As we mark VEC’s 75th anniversary, I find myself reflecting on the Co-op’s history and where we sit today. It’s clear that while many things have changed, others have remained constant. VEC is still a strong, democratically run cooperative and continues to find solutions to our energy challenges faced by northern Vermonters. Providing safe and reliable electricity is still essential to meeting our members’ needs, from quality of life to economic development. Just as we did in the 1930s, we still deliver electrons through the power lines that connect our members throughout northern Vermont, and we pay close attention to controlling the costs associated with delivering electricity to our members.

What’s strikingly different today, however, is the role that modern technology plays in keeping the lights on and providing top-notch member service. From our smart meter deployment to technology upgrades at substations, we are optimizing our distribution system while reducing system losses and outage durations. As a society, we are increasingly concerned about environmental impacts caused by the choices we make with regard to generating electricity. It’s no longer enough to simply deliver electricity to our members; we must weigh the consequences of the choices we make. Seventy-five years ago, readers of the VEC newsletter saw an honor roll on the cover page listing the top 10 members with the highest electricity consumption. Today, of course, we focus on conservation and how we can get the most out of our electric grid by using electricity efficiently to avoid taxing our system and incurring unnecessary costs.

Each year for the past 75 years members have come together for VEC’s annual meeting and participated in annual elections that select the top 10 members and decide key issues. I’m pleased to report that this tradition is alive and well at VEC. Energy issues and choices are increasingly important due to the impact they will have on future generations. There is much to consider and debate, and no easy answers as we make our selections among the power sources available to us, and other issues. But the member-owners of our cooperative have the opportunity to participate directly, and through the election of representatives on the Board of Directors in these critical decisions. Considering the level of member participation VEC enjoys, I think it bodes well for our future.

As we mark the 75th anniversary of our founding as a rural electric cooperative in 1938, I would like to share this thought with our VEC members: While there have been ups and downs in the history of our co-op, 2013 will bring it with an important milestone. For the first time, VEC is poised to share the organization’s success with our member-owners in the form of a capital patronage distribution. Unique to cooperatives, capital patronage is symbolic of what happens when we work together to solve our energy issues. It’s an honor to be a part of this organization. Here’s to the next 75 years!

Recent News

The first quarter of 2013 has been very interesting in terms of power supply. Two major developments have combined to create a $1 million negative variance in our budget. The first is that the cost of market power skyrocketed during January and February. The second is that the Kingdom Community Wind Project (KCW) ran at a much lower than expected capacity factor (the ratio of its actual output to its potential output under optimal conditions). While this is one of the biggest budget problems VEC has faced since 2008, we have not let it affect our rates thus far. It is early in the year and there are reasons to remain optimistic: electricity sales are up; it appears that the power supply markets have settled down; VEC and the members are more comfortable with the costs when we run into budget problems. Also, this happened in the first two months of the budget year and we have the next 10 months to recover.

Nevertheless, we did encounter a power supply market problem early in the year. This was not unusual, as energy market prices typically rise temporarily during very cold or very hot weather periods when demand peaks. Typical market power prices had been averaging below $50/Megawatt-hour but they shot up to over $1,000/Megawatt-hour for several hours, eventually setting in between $150 and $200/ Megawatt-hour for most of the hours. However, after a week we began to notice that prices were not coming down at night. During previous cold snaps, usually prices would drop below $100 at night. When the cold weather subsided in late January, prices still did not come down; in fact, they remained high well into the middle of February. VEC staff made lots of calls to other utilities and power market professionals, and few could offer concrete explanations about what was happening.

Most of our questions about what was causing the market to behave this way were answered in mid-February. It turns out that a combination of factors had led to a “head-on collision” in the natural gas markets. Over the past several years, New England has become more dependent on natural gas for its overall energy supply (transportation, heating, and electricity generation). Yet, we are restricted in terms of the vast infrastructure that is required to provide this fuel to our region, starting more than 1,500 miles away in the Gulf of Mexico. Additionally, winter storm Nemo (they called it) happened in the first two months of the budget year and we have the next 10 months to recover.

Conservation Efforts Paying Off at Smugglers’ Notch

Considering that it’s a sport built around getting people outdoors into the natural world, the open air and sunshine, it’s remarkable how much electric power ski operations save through conservation efforts like Smugglers’ Notch in Jeffersonville, where Vermont Electric Cooperative will hold its 75th Annual Meeting of the Membership on Saturday, May 18, are destinations, and must be prepared to house, feed, and entertain thousands of guests who have made a long journey to get there. In winter (noting that Smugglers’ Notch and many others are now four-season resorts) that means plenty of snowmaking, which by itself constitutes a major electric load.

In keeping with skiing’s natural affinity for environmental conservation, and through partnerships with Vermont Electric Cooperative and Efficiency Vermont, Smugglers’ Notch has undertaken several recent conservation initiatives. They have the benefit not only of reducing power consumption, but also reducing Smugglers’ operating costs, another strong motivator.

“They are very aware and tuned into where their opportunities lie,” says VEC’s Manager of Key Accounts, Dave Lahar. “They are well-organized in that
Remembering Bob Northrop
By Dave Hallquist, CEO

Bob Northrop, age 92, devoted husband of Julia (Smith) Northrop, passed away Saturday evening, March 30, 2013, at his home with his family at his side.

A long-time friend to Vermont Electric Cooperative, Bob served on the Board of Directors from 1982 through 2006, including 22 years as the board president. Bob worked tirelessly for the members of VEC. His commitment to our members, and his belief in democratic principles, were hallmarks of his leadership style. Bob’s work with the Cooperative actually began long before he served on the Board of Directors, when in 1975 he formed a group called “ACDC” (Action Committee for Democracy in the Co-op). During that time, VEC was making significant investments in nuclear power projects and Bob, along with other VEC members, pressured for transparency about how the board made its decisions.

The group successfully challenged VEC in court to make its list of members and board candidates available upon request. We can thank Bob for the open process that we have in place today as a result of his efforts.

As a candidate for a board position in 1982, Bob ran his campaign during a contentious time in which members began to question the Co-op’s heavy investment in nuclear power. Bob won a seat in that election, and in 1984 he became board chair and led the Cooperative through some very difficult and tumultuous years. By 1995 it had become clear that the Co-op could no longer shoulder the heavy debt burden it had taken on by investing in nuclear plants that would never get built, and the difficult decision was made to declare bankruptcy. In 1997, as part of settlement agreements with the Rural Electric Administration (REA), VEC was required to bring in a new CEO, and under Bob’s watch, Kelly Enright was hired to rebuild the Co-op. In December 1999, VEC began a new chapter in its list of members and board candidates available upon request.

Then, all of a sudden, we’re saving $50,000 a year on electricity. The way I look at it, that pays for someone’s job.

Another new conservation project for Smugglers’ Notch was the purchase and installation to conserve energy and treat its environment with respect. Around them at a resort – and a VEC member – that is taking seriously its obligation to conserve energy and treat its environment with respect.
The following is a summary of ballot items for VEC's 2013 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 this item, VEC members are also asked to cast votes for Directors. (See accompanying candidate statements.)

Ballot Item #1

 Shall Article IV, Section 4(b) be amended to (1) clarify which Board policies that, if violated, could subject a Director to possible removal as a Director and (2) state that a Director who is being considered for removal may not vote on a motion to remove?

Explanation of Bylaw Change

Article IV, Section 4 addresses when and how a Director can be removed from the Board. There are three proposed changes; the first two are technical in nature, the third more substantive. The first proposed change corrects a typographical error as to the number of the Board policy that addresses Directors’ duties and standards of conduct. The second change adds the number of the Board policy (B.13) that prohibits a Director from engaging in unlawful harassment. The third change adds a new provision prohibiting a Director against whom an accusation has been made from voting on whether he or she should be removed from the Board.

The bylaw changes proposed are set forth below (added language is underlined and deleted language is in strike-through):

Article IV: Directors
Section 4: Removal of Directors. In addition to removal of Directors in accordance with the provisions of Section 3(f)(3) of these By-Laws, a Director may be removed as follows:

(a) [unchanged]
(b) Removal of Directors by the Board of Directors
(i) A Director who is found to be in violation of the Board Policy B.244, as amended from time to time, addressing Director duties and standards of conduct, or in violation of Board Policy B.13, as amended from time to time, prohibiting unlawful harassment, the Company’s policies against general harassment, including sexual harassment, may, in addition to any other disciplinary action taken in accordance with said policies, be removed as a Director of the Corporation following completion of the process set forth in this subsection and a vote by the Directors for removal as provided herein.
(ii) In the event that the Chairman of the Board or any member of the Board of Directors determines that a sitting Director violated any of the above referred to policies, and such violations are serious enough to warrant removal of that individual as a Director of the Corporation for the good of the Corporation, he/she may make a motion to consider removal. That motion, specifying the grounds therefore, and upon adoption of said motion by the Board of Directors, the Director against whom such motion has been made shall be informed in writing of the specific grounds for said motion and be given at least 30 days notice prior to a meeting of the Board, at which further action by the Board could be taken. At said meeting, if a two-thirds vote of the Board, the Director against whom the motion is directed shall be entitled to be present in person, with counsel of his or her choice and at his/her expense, and to present evidence to the Board to rebut or mitigate the specific charges, and/or to set forth facts against his/her removal. The Director or Directors who have made the motion to consider removal of the Director shall have the opportunity to present additional evidence in support of said motion. Once the Director against whom the motion has been made and the Director who has moved for removal present their presentations, the Chairman of the Board shall call for a motion to remove the Director. The Director against whom the motion has been made may not vote on the motion to remove. If at least 2/3 (two thirds) of all of the current Directors with the exception of the Director against whom the motion has been made are in favor of such a motion to remove then the motion shall be considered as carried and the Director’s position shall be considered vacant, and the members of the Director’s district shall be notified in writing of such removal.

Candidates for VEC Board of Directors

District 2 Director – 4 year term

Coventry

Richard Gosselin, Newport

My name is Richard Gosselin. I would like to extend my appreciation to the VEC members for considering my statement of interest for a seat on the Board representing District 2. I believe that VEC should continue providing the most reliable power, at the least possible cost to its members. I support their position on a moratorium on Industrial Wind projects and very little about sustainable electricity.

As a board member I would like to be hands on for finding a solution to our sustainable electricity. Dealing with the Public Service Board and Canadian government entities. Given the opportunity I will follow your directions and do my best to keep District 2 members satisfied. Contact Information RichardG29@comcast.net

Derby

John O. Ward Jr., Newport

My name is John O. Ward Jr. I have been a member of the Vermont Electric Cooperative since 2004 when VEC acquired Citizens Utilities and would like to continue to serve representing the Town of Coventry, Town of Derby, and the City of Newport. I believe I have the life experience, skills, and knowledge that can help VEC provide quality, reliable power at a cost that ratepayers are able to afford. I am currently serving as the chairman of the executive committee, finance committee and power supply committee.

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

I would appreciate your vote when you receive your ballot.

I am interested in running as a director in District #2 of VEC in order to be a part in providing customers of VEC an equalized quality, price and service. I have voluntarily given my time to many organizations, i.e. Boy Scouts, HOG and presently as a board member of the Northeast Schools and Hospital Credit Union in Newport.

I was manager for the Vermont Electric Company and Rockwell Automation, where I was trained in the design of state of the art Electrical and Control systems and also owned and operated two businesses before I retired. I presently am a substitute teacher in local schools offering my experience and knowledge to students in the Northeast Kingdom.

Having an Engineering Degree with a minor in Business Management and 25 plus years of electrical industry experience and 10 plus years of private business experience, I feel that I present an education and background that makes me uniquely unusual and qualified for your vote as a VEC director.

Karen Jenne, Derby

My name is Karen Jenne and I am a candidate for the Director position serving District 2. As a lifelong Northeast Kingdom resident I have just completed 25 years of public service to the growing Town of Derby, the last twelve being on the school board. I also worked at the Derby Center and am the former Clerk/Treasurer in Derby Line. Additionally, I volunteer my time to local organizations benefiting EMS, animals through my extensive experiences in service, human resources, grant writing, education and many areas of municipal government, which will be applicable as a VEC director. I have a degree from the University of Vermont and training from various State agencies.

As your member director I will keep rates affordable, maintain a system that is reliable and running efficiently. For example, are we educating and helping the most vulnerable served by VEC?

You thank you very much.

Skip Gosselin, Coventry


I am concerned about my electric supply and feel we need to do more about getting electricity made in Vermont. We need to do more about getting electricity made in Vermont.

In VT. Electricity is 4% of the CO2 emissions, transportation and heating are the biggest. If you look for your Vermont C.E.C., Ballot in the mail and vote for me Skip Gosselin. Thank you. 802-334-5484

— Statements are published as written and presented by candidates.
George Brisson, Huntington

I am George Brisson, recently retired, and a resident of Huntington, VT, with 40+ years experience in financial administration, working in the fields of Education and Healthcare. I have a Bachelor’s Degree from Providence College in R.I., and a Master’s Degree from Bryant College, also in R.I., both degrees focusing on Business Administration.

I am seeking election as member at-large for the western district on the Board. I have served on the Governance and Finance Committees in the past.

My community service includes serving Herbalife as Select Board member for twelve years, as well as serving on the Planning Commission and Board of Adjustment. At this time, I am seeking election as member at-large for the western district on the Board. I have served on the Governance and Finance Committees in the past.

Please remember to look for your ballot in the mail. Your support will be appreciated.

Brian J. Schaffer, Morristown

My name is Brian Schaffer and I’d appreciate your support for the west zone III VEC Director at-large position. My family and I moved to Vermont five years ago when I was hired as the Principal of Lamoille Union High School. We moved from Delta Junction, Alaska and have enjoyed Vermont living in Morristown. I lead a highly successful school, a multi-million dollar budget, and supervise approximately 100 employees.(my position in the past). I would encourage VEC members to contact me at brian.schaffer@gmail.com for further discussion about my candidacy.

Richard A. Westminster, Cambridge

My grandmother bought an electric washer ten months before VEC started in 1938, excited about not carting clothes to town just to get the laundry done. Once electricity came to the farm, George Aiken, who championed Vermont Electric Coop, “owned” her vote from then on. I call that the Spirit of ‘38.

We moved from Delta Junction, Alaska and have have enjoyed Vermont living in Morristown. I lead a highly successful school, a multi-million dollar budget, and supervise approximately 100 employees. I am a strong believer in supporting the latest advancements in creating a smart grid.

I believe my background and experience would make me a strong applicant for the Director At-Large West Zone III and would encourage VEC members to contact me at rschaffer@gmail.com for further discussion about my candidacy.

Schuyler Jackson, Hinesburg

I have studied the history of the Coop since its inception in 1938 and, in the past several years, attended many Board meetings in Johnson - while the Coop is ‘owned’ by its members, for the most part it is the relationship has become the same as customers of for-profit utilities, limited to rates and reliability. I believe Coop should more closely reflect the interests of its members. On the Board I will try to rebuild membership interest and sense of involvement and connection with the Coop – periodic meetings by the Board or Board directors at locations convenient to members throughout the Coop’s service area is one idea. My experience in law, business and government and interest in the challenges and opportunities facing the Coop and the industry will enable me to be a constructive Board member. schuylerschuyler@msn.com.

VEC Launches a Co-op Blog

Located on VEC’s website, the Co-op Blog offers a new way to share information and interact with our membership! Each month, VEC blog authors will share their expertise to inform members about key programs the Co-op offers and keep members abreast of key issues that impact their Co-op. And, in collaboration with Efficiency Vermont, our blog will also help members discover ways to save on their electric bill and increase efficiencies.

The Co-op Blog also offers a Member Forum, which is an open discussion board, that allows members to communicate with one another outside of the blog.

Join the conversation and log on today!

Thank you for your support.

— Statements are written as written and presented by candidates.
John F. Alexander, M.Ed.,
West Glover

I would like to, pursuant to letter regarding procedures for becoming a candidate for director in VEC 2013 Board of Directors, offer the following information.

• Position on electrical cooperative matters. I believe that every effort should be made to address, in depth, how to best utilize our physical and human resources. The present, in my view, state wide confusion regarding “renewable resources” leaves much to be desired. I believe that identifying management goals and educating our customers to be the most effective means of achieving management goals.
• Business – Business owner/manager for over forty years. Past twenty years managing family owned residential program for traumatic brain injured (TBI) survivors employing 40 Vermonters.
• Vermont Department of Education – Consultant vocational programs department of corrections.
• Masters Degree Education (Administration) past certifications include, but not limited to, principal K-12, business education, driver education, Co-Op coordinator.
• Select Board – Elected to four terms
• School Board – Thirty plus year local boards.
• Planning/Zoning – Ten plus years
• North East Kingdom Community Acton (NEKCA) past board member.
• Northern Counties Health (NCHC) – Past board member.
• State Rehabilitation Council (SRC) – Appointed by three governors serving twelve years.
• Presently trustee Vermont Symphony Orchestra (VSO).

I believe that my business, education and community involvement would be an asset to the board as we face future economic, political and social challenges. I am committed to a “balanced approach” to decision making utilizing all available information, and resources, taking into considering employee, customer and management goals and objectives.

Contact information is as follows: John F. Alexander, M.Ed., 802-525-3355, cell 802-673-4206, Email jfalexander@svcover.net

Dianne Laplante, Westfield

I believe participation in community matters is part of my civic duties. An open mind and listening to all sides respectful is equally important. Developing education in my area of participation is as important for informed input with my voice as a representative.

Applying for an 8 year term as VEC Director, I would like to pursue all the opportunities of serving the Electric Cooperative. I would like to bring a fresh, diverse perspective to the Board.

I have been employed for 19 years at the Westfield Community College in many positions. I have been a full time instructor for 15 years. I am a founding member or Memphremagog Arts Collaborative (a member’s run arts gallery and arts space) for 2 years, and a member of the Hitchcock Museum and Library for building updates and operating expenses. I’m a regular participant at the Westfield Community Center’s monthly musical coffee house jam at the Westfield Community Center. All funds raised went to the Hitchcock Museum and Library for building updates and operating expenses. I’m a founding member or Memphremagog Arts Collaborative (a member’s run arts gallery that has successfully operated and participated in community matters and exhibits for over five years) on Main Street, Newport and host a monthly “Readings”.

If anyone would like further information, please feel free to contact me via phone at 1-802-266-3073 or via e-mail at edward7566@yahoo.com

Edward F. Cunningham, Canaan

I am interested in becoming a Director for VEC to help the working class understand energy policy and help them with their energy needs and problems. I would like to work with management to keep the price of energy as low as possible and would also like to see more development of green energy to make Vermont a better state.

I come from a long line of blue collar workers. I worked in the Machine Repair Department for Pratt & Whitney Aircraft for 41 years. There I helped maintain and repair large machine and worked along with the Electrical Department to help solve their problems.

If anyone would like further information, please feel free to contact me via phone at (802) 224-6090 or edward7566@yahoo.com

John M. Lewandowski, Newark

I’m asking for consideration of your vote for the position of ‘Director At-Large East Zone II’. If elected, I look forward to working to keep rates affordable, help members realize existing and new paths toward energy efficiency, and continue to find ways to improve quality of service.

I believe that we need to scrutinize all aspects of the generation options that we choose. Is ridgeline wind a good choice? Can we justify the impacts to environment, wildlife, health, and the devastation of miles of trees and farmland? How do we help find answers to these and other questions pertaining to all forms of electricity generation.

When my wife and I discovered the NEK for ourselves about 15 years ago, we decided that this idyllic area was where we would retire to, and we found and bought a house in Newark. In January 2001, after 27 years working in Newark, I retired as Director of Greenfield Electric Utility, including 11 years in generating plants, and 16 years in Engineering Drafting, I retired, making Newark our home.

At the town meeting this year, I was nominated and elected to the Newark Selectboard. I can be contacted at: (802) 467-5631 or janm11@gmail.com. Thank You.

Henry G. Sauvagnat, Westfield

I am an open minded professional who has specialized for the last 24 years in the convergence of the interests of varied groups of people. My primary concern is to find the better compromise between the social, environmental and economic interests of the future generations as well as the present while focusing on obtaining the lowest prices possible.

I acquired For-Profit and Non-Profit experience as Senior Executive and Board Member of various organizations such as Chempap, Greenfield Paper Company, FSC-Canada and Cascades. I also acted as Chair of the Board or Chair of Committees.

In the forefront of Climate Change and Carbon accounting, I took part in debates that required multi-stakeholders consultations such as “Greencose Environment Round Table” in Europe. Since 1990, the head of Chempap, www.chempap.com , a consulting firm based in Vermont, I direct Mergers & Acquisitions and Funding.

I have an MBA from Syracuse University, a BSc in Industry from the University of Wyoming and a BCom, and Management Diploma from McGill. Last year, I finally received the ICD.D certification from the Institute of Corporate Directors.

I believe that I am able to wholeheartedly defend the interests of all Vermonters. (802) 326 4001

Eastern Zone At-Large Director — 4 year term —

John Bailey, Derby

At this time I wish to ask for your vote to continue as a director at the Vermont Electric Cooperative. I believe that my past eight year term as your VEC director and my 30 year prior career experience in the electric utility industry qualifies me as a good candidate to continue as your VEC director. My main area of expertise includes controlling electric utility operating and construction costs, as well as purchasing wholesale electric power in the New England and Quebec markets. Over the past years I have worked closely with your other VEC directors and management to improve these functions at VEC. A snapshot of my relevant past experiences would include a bachelor of science degree from Clarkson University in engineering and management, an MBA from Eastern New Mexico University, veteran of the U.S Air Force and Air National Guard, 30 year career in electric utility management, 10 years on the North Country School Board, and 12 years of town service on the Derby Select Board.

Tom Bailey, Derby

I am a native New Yorker, I was born in Newport Center and I have lived all my life here. My family goes back many generations of Vermont dairy farmers. I attended Newport Central High School and Vermont Technical. I started my own excavating business in the 1960’s and maintained highways for Coventry, Newport Center and state airport. I was contracted to the Portland Pipe Line from 1975 to 2002 to maintain the right-a-way for them. In the 1970’s I added a swimming pool business and had a small store in Newport. At this time I purchased my family’s dairy farm and later connected it to an Organic farm. In 1992, my wife and I purchased the John Deere dealership in Barton and after several years turned it to Newport on the Derby road. My wife and I have been married for 52 years and have a son, daughter and granddaughter. They all live in the same area and our son and granddaughter live on the farm that was my wife’s family making them the seventh and eighth generation.

I was a selectman for the town for six years and I have been an Elk member for 50 years. We retired in 2002 after we sold the John Deere business and sold our cows in 2006. We established a maple bush in 2010 on one of wood lots and now sugar with our son Shaye and have 11,000 taps. This year we had Vermont Electric install power to our bush and this is when I became interested in becoming and director, I would like to be part of the team to make this affordable power and enable more people to have power. We have families near us that are trying to live on no power, solar power, wind power but it’s hard to beat electric power. I would appreciate your vote.

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Financial Highlights

By Michael Bursell, Chief Financial Officer

Michael Bursell, CFO

I am pleased to report that as VEC closes its book for the year, our financial health is stronger than ever. VEC reported financial results as shown in the tables on this page. The Board has decided that the Board of Directors is now work

Energy Portfolio Changes

VEC has been transitioning our wholesale energy portfolio — the source of the power we provide to our members. Our 20-year contract with Hydro-Quebec largely expired in November of 2012, and our positions with the Vermont Yankee plant expired in March of the same year. We have been planning for this transition for years and have been replacing our power mix with a range of new contracts for resources that diversify our portfolio in various ways. The new HQR contract, for example, which was approved by our membership vote in 2011, is smaller than the expired deal and reduces our power from that resource by about 25 percent. The financial terms are now subject to market pricing and will adjust by offering a blend of the oldest and newest member 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, which means that significant levels of borrowing are necessary to keep up with essential capital improvements to our system. With an improved credit rating, VEC has been able to take advantage of very attractive borrowing rates and we have diversified our financial loan portfolio to mitigate interest rate fluctuations and borrowing capacities in the marketplace.

VEC is one of the most efficient utilities in the state, ranking favorably in productivity terms of having one of the lowest ratios of employees per consumers served, and one of the highest ratios of mill rates to the gross margin per employee. Additionally, smart meters have helped to stabilize our operating costs, while reducing the frequency and durations of outages that the typical VEC member experiences.

By aggressively pursuing grant opportunities, VEC has been able to secure additional financial support from funding sources such as the American Recovery and Reinvestment Economic Developmen

Questions about the election? Call 1-800-832-2667 or visit www.vermontelectric.coop

Vermont Electric Co-op

Page 6 - Spring 2013

Michael Bursell, CFO

In December 2012, VEC made a $4.3 million investment in Vermont’s transmission grid through the Vermont Electric Power Company (VELCO), the statewide transmission organization. The investment will earn 12.51 percent for VEC, and the proceeds will be passed on to the membership through a positive impact on rates that will offset increased costs in other areas. This investment helped VEC hold rates steady in 2012.

With always, VEC is committed to the delivery of reliable electric service at competitive rates. If you are interest

Vermont Electric Co-op - 2012 Financial Statements

 Vermont Electric Cooperative, Inc.
Balance Sheet
Year ended December 31, 2012

Assets  
2012

- Electric plant, at cost: $123,871,815
- Electric plant in service: 33,200,393
- Less accumulated depreciation: 90,671,460
- Net electric plant in service: 4,564,853
- Construction in progress: 95,623,893
- Net electric plant: 
- Current assets: 17,231,204
- Cash: 1,202,858
- Notes receivable: 469,533
- Accounts receivable, less allowance for doubtful accounts of $157,189 in 2012: 7,562,753
- Unbilled revenue: 4,593,823
- Inventories: 3,452,503
- Prepaid expenses: 406,933
- Total current assets: 18,857,549
- Other assets:
  - Nonutility property: 65,897
  - Other investments: 18,441,688
  - Deferred charges: 330,164
- Total other assets: 18,677,641
- Total assets: $131,784,789

Liabilities and Equity  
2012

- Equities:
  - Patronage capital assignable: $56,319,340
  - Other capital credits & dividends: 403,136
- Interest and dividend income: 1,600,710
- Other income (expenses): 1,140,394
- Total interest (less) income: 2,741,104

- Liabilities:
  - Obligations under capital lease, excluding current installments: 76,570,795
- Total other liabilities: 76,570,795
- Total liabilities and equity: $131,784,789

VERMONT ELECTRIC COOPERATIVE, INC.
Statement of Operations
Year ended December 31, 2012

Operating revenue: $72,734,381
Less revenues subject to refund: 
- Operating income: 72,734,381
- Transmissions: 
  - Operations: 5,156,371
  - Maintenance: 5,782,281
- Customer accounts: 2,204,498
- General plant maintenance: 3,171,881
- Gross plant maintenance: 21,123
- Depreciation and amortization: 4,166,500
- Taxes: 717,216
- Interest charges: 263,112
- Other interest: 263,112
- Total operating expenses: 65,905,239
- Net income: 6,849,132

VERMONT ELECTRIC COOPERATIVE, INC.
Capital Spending (System Improvements)
Year ended December 31, 2012

New Construction, System Improvements: 15,461,627
Less Contributions in Aid of Construction: 3,619,796
Net Investment in Utility Plant: 9,841,831

CEO update
Continued from pg 1
now naming significant winter storms) caused a key nuclear generator to be kicked off line. This created an even greater demand for gas which further drove up the price. (Note: in Nemo’s wake, other generators went off-line, as well).

The electric grid that serves our region is run by the Independent System Operator – New England, or ISO-NE. Several statements pulled directly from ISO-NE’s website [http://www.iso-ne.com/commissions/comm_wgrps/remc_relrely_comm/remc.relrely.mtrls/2013/fehl.42013/] show just how fragile our New England grid is. Here are some disconcerting points from their report posted on 2/14/2013:

- Several large generators had difficulties procuring natural gas over that weekend, and as a result became unavailable to the ISO.
- Eight generators, producing approximately 2,000 MWs, reported during the storm that they couldn’t obtain gas.
- LNG (liquid natural gas) is a potential alternative, but supplies of this fuel are dynamic and the ISO doesn’t have access to it other than by monitoring publicly available information.
- The fuel supply uncertainty is escalating rapidly, and is unsustainable.

VEC raised the issue to our congressional delegation in Washington, as well as through our VElico representation to ISO-NE. In the past few weeks a lot of action has occurred at the national level, including congressional hearings on these issues.

Making matters worse, the Kingdom Community Wind project has been curtailed by ISO-NE. This means that even when the wind was blowing strongly and the market desperately needed power (causing prices to be high), KWC could have been producing the full 63 MW but ISO was only allowing 10 MW. This may seem preposterous; however, there are good reasons, based on physics, why KCW was curtailed. One example is that there is a “spinning reserve” requirement, meaning, when wind and solar power are on the system, generation needs to be running and ready to spin up in case there’s a drop in the wind or a cloud bank moves through (in the case of solar). This is just one of many technical considerations that ISO operators need to consider. The facts are that during our windiest months -- the first two months of the year -- KCW’s capacity factor, was significantly below the 32 percent that was planned.

VEC has been discussing the problem of integrating intermittent renewables (solar and wind) for years. We have pointed out that there is a theoretical limit, somewhere around 20 percent, when grid problems could arise. KCW is now demonstrating that the integration issues must be addressed as we move to a greener portfolio. VEC and GMP are in the process of addressing those issues.

This is an issue all across the country. I spoke with David Danielson, the head of renewables for the U.S. Department of Energy, and he told me that integrating renewables is the top priority for the DOE. While I can only give you my personal estimates, as there is not a lot of public information on wind generation and capacity factors, I will try to project how we will get to full production.

First, and most important, is that VEC is working with Green Mountain Power on installing a synchronous condenser at our Jay Tat substation. This is going through the permitting process and we plan on having it on-line by the end of the year. It will solve the "local" electrical instability problems. I project that it will resolve two-thirds of the integration problems and bring the capacity factor up above 25 percent.

As to the remaining one-third, it will likely take several years of operating experience to get to full production. Wind power operators in the Midwest and Texas have told me that integration issues improve with operator experience. The grid operators will implement incremental solutions over time. VEC, GMP, and VEICO will be working closely with the ISO-NE operators.

We believe that KCW is still a very cost-competitive renewable project. We believe we will obtain greater than a 25 percent capacity factor once the synchronous condenser is installed. At that point KCW will be highly competitive, and over its 25-year life span the average cost will show that it was a good project.

In summary, VEC will certainly not be alone if facing the issues associated with integrating intermittent renewable energy with the electric grid, as more and more alternative generation sources connect online across the country. As early adopters, we are at the forefront of this transformation and will continue to raise awareness about the complexities, while seeking solutions to make the adoption of renewable energy more effective.

Director Attendance Record

In accordance with Vermont Electric Cooperative’s Board Policy B.2 (Duties and Responsibilities of the Board of Directors), director attendance at regular meetings is to be reported annually. Additional information regarding director fees and expenses is available upon request and on VEC’s website at www.vermontelectric.coop

<table>
<thead>
<tr>
<th>Director</th>
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CO-OP LIFE is published quarterly by Vermont Electric Cooperative
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