

2010 ANNUAL REPORT

# IN BLACK & WHITE



**WIREFRASS**

ELECTRIC COOPERATIVE

A PowerSouth Energy Cooperative

[www.wiregrass.coop](http://www.wiregrass.coop)

# YOUR BOARD OF TRUSTEES

As members of the Wiregrass Electric Cooperative Board of Trustees, we consider it both an honor and a tremendous responsibility to serve you.

We realize we are your representatives, that our neighbors and friends cast their votes and chose us to help oversee the direction of this cooperative on their behalf.

We understand that, in this capacity, we have a responsibility to make decisions that are in the best interest of this cooperative and the people it serves.

Beyond that, however, we are committed to being completely transparent with you. That is the theme of this Annual Report. Please take time to read it, and you will understand where we are today, and where we are going. It is all here — in black and white.



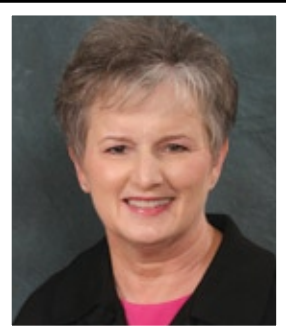
**NOLAN LAIRD**  
President • District 9



**KIP JUSTICE**  
Vice President • District 6



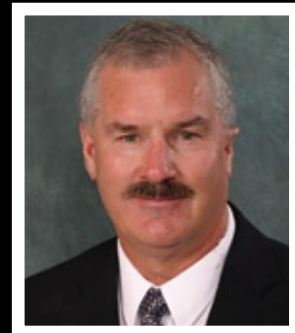
**DEBRA E. BAXLEY**  
Secretary • District 1



**DONNA PARRISH**  
District 2



**JOHN CLARK, JR.**  
District 3



**DANNY McNEIL**  
District 4



**TRACY REEDER**  
District 5



**DONALD RAY WILKS**  
District 7



**GREG McCULLOUGH**  
District 8

# MESSAGE FROM YOUR CEO

There is something perfectly simple about black and white. One is the sum of all colors, the other the absence of color. One absorbs light; the other reflects it. They are opposite ends of a spectrum, and together represent the ultimate in contrast.

Most of all, black and white is a combination that has helped record and pass along knowledge for generations. Black words on a white page (and occasionally white words on a black page) inform and inspire us in books, newspapers and magazines. As the electronic age has changed the way we receive information, the two colors remain vitally important in presenting the messages we read and share on computers and cell phones.

I suppose that is why people use the term 'black and white' when they talk about looking for the plain and simple truth. That is certainly what we work toward on a daily basis, at all levels, here at Wiregrass Electric Cooperative.

I was raised to believe that if a person will always tell the truth and do the best job they know how to do, everything else will work out fine. I believe that is true in our personal lives, and I certainly believe it is true when it comes to taking care of your cooperative. In the past few years, we have shared some very unpleasant truths with our mem-



**Michael S. McWaters**  
Chief Executive Officer

bers regarding topics such as wholesale power costs and the future of the electric utility industry. No one wants to hear that energy costs will most likely continue to rise in the coming years, but many members have told me they appreciate us explaining it and letting them know what their cooperative is doing to control distribution expense.

In this year's Annual Report, we wanted to do more than look back at 2009. We wanted to share with you – in black and white – the Strategic Plan guiding our future. Here it is, in plain and simple language. I would love to hear your feedback.

# CHARTING A COURSE FOR TOMORROW

We are living in a new energy environment. There are many facts and factors that are having an impact on the price you pay — and will be paying — for electricity:

- Developing countries (such as China and India) are building electricity generation plants at incredibly rapid rates to power their industrialization.
- As a result, competition for energy resources is no longer simply a regional concern; other countries are competing with the U.S. for fuels, which drives up prices.
- There is increasing interest in renewable energy, which is more expensive to produce than most other forms of energy.
- Generation and transmission utilities (those who produce the power) are studying new methods of charging for electricity, such as rate structures that will take into consideration the higher cost of providing power during periods of peak demand.
- This year alone, Congress has debated a number of plans designed to reduce carbon emissions, in hopes of impacting our climate.
- On average, we are heating and cooling larger homes today, filled with flat-screen TV's, computers, chargers and other devices that depend on electricity to operate.

The Board, management and employees of Wiregrass Electric Cooperative understand that electric utilities can no longer do business as usual. We must look for ways to control our distribution expense (the only part of your power bill we can control), even as we strive to improve our service. We must develop programs that encourage efficiency among our members. We must be innovative in reducing the need to build new power plants and distribution systems.

This document represents the goals that come from our new Strategic Plan. On each of the following nine pages you will find three sections:

- **PROGRESS TO DATE:** The work that has been done in each area in the past five years.
- **STRATEGIC GOAL:** The target as identified in our Strategic Plan.
- **INITIATIVES:** Some of the steps we plan to take to achieve these goals.

This Strategic Plan builds upon the progress Wiregrass Electric Cooperative has made in the past five years, and lays the groundwork for our efforts through the end of 2012. By working together, the Board of Trustees, management, employees and members will focus on these goals in the hope of creating the future we all want for our electric cooperative.

# PROVIDING A SAFE WORKPLACE

## PROGRESS TO DATE

Utility employees do a hazardous job, but when done safely it does not have to be a dangerous job. In 2005, WEC earned its safety accreditation (which had lapsed) from the Rural Electric Safety Accreditation Program. The cooperative was re-accredited in 2008. Great progress has been made in the past five years to create a culture of safety not only at the cooperative itself, but in the schools, homes and communities of the Wiregrass Electric Cooperative service area.

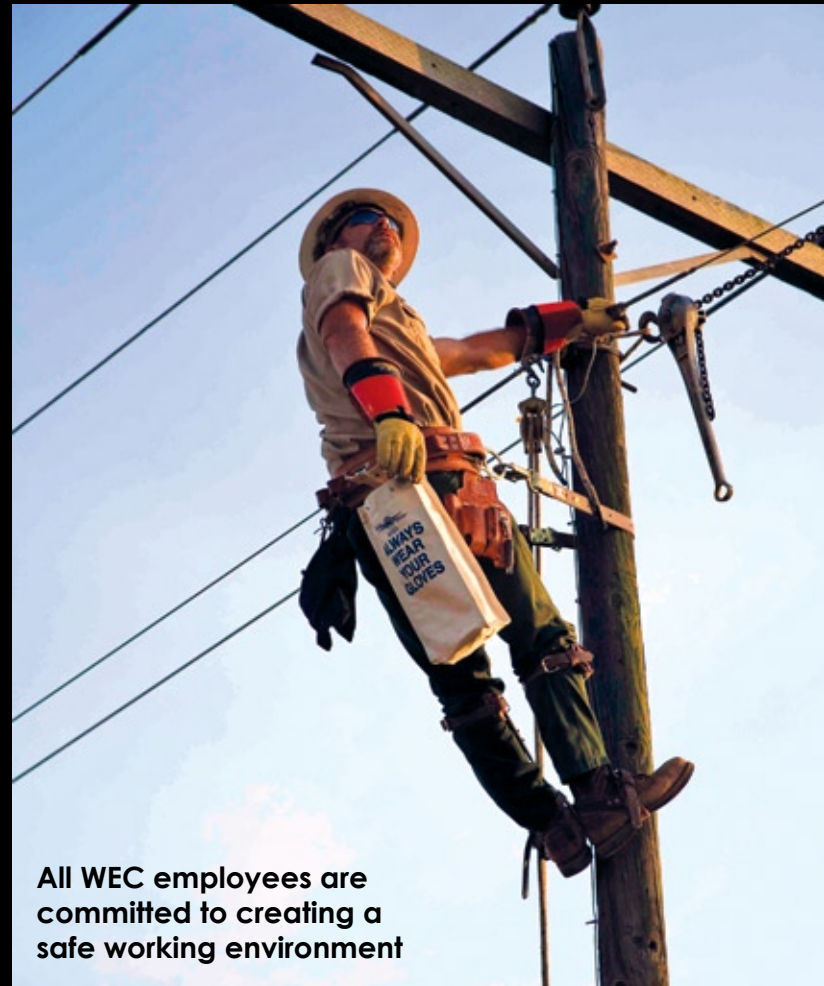
## STRATEGIC GOAL

It is the goal of Wiregrass Electric Cooperative to provide a safe working environment for all of its employees. We will achieve this goal by maintaining an active and effective safety program.

## INITIATIVES

Wiregrass Electric Cooperative has made significant progress in the area of employee safety, and it is part of our Strategic Plan to continue that progress. We understand that an emphasis on safety not only benefits the employees and their loved ones, it also helps WEC control operating costs by reducing lost-time accidents.

Over the coming months, we will emphasize and continue supporting our structured program of



**All WEC employees are committed to creating a safe working environment**

monthly safety meetings and our safety committees. We will preserve the effectiveness of our safety meetings by continuing to focus on topics that promote safety on the job and in the community. We will continue to involve all employees in identifying and implementing safe work habits, enhancing our safety manual as needed. After all, our most important goal at WEC is for our employees to go home safe and whole to their families each day.

# MAINTAINING A RELIABLE POWER DISTRIBUTION SYSTEM



New substation  
under construction

## PROGRESS TO DATE

Over the past five years, WEC has implemented an aggressive maintenance program to control right-of-way growth. This significantly reduces the number of outages caused by tree limbs falling on power lines. We have also put new technologies to work to increase system reliability, and worked with our wholesale power supplier (PowerSouth) to construct new substations at Murphy Mill and Coffee Springs — an investment of some \$8 million.

## STRATEGIC GOAL

It is the goal of Wiregrass Electric Cooperative to provide members with reliable electric service. We will achieve this goal through a highly trained workforce, proactive system maintenance and monitoring program, and the implementation of justified technologies.

## INITIATIVES

Over the coming months, we will implement a comprehensive Outage Management System that will help your cooperative respond to power outages in the most efficient manner possible. This system will use technology to chart outages, manage resources (trucks, materials and manpower) and track restoration progress. We will implement additional hardware and software that will enable us to more efficiently monitor and control our distribution system. We will also complete a new four-year construction work plan using mapping and analysis software to determine where our system needs to be expanded and improved.

As we gather information about our system's growth, we will work with PowerSouth to pursue suggested plant investments and maintenance program expenditures. We will also continue to enhance our business continuity plan and overall coordination with local emergency services.

# BUILDING ON OUR FINANCIAL STRENGTH

## PROGRESS TO DATE

In order to manage the complex financial issues of a multi-million-dollar utility, WEC hired an experienced professional with an MBA in 2005 to work as the chief financial officer. With the help of Les Moreland, WEC has analyzed its cash flow, developed budgets, overhauled its accounting practices, increased the interest-earning opportunities for the money that flows through the cooperative each month, expanded payment method options for members, created 14 monthly payment cycles to space out cash flow and work load, and developed an overall financial management plan.

## STRATEGIC GOAL

It is the goal of Wiregrass Electric Cooperative to maintain financial strength. We will achieve this goal by controlling costs, adopting technologies that increase efficiency, and operating under a Board-approved Financial Management Plan.

## INITIATIVES

Over the coming months, we will develop a long-term staffing plan to ensure WEC continues to employ the trained personnel needed to operate a reliable electric distribution system. WEC will also identify and implement metrics to measure operations department construction and maintenance activities.



Wiregrass Electric Cooperative will continue to monitor the key financial indicators of its Financial Management Plan and Policy to ensure we are meeting our goals and objectives, making adjustments as needed. We will review those various key performance indicators to ensure that the appropriate ones are being measured and that they are being updated in the most appropriate time frame. We will also continue to evaluate the methods used to retire capital credits.

# FOCUSING ON OUTSTANDING CUSTOMER SERVICE

WEC's Rebecca Waters is focused on delivering great customer service



## PROGRESS TO DATE

Since 2005, WEC has implemented a number of programs to enhance customer service. Our members enjoy many new payment options, and they can do business with us at their convenience on our website and over the phone. An automated meter reading system has resulted in a more convenient billing process, and our Outage Reporting Hotline helps us restore power more efficiently. Our new Member Care Team is dedicated

solely to answering members' phone calls and emails, as well as chatting live over our website. As a result of these and other efforts, WEC's American Customer Satisfaction Index ratings continue to climb and are well above the industry average.

## STRATEGIC GOAL

It is the goal of Wiregrass Electric Cooperative to exceed the expectations of our members. We will achieve this goal through maintaining a highly trained workforce who understands that our members are the most important people in our business, searching for cost-effective services to add to our offerings, and continually working to make it easier for our members to do business with their cooperative.

## INITIATIVES

Over the coming months, we will fully implement an Interactive Voice Response (IVR) system to allow members to conduct business with WEC quickly and efficiently over the phone. We will also implement a program to allow members to pre-pay for electric service. To reduce the management of paper documents, we will look for new opportunities to use document imaging technology. We will also conduct a consumer accounting audit to look for ways to get greater benefit from our comprehensive billing and accounting system.

# KEEPING OUR MEMBERS INFORMED

## PROGRESS TO DATE

Alabama Living magazine is the cornerstone of WEC's communications program. Supporting this member publication are bill inserts, an enhanced website, news releases, media events, email newsletters, the *WEC Update* video report, on-line social media, an annual report to members and more. In the past five years, participation has increased in WEC programs, members have become more informed of cooperative and industry issues, and WEC's efforts have earned many state and national communications awards.

## STRATEGIC GOAL

It is the goal of Wiregrass Electric Cooperative to educate and inform employees and members of the direction (where we are going) and activities (what we are doing) of our cooperative, the services we offer, the roles we play in our communities, and important energy issues impacting the cooperative and its members.

## INITIATIVES

Over the coming months, WEC will revise and enhance its plans to communicate with community, business and political leaders (both member and non-member). We will develop ways to better explain such important facts as the structural and operational differences between a for-profit



investor-owned, municipally-owned and not-for-profit cooperatively-owned utility. We will focus on communicating to our members the importance of energy efficiency, as well as the many services available to member from their cooperative. We will also identify and implement ways to visually communicate performance and motivational messages with our employees. And we will certainly continue keeping our members informed about our rate structure and rate classifications.

# MAINTAINING AN EFFECTIVE RATE STRUCTURE



WEC's Dexter Tolbert checks a digital meter

## PROGRESS TO DATE

At the beginning of 2010, WEC changed its rate structure to better manage the cost of providing a reliable source of electricity in a financially sound manner. This new structure is now displayed clearly on members' bills, breaking down the *distribution expense*, *wholesale power cost* and *wholesale power cost adjustment*. Our new rate structure is not a rate increase or decrease; rather, it levels out the annual cash flow for your coop-

erative and allows us to recover our actual fixed operating costs throughout the year. Approximately 75% of each member's bill goes to pay for the wholesale power we distribute. The remaining 25% is what it costs WEC to operate and deliver that power to members. These costs include labor, employee benefits, new technology investments, taxes, buildings, trucks and equipment. We are working hard to control these operating costs, by implementing technologies and finding ways to operate more efficiently. Since 2004, these efforts have resulted in distribution expenses per meter that have remained steady, even as wholesale power costs per meter have risen notably.

## STRATEGIC GOAL

It is the goal of Wiregrass Electric Cooperative to maintain rates that are competitive with other similar utilities across the country.

## INITIATIVES

We will achieve our strategic goal by designing rates that maintain financial strength and recover costs incurred in a fiscally responsible manner.

We will also evaluate rate structures that send price signals to improve load factors and reduce the need for new generation, transmission or distribution plant.

# PURSuing ECONOMIC DEVELOPMENT IN THE REGION

## PROGRESS TO DATE

In the past five years, WEC has strengthened its relationship with many entities within its service area. Employees have become more involved in organizations such as Chambers of Commerce, Keep the Wiregrass Beautiful, Rotary, United Way, Relay for Life, economic development agencies and other civic groups. We worked in partnership with state elected officials and local leaders to develop a website for Geneva County. We have also looked for ways to help recruit new industry or expand existing industry in our service area. While these efforts have been somewhat successful, the economic downturn has hampered our efforts. We continue focusing effort in this area because, unfortunately, our system's mix of high residential and low commercial/industrial accounts puts WEC at a competitive disadvantage when compared to municipal and investor-owned utilities with better ratios.

## STRATEGIC GOAL

It is the goal of Wiregrass Electric Cooperative to recognize the different economic development needs within our service territory and to uniquely support and assist those agencies/entities that are responsible for improving the quality of life of our members. We will achieve this goal by being active in Chambers of Commerce and Economic



New Publix store in the eastern portion of the WEC service area

Development Authorities, developing resources for these entities to use in recruitment and retention efforts, fostering a positive attitude toward economic development among our stakeholders, and increasing commercial and industrial load.

## INITIATIVES

WEC plans to continue our efforts to help recruit and retain jobs in a manner that will improve the quality of life for our members.

# MANAGING OUR ENERGY SUPPLY WITH THE FUTURE IN MIND



WEC's Jessie Ingram helps members with energy efficiency issues

## PROGRESS TO DATE

WEC has long been committed to helping our members save money on their power bills. We routinely publish conservation tips in *Alabama Living* magazine, and our website features energy efficiency news and information. Increased emphasis has been placed nationwide on becoming more energy efficient to help postpone the need to build new power generation. This summer WEC created the staff position of Energy Services Manager to further help our members in these efforts.

## STRATEGIC GOAL

It is the goal of Wiregrass Electric Cooperative to develop and implement energy management programs that encourage the wise and efficient use of electricity, improve system load factor, or reduce the need for new generation, transmission or distribution plant. The implementation of these programs, including their initiation and possible financing, will be achieved through the joint efforts of the cooperative, the participating member and the contracted service provider(s).

## INITIATIVES

Over the coming months, we will evaluate and implement a meter data management application. This program will use data collected by our Auto-Meter system to help our members better understand and manage (proactively and reactively) their consumption and demand for electricity. As feasible, we will also investigate and implement the following: (1) the development of a revolving loan and/or grant fund to help our members make recommended energy efficiency improvements; (2) opportunities to partner with philanthropic entities and other civic-minded citizens and organizations to support energy efficiency programs; and (3) demand management programs (options would include dual fuel/heat pumps, pool pumps, water heaters, etc.).

# GOVERNING YOUR COOPERATIVE WITH TRANSPARENCY

## PROGRESS TO DATE

In today's business environment, an electric cooperative functions under a remarkable corporate structure. Those who purchase power from an electric cooperative are also the owners of the utility. As such, they elect from among themselves several local residents to represent their best interests on a board that governs the cooperative. This system was established some 75 years ago as a means of extending electricity to rural America. It worked, and it continues to work today. The Board of Trustees for WEC is comprised of nine men and women who are committed to doing what is right for the members. That includes being transparent in all company activities, as is evidenced by this Annual Report (in fact, this document features a number of examples that illustrate this commitment). In the past five years, the WEC Board began posting meeting minutes to its website, publishing vast amounts of information regarding its plans and decisions, and taking every opportunity to educate members about how WEC functions.

## STRATEGIC GOAL

It is the goal of the Wiregrass Electric Cooperative Board to govern the Cooperative in a manner that fulfills the highest legal and ethical standards for directors and boards of not-for-profit organizations.



The WEC Board of Trustees

## INITIATIVES

Over the coming months, we will maintain our commitment to operating Wiregrass Electric Cooperative in a transparent manner. Internally, we plan to review our Governance Check List and look for any areas where improvements are needed. We also plan to review how we structure our Board meetings in order to better prioritize topics and include a monthly review of our strategic goals. Above all, we will remain focused on doing what is right for the members of WEC.

2010 figures are from May 2009 to April 2010. 2009 figures are from May 2008 to April 2009.  
 These figures represent the audited financials of Wiregrass Electric Cooperative.

# FINANCIAL INFORMATION

## ASSETS

	2010	2009
UTILITY PLANT:		
Utility plant	\$ 73,241,081	\$ 69,537,527
Construction work in progress	644,313	1,223,262
	<u>73,885,394</u>	<u>70,760,789</u>
Less: accumulated depreciation	16,198,856	15,452,109
Net utility plant	<u>57,686,538</u>	<u>55,308,680</u>
OTHER ASSETS AND INVESTMENTS:		
Investments in associated organizations	11,699,116	9,952,129
Economic development notes receivable	398,039	481,015
Total other assets and investments	<u>12,097,155</u>	<u>10,433,144</u>
CURRENT ASSETS:		
Cash and cash equivalents	4,526,269	4,541,726
Accounts receivable:		
Customers, less provision for doubtful accounts of \$51,889 in 2009 and \$326,598 in 2008	1,962,103	1,831,285
Unbilled revenue	2,321,510	2,143,231
Other accounts receivable	6,185	153,006
Materials and supplies	483,387	628,603
Other current and accrued assets	88,538	145,234
Total Current Assets	<u>9,387,992</u>	<u>9,443,085</u>
DEFERRED CHARGES:		
Deferred charges	925,327	12,711
<b>TOTAL ASSETS</b>	<b>\$ 80,097,012</b>	<b>\$ 75,197,620</b>

## LIABILITIES AND EQUITIES

EQUITIES:		
Memberships	\$ 80,971	\$79,821
Patronage capital	41,734,581	36,882,152
Other equities	766,231	676,320
Total equities	<u>42,581,783</u>	<u>37,638,293</u>
LONG-TERM LIABILITIES:		
Mortgage notes	32,165,060	32,873,843
Capital lease	1,442,149	1,304,493
Less: Current maturities	922,308	787,403
Total long-term debt	<u>32,684,901</u>	<u>33,390,933</u>
CURRENT LIABILITIES:		
Current maturities on long-term debt	922,308	787,403
Accounts payable:		
Purchased power	165,764	8,776
Trade	230,225	213,491
Other	23,893	22,572
Customer deposits	1,679,207	1,536,099
Accrued liabilities:		
Taxes	1,308,787	1,066,155
Other accrued liabilities	500,144	533,898
Total current liabilities	<u>4,830,328</u>	<u>4,168,394</u>
<b>Total equities &amp; liabilities</b>	<b>\$ 80,097,012</b>	<b>\$ 75,197,620</b>

# FINANCIAL INFORMATION

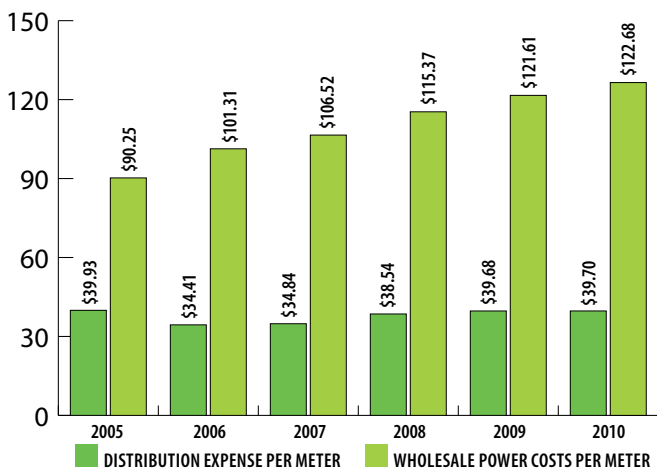
## STATEMENT OF REVENUE

	2010	2009
OPERATING REVENUE	\$ 47,723,089	\$43,231,056
OPERATING EXPENSES:		
Cost of Power	33,228,743	32,344,292
Distribution - Operations	1,565,534	1,213,249
Distribution - Maintenance	1,447,671	1,944,978
Accounting and Collections	2,076,990	2,209,275
Administrative and General	1,630,081	1,645,490
Depreciation Expense	2,212,261	2,036,963
Taxes	355,700	323,239
<b>Total Operating Expenses</b>	<b>42,516,980</b>	<b>41,717,486</b>
OPERATING INCOME	5,206,109	1,513,570
FIXED CHARGES		
Interest Expense	1,542,282	1,328,691
OPERATING MARGINS AFTER FIXED CHARGES	3,663,827	184,879
G&T AND OTHER CAPITAL CREDITS	1,260,276	1,617,112
NET OPERATING MARGINS	4,924,103	1,801,991
NON-OPERATING MARGINS:		
Interest Income	164,458	71,413
<b>NET MARGINS FOR THE YEAR</b>	<b>5,088,561</b>	<b>1,873,404</b>

## STATEMENT OF PATRONAGE CAPITAL

PATRONAGE CAPITAL AT BEGINNING OF YEAR	\$ 36,882,152	\$ 35,252,734
Retirement of capital credits	(262,833)	(243,986)
Utility Tax Refund	26,701	--
<b>PATRONAGE CAPITAL AT END OF YEAR</b>	<b>\$ 41,734,581</b>	<b>\$ 36,882,152</b>

## COST PER METER PER MONTH



**Distribution Expense per Meter** reflects how much it costs WEC to operate the company, compared to the number of meters in the field. This number includes WEC's controllable costs (labor, employee benefits, new technology investments, taxes, buildings, trucks, equipment, etc.). WEC has held these costs to just under \$40 since 2004. **Wholesale Power Costs per Meter** reflects how much it costs to purchase the power we deliver to our members. This number continues to rise each year, resulting from higher fuel costs and environmental upgrades. This clearly shows that increases in consumer power bills are a result of rising wholesale power costs, which WEC passes along to its members.



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