, an insurance policy, a letter of credit or any other similar obligation credited thereto in accordance with the provisions of the Supplemental Resolution establishing such subaccount)) shall be cured by equal monthly deposits over the balance of the calendar year in which the deficiency is determined to exist. Deposits required following a subsequent valuation of investment securities in each separate subaccount in the Debt Service Reserve Account during such calendar year will be based upon such subsequent valuation.

Amounts in the Debt Service Account are applied by the Trustee to pay the principal or redemption price of and interest on the Bonds. In addition, the Trustee may, and if directed by the Agency must, apply such amounts to the purchase or redemption of Bonds to satisfy sinking fund requirements.

Amounts in each separate subaccount in the Debt Service Reserve Account are applied by the Trustee to pay the principal or redemption price of or interest on each Additional Secured Series of Bonds secured thereby, if and to the extent necessary following the application of amounts on deposit in the Debt Service Account in accordance with the terms of the Resolution.

Amounts in each separate subaccount in the Debt Service Reserve Account are applied to make up any deficiency in the Debt Service Account. Whenever the amount in the Debt Service Reserve Account, together with the amount in the Debt Service Account, is sufficient to pay in full all outstanding Bonds in accordance with their terms, the funds on deposit in the Debt Service Reserve Account will be transferred to the Debt Service Account. When moneys on deposit in each separate subaccount in the Debt Service Reserve Account exceed the Debt Service Reserve Requirement related thereto, as determined in accordance with the provisions of the Supplemental Resolution establishing such subaccount, and after giving effect to any surety bond, insurance policy, letter of credit or other similar obligation that may be credited to such subaccount in accordance with the provisions of the Supplemental Resolution establishing such subaccount, the excess will, upon request of the Agency, be applied by the Trustee to make up deficiencies in other accounts.

See "THE 2015 A BONDS – Security for the Bonds – *Debt Service Reserve Account*" and "– *Initial Subaccount in the Debt Service Reserve Account*" in the front part of this Official Statement for a discussion of the Debt Service Reserve Requirement.

3. *To the Subordinated Indebtedness Fund,* the amounts required to pay principal or sinking fund installments of and premiums, if any, and interest on each issue of Subordinated Indebtedness of the Agency due in such month and reserves therefor as required by the Supplemental Resolution authorizing such Subordinated Indebtedness. However, if at any time there is a deficiency in the Debt Service Account or any separate subaccount in the Debt Service Reserve Account and the available funds in the General Reserve Fund or the Reserve and Contingency Fund are insufficient to cure such deficiency, the Trustee will transfer from the Subordinated Indebtedness Fund the amount sufficient to cure such deficiency.

4. *To the Renewal and Replacement Account and the Reserve Account in the Reserve and Contingency Fund,* the respective amounts budgeted by the Agency for such Accounts for the current month. Amounts in the Renewal and Replacement Account are for the payment of costs of major repairs, renewals and improvements to the Agency's System. Amounts in the Reserve Account are applied (i) for the direct payment of the costs payable out of the Renewal and Replacement Account, to the extent amounts therein are not sufficient therefor, and (ii) for the payment of extraordinary operation and maintenance expenses and contingencies, in each case, to the extent payment therefor has not been provided for in the Annual Budget of the Agency, by reserves credited to the Operation and Maintenance Fund or from Bond proceeds.

If at any time the amounts in the Debt Service Account or in any separate subaccount in the Debt Service Reserve Account are less than the amounts required by the Resolution, and there are not on deposit in the General Reserve Fund available funds sufficient to cure such deficiency, then the Agency will transfer from the Reserve and Contingency Fund to the Trustee the amount necessary to make up such deficiency.

Amounts in the Reserve and Contingency Fund not required for any of the above purposes may be transferred to the Decommissioning Fund, if theretofore established, or to the General Reserve Fund.

5. *To the General Reserve Fund,* the balance, if any, in the Revenue Account. The Agency will transfer from the General Reserve Fund amounts in the following order of priority: (a) to the Debt Service Account and any separate subaccount in the Debt Service Reserve Account, in that order, the amount necessary to make up any deficiencies in payments to said Accounts or subaccounts, (b) to any separate subaccount in the Debt Service Reserve Account the amount of any deficiency in any such subaccounts in such Account resulting from any transfer to the Debt Service Account, and (c) to the Renewal and Replacement Account and the Reserve Account the amount necessary to make up any deficiencies in payments to said Accounts. Amounts in the General Reserve Fund which are not needed for the foregoing purposes may, upon the direction of the Agency, be used for certain enumerated purposes and other lawful purposes of the Agency not prohibited by the Resolution.

Construction Fund

The Resolution establishes a Construction Fund, held by the Trustee, into which are paid amounts required by the provisions of the Resolution and any Supplemental Resolution and, at the option of the Agency, any moneys received for or in connection with the System by the Agency, unless required to be otherwise applied as provided in the Resolution. In addition, proceeds of insurance for physical loss or damage to the System, or of contractors' performance bonds, pertaining to the period of construction will be paid into the Construction Fund.

Upon requisition of the Agency, the Trustee will pay from the Construction Fund amounts in payment of the Cost of Acquisition and Construction of the facilities financed by the issuance of a series of Bonds. A revolving fund of up to $2,500,000 is established for convenient payment by the Agency of certain items of Cost of Acquisition and Construction which are not appropriately handled by requisition from the Trustee. Amounts in the Construction Fund which the Agency at any time determines to be in excess of the amounts required for the purposes thereof are to be transferred to the Debt Service Reserve Account, to the extent necessary for the funds in such account to equal the Debt Service Reserve Requirement, and the balance is to be paid to the Agency for credit to the General Reserve Fund. To the extent that other moneys are not available therefor, amounts in the Construction Fund will be applied to the payment of principal of and interest on Bonds when due.

The Agency may discontinue its participation in the acquisition or construction of facilities financed by the issuance of a series of Bonds if the Board of Directors of the Agency determines that to do so is necessary or desirable in the conduct of the business of the Agency and not disadvantageous to Bondholders.

Investment of Certain Funds and Accounts

The Resolution provides that certain Funds and Accounts held thereunder may, and in the case of the Debt Service Account and any separate subaccounts in the Debt Service Reserve Account in the Debt Service Fund and the Subordinated Indebtedness Fund must, be invested to the fullest extent practicable in Investment Securities. The Resolution provides that such investments will mature no later than such times as necessary to provide moneys when needed for payments from such Fund and Accounts and provides specific limitations on the term of investments for moneys in certain Funds and Accounts. Investment Securities are to be valued as of each December 31 and at such other times as the Agency shall determine. Investment Securities are to be valued at the cost or the market value thereof, whichever is lower, except that Investment Securities maturing in less than five years after the date of valuation are to be valued at the amortized cost thereof.

Unless otherwise determined by the Agency, net interest earned on any moneys or investments in such Funds or Accounts, other than the Construction Fund, is to be paid into the Revenue Account in the Revenue Fund and interest on moneys or investments in the Construction Fund is to be held in such Fund.

Subordinated Indebtedness

The Agency may issue Subordinated Indebtedness payable out of and secured by amounts in the Subordinated Indebtedness Fund or the General Reserve Fund; *provided*, *however*, that (i) such Subordinated Indebtedness shall be issued only for any one or more of the enumerated purposes to which the Agency may apply amounts credited to the General Reserve Fund not required to meet deficiencies in the Debt Service Account or any separate subaccounts in the Debt Service Reserve Account of the Debt Service Fund or in the Renewal and Replacement Account or the Reserve Account of the Reserve and Contingency Fund and other lawful purposes of the Agency not prohibited by the Resolution, and the proceeds of such Subordinated Indebtedness shall be applied only for such purpose or purposes, and (ii) any security interest and pledge and assignment securing such Subordinated Indebtedness shall be, and shall be expressed to be, subordinate in all respects to the security interest in and pledge of the Trust Estate created by the Resolution as security for the Bonds.

Issuance of Other Indebtedness

The Resolution does not restrict the issuance by the Agency of other indebtedness to finance facilities which are not a part of the Agency's System. Such indebtedness may be secured by a mortgage of the facility so financed or a pledge of the revenues therefrom. No such indebtedness may be payable out of or secured by the Trust Estate.

Covenant as to Rates, Fees and Other Charges

Under the Resolution, the Agency has covenanted that it will establish and collect rates, fees and charges under the Power Sales Contracts and shall otherwise charge and collect rates, fees and charges for the use or sale of the output, capacity or service of the System which, together with other available Revenues, are reasonably expected to yield Net Revenues for the twelve-month period commencing with the effective date of such rates, fees and charges equal to at least 1.10 times the Aggregate Debt Service for such period and, in any event, as are required, together with other available funds, to pay or discharge all other indebtedness, charges and liens payable out of Revenues under the Resolution. For purposes of this covenant, amounts required to pay Refundable Principal Installments may be excluded from Aggregate Debt Service to the extent that the Agency intends to make such payment from sources other than Revenues. Promptly upon any material change in the circumstances contemplated when such rates, fees and charges were most recently reviewed, but not less frequently than once every twelve months, the Agency is required to review the rates, fees and charges so established and promptly to revise such rates, fees and charges as necessary to comply with the foregoing requirements, *provided* that such rates, fees and charges must in any event produce moneys sufficient to enable the Agency to comply with all its covenants under the Resolution.

Certain Other Covenants

Creation of Liens. The Agency will not issue any other evidences of indebtedness, other than the Bonds, payable out of or secured by the Trust Estate or other moneys, securities or funds held or set aside under the Resolution nor will it create any lien or charge thereon, except (1) evidences of indebtedness (a) payable out of moneys in the Construction Fund as part of the Cost of Acquisition and Construction of the System or (b) payable out of, or secured by a security interest in or pledge or assignment of, Revenues to be received after the discharge of the lien on such Revenues provided in the Resolution or (2) Subordinated Indebtedness.

Disposition of System. Except as described in this paragraph, the Agency may not sell, lease, mortgage or otherwise dispose of any part of the System. The Agency may sell or exchange property or facilities of the System (a) which are not useful in its operations, or (b) the book value of which is not more than one percent of the book value of the assets of the System at such time or (c) as to which the Consulting Engineer certifies that the ability of the Agency to comply with the covenant as to rates and charges described above will not be impaired. The proceeds of any such sale or exchange not used to acquire other property for the System are to be deposited in the General Reserve Fund. If certain conditions are satisfied, the Agency also may lease or make contracts or grant licenses, easements or rights for the operation or use of or with respect to, any part of the System. Payments received by the Agency under any such arrangement will constitute Revenues. In addition, the Agency may at any time sell or otherwise dispose of any part of its ownership interest in

Sherburne County Generating Unit No. 3 to the extent required by the terms of the Ownership and Operating Agreement relating thereto.

Power Sales Contracts; Amendment. The Agency will collect and deposit in the Revenue Account in the Revenue Fund within ten days after receipt thereof all amounts payable to it pursuant to the Power Sales Contracts or any other contract for the sale or use of output, capacity or other service from the System or any part thereof. The Agency will enforce the provisions of the Power Sales Contracts and duly perform its covenants and agreements thereunder and will not consent or agree to or permit any rescission of or amendment to any Power Sales Contract unless (i) such action will not impair the Agency's ability to comply with the covenant as to rates and charges set forth above, as evidenced by a certificate of the Consulting Engineer, and (ii) such action will not have a material adverse effect on the interests of Bondholders as evidenced by a determination of the Agency's Board of Directors. For this purpose, an amendment will not be deemed to include the extension of the term of any Power Sales Contract, any change in or amendment to any schedule to any Power Sales Contract or any amendment to the Agency's Power Sales Contract with the City of Fairmont, Minnesota to permit such City to purchase from the Western Area Power Administration up to two megawatts of capacity and related energy.

Notwithstanding the foregoing, the Agency may waive the obligation of any member under a Power Sales Contract to make payments thereunder in respect of the principal or redemption price, if any, of or interest on Bonds, Subordinated Indebtedness or other indebtedness of the Agency due solely by reason of the acceleration thereof.

Insurance. Subject to the requirement that insurance is obtainable at reasonable rates and upon reasonable terms and conditions, the Agency will keep the properties of the System which are of an insurable nature and of the character usually insured by those operating properties similar to the System insured against loss or damage by fire and from other causes customarily insured against and in amounts usually obtained. Subject to such conditions, the Agency will also maintain such insurance or reserves against loss or damage from such hazards and risk to the person or property of others as are usually insured or reserved against by those operating properties similar to the properties of the System.

Reconstruction; Application of Insurance Proceeds. If any useful portion of the System is damaged or destroyed, the Agency will prosecute the reconstruction or replacement thereof, unless the Consulting Engineer determines that such reconstruction or replacement is not in the interests of the Agency and the Bondholders or unless it is determined under the provisions of any agreement relating to co-ownership of such portion of the System that such reconstruction or replacement is not to be undertaken. The proceeds of insurance paid on account of such damage or destruction will be used for the cost of such reconstruction or replacement, except proceeds of business interruption insurance which will be paid into the Revenue Account in the Revenue Fund.

Amendment of Resolution

The Resolution and the rights and obligations of the Agency and of the holders of the Bonds may be amended by a Supplemental Resolution with the written consent of the holders of a majority in principal amount in each case of (i) all Bonds then outstanding, and (ii) in case less than all of the series of outstanding Bonds are affected, the Bonds of each series so affected, and (iii) in case the modification or amendment changes the terms of any sinking fund installment, the Bonds of the particular series and maturity entitled to the benefit of sinking fund. No such modification or amendment may (A) permit a change in the terms of redemption or maturity or any installment of interest or a reduction in the principal, redemption price or rate of interest thereon without consent of each affected holder, or (B) reduce the percentages or otherwise affect the classes of Bonds the consent of the holders of which is required to effect any such modification or amendment. For purposes of the foregoing, the holders of Bonds may include the initial holders thereof regardless of whether such Bonds are being held for subsequent resale.

The Resolution may be amended, with the consent of the Trustee but without the consent of Bondholders, (i) to cure any ambiguity, omission, defect or inconsistent provision in the Resolution; (ii) to insert provisions clarifying the Resolution; or (iii) to make any other modification or amendment of the Resolution which the Trustee, in its sole discretion, determines will not have a material adverse effect on the interests of Bondholders.

Without the consent of the Bondholders or the Trustee, the Agency may adopt a Supplemental Resolution which (i) closes the Resolution against, or provides additional conditions to, the issuance of Bonds or other evidences of indebtedness; (ii) adds covenants and agreements of the Agency; (iii) adds limitations and restrictions to be observed by the Agency; (iv) authorizes Bonds of an additional series; (v) confirms any security interest, pledge or assignment of the Revenues or of any other moneys, securities or funds; (vi) makes any modification which is to be effective only after all Bonds of each series outstanding as of the date of the adoption of such Supplemental Resolution cease to be outstanding; and (vii) authorizes Subordinated Indebtedness.

Defeasance

The lien of the Resolution and all covenants, agreements and other obligations of the Agency under the Resolution will cease, terminate and be discharged and satisfied wherever all Bonds and coupons are paid in full. Bonds are deemed to have been paid and are not entitled to the lien, benefit and security of the Resolution wherever the following conditions are met: (i) in case any Bonds are to be redeemed prior to their maturity, the Agency has given to the Trustee irrevocable instructions to publish notice of redemption therefor, (ii) there has been deposited with the Trustee either moneys or Investment Securities which, together with other moneys, if any, also deposited, will be sufficient to pay when due the principal or redemption price, if applicable, and interest due and to become due on the Bonds, and (iii) in the event such Bonds are not subject to redemption within the next succeeding 60 days, the Agency has given the Trustee irrevocable instructions to publish a notice to the holders of such Bonds and coupons that the above deposit has been made and that such Bonds and coupons are deemed to have been paid and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal or redemption price, if applicable, on said Bonds. See "Additional Provisions Relating to the 2015 A Bonds" below.

Events of Default; Remedies

Events of default under the Resolution include (i) failure to pay the principal or redemption price of any Bond when due; (ii) failure to pay any installment of interest on any Bond or the unsatisfied balance of any sinking fund installment when due; (iii) failure to make a required deposit in any Fund or Account when due and continuance thereof for a period of 180 days after notice; (iv) failure by the Agency to perform or observe any other covenants, agreements, or conditions contained in the Resolution or the Bonds; (v) a judgment for the payment of money in excess of $10,000,000 being rendered against the Agency which remains undischarged and unstayed for a period of 90 days and continuance thereof for a period of 90 days after notice or the continuance of such judgment undischarged or unstayed for a period of 90 days after the termination of any stay entered within such first mentioned 90 days; and (vi) certain events of bankruptcy or insolvency.

Upon the happening of any such Event of Default the Trustee or the holders of not less than 25 percent in principal amount of the Bonds then Outstanding may declare the principal of and accrued interest on the Bonds due and payable (subject to a rescission of such declaration upon the curing of such default before the Bonds have matured). See "Additional Provisions Relating to the 2015 A Bonds" below.

Unless and until an Event of Default is remedied, the Trustee may proceed, and upon written request of the holders of not less than 25 percent in principal amount of the Bonds outstanding must proceed, to protect and enforce its rights and the rights of the holders of the Bonds under the Resolution by a suit or suits in equity or at law (which may include a suit for the specific performance of any covenant contained in the Resolution) or in the enforcement of any other legal or equitable right as the Trustee deems most effectual to enforce any of its rights or to perform any of its duties under the Resolution.

During the continuance of an Event of Default under the Resolution, the Trustee is to apply all moneys, securities, funds and Revenues received by the Trustee as follows and in the following order: (i) charges, expenses and liabilities of the Trustee and any paying agents; (ii) reasonable and necessary Operation and Maintenance Expenses and reasonable renewals, repairs and replacements of the System necessary in the judgment of the Trustee to prevent a loss of Revenues; and (iii) to the interest and principal or redemption price due on the Bonds.

No Bondholder has any right to institute any suit, action or proceeding for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless (1) such Bondholder previously has given the Trustee written notice of the Event of Default, (2) the holders of at least 25 percent in principal amount of the Bonds then outstanding have filed a written request with the Trustee and have afforded the Trustee a reasonable opportunity to exercise its powers or institute such suit, action or proceeding, (3) there have been offered by such holders to the Trustee adequate security and indemnity against its costs, expenses and liability to be incurred and (4) the Trustee has refused to comply with such request within 60 days after receipt of such notice, request and offer of indemnity. Nothing in the Resolution or the Bonds affects or impairs the Agency's obligation to pay the Bonds and interest thereon when due or the right of any Bondholder to enforce such payment.

Trustee and Paying Agents

The Resolution requires the appointment by the Agency of a Trustee and one or more Paying Agents (who may be the Trustee) for the Bonds of each series. The Trustee may resign on 60 days' notice and may at any time be removed with or without cause by the holders of a majority in principal amount of the Bonds then outstanding. Successor Trustees may be appointed by the holders of a majority in principal amount of Bonds then outstanding, and failing such an appointment the Agency must appoint a successor to hold office until the Bondholders act. So long as no Event of Default, or event which would mature into an Event of Default, has occurred and is continuing, the Trustee may be removed at any time for cause by the Agency. Any successor Trustee must be a bank or trust company having capital stock, surplus and undivided earnings aggregating at least $50,000,000 if there be such an entity willing to accept appointment.

Special Provisions Relating to Capital Appreciation Bonds

For the purposes of (i) receiving payment of the Redemption Price if a Capital Appreciation Bond is redeemed prior to maturity, or (ii) receiving payment of a Capital Appreciation Bond if the principal of all Bonds is declared immediately due and payable following an Event of Default or (iii) computing the principal amount of Bonds held by the registered owner of a Capital Appreciation Bond in giving to the Agency or the Trustee any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever, the principal amount of a Capital Appreciation Bond shall be deemed to be its Accreted Value.

Additional Provisions Relating to the 2015 A Bonds

With respect to the requirements of the Internal Revenue Code of 1986, the Agency has covenanted in the Thirtieth Supplemental Resolution with respect to the 2015 A Bonds, as follows:

"Tax Covenants

> 1. The Agency covenants that it shall not take any action or inaction, or fail to take any action, or permit any action to be taken on its behalf or cause or permit any circumstance within its control to arise or continue, if any such action or inaction would adversely affect the exclusion from gross income for federal income tax purposes of the interest on the 2015 A Bonds under Section 103 of the Internal Revenue Code of 1986 and the applicable Treasury Regulations promulgated thereunder. Without limiting the generality of the foregoing, the Agency covenants that it will comply with the instructions and requirements of the Tax Certificate to be executed and delivered on the date of issuance of the 2015 A Bonds concerning certain matters pertaining to the use of proceeds of the 2015 A Bonds, including any and all exhibits attached thereto (the "Tax Certificate"). This covenant shall survive payment in full or defeasance of the 2015 A Bonds.
>
> 2. In the event that at any time the Agency is of the opinion that for purposes of this Section it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee under this Resolution, the Agency shall so instruct the Trustee in writing as to the specific actions to be taken, and the Trustee shall take such actions as specified in such instructions.
>
> 3. Notwithstanding any provisions of this Section, if the Agency shall provide to the Trustee an Opinion of Counsel that any specified action required under this Section is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the 2015 A Bonds, the Agency and the Trustee may conclusively rely on such opinion in complying with the requirements of this Section and of the Tax Certificate, and the covenants hereunder shall be deemed to be modified to that extent.
>
> 4. Notwithstanding any other provision of the Resolution to the contrary, (a) upon the Agency's failure to observe or refusal to comply with the above covenants, the Holders of the 2015 A Bonds, or the Trustee acting on their behalf, shall be entitled to the rights and remedies provided to Bondholders under the Resolution, other than the right (which is hereby abrogated solely in regard to the Agency's failure to observe or refusal to comply with the covenants of this Section) to declare the principal of all 2015 A Bonds then outstanding, and the interest accrued thereon, to be due and payable and (b) neither the Holders of the

Bonds of any series other than the 2015 A Bonds, nor the Trustee acting on their behalf, shall be entitled to exercise any right or remedy provided to Bondholders under the Resolution based upon the Agency's failure to observe, or refusal to comply with, the above covenants."

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APPENDIX G

FORM OF OPINION OF BOND COUNSEL

Upon the delivery of the 2015 A Bonds, Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel, proposes to render its final approving opinion with respect to such Bonds in substantially the following form:

, 2015

Board of Directors
Southern Minnesota Municipal
Power Agency
500 First Avenue, S.W.
Rochester, Minnesota 55902

Southern Minnesota Municipal Power Agency
Power Supply System Revenue Bonds,
Series 2015 A

Ladies and Gentlemen:

We have acted as bond counsel to Southern Minnesota Municipal Power Agency (the "Agency"), a municipal corporation and political subdivision of the State of Minnesota organized and existing under Sections 453.51 to 453.62, inclusive, of Minnesota Statutes, as amended (the "Act"), in connection with the issuance of $97,840,000 aggregate principal amount of Power Supply System Revenue Bonds, Series 2015 A (the "2015 A Bonds"), issued pursuant to the provisions of the Act and under and pursuant to a resolution of the Agency adopted on May 11, 1983 entitled "Power Supply System Revenue Bond Resolution" as heretofore supplemented and amended, including as supplemented by a resolution adopted on September 9, 2015 entitled "Thirtieth Supplemental Power Supply System Revenue Bond Resolution" authorizing the 2015 A Bonds (the "Thirtieth Supplemental Resolution"; such Power Supply System Revenue Bond Resolution as supplemented and amended through the date of issuance of the 2015 A Bonds being herein called the "Resolution"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

The Resolution provides that the 2015 A Bonds are being issued to provide moneys for (i) the payment of certain of the Agency's CP Notes (as defined in the Thirtieth Supplemental Resolution), (ii) the refunding the Refunded Bonds (as defined in the Thirtieth Supplemental Resolution), (iii) the payment of certain Costs of Acquisition and Construction of the System, (iv) a deposit into the Initial Subaccount in the Debt Service Reserve Account in the Debt Service Fund, and (v) the costs of issuance of the 2015 A Bonds. The Agency reserves the right to issue additional bonds under the Resolution on the terms and conditions and for the purposes stated therein. Under the provisions of the Resolution, all Outstanding Bonds shall rank equally as to security and payment from the Trust Estate.

The Agency has entered into a separate Power Sales Contract with each of its eighteen member municipalities (the "Members") providing for the sale of power and energy to the Members.

Seventeen of such Contracts heretofore have been amended. Each such contract, as the same may have been amended as aforesaid, is referred to herein as a "Power Sales Contract," and such Contracts, as so amended, are referred to herein collectively as the "Power Sales Contracts".

In such connection, we have reviewed a certified copy of the Resolution, certified copies of the Power Sales Contracts, the Tax Certificate executed and delivered by the Agency on the date hereof in connection with the issuance of the 2015 A Bonds (the "Tax Certificate"), opinions of counsel to the Agency and the Members, certificates of the Agency, the Members, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. We disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Agency and, with respect to the Power Sales Contracts, the Members. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the fourth paragraph hereof (except that we have not relied on any such legal conclusions that are to the same effect as the opinions set forth herein). Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution, the Power Sales Contracts and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the 2015 A Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the 2015 A Bonds, the Resolution, the Power Sales Contracts and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against municipal corporations and political subdivisions of the State of Minnesota. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement of the Agency dated October 8, 2015, relating to the 2015 A Bonds (the "Official Statement") or other offering material relating to the 2015 A Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

(1) The Agency is duly created and validly existing under the provisions of the Act.

(2) The Agency has the right and power under the Act to adopt the Resolution, and the Resolution has been duly and lawfully adopted by the Agency, is in full force and effect and is the valid and binding agreement of the Agency enforceable in accordance with its terms, and no other authorization for the Resolution is required. The Resolution creates the valid pledge which it purports to create of the Trust Estate and the Initial Subaccount in the Debt Service Reserve Account in the Debt Service Fund established under the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

(3) The Agency is duly authorized and entitled to issue the 2015 A Bonds, and the 2015 A Bonds have been duly and validly authorized and issued by the Agency, in accordance with the Constitution and statutes of the State of Minnesota, including the Act, and the Resolution, constitute the valid and binding obligations of the Agency as provided in the Resolution, are enforceable in accordance with their terms and the terms of the Resolution, and are entitled to the benefits of the Act and the Resolution. The 2015 A Bonds are special obligations of the Agency payable solely from the Revenues and other funds of the Agency as provided in the Resolution and neither the State of Minnesota nor any political subdivision thereof (other than the Agency) nor any city which is a member of the Agency shall be obligated to pay the principal of or premium, if any, or interest on the 2015 A Bonds and neither the faith and credit nor the taxing power of the State of Minnesota or any political subdivision thereof or of any such city is pledged to the payment of the principal of or premium, if any, or interest on the 2015 A Bonds.

(4) The Agency has the right and power to enter into and carry out its obligations under the Power Sales Contracts and each Power Sales Contract has been duly authorized, executed and delivered by the Agency and constitutes a valid and binding agreement of the Agency in accordance with its terms.

(5) Under the Constitution and general laws of the State of Minnesota, the Power Sales Contracts constitute valid and binding agreements of the respective Members parties thereto enforceable in accordance with their terms; except that we express no opinion, and have made no investigation, as to (i) the legal existence or formation of any Member or the incumbency of any official thereof, (ii) the requirements of the charter, by-laws or other governing instruments of any Member, (iii) any local or special acts or any ordinance, resolution or other proceedings of any Member, including without limitation, any proceedings authorizing any Power Sales Contract or the execution, delivery or performance thereof, (iv) any indenture, agreement or other instrument (other than the Power Sales Contracts) of any Member or (v) any judicial or governmental order, regulation, rule, judgment or decree of or applicable to any Member except any judicial decision, order or decree of a Minnesota state court that has been published prior to the date hereof in the Northwestern Reporter or the Northwestern Reporter advance sheets applying the Constitution or general laws of the State of Minnesota as they relate to the Power Sales Contracts. Furthermore, we express no opinion as to any approval, consent, filing, registration or authorization by or with any governmental or public agency, authority or person which may be required for the execution, delivery or performance by any Member of its Power Sales Contract. You have received, independent from this opinion, copies of opinions with respect to the Power Sales Contracts rendered by counsel to all of the respective Members.

(6) Interest on the 2015 A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the 2015 A Bonds is not a specific preference item for purposes of the federal or Minnesota individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We are also of the opinion that interest on the 2015 A Bonds is excluded from taxable net income of individuals, estates and trusts for Minnesota income tax purposes, but is included in net income for purposes of the Minnesota franchise tax.

Except as stated in paragraph 6 hereof, we express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the 2015 A Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX H

BOOK-ENTRY ONLY SYSTEM

Ownership interests in the 2015 A Bonds will be available only in book-entry form in the principal amount of $5,000 or any integral multiple thereof. Purchasers of beneficial ownership interests in the 2015 A Bonds will not receive certificates representing their interests in the 2015 A Bonds so purchased. DTC will act as the initial securities depository for the 2015 A Bonds and the ownership of one fully registered 2015 A Bond for each maturity as set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One or more fully-registered bond certificates will be issued for the 2015 A Bonds of each maturity, in the aggregate principal amount thereof, and will be deposited with the Trustee on behalf of DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the 2015 A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for such Bonds on DTC's records. The ownership interest of each actual purchaser of each 2015 A Bond (a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2015 A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2015 A Bonds, except in the event that use of the book entry system for the 2015 A Bonds is discontinued.

SO LONG AS CEDE & CO. (OR ANY OTHER NOMINEE REQUESTED BY DTC) IS THE REGISTERED OWNER OF THE 2015 A BONDS, AS NOMINEE FOR DTC, REFERENCES HEREIN TO THE HOLDERS OR REGISTERED OWNER OR OWNERS OF THE 2015 A BONDS SHALL MEAN CEDE & CO. (OR SUCH OTHER NOMINEE), AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS.

To facilitate subsequent transfers, all 2015 A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2015 A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2015 A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2015 A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

The Agency, the Trustee, the Bond Registrar and the Paying Agent may treat DTC (or its nominee) as the sole and exclusive owner of the 2015 A Bonds registered in its name for the purpose of: payment of the principal or, with respect to the 2015 A Bonds, redemption price of, or interest or premium, if any, on the 2015 A Bonds; selecting 2015 A Bonds and portions thereof to be redeemed; giving any notice permitted or required to be given to Holders under the Resolution, including any notice of redemption with respect to the 2015 A Bonds; registering the transfer of 2015 A Bonds; obtaining any consent or other action to be taken by Holders; and for all other purposes whatsoever, and shall not be affected by any notice to the contrary. The Agency, the Trustee, the Bond Registrar and the Paying Agent shall not have any responsibility or obligation to any Direct Participant, any person claiming a beneficial ownership interest in the 2015 A Bonds under or through DTC or any Direct Participant, or any other person which is not shown on the registration books of the Agency (kept by the Trustee, as Bond Registrar) as being a Holder, with respect to: the accuracy of any records maintained by DTC or any Direct or Indirect Participant regarding ownership interests in the 2015 A Bonds; the payment by DTC or any Direct or Indirect Participant of any amount in respect of the principal or, with respect to the 2015 A Bonds, redemption price of, or interest or premium, if any, on the 2015 A Bonds; the delivery to any Direct or Indirect Participant or any Beneficial Owner of any notice which is permitted or required to be given to Holders under the Resolution, including any notice of redemption with respect to the 2015 A Bonds; the selection by DTC or any Direct or Indirect Participant of any person to receive payment in the event of a partial redemption of the 2015 A Bonds of a particular maturity; or any consent given or other action taken by DTC as a Holder of the 2015 A Bonds.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2015 A Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the "record date." The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts securities, such as the 2015 A Bonds, are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Except as described below, neither DTC nor Cede & Co. nor any other nominee of DTC will take any action to enforce covenants with respect to any security registered in the name of Cede & Co. or any other nominee of DTC. Under its current procedures, on the written instructions of a Direct Participant given in accordance with DTC's Procedures, DTC will cause Cede & Co. to sign a demand to exercise certain bondholder rights. In accordance with DTC's current procedures, Cede & Co. will sign such document only as record holder of the quantity of securities referred to therein (which is to be specified in the Direct Participant's request to DTC for such document) and not as record holder of all the securities of that issue registered in the name of Cede & Co. Also, in accordance with DTC's current procedures, all factual representations to the issuer, the trustee or any other party to be made by Cede & Co. in such document must be made to DTC and Cede & Co. by the Direct Participant in its request to DTC.

For so long as the 2015 A Bonds are issued in book-entry form through the facilities of DTC, any Beneficial Owner desiring to cause the Agency to comply with any of its obligations with respect to the 2015 A Bonds must make arrangements with the Direct Participant or Indirect Participant through whom such Beneficial Owner's ownership interest in the 2015 A Bonds is recorded in order for the Direct Participant in whose DTC account such ownership interest is recorded to make the request of DTC described above.

NEITHER THE AGENCY NOR THE TRUSTEE, THE BOND REGISTRAR, THE PAYING AGENT NOR THE UNDERWRITERS (OTHER THAN IN THEIR CAPACITY, IF ANY, AS A DIRECT PARTICIPANT OR AN INDIRECT PARTICIPANT) WILL HAVE ANY OBLIGATION TO THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO DTC'S PROCEDURES OR ANY PROCEDURES OR ARRANGEMENTS BETWEEN DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS AND THE PERSONS FOR WHOM THEY ACT RELATING TO THE MAKING OF ANY DEMAND BY CEDE & CO. AS THE REGISTERED OWNER OF THE 2015 A BONDS, THE ADHERENCE TO SUCH PROCEDURES OR ARRANGEMENTS OR THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO SUCH PROCEDURES OR ARRANGEMENTS.

Principal or, with respect to the 2015 A Bonds, redemption price of and interest on the 2015 A Bonds will be paid to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Agency or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, nor its nominee, the Agency, the Trustee or the Bond Registrar and Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal or, with respect to the 2015 A Bonds, redemption price, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee and the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

As long as the book-entry system is used for the 2015 A Bonds of a particular series, any notice of redemption with respect to the 2015 A Bonds or any other notices required to be given to Holders of the 2015 A Bonds will be given only to DTC. Any failure of DTC to advise any Direct Participant, or of any Direct Participant to notify any Indirect Participant, or of any Direct or Indirect Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the 2015 A Bonds called for such redemption or, with respect to the 2015 A Bonds of each series, any other action premised on such notice.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2015 A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2015 A Bonds, such as redemptions (with respect to the 2015 A Bonds), defaults and proposed amendments to the Resolution. For example, Beneficial Owners of 2015 A Bonds may wish to ascertain that the nominee holding the 2015 A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

If less than all of the 2015 A Bonds of a particular maturity are being redeemed, DTC's usual practice is to determine by lot the amount of the interest of each Direct Participant in the 2015 A Bonds of such maturity to be redeemed. However, the Agency understands that, in the case of a partial redemption of taxable bonds of a particular issue maturing on a particular date that are subject to proportional redemption among owners (such as the 2015 A Bonds), DTC will reduce the position of each Direct Participant to whose DTC account the taxable bonds of such issue and maturity are credited on a proportional basis, subject to the authorized denominations. In addition, the Agency understands that, in such case, Direct Participants and Indirect Participants to whose accounts interests in such taxable bonds are credited also will reduce the positions of the persons owning beneficial interests in such taxable bonds on a proportional basis, subject to the authorized denominations. The Agency can provide no assurance that DTC, the Direct Participants or the Indirect Participants will allocate redemptions of the 2015 A Bonds among Beneficial Owners on such a proportional basis.

NEITHER THE AGENCY NOR THE TRUSTEE, THE BOND REGISTRAR NOR THE PAYING AGENT NOR THE UNDERWRITERS (OTHER THAN IN THEIR CAPACITY, IF ANY, AS A DIRECT PARTICIPANT OR AN INDIRECT PARTICIPANT) WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES, WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS, OR THE BENEFICIAL OWNERS.

For every transfer and exchange of a beneficial ownership interest in the 2015 A Bonds, a Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

Discontinuation of the Book-Entry Only System. DTC may discontinue providing its services as depository with respect to the 2015 A Bonds of either series at any time by giving reasonable notice to the Agency. In addition, if the Agency determines that (i) DTC is unable to discharge its responsibilities with respect to the 2015 A Bonds of a particular series or (ii) continuation of the system of book-entry only transfers through DTC is not in the best interests of the Beneficial Owners of the 2015 A Bonds of a particular series or of the Agency, the Agency may, upon satisfaction of the applicable procedures with respect to DTC, terminate the services of DTC with respect to such 2015 A Bonds. Upon the resignation of DTC or determination by the Agency that DTC is unable to discharge its responsibilities, the Agency may, within 90 days, appoint a successor depository. If no such successor is appointed or the Agency determines to discontinue the book-entry only system, 2015 A Bond certificates will be printed and delivered. Transfers and exchanges of 2015 A Bonds shall thereafter be made as provided in the Resolution.

If the book-entry only system is discontinued with respect to the 2015 A Bonds of a particular series, the persons to whom 2015 A Bonds are delivered will be treated as "Bondholders" for all purposes of the Resolution, including giving the Agency any notice, consent, request or demand pursuant to the Resolution for any purpose whatsoever. In such event, the 2015 A Bonds will be transferable to such Bondholders, interest on the 2015 A Bonds will be payable by check or draft at the principal corporate trust office of Wells Fargo Bank, National Association, Paying Agent, or, at the option of the Agency, mailed to such Bondholders by first-class mail, and the principal and, with respect to the 2015 A Bonds, redemption price of, all 2015 A Bonds will be payable at the principal corporate trust office of the Paying Agent, as described under the heading "Registration and Transfer" herein.

Portions of the foregoing concerning DTC and DTC's book-entry system are based on information furnished by DTC to the Agency. No representation is made herein by the Agency or the Underwriters as to the accuracy, completeness or adequacy of such information, or as to the absence of material adverse changes in such information subsequent to the date of the Official Statement to which this Appendix H is attached.

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