

Manager's Report for Annual Meeting of Members

August 3, 2010

It is my honor as the General Manager of Alcorn County Electric Power Association to present the 76th Annual Report to the Membership. I will begin this year's report with one issue of concern that is always in the back of our minds, the financial condition of ACE Power. I am proud to report that the finances of the Association once again show that your Association is a strong and viable organization ready to meet the challenges of a world with an uncertain economy and new obstacles placed in our path each and every day.

Your Association finds itself in this strong position due to the decisions made by the individuals that you have elected as the Board of Directors of ACE. During the thirty years in which I have been an Employee of Alcorn County Electric Power Association all of the individuals who have served as Directors have freely done so due to their conviction in the cooperative principles of providing each of our members with the lowest cost, safest, and most reliable electrical service possible. It has been my honor over the past 30 years to observe these honorable, community-minded individuals forget about personal agendas and mold their personal talents to create a dream come true for all the people of Alcorn County.

As I began this Annual Report which started with ACE's strong financial position that would have not been possible without the leadership of ACE's Board, it is with a heavy heart that I regret to report the death of Secretary-Treasurer of the Board of Directors, Bruce Dillingham, Jr. on May 26, 2010. The Board, Management, and Employees of ACE will sorely miss the storyteller extraordinaire with his smiling face, wry wit, and positive attitude - truly a man we respected and loved. For 37 years Bruce Dillingham freely donated his time to serve on the ACE Board to represent the people of Alcorn County. Bruce's memory will continue with ACE. Remembering his love for life and devotion to service will lead our thoughts as we make decisions in the future. May God Bless the family of Bruce Dillingham, Jr.

At the time of Bruce Dillingham's death, he still had over two years left on the term to which he had been elected. Thus, according to the ACE By-Laws it became the Board of Directors' duty to select an individual to fill the remaining years of Bruce's term. Your Board of Director's search for an individual who would possess the trait of no agenda and who would be willing to freely donate their time to see ACE continue in its commitment to all the People of Alcorn County was a monumental task. However, after hours of deliberations the Board of Directors approached Mark Gardner about his willingness to fill the unexpired term. Mark accepted the Board's offer. Thus, at the regular scheduled Board Meeting on June 9, 2010, Mark Gardner became ACE's newest Board Member.

As I began this Year's Annual Report I discussed a strong financial condition. That statement is entirely true, and it has been accomplished even with some of the largest expenditures of ACE's history. Our fiscal year began with the approval to begin construction of a new substation to be located near the intersection of Highway 45 south and County Road 410. This approximate \$4 to \$5 million project cost to ACE along with a multi-million dollar cost to TVA in the construction of a new 161 KV transmission line from Corinth to the new substation site will provide southern Alcorn County with electrical infrastructure that will be as state-of-the-art as all other areas of ACE's electrical system. A project of this magnitude can not be completed in a very short period of time, thus ACE's Engineering and Operating personnel began this past fiscal year designing, acquiring needed right-of-way, and constructing five new feeder lines from the new substation site. These new three phase feeder lines were constructed along Highway 45, Mitchell Hill Road, Danville Church Road, Danville Road, Sandhill Road, and Salem Road. The new lines will connect the new substation to Kossuth Substation, South Corinth Substation, and Glen Substation thus, creating greater reliability to the ACE members in the southern part of ACE's system. Work on the substation began in the fall of 2009 with construction due to be completed in early fall of 2010. TVA has begun construction of the new 9 mile 161 KV transmission line that is being built from the Corinth Primary Substation to ACE's new substation. The scheduled completion date of all construction on this project is proposed to be October, 2010.

With the United States economy still in a downturn, ACE's new residential work is still slow. But, new commercial work is high. In fact, Alcorn County probably has as many commercial projects under construction at the present time as at any time in recent memory. A new elementary school, a major jail complex, shopping center additions, major renovations from May floods, new water treatment facility along with new water line from Tenn-Tom Waterway, new road from Kimberly Clark to Highway 72 east, new fire station, Doug Jumper's new warehouse addition, and even ACE is having a new warehouse constructed. Yes, ACE has contracted with Worsham Brothers to design and build a new warehouse facility to replace the one that was constructed in 1967. The Board of Directors realized that ACE had outgrown its present facility and they felt that a new facility would also facilitate better inventory control while freeing the old facility for an orderly future growth area. This decision was made after many months of deliberations and studies of what was best for ACE and its membership. Thus, in May, 2010 the Board of Directors entered into a contract with Worsham Brothers.

I have informed everyone of ACE's residential and commercial growth. Now, I need to report on the status of the Industrial customers. The best thing to report is that the existing Industrial customers are beginning to return to electrical usages that are reminiscent of the pre-recession. This fact along with the announcement that Toyota was going to begin operations in Blue Springs next year gives us all a positive feeling for possible new industrial growth in the Alcorn County Electric Power Association's service area.

One of the largest concerns of the ACE Board and Management at this present time is TVA's continued commitment to a newly formed wholesale rate. The deliberations between TVA and all of the Distributors have continued for the past two years without a final settlement. At the present time, TVA has an End-Use Wholesale Rate which allows the Distributor to read all of our customers' bills to create our bill from TVA each month. This rate allows the distributors not to lose money. Now, TVA wants the distributors to share more in the risks of TVA's generating costs. In fact, TVA wants to charge the distributors a nearly flat time-of-use demand and energy rate. This new rate will effect all of the 155 power distributors in different ways with some being prepared to handle it, but most not ready at the present time. Due to the fact that ACE has a new automated meter infrastructure along with a sophisticated SCADA system, we feel fairly confident we can set retail rates that will not affect our Members in a negative way and ACE can still maintain enough funds to operate successfully. TVA's most recent plan is to put this new rate into effect on April 1, 2011. We will do our best to meet our member's needs while seeing ACE continue to have some of the lowest rates in the Tennessee Valley.

On the National scene, a Cap and Trade Carbon Tax System still has the possibility of passing Congress. If this ever does pass Congress electric bills will see a dramatic increase in this part of the country due to the large amount of TVA's generation being produced by coal and gas plants. We will continue to lobby against this possibility, and we need all of our members to also help in this effort.

present financial Again, let me complete this report with information of ACE's condition. As of today your Association is a \$62 million dollar company that collected \$54 million in revenue this year while paying TVA \$44 million for power costs. I am also proud to report that this strong financial stance is also leading to a reliability factor of your power staying on 99.99% of the time.

The Board of Directors, Management, and Employees of your Association are proud to work to continue to provide each of you with the safest, most reliable, and lowest cost electric service that we possibly can. Thank all of you for helping make the First Electric Cooperative in America a true success story.

Respectfully Submitted,

James D. Nanney, Jr.
General Manager