VEC will hold its Annual Meeting on the membership on Saturday, May 21, 2011, at the Newport Elks Club in Derby, Vermont. The meeting will begin at 10:00 am. Prior to the meeting, a complimentary breakfast buffet for members will be served beginning at 8:30 am.

Why attend Annual Meeting? Because the annual meeting underscores the democratic process that is fundamental to cooperatives and provides an opportunity for members to have a dialogue with their elected representatives on the Board of Directors and with VEC employees. It’s an opportunity to learn more about what VEC has accomplished during the past year and to hear about upcoming projects and current energy issues.

Our keynote speaker this year will be Liz Miller, the Commissioner of the Vermont Department of Public Service, which is the executive branch agency charged with representing customers in utility-related matters in Vermont. Commissioner Miller was appointed to the position by Governor Shumlin, and will be taking the lead for the administration in energy matters. Commissioner Miller will be addressing current energy issues and will provide VEC members with an opportunity to hear the administration’s vision for Vermont’s energy future.

Also on the agenda is a presentation on the Kingdom Community Wind project about the economic benefits to VEC and its members and the related upgrades to VEC’s transmission system between Lowell and Jay. If the Public Service Board approves the project, VEC members will be asked to vote on the transmission upgrades at a special meeting to be held this summer. As is customary at Annual Meeting, VEC officers will present the President’s Report and the Treasurer’s Report. Voting results will be announced at the annual meeting to be held this summer.

Please join us! VEC’s 73rd Annual Meeting represents an important opportunity for members to learn more about their cooperative and to have their voices heard by VEC directors and managers.

Important Decisions about our energy future
As VEC prepares for our 73rd Annual Meeting, many of the issues we face today are similar to the challenges seen by our founders in 1938. Providing economically priced, reliable electricity is just as important now as it was back then, and the power supply decisions we make today will have a lasting impact for current and future generations.

Quite simply, while there are no easy answers, important energy choices must be made to provide VEC with a stable and long-term energy supply. Many VEC members express concerns about the rising costs of energy. At the same time, we hear concerns about the environmental consequences posed by different generation sources. From base load power sources like natural gas, coal and nuclear power, to renewable alternatives such as wind and solar, we are faced with a balancing act that weighs financial costs against environmental risks.

As a member owned cooperative, VEC is committed to securing a power supply that is reflective of the overall wishes of the VEC membership. VEC staff is tasked with presenting the board of directors with good power purchase deals. As elected representatives, directors decide on these deals with the interest of the VEC membership in the forefront.

From Vermont Yankee to Hydro Quebec to Kingdom Community Wind, VEC members are talking and debating the pros and cons of various power supply options. At VEC headquarters we are receiving dozens of emails and calls from members expressing their positions about our energy future.

Power Supply: No easy answers
The following is a brief update on several key projects and power supply options that we have been looking at.

Hydro-Quebec (HQ)
VEC’s management team and Board of Directors has been working very hard to shore up our power supply portfolio with contracts that will keep rates stable for the next several years. VEC has been negotiating with Hydro-Quebec on a long-term contract to provide about 25% of our future needs. This is less than VEC’s contracts with HQ which contributes about 37% of the electricity in our energy portfolio.

The new HQ contract would be a market-based contract, meaning that as the market cost of power rises, the HQ contract cost will rise. The benefit of the contract is that there would be a 15% limit annually on how much the power costs charged to VEC can rise. This will be good insurance in the event that rampant inflation in the cost of energy drives up market costs.

We have received Public Service Board approval of the HQ contract, but a vote of the membership will be required before VEC can move ahead with the contract. Members should expect to receive voting materials early this summer.

On a related note, VEC is going to continue to work to try to get as much power as possible from HQ; however HQ is negotiating with large utilities in New England to construct a high-voltage power line through New Hampshire to provide a route to southern New England. Southern New England pays more for its power than Vermont does and it will be very lucrative for HQ to have access to this market. As a result, VEC is not sure how much more electricity HQ is willing to sell to Vermont utilities.

The controversies we are currently faced with reflect some of the difficult energy choices that are being made in Vermont and throughout the nation. While I know many VEC members have concerns about nuclear power, wind and other types of energy, there are no easy answers. Our energy decisions come with tradeoffs. VEC’s power procurement team continually seeks out options that are priced competitively, but lower price tags often come with negative environmental consequences. From wind to nuclear to solar -- it’s a balancing act that weighs financial costs against environmental risks.

The good news is that members of the Coop have a voice in these important decisions. It is important for members to vote in the 2011 annual election for director candidates that they feel will effectively represent their points of view. I encourage all VEC members to contact directors to weigh your opinions on the current energy issues.

Also on the agenda is a presentation on the Kingdom Community Wind project about the economic benefits to VEC and its members and the related upgrades to VEC’s transmission system between Lowell and Jay. If the Public Service Board approves the project, VEC members will be asked to vote on the transmission upgrades at a special meeting to be held this summer.

As is customary at Annual Meeting, VEC officers will present the President’s Report and the Treasurer’s Report. Voting results will be announced at the end of the meeting. These are exciting times in the energy world. VEC’s 73rd Annual Meeting represents an important opportunity for members to learn more about their cooperative and to have their voices heard by VEC directors and managers.

The Coop Advantage – Members have a voice
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Candidates for VEC Board of Directors

**District 1**

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<tr>
<th>Avon</th>
<th>Averys Gore</th>
<th>Barton</th>
<th>Bloomingfield</th>
<th>Brighton</th>
<th>Brownington</th>
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<td>Canaan</td>
<td>Lyndon</td>
<td>Montpelier</td>
<td>Newbury</td>
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<td>Warmers Grant</td>
<td>Morgan</td>
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**District 4 Towns**

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<th>Bakersfield</th>
<th>Belvidere</th>
<th>Cambridge</th>
<th>Eden</th>
<th>Fairlee</th>
<th>Fletcher</th>
<th>Hyde Park</th>
<th>Johnson</th>
<th>Morrisville</th>
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<td>Waterville</td>
<td>St. George</td>
<td>Underhill</td>
<td>Bolton</td>
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<td>Shelburne</td>
<td>Starkesboro</td>
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**District 6**

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<td>Georgia</td>
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<td>Montgomery</td>
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<td>Sheldon</td>
<td>St. Albans Town</td>
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**Western Zone**

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<th>Shelsbury</th>
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**Don Worth**

I seek your vote for my reelection as Director for District 1. I’ve served on the VEC Board of Directors for a year and have completed four courses leading to a certificate as a Credit- dented Cooperative Director (CCD). If reelected, I promise to continue my efforts to keep rates down and maintain outstanding service to Co-op members. My goals are very simple...we need to keep the lights on by reducing outages and continue to ensure that you pay the lowest rates possible through astute purchases and selective investment in renewable energy.

I’m the Volunteer Coordinator for the RSVP office in Newport, recruiting older volunteers for nonprofit businesses and organizations in Orleans & Essex Counties. Born in Derby and raised in Island Pond, I graduated from the University of Maine and spent 26 years as a member of the U.S. Border Patrol. I also serve as the Essex County representative to the U.S. Selective Service System, the Board of Directors for a chamber of commerce and the Local Emergency Planning Committee (LEPC).

My wife, Miriam, and I have ten grandchildren and live in Island Pond on land that was part of my grandfather’s farm.

**Kenneth A. Mason**

Vote at the May 21, 2011 Annual Meeting (or by mail ballot), PLEASE!

As your VEC Board Member you can count on me to work closely with other Board members/VEC management in meeting the objectives of the Co-op, while making sure that specific District #1 member topics remain a part of pertinent considerations.

I served Ethan Allen, Inc. and other reputable manufacturers in hands-on management positions for 40 plus years. I have also worked to accomplish community objectives with many District #1 residents through my adulthood.

I grew up in the area, and served honorably in the USAF. My wife Barbara and I make our home in Morgan, having raised two children here. Among other interests, I currently serve as (1) Morgan’s member on the local State Police Advisory Committee; (2) unofficial “facilities advisor” to the local elementary School Board; (3) “on call” Safety Director for our home in Morgan, having raised two children here. Among other interests, I currently

— **District 6** —

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<th>Dan Parsons</th>
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| I am seeking to continue as the Director from District #6. Presently, I am the 2nd Vice President, a member of the Executive Committee, and also serve on the Power Supply and Operations Committee. I joined the Board more out of curiosity than hopefulness just before the Chapter 11 Bankruptcy. Since those dark days, VEC has consolidated its service territory, shortened outage time, been able to accomplish community objectives with many District #1 residents through my adulthood.

I am a former Chairman of Selectmen and also former Chairman of the Cemetery Commission.

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**Daniel Carswell**

I am willing to offer my services for West Zone Director I once again and ask for your favorable vote for the annual 2011 VEC meeting. This would allow me to continue to serve you in finding the right mix of purchase power options, smart grid technology, and further strive to be competitive with our other regional rates. We have been active with the revitalization process of the operations of our board of directors which has led to an improvement in VEC status with the VT Department of Public Service. This ongoing process which has shown recent positive results is enough to compel me to seek re-election to help further these goals. Our Cooperative is researching continually to find the most thoughtful and affordable solutions to our complex energy problems. As a Director of this coop for nearly 15 years and current 1st V.P. and Chair of the Power Supply and Operations Committee I can attest first hand that our Coop. is working diligently to find the right balance of efficient, affordable, environmentally conscious power and improving optimal productivity. I will attempt to work just as hard if you so choose. Thank you for your thoughtful consideration.

**Naomi Shaw**

I am seeking to become the Vermont Electric Cooperative Director at-large West Zone. I hope to meet many of you at the annual meeting this year on May 21st in Derby. If you are unable to attend I would encourage you to cast your vote by mail upon receipt of your Notice of Annual Meeting scheduled to be mailed on April 27th.

I am especially aware of the challenges the current economic reality has on many here in Vermont. As a single, working parent, I understand the effect that higher energy costs would have on all VEC members. I believe we need to keep electricity affordable, maintain reliable service, and continue to make improvements by finding stable power supplies – whether it is renewable energy sources such as wind, water, or geothermal.

I would strive to educate members about the latest advancements in technology, green initiatives, conservation, and legislative policies that affect sustainable energy sources now and for future generations.

I have extensive business experience and community involvement. I believe I can be effective in changing the economic environment that the VEC is faced with.

**Robert Pearl**

Windmills, Windmills, and more Windmills are needed in Vermont to generate clean, affordable and environmentally friendly electricity. Windmills aren’t the answer to all our needs, but it’s a good start. I will advocate to be involved in as many wind projects as possible. Advancing the use of windmills is, new jobs for Vermonters will have to be created to maintain ongoing maintenance of the units.

With the exception of nuclear power, we must always search for and purchase the least expensive electricity. However, because of the track record that nuclear power has displayed over the years, it is clear, nuclear power is not safe and should not be used regardless of how cheap the power is offered for sale. Our safety is more important than cheap power and our safety should not be for sale.

I’m a native Vermonter who has returned to Vermont after retiring from the Navy and as a Merchant Marine Chief Engineer. The generation and distribution of electricity has always been an important part of my engineering experience. Being retired, I have the time and experience to devote to ensuring Vermont Electric Cooperative continues to provide electrical service in the safest and most economical manner possible.

**Caleb Elder**

I respectfully request the vote of all members of the VEC Western Zone as candidate for Director serving these Districts. Please vote for me by mail with your VEC ballot, or in person at the Annual Meeting on May 21st.

If elected, I will support contracts and policies that enhance the financial stability of the Cooperative long-term, while keeping rates as low as possible today. This goal can be accomplished by mixing short-term contracts for cheap energy supplies like natural gas with long-term renewable energy contracts. By moving steadily towards a lower carbon energy supply, VEC will realize financial dividends over the coming decades while all members benefit from a healthier environment. Additionally I will advocate for increasing energy efficiency standards for Vermonters. If we can reduce our current electric needs, we can shift loads in our homes away from oil and propane toward electricity. Ultimately, Members can save money while I gladly offer my expertise in the Renewable Energy field to the VEC Board.

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that would help to move the electricity generated from the proposed King- dom Community Wind (KCW) project in Lowell. VEC, like other Vermont utilities, has a requirement set forth by the Vermont Legislature (SPEED program) to have 20% of our power supply come from in-state renewable resources by 2017. To meet this requirement, VEC is partnering with Green Mountain Power on the KCW project. GMP is making the capital investments needed for the project, which is located within VEC’s service territory, yet sharing the power generated with VEC at its wholesale cost. This project, if approved, will provide 4% of the electricity VEC requires on an annual basis and would have the lowest priced of all the qualifying renewable (SPEED) resources currently available.

Vermont Yankee

On Tuesday, April 26, 2011 at their monthly meeting, VEC directors rejected a power deal for electricity generated at the Vermont Yankee nuclear power plant in Vernon. Negotiations had been underway for months and the proposed twenty year deal was priced at below market prices and would have been contingent on VY receiving authority to operate in Vermont beyond March, 2012. The VEC board “struggled” with this decision. Weighing needs expressed by members for safe and reliable power along with environmental concerns and mistrust in the way Vermont Yankee has been operated by Entergy, the board sought out information to help them make an informed decision that represented the overall interests of their constituency.

At the meeting, VEC staff presented an overview of the Entergy proposal, which would have saved an average residential member about fifty-two cents per month or about six dollars per year. Board members also heard from Mike Colamb of Entergy about the safety of the plant and its continued operation. An opposing point of view was presented by Arnie Gunderson, a prominent nuclear safety expert who has been advising the state legislature on this issue. Several VEC members were present and presented positions both for and against the proposed deal with Entergy.

Prior to voting, each of the eleven directors present expressed their respective opinions. Many commented that they had received more feedback on this than on any other recent VEC issue and that they had heard from dozens to hundreds of the VEC members they represent. Until this point, the VEC board had supported power supply contracts with nuclear generated electricity because they have provided VEC with competitively priced energy for our members. However, when a vote was taken, the VEC board of directors voted 9 to 1 to reject the power deal.

In summary, concerns about safety and viability of the forty year old plant to continue operations for twenty more years, along with mistrust in Entergy and the way it has conducted business in Vermont, outweighed the favorable financial terms. Fortunately, VEC has secured a stable power supply through 2015 and our power supply team has time to negotiate favorable contracts to meet our mid and long term needs.
When it comes to planting trees – what you do now will affect generations to come!

Most species of trees live for many years and should be considered a permanent and welcome addition to our landscape. In addition to providing shade and beauty, they enhance the environment and can provide many less visible benefits such as: erosion control and storm water runoff management; production of oxygen and storage of carbon; and increases to property values. Additional benefits provided by landscape trees can include increases in home energy efficiency, windbreaks, screens that obscure undesirable views and filters for noise and pollutants.

However, if you don’t plant the right tree in the right place, the same trees that provide these benefits can be dangerous. Trees growing or falling into overhead power lines become a public safety hazard and can disrupt electric service to you and your neighbors. Planting tall-growing trees under or near power lines will ultimately require VEC to prune or remove those trees to maintain safe clearance from electrical wires. Pruning an improperly located tree often results in the tree having an unnatural appearance.

When planting, it is important to plan for future growth. Trees come in all shapes and sizes and often change dramatically over their lifetimes. Remember that the mature tree must have enough space to accommodate its canopy and root system. Before planting a tree, take time to understand and evaluate its site requirements, maintenance needs, mature size, root system, growth rate, hardiness, longevity, shape and form, which will enable you to plant the right tree in the right place. Here are a few things to keep in mind when selecting trees:

• Only low-growing tree species which reach a mature height of 15 feet or less should be planted near electric lines.

• Deciduous trees (those that lose their foliage in the fall) planted on the south and west sides of your house can reduce your utility bills by helping you keep your home in the summer and warming it in the winter by allowing sunlight to pass through their bare branches.

• Shade trees planted along roads and near patios, driveways, and air conditioners reduce summer heat and add beauty to your neighborhood.

• Mid-size evergreens provide windbreaks for heating savings, screen for privacy and buffer noise year round.

• Fruit and nut trees provide edible produce and attract wildlife.

Your safety is important to VEC and trees near power lines can be dangerous. Please help us ensure that you and your community have safe and reliable electric service by planting the right tree in the right place. By selecting the “right tree for the right place,” you’ll not only add value to your property, but you’ll help VEC avoid a future need to prune or remove “the wrong tree in the wrong place”.

VEC is joining with the Electrical Safety Foundation International (ESFI) to raise awareness about potential home electrical hazards and the importance of electrical safety. This year’s campaign challenges people across the country to evaluate the electrical safety of their own homes.

According to the Consumer Electronics Association, the average home today has three televisions, two DVD players, at least one digital camera, one desktop computer, and two cell phones.

“Modern homes run on electricity, but if you don’t properly maintain your electrical products they can create hazards,” warns VEC Safety Manager, Les Burtis. “The good news is that eliminating electrical hazards from your home doesn’t have to be difficult or expensive.”

Many homes and their electrical systems were built before most modern-day home electronics and appliances were even invented. Today’s increased demand for energy can over burden an older home’s electrical system.

VEC offers the following tips to help identify and eliminate electrical hazards to protect yourself, your family, and your home:

• Make sure entertainment centers and computer equipment have plenty of space around them for ventilation.

• Use extension cords as a temporary solution, and never as a permanent power supply.

• Do not place extension cords in high traffic areas, under carpets, or across walkways, where they pose a potential tripping hazard.

• Use a surge protector to protect your computer and other electronic equipment from damage caused by voltage changes.

• Keep liquids, including drinks, away from electrical items such as televisions and computers.

Electrical safety awareness and education among consumers, families, employees, and communities will prevent electrical fires, injuries, and fatalities. Visit ESFI’s Virtual Home at http://virtualhome.esfi.org to learn more about home electrical safety.
Employee Spotlight
System Operations: The VEC Information Hub

O n a clear-sky Tuesday morning, it’s quiet inside VEC’s Johnson head-
quarters. Around 7 a.m., members of the Operations team begin to gather in a
small conference room near the front lobby, as they do each morning. The
chatter and banter among those in attend-
dance is easy and light, as they settle in for their daily Operations phone call.

“We’re here 24 hours a day, 365 days a year for our members” is the
opportunity to touch base with the staff in the field and share important infor-
mation to prepare for the day.

During the call, safety concerns, the weather report, and an outage report are
shared. Donna Coan, Operations Coordi-
nator, reviews the schedule for the day’s work. Burns, Safety Manager, reads a
section of the safety manual in “a 2 minute drill” to remind everyone to keep
safety in the forefront of their activities. “For me, it’s the one time of day we
can pull everyone together,” says Wright. “This pulls all of the field guys together
and gets everyone on the same page for the day.”

The quick call ends and staff disperse to begin their work for the day. Wright and Scott Rockwood move down the
hall to the Operations Center. “The Control Room is the central point for
everything that goes on in the system,” explains Wright.

One look around the Control Room provides a clear indication that the days
many years ago when Mary Nye used to answer Members’ phone outage calls
from her home are long gone. Before the integration of Smart grid technology in
VEC’s headquarters and Smart Meters in Members’ homes, Mary Nye would
answer calls from her home and would call line crews to investigate outages.

Standing in the Control Room, however, the operator works on a completely
different era. Central to the operation are two redundant computer
work station— one is staffed 24 hours a day, 365 days a year; the other
identical station is staffed during storms, when additional staff resources are
required to manage the increased work-
load. On this day, Mary Nye was
filling in for the day’s weather report and an outage report. As part of that communication link, Rockwood
connects with all other utilities weekly to help ensure all are on the same page with current
projects.

In the call center, those weekly interac-
tions, statewide conference calls are also conducted in preparation for major
events, like significant expected snow storms. In those instances, days before
an expected event, VEC will con-
nect with Vermont Emergency Man-
agement, the Vermont Department of
Public Service, the telecom utilities and electric utilities to discuss the weather
report and begin preparations. After the first 10-12 hours of the event, the same
parties reconnect to provide damage as-
sessments and share information and re-
sources in order to restore power more quickly to all.

According to Rockwood, “The utilities all work together behind the scenes to
get the power back on. There’s a lot
going on state-wide to help power resto-
ration happen.”

The staff in the Control Room relies on the many tools available in this room to
gather and manage information. The grid covering the wall directly in front of
Rockwood’s workstation shows the entire sys-
tem in the northern part of the State, in-
cluding distribution and transmission lines.

The large paper map on the wall to the left of McMullen— the last piece of “old technology” in this room—provides a
more traditional image of the entire dis-
tribution system and allows staff to pin the
location of outages and tree crews as
one way to track activity.

To the right of McMullen sit another pair of monitors that display the SCA-
DA System, an important monitoring tool that tells real-time information on
alarms. This system monitors key sys-
tems in the field and alerts staff when issues
arise. This June, a new, updated version of this system will be in place, thanks to $6 million in federal funds that VEC received about a year ago to update this
system.

On the rear wall of the Control Room, there are three large flat-screen monitors all
keeping tabs on the weather. One monitor is
dedicated to the wind; one to lightning; and one shows the Doppler radar. Staff
watch as inclement weather approaches and moves through VEC territory, and can
use the information on the monitors to better coordinate storm response.

“We can almost predict when we’re headed for trouble. The technology that
lies behind the scenes is pretty power-
ful.”

See “Employee” cont. on pg. 7

System Reliability
VEC is proud to announce that for the second year in a row, we met all of our
reliability measures. Since 2006, VEC has slashed its average outage rate by ap-
proximately 50%. On average last year, each VEC member experienced 1.83 out-
ages. This great improvement translates into lower operating expenses, stable
rates and increased member satisfaction.

Despite this great news for most members, there are still some trouble areas within our system in which mem-
bers experienced more than their share of outages. These areas are prioritized for tree trimming, capital upgrades as
necessary and rewiring if appropriate. I encourage any member not receiving an acceptable level of service to contact
me. I am more than willing to explain our plans for improvement and to listen
to your experiences.

Smart Grid Implementation
Advancement of VEC’s smart grid capabilities is regaining some momen-
tum after a long snowy winter. We have reached the 90% mark for smart meter
coverage. If you aren’t sure if you have a smart meter installed at your home or
you are wondering when you will have

one installed, call our Member Services Department at 1-800-832-2667 with
your inquiry.

System automation at the substation level is being implemented throughout the
VEC territory and is helping to im-
prove the way we monitor our network performance. This is resulting in reliability improvements and in-
creased public safety.

The recent increase in automation activity is being made possible by the ARRA (Ameni-
care  Act of 2009 and Recovery Act) fund-
ing that has been made available to utilities like VEC.

Major Capital Projects
VEC continues to make capital in-
vestments throughout our system. Most of the VEC system was constructed in the late 1960s and has served Coop
members well. However, in many cases it is time to upgrade. Major capital proj-
ects that VEC is currently working on
include a new switching station in Jay; a substation upgrade in Johnson and dis-
tribution line rebuilts in Irasburg and North Hero. Additionally, VEC is work-
ing with its transmission provider, VEL-
CO (Vermont Electric Power Company) to make improvements in the Jay and New-
port area.

Upcoming Member Votes Needed
VEC asks the Coop membership to approve major projects such as the Jay project, partly to comply with VTP law, but also to seek sup-
port from our mem-
bers when investing large amounts of capi-
tal funds. VEC will be seeking member approval for the VELCO Jay Tap Substation project on which VEC and VELCO are working jointly to obtain the
required permits. This new substation, which is partly funded by the New Eng-
land ISO, is critical in serving the increas-
ing Jay area electric load. VEC is a co-
perator in the project and will be seeking

Operations Update
By Jeffrey Wright, Chief Operating Officer

Jeffrey Wright, Chief Operating Officer

See “Employee” cont. on pg. 7
VEC’s financial story for 2010 at first glance looks very uneventful as we performed almost exactly to plan, meeting and slightly exceeding our operating and capital budget targets. However, in looking back at 2010, three significant events had material impacts on VEC’s financial performance. First, it was a year of slow but positive economic recovery for VEC. 2010 also proved to be the year we faced the potential loss of revenues from a major and expensive storm in our history. Lastly, VEC had significant success in 2010 in procuring grant funding that will help to expand services, mitigate rate impacts, and promote economic development.

Economic Recovery
In 2009, we reported to you that the economic downturn that began in 2008 and intensified in 2009 resulted in significant reductions to VEC’s expected revenues. Overall commercial and industrial energy revenues finished 2009 eleven percent and $3 million below budget with the largest impact seen in our commercial and industrial customer lines. VEC weathered these significant financial and economic challenges in 2009 by implementing a financial contingency plan that allowed us to reduce and defer costs. In fact, several changes implemented in 2009 helped to control rates increases in 2010 & 2011. While annual residential kWh (kilo-watt hour) sales have remained virtually unchanged for the past three years, late in 2009 and beginning more strongly throughout 2010 we began to see electricity usage pick up with our commercial and industrial members, which represent significant energy usage in our commercial and industrial customer lines. As a result, VEC was able to reduce and defer costs on our commercial and industrial members, which represent about 46% of VEC’s electricity sales.

While commercial and industrial revenues are clearly the most volatile sales area, these businesses and institutions benefit our local economy and provide jobs for many of our residential members. VEC’s commercial and industrial kWh sales are nowhere near the strong sales growth levels we experienced in the 1990s, the downward trend has been reversed. In 2010, VEC’s commercial and industrial sales grew from 2009 levels by 1.3%. The economic recovery was a key factor in helping VEC to meet our 2010 budget goals and it had a favorable impact on our 2011 rate request.

Biggest storm in VEC history
The second significant factor impacting 2010 financial results was a major storm. In the early morning hours of Wednesday, December 1st, relatively strong winds began blowing across the western slopes of the Green Mountains. By late afternoon wind gusts of up to 93 mph in Cambridge and 104 mph on Mount Mansfield were recorded. At the peak of the storm over 12,500 VEC members were without power. One of the interesting aspects of this storm was the targeted loss of damages. While the western base of the Green Mountains experienced major damage, areas outside of Chittenden, Franklin or Lamoille experienced little or no damage. VEC members in the impacted areas witnessed massive property damage including road closings, building damages, and the loss of many trees and utility poles, as seen in the State of Vermont’s emergency rate increase. Fortunately, because we are a Cooperative, VEC can be eligible for financial relief from FEMA (Federal Emergency Management Administration) and other federal and state agencies.

The cost of storm restoration for this event was historic for VEC. With more than 300 external mutual aid crews coming to our aid and with extreme damage to our infrastructure, total storm costs wound up running VEC nearly $1.8 million (nearly double our previous high for storm restoration). Storm restoration costs on Saturday and Sunday December 4th & 5th approached $50,000 per hour. Because of the magnitude of the costs associated with this storm, VEC faced the risk of not meeting our minimized financial performance measures which could have required us to seek an emergency rate increase. Fortunately, because we are a Cooperative, VEC can be eligible for financial relief from FEMA (Federal Emergency Management Administration) and other federal and state agencies. As a leader in smart grid deployment, VEC was essentially “shovel-ready” when grant approval was received. In 2010, VEC has already completed work representing the first $33 million of the grant. With a focus on meter deployment and grid automation, the grant has helped to accelerate VEC’s smart grid deployment.

Additionally, in 2010 VEC was awarded an Economic Development Administration (EDA) grant for our Northeast Kingdom Connector project which would provide an 80% reimbursement on an estimated total project cost of $14 million. Phase 1 of the project was completed in 2010 and 80% reimbursement of eligible costs will be utilized to complete the next phases of the project which will begin once we receive reimbursement for Phase 1 costs. The project is expected to allow for additional growth and economic development of the Northeast Kingdom by improving electric reliability for this area and providing a fiber-optic backbone for telecommunication service.

Grants: Smart Grid and Northeast Kingdom Connectors

Finally, the storm grant was not the only grant to positively impact VEC’s financial results in 2010. VEC was awarded two other grants for the further deployment of VEC’s smart grid.

As a sub-Grantee of an ARRA (American Reinvestment and Recovery Act) smart grid grant awarded to a statewide coalition of Vermont utilities, VEC received an award of $10.7M which is helping us to complete our smart meter deployment (we had 80% of our system implemented at time of the award - largely funded through operational savings), further enhance our electric grid automation, and conduct a ground-breaking consumer behavior study.

The smart grid award provides a 50% reimbursement to VEC for qualifying expenses. As a leader in smart grid deployment, VEC was essentially “shovel-ready” when grant approval was received. In 2010, VEC has already completed work representing the first $33 million of the grant. With a focus on meter deployment and grid automation, the grant has helped to accelerate VEC’s smart grid deployment.

In addition, VEC has already completed its work under the Smart Grid and Northeast Kingdom Connectors project which would provide an 80% reimbursement on an estimated total project cost of $14 million. Phase 1 of the project was completed in 2010 and 80% reimbursement of eligible costs will be utilized to complete the next phases of the project which will begin once we receive reimbursement for Phase 1 costs. The project is expected to allow for additional growth and economic development of the Northeast Kingdom by improving electric reliability for this area and providing a fiber-optic backbone for telecommunication service.

VEC’s smart grid deployment was highlighted by S&P’s view that VEC’s leadership in smart meter deployment has led to improvements in system reliability. VEC has also kept rates and customer satisfaction experienced little or no impact from the storm. VEC members in the impacted areas witnessed massive property damage including road closings, building damages, and the loss of many trees and utility poles, as seen in the State of Vermont’s emergency rate increase. Fortunately, because we are a Cooperative, VEC can be eligible for financial relief from FEMA (Federal Emergency Management Administration) and other federal and state agencies.

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Veimont’s transmission grid through VELCO (Vermont Electric Power Company), Vermont’s statewide transmission organization. This financing was completed on December 29, 2010 using a $4 million, 15 year fixed interest rate of 4.58% and a $5 million, variable interest rate of 1.36%. The return on the investment in VELCO’s transmission grid reduced the amount of VEC’s rate request for 2011. With regard to financial performance, in 2010 the Department of Public Service released a report that compared all of the Vermont electric utilities based on the number of customers served per employee as of December 31, 2009. The results placed VEC in a very favorable light with VEC ranking as the fourth best of the twenty Vermont electric utilities for this key efficiency measure. VEC’s territory is the 7th most rural territory in the state and we believe on a per mile basis VEC would rank first in the state for number of miles served per employee. VEC also met or exceeded all of our service quality and reliability measures that are used to evaluate the quality and level of service, reliability and customer satisfaction experienced by our membership in 2010.

Outlook
VEC plans to continue our strategy to implement annual rate cases. By doing this, VEC is able to consider all factors on a current basis when setting rates. Additionally, by completing rate cases with our annual budget process costs that VEC requires to complete our annual utility system improvement projects.

VEC had the lowest electric rate increases of all Vermont electric rate cases completed in 2010 with an approved increase of 2.13%. The year before the increase was 1.88%. The biggest factors impacting rates are power supply and transmission which represent about 70% of our costs. Looking into the future, VEC’s power supply portfolio has very stable average costs for the next few years. VEC’s transmission costs for 2012 are relatively stable with projected increases of approximately $100,000. However, in 2013 transmission costs are expected to jump by $1.1 million which would translate to an increase in rates of about 1.6% for transmission costs alone.

The Co-op remains committed to the delivery of competitive rates and reliable service. If you are interested in additional financial information, many of VEC’s financial reports both numeric and narrative are now posted on our website and can be found at www.vermontelectric.com/reports/reports. 

Standard & Poor’s Upgrades VEC’s Credit Rating

On March 22, 2011 VEC received a financial ratings upgrade from Standard & Poor’s. VEC’s credit & debt rating improved from BBB− to a stable outlook. The improved credit rating reflects VEC’s win-win strategy in smart meter deployment which has led to improvements in system reliability. VEC has also kept rates competitive by successfully reducing operating costs and keeping purchased power costs low, while improving communications with the Vermont Public Service Board (VPSB). The rating is an indicator of financial health and is VEC’s highest rating ever. The improved rating will help VEC in establishing credit with providers, improve borrowing costs, and very importantly allow VEC to have additional opportunities to enlarge the number of potential providers for our power portfolio and to evaluate intermediate and longer term stably priced energy contracts.

By Michael Bursell, Chief Financial Officer
### VEC - 2010 Financial Statements

#### Balance Sheet

<table>
<thead>
<tr>
<th>Year ended December 31, 2010</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
</tr>
<tr>
<td>Electric plant, at cost</td>
<td>107,019,713</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>20,996,394</td>
</tr>
<tr>
<td>Net electric plant in service</td>
<td>86,023,319</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>5,415,580</td>
</tr>
<tr>
<td>Total current assets</td>
<td>99,438,899</td>
</tr>
<tr>
<td>Other assets</td>
<td></td>
</tr>
<tr>
<td>Note receivable</td>
<td>214,456</td>
</tr>
<tr>
<td>Noncurrent receivable</td>
<td></td>
</tr>
<tr>
<td>Account receivable, local loans, and fiduciary accounts</td>
<td>2,247,856</td>
</tr>
<tr>
<td>Total assets</td>
<td>101,683,355</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Equity</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td></td>
</tr>
<tr>
<td>Patents and intangible assets</td>
<td>24,300,482</td>
</tr>
<tr>
<td>Other expenses</td>
<td>2,496,439</td>
</tr>
<tr>
<td>Contributions related to constr</td>
<td>17,106,363</td>
</tr>
<tr>
<td>Total other expenses</td>
<td>4,015,847</td>
</tr>
<tr>
<td>Long-term debts, excluding current installments</td>
<td>48,986,240</td>
</tr>
<tr>
<td>Obligations in current liability</td>
<td>83,920,591</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>205,399</td>
</tr>
</tbody>
</table>

| Capital Funding               |      |
| Current installments of long-term debt | 2,226,257 |
| Current installments of capital lease obligations | 11,094 |
| Revolving debt                | 2,000,000 |
| Accounts payable              | 7,291,280 |
| Revenue from subject to fund  |      |
| Customer deposits             | 362,052 |
| Deferred credits              | 264,973 |
| Other current expenses        | 3,994,599 |
| Total current liabilities     | 15,167,022 |
| Commitments and contingencies |      |
| Total liability and equity   | 115,329,426 |

#### Statement of Operations

<table>
<thead>
<tr>
<th>Year ended December 31, 2010</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenue</td>
<td>71,164,763</td>
</tr>
<tr>
<td>Less revenues subject to federal income</td>
<td>71,164,763</td>
</tr>
<tr>
<td>Total operating revenue</td>
<td>71,164,763</td>
</tr>
<tr>
<td>Operating expenses</td>
<td></td>
</tr>
<tr>
<td>Purchase of property</td>
<td>37,216,508</td>
</tr>
<tr>
<td>Transmission</td>
<td></td>
</tr>
<tr>
<td>Operations</td>
<td>6,887,141</td>
</tr>
<tr>
<td>Maintenance</td>
<td>654,520</td>
</tr>
<tr>
<td>Distribution</td>
<td></td>
</tr>
<tr>
<td>OTHER EXPENSES</td>
<td></td>
</tr>
<tr>
<td>Operations</td>
<td>4,447,856</td>
</tr>
<tr>
<td>Administrative and general</td>
<td>3,385,340</td>
</tr>
<tr>
<td>General plant maintenance</td>
<td>189,641</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>1,380,258</td>
</tr>
<tr>
<td>Taxes</td>
<td>608,423</td>
</tr>
<tr>
<td>Other expenses</td>
<td>581,655</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>65,290,844</td>
</tr>
<tr>
<td>Income from operations</td>
<td>3,073,929</td>
</tr>
<tr>
<td>Other income (expenses)</td>
<td></td>
</tr>
<tr>
<td>Gains on sale of fixed assets</td>
<td>5,051</td>
</tr>
<tr>
<td>Total income (expenses)</td>
<td>3,078,980</td>
</tr>
</tbody>
</table>

| Revenues subject to refund — Net Income | 115,329,426 |
| New Construction, System Improvements | 3,066,878 |
| Interest on long-term debt         | 2,908,213 |
| Other interest                     | 429,195 |
| Total other income                  | 7,085,367 |
| Net income                         | 4,035,331 |

#### Capital Spending (System Improvements)

<table>
<thead>
<tr>
<th>Year ended December 31, 2010</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Construction, System Improvements</td>
<td>12,101,463</td>
</tr>
<tr>
<td>Less contributions to Aids/Construction</td>
<td>3,066,878</td>
</tr>
<tr>
<td>Net Investment in Utility Plant</td>
<td>9,034,585</td>
</tr>
</tbody>
</table>

### Employee Spotlight cont. from pg. 5

“VEC is the only company in Vermont that can determine if a house is getting power to the meter without having to send a crew to the house,” explains Wright. The system displays the outage information for the operators and regularly updates the VEC website with the same information about the location, duration, and cause of the outage from the time it is logged to after the outage has been resolved.

Once it is determined where the outage is occurring, the operators can dispatch the closest line crew to the particular outage area, and also for line crew safety during severe weather.

Sally Lumba, VEC’s Human Resources Manager, worked for part of her career with the Coop as a dispatcher. She remembers a time when outage management involved a very different process. “We did everything manually,” says Lumba. “We would take and make phone calls and it might have taken 15 or 20 minutes to even determine where power was off. Now, they know almost instantaneously.”

Lumba adds, “The Control Center is the hub of our operations. It’s like they are in a fishbowl and can see everything clearly all around them without leaving the room. They do an exceptional job of taking in information from different sources and disseminating information to make sure the system is what it should be. They control the ebbs and flows of communications.” Wright is also proud of the Control Center that VEC has built. He says, “We’ve taken a pretty outdated Control Center, and in the last 3 years they have brought it forward to be the most advanced in the State—for one reason: Smart Meters.”

Aside from Smart Meters at their homes, most Members never see all of the high-tech equipment that feeds the work of the VEC’s Operations. When a Member calls to report an outage, however, they do hear Wright’s voice on a regularly updated phone greeting, explaining the current weather and outage situation. This simple, personal touch helps provide Members with the information they are looking for and helps relieve the pressure from the phone system during the busiest moments.

Wright sums up all of the high tech equipment and specialized information gathering very simply: “The information comes in here and we turn it around and ship it out. If we can do that well, our Members will be happy.”

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**Vermont Electric Co-op**

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