

## Manager's Report for Annual Meeting of Members

August 2, 2011

The Annual Report of Alcorn County Electric Power Association is a story of massive infrastructure projects, a new wholesale power rate, and the loss of ACE's second largest industrial customer. It is my honor as the General Manager of ACE to present this 77<sup>th</sup> Annual Report to the Membership and explain how ACE has remained a strong and viable organization.

The main part of this Annual Report that I am most proud to report to the Members is that your Association's financial condition is in excellent shape and capable of meeting all the challenges of a world with an uncertain economy. This strong financial position has been achieved by positions taken by a progressive board of directors who have made sure that your Association has stayed prepared for unforeseen changes in our industry. This board remembers pitfalls of the past, and they do everything possible to make sure your Association is always at the cutting edge of today's electrical industry. With power bills due TVA of over \$5,000,000 per month and the possibility of horrendous storms that could devastate our electrical system at any moment, your Association attempts to maintain a cash balance of approximately \$8 million and a long term debt of \$5.16 million.

As I mentioned at the beginning of the report about this year's story of massive infrastructure projects, the first one began to come to fruition in October, 2010. This project was the completion of the "Don Rinehart Substation" located on US Highway 45 at the intersection of County Road 410. The Rinehart Substation would cost the Association \$2.85 million and the associated five new three phase feeder lines would cost \$1.36 million. TVA was able to complete a new, nine mile 161 KV transmission line from Corinth Primary Substation to the new substation at the time they had promised, and ACE's contractor was also able to complete the substation on time. Shortly after the New Year, TVA was able to retire their 46/13 KV Rienzi Substation and the Rinehart 161/13 KV Substation began providing service to Biggersville, Rienzi, and a large portion of south Alcorn County. On July 15, 2010, the new substation was named the "Don Rinehart Substation" in honor of ACE's Operating Superintendent who reached his 50<sup>th</sup> year of loyal and dedicated service to the Association.

The other major infrastructure project for ACE began in May, 2010, when the ACE Board entered into a contract with Worsham Brothers for the construction of a new warehouse facility. The new warehouse would replace the old warehouse that was constructed in 1967 and will now provide ACE with needed future growth area. Worsham Brothers would take the entire next year to construct the new state-of-the-art warehouse. ACE would begin taking over the new warehouse at the end of May, 2011, as we were performing our yearly inventory. The new warehouse facility is already proving to be a major asset for the ACE operating personnel in their daily routines as well as better organizing our inventory for state-of-the-art inventory control. Along with the new warehouse, Worsham Brothers also constructed a new truck shed,

a new transformer yard, and a new pole yard. The new ACE operations complex is truly a dream come true as ACE moves into its 21<sup>st</sup> century facilities.

Another part of the fiscal year's Annual Report story ended with TVA holding to their plan of changing the end-use wholesale rate to a nearly flat seasonal or time-of-use demand and energy wholesale rate on April 1, 2011. This rate change is a major change to ACE as since 1992 the end-use rate has allowed ACE to be guaranteed a margin on top of TVA's costs. This had allowed ACE to make fairly certain financial plans. However, this new rate will force ACE to be more mindful of its sales along with TVA's generating and transmission costs. The other issue we have to be more aware of is weather and its effect on our demands. During this month of May, we experienced our first extreme negative under the new rate as on May, 31, 2011, our system demand jumped 11% due to a hot day unlike any we had during the entire rest of the month of May. This one day caused your Association a loss of \$90,000. The new rate may turn out to be a fairly revenue neutral scenario over a year, but our worst fears have already come true. Only time will tell the entire story, and it is our extreme desire we have set the rates to keep The Association financially sound and our Members' rates low.

The story of Alcorn County Electric Power Association's life with our Nation's most recent recession had been not too tragic until the fall of 2010. Then, we regretfully joined the group with lost industrial customers as Quad Graphics announced that they would cease manufacturing in Corinth on December 31, 2010. Quad Graphics had approximately 400 employees, and they previously had an electrical contract demand of 11,000 kw, which had made them ACE's second largest customer. There was no way that the loss of a load the size of Quad Graphics would not negatively effect ACE, but the loss of 400 jobs was one of the most drastic events our community has suffered in recent years. Your Association can weather this storm, because we haven't got all of our eggs in one basket. TVA and ACE will work to help find a tenant for The Quad Graphic's building and all will be well with time.

Even with the loss of a large industrial customer, our residential and commercial business has remained strong, and our industrial loads have risen to pre-recession rates. This is one of the main reasons why your Association's financial condition continues to remain strong.

However, the continued success story of ACE is mainly due to the dedicated employees of ACE. Our employees understand that their duty of service to the Membership is our only reason for existence, and it is our duty to provide this service as a not-for-profit company. For 77 years this business model has proven to be a successful venture that continues to provide the membership of Alcorn County Electric Power Association with some of the safest, most reliable, and lowest cost electrical service in the country.

This past fiscal year has been an exciting and challenging year for your board of directors, along with the management and employees as ACE has grown from a \$62.5 million to a \$69 million company. Once again the cooperative model of electrical business that was created in Alcorn County in January, 1934, has proven to have been the correct plan for the people of Alcorn County's prosperity.

May God continue to Bless Alcorn County Electric Power Association and the people of Alcorn County.

Respectfully Submitted,

James D. Nanney, Jr.  
General Manager