process to develop new rules for the net metering program that will take effect in 2017. There are many strong and differ-
ing opinions on this topic, and some of the debate involves a discussion about the respective roles and responsibilities of government, utilities, and the private sector. We all need to do our part to bring together the pieces required to cre-
ate a more renewable electric grid. As this deliberation continues, I would like to remind members of the Co-op’s mo-
tivation in this policy debate. VEC is a nonprofit, member-owned, democrat-
ically-controlled utility. Our sole moti-
ration as we engage on this issue is our commitment to providing exceptional service and good value to co-op mem-
bers now and into the future.

We are strongest when we make deci-
tions that consider the good of all mem-
bers and take the long-term view. As you can read below in Chief Financial Officer Mike Bursell’s financial update, we are currently on a very strong finan-
cial footing. We would be acting irre-
responsibly if we didn’t keep the Co-op’s financial health at the forefront of our policy positions. We support renewable energy, and we expect rigid, transparen-
cy, and fiscal responsibility in the process of setting net metering rates.

Some of the main points of my com-
mentary include (please see the full com-
mentary on the VEC website):

- **Everyone who uses the grid should pay for the grid.** The net metering system to date has not included a “grid service” fee and needs to. People who net meter are not “off the grid” but in fact use the grid 24 hours a day both to send and receive energy. Maintaining the grid for all co-op members requires significant cost and all users should contribute their fair share.

- **Pricing for net metering needs to reflect market realities.** The prices, once set by the State, are non-negotiable and non-responsive to competitive market conditions. We pay 13 cents per kilowatt-hour for renewable energy through the Standard Offer program, but we are currently required to pay 19 or 20 cents per kilowatt-hour for net met-
tered energy that usually does not even include the Renewable Energy Certificates (RECs), which are what qualifies the energy as renewable. The current system is not in line with the market realities of the value of re-
newable energy or how much it costs to develop. We should not be forced to overpay for net metered renewable energy.

- **One size does not fit all.** Rural utilities provide great service and innovation, but the econom-
icst for delivering basic services are different than in larger or more densely populated areas. The cost of maintaining the electric system in a rural utility is by definition more expensive and those costs are shared amongst fewer people. Rural systems also have less expensive open land.

As a nonprofit electric cooperative, VEC has access to federal assistance that is not available to investor-owned utilities. Working through Vermont Emergency Management, we alerted FEMA during the two storms, and they immediately be-
gan reviewing damage declarations, qualifying VEC’s eligible storm costs for a 75-percent FEMA reimburse-
ment. The FEMA decl-
oration was critical, but it did not address the full impact of the storm costs on VEC’s financial profile. Because those costs were so extensive, the 75-percent federal reimbursement on eligible costs still left nearly $2.9 million in unrecoverable costs. To ad-
dress the timing of FEMA reimburse-
ments and the large balance of VEC’s share of storm costs, VEC turned to the PSB, which reviews and examines the

rates that Vermont utilities charge their customers. Through the PSB, utilities can seek an accounting order to allow for deferral of costs related to unusual, abnormal, or unplanned events that are beyond management’s control. Because of the storms’ extraordinary costs, this was the preferable way for VEC to han-
dle them. Working with the PSB, VEC created an accounting order that allowed for the deferral of operating and main-
tenance expenses incurred as a result of the storms until the next time VEC seeks a rate adjustment. The deferral allowed VEC time to mitigate the storms’ impact on rates.

In the past couple of years, VEC has been able to mitigate a large share of the storm costs through a variety of methods. VEC received over $6.5 mil-
lion from FEMA for eligible storm res-
oration costs, and our joint pole own-
ership agreements with telecommunica-
tion providers contributed another $500,000. Lastly, VEC’s strong finan-
cial performance through 2015 allowed us to mitigate another $1.7 million from
for the future while maintaining cost efficiency. I am a native Vermonter and intend to maintain that level of service, including fossil fuel costs, renewable energy inclusion, infrastructure maintenance and grid security. I will work with VEC’s management team to provide reliable electrical power at the lowest possible cost to all VEC members. I believe that transparency and communication are the keys to a strong and vibrant Coop and I will work to ensure these are priorities.

My business management and information technology experience will enable me to work with the VEC BOD for the benefit of the members of Grand Isle County. Please vote Rich Goggin for VEC Board of Director, District 7.

Feel free to contact me: richgoggin@gmail.com, mobile phone: 508-439-9166.

As 36 year residents of Grand Isle, my family and I appreciate the improved reliability and technical advances made since VEC expanded into our county. I would like to represent our Grand Isle County District #7 members in order to continue to maintaining our Co-op’s quality operation, help control costs, and ensure that our District is well represented. My experience and qualifications include a Master’s degree from UVM and a 28 year career in Admissions at Champlain College. As an administrator, I participated in years’ Board meetings where a balance always needed to be found between employees’ and Board members’ responsibilities. Now retired, I have time to devote to VEC training and meetings. I am organized and thoughtful in deliberations over challenging policy issues and eager to participate in the technical training opportunities provided by VEC. It is vital for VEC to find a measured and affordable approach to the integration of new energy sources such as solar, with a balance between cost to members and sustainability. We all want reliable, low cost electricity, generated and delivered without damage to our environment. I can be reached at 372-5444 with any questions about my candidacy.

As a principal at a local CPA firm, I have years of experience assisting and advising boards and local business owners in important business decisions in a variety of different industries including energy credits available to them. It is important to plan for the future while maintaining cost efficiency. I am a native Vermonter and intend to ensure the VEC maintains its great service and continues to be a company that its members and employees can be proud of.

Contact me at pauljarvis1386@gmail.com.

My name is John (Jack) P. Miller. I am seeking a four year term representing District 7 of Vermont Electric Co-operative. I have served from 2004-2012 and currently am completing a one year term (2015-2016). During my tenure on the Board, I have served on the Governance Committee, the Finance Committee and the Power Supply Committee. Even though I spend winters in Florida, I fly back to Vermont to attend the monthly meetings of the Board on a regular basis. I’m a native of the Champlain Islands, residing in North Hero, where for many years I have owned and operated Jack’s Composters & Rain Barrels. During this time, the business has grown so that our products are now available throughout the United States. My interest, (in my own business) has been reflected in my efforts to promote recycling, both in composting and water conservation. In that light, while serving on the VEC Board, I have been active in seeking green energy alternatives helping to keep the cost down for customers. I would appreciate your vote to re-elect me to the Board of VEC. If you have any questions, please do not hesitate to contact me either at Millertime0828@aol.com or on my cell 802/355-2396.

As a board member, I will focus on providing transparency to members and maintaining stable rates. I believe that renewable energy is an important focus for our future, but moving in such a direction must be done so in a manner that ensures that we maintain our state’s beautiful landscape and do not risk the health of Vermont’s residents. I plan to ensure that VEC’s rapid loss of service response time continues as uninterrupted and prompt reinstatement of service are paramount in providing the best service. It is important to keep our members educated about energy efficiency and options which may be available to keep rates low and protect members from the volatile energy market.

As a principal at a local CPA firm, I have years of experience assisting and advising boards and local business owners in important business decisions in a variety of different industries including energy credits available to them. It is important to plan for the future while maintaining cost efficiency. I am a native Vermonter and intend to ensure the VEC maintains its great service and continues to be a company that its members and employees can be proud of.

Contact me at pauljarvis1386@gmail.com.
Bolton
Berkshire
Bakersfield
Alburgh

that being healthy helps us stay safe and happy and give our best when serving members.

Governor Peter Shumlin and Health Commissioner Dr. Harry Chen presented VEC

Ken Hoeppner — Jeffersonville

Reflecting on my last 4 years as Director, there are three words that come to mind. “Complexity”, “oversight” and “vigilance”. Providing electricity to members requires a complex mix of factors. For instance, a balanced portfolio of power supply is important to reduce risk. A comprehensive capital plan is necessary to replace aging infrastructure. Right of way clearing is essential to assure reliability. Technology is needed to continually improve the efficiency and effectiveness of operations. Frequent policy review is essential to meet federal accountability standards. Strategic planning and monitoring must be effective to transition to a renewable electric grid. Development of community solar must be integrated into the territory in the right location. Empathy for low income members is imperative. A work place culture of safety and engagement is necessary for responsive customer service. The financial posture must be sound. At last count, these elements scroll down to the bottom line of “keeping the lights on” at a reasonable cost. With your vote of confidence and trusting my background in engineering, planning, finance, quality and management, I will continue to devote vigilant oversight to the operations of VEC. I’m presently Waterville’s Emergency Management Coordinator and Civil Enforcement retiring as a Sergeant. I have my Associates degree from Trinity College (Associate of Arts) and from Johnson State College a Bachelor of Science. I’m presently Waterville’s Emergency Management Coordinator and have held the position for eight years. Thank you for your attention and support.

Joe Russo — Alburgh

After working with the management of The Vermont Electric Cooperative over the last few years in some very large projects I am very impressed with their ability to achieve what needs to be done to supply their customers with electrical service. As a person involved in business and management, I appreciate and respect the work that is being done to serve customers on a regular basis. If elected to the board, I would be honored to assist the firm moving forward with new endeavors and to ensure the basic concept of keeping the lights on is met on a day to day basis.

David C. Southwick — St Albans

I am interested in serving on the Board of Directors to assist VEC management and staff develop and deliver strategies for consistent quality customer service, responsible guardianship of the environment and advancement in the areas of energy alternatives. As the Executive Director of the Franklin County Chamber of Commerce, I bring to the VEC discussion a wealth of relationships with businesses, organizations, municipalities, legislators and home owners. I sit in on many community conversations throughout the VEC service area and can open dialogue while bringing first hand feedback to the BOD table. Having grown up serving in a public utility as a lineman/installer and board member (Champlain Tel Co, Champlain, NY), I understand the importance of maintaining fiscal stability, providing excellent service and operating in a rate regulated environment. During my conversations while collecting nomination signatures, the three most important concerns of VEC members were; the impact of solar energy options, rising rates and service reliability. A comprehensive capital plan is necessary to address these elements. As a Commander of the America Legion Post 9, I have the ability to influence veterans related issues. If elected to the Board of Directors, I will work to ensure VEC is respected and viewed in a positive manner.

John E. Terrel — Waterville

Hello Members!, I’m John E. Terrel a candidate for the position of Director Vermont Electric Cooperative for 2016 Board of Directors (VEC). I’ve been a member of the Cooperative for 16 years. My interest in becoming a Director began several years ago. My focus, if elected will be to continue the work to provide an adequate, reliable competitively priced supply of electric energy. I further will act only in the best long-term interests of the Cooperative and all its members.

I believe that a Director has to have high legal standards of fiduciary responsibility to duties of care and loyalty. Make prudent decisions regarding future programs and services

I served three years in the active Army with 18 months in Viet Nam. My remaining time was in the Army National Guard Aviation. My full time career has been in law enforcement in New York and Vermont with 26 years with Vermont DMV Commercial Vehicle Enforcement retiring as a Sergeant. I have my Associates degree from Trinity College (Associate of Arts) and from Johnson State College a Bachelor of Science. I’m presently Waterville’s Emergency Management Coordinator and have held the position for eight years. Thank you for your attention and support.
Imagine yourself in the home improvement store. You need a light bulb. You are looking down at two different options; they are both light-emitting diodes (LEDs). One bulb has a price tag of about $3 and the other costs $4.99. The packaging is slightly different, but they are almost identical, you may wonder why they have different prices. Or you may just grab the slightly less expensive bulb and head to the register.

While they look very similar, it turns out there are many differences between the two bulbs if you take a closer look at the packaging. They have different claims of light output, bulb lifetime, and lifetime performance. Yet, the key difference is that one light bulb sports the ENERGY STAR® mark.

Many consumers recognize the ENERGY STAR mark as an important guide to buying energy-saving products. It means that the product has undergone third party laboratory testing to verify energy savings and quality. That less expensive light bulb, without the ENERGY STAR label, could be an okay bulb. But, the ENERGY STAR label is essential because it guarantees quality performance and efficiency.

There are LEDs on store shelves right now that may only last a few years. Without the ENERGY STAR label you may be purchasing a poorly designed product or a product that has not been guaranteed to meet the expectations of a long lifetime that LEDs have a reputation for. The current ENERGY STAR requirement is for LED bulbs to last up to 25 years. Light bulbs that do not carry the ENERGY STAR label often come with claims that are not verified. And they fail to deliver on the quality requirements of ENERGY STAR. Among other problems, these non-certified LEDs can flicker, shift in color, lose brightness over time, look dim, offer uneven light, or continue to use power when turned off.

Knowing this, which bulb would you purchase off the shelf?

What makes the ENERGY STAR label valuable to consumers?

Each day more and more LED lighting products are in the aisles of Vermont lighting retailers. Unfortunately, some manufacturers’ claims about the light quality, energy savings, and lifetime of their LEDs are not accurate. ENERGY STAR certification helps consumers, like you, differentiate among products based on these claims.

The US Environmental Protection Agency (EPA) introduced ENERGY STAR in 1992. It was and is still a voluntary labeling program. The ENERGY STAR program identifies and promotes energy-efficient products that reduce greenhouse gas emissions. In 1996, the EPA and ENERGY STAR began a partnership with the Department of Energy (DOE). The partnership leverages DOE expertise in appliance and lighting technologies and testing.

ENERGY STAR requirements for residential lighting were introduced in 1997. Consumers were offered an efficient lighting option with no sacrifice in function and effectiveness. This was the first benchmark for energy efficiency, quality, and performance in residential lighting. They also required that all products be tested by an accredited laboratory. Now, all ENERGY STAR certified lighting products have this in common;
• Meet minimum performance levels
• Tested by a third party certification laboratory. Includes long term testing to ensure accuracy of lifetime claims and verified compliance with industry standards and procedures
• Certified by an EPA-recognized Certification Body Subject to independent testing of products purchased off the shelf

LED bulbs that have earned the ENERGY STAR must also reflect the experience of a standard bulb. For example, if you buy a general purpose LED bulb, the packaging might promise a bulb that provides light in all directions. This means the light shines above and below the lamp shade. ENERGY STAR bulbs undergo rigorous tests to ensure the bulbs will provide light in all directions. Without the ENERGY STAR, you could find yourself with a bulb that leaves dark shadows at the bottom of your lamp shade.

At Efficiency Vermont we take the role of supporting Vermonters in taking steps to save energy seriously. Efficiency Vermont has partnered with ENERGY STAR since 2000 to bring energy savings and cost competitive with the cheaper, less expensive light bulb, without the ENERGY STAR, purchase. By buying the bulb that leaves dark shadows at the bottom of your lamp shade, you could find yourself with a bulb that leaves dark shadows at the bottom of your lamp shade.

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At Efficiency Vermont we take the role of supporting Vermonters in taking steps to save energy seriously. Efficiency Vermont has partnered with ENERGY STAR since 2000 to bring energy savings and quality products to the Vermont marketplace. Efficiency Vermont buys down the cost of select ENERGY STAR certified products, including LED bulbs, to make them affordable to Vermonters and cost competitive with the cheaper, non-certified products wherever you buy your light bulbs. We communicate directly with the EPA ENERGY STAR program to advocate for the superior efficiency and performance represented in the lighting specifications. We partner with ENERGY STAR in efforts to move energy efficiency into the future. In part, through our advocacy, ENERGY STAR performance specifications remain stringent. In 2014 and 2015, Efficiency Vermont and the Vermonters we serve won the ENERGY STAR Partner of the Year Award. We make sure that Vermonters join millions of other Americans in saving $300 billion on utility bills, while reducing carbon pollution by two billion metric tons since 1992.

We know that consumers can and do save energy and money through their ENERGY STAR purchases. Don’t let similar packaging and the price difference sway you. If you buy the bulb that has a lower retail price, keep in mind the cost of replacing that bulb in a few years. An ENERGY STAR certified bulb is rated to last up to 25 years. A good deal on LEDs today could cost you when you need to replace the bulb in the future. Make sure that you are getting the best bulb for your money by buying the longest lasting and proven product. Always look for the ENERGY STAR mark and the Efficiency Vermont logo when you are buying LED light bulbs and other products that claim to be energy-efficient.

In accordance with VEC’s Board Policy B.2 (Duties and Responsibilities of the Board of Directors), director attendance at regular meetings is to be reported annually. Additional information regarding director fees and expenses is available upon request and on VEC’s website at www.vermontelectriccoop.
The VEC Community Fund
Helping to Keep Our Littlest Members Safe!

The VEC Community Fund awarded a small grant to the North Country Hospital to help them provide “Baby Swag Bags” to our littlest members born at the hospital.

According to North Country Hospital, “The Baby Swag Bag is a colorful, re-usable and compact backpack filled with items designed to keep baby safe at different stages of development. Safe sleeping guidelines and information on breastfeeding are included, along with information on preventing TV/furniture tip-overs. Added to the bag are cabinet and drawer locks, a TV anti tip strap, outlet plug covers, baby choke tube, poison control information and other items to help parents stay one step ahead of their little one at all stages.”

To support projects like this, all VEC members need to do is let us know that you’d like to round up your monthly bill to the nearest dollar – your bill of $81.56 would become $82.00 and $0.44 would go to the Community Fund to support projects like the Baby Swag Bags. Check off the box on your bill, enroll online or call us at 1-800-832-2667 to enroll today!

Since it was created in late 2014, the VEC Community Fund has also awarded grants or in-kind donations to Capstone Community Action, Johnson Historical Society, Boy Scouts of Mr. Morris, Memphremagog Watershed Association, and Birds of Vermont Museum.

Join us for our 78th Annual Meeting of the Membership
Saturday, May 21, 2016
Smugglers’ Notch Resort
4323 VT Route 108 South, Smugglers’ Notch, VT

Join us to:
- Learn about current energy issues, what VEC has accomplished during the past year, and upcoming projects
- Connect with your elected representatives on the Board of Directors
- Tap into energy information by visiting our exhibitor showcase
- Enjoy a complimentary breakfast buffet

Program Agenda:

8:00 a.m. – 10:00 a.m.
- Breakfast
- Exhibitor showcase

10:00 a.m. – 12:00 p.m.
- Business Meeting of the Membership
- Presentation, “Beyond Safe and Reliable: Building and Managing Tomorrow’s Electric Grid”
- Questions & Answers

12:00 p.m. – 1:00 p.m.
- Voting results
- Door prize raffle
- Exhibitor showcase

RSVP by returning your RSVP card, emailing annualmeeting@vermontelectric.coop, or calling 1-800-832-2667.

Manage Your VEC Account with

smart hub

Available on the App Store
Available on Google Play

0308996401
YES! Please enroll my account in VEC’s Community Fund and round up your bill to the nearest dollar! See back side for details.

Vermont Electric Co-op
1 ELECTRICITY WAY
JOHNSON VT 05656

Vermont Electric Cooperative, Inc., P.O. BOX 1400, WOODSTOCK, VT 05091-1400
www.vermontelectric.coop

Enjoy a complimentary breakfast buffet

Voting results
Business Meeting of the Membership
Exhibitor showcase

Questions & Answers
Presentation, “Beyond Safe and Reliable: Building and Managing Tomorrow’s Electric Grid”

Prepared by North Country Hospital of the Membership

Previous: 289 kWh
Current: 264 kWh
Previous vs. Current Monthly Usage
Due On or Before
Account No.
Total patronage capital returned to date $2.13
2013 patronage capital allocation $16.93
CEO Summary

that may attract more large-scale renewable energy projects (net metered and other), especially if the required rates are above what is justified by the market. Future policy must accommodate these differences so that we do not drive projects to locations further from the load and where any subsidies in the form of artificially high rates are supported by a smaller population.

VEC strives to provide safe, reliable electric service in the most cost-effective way, and we believe that the best way to promote the development of more renewable energy over the long term is to ensure it is priced in a financially sustainable way. If we spend more than we need to for net metered energy, we will have less money to invest in other sources of renewable energy as well as essential electric infrastructure, service, and safety.

Some of the facts as they relate to VEC members:

• If everyone who has already applied for net metering installs their system, the Co-op will pay $1.5 million more annually than the value this net metered energy provides the Co-op. This additional expenditure is the equivalent of about a 2 percent rate increase.

• Every 1 percent increase in net metering, adoption (at current payment rates) would cost the Co-op an additional $131,000 a year.

The Public Service Board is in the process of developing the new net metering rules that will be in effect in 2017. VEC would like to have a net metering program that serves the interests of individual members and the Co-op as a whole. Our position on the new rules includes:

a. Grid Service Fee. The new PSB rules need to allow utilities to petition the PSB to have a grid service fee to ensure that those who use the grid contribute fairly to the cost of maintaining the grid. People who net meter are not “off-grid” but in fact use the grid 24 hours a day both to send and receive energy. Maintaining the grid for all co-op members requires significant cost and all users should contribute their fair share.

b. Rate of Compensation. The compensation rate, especially for large systems, needs to reflect market realities. The rates should be at least 3 cents lower per kilowatt-hour than what the latest draft rule proposes in order to more closely match the cost of developing these projects as well as the value of solar. We should not be forced to overpay for net metered energy, especially when available evidence shows that higher prices are not justified by the reality of what it costs to develop larger-scale commercial solar projects.

So what can you do?

The public comment period on the draft rules ends on May 12, 2016. Please take a minute to write or email the PSB to let them know that VEC members support a sustainable and fairly priced net metering program (make sure to include “Proposed Rule 5.100” in the subject line).

Email: (psb.clerk@vermont.gov)
Write: PSB, 112 State Street, Montpelier VT 05620-2701

Also consider attending and speaking at one of the two public hearings:

1. May 4, 2016: 7:00 p.m., Montpelier High School
2. May 5, 2016: 10:00 a.m. Public Service Board Hearing Room, 112 State Street, Montpelier

Current policy has led to more than half of our recent net metering capacity being taken up by developer-driven, large-scale projects rather than household rooftop net metering. Most of these large projects do not even provide renewable energy to Vermont because the Renewable Energy Certificates (RECs) are being sold to other states to meet their renewable energy goals. We do not believe this was the intent of the program.

VEC is hopeful that we will no longer need to have a cap on the amount of net metered energy in our territory, but unless the policy considerations outlined above are adhered to we will have no way to minimize financial exposure to our members. With a thoughtful and sustainable approach that considers all interests; net metering can be a successful part of the State’s overall renewable energy strategy. We hope the state of Vermont, through the Public Service Board, can help us get there.

Power Supply Q&A

Have you ever wondered about where your power comes from and what its sources are? Power supply planning is a complicated topic, and the questions and answers below are meant to give members a brief introduction to how VEC approaches power supply decisions and planning.

How does VEC determine how much power it needs to purchase?

Our short-term (1-5 year) needs are calculated based on actual power used during the past 3-5 years (depending on how the weather in those years compares to long-term trends). These figures are then adjusted based on major known expansions (for example Jay Peak) or reductions.

Going into the year, we try to have contracts for at least 90 percent of our projected needs locked in, and we use the spot market for the remainder. The spot market is where you buy power as you go to meet your load. Spot market prices have been volatile in recent winters, we will go higher than 90 percent in winter months to limit VEC’s financial exposure.

Our long-term power supply needs are projected based on formal forecasts conducted every three years.

How does VEC decide which resources to purchase?

VEC’s current policy is to purchase as much in renewable fuel sources as we can in the least expensive way possible. The analysis of which contracts are the least expensive will change depending on whether you consider the long-term or short term and can lead to different decisions. For example, a five-year contract that has a flat price for the entire term may be less expensive in the long run than a five-year contract that begins at a low price but increases each year. We balance short-term savings with long-term savings and price stability. There is no set equation.

How has VEC’s fuel mix changed over time?

The chart below shows VEC’s fuel mix since 2011.

Note that this chart shows the fuel sources without consideration of the Renewable Energy Certificates (RECs), which are available for many of the renewable energy sources listed below. RECs are the renewable attributes of the electricity, and if they are sold the energy can no longer be considered renewable.

VEC currently sells many of the RECs associated with various renewable energy sources in order to keep rates low for members. How many RECs VEC sells versus how many it retains will change beginning in 2017 as Vermont’s Renewable Energy Standard (RES) comes into effect.

<table>
<thead>
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<th>Year</th>
<th>Hydro</th>
<th>Natural Gas or Oil</th>
<th>Nuclear</th>
<th>Wind/Solar/Farm</th>
<th>Total</th>
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<tr>
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<td>58.5%</td>
<td>43.8%</td>
<td>57.8%</td>
<td>100.0%</td>
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<tr>
<td>2012</td>
<td>58.5%</td>
<td>58.5%</td>
<td>43.8%</td>
<td>57.8%</td>
<td>100.0%</td>
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<tr>
<td>2013</td>
<td>57.8%</td>
<td>58.5%</td>
<td>43.8%</td>
<td>57.8%</td>
<td>100.0%</td>
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<tr>
<td>2014</td>
<td>58.5%</td>
<td>59.6%</td>
<td>43.8%</td>
<td>57.8%</td>
<td>100.0%</td>
</tr>
<tr>
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<td>59.6%</td>
<td>59.6%</td>
<td>43.8%</td>
<td>57.8%</td>
<td>100.0%</td>
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<tr>
<td>2016</td>
<td>59.6%</td>
<td>59.6%</td>
<td>43.8%</td>
<td>57.8%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

How does VEC plan to bring more renewable energy into its portfolio?

VEC is currently working on three solar projects through Power Purchase Agreements (PPAs) with solar developers. These three projects would total about 7.5 megawatts, which could produce about two percent of VEC’s annual power supply needs. Currently, utility-scale solar is the most cost-effective means of bringing renewable power onto the grid because of economics of scale and the ability to locate generation in places where it is most beneficial. Although Vermont also allows individuals to connect small-scale renewable generation projects through the net metering program, VEC would like to support an unlimited net metering program and is currently working through the regulatory rule-making process to ensure that the net metering rates that start in 2017 will be financially sustainable.

The last way that renewable energy projects are developed is through the Standard Offer program, which is a program administered by the State where developers submit their bids for projects they would like to develop and the State awards them contracts. Utilities then purchase their share of this generation.
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**VERMONT ELECTRIC COOPERATIVE, INC.**

**Statement of Operations**

**Year ended December 31, 2015**

<table>
<thead>
<tr>
<th>Assets</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric plant, at cost:</td>
<td>$155,489,820</td>
</tr>
<tr>
<td>Electric plant in service</td>
<td>127,096</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>5,440,090</td>
</tr>
<tr>
<td>Net electric plant in service</td>
<td>Net Investment in Utility Plant 12,597,797</td>
</tr>
<tr>
<td>Construction work in progress</td>
<td>470,451</td>
</tr>
<tr>
<td>Net electric plant</td>
<td>587,283</td>
</tr>
<tr>
<td>Current assets:</td>
<td>7,017,313</td>
</tr>
<tr>
<td>Cash</td>
<td>$34,926</td>
</tr>
<tr>
<td>Notes receivable</td>
<td>841,621</td>
</tr>
<tr>
<td>Accounts receivable, less allowance for doubtful accounts of $90,828 in 2015</td>
<td>587,283</td>
</tr>
<tr>
<td>Unbilled revenue</td>
<td>Other investments</td>
</tr>
<tr>
<td>Inventories</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>7,343,131</td>
</tr>
<tr>
<td>Net electric plant in service</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Liabilities and Equity**

<table>
<thead>
<tr>
<th>Equity:</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patronage capital assignable</td>
<td>$63,300,294</td>
</tr>
<tr>
<td>Other equity</td>
<td>561,974</td>
</tr>
<tr>
<td>Contributions in aid of construction</td>
<td>340,581</td>
</tr>
<tr>
<td>Net equity</td>
<td>Net Investment in Utility Plant 12,597,797</td>
</tr>
<tr>
<td>Long-term debt, excluding current installments</td>
<td>66,122,741</td>
</tr>
<tr>
<td>Obligations under capital lease, excluding current installments</td>
<td>21,083,979</td>
</tr>
<tr>
<td>Deferred Compensation Plan</td>
<td>84,926</td>
</tr>
<tr>
<td>Current liabilities:</td>
<td>3,347,823</td>
</tr>
<tr>
<td>Current installments of long-term debt</td>
<td>3,347,823</td>
</tr>
<tr>
<td>Current installments of capital lease obligations</td>
<td>17,661</td>
</tr>
<tr>
<td>Retiring debts</td>
<td>9,200,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>7,017,313</td>
</tr>
<tr>
<td>Customer deposits</td>
<td>587,283</td>
</tr>
<tr>
<td>Deferred credits</td>
<td>183,099</td>
</tr>
<tr>
<td>Other accrued expenses</td>
<td>3,486,711</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>21,202,912</td>
</tr>
<tr>
<td>Commitments and contingencies</td>
<td></td>
</tr>
</tbody>
</table>

**Vermont Electric Co-op 2015 Financial Statement**

**VERMONT ELECTRIC COOPERATIVE, INC.**

**Balance Sheet**

**Year ended December 31, 2015**

**Operating revenue** $77,018,400

Less revenues subject to regulatory direction $77,018,400

Operating expenses:

- Purchased power $39,712,543

- Maintenance $2,890,910

- Administrative $3,557,564

- General plant maintenance $3,557,564

- Depreciation and amortization $3,557,564

- Taxes $761,615

Other income (expenses) $2,673,052

Total operating revenue $77,018,400

Interest and dividend income $2,890,910

Total other income, net $6,068,581

Income from operations $821,332

Interest charged on long-term debt $862,899

Total other income, net $6,068,581

Income from operations and non-rate-related earnings $8,132

**VERMONT ELECTRIC COOPERATIVE, INC.**

**Capital Spending (System Improvements)**

**Year ended December 31, 2015**

**New Construction, System Improvements** $22,386,077

Less Contributions in Aid of Construction $9,600,280

Net Investment in Utility Plant $12,987,797

**Financial Highlights from pg 1**

Vermont Electric Cooperative, Inc. savings from other VEC initiatives. As an example, 2015 savings in power supply contributed significantly to reduce the deferred storm costs.

For all these mitigation activities, the remaining un recovered balance for the deferred storm costs is less than $700,000. We expect to seek rate relief for this amount when we next pursue a rate adjustment, likely in 2017. The rate increase from the remaining balance will be less than one half of one percent, compared to a potential of nearly 13 percent if VEC had not been able to pursue the aggressive mitigation measures described above.

Controlling electric rates

Despite the two major winter storms, VEC did not seek a rate increase in 2015 or 2016. VEC has worked hard to control costs over the past seven years. We have averaged annual increases of less than one percent per year (1.88 percent in 2010; 2.13 percent in 2011; 0 percent in 2012; 0 percent in 2013; 2.93 percent in 2014; 0 percent in 2015; and 0 percent in 2016). While many of our costs, including storm restorations, vegetative maintenance, net metering, and transmission have increased at levels greater than our average annual rate increases, we have focused a great deal of our attention to our largest cost driver — power supply. By securing favorably priced mid-term and long-term power supply contracts, we have built a diversified portfolio characterized by long-term cost stability.

In addition, VEC is one of the most efficient utilities in the state, with one of the lowest ratios of employees per customers served and one of the highest ratios of miles of electric line per employee. On top of that, our focus on reliability has improved service. While providing stable rates over the past seven years, we still were able to reduce significantly the frequency of outages that the typical VEC member experiences.

Patronage capital, a co-op advantage

For the third straight year VEC returned patronage capital to members. One of the great things about the cooperative model is that our customers are also our owners. Patronage capital is a member's share of the money remaining after VEC pays its operating expenses. It is allocated to members based on how much they were billed for electric service that year. When the financial condition of the cooperative is strong enough, the Board of Directors may decide to return a portion of patronage capital to the membership. Alternatively, the Board may decide it's more prudent to invest these funds or to upgrade the system by investing in improvements to infrastructure such as substations, utility poles, wires, and transformers.

VEC bylaws, along with Internal Revenue Service regulations, govern how patronage capital may be distributed. The Co-op bylaws require that VEC's balance sheet must show a minimum equity level of 40 percent before patronage capital can be returned. Because VEC exceeded this important milestone, the Board of Directors developed a plan to return a portion of this equity to members, while still maintaining the minimum 40 percent equity balance. Between 2013 and 2015, VEC has returned $700,000 in patronage capital to members. The patronage retrn from 2013 to 2015, would be equivalent to a one-time rate decrease or refund of approximately 2.5 percent.

It's important for members to understand that to protect the Co-op's financial stability patronage capital will be returned over time. Patronage capital cannot be applied to electric bills or cashed in until the Board of Directors determines that VEC's financial condition is strong enough and specifies which years will be returned. Whenever this happens, VEC members in good standing who were members during the selected years will receive a portion of their patronage capital balance, as a bill credit for active members and by check for inactive members.

Every year, VEC updates members' bills with their new patronage capital balance, which is based on VEC's earnings for the year and how much the member was billed. Very soon we will be reporting an update to members' patronage capital balances to reflect the financial results from 2015.

Financial rating upgrade

VEC has several measures that exterior parties use to measure the financial strength of the cooperative when deciding whether they want to conduct business with VEC. While measures such as timeliness of payments, independent auditor reports, and size of VEC credit facilities are important measures, many power suppliers and other vendors rely on our valuations from external rating agencies. VEC currently has two independent rating agencies that evaluate VEC's financial strength on an annual basis. VEC uses Fitch Ratings and Standard and Poor's (S&P) for this independent rating. In February 2016, S&P concluded their annual review of VEC. VEC received a ratings upgrade to an A+ with a stable outlook. This is VEC's highest rating ever. In its upgrade, S&P cited cost-effective power supply and managerial control of operating costs, strong management, and effective rate regulation from the PSB, which provides for adequate interest coverage that allows the cooperative to recover investment in the electric transmission and distribution system.

Using member money responsibly

Across the company, VEC employees work hard to provide good value to members. We are proud of the work we've done to improve reliability while keeping rates stable in the face of unprecedented storm costs. If you are interested in additional financial information, VEC's financial reports can be found on our website at www.vermontelectric.co-op/reports/financial-reporting.
Inside Spring 2016 Co-op Life

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On Valentine’s Day, this broken pole caused about 1,500 members to lose power in Albany, Barton, Craftsbury,
Glover, Greensboro, Irasburg, Lyndon, Sheffield, and Wheelock along with customers served by the towns of
Barton and Orleans, VEC lineworkers set a new pole and restored power late that day.

All in a Day’s Work!