

Good Morning!

It is my honor as the General Manager of Alcorn County Electric Power Association to welcome our Members to this the 74th Annual Meeting and to report on the State of the Association.

As I began to formulate my thoughts on ACE's past year it was obvious the report would be one of success like the past three quarters of a century have been. ACE's formula for success was laid out in 1933 and early 1934 by a group of visionary leaders who developed a plan that allowed not only Alcorn Countians to reap the benefits of a successful non-profit organization but was shared by all of Rural America.

As Rural America developed successful electric distribution systems, which for many of their first years of operation were luxuries and not necessities of life, they were creating a higher standard of living for all Americans. As word of the air conditioner, TV and later on computer technology spread, then the electric utility industries became a necessity of life and the work and decisions of the organizations like Alcorn County Electric Power Association became critical to the success of our society. Thus, today we have the insight of how ACE has always been successful. But with all the upheavals and changes that are possibilities for our political and energy entities, the plan for future successes will be an extreme challenge.

After studying the successes of our first three quarters of a century, the only thing that all of the administrations of Alcorn County Electric Power Association have excelled in has been in utilizing the strength of communication. Our asset of being able to communicate to our membership the true state of today's energy quagmire and the steps we will all need to take to maintain reliable and low cost electrical energy for our future is extremely critical.

Today's American Electric Utility Industries truly find ourselves at a crossroads in our history. Almost all generating companies find themselves with a considerable lack of base load. Transmission companies find themselves with limited access for transmission access to the grid and they are meeting stronger resistance in building new transmission in all areas of the country. Distribution companies, such as ACE, are finding ourselves strapped with uncontrollable enormous increases in fuel costs from our generation and transmission suppliers which have to be passed on to the end-use customers.

The Electric Utility Industry is not only faced with the aforementioned problems, but the issue of global climate change and its perceived correct methods of remedies leaves the Electric Utility Industry with limited ways to attempt to solve the problems. Regretfully, all of these limited ways are going to be difficult for all electric customers to swallow. These issues are why I earlier mentioned that the future success of Alcorn County Electric Power Association lies in our ability to communicate effectively. We are going to have to communicate with our members the need for their assistance in learning to use electricity more efficiently, along with the need to enlist their help in letting our State and National Legislators know not to needlessly add additional costs to our power bills.

On the National scene, I hate to report that both candidates for this years Presidential Election have bought in to Al Gore's contention that global climate change is being caused by greenhouse gases created by man with carbon dioxide as the basic cause. Yes, I am referring to the same CO₂ that we all exhale with every breath and what trees and vegetation absorbs, and makes up less than 0.05% by volume of the earth's atmosphere. The fact is that only approximately 3% of global CO₂ emissions are made from manmade sources. Even with the facts that the earth's oceans, volcanoes, and decaying matter release the majority of the earth's

CO₂, and that earth's cycles of heating and cooling appear to be the direct result of solar activity, the extremist's opinion of man made Global Climate changes is receiving the most attention. However, global climate change is not a proven fact that is agreed upon by the entire scientific community.

Since Carbon Dioxide is a product of burning fossil fuels to produce electric power, including coal, oil, and natural gas; politicians are being placed in an unenviable position to judge the rhetoric and produce sound, sustainable public policy on the issue of climate change with inexact science. The main legislation that Congress is considering is a "Cap and Trade" System to reduce CO₂ emissions in the United States. This is a system in which the Cap works just like a tax, with no idea of what the tax rate will be, has been utilized in Europe with no positive results. The alternative that is being considered is a carbon tax that is placed on every item that leaves a carbon footprint.

The reality of the Global Climate debate is that the Electric Power Industry is not in opposition to being good stewards of our planet's resources, however, carbon capture technology does not exist today and it is going to take a monumental effort over an extended period of time to perfect, if at all. The one thing that the Global Climate debate does guarantee is a significant increase in everyones electric bill that will be in addition to the uncontrollable fuel costs which we are experiencing today.

The Members of Alcorn County Electric Power Association have been blessed for the past 75 years to have been able to have resided in the Tennessee Valley Authority's service area. For years and years TVA and ACE have had some of the safest, most reliable, and lowest cost electric rates in the nation. This scenario has come about due to our regions not for profit utilities coupled with TVA's reliable transmission system and TVA's well balanced generating system consisting of hydro, coal, natural gas, and nuclear.

However, at this present time in history the future for TVA's generation reliability and costs are truly in a state of flux. This situation has been brought about by many different scenarios, however mostly by the need of new generation to meet the base load levels of the new electrical loads that are coming to the Tennessee Valley. The TVA Board and Management have realized their future needs and they have developed a bold plan to attempt to meet their obligations. This new plan is heavily loaded with the construction of new nuclear power plants, combined cycle natural gas plants, and renewables where they can be economically justified.

In the interim while TVA is constructing new base load; which will hopefully be shared with Seven States Power Corporation, ACE and TVA will meet one of their most difficult communication projects of this time in history. We have to convince our members that we can offset the need for some new generation with improved energy efficiency or conservation in our homes and businesses. As I mentioned before, the Tennessee Valley has been blessed with safe, reliable, and low cost power for all of our history, but in order for us to maintain this standard of living some adjustments in how we utilize our electrical products will become a necessary scenario in the near future.

I recently heard a presentation by Kim Green, CFO for TVA, that quoted from a Southern Company report in the 1970's. Coincidentally, I was working for Alabama Power at the time this 1970's report was given and it sounded like deja vu as I remembered this specific report and all the similarities that it had with today's world. The report included the following:

- (1) Fuel Costs are increasing
- (2) More stringent emissions standards are being debated
- (3) Railroad shipper constraints are effecting delivery and price

- (4) Nuclear Energy is a viable option
- (5) Cleaner coal generation is required
- (6) Construction costs are increasing
- (7) Demand is approaching the capacity of our plants

This report is almost identical to today's set of challenges that we are facing.

In the 70's and 80's our industry met the aforementioned challenges. We continued to do our jobs, we became more flexible, and we were successful in overcoming the demands that were placed upon our industry.

Today as we are faced with a similar set of problems, or rather a set of opportunities, we will make the necessary decisions to develop strategic plans to meet and solve each obstacle. It is our promise to make whatever decisions that are necessary to deal with the fuel crisis and the Global Climate debate. However, we will need the assistance of each and every Member of Alcorn County Electric Power Association to also be committed to use electricity in a more energy efficient way. Together, we can solve today's energy crisis just like we did the one in the 1970's.

The rate issue has definitely been the primary concern of this annual report, but the everyday business of Alcorn County Electric Power Association has always been foremost in our employee's minds. We will never lose sight of our purpose of providing a service to the people of Alcorn County and that this electric service should always be of the safest, most reliable, and lowest cost we can possibly provide.

As I mentioned at the beginning of this report, Alcorn County Electric Power Association experienced another successful fiscal year. This success was truly accomplished by today's Board of Directors following the plan established by ACE's Founding

Fathers and the Board's innate ability to tweak the plan to meet today's challenges. The experience value of ACE's Board, Management, and workforce has probably never been as critical to the future success of your cooperative as it is today. I can promise all of our members that your board has strived to make sure that ACE continually is positioned on the cutting edge of all new technologies that are economically feasible to provide. This type of positioning allows ACE to have all available options for maintaining safe, reliable, and low cost electric service. This is readily proven by ACE's decision to replace all of our meters so that we can communicate data between ACE's office and each meter on our entire system. This is a tremendous investment, but with the critical need of our customers to buy into the energy efficiency models, the payback should be short lived.

The changing out of all of our meters was not the only large and expensive project undertaken by ACE this past year. We also continued with our ongoing renovations to all of our substations with additional improvements made to our Corinth Primary Substation located behind Lowes. We also laid the groundwork to prepare for the addition of a new power transformer to be installed at the Kossuth Substation this coming fall.

Our construction crews also just completed a major renovation project that began a few years back with the beginning of the replacement of all of our facilities in the downtown Corinth area. This project has been one of the most self gratifying jobs for our employees as they replaced facilities that were purchased from Mississippi Power Company in 1934 with new state of the art facilities. It is our sincere desire that all of the members will appreciate the face lift that Ace employees have made to the original facilities that made up the entire original power system that became Alcorn County Electric Power Association on June 1, 1934.

It is simple for me to communicate to you on all of the achievement that our engineering and operating personnel have accomplished during this past year. But, there is one achievement they have accomplished that can't be related to any act. That accomplishment is the high degree of reliability that each and every member experienced during this past year. During this past fiscal year our customer's power was on 99.99% of the time. We realize that electric service is a necessity for a high quality of life and we are doing our best to see that it is there when you flip the switch.

In order for our engineering and operating personnel to have accomplished their feats of this past year our Accounting and Customer Service Department had to do their normal and consistent job. While collecting \$52,060,284 and sending \$40,779,166 to TVA our Accounting Department made sure the remainder was reinvested in the costs of constructing and operating our ever growing electrical system.

As ACE's Management, Operating, and Engineering Personnel are dedicated to performing 24/7 to keep all of our members with reliable and safe electric service. Our Accounting, Customer Service, and Marketing Personnel are also a dedicated group of employees who are also prepared to spend whatever time it takes to communicate with and assist all of our members in all matters related to each individual account.

As I began this report I emphasized that the secret to our future success can only be accomplished through communication. The one guarantee that I can make to the Membership of Alcorn County Electric Power Association is that this organization is blessed with personnel who are prepared to communicate and lead this organization to a successful future.

Respectfully submitted,

James D. Nanney, Jr.