

Good Morning,

It is my honor and privilege as the General Manager of Alcorn County Electric Power Association to welcome our members to our 72nd Annual Meeting. The report I am prepared to present today concerning the state of your Association is very similar to ones of past years in respect to our financial success during this fiscal year, however this fiscal year in no way can be considered normal:

Hurricane Katrina; Hurricane Rita; oil, gas, and metal markets out of control; not one, but two major rate increases by TVA, due to increased coal prices, increased natural gas prices, and their having to purchase power when demands exceeded 25,000 MW.

Not since the 1970's had we experienced such volatile markets along with a strong, growing economy.

I will begin this report by addressing the two TVA rate increases of 7.5% and 9.95% respectively, since your Board of Directors regretfully had to pass these increases along to all of our members. Spiraling costs of coal, natural gas, and power purchased by TVA from the market place are truly the chief villains. With no apparent end in sight for the rising cost of these essential commodities, especially after Hurricanes Katrina and Rita, TVA was faced with following a path very similar to that of other regional utilities who also implemented rate increases this year. Obviously, knowing that others were also raising their rates provided little, if any, comfort for Tennessee Valley Consumers. But it did effectively underscore the legitimacy of the cost pressures TVA was feeling for fuel and purchased power.

In our negotiations with TVA, they have promised to us that while these cost pressures have continued to grow, they will continue to actively work to contain costs and increase efficiency. TVA's cost containment efforts and their diverse generating resources have certainly helped keep the current rate increases from being even higher. But more needs to be done. Power Distributors across the valley are united in their belief that TVA should continue to aggressively seek additional ways of cutting costs, and have openly expressed this viewpoint.

It is worth noting that the largest single expenditure we have at Alcorn County Electric Power Association is for electricity purchased from TVA for our residential, commercial, and industrial customers. In fact, approximately 80 cents of every dollar we receive goes to TVA to pay for wholesale power. That leaves a very small margin for us to use for operating and maintaining our distribution system and paying our other bills. And we are not immune to cost pressures similar to those affecting TVA. Our expenditures for goods and services essential to the delivery of electricity are also rising.

Even with the two wholesale rate increases that ACE and its members incurred during this past fiscal year, our financial department showed a substantial increase in sales which helped offset the extreme increases in the fuel and metal markets. Thus, from a financial

standpoint, your Association was once again successful in meeting our financial goals and budgets.

On a positive note concerning TVA's rates and revised strategic plan, the new TVA Policy Board with Tom Kilgore, CEO is now in charge of TVA. The new board has approved a wholesale rate decrease, along with a quarterly fuel cost adjustment, beginning on October 1, 2006. They have also realized that TVA needs to construct some new base load generating facilities so TVA will not have to purchase so much power from the open market. This breath of fresh air makes me convinced more than ever that TVA will continue to be the best wholesale supplier that ACE could ever be associated with.

Before reporting on special issues associated with ACE during this past fiscal year, I would like to report to you on the National Energy Bill that the President did sign at the beginning of this fiscal year. I am extremely proud to report that our unrelenting lobbying efforts did yield a bill that was not detrimental to the electric cooperatives of this country. It was finally understood that the retail electricity markets could not be deregulated like other markets without adding extreme additional costs to the ultimate consumer. I regret to report there are still some non-believers who are only led by one factor and that is greed. However, these non-believers are now in the minority and it will probably be another decade before another Energy Bill makes it through Congress. The Energy Bill does have some pressures to make our industry work toward nuclear power and green power as ways to make our nation more energy independent.

Monday morning, August 29, 2005, Hurricane Katrina, the worst hurricane natural disaster in our nation's history, takes dead-aim on Waveland and Bay St. Louis, Mississippi in Coast Electric Power Association's System. Before midnight Hurricane Katrina was still intact and moving northeast through Alcorn County Electric Power Association's territory.

This monstrous hurricane had covered the entire State of Mississippi reaping havoc and destruction the like of which none had seen before. As our valiant and dedicated employees worked throughout the night and the next day to restore service to 2,000 of our members, we really had no conceivable idea how much loss of lives, property, and infrastructure had been caused by this horrific storm. As soon as we completed restoration of service to our consumers we attempted to contact the statewide office of the Electric Power Associations of Mississippi to see where we could go to help others. Our calls were futile, due to the fact that communications had been cut off to the Jackson area and the entire southern half of the state. We then contacted our adjoining cooperatives and found that Tippah County EPA needed our assistance to complete restoration to all of their members. After helping Tippah restore service we had finally made contact with the Statewide Association and found that 497,000 meters out of the 704,000 meters served by Electric Power Associations had originally been without service, but 25 percent had been restored. At this point in time the Statewide Association asked if we could send crews to Pearl River Valley EPA in Wiggins, Mississippi. Our men gladly accepted the challenge to go help their fellowman which is the kind of cooperation fundamental to

electric cooperatives. So ACE crews headed toward the Mississippi Gulf Coast area along with 10,000 emergency work crew members from 22 states and within three weeks this army of volunteers had all power restored to customers capable of safely receiving power.

Little did we know at the first of October we were truly only getting started in assisting the restoration of an unbelievable devastated area of the country as Hurricane Rita churns up the Gulf of Mexico destroying massive numbers of oil refineries and strikes the Louisiana Coast. ACE crews once again headed south, this time to Dixie Electric Membership Cooperative in Denham Springs, Louisiana. After another couple of weeks of admirable and much appreciated service our tired but proud crews once again headed home. The only problem was at this time Coast Electric EPA was requesting assistance in rebuilding lines to areas that were completely destroyed by Katrina and they were also in need of cashiers to help restart their office facilities. ACE employees were ready to answer the bell and did with pride until December. Hopefully, Alcorn County Electric Power Association never has to request assistance like we provided this year, but if we do, our cooperative friends will immediately be here to offer their services. This devastating experience has truly shown how the cooperative family continues to display the "Power of Human Connections".

Even with many of our operating and customer service employees away from their regular duties during this past fiscal year we were able to continue to provide safe and reliable services to our members at all times. Our Operating Department continued with their maintenance program and was able to complete all new construction by its due dates. The maintenance program this year mainly consisted of reconductoring circuits in the downtown Corinth area and the Wenasoga Road area. This work along with the extensive ROW clearing done by ACE's right-of-way crews and our contract R.O.W. crews resulted in our system experiencing line losses of only 3.88%. We also completed several underground projects in new subdivisions during the year.

ACE's Engineering Department had a very productive year with the completion of an upgrade project on Corinth Industrial Substation. The big project for the Engineering Department this year was the purchase and installation of a SCADA System which will allow us to communicate with and eventually operate all of our substations from our office facility. These projects were accomplished along with our Engineering Department employees handling their everyday duties of meeting new customers, metering projects, handling daily service work, answering trouble and complaint calls and maintaining our mapping system. As usual our Engineering Department met their goals of continually upgrading ACE's system to work with 21st century technology.

ACE's Marketing Department continued to grow this year as ACE's website went into gear to better communicate with our members. Our advertising plan which works in conjunction with TVA has been successful in promoting today's heat pumps, conservation, safety, and our "Green Power Switch" Program. It is a breath of fresh air in watching these employees each day promote ACE with a smile and a positive image.

Finally, our accounting and customer service personnel experienced another successful year as seen through our financial statements. However, that does not tell the entire story of the excellent job this group truly accomplishes. They are the lucky men and women who I expect to wear a smile no matter how the customer behaves. These employees do an exemplary job of dealing with our members by taking time to try to explain why our policies are what they are and they always do it with a smile. We know we can't make everyone happy, but we can take the time to listen. The attitude of this group of employees truly helps make ACE the success story it is.

Though the energy world is riddled with ever higher prices, uncertain supplies and growing worldwide consumption and competition, co-ops must commit to investing in the future right now. I am not talking only about expenditures in technology and facilities, I mean co-op leaders need to invest heavily in the currencies of human capital "Integrity and Honesty" to best weather the challenges ahead.

Just a few people, a special few people, who are in a critical position, who make the right decisions, take the right actions. That's what our success rests upon.

The future of our cooperative program is dependent on each and every one of us. We're all one community, every director, the manager, every employee of our electric cooperative. Our bills are affected just as every members is. We're all in this together and that's what ACE's future success is all about.

The Alcorn County Electric Power Association's Board of Directors and Management believe in these cooperative principles and we promise to continue to provide our members with safe, reliable, and low cost electric service as we have for the past 72 years.

Thank you for your concern and interest in your Association.

Respectfully submitted,

James D. Nanney, Jr.