received word that the VEC control center had taken a "Mayday" call from the field. Mayday is a term only used when there is a serious emergency. I rushed to the work site where I learned that VEC had suffered a tragic loss. Bruce Lamb, a veteran line worker, died as a result of a tragic accident in the town of Essex while he was performing a routine maintenance job on the VEC system.

In the days and weeks since then, the VEC family has been in mourning. We are a close-knit organization and Bruce's influence was far-reaching. Both employees of a beloved community member and our hearts go out to Bruce's family.

VEC will leave no stone unturned in order to determine what happened that day. We have hired one of nation's best engineering firms, MPR Associates of Virginia, to investigate the cause of this incident. We have also hired Workplace Safety Solutions, Inc. (WSSI), one of New England's top safety consultants, to conduct a separate investigation. Three additional independent inquiries are under way, being conducted by the Vermont Occupational Safety and Health Administration (VOSHA), the Vermont Department of Public Service, and MEMIC (VEC's insurance carrier). While our business is a dangerous one by nature, VEC has worked to build a strong safety culture to reduce the inherent risks associated with maintaining electric power lines. We are committed to understanding why this accident happened.

VEC employees have received an outpouring of support from other utilities and the community at large, and we thank everyone for that. It has been so important and thoughtful during this difficult time.

While we reflect on the difference Bruce made in our lives, we are keenly aware of the impact each individual within our Co-op community can have. With that in mind, we continue our day-to-day work to keep the lights on for members of the Co-op family. We are preparing for VEC's 74th Annual Meeting which will be held on May 12 at the Jay Peak Resort. Fifteen candidates are seeking the opportunity to serve the Co-op as members of the board of directors, competing for just three available seats. That is a great show of interest and involvement among our membership (see pages 4 & 5 for more details).

VEC is also seeking member approval on Ballot Item #1, a power-purchase agreement for electricity generated at the Seabrook nuclear power plant owned by NextEra Energy, Inc. This is part of our long-term strategy to ensure future financial stability for the Co-op by building a diversified power-supply portfolio from a variety of generation sources. As the Electric Power Research Institute has concluded, nuclear power should be part of the U.S. power portfolio, to support the goal of reducing greenhouse gas emissions. The VEC Board of Directors has approved the agreement with NextEra, and the management team highly recommends that the VEC membership vote yes on this initiative.

There are several other ballot items that propose changes to the VEC bylaws. More details are provided on page 3. The requested changes are designed to help VEC operate in a transparent, productive, and effective manner.

As we prepare for VEC's annual meeting, we have also been carefully watching legislation moving through the Vermont Statehouse and are concerned about the impacts of aggressive renewable energy goals that are being considered. In particular, we have been working to raise awareness about a significant emerging issue that could affect both the environment and Vermont's economy.

In a nutshell, science considers the electric grid to be an unstable system by design, meaning that its power flows must be managed minute by minute. Leaders on the subject agree that when electric supply from intermittent sources like wind and solar exceeds 20 percent of a system's power-supply portfolio, storage solutions – like batteries, for example – are needed. Today's storage solutions are expensive, and use materials that could present significant harm to the environment.

Our message to legislators and ratepayers is to be aware of the unintended economic and environmental consequences that could occur if we do not have cost-effective energy storage options available as we build Vermont's greener portfolio. Moving too quickly, before the technology is ready, could have an adverse impact on electric rates and the stability of the system.

As spring arrives in Vermont and with Bruce Lamb so much in our thoughts, it is a time of reflection at VEC. We think of what truly matters and how important the contributions of those around us are, and how they make our world a better place. I am heartened by the commitment of VEC employees to serve our members, by the large number of candidates eager to serve on the board and the directors who are already contributing their talents to the Co-op, and by the family of utility workers throughout Vermont.

I am grateful to be a part of the VEC community.

They say “it takes a village,” and in the case of Jay Peak Resort, far north in Orleans County, that’s doubly true. For there, it has taken a village to build a building.

The village under construction is the four-season vacation resort that has taken the place of what was once a modest, somewhat isolated ski area, formerly owned by the Mont Ste. Sauveur Corporation of Canada. The “village” that’s been busy creating this new community includes the new owners, a group of visionary investors headed by co-owner and company president Bill Stenger. It also includes the architects, local contractors who grew their businesses several-fold in a few years’ time to serve this ambitious client, and a network of energy providers who pooled their expertise and resources to devise a sophisticated electric system able to meet the needs of this energy-intensive development while virtually ensuring that the bustling village forming around Jay Peak would never lose power – a critical safety consideration for guests at an alpine resort.

This energy community included ISO-New England, which operates the six-state regional grid; VELCO (the Vermont Electric Power Company), owner of the statewide high-voltage transmission infrastructure; and Efficiency Vermont, the “energy efficiency utility” that provides planning and financing assistance for electricity projects of all sizes. And, of course, Vermont Electric Cooperative, the cooperatively owned, not-for-profit electric utility whose northern Vermont service territory includes the 3,858-foot-elevation Jay Peak.

Continued on page 2

VEC 74th Annual Meeting & Election
Saturday, May 12, 2012
Jay Peak Resort – Jay, Vermont
Read More Inside...

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Continued on page 2
In Memory of Bruce Lamb

On a beautiful March day, while the sun was shining and not a cloud drifted in the sky, a bright light dimmed at VEC when we lost our friend and colleague, First Class Line Worker Bruce Lamb. Working atop an electric pole, doing the work he had done for more than thirty-two years, Bruce perished in a tragic and unexpected accident.

As the VEC family mourns the loss of one of our own, our hearts go out to the family Bruce was so very proud of. A devoted husband and father, we will long remember his love for those closest to him. We will also remember the strength of character that Bruce always displayed. A true Vermonter, his common-sense, practical approach was based on a foundation of honesty and integrity. In short, in a dry sense of humor, nothing brought us greater joy than when we got to laugh and smile along with Bruce. Known as a man of principle, Bruce cared deeply about those around him. As a union steward, he advocated strongly for his IBEW brothers and sisters and was respected by all VEC employees. As a veteran crew leader, he was well known to line workers at VEC and throughout Vermont. He had a profound influence on our organization that will remain with us for years to come.

For us, this is the most painful reminder of the dangers that utility workers face on a daily basis in order to keep the lights on. Bruce loved his work and was committed to serving VEC members just as his father and grandfather had done before him.

Whether you knew him or not, we invite you to join us in honoring Bruce Lamb. The next time you flip a switch or drive down the road passing the many miles of electric poles and wires that connect all VEC members, please take a moment to think of a good and decent man who took great pride in keeping the lights on for us all.

Vermont Electric Co-op Page 2 - Spring 2012

Cover story continued from page 1

VEC Member Profile

Jay Peak Resort – Aiming To Operate At PEAK Efficiency

“I first met Bill [Stenger] in 2003, when VEC was purchasing Citizens Utilities,” says VEC CEO Dave Hallquist. “He had this vision for the mountain, such a far-sighted vision I wasn’t sure I believed it building out the trails, creating a waterpark… And here we are in 2012 and he’s delivering that vision.”

As a result, employment at the mountain reached almost 1,000 this year, with a high proportion of them year-round employees. J.J. Toland, a member of the company’s marketing team, says when Jay was smaller it employed 400 people, mostly in the winter.

“Bill said that one of his saddest days each year was around mid-April, when he had to look 400 people in the eye and lay them off,” says Toland. “Those days are going away. With the waterpark we opened in December, and the conference center and other features, May is already booking up.”

The Pump House Indoor Water Park is one of Jay’s signature attractions—a vast, glass-enclosed water-centered amusement park, with twisting, tubular slides, a “rapids” for stationary surfing, the “Big River” that curves through the park, a climbing wall, hot tubs, and a bar. The roof can be opened, weather permitting, to allow more air and sunshine.

These year-round features actually provide greater stability to VEC. As Hallquist points out, “They’re providing jobs for 1,000 people, and probably in most cases those are Co-op members, who have electric bills to pay.”

Throw in jobs in road construction, carpentry, plumbing and every other profession related to development, more work in the service sector meeting the needs of incoming employees and homeowners, and the economic ripple effect is impressive. Also impressive—and challenging—is the infrastructure build-out necessary for Jay to deliver one of its core values, according to Jake Webster, Vice President of Operations & Development. Jay Peak is an enterprise tied to a healthy environment; energy is a natural resource that should not be wasted, so the company seeks out opportunities to reduce its consumption. VFD motors is one example; running a popular ski lift on generator power rather than VEC electricity at peak times is another. So is “staggering” the myriad activities that rely on electricity so they’re not all going at once—but doing so with no discernable impact upon the guests’ vacation experience.

VEC and VELCO jointly hired a consultant to perform comprehensive planning for power needs in northern Vermont, and that has been the guide for a development program that includes a new substation currently under construction where the “top” for Jay Peak intercepts the bulk-transmission system. Funded together by VEC, VELCO, and ISO, the substation should be on line by October 2012. Wright adds that the mutual interests of VEC and Green Mountain Power Corp. in upgrading the Co-op’s sub-transmission lines in the area—GMP largely to service its Kingdom Community Wind project—have provided another partner (GMP) that has covered significant costs for VEC.

Still, the investments are considerable, and necessary. VEC will create an unprecedented level of “redundancy”—two transformers, two breakers, for example, to back each other up. “A power outage at a ski area can be a safety concern for people riding ski lifts, and in so many other ways in what’s basically its own, isolated community,” says Wright. “It’s something they’ll do anything to avoid.”

That’s one reason Jay Peak is motivated to work hand-in-glove with the Co-op. Another reason is Jay’s commitment to using energy efficiently and wisely—one of the company’s “core values,” according to Jake Webster, Vice President of Operations & Development. Jay Peak is an enterprise tied to a healthy environment; energy is a natural resource that should not be wasted, so the company seeks out opportunities to reduce its consumption. VFD motors is one example; running a popular ski lift on generator power rather than VEC electricity at peak times is another. So is “staggering” the myriad activities that rely on electricity so they’re not all going at once—but doing so with no discernable impact upon the guests’ vacation experience.

“Efficiency Vermont” is an enterprise tied to a healthy environment; energy is a natural resource that should not be wasted, so the company seeks out opportunities to reduce its consumption. VFD motors is one example; running a popular ski lift on generator power rather than VEC electricity at peak times is another. So is “staggering” the myriad activities that rely on electricity so they’re not all going at once—but doing so with no discernable impact upon the guests’ vacation experience.

Webster adds that the company has received significant help from Efficiency Vermont, whose representatives sit in on planning meetings and lend expertise, and sometimes provide loans that enable Jay to employ advanced efficiency technologies.

“If Efficiency Vermont can reduce our payback period on a particular investment that would save us energy—so, for example, we can recoup our costs in six years rather than eight years—it might allow us to make a purchase that would otherwise be outside our investment range,” says Webster. (Like all Vermont electric consumers, Jay pays an Energy Efficiency Charge with each power bill. The EEC funds Efficiency Vermont, and here’s an example of how the organization works behind the scenes to promote efficiency at all levels.)

On Saturday, May 12, Vermont Electric Cooperative will hold its 74th Annual Membership Meeting at Jay Peak. As big a company as it is, Jay Peak is a Co-op member like any other, with but one vote for directors and bylaw changes. On another level, though, Jay is a significant Co-op member that provides jobs and economic stability to the region. It also provides ski slopes and an indoor waterpark—and remember, those attractions aren’t just for tourists!
The following is a summary of ballot items for VEC’s 2012 Annual Meeting and Election. Further details are available upon request. Please go to www.vermontelectric.coop or call 1-800-832-2667 to learn more. In addition to these seven items, VEC members are also asked to cast votes for Directors. (See accompanying candidate statements.)

**Ballot Item #1**
Seeking approval of a power purchase agreement with NextEra Energy Seabrook, LLC.

VEC is seeking approval for a 20-year agreement to purchase power at a stable price from the Seabrook nuclear power plant in New Hampshire. The power is needed to meet VEC’s supply requirements. It provides price stability and protection against swings in the power market. It is a low-cost, low-emissions, and reliable source of base load (round-the-clock) power.

**Ballot Item #2**
Seeking approval (1) to amend VEC’s by-laws to allow members to vote using electronic means and (2) to remove a restriction requiring a mailed-in ballot to be received at least 12 hours prior to a members’ meeting.

This bylaw amendment would allow VEC to conduct member votes by using electronic ballots, in addition to the currently used practices of in-person and mail-in voting. Today’s technology offers ways for members to vote electronically, using secure web-based applications. VEC would like to offer electronic voting as an additional way for members to participate in elections in a secure and convenient manner. The amendment also removes a restriction which requires all mailed-in ballots to be received at least 12 hours prior to a members’ meeting.

**Ballot Item #3**
Seeking approval to amend VEC by-laws to allow Zone meetings in addition to District meetings; to require that any such meetings called at the request of a Director be approved by the VEC President; and to allow a District or Zone meeting to be called upon written request of 250 members of the District or Zone.

Currently, the bylaws allow for District meetings to be held, but say nothing about Zone meetings. This bylaw change allows for Zone meetings to be called, as well as District meetings, at the request of a Director for that Zone or District and it requires requests for meetings by Directors to be approved by the VEC President. As to meetings requested by members, currently the bylaws require that such requests be supported by 10 percent of the members in a District. Given that Zones are larger than Districts, the proposed bylaw amendment would allow 250 members living in a Zone or District to call a meeting for their Zone or District. Since the smallest District has 4,079 members, the amendment lowers the threshold from which currently exists.

**Ballot Item #4**
Seeking approval to alter the way in which a Director’s seat is filled when the seat becomes vacant before its normal expiration date.

Currently, if a Director’s seat becomes vacant prior to the end of the Director’s term, the bylaws require that the Board appoint a replacement. The proposed amendment would keep the Director’s seat vacant until an election could be held at the next scheduled members’ meeting, unless the vacancy creates the lack of a quorum. In that case, the proposed bylaw amendment requires that the Board of Directors call a special members’ meeting to fill the seat.

**Ballot Item #5**
Seeking approval to allow a special meeting of the Board of Directors to be held anywhere within the State of Vermont, even if not within VEC’s service territory.

The current bylaws require that special meetings of the VEC Board of Directors be held within the service area of the Cooperative. Since VEC’s principal office in Johnson is technically in the service area of the Village of Johnson Water and Light Department, this bylaw amendment clarifies that a special meeting of the Board of Directors can be held at VEC’s principal office in Johnson — or anywhere else in the state.

**Ballot Item #6**
Seeking approval to allow directors to elect to receive notice of Directors’ meetings by electronic means.

Currently, the bylaws require that all notices of Directors’ meetings be delivered in person or by mail. The proposed amendment would allow for such notice to be given by electronic means, such as email, if a Director makes a written request to the Secretary.

**Ballot Item #7**
Seeking approval to prohibit a former Vermont Electric Cooperative employee from serving on the Board of Directors for a period of one year after the VEC employment ends.

Currently, the bylaws include no such limitation. The purpose of the amendment is to provide a buffer between the time of employment by VEC and service as a Director of VEC.

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**Q: Last spring, I saw a list of your energy-saving spring cleaning tips in the paper. Would you have any for this year?**

**A: Great idea. Here are this year’s top five tips. If space allowed, I’d run the full list, which you can read at www.efficiencyvermont.com.**

- To reduce clothes-drying time, clear lint from the exhaust hose. Inspect the vent to be sure it’s in good condition and as straight as possible.
- If you have access to where it vents outside your home, clear any lint accumulated there too. While you’re outside, clear anything from accessible vents for exhaust fans and your heating system.
- Clean dust from under your refrigerator, the front vent at the base, and any exposed coils at the back.
- Dust bathroom ceiling fans covers and fan blades. Clean dust and grease from the kitchen stove hood and exhaust fan.
- Do you have mildew on bathroom ceilings? This is a sign of insufficient ventilation. If you have a bath fan, use it. If you need a fan, look for an ENERGY STAR® qualified model. These fans are very quiet and use little electricity. Be sure to vent bath fans to the outdoors, or you’ll risk moving your mildew problem to another area of the house or attic.

**Have a question about energy use in your home? Ask the Home Team!**

Visit us on the web at www.efficiencyvermont.com or call toll-free: 888-921-5990 to speak with a customer service representative.
Candice Campbell, Richmond

I plan to attend and would like to ask for your vote at the annual 2012 VEC meeting for Director of West Zone II. I was born in Vermont, a University of Vermont graduate, lived in Richmond for the past 25 years and 10 years with my husband. I am a graduate of the Leadership Champlain program, responsible for serving on community projects and have for 29 years. Questions: schuylerjackson@hotmail.com

Ken Hoeppner, Jeffersonville

I have been a member of VEC since 1969, member of the Board from 1975-1980 and specifically Vice President during 1979/80. The cost of purchasing wholesale power was very volatile at the time and it was a challenge to keep rates stable. When the position of Director at Large, West Zone II was announced, I was encouraged by Bob Northrup, former President of VEC to seek it. I am retired from IBM and have a broad background in engineering, planning, finance, auditing, quality, and management. I would intend to use these skills to serve the membership. Currently I serve the community as Vice President of Lamolle Community Connections, President of the Vermont Horse Council, and fundraising for the Lamolle Valley Rail Trail. VEC needs people who agree with the Co-op principles and are willing to work with the Co-op’s plan to monitor costs, stabilize rates, maintain it’s financial health and improve the reliability and quality of electric service. Since I have no stranger to the Co-op or the Board, I would welcome the opportunity to serve again and ask for your vote either by mail or in person at the annual meeting.

Schuyler Jackson, Hinesburg

I am a candidate for the Western District II seat on the VEC board of Directors. This is my second effort. A campaign, even if modest, is time consuming and expensive. If I am elected, I will work with the Board to promote and open opportunities for members to seek office, including term limits. I have researched VEC history and followed its operations, including attending many Board meetings. I am current with many of the critical energy issues. I am ready to represent VEC members as an active Board member.

I have experience in the private sector as a lawyer, real estate developer and manager and in the public sector in housing, transportation, consumer protection, land use planning and regulation. My most recent projects are interviews about the coming of electricity to rural Vermont published in the Hinesburg Record and editing memoirs of my late Uncle Jimmy, the teller of great tales. I have lived in Hinesburg with my wife for 29 years. Questions: schuylerjackson@hotmail.com

Cecil King, Franklin

My name is Cecil King. I am a retired Architect and Naval Officer. I am interested in maximizing efficient use of Energy. I am inclined to think that NUCLEAR power is the best way to proceed. However, looking for ways to increase efficiencies of scale will also reduce waste and increase productivity. I would very much enjoy contributing my time and talent to help us all prosper by serving as board member of Vermont Electric Cooper.
I have always been a fixer of problems, either my own or helping out others whether business or personal.

In the last 15 years I have worked with local and state government in trying to get a Bio-Mass plant built into the Northeast Kingdom. I have always felt that we need more local options for electrical power.

As a director I hope to get a first hand look at what takes place and hopefully give a new outlook on dependable and reliable electricity.

I have been married 38 years always living in the Northeast Kingdom. In 1980 I built a 4,000 Sq. Ft. building and opened a repair and parts shop. In 1989 I expanded my business to a wood buyer under O.E.M. Timmer Buyer. As I expanded I ran seven other log yards and dealt with various sawmills and many as sorted people.

I also worked with the County Foresters in the spreading of Ash under power lines thus eliminating herbicides.

In 2009 I sold my business and became a consultant for Azur’s Enterprises for a wood pellet plant. I am partner in building Lake Willoughby Golf. Thank you for your consideration for this position.

Bill Hafer, Newport

I would like to ask for the consideration of your vote either by legal ballot or preferably in person at the annual 2012 VEC meeting for Director at large of East Zone #1. I am currently serving as the chair on the Technical Committee and wish to continue working for the members of the East Zone #1. I am a member of the Vermont Telecommunications Authority and on the board of the New England Public Power Authority. I also have experience as chairman for both boards for a time. I believe that my experience can be of assistance to VT Electric Co-op in goal of continued improvement.

— Statements are published as written and presented by candidates.

Candidates for VEC Board of Directors

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**Eastern Zone At-Large Director — 4 year term —**

Albany
Averill
Averys Gore
Barton
Blimfield
Brighton
Brownington
Brunswick
Canaan
Charleston

Covington
Craftsbury
Derby
Ferdinand
Glover
Greenbush
Guthall
Holland
Irvington
Jay

Leamington
Lewey
Lowell
Lyndon
Maidstone
Morgan
Newark
Newport City
Newport Town
Norton
Sheffield
Sutton
Troy
Warrants Grant
Warren Gore
Westmore
Wheelock

Skip Gosselin, Newport

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Sam Young, West Glover

It is my belief that having and maintaining our cooperative electric company is more important now than ever before, considering Vermont’s changing utility environment. I oppose the development of large scale wind projects on Vermont’s ridgelines, and would like to see much more distributed generation and hydro power to VT Coop’s renewables energy requirements. I will, of course, strive to keep rates as low as possible.

I have lived in the Northeast Kingdom nearly all of my life, and my family has been dairy farming in Glover for five generations. I am a web developer with extensive technical expertise that I am excited to offer the coop. I am the State Representative for Albany, Barnet, Craftsbury, Glover, Greensbush, Sheffield and Wheelock. I serve on the House Committee of Commerce and Economic Development that has oversight of some aspects of the utility industry and the Department of Public Service. I also serve on the board of directors of the Vermont Telecommunications Authority.

I pledge to do my work on the board in the public interest. I ask for your vote for the VEC board of directors for Eastern Zone I, and it would be an honor to serve as your director.

— District 7 Director — 4 year term —

Alburgh
Grand Isle
Isle LaMotte
North Hero
South Hero

Mitzi Johnson, South Hero

I am running for the VEC board to keep energy affordable, to promote energy efficiency and creation of opportunities for people who choose to invest their energy dollars in renewable sources.

I am currently serving my 10th year in the Vermont legislature as Vice-Chair of the House Appropriations Committee that oversees the state’s budget. I have a strong interest in the legal parameters of energy businesses and financial oversight.

I’d enjoy using the skills learned on Appropriations, as well as studies in budgeting, finance and operation management to be a good conduit for Islander’s ideas and concerns.

I’ve lived in South Hero since graduating from UVM in 1993, volunteered for South Hero Rescue and boards for the South Hero Land Trust, the University of Vermont College of Agriculture and Life Sciences and the Grand Isle Citizens’ VNA (Visiting Nurses Association). Outside the legislature I’ve farmed, worked for non-profits and taught piano. I’m currently working on Masters in Administration. You’re welcome to contact me at 536-4448 or mitzi@gmail.com. Regardless of who you would like to represent the Islands on the VEC board, please vote your conscience, either by mail or in person at the Vermont Electric Coop annual meeting. Thank you.

John (Jack) Miller, North Hero

For the past eight years, I have proudly served Grand Isle County on the board of Directors for Vermont Electric Co-operative and during this time have served on the Governance and Finance Committees of the Board. I formerly owned and operated John P Miller Contracting until January of 2010 when I semi-retired. Currently my wife, Ruth, and I manufacture and market solar composters and rain barrels to the Vermont electric co-op and have them available on line through ebay for customers throughout the United States. These products are utilizing recycled food and household plastics and are strongly to our belief in recycling. My community service has included serving North Hero as a Select Board member for twelve years, as well as serving on the Planning Commission and Board of Adjustment. I also served as North Hero’s Health Officer and Zoning Administrator. My wife and I currently reside in North Hero.

In these tough economic times the Board needs to explore avenues of conserving energy as well as ways to generate alternate means of power. I’m proud that by doing so the Board and management working and planning together, we have been able to avoid a rate increase for this current year. I look forward to being part of the future planning of Vermont Electric as your representative from District 7.

George Rice, South Hero

As a candidate for Director, I want to be involved in the discussions involving Hydro Quebec, the Cooperative, VEC, CO, and any other alternative or renewable energy development. First and foremost is it best for our members as well as the community at large? The COOP buys power and then distributes it. Are we doing it efficiently as possible at the lowest cost? Politics should not be a factor in determining what is best for us. I would advocate for the benefit of all the members, especially, but especially residential and farm owners, who make up the majority of the COOP’s members. I believe in term limits for directors. We need fresh ideas. A director should offer those ideas and not simply attend meetings to be just compensated. I reside in Grand Isle all year. I do not split my time between Vermont and another state. I practiced law in Montpelier for thirty years before retiring. I am a former member of Washington Electric Coop. I worked as an Assistant Attorney General and Attorney for rate-payers before the Vermont Public Service Board. I am past Chairman of the Vt. Real Estate Commission and Vs. Air Quality Variance Board. I am retired military (Lieutenant Colonel). I am a member of the South Hero Zoning Board of Adjustment and resident of South Hero for 15 years. My experience in representing small utilities and rate payers before the PSB will be beneficial as a director of the COOP. Thanks for your consideration.
I am pleased to report that as VEC closes the books for 2011, we find the Co-op in a healthy financial shape. While many VEC members continue to struggle with the aftermath of the recession, we are seeing signs that our local economy in northern Vermont is rebounding and this has helped us to keep electric rates under control. Additionally, we have worked hard to operate efficiently and to negotiate power-supply deals that are advantageous to the VEC membership. In fact, VEC held the line on expenses in 2011 and did not request a rate increase for 2012.

Positive signs amidst challenges

Commercial and industrial electricity sales, key indicators of the economic health of our region, are approaching pre-recession levels. After dropping by more than 7% in 2009, these sales, which represent nearly half of VEC’s sales in terms of kilowatt hours, have significantly improved and we expect to see this trend continue. As a key contributor has been the Jay Peak Resort, with its recent expansion.

If the impact of the recession was not enough to contend with, Mother Nature delivered additional challenges to VEC in the form of major storms that caused widespread outages and damage to our electric grid. In a period of nine months, from December 2010 to August 2011, VEC experienced a powerful wind-storm, two spring storms resulting in flood-related damages, and of course, Tropical Storm Irene. Damages in excess of $3.3 million could have crippled an organization of our size, but due to VEC’s status as a not-for-profit electric cooperative, we were eligible to receive nearly $2.2 million in grant funding from the Federal Emergency Management Administration (FEMA) when federal disaster declarations were issued for these weather events. We estimate that FEMA support helped VEC to avoid a rate increase of nearly 3% that otherwise would have been necessary to recover storm-related costs. In February, 2012, VEC received a rating upgrade from Standard & Poor’s. During a year in which many businesses and countries saw credit downgrades, VEC’s highest rating ever, and will help us to control costs. VEC will be able to borrow funds at better interest rates and will be in a stronger position to negotiate favorable power-supply deals.

Controlling electric rates

VEC’s recent announcement not to seek an increase in rates in 2012 is reflective of a multi-year strategy to control costs and minimize rate increases. For the past three years, VEC electric rate increases have been materially below the cost of inflation, averaging just 1.3% per year (1.88% in 2010; 2.13% in 2011; and 0% in 2012). While, many of our core business costs increased at a much higher pace, we focused a great deal of attention on our largest cost driver, which is power supply. By negotiating favorably priced mid and long-term power-supply contracts from electricity generators like Hydro-Quebec and others, we have built a diversified portfolio characterized by long-term cost stability.

The electric distribution utility business is capital intensive—meaning that significant levels of borrowing are necessary to keep up with necessary capital improvements. With an improved credit rating, VEC has been able to take advantage of very attractive borrowing rates and we have diversified our financial partnerships to mitigate large fluctuations in the marketplace. VEC continues to rank as one of the most efficient utilities in the state both in terms of the number of employees per consumers and miles of electric lines served per employee. Additionally, smart meters have helped to stabilize our operating costs while reducing the frequency and average duration of outages that the typical VEC member experiences.

By aggressively pursuing grant opportunities, VEC has been able to bolster our existing plans with financial support from funding sources such as the United States Economic Development Administration and the American Recovery and Investment Act, as well as the previously mentioned FEMA. We are now working with the United States Department of Agriculture to reestablish our relationship with the Rural Utilities Service (RUS), which could create another opportunity to further reduce our costs of borrowing. When it’s in our best interest, VEC has partnered with other distribution utilities to share costs and ownership of assets. Examples of this include our partnership with Green Mountain Power Co-Op (GMP) in Williston and Richmond, where both utilities have customers, and the Kingdom Community Wind Project in which GMP is contributing 58% of the capital costs to build VEC’s local transmission infrastructure in the Lowell and Jay areas.

In last year’s annual financial update, I reported that we expected a significant increase in regional transmission costs to impact rates for 2013 and beyond. Unfortunately, that forecast remains valid today as utilities prepare to pay for their respective shares of multi-billion dollar transmission improvements to the New England electric grid. We anticipate that VEC’s transmission costs will increase by nearly $2.2 million next year, which is about 28% more than our current transmission costs. This will have an inescapable impact on electric rates in 2013.

Today, we estimate that the increased transmission costs will drive our retail electric rates up by 3% before any other costs are factored in. The actual rate increase will be based on transmission costs, as well as other costs like power supply and operating expenses. While we dislike reporting on future rate increases, we feel it is important to alert our members in advance. We will continue to work hard to mitigate the impact of increased costs, striving to minimize the rate increase necessary for 2013.

Patronage capital, a co-op advantage

Last year VEC began reporting “patronage capital” allocations to our members for the first time. Because VEC is not owned by investors, patronage capital is a member’s share of whatever revenue remains after VEC pays its operating expenses. One of the great things about the electric cooperative model is that our customers are also our owners. When the financial condition of the cooperative is sufficiently strong, the Board of Directors may decide to refund a portion of the patronage capital funds to members who have accumulated patronage capital in the year(s) that the board is considering for refunds. Alternatively, the board may decide to use these funds for beneficial investments in our electric system, such as maintenance and improvements to solar substations, utility poles, wires, and transformers.

Patronage capital is allocated on an annual basis to members in proportion to the dollar amount each member was billed for electric service in that year. On an annual basis, members will be provided with an update to their patronage capital balance, an annual statement (subject to the availability of any refunds) with each year of membership and electricity usage. VEC’s bylaws require that before patronage capital can be paid out, VEC’s balance sheet must show a minimum equity level of 40%. In 2011, VEC exceeded this important milestone. The Board of Directors is now working with staff to develop a plan for the future that would result in paying out a portion of this equity while still maintaining the minimum equity balance requirement of 40%.

Many members have asked if they can cash in their patronage capital on an electric bill. VEC bylaws, along with Internal Revenue Service regulations, govern how patronage capital may be distributed. Patronage capital cannot be applied to electric bills or cashed in until such time that the Board of Directors declares a refund specifying which year(s) are to be refunded. When VEC’s financial condition and reserves are strong enough, VEC Directors are responsible for deciding how patronage capital will be used, and, if warranted, for authorizing a distribution to the membership. When these reserves are strong enough, VEC members who earned patronage capital during the years to be refunded can expect to see a portion of their accumulated patronage capital balance refunded.

Current projections would support a retirement of approximately 1.5% of our total equity balance each year once we begin patronage capital retirements. As an example, in 2013 this patronage capital retirement would be approximately $700,000. This patronage capital retirement would be allocated by the Board of Directors to members using a repayment methodology consistent with our bylaws.

Another important financial development

In February, 2012, VEC received approval of a $29 million financing plan that will provide the funding necessary to complete our construction plans for the next few years, begin the process of making retirees of member patronage capital, and make investments in Vermont’s transmission grid through the Vermont Electric Power Company (VEC). VEC, one of the nation’s state transmission organizations. With this financing approval, we expect to have sufficient resources available to carry out our work plans through 2014. VEC’s current financial condition is strong and we are committed to the delivery of reliable electric service at competitive rates. If you are interested in additional financial information, many of VEC’s financial reports are posted on our website and can be found at http://www.vermontelectric.coop/reports/financial-reporting.
Vermont Electric Co-op

Spring 2012 - Page 7

Energy News from Montpelier

Legislative Update

By Randy Pratt,
Manager of Programs and Policy

As Co-op Life goes to press, this year’s legislative session is more than half over. There are several bills that VEC is paying close attention to and advocating for the best outcome for our members. The bill with the largest impact is H.468, which passed the House on March 22. Hearings will now be held in Senate committees.

H.468 would establish a Renovable Portfolio Standard (RPS), that would require all Vermont electric utilities to buy 35 percent of their power from new (built after 2005) renewable sources by 2032. The bill also keeps in place a goal of 20-percent renewable (as defined by the Sustainably Priced Energy Enterprise Development, or SPEED, program) by 2017, and sets a target of 75-percent renewable (including older sources like Hydro-Quebec power) by 2032.

Another part of H.468 is the requirement that utilities buy power from small, in-state, “distributed generation” projects, at prices that are set by the Public Service Board.

VEC has made three main points about the bill:

• We believe that any RPS should not overlap the SPEED goal. In other words, if there is to be an RPS, it shouldn’t start until 2017.

• We are concerned about the impact on rates. The Department of Public Service estimated there could be a 4-5-percent increase caused by the RPS, but we believe it could be much higher.

• Higher levels of intermittent energy sources, like wind and solar, will need to have a storage mechanism for the energy produced in order for the grid to run efficiently. Today’s energy storage options pose environmental issues and would add significantly to the cost of electricity. If we move too quickly to adopt renewables, before cost-effective energy storage options become available, electricity rates could rise significantly.

A different bill, S.214, that would provide customers the opportunity to opt out of wireless smart meters, passed the Senate and will be taken up by the House. VEC does not currently use wireless smart meters, so this bill would not immediately affect us.

A third bill, H.475, changes the rates and rules for net-metering. The bill passed the House. Some of the changes would simplify individual net-metering accounts, but administering group net-metering would still be costly and confusing, and we are hoping to correct this in the Senate.

Vermont Electric Co-op

Co-op Life

February 2012

Vermont Electric Co-op

Spring 2012 - Page 7

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Spring 2012 - Page 7

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Employees look on as the flags at VEC headquarters in Johnson were lowered to honor the life of First Class Lineman Worker Bruce Lamb who died on March 21, 2012.

Inside Spring 2012 Co-op Life

CEO Update ........................................................... pg. 1
VEC Member Profile – Jay Peak Resort .............................. pg. 1
In Memory of Bruce Lamb ........................................ pg. 2
Summary of Annual Meeting Ballot Items ................... pg. 3
Ask The Home Team ................................................ pg. 3
74th Annual Meeting of the Membership .................... pg. 3
Candidates for VEC Board of Directors – Western ....... pg. 4
Candidates for VEC Board of Directors – Eastern & District 7 pg. 5
Financial Highlights ............................................. pg. 6
VEC – 2011 Financial Statements ............................. pg. 7
VEC Accepting Sealed Bids .................................. pg. 7
Legislative Update – Energy News from Montpelier ...... pg. 7

CO-OP LIFE is published quarterly by Vermont Electric Cooperative
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www.vermontelectric.coop

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Johnson, VT 05656

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Johnson, VT
Permit No. 21

Volume 69 Number 2
Spring 2012

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