The Annual Meeting of the membership of Vermont Electric Cooperative will be held Saturday, May 12th at Smugglers’ Notch Resort. The Annual Meeting starts at 10 am, preceded by the traditional complementary Co-op breakfast at 8:30 am in the Meeting House at Smugglers’ Notch Resort Village.

When Dave Hallquist delivered his first message as CEO at last year’s Annual Meeting, his focus was on the dramatic increase in fuel costs and the cost of electricity, subsequently forcing VEC’s to increase rates. He also told members that VEC was taking steps towards developing its generation capacity and taking control of our own destiny. A year ago when he spoke of VEC owning generation, Dave had no idea it would be in the form of the Renewable Energy Development of North America project (REDONA), a partnership of Vermont Electric Cooperative, Sealandar Waterworks from Washington, D.C. and ENERKEM from Sherbrooke, Quebec. This exciting new venture will be operated separate and independent from VEC and all funding for the research work will be fully funded from Canadian and American grants and no costs will be incurred by VEC’s members. VEC featured an article on the REDONA Project in the March 2007 issue of Co-op Lite included with your bill, and it can also be found on our website at www.vermontelectric.coop.

At this year’s annual meeting our members will have an opportunity to view a video on the REDONA Project and to hear from the inventor Esteban Chornet, founder of ENERKEM and longtime professor at Sherbrooke University. Chornet, born in 1942 in Mallorca, Illes Balears, Spain, graduated in 1966 with an industrial engineering degree from ETSIBB, Barcelona, Catalunya, Spain. He obtained a Ph.D. in Chemical Engineering from Lehigh University in Pennsylvania, USA, in 1971. He is Professor of Chemical Engineering at the Université de Sherbrooke.

Chornet is a long-time collaborator with the Canadian National Renewable Energy Laboratory (NREL) and has now been employed there for several years. In November 2004, he was honored with the highest award of the Government of Quebec for his lifetime achievements in the field of industrial engineering research and development and commercialization. Esteban received the Lionel-Boulet prize for his efforts in the conversion of biomass to energy, fuels, and products. He is honored for his career in academia (which led to the development of many high-quality researchers), in research laboratories and industry (where he fostered outstanding productive collaborations within Canada, the United States, and Europe), and industry and business (for the creation of the company Enerkem to continue research and development through implementation in industry and several successful scale-ups of technologies). His career includes industrial research guidance through participation in many company boards and an outstanding record of 180 peer-reviewed publications, three books co-edited, 15 book chapters, 21 patents, and numerous conference publications. He is also a member of the NREL-led Biomass Refining Consortium for Applied Fundamentals and Innovation, which was formed to advance the efficacy and knowledge base of pretreatment technologies.

Chornet’s technology, marketed through the Montreal-based Enerkem company he and his sons operate, is so cutting edge it’s said to have helped London, England, win the 2012 Olympic games.

Members will soon receive in the mail invitations to the breakfast and annual meeting along with ballots for vote and ballots for director elections for members in Districts 1, 6, 14 and 15 – only districts that will be voting directors this year. Please return your RSVP breakfast card by Monday, April 30, 2007 if you plan to attend the breakfast. Election ballots must be either received at the Johnson Post Office by 10 am, Thursday May 10, 2007 or members may bring them to the meeting to be tallied there by VEC’s team of tellers. The ballots must be placed in the ballot box before 10:30 am in order to be counted.

Note: the breakfast RSVP card is due by Monday, April 30, 2007.

(Continued on page 7)
Members Run for Director Seats in Districts 1, 6, 14 and 15

District 1 Four-Year Term

Jack Miller (District 1)

Jack Miller, a lifetime resident of Grand Isle County, is once again seeking re-election to the Vermont Electric Cooperative Board of Directors representing District 1 (Grand Isle County). Jack has served on the Board for a total of 18 years since his appointment in April of 2004, when the Cooperative was renamed Citizens Utilities. During his time on the Board, he has been actively serving on the Committee and Personnel Committee and is a strong supporter of the gasifier/generator project now under consideration.

Jack currently is Zoning Administrator for the Town of North Hero. He also served on the Police Board for a number of years. Jack is also the Health Officer. He has served the town historically on the Select Board, as well as the Board of Adjustment and Planning Commission. He is a building contractor based in North Hero. His wife, Ruth, is the Town Clerk/Treasurer for the Town of North Hero. Jack regards all the above as energy conscious and seeking alternate means of energy should be a high priority. Jack would appreciate the support of Co-op members in his bid for re-election to the Board for a four-year term.

George Rice (District 1)

I am a candidate for the position of Director for District One (the area of Grand Isle County). As former customers of Citizens Utilities, we have been hit harder than other customers resulting with lower rates that are to be approved by the Public Service Board. As a director, I will look after the interests of all former Citizens Utilities customers in addition to the long term planning and growth of the CO-OP. I agree with the technological improvements made by the current management so long as our rates remain reasonably stable. We must keep in mind the difficulty of maintaining low rates while our electricity is purchased at prices that cannot be controlled. We must make every possible effort to keep peak demand down as so to not incur those high costs.

I believe my education and experience qualifies me to represent the ratepayers of Grand Isle County as a Director. As an attorney, I have represented cooperatives regulated by the Vermont Public Service Board. More importantly, I was hired by the Public Service Board to represent ratepayers of several utilities, including electrical municipal and cooperative companies (such as Vermont Electric Co-op) in rate cases before the PSB. As such, my duties and responsibilities were to advocate for the ratepayers in hearings and filings before the PSB.

My goal is to support management’s efforts to keep costs down and provide excellent service to ratepayers. However, I plan on doing so with the knowledge that former Citizens Utilities customers were paying lower rates than Vermont Electric Cooperative customers prior to the merger. I will study and research the question of reducing management costs by eliminating some of the current board members. General Electric Corporation has a Board of Directors of 16 members. I am not convinced that our CO-OP needs 15 paid members to run this small organization when a smaller board of qualified members could do the same at less cost.

I look forward to once again representing Grand Isle County.

Roland Tremble (District 1)

For the last thirty-five years, my wife and I have lived and raised our three sons in South Hero where they attended Folsom School. We are both self-employed and work out of our South Hero home offices. In the past, I have been involved in many volunteer programs; the Village Players, South Hero Rescue, South Hero Cub Scouts, YOGI Little League, church youth group and South Hero Boy Scouts. I was lucky enough to take part in three High Adventure Treks at Philmont Scout Ranch in New Mexico. For the last thirty years I have owned and operated Tremble Business Forms. I have served as Lister for South Hero. While building my forms business I worked at some diverse jobs including: bus driver for Folsom School, supervisor for VT Dairy Herd Improvement Agency and photographer for Internet Island company.

I have worked part time at Air Quality Technical Service for the past few years. Today, I operate the business forms business and Tie By Night Fly Shop. I also serve as chairperson of the trustees at our South Hero church.

As a business owner and resident, I know how it is to keep up with increasing costs of power, so I would push for rates as affordable as possible and will support clean renewable green energy whenever economically feasible. If elected to the VEC board, I would look forward to acting as the conduit to bring the concerns and ideas of the ratepayers of Grand Isle County to the board and plans and decisions of the board back to the residents.

Roland Tremble

District 6 Four-Year Term

Dorothy J. Allard (unopposed)

It is an exciting time to be a Director of the Vermont Electric Cooperative. Over the past two years we have improved our outage response system, sold our Southern Division to increase our work efficiency, and moved from a company that purchased most of its power supply to one that is planning for some of its own generation. I am a strong supporter of clean and renewable energy sources, and our work at the Cooperative to develop distributed sources of energy generation such as methane digester, small gasifiers, and other clean, renewable methods has been especially meaningful for me. I have worked hard to help update our bylaws and to write and edit articles for our Co-op Life newsletter. I have enjoyed being an advocate for members who have called me with outstanding problems. As a native Vermonters with roots in the Northeast Kingdom, I know how important it is to have a reliable and affordable source of electricity for those who live in rural areas.

If re-elected to the Board, I will support the Co-operative’s continuing efforts to keep power outages to a minimum and the cost of electricity down. I will work to incorporate more sources of “green power” and to assist members who want to reduce their electricity bills through making their homes and businesses more energy-efficient. As a self-employed botanist and ecologist with experience in forest management and mapping, I can help our Cooperative in making good decisions about maintaining power line rights-of-way. I would be pleased, honored and continue to represent you as the Director for District 6.

Dorothy J. Allard

District 14 Four-Year Term

John Ward (unopposed)

I would like to continue to serve as your Director for District 14, comprised of the City of the Town of Coventry and the City of Newport. I believe I have the life experience, skills, and knowledge that can help us all provide quality, reliable power at a cost its ratepayers are able to afford.

Currently, and for the last eight years I have been the City Manager for the City of Newport. As part of my duties I have manage- ment responsibility for our sewer and water utilities. Prior to my City employment, for 19 years I was an owner/partner in a local mechanical engineering firm, Phoenix Engineering. I am a life long resident of the City of Newport. My wife, Diane and I have two married children and are the proud grandparents of three grandchildren under the age of three.

I would appreciate your vote when you receive your ballot.

John O. Ward

District 15 Four-Year Term

Thomas Bailey (unopposed)

I would like to continue as one of your elected directors of the Vermont Electric Cooperative. I feel my many years of experience in all facets of the electric utility business is a valuable asset as we pursue new ways to run your business more efficiently and effectively.

You are reminded almost daily when you stop at the gas pump that fuel prices are up significantly. This has made our utility business very challenging as we shop to re-new energy con-tracts, New England.

I am grateful to have worked with your fellow board members and VEC’s management staff as we put our best efforts into securing new electric power contracts to fulfill our needs at the best market prices available.

Thomas Bailey

5th: Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, employees and others so they can contribute effectively to the development of their Co-op. They inform the general public, particularly young people and opinion leaders, about the nature and benefits of co-operation.

6th: Co-operation Among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7th: Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.
CEO CORNER

Chittenden Bank Lockbox Services
Due to an extended employee absence in the cash remittance area, uncertainty as to the return date of this employee, and a shortage of coverage for this position, VEC will be outsourcing the cash remittance process through Chittenden Bank. Michael Bursell, VEC’s Chief Financial Officer and Kathryn Johnson, VEC’s Member Relations Manager, met with Chittenden Bank representatives on Wednesday, March 14th to discuss services that could be provided to VEC through their cash processing department located in Brattleboro.

What this means to you is that VEC members will begin to see the payment remittance address on bills change to Brattleboro, Vermont. This is only an address change for where the payments are processed, and does not indicate any organizational changes at VEC.

VEC will be evaluating the outsourcing of this process over a period of time to see if it is better for our members and to determine if it is more efficient in helping VEC meet its regulatory requirements in the posting of payments.

Member Concerns about Wind Projects

In response to VEC’s decision to purchase (for resale) half of the output of the Sheffield wind project, there have been a number of letters of concern from members.

The decision to allow construction of wind farms in Vermont is a matter of public policy. It is not up to the utilities to decide what kind of generation that the citizens of Vermont should have, but up to the citizens themselves. Vermont has one of the most comprehensive regulatory processes in the nation, with opportunity for significant public input. This process will be what determines the fate of wind projects in Vermont. VEC will provide input to this process regarding the power supply situation and VEC will take a neutral position on wind farms in this process. If Vermonters decide that Vermont should have more wind projects, then VEC will have the option to purchase the power generated, and get [from Sheffield] an annual minimum benefit of $250K from the output.

Disaster Recovery Plan

The VEC management team has begun working on a disaster recovery plan for the Cooperative. The staff has identified the key internal processes that need to be restored in the following time periods in the event of a disaster;

Most Critical – available within four hours
Critical – available within 24 hours
Somewhat Critical – available within 3 days
Not Critical

The next step, to be completed by April 15, is to identify the detailed procedure for restoring these processes. The plan responds to both an event that impacts infrastructure and/or an event that impacts human resources.

Operations Update

The last few months have been relatively quiet for VEC in terms of outages. During the week of March 5, however, VEC members experienced two significant outages. One originated at the Fairfax 1 substation, where the entire substation was out for eight hours, affecting 989 members. An elbow in the substation failed about 10 p.m. and was under water, due to heavy rains and snow melt. Working on this elbow was very difficult because the water was just above freezing and it was dark. The other outage was in Canaan, and impacted 781 members, including the Ethan Allen manufacturing plant. Lightning struck and damaged a motor-operated air brake that connects VEC with PSNH. Due to the size of the outage, and the fact that Ethan Allen manufacturing was out of power, both VEC and PSNH crews were called out. PSNH had fully surveyed the VEC system before VEC crews arrived, which allowed VEC to quickly identify the cause of the outage.

Michael Sullivan, one of VEC’s excellent substation and metering technicians, has submitted his resignation and three-week notice. He has accepted a position with IBEW Local 104 and will be working out of Burlington. Mike has been a long-term employee of Citizens and VEC. He is a very intelligent and hard-working employee and we certainly will miss him. We all wish the best of luck to Michael, and look forward to working with him in his new role.

Generation Update

VEC continues to work aggressively to find sources of local generation as alternatives to purchasing power from the power supply market. The long-term prices of power continue to experience upward pressure. VEC has had many discussions with leading power suppliers, utilities, and experts in the field. There is unanimous consent that the long-term prospects for energy are not good.

The global competition for fuel is being driven by China and India. These countries, with their combined populations of 2.5 billion, have economics that are growing at 10 percent per year. China is relying on heavy industry for its economy, and is adding one major coal-fired power plant per week. This growth is straining all of the world’s resources, with energy being the base resource.

VEC has responded by working with other utilities and companies. VEC is working with Sealander Waterworks and Enerkem to develop a low-cost gasifier that will produce energy from biomass crops, as well as municipal solid waste and sewage. VEC is working with the other Vermont utilities on a study to determine what kind of generation is best for Vermont’s future, as well as where generation should be located. This study is the basis for the Vermont utilities to put together a joint construction and ownership agreement on generation. VEC is also working with other utilities to source additional power from Hydro-Quebec.

Current contracts for power provide VEC with adequate sources through 2010. This power is under contract, and should keep rates stable during this period.

Business Process Review

VEC has contracted with Stone and Webster Consulting to perform a comprehensive review of all VEC processes. VEC wants to have the highest quality and most affordable processes in the industry to provide the best service to its members. With the purchase of the Vermont assets of Citizen’s Utility Services in 2004, VEC has been working on getting the operational savings from consolidation of territory and services. VEC sold its Southern District last year, as well as added a Chittenden service center located in Williston. VEC has also done a lot of work to eliminate blocked and abandoned calls, and to automate its dispatch. Now it is time to look at all of the core processes and to eliminate activities that do not add value to the members.

After considering proposals from over a dozen different companies who work with utilities, VEC selected Stone and Webster Consulting last month.

Stone and Webster will be working with VEC over the next four months. As part of this work, they will report their progress to the VEC Board of Directors, as well as to the Vermont Department of Public Service. We will provide updates to our members on the VEC website (www.vermontelectric.coop), as well as through Co-op Life, our supplemental newsletter.
Blue Seal Mill  
Part of Richford History

by Phyllis Shanley

It's easy to see why a former dairy farmer would feel at home in the Blue Seal feed plant in Richford. The buildings are huge and historic, the machines need tending and maintenance, the rhythms are daily and active, and the smells are clean and fragrant. And he works for people who love and care for animals. His mill feeds horses, dogs, cats, birds, sheep, rabbits, llamas, replacement heifers, and his own beef cattle.

Paul Adamczac knows his mill intimately. He has been Operations Manager for more than 20 years. Our tour with him plunged us into a world of mixers, extruders, dryers, conveyors and Femmer controls. The processes are so well automated that we only saw a handful of workers. Most were cleaning up after the morning's production runs. The second shift will handle another set of runs and clean up for tomorrow when the morning crew comes back. Automated or not, Blue Seal is the largest employer in the area and among the top 10 customers of VEC.

Array of Products

One look at the cavernous storage shed reveals the variety of Blue Seal products. All sorts of dog biscuits line up in pallet-loads of cardboard boxes on the left and lawn food in bags are on the right -- and that's just what we saw by the door. The four main plants in Richford, Bow NH, Arcade NY and Hagerstown MD trade products for distribution. The dog biscuits and lawn food are made in Bow and a natural lawn herbicide is made in Richford.

Product lines undergo change to diversify and stay cost competitive. The dog food products, for example, are moving to life cycle formulas and only two of the current products will be retained. Hugging the building outside a steel door, a row of grain bins, once used for custom mixes, are now part of a new foray into organics. In the packaging area, attractive new plastic bags for kitty stars are essential filled by hand since the machine isn't yet able to manage alone. "We need automation," Mr. Adamczac says wryly.

Automation comes at a price. The mill's VEC bill last month was $61,000. This is in spite of powering the steam heat dryers with #6 crude oil, a fuel that gives a much bigger bang for the buck than heating oil. When it comes to replacing or upgrading lighting, motors, and other equipment, energy efficiency is high on the list.

Quality Control Critical

Imagine the precision required to make every dog and cat pellet exactly as labeled! The goal is to match the product to the formula created by nutritionists at headquarters in Londonderry NH. Ingredients are all keyed on percentage by weight. The computerized Femmer controls monitor and adjust the speed and amount of ingredients going into the mixers. Each mixture must be consistent and uniform before it gets moistened, squeezed into an extruder, and pelleted for drying and finishing. Samples are taken from every run to be analyzed for quality.

Dan took his methodical mind into the construction business. His specialty is standing seam roofing, particularly copper. He has a ramp to install, one piece at a time. Dan likes copper because it is lightweight and easy to work. A system of sliding fasteners allows expansion of the copper while firmly attached to the roof structure. This "standing" roof technique is part of what makes metal roofs so musical in the rain.

In the energy-conscious 1970's, Dan and his wife Pam set out to build a "hippy house" starting with native stone for the foundation and walls. Every aspect of the house and outbuildings shows out-of-the-box thinking, fine craftsmanship and even a bit of graceful whimsy. The root cellar, framed in the kitchen window, resembles an Asian shrine in its graceful wishbone shape, covered with copper leftover from the Shelburne Farms barn. A brick oven sits just outside the kitchen door and makes great pizza. Pam's car is an electric/gas hybrid that, at 50 mpg, is a special pet.

Sweet feeds for horses and llamas are even more complicated. Several different extrusions are mixed and laced with molasses that has to be steamed and scraped out of the equipment between runs. A whole wing was added to the building to house this part of the operation. Horses were Blue Seal's first customers and are still among the biggest.

Milling-in-Transit

The Richford mill is old and comfortable. The first building was constructed by Canadian Pacific Railroad as a grain terminal in 1890.

Quaker Oats bought it in 1900, it blew up in 1908, and then it was rebuilt and reopened in 1911. The mill was closed during the Great Depression.

The family of H. K. Webster, who started the Blue Seal Feed Company in 1868 as a small grist mill in Lawrence MA, bought the Richford plant in 1941. In the 1960's and 1970's, it was the biggest animal feed mill east of the Mississippi.

The Websters liked the Richford location because it was big enough for their purposes and because it offered milling-in-transit rates from the railroad. Grain collected in the West was milled in places like Richford, then sent on as finished products like flour to markets farther East. The railroads wanted to encourage business growth along their corridors and charged milled-in-transit cargo at the through rate. Shippers would otherwise have had to pay more for two separate transports.

Blue Seal feed travels by truck now. The Richford plant has its own fleet, drivers and maintenance garage and a gas pump in the front yard. Bulk feed is carried by tankers directly to feed bins at farms. Bagged feed is delivered to distributors in St. Albans, Morrisville, Milton, Williston, and many other locations in Vermont and northern New York.

The Blue Seal feed plant and Richford village joined VEC with the Citizens Utilities acquisition in April 2004. Welcome, to Co-op Country! →
Board approves proposed bylaws changes
—now it’s time for your vote!

by Kerri Allard, Director, District 8

What has resulted from all of this effort is a set of Bylaws revisions that we are pleased to put before the members for their vote. Members will receive a copy of the proposed Bylaws changes in the mail, along with comments explaining them. The Board decided to present these changes to you in the form of two motions. The first motion concerns a single change made to Article I, Section 8, which describes the right of the Cooperative to obtain easements in order to install electric service. This power is granted by Vermont law in Title 30 VSA, Chapter 81, Section 3002, but had not been specified in our Bylaws. The Board thought that it was important that the members have the right to vote on this article separately. The second motion covers all of the other proposed revisions. These revisions include updating the Bylaws to reflect the sale of our Southern District, replacing outdated language, changing the length of time allowed to meet some deadlines, and clarifying some sections.

Members, please take the time to review these changes and place your vote. Questions or comments regarding these changes should be discussed with the Director from your district. We thank you in advance for your consideration.

The Board has several reasons for wanting to revise the Bylaws...

- it has been many years since a careful scrutiny of all Articles has been made.
- the Sarbanes-Oxley Act of 2002... and the need for good corporate governance.
- to be brought up-to-date on matters such as gender neutrality.

The lower the U-Factor, the higher the insulation value. In cold climates like Vermont, look for a window with a U-Factor of .35 or less. A window low with this U-Factor will have at least 2 panes of glass (double glazing) along with a "Low-E" coating that reflects heat back into the house in winter. The SHGC number is important because in the north we want sunlight to come into the house in the winter through the south-facing windows, while during the summer months with long sunny mornings and evenings, we want to reflect heat away from east- and west-facing windows. Ideally, you will choose a high SHGC (> .50) for south-facing windows, and a lower SHGC (< .50) for east and west windows.

Rachael is a business development specialist at Efficiency Vermont. To find more energy saving tips or to submit a new question about energy uses in your home or business, visit www.efficiencyvermont.com or call toll-free: 1-888-921-5990 to speak with a customer service representative.

Are Spring Projects on Your “Honey Do List”?

Efficiency Vermont

Ask Rachael

Q. I'm replacing windows. What should I look for?

A. Look for the ENERGY STAR label. All windows also have a label with energy information printed on it. The most important numbers are the "U-Factor," indicating the insulating value of the window, and the "Solar Heat Gain Coefficient" (SHGC), indicating the amount of solar heating energy that can enter through the window.

New Employees at VEC

By Sally Lumbrar Human Resources

The struggle that many utilities have in finding qualified employees is a challenge for VEC. We have worked diligently to employ the best qualified candidates to staff our Williston Service District. In the first quarter of 2007 our broad recruitment efforts were successful; we have hired two exceptional 1st Class Line workers, Michael Merrigan and Matthew Butler. Mike started his work in the electrical trade at Kodiak Island Cooperative in Alaska where he became quite familiar with RUS specifications and Electric Cooperative principles. Mike has worked all over the midwest and west coast doing all phases of line work. His experience covers Distribution, Transmission, and Substation construction, installation and maintenance. He has experience working with various underground cable, submarine cable and troubleshooting work with helicopters. Mike has also worked in dispatch and in facility inspection. He left work at Pacific Power & Light in Albany, Oregon to seek employment and relocate to Vermont.

Matt's electrical Lineworker experience began at the Northwest Lineman College in Meridian, Idaho. He was then employed by an electrical construction contractor in Lexington, Kentucky where he completed the four year apprenticeship program and earned his Journeyman certification. Most recently he has been employed as a Lineworker by Clark Energy Cooperative in Winchester, Kentucky. Matt also is familiar with RUS specifications and Electric Cooperative principles and truly loves line work. He and his wife Dyana recently spent some time here and were captivated by Vermont, VEC and the opportunities they saw.

VEC's business need is to hire two exceptional, highly qualified and experienced employees in the recruiting and selection process. We wish Mike, Matt, and Jeremy much success at VEC!
## 2006 Financial Statements

### Vermont Electric Cooperative, Inc. Balance Sheet

**31-Dec-06**

<table>
<thead>
<tr>
<th>Assets</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric plant, at cost:</td>
<td></td>
</tr>
<tr>
<td>Electric plant in service</td>
<td>$79,630,408</td>
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<tr>
<td>Less accumulated depreciation</td>
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<tr>
<td>Net electric plant in service</td>
<td>$56,715,879</td>
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<tr>
<td>Construction work in progress</td>
<td>$2,546,967</td>
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<tr>
<td>Net electric plant</td>
<td>$59,262,846</td>
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Current assets:

<table>
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<tr>
<th>Description</th>
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<tbody>
<tr>
<td>Cash</td>
<td>$4,014,603</td>
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<tr>
<td>Notes receivable</td>
<td>72,282</td>
</tr>
<tr>
<td>Accounts receivable, less allowance for doubtful accounts of $105,492 in 2006</td>
<td>$5,211,306</td>
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<tr>
<td>Unbilled revenue</td>
<td>$3,743,538</td>
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<tr>
<td>Inventories</td>
<td>$1,749,446</td>
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<tr>
<td>Prepaid expenses</td>
<td>275,597</td>
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<tr>
<td>Total current assets</td>
<td>$15,066,772</td>
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Other assets:

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<thead>
<tr>
<th>Description</th>
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<tbody>
<tr>
<td>Nonutility property</td>
<td>65,697</td>
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<tr>
<td>Other investments</td>
<td>8,722,987</td>
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<tr>
<td>Deferred charges</td>
<td>2,398,331</td>
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<td>Total other assets</td>
<td>$11,187,015</td>
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<tr>
<td>Total assets</td>
<td>$85,516,633</td>
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### Vermont Electric Cooperative, Inc. Statement of Operations

**Year ended December 31, 2006**

<table>
<thead>
<tr>
<th>Description</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenue</td>
<td>$66,107,451</td>
</tr>
<tr>
<td>Less revenues subject to refund</td>
<td>—</td>
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<tr>
<td>Total operating revenue</td>
<td>$66,107,451</td>
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</table>

Operating expenses:

<table>
<thead>
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</thead>
<tbody>
<tr>
<td>Purchased power</td>
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<tr>
<td>Transmission:</td>
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<tr>
<td>Operations</td>
<td>4,107,120</td>
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<tr>
<td>Maintenance</td>
<td>88,517</td>
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<tr>
<td>Distribution:</td>
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<td>Operations</td>
<td>3,369,937</td>
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<td>Maintenance</td>
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<td>Customer accounts</td>
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<td>Administrative and general</td>
<td>2,751,798</td>
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<td>General plant maintenance</td>
<td>130,052</td>
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<td>Depreciation and amortization</td>
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<td>Taxes</td>
<td>621,543</td>
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<td>Other deductions, net</td>
<td>265,695</td>
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<tr>
<td>Total operating expenses</td>
<td>$58,883,496</td>
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</tbody>
</table>

Income from operations | $7,223,955 |

### Vermont Electric Cooperative, Inc.

**Capital Spending (System Improvements) & Investment**

**Year ended December 31, 2006**

<table>
<thead>
<tr>
<th>Description</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Spending</td>
<td>$7,186,912</td>
</tr>
<tr>
<td>New Construction, System Improvements</td>
<td>7,186,912</td>
</tr>
<tr>
<td>Less Contributions in Aid of Construction</td>
<td>2,392,029</td>
</tr>
<tr>
<td>Net Investment in Utility Plant</td>
<td>4,794,883</td>
</tr>
</tbody>
</table>

### Vermont Electric Cooperative, Inc.

**Investments**

**2006**

<table>
<thead>
<tr>
<th>Description</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Velco Transmission (Transco LLC)</td>
<td>$4,378,750</td>
</tr>
</tbody>
</table>

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### Railroads made Richford

*by Phyllis Shanley*

Why has little Richford, Vermont, smack up against the Canadian border, been such a hub of industry? The railroads, of course. Canadian Pacific wanted access to the rail system in New England to transport goods to and from Montreal. The easiest terrain was along the Missisquoi River. Richford was right at a junction with Canadian Pacific’s loop along the river and Central Vermont’s route west to St. Albans. Perhaps it was the same easy-access terrain that encouraged the earliest settlers of Richford to engage in smuggling!

The Richford area was ripe with virgin forest. Logging, lumbering, and eventually furniture and other wood products created a boom for the region. The village boasts an array of fine homes and a brick business center built between the 1860’s and 1920’s with 200 buildings in the Vermont State Registry of Historic Places. It’s a pretty town! Richford was chartered in 1780 to help finance troops for the Republic of Vermont, though the first official settler didn’t move in until 1795. The village recovered from near devastation by the 1927 flood, but the railroad link to St. Albans broke in 1984 when a train derailed near Sheldon and trashed a bridge. The track was taken up in 1990 and the rail bed is now a popular 30-mile long bicycle and snowmobile trail. The bridge has been rebuilt to accommodate it. ✅
Pet Food Secrets

by Phyllis Shanley

Ever wonder why dog and cat crunchies are so uniform? No, not done with tiny cookie cutters; the machine works more like pastry bags and knives. But if you guessed baking you’re close.

The whole process starts with dry ingredients produced and delivered by suppliers (grain mills, meat rendering plants, etc.). These are mostly “waste” products of human food processing, stuff that still has plenty of nutrients.

Next, heat and moisture break down starches into digestible forms and make a kind of paste. This paste is forced through an extruder using a large screw turning inside a metal tube. The paste comes out through a die, round or shaped, and is snipped off by a cutting wheel. We watched little kitty stars being made. The spongy pellets are then swept up on a column of pressurized air to a cyclone. Loose dust is blown off and the pellets fall into a chute that spreads them evenly onto a six-foot wide conveyor. The hot air dryer that removes enough moisture to make the pellets crunchy. They come out the other end baked but not finished.

A bucket conveyor carries the pellets upstairs again where warm fat is tumbled on in a ribbon mixer (a spiral wheel with wire spokes). The pellets then go into a cooler to bring them to room temperature and are left overnight to let the fat soak in. In the morning they are bagged and shipped to your local dealer. Contrary to popular opinion, our pets follow their noses to those good fat smells, not to cute colors and shapes! The little stars just fit better into a cat’s small mouth—though we know a cat who prefers dog food!

Financial Year in Review

(Continued from page 1)

for the sale of these assets and the regulators supported the deal. Although we were sad to lose our Southern District members, the transaction provided benefits to all of our remaining members in the form of reduced fixed rate request, shaving nearly $500,000 from our 2007 rate case. In addition, for the first time since 2000, VEC will not need to pursue additional debt in 2007 to pay for system improvements.

VEC made a number of diversified power supply contract purchases in 2005 and 2006 to mitigate the costs associated with the expiration of contracts. In 2006 VEC received approval to increase rates by 7.15 percent. The reductions from the 7.97 percent initial request were in power supply costs; the machine works more neutral means that VEC will not one rate structure for all VEC members.

the integrated resource plan, as well as removal of the costs to litigate the rate case. There were a number of other key items that will have a financial impact on VEC. VEC is currently going through a rate redesign. The Co-op has two different rate structures, a consequence of our acquisition of the Citizens territory. One structure covers the original VEC territory (Zone 1), while the other covers the former Citizens territory (Zone 2). The new rate design will implement incremental spending. In 2007, we will increase our trimming spending levels from 2006 by an additional 19 percent, adjusting for the sale of the Southern District. We believe this increased attention to trimming will have significant positive impacts on reliability.

although we do not anticipate any improvements in 2007, in January of 2006, the Co-op made an additional borrowing. The 2006 Series A bonds have a term of 30 years and are structured with a fixed rate of 6.5 and 6.85 percent for two different term loans. Overall, our debt portfolio is now 98 percent fixed rates and 2 percent variable. VEC met all of our financial covenant requirements by our bond and debt holders.

Lastly, in February 2007, VEC upgraded our short term credit facilities to provide greater flexibility for us to use lines and letters of credit when they are needed most. Previously, VEC was capped at $5 million for lines and letters of credit respectively. The new credit facility allows VEC to have up to $20 million in total short term credit for us to use lines and letters of credit when they are needed most. We also expect this to be implemented in 2007.

A second key item having impact is that in 2006, we increased our tree trimming and vegetative maintenance budget by 30 percent, adding in an additional $300,000 of
Welcoming Spring in VEC Territory

Great Plans are hatching at VEC. You can find out about them Saturday May 12th at this year's Annual Meeting. So come enjoy a great breakfast and hear about what is happening!