

## Manager's Report for Annual Meeting of Members

August 4, 2009

75 Years! Yes, Your Rural Electric Cooperative is 75 years old.

It is my honor to serve as General Manager of the First Rural Electric Cooperative formed in the United States of America and to welcome the Members of Alcorn County Electric Power Association to their Cooperative's 75<sup>th</sup> Annual Meeting.

The By-Laws of the Association require the General Manager to report to the members, at each Annual Meeting, the general business condition of the Association. My report today will let all of you know that "The Corinth Experiment" better known as Alcorn County Electric Power Association is still a resounding success. A group of visionary Alcorn Countians, led by Ben F. Liddon, and assisted by the expertise of David Lilienthal, TVA Board Chairman, created a business model that was chartered by the State of Mississippi on January 17, 1934, with the dream of providing all Alcorn Countians with electrical service and the chance of better prosperity. The dream truly began to come true for ACE Power on June 1, 1934, as the company (ACE), which was formed without one-cent to its name, began operations as "America's First Rural Electric Cooperative." This monumental feat was accomplished with TVA loaning ACE \$114,632 to take over Mississippi Power Company's facilities in Corinth along with 12 miles of rural distribution lines. The debt to TVA subsequently rose to \$328,317 largely due to the construction of ACE's first additional miles of rural distribution lines. Thus was the beginning of a new venture that was unique to the power industry of the United States. A model of a member-owned, not-for-profit, rural electric cooperative was alive and well in the hill country of rural Northeast Mississippi.

The varied and unique story of ACE Power proved the original Board of Directors' belief that cooperation and banding together by the businessmen and farmers could produce a working system. The cooperative system that was created in 1934 in Corinth, Mississippi quickly grew much beyond anyone's wildest imaginations. The immediate success of Alcorn County Electric Power Association even drew the attention of Washington D.C. The attention became so noticeable that in November, 1934, President Franklin D. Roosevelt made a special stop in Corinth to put his stamp of approval on the project. Thus, "The Corinth Experiment" served as a model for President Roosevelt's creation of the Rural Electrification Administration (REA) which allowed all of America the possibility of the dream of electrical service and a better way of life.

The first 25 years of ACE's existence began with a quick growth spurt, but World War II slowed growth for a few years. However, shortly after the war ACE quickly returned to its steady growth pattern as the Association borrowed \$392,400 from REA to complete its Rural Distribution Line Program. By the end of ACE's first 25 years, ACE had completed its Rural Line Program and repaid all of its TVA and REA debts. The

Association was at that time serving 8,214 customers of which there were 7,124 residential, 1,049 commercial, and 41 industrial. For this service the Association collected \$755,461 for the sale of 76,204,458 KWH of which 47% of the collections were sent to TVA.

The second 25 years of ACE's history brought the most growth in numbers of new customers to the Association. The era also brought tremendous electrical load growth to ACE and also to TVA. This extraordinary electrical load growth caught TVA struggling to meet the generation requirements. In order to meet their obligations TVA turned to an aggressive Nuclear Power Program. However, inflation, high costs of fuel and materials, along with numerous constraints by the Nuclear Regulatory Commission ( NRC) that added delays and costs to TVA's Nuclear Program began a series of rate increases to the consumers of TVA power. All of the afore mentioned events changed the mind set of cheap electric power, but it also found TVA and ACE with still some of the lowest electric rates that were being offered anywhere in the country. Thus, ACE ended its first 50 years capable of providing electric service to anyone in its service territory and realizing that their service was no longer a luxury but was now a necessity of life. ACE's 50<sup>th</sup> year of existence would find the Association having become a \$15.5 million company serving 15,101 customers with an annual revenue of \$23 million, but 86.1% was going to TVA.

The third quarter of a century of the history of ACE would begin with the financial condition near its lowest point and growth of the Association continuing at a steady pace. However, the last twenty-five years have found ACE with a trained, educated, and well equipped work force capable of meeting any new challenges. ACE was also blessed during this period of its history with Boards of Directors that expected ACE's work force to do whatever was necessary to keep ACE on the cutting edge of technology. It was the Board's and Management's beliefs that in creating a state-of-the-art organization, while operating and maintaining it wisely, would yield an Association with top notch service and low cost for its members. This plan, along with the actions that were taken over the past 25 years, would prove true as ACE celebrates its 75<sup>th</sup> year of service for the people of Alcorn County.

Today finds your Association as an approximately \$60 million company with a long term debt of \$3.66 million serving 18,860 members. The annual revenue that was collected over the past year was \$59.9 million, but our annual power cost from TVA was \$47.9 million. The remaining funds were used to operate and maintain the system along with purchasing the poles, transformers, wire, meters, as well as paying down our debt and maintaining reserves for replacement of system needs.

Under the watchful eye of your Board of Directors, ACE endeavors to operate the electric system as efficiently as possible and maintain some of the lowest rates in the Tennessee Valley. It should also be noted that TVA's rates continue to be some of the lowest in the nation even with the many increases and decreases of the past years that were mainly due to fuel cost adjustments.

Like all of ACE's previous years, its 75<sup>th</sup> year was also a busy year even with the U.S. economy having one of its worst years. The Engineering and Operating Departments accomplished another stellar performance of keeping ACE's system reliable by keeping all members power on an average of 99.99% of the time. In addition to all the maintenance performed during this past year, ACE personnel also completed and began several major system improvement projects. Some of the system improvements include construction of a new three phase line along Wenasoga Road from Forest School Road to Holly Church Road, conversion of the Foote Street Substation circuits from 4 KV to 13 KV; partial completion of two new feeders from the site of the proposed Biggersville/Rienzi Substation; and continuation of the replacement of all meters on the electric system.

The Accounting, Customer Service, and Marketing Departments of ACE also completed another exemplary year by taking time to help each and every member understand the many changes that TVA and the environment made to their bills. Our employees also worked diligently to help our members find ways to more efficiently use electricity. To help TVA meet the future electrical demands it is going to take a monumental effort by the distributors and all customers to be more efficient. Educating our members has got to be a never-ending process in order to keep electric rates at affordable prices and our employees are dedicated to this task.

I would be amiss in my report if I did not take this opportunity to inform our membership of the possible rocky waters that lay ahead of all of us if the Senate of the United States passes the "Cap and Trade" Bill that has already passed the House of Representatives.

As the consumers of electric power are already struggling to pay their power bills our Congress is on the verge of passing a bill in the name of climate change that will drive up the costs to everyone's electric bills and take the average family a step away from being able to rely on the availability of affordable, reliable electricity. Our quality of life is at stake. Don't let Congress use the "Cap and Trade" Bill as a way to hide behind climate policy to tax and raise new federal revenue through raising your electric bills. The passage of this Bill can forever change the landscape of America's Electric Power Industry and possibly change electricity back to the luxury as it was in 1934.

After 75 great years of Alcorn County Electric Power Association being able to provide its members with a reliable and low cost electric service, ACE along with the entirety of America's Electric Power Systems stand at a crossroads in history. It is my hope and prayer that the correct decisions will be made to not destroy electricity as a necessity by returning it to the days of the beginning of ACE when electricity was a high cost luxury for some and a dream for others.

I can promise all of the Members of Alcorn County Electric Power Association that your Board of Directors along with the Management and Employees of ACE will try to do whatever is required to continue to provide each and everyone of you with the safest, most reliable, and lowest cost electric service we possibly can. The dreams of the founders of America's First Rural Electric Cooperative must survive.

Respectfully submitted,

James D. Nanney, Jr.  
General Manager