

WEC CO-OP CURRENTS

65th Annual Meeting: Tradition With An Eye Toward Tomorrow

It's decision time once again for Washington Electric Cooperative's 9,400 members, as the Co-op sends out ballots with this mailing, enabling members to vote among four candidates for the Board of Directors and decide whether to approve a new bylaw amendment proposed by the Board.

Many members will choose to return their ballots by mail (check your voting materials for deadlines and other information). All, however, are invited to the Co-op's 65th Annual Membership Meeting, to be held at the Montpelier Elks Club on Tuesday, May 25. People who have not already voted by mail can cast their ballots then. Results will be announced before the meeting adjourns.

In keeping with tradition, the Annual Meeting will feature dinner (see the agenda to the right, and the dinner menu and reservation coupon on page 8). Each Co-op member attending will receive a free 60-minute long-distance telephone card, a reminder that WEC now offers a competitive long-distance service through the National Rural Telecommunications Cooperative – something you might want to check out.

At 6:30, WEC will convene the yearly

business meeting, with reports from the president, treasurer and general manager. The meeting is an opportunity for members to express opinions, perhaps air complaints, and get answers to questions they put to the leadership. Staff members will receive awards for employment milestones, and events will be interrupted for door prizes and cash prizes. Three winners will receive \$50, and one lucky person will go home with \$100.

Each year Washington Electric tries to add something extra to the meeting. This year, President Barry Bernstein and General Manager Avram Patt will discuss the Coventry, Vermont, landfill gas electric-generation project that Washington Electric announced in September. The project has been described in articles in *Co-op Currents*, and in recent community meetings. The Annual Meeting will be the first opportunity for a larger discussion on this exciting development.

Co-op members will have an opportunity to vote on the landfill-gas project. WEC had hoped to include that vote with this year's Annual Meeting ballot, but preliminary work leading to an

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Linda Fox of Walden passes out flowers at last year's Annual Meeting.

Inside

Officers' Annual Reports: WEC's **President** (page 2), **General Manager** (page 3), and **Treasurer** (page 6) update you on your Co-op.

Four candidates for the Board of Trustees seek your support. Meet them on page 4.

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There are various ways to spend time at a Co-op Annual Meeting.

WASHINGTON ELECTRIC COOPERATIVE, INC.

65th Annual Membership Meeting

**Tuesday, May 25, 2004
Montpelier Elks Lodge
(East of Rtes. 2 & 302 Junction)**

Agenda

- 5:00 p.m.** Registration– Ballot Boxes Declared Open
- 5:30 p.m.** Chicken and Meatless Mostaccioli Dinner Served (Reservations Required - Coupon on Page 8)
- 6:30 p.m.** Business Meeting Called to Order (Ballot Boxes Close at 7:00 p.m.)

Reports from Officers:

President's Report, Treasurer's Report, Manager's Report,

Update on Coventry Landfill Methane Project

Question/Answer Session on any subject of interest to members

Wind Energy: A video presentation on Vermont wind.

Door prizes to be drawn throughout the evening.

- 8:30 p.m.** Adjournment

(The meeting is scheduled to adjourn at 8:30, but it will continue as long as there are questions from the membership.)

Official Notice and Annual Report

President's Report

2003: A Landmark Year For Your Co-op

With Important Energy Issues Unfolding In 2004

By Barry Bernstein

2003 was a milestone year for our electric cooperative. The Board of Directors signed an agreement with Casella Waste Management to allow WEC to build and operate a landfill-gas-to-electricity generating plant at the company's landfill in Coventry, Vermont. The contract signing last fall culminated a three-year search, and a year of negotiation, to find a nearby renewable, clean, low-cost, long-term baseload power source for our membership.

Wholesale power costs represent 50 percent of WEC's expenses, and in today's marketplace power costs are very volatile due to the Northeast's reliance on oil and natural gas. Once in operation, the Coventry project will provide 40 percent of



Barry Bernstein

our energy requirement by 2006, increasing potentially to 60 percent in future years.

We hope to generate our first kilowatt-hours in early 2005. Presently, we are in the midst of the regulatory process to secure approval from the Vermont Public Service Board. We plan on holding our membership vote on the Coventry project in a special meeting in June, and hope we can get a large member vote in support of the project. The vote

will be by mail ballot.

The effort to bring this project to fruition has been the result of very hard work by many people on WEC's Project Team. Special recognition goes to our manager, Avram Patt, Director of Administrative Services Denise Jacques, Director of Operations Dan Weston, your

Board of Directors, Treasurer Don Douglas, Co-op member John Warshow, General Counsel M. Jerome Diamond and Joshua Diamond, our consultants Gordon Deane of Palmer Management, Stan Faryniarz of La Capra Associates, and Tim Clapp, Dan Crockett & Craig Moyette of E-PRO Engineering, and to VELCO (the statewide electric transmission service) for its help as we plan our connections to the VELCO substation in Irasburg.

In addition, we extend special thanks to Casella's management team, headed by CEO Jim Bohlig and Vice President Larry Lackey, with whom we hope to have a long and productive relationship.

Vermont Roundup

Energy issues have had a high profile in Vermont during this last year – in particular, the once-in-a-lifetime opportunity for the state to acquire an interest in reasonably priced, renewable power from the Connecticut and Deerfield River Dams. This purchase would benefit all Vermont citizens and businesses.

Other issues that will continue to be in the news are the Vermont Department of Public Service's 20 Year Plan, wind generation in Vermont, Vermont Yankee and transmission-system upgrades. And we extend our congratulations go to our sister co-op, Vermont Electric Co-op of Johnson, VEC Board President Bob Northrop, Manager Kelly Enright, and the entire Board and staff, for VEC's recent acquisition of the Citizens Utilities' Vermont territory. Their action boosted the ranks of Vermont co-op membership by 22,000 homes, farms, businesses, schools, offices, who are now co-op members for the first time.

Member Area Meetings

Last year we held two community dinners for WEC members, in addition to our annual meeting, to discuss our Coventry project and our future power supply. The dinners in Moretown and Corinth also gave our members an opportunity to meet some of the Co-op staff and discuss other Co-op issues of interest or concern to them. We have held two more such dinners early in 2004, in Chelsea and Plainfield. We will also be discussing the project with our membership at this year's May 25 Annual Meeting.

Rates & Capital Credit Refunds

2003 marked the fourth consecutive year of your Co-op being able to retain stable rates. Our last rate increase was in 1999. In addition, your Board of Directors was again able to approve capital credit refunds for members' 1983 electric usage, and \$100,000 in partial refunds for 2002 members, which was equivalent to a 1.1-percent rate decrease.

This will be the fifth year of the Capital Credit Refund Program.

Mother Nature and WEC

One of the many things beyond our control is the weather. Our dedicated employees in the office and in the field spend long hours during major storms working to get your power back on as soon as possible.

I know that when members try to call in and get a constant busy signal it can be frustrating. We are updating our communication equipment and improving our right-of-way clearing to better serve you.

Many longtime members have mentioned that they have noticed improved reliability over the years. However, when we get extremely cold and snowy winters Mother Nature can play havoc with our lines or the transmission lines (owned by others) that feed power to our system. Just after year's end, 3,000 of our members were out at one time due to transmission lines, owned by Green Mountain Power Corp. and others, going down as a result of stress in the extreme cold. In those situations WEC can do little more than offer assistance from our crews and to try to aid members who are on our medical priority list.

We do post information during storms with the local radio stations and newspapers, and it's a good idea for members to have a battery-operated radio at home or to use their car radio for updates if our phone lines are busy.

Director Election

This year we are fortunate to have four qualified members come forward as candidates for the three director seats that are up for election. This is your Co-op, and your involvement is important and critical to the Co-op as a consumer-owned business. Please come to the Annual Meeting on May 25, or remember to vote by mail.

2003 is now behind us, and as always special thanks must go to our Board of Directors, our general manager and our employees who put in many hours of work to ensure that WEC owner/members have reliable and good-quality service.

And finally, my very special thanks to Janet La Rochelle, Director of Finance & Administration, who retired from WEC after 23 years.

Co-op Currents

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Editorial Committee

Avram Patt Donald Douglas Wendell Cilley Will Lindner

The Board of Directors' regularly scheduled meetings are on the last Wednesday of each month, in the evening. Members are welcome to attend. Members who wish to discuss a matter with the Board should contact the president through WEC's office. Meeting dates and times are subject to change. For information about times and/or agenda, or to receive a copy of the minutes of past meetings, contact Administrative Assistant Deborah Brown, 802-223-5245.

Manager's Report

Unusually Dedicated Managers, At An Unusual Co-op

By Avram Patt

In writing my report to the members for our 2004 Annual Meeting, I have the luxury of having already read the reports submitted by Board President Barry Bernstein and Treasurer Don Douglas, which are printed elsewhere in this issue. They both cover topics such as our power supply costs, our Coventry landfill methane project, and the impact of storms and outages. I have also discussed these topics in recent issues of the newsletter.

So this year I'll offer some thoughts about the work that gets done at Washington Electric Co-op.

Most members are likely aware of the obvious work that gets done, day in and day out, by WEC's employees. We all have some idea of what our line workers do, constructing and maintaining over 1,200 miles of power lines and equipment, and going out in all sorts of weather to restore power when there is an outage. Many members come into contact with our field technicians in our Engineering Department when they or their neighbors are requesting new service or line extensions, or when the Co-op needs to move or upgrade a line. Whether or not you have reason to contact us about a bill or other service question, our Member Services employees are responsible for sending accurate and timely bills and processing your payments. Although you may not come into contact with them directly, I'm sure members can appreciate the important work of the people in our finance department, the manager of our information systems, the employees who operate our hydro generating station, our right-of-way maintenance coordinator, our fleet mechanic, and all the Co-op's employees who together keep the lights on and our systems running for your benefit.

We have a total of 37 employees, and because we are small, no one can be too specialized around here. Although everyone has a job title, our employees regularly do a little of this and a lot of



Avram Patt

that, in addition to their official duties.

Four of the many

I want to especially call your attention this year to the work of the four members of WEC's senior management team.

In addition to the "usual" management responsibilities associated with running an electric distribution utility, they have been called on, in different ways, to become involved

in planning and implementing some projects that go above and beyond "business as usual." Our Coventry landfill methane project, and the study and analysis that led up to it, have taken an enormous amount of time and energy,

and we still have a ways to go. Small utilities like Washington Electric Co-op usually do not develop their own power-supply strategies like we have, and in a number of other ways, too, we sometimes chart our own course.

Therefore, in addition to their regular duties, you could say that each of

these four people has been on "special assignment."

Director of Products and Services Bill Powell continues to look for and analyze new services for our



members. He oversees our own energy efficiency programs and our relationship with Efficiency Vermont, and works with members who are interested in on-site renewable generation at their homes, back-up power supply and other specialized issues. He represents the Co-op on a number of state regulatory matters, and at the same time works almost every day with members who are trying to figure out why they are using more electricity than they thought they were, or who have specific questions about their usage.

Director of Finance Linda Nelson officially moved into this supervisory position in January, having



spent many years learning the ropes and taking on ever-increasing responsibilities in our Finance Department. Keeping our accounts in order and satisfying numerous reporting requirements, overseeing purchasing, and administering payroll and benefits are a few elements of the job. Developing and monitoring our budget and keeping track of our several power supply contracts are a few more.

Director of Operations and Engineering Dan Weston oversees all of the "outside" work at the Co-op –



our lines, substations, hydro plant and our buildings – but has lots of "inside" work to do as well. Much of his job involves planning for the future, and looking for ways to improve service, reliability, safety and efficiency. He spends a lot of time with members with special problems

and issues. Over the past year, he has also played an important role on our Coventry landfill methane generation project team.

Director of Administrative Services Denise Jacques

is involved in wide variety of administrative and management functions, including human resources, policy development, financial forecasting, planning, and special projects. She is our chief contact with state regulators and the Rural Utilities Service on many matters, and has been vital in coordinating the maze of moving parts in seeking regulatory and financing approval for our Coventry project.



Bill, Linda, Dan and Denise are four very dedicated people who help Washington Electric Co-op steer its course. They are committed to WEC, and that means they care deeply about what is best for our members. They each followed a path to their present position that does not fit the typical image of corporate "utility management." (I guess the same goes for me, too.)

I am very fortunate to work with these members of WEC's senior management team, and wanted to give them a special thanks this year, as well as to thank all of the Co-op's dedicated employees.

Make Sure Your Ballot Counts

Every year several ballots in WEC's annual elections must be declared invalid. If you're going to take the trouble to vote – and your Co-op hopes you will – don't let it happen to you.

The most common problems the Ballot Committee faces concern the signatures on the ballot envelope. Sometimes people forget to sign the envelope, and the Committee cannot verify that the vote came from a member. People sometimes print their names, where a signature is required.

This is important: **Unless you have established a joint membership, only one person in your household is the**

Washington Electric Cooperative member. It's the person whose name is on your account – the person to whom WEC sends the electric bill. Only that person can vote. If, for example, a wife marks the ballot and signs the envelope, but the account is in the husband's name, the ballot must be discarded. We hope the individuals and families we serve discuss the affairs of their Co-op, but we urge all who share a house to be mindful of the one-meter/one-member rule.

Under joint membership, any authorized party can sign the ballot, but there can be only one ballot per household.

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Position Statements of the 2004 Candidates for the Co-op Board of Trustees

The Questions

Four candidates are seeking election to Washington Electric Cooperative's Board of Directors this year.

Three seats are available on the nine-member Board. All seats are for three-year terms. Of these candidates, one (**Barry Bernstein**) is an incumbent, while the other three – **Kimberly B. Cheney**, **Roy Folsom** and **Timothy Guiles** – are running for Board for the first time. The four candidates submitted timely petitions with the requisite number of member signatures, as verified by the Committee on Candidates.

Each year, three Board positions expire, which enables the membership to elect a third of the Board that makes leadership and policy decisions for the customer-owned utility. The seats that are terminating in 2004 are those of directors Bernstein, Carla Payne and Monique Hayden. Payne and Hayden have each served for at least two terms and have decided not to run again.

In ballots cast at the Annual Meeting on May 25, and in mailed ballots returned to the Co-op by a deadline prior

to the Annual Meeting (check your election materials for additional balloting information), members can vote for any three of the candidates who appear on these pages. Ballots will also provide space for voters to write in the names of up to three alternative candidates. People must be Co-op members to serve on the Board.

To help inform members about the qualifications and interests of the candidates, each candidate was asked to respond in writing to the following questions and requests developed by the Board of Directors.

The Questions

1. Please introduce yourself.

- Where do you live and how long have you lived there?
- Under what town is your Co-op membership listed?

- How long have you been a Co-op member?
- How may members contact you (address, phone number, e-mail)

2. Please briefly describe your background – for example, your education, occupation and/or other experiences that you would like members to know about.

3. Why are you seeking a position on the Co-op Board? Why would you make a good Trustee?

4. What do you think are the most important issues that the Cooperative must face in the next few years? What should WEC do about those issues?

5. Is there anything else you would like to tell the members?

Barry Bernstein

1. I live on Bliss Road in East Calais, and have owned a home there since 1976. I have been an owner/member of WEC since 1971. WEC members can call me at 456-8843 or e-mail me at bbearvt@aol.com.



founder of the Vermont Center for Independent Living, Montpelier, and served as its executive director (1978-1982, 1992-1993).

3. I am running for re-election because as the president of the WEC Board I have been deeply involved in working with the Board and management on the Coventry landfill-gas-to-electric-generating plant and a number of other projects that are unfinished, and which I would like to see to completion. I feel that my input will be beneficial in ensuring a successful outcome to the Coventry project and other areas we are working on. I feel that with my experience as president of the Board and my work in the field of energy and business I can continue to provide a valuable perspective to WEC and our members.

4. Several critical issues face our Co-op over the next few years.

A) *Power Portfolio:* WEC will need to replace 40-60 percent of our power contracts in the next several years. I believe this is a unique opportunity for the Co-op to purchase power that is renewable, clean, reasonably priced and that will provide our members with price stability for the next 20-30 years or longer. The Coventry landfill gas-to-electric-generating plant we are planning to build is a cornerstone in achieving this goal. Hopefully we will be able to add in-state wind to our power supply, aided by the \$1 million grant WEC received with the help of Congressman Sanders. The WEC Board has also been urging the state purchase of the Connecticut and Deerfield river

dams, which would provide another source of stably priced power to our power supply, and enable the state to offer a low-cost energy source to farms and businesses, along with residential consumers, helping to support and increase jobs in Vermont. I will continue to support our Co-op's exploring other renewable, in-state options that will ensure a long-term power supply at a reasonable cost.

B) *Stable Rates:* I am very aware of the high price per kWh that our members pay, and will continue my commitment to supporting long-term decisions that balance our needs for system reliability and our need to keep our rates and the bills we pay as member/owners stable and as low as possible. As I mention above, I believe that securing power sources such as the Coventry project is a key to accomplishing the goal of stable rates, as power costs represent nearly 50 percent of our power bill.

5. Although serving as president of the WEC Board of Directors demands a good deal of energy and presents challenges in terms of time commitment, I feel my efforts and work have been worthwhile, and hopefully have benefited our membership and our cooperative.

I ask for your support in this election. Please feel free to give me a call at 456-8843 if you have any questions or wish to discuss any issues that concern you as a member/owner of WEC.

Kimberly B. Cheney

1. I live on South Bear Swamp Road in Middlesex, where I have been for three years after moving from Montpelier, where I resided for the prior 32 years. My Co-op membership is listed in Middlesex.



2. I graduated from Yale College in 1957, and after about four years in the U.S. Navy, which I left as a lieutenant, I graduated from Yale Law School in 1964. Soon after, I came to Vermont and worked as an attorney in the Education Department, was elected Washington County State's Attorney, and later Vermont Attorney General. I served as chair of the Vermont Labor Relations Board for 10 years. Since 1975, I have been in the private practice of law, working mainly to help individual rather than business clients. I am on the boards of several non-profit institutions.

3. I'd like to serve on the Board to bring what political, legal and personal knowledge I possess to the job of helping all of us who are dependent on WEC to get reliable power at a reasonable cost. I can contribute clear thinking, a habit of exploring alternatives to difficult choices, and an understanding of political aspirations of community to the Board. I have not been professionally engaged in power issues, so I will need to learn, through study and listening to others – a good

Candidates

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course for any Board member.

- The principal issues for the Co-op are effective management to bring reliable power to its members at reasonable cost, with minimum damage to the environment.
- If elected to the Board, I look forward to working in harmony with Co-op members and Board members, to continue sound management of the Co-op.

Roy Folsom

- I live at 2603 US Rt. 2 in Cabot, possibly more familiar to you as Crooked Brooks Farm, with my wife, Jackie. We have lived here since 1985. I have been a Co-op member since then, and have three Co-op meter accounts. I can be contacted by phone at 426-3579 or 793-5916; by fax at 426-3107; by e-mail at RoyGrnsy@aol.com; by USPO mail at 2603 US Rt. 2, Cabot, Vt. 05647; or stop by the farm.



- I graduated high school in 1970 from Solon, Ohio. I attended Kent State University for one year. After that I formed a construction company with my brother. In 1973, I moved to Vermont and continued to do the same work. A slowdown in the economy in the late 1970s allowed me to make a career change to do something I always wanted to do. That was dairy farming. In 1985 I was hired by Oberland Farms in Newbury, Ohio, as their herdsman. At the end of my first year there I received an award from the Lake-Geauga Dairy Service Unit for the "Most Improved Herd."

This helped me decide that someday I wanted to go out on my own. In May 1985, Crooked Brooks Farm was established. Since then there have been constant changes here. We have built all new buildings to increase efficiency. Farming methods have also changed to make work more labor-friendly. I take a business approach to farming. I look closely at my costs of producing milk. Since 1985, our milk produced here in a year has quadrupled. Cow numbers have increased by less than 50 percent, but man-hours to produce our

1 million pounds per year have dropped by 50 percent. The cost of producing each 100 pounds of milk has actually dropped some.

- I believe that my business sense would be advantageous if I was on the WEC Board of Directors. I have always believed it is important to be involved with your community; democracy is all of us doing, not all of us sitting. I have served the Town of Cabot since 1991 on the Planning Commission and Zoning Board of Adjustment, the latter as chairman for the last four years. I have also been involved in 4-H, the Caledonia County Fair and the Champlain Valley Fair.

I was a member of the Cabot Farmers Cooperative Creamery from 1985 until its merger with AgriMark Co-op in 1992. I am still an active member of AgriMark today. Jackie represents the farm on the Resolutions Committee, the legislative lobbying group, and as a voting representative for our district. I understand the workings of the cooperative system and feel this would be a benefit to me if I am on the WEC Board of Directors.

- One of the most important issues facing the Co-op is the cost of electricity to its members. As I have seen in my business, operating costs are increasing faster than income. I am sure this is also true of the Co-op. It is necessary to secure a long-term supply of reasonably priced electricity, produced as environmentally safely as possible.

ROW (right-of-way) issues are also important. On my farm there is one mile of Green Mountain Power transmission line and three-quarters-of-a-mile of WEC distribution lines, with one-quarter-mile of new distribution line to soon be constructed. This new line is to replace an old line that is hard to maintain and inaccessible. This is a problem in many areas that were open land when the power lines were first constructed, but now are grown up so that the distribution lines are susceptible to problems from tree damage in snow, wind and heavy rain.

- Dairy farmers are very large users of electricity. One dairy farm can use five to 10 times the power that a residential member does. I feel that my being on the Board would give added insight to decisions that the Board has to make.

Timothy Guiles

- I live off Baptist Street in Williamstown. Though I have lived here for 12 years, I have been a Co-op member for only the last five years. Prior to

that I made most of the electricity I needed with solar panels. I can be reached through the mail at 746 Young Road, Williamstown, VT, 05679; by phone at 279-2168; or with email at TimothyGuiles@hotmail.com.



- I grew up in Maine, where I graduated from Gorham High School in 1977. I went on to receive two engineering degrees from Dartmouth College in 1981. I worked as a R&D software engineer for eight years before entering the environmental engineering Ph.D. program at Johns Hopkins University to study sustainability issues. During my three years at graduate school I created all the electricity for my downtown seventh-floor apartment with four solar panels mounted outside my south-facing windows. My thesis dealt with the social and environmental consequences that flowed from different lifestyle choices.

I currently make my living as a music teacher and piano accompanist. I play for Barre Town Elementary and Spaulding High School, regional festivals, and vocal groups like the Randolph Singers, the Mad River Chorale and the Vermont Symphony Chorus.

- I recently read the history of the Co-op on the WEC website and was fascinated to learn that at one time, not so long ago, the WEC trustees made what I consider to be some bad decisions concerning investment in the Seabrook nuclear power plant. I am thrilled that our current Board has

brought our Co-op to a non-nuclear position, and I want to be sure there are always candidates who are interested in affordable and environmentally sustainable power. I believe in the direction that the Co-op is currently moving in, and I want to lend my creative talents and energy to the effort. I believe my personal interest in safe, clean energy and my educational background make me a strong candidate for the WEC Board.

- It seems that the most important issue facing WEC is the constant challenge of securing dependable and affordable electricity for its members, while being responsible about the long-term social and environmental costs of different energy choices. I am very pleased that our Co-op puts emphasis on using less power as the first way the "create" more power. I am confident that we can continue to reap considerable benefits from this approach in the future.

I have been very interested in the debate about harnessing wind energy in Vermont. After visiting the Searsburg wind farm in southern Vermont, I feel optimistic about wind energy becoming a reasonable part of Vermont's energy future, though I look forward to learning more about this issue as the healthy debate unfolds.

- I feel it is essential that we are as thoughtful and responsible as we can be about our energy choices, so that members of future generations, like my 13-year-old son Zachary, will have not only plenty of energy to help power his dreams, but also a cleaner and more peaceful world than the one we inherited.

Whose Ballots Count?

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Another thing: The Ballot Committee encounters problems when people mark their ballots in pencil, then change their minds and erase a vote – but leave smudges or fail to make it completely clear which candidate they are supporting, or how they're voting on a bylaw amendment.

The vast majority of Washington Electric accounts are residential, but corporations, municipal and state offices, schools and churches are also "members" and get to vote. The Co-op provides an authorization form for this purpose. It asks for the name of the person voting, his or her title relative to the business or other enterprise, and requires that a quorum of the organization validate the person's vote. The statement must be

notarized and returned to the Co-op along with the completed ballot.

These extra steps unfortunately may discourage some corporations, schools, churches, etc., from participating. However, it's the only way the Co-op has devised to make sure that such votes by organizations reflect the group's wishes.

Sole proprietorships and self-owned business, such as country stores and auto body shops owned by an individual, do not need to complete the authorization form. These business-owners can vote the same way residential members do.

And finally, when you vote this year make sure that you choose no more than three candidates for the Board of Directors. A ballot intentionally or unintentionally marked with all four names must be discarded.

The same goes for hanging chads, although to our knowledge WEC has never had a hanging chad.

Treasurer's Report

'Balancing Act' WEC's Revenues, Expenses Kept Close In 2003

By Donald Douglas, Treasurer

Washington Electric Cooperative ended 2003 with \$222,083 in net margins, which met the Rural Utilities Service (RUS) requirements.

Every year we focus on meeting the TIER ("times interest earned ratio") required by RUS, because the majority of our long-term debt is owed to that federal agency. At the conclusion of 2003 we owed \$17,523,532 in all, and \$13,686,201 of that total we owed to RUS. RUS requires a 1.25 TIER. Our \$222,038 in net margins represents approximately a 1.26 TIER.

The fact that we just barely make our obligatory TIER requirements demonstrates that we are collecting the right amount in our electric rates. If our margins were much higher than required it would mean we were collecting more money than necessary from the members. If, on the other hand, we were not showing sufficient margins to meet TIER we would have to raise our rates.

We have been able to balance the costs of providing good electric service with our goal of avoiding rate increases since 1999. However, energy prices have risen dramatically and may continue to rise. Wholesale electric prices are volatile, reflecting the general cost increases of fossil fuels. Just like we are paying more for gasoline for our cars and trucks, we expect prices will rise next winter for heating oil and propane. Fossil fuel prices will affect the spot market price for electricity. Nevertheless, the Board will continue to try to forestall increases in our rates.

Aspects of our budget that are not fixed or known are difficult to predict or control. Everyone is aware of the rising costs in healthcare, property taxes and workers' compensation insurance. Probably the single greatest financial variable for WEC is the weather. When I hear the wind howling in the middle of the night, I think about our linemen having to get dressed and head out to restore the power, and of course because I am the treasurer I also think about how much it will cost.

Outages are expensive. We cannot control the weather, but we can invest in tree trimming to minimize storm-related outages. Extreme heat and extreme cold also affect the amount of electricity our



Donald Douglas

members consume. Although we try to make the best predictions about how much energy we will be selling each year, our members in 2003 consumed more electricity than we had anticipated. Energy sales to our members is our major source of revenue, so our revenues were higher than we had predicted. That helped offset the higher-than-expected cost of the spot market power we bought.

Revenue

Our revenue for 2003 was up by \$493,966 from the previous year. We started and ended the year with very cold temperatures. When the temperatures are either too cold or too hot, we use electricity to moderate the conditions in our homes. When budgeting we make conservative estimates about the weather, so if we have a mild winter and the members use less electricity than we had forecast, we can still meet our financial obligations.

Power Costs

Our power costs in 2003 were \$5,008,362, which was an increase of \$394,827 over the previous year. Our Hydro Quebec contract gave us 19.99 percent of our energy – down from 24.91 percent in 2002. The NYPA power, our cheapest source of power, was also down, to 12.44 percent from 13.20 percent. Methane-generated power from our source at a landfill in New Milford, Connecticut, also was down – to 24.73 percent, from 31.02 percent in 2002. This was expected, as the landfill is slowly running out of gas.

The decline in the amount of power we received from these various sources required WEC to increase its dependency on spot market power, which comes at a higher cost. We look forward to getting our landfill-gas generating facility online and producing more of our own power, as

Complete audited financial statements for 2003 are available at the Co-op office, and will also be available at the Annual Meeting. WEC's 2004 Equity Distribution Plan, relating to members' capital credits, has already been approved by the Board of Directors, and is available at the Co-op and also on our website.

it will replace some of our spot market purchases.

Operations and Maintenance

Our expenses in operations and maintenance were up from the previous year by \$131,963. The total for 2003 was \$1,680,182. Much of the increase was due to our commitment to clearing in our rights-of-way. These line-clearing projects decrease both the number and the duration of outages caused by trees.

Consumer Accounts and Customer Service

This account – which represents staffing, billing and other costs related to responding to our members' needs – decreased in 2002 from 2001, by \$5,000. In 2003 it decreased again, by \$18,558, to a total of \$829,347.

Annual Meeting

continued from page 1

expected permit from the Vermont Public Service Board has not been completed (see *Not Quite Ready*, page 8).

Bring someone along

Another renewable resource for Co-op electricity may be only a few years down the road: wind power.

WEC has solicited member opinion regarding this somewhat controversial energy supply, particularly at the community dinners held in recent months in Corinth, Moretown, Chelsea and Plainfield. A 20-minute video on wind electric generation, produced by Renewable Energy Vermont (REV) with support from the U.S. Department of Energy, the Vermont Department of

Administration and General

Administrative and general expenses were \$819,706, a decrease of about \$35,000. This demonstrates an increased level of efficiency in our operations.

Capital Credits

WEC continued to distribute capital credits in 2003. We refunded or credited \$187,833 to current and former Co-op members.

This is the fourth year we have refunded \$100,000 to current members.

Returning this sum to our members is equivalent to lowering their electric rates by 1 percent. However, as explained above, we need to build such margins into our budget to ensure that we meet our operating costs and TIER.

The Board of Directors decides each year how much of our capital credits to distribute. Patronage capital continues to increase with each year we conclude in the black (with margins). Our total accumulated patronage capital, from our founding in 1939 through 2003, was \$5,761,935.

I want to thank Janet LaRochelle for her many years of dedicated service to Washington Electric Cooperative. She has turned over supervision of the Finance Department to Linda Nelson, who is quickly learning her new responsibilities.

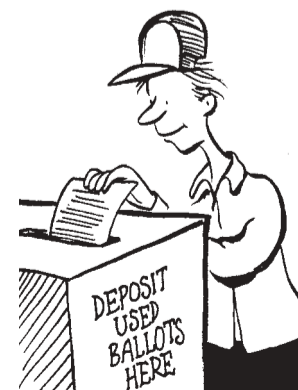
Public Service and U.S. Sen. James Jeffords will be shown at the Annual Meeting. Co-op personnel will respond to members' questions about wind power and its possible role in our future energy mix.

Like electric co-ops all over the country, WEC provides a membership meeting every year. This year, Co-op veterans may want to bring some of their younger neighbors and relatives who also belong to the Co-op but may not understand all that that means.

Democratically governed co-ops play a unique role in rural people's lives, but in the modern world many people fail to understand that. May 25 will be a good time to start enlightening them, for the Coventry project will provide affordable power to those younger members for the next 30 years. The future is theirs.

Notice

Members may vote at the Annual Meeting on May 25 or by ballots accompanying this issue of *Co-op Currents*. Mailed ballots must be received at the Barre Post Office no later than 3 p.m. on Monday, May 24. Members mailing their ballots from out of state are advised to mail them several days before the deadline to be sure that their ballots will qualify. Local members, too, are encouraged to allow a few days for postal delivery. Anyone with questions about voting or deadlines can call Debbie Brown at the Co-op.



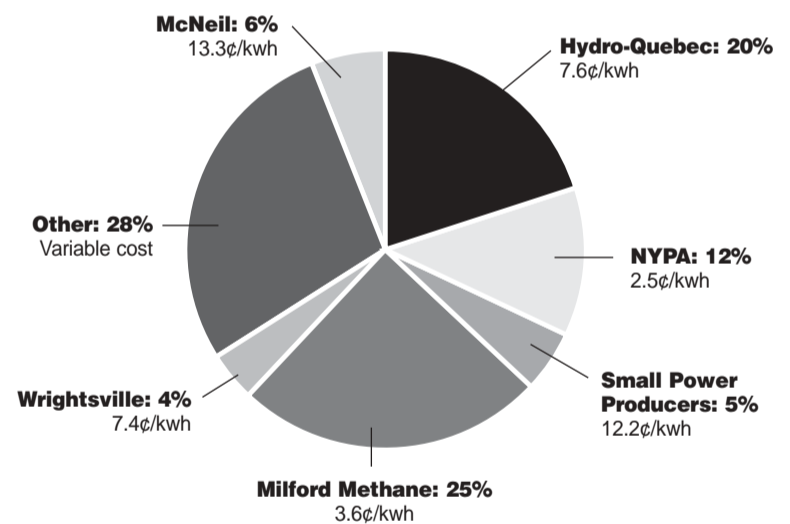
Balance Sheet

Assets and Other Debits			
	12/31/02	12/31/03	Increase (Decrease)
Utility Plant			
Total Utility Plant in Service	\$37,085,986	\$38,510,176	\$1,424,190
Construction Work in Progress	792,484	947,340	154,856
Total Utility Plant	37,878,470	39,457,516	1,579,046
Accum. Provision for Depreciation	11,116,199	11,837,956	721,757
Net Utility Plant	\$26,762,271	\$27,619,560	\$857,289
Other Property and Investment - At Cost			
Invest. in Assoc. Org. - Patronage Capital	116,651	113,428	(3,223)
Invest. In Assoc. Org. - Central Vt. Mem. Civic Center	460,692	417,826	(42,866)
Invest. in Assoc. Org. - Other	491,537	489,611	(1,926)
Other Investments	149,948	158,957	9,009
Total Other Property and Investments	\$1,218,828	\$1,179,822	\$(39,006)
Current Assets			
Cash - General Funds	177,378	325,589	148,211
Temporary Investments	695,998	575,621	(120,377)
Notes Receivable - Net	57,157	32,245	(24,912)
Accounts Receivable - Net	1,879,187	1,873,975	(5,212)
Materials and Supplies	162,624	207,529	44,905
Prepayments	42,757	41,117	(1,640)
Total Current and Accrued Assets	3,015,101	3,056,076	40,975
Deferred Debits	1,190,503	1,304,190	113,687
Total Assets and Other Debits	\$32,186,703	\$33,159,648	\$972,945
Number of Consumers	9,605	9,753	148
kWh Sold	61,978,100	65,906,026	3,927,926

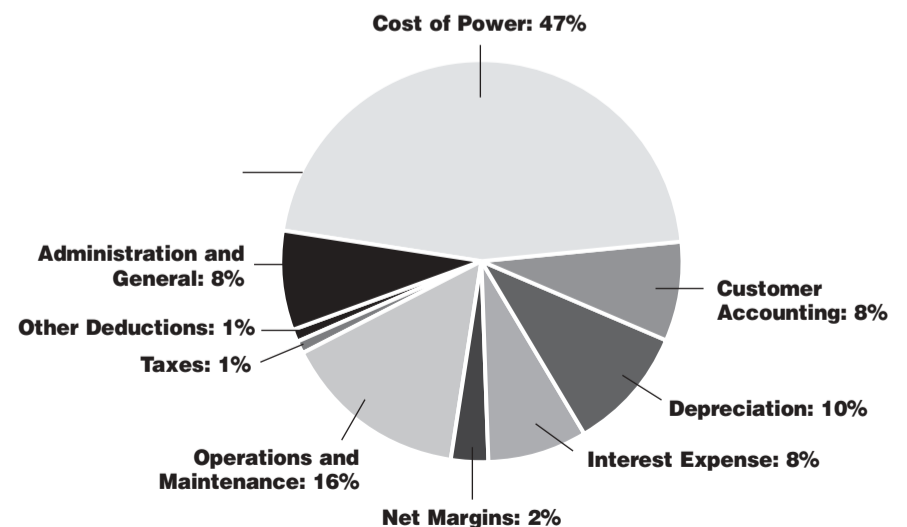
Liabilities and Other Credits			
	12/31/02	12/31/03	Increase (Decrease)
Memberships	\$76,500	\$77,980	\$1,480
Patronage Capital Credits	5,670,466	5,761,934	91,468
Contributions-in-Aid-of-Construction	6,687,814	7,134,843	447,029
Operating Margins - Prior Years	0	0	0
Operating Margins - Current Year	147,279	98,466	(48,813)
Non-Operating Margins	132,023	123,617	(8,406)
Other Margins and Equities	162,939	168,569	5,630
Total Margins and Equities	\$12,877,021	\$13,365,409	\$488,388
Long-Term Debt			
Long-Term Debt - RUS	13,950,149	13,686,202	(263,947)
Central Vt. Memorial Civic Center	464,264	421,400	(42,864)
Long-Term Debt - Other	3,588,223	4,357,488	769,265
Total Long-Term Debt	\$18,002,636	\$18,465,090	\$462,454
Current Liabilities			
Notes Payable	0	11,742	11,742
Accounts Payable	631,954	692,782	60,828
Consumer Deposits	115,960	119,980	4,020
Other Current and Accrued Liabilities	322,143	347,681	25,538
Total Current and Accrued Liabilities	\$1,070,057	\$1,172,185	\$102,128
Deferred Credits	236,989	156,964	(80,025)
Total Liabilities and Other Credits	\$32,186,703	\$33,159,648	\$972,945

Statement of Operations			
Item	Actual 12/31/02	Actual 12/31/03	Increase (Decrease)
Operating Revenue	\$10,188,594	\$10,682,560	\$493,966
Cost of Purchased Power	4,613,535	5,008,362	394,827
Cost of Generated Power - Wrightsville	48,845	58,586	9,741
Total Cost of Power	\$4,662,380	\$5,066,948	\$404,568
Other Operation & Maintenance Expense			
Transmission Expense	15,761	12,165	(3,596)
Distribution Expense - Operation	667,063	804,289	137,226
Distribution Expense - Maintenance	988,402	1,001,560	13,158
Consumer Accounts Expense	535,999	537,277	1,278
Customer Service & Education	311,906	292,070	(19,836)
Administrative and General Expense	855,603	819,706	(35,897)
Total Other Operation and Maintenance Expense	\$3,374,734	\$3,467,067	\$92,333
Fixed Expenses			
Depreciation and Amortization Expense	1,034,932	1,049,658	14,726
Tax Expense - Property	22,003	19,975	(2,028)
Tax Expense - Other	100,323	103,856	3,533
Interest on Long-Term Debt	816,303	845,781	29,478
Interest Expense - Other	10,692	7,580	(3,112)
Other Deductions	31,257	34,297	3,040
Total Fixed Expenses	\$2,015,510	\$2,061,147	\$45,637
Total Cost of Electric Service	\$10,052,624	\$10,595,162	\$542,538
Operating Margins	135,970	87,398	\$(48,572)
Non-Operating Margins - Interest	53,742	52,572	(1,170)
Non-Operating Margins - Other	89,590	82,113	(7,477)
Extraordinary Item			0
Net Margins	\$279,302	\$222,083	\$(57,219)
Times Interest Earned Ratio (TIER)	1.34	1.26	(0.08)

2003 Sources and Costs of Power



Where the Dollars Went



Amendment Would Move Liens Into WEC Bylaws

Board Asks Members to Vote 'Yes'

Washington Electric Cooperative's Board of Directors has proposed a bylaw amendment for 2004, addressing the problem of lost revenue which can occur when people leave the Co-op's lines without fully paying their electric bills. The proposed amendment appears on your WEC ballot, and the Board hopes for a vote of approval.

A provision in the Membership Agreement, which all members sign when they contract for electricity from the Co-op, authorizes Washington Electric to file a lien on the real property of people who have ceased purchasing power from WEC but still owe the Co-op money. Liens are restricted – in all cases – to the property the Co-op had been serving.

That procedure would remain in place. The Board simply proposes to put the same provision into Article I, Section 3, of Washington Electric's bylaws. That Article and Section, with the proposed added language, appears below. The lien provision will also remain in the Membership Agreement, where people are most likely to read it.

Adding the provision to the bylaws will not change the practice nor increase its usage. The Board proposes this step to formalize and reinforce the policy, which is authorized by Vermont statute.

A lien protects the Co-op's interests by ensuring that WEC receives money from the sale of the property to cover the electric bills left unpaid. General Manager Avram Patt has said there are some years when WEC does not exercise the lien provision at all, while in other years it might be used four or five times.

Voters are urged to bear in mind that when people leave WEC's electric system without paying their bills, the rest of the members end up covering that debt in one way or another.

This amendment proposal was discussed at greater length in the March/April issue of *Co-op Currents*. Members can get another copy of that issue from the Co-op, or read the same article on WEC's website, www.washingtonelectric.coop. They are also welcome to call General Manager Patt or any member of the Board with questions or concerns.

Proposed 2004 Bylaw Amendment

(suggested amendment in italic)

Article I, Section 3. Purchase of Electric Energy.

Each member shall, as soon as electric energy shall be available, purchase from the Cooperative all electric energy which is purchased for use on the premises specified in their application for membership, and shall pay therefore as billed at rates which shall from time to time be fixed by the Board of Directors, provided, however, that the Board of Directors may limit the amount of electric energy which the Cooperative shall be required to furnish to any one member.

Production of electric energy on such premises, regardless of the source thereof, by means of facilities which are connected to the Cooperative's facilities, and all associated use of electric energy, shall be subject to regulations as shall from time to time be fixed by the Board of Directors.

It is expressly understood that amounts paid for electric energy in excess of the cost of service are furnished by the members as capital and each member shall be credited with the capital so furnished as provided in

these bylaws.

Each member shall pay to the Cooperative such minimum amount per month regardless of the electric energy consumed, as shall be fixed by the Board of Directors from time to time, and subject to the approval of the Public Service Board. Each member shall also pay all amounts owed by that member to the Cooperative as and when the same shall become due and payable.

By signing the application for membership, the member:

- 1) *specifically authorizes and consents to the placement of a lien on their real property if they fail to pay all amounts owed the Cooperative when the same shall become due after the member ceases to purchase electric energy; and*
- 2) *authorizes the Cooperative to charge costs of collection, attorney's fees, and reasonable interest on the unpaid amount.*

These provisions are intended to reduce losses to the Cooperative from uncollectible amounts owed by former members.

Dinner Menu

- Oven-Baked Chicken
- Meatless Mostaccioli
- Salad, Rolls
- Milk, Tea or Coffee
- Ice Cream Brownie

RESERVATIONS ONLY -

To make your reservation, *return this coupon no later than Monday, May 17.* Meal tickets will be distributed at the meeting.

Dinner Reservation

for May 25 Annual Meeting

To be returned with check or money order
(Please do not return in ballot envelope.)

Name: _____

Address: _____

Number of persons attending: _____

Amount enclosed: _____ Cost: \$6 per person

Coventry Project Not Quite Ready For Ballot

Close, but no cigar. Washington Electric's landfill-gas-to-electricity project was not ready to be included on the ballot for the Co-op's 65th Annual Meeting. The vote will have to be delayed, probably until sometime in the summer.

"We're a little bit disappointed," said WEC General Manager Avram Patt, "because it would have been more efficient and saved us some money if we had been able to put it on the Annual Meeting ballot. But that was dependent on meeting a very optimistic timetable in terms of regulatory processes. We feel things are moving along well, but we didn't make it in time for the May election."

WEC announced in September 2003 that it had reached an agreement with Casella Waste Management that would allow the Co-op to build an electric-generating plant at the state's largest landfill, using methane collected from the organic decomposition of trash. The proposed project meets key goals of the Board of Directors for procuring electricity: energy costs will be comparatively low and stable, and the source will be local, reliable and environmentally friendly. Because production will not depend on variables such as weather, Coventry will supply "baseload" power (power that's nearly always available, and is a foundation for a utility's energy supply). WEC expects financing from the Rural Utilities Service (RUS), the federal agency that makes loans to rural electric co-ops nationwide. The landfill-gas system will produce 4 megawatts (MW) of power, but could eventually be expanded to produce 6 MW. Washington Electric's average total demand is 12 MW.

State law requires the Cooperative to get its members' blessing for the project. However, WEC must first obtain a

Certificate of Public Good from the Public Service Board (PSB). That requires public meetings – which have been held in Coventry, with no one objecting to the project – and approval by the Department of Public Service (DPS) and the Agency of Natural Resources (ANR).

"The DPS and ANR are statutory parties to all utility-sponsored development proposals," explained Patt. "Natural Resources reviews it under the same environmental criteria as Act 250. For some of those criteria you need to get special permits before the Agency gives its final approval."

Meanwhile, the DPS looks primarily at economic issues, to ensure that projects protect the interests of ratepayers – in this case, the Co-op's members.

Other factors add extra regulatory hurdles to WEC's Coventry project. WEC's proposal is essentially two-projects-in-one, because in addition to constructing a generating station at the landfill WEC must erect a 7.5-mile transmission line to carry the power to VELCO's statewide transmission system. That corridor, too, must satisfy environmental and community-protection criteria.

Casella is expanding its landfill operation as a part of the project. For this, Casella's needs its own Act 250 permit.

"There's a lot going on," said Patt. "We still believe we can meet all the regulatory requirements in time for us to have a membership vote this summer, begin construction soon after, and bring the plant on line by January 2005. It's an optimistic schedule, but it's doable."

Meanwhile, WEC is reviewing bids from construction companies for the electric-generating plant. "We're pleased with the interest shown by contractors," said the manager. "We're going to have a competitive choice for this project."