

North Arkansas Electric Cooperative 2008 Annual Meeting Report from the CEO

Opening

Members of North Arkansas Electric Cooperative, our Board of directors, Employees of North Arkansas Electric Cooperative, and honored guests: tonight, we'll take a short look back at truly a long year..... a year of major events.

Our employees are here with us tonight, and have prepared for days for this ever so important meeting of the members. These are the men and women who work as a team each and every day assuring that the power continually flows to you, our member-customer.

We work for you, and we work with you, because....together....we have the power to make a difference.

After a decade of turmoil and experimentation in the electric utility industry.....when some industry analysts questioned whether coops would survive.....other utilities have now begun to realize what most coops have understood: in the end it's satisfying the customer that makes all the difference. That's what sets us apart.....our culture of service...based on the belief that we should do more than simply produce, transmit, and deliver electricity.....every utility can do that. On a national scale, electric coops are America's largest utility network. You are the member-owners of the coop. The coop difference boils down to putting people first, which is the heart of our culture. When people compare coops to other businesses, they find that something resonates.

The honesty, the integrity, and the service orientation of a coop offer an irresistible appeal at a time when people are looking for businesses that are authentic. Our mission remains the same today as when we were created.....to improve the standard of living by providing electric service at the lowest price consistent with sound business principles.

As I have said before, to keep the lights on, and electric bills affordable.

Normally this report on the cooperative would cover many of our operational accomplishments, along with programs and services we offer. In the interest of time, and because I want to update you on some very serious challenges within the electric industry with the rising costs of energy.....I'll just briefly report that 2007 was another good year financially.....also with our quality of service to the membership..... and with the programs and services we offer. North Arkansas Electric Cooperative must continually be committed to maintaining and upgrading our distribution infrastructure as growth requires. We are investing approximately 7 to 10 million dollars annually in system improvements, including several significant system upgrades. Our maintenance program continues to be a top priority. Substantial resources are dedicated to our distribution vegetation management program, along with our substation and pole maintenance program. All of these investments, along with our dedicated personnel and operational policies, have given you the system reliability you have come to expect from NAEC.

The average outage time in 2007 for our customers was just under 2.5 hours, far below regional averages. Blinks cause us all heartburn. But remember..... those blinks are caused by vegetation, animals, and are the result of the system working properly—protecting equipment, and more importantly—the lives of these men who work night and day on your power lines, and you the member.

We will continue to invest in the future of our electric system and improve services, and at the same time continue looking for internal efficiencies consistent with prudent fiscal responsibilities.

Recent surveys confirm our job performance, with over 85% of our members rating the cooperative a nine, or a perfect 10....out of a possible score of 10.

The financial condition of your cooperative is exactly where it should be. I would encourage all of you to look at the annual report we mailed out last month and you'll see how the cooperative dollars were earned and spent, along with key statistics on the cooperative and its performance.

Power Supply

Arkansas' 17 Electric Cooperatives, serving more than 480,000 customers in Arkansas, own the generation and transmission cooperative—Arkansas Electric Cooperative Corporation. Their primary responsibility is the generation, and transmission to the distribution coops, like North Arkansas, of the power we sell to you. Currently we have adequate generation resources to meet our demand. But, power plants take years of planning and construction before they can be brought on line. Planning is ongoing today for the next coal fired generation which could come on line as early as 2011.

Electricity generated from natural gas costs at least 7 times more than electricity generated from coal. That's why coal generation is so important to the electric cooperatives, and you the members. Today, we have **very serious** issues which have and will continue to have an impact on the amount of electricity we can generate from coal.....and that has a direct and significant impact on your electric bill.....so tonight we'll have some straight talk about the rising costs of energy.

Railroad Crisis

Since 2005 we have talked about our problems with the railroads. Through the end of last year, members of North Arkansas Electric Cooperative have paid an additional **15 million dollars** on their electric bills through the line-item called the power cost adjustment. **This is not a rate increase**.....it is a charge passed through from our power supplier to us, and shared by every member of the cooperative. This is our share of the 150 plus million dollars which was passed through to all 480,000 electric cooperative customers in Arkansas

Arkansas Electric Cooperative Corporation, our wholesale power supplier, is a captive shipper to two railroads, Burlington Northern Santa Fe, and Union Pacific. Rapidly rising costs associated with the rail transportation of coal, and the wholesale price of natural gas rising 600% in the last few years.....has caused an unprecedented rise in the cost of generating electricity. This charge comes to you in the power cost adjustment. While it is certainly a major problem that we all must deal with....it continues to be one that we have very little, if any control over.

A little good news.....we are happy to report that our members received a \$ 1.1 million dollar refund in December....the result of a coal generation based lawsuit filed by Arkansas Electric Cooperative Corporation.

Climate Change

The single largest challenge the electric industry has faced since 1939 is the debate over climate change. Climate change refers to the average weather, with natural changes that occur over decades. Human activities such as the use of fossil fuels contribute to climate change.....through greenhouse gas emissions. Carbon dioxide and methane gasses are released into the atmosphere when fossil fuels are burned, during the production and utilization of coal, natural gas, and oil.....and from livestock and other agricultural practices. Scientists agree that these gasses warm the earth and are accumulating as a result of human activities. Human activities account for only 3.2% of CO2 emissions. What they **do not** agree on is the impact of these gasses on the earth's climate. North Arkansas Electric and the other cooperatives nationwide are not going to get involved in the debate over the **science** of global warming. We are not climatologists, and only climatologists have the credentials to argue either side of the science debate. But we **do have** the credentials to debate electric energy.

The generation of electricity accounts for one third of the carbon emitted into the environment. Automobiles a third, and everything else makes up the difference. And, our cheapest, most efficient resource to generate electricity....coal.....emits the most carbon.....about twice as much as natural gas generation. So, the electric utility industry is very much under the microscope, and with our obligation to keep the lights on and the rates down.....we have a vested interest in the outcome of the debate. I would submit to you that we are already good stewards of the environment. What we must do, and will do is continue to inject some common sense into this debate.

Just the debate over climate change has all but eliminated any new generation from our least cost fuel source....coal. Financing has dried up..... hardware is being shipped overseas for coal plant construction in developing countries..... radical environmental groups are filing lawsuits against any proposed coal plant construction.....and state governments are making it harder to gain necessary approval. There is a reality gap in this climate change debate. There is no silver bullet..... the technology does not exist today to supply our nation's electric needs without coal and CO2 emissions. And, in future generations, a substantial portion of the generation portfolio must come from nuclear. The Electric Power Research Institute has said it takes the entire prism..... advanced clean coal generation.... natural gas..... nuclear.....
.....renewable from wind.... solar.... geo thermal.... and bio-mass..... and conservation. Policymakers in Washington D.C. must understand they must be partners, not dictators of policy. They simply cannot pass legislation and walk away from it. This initiative will take years of public/private partnerships to complete. If it's done right.... your electric bill will increase. If it's done wrong.....some people may not have an electric bill to worry with...because it could be unaffordable. Our message is very simply about the **availability**....the **reliability**...and the **affordability** of electricity for you.....me.....our children....and our grand children.

It seems like every time America discovers it has a crisis on its hands, our government wakes up and proposes a crash program to fix it. Henry Ford was one of the first to observe it and even coined a name for it: “the crisis-crash syndrome.”

Sometimes, a crisis pushes us to great heights – literally. In 1958, when the Soviet Union launched Sputnik, the first orbiting satellite, President Kennedy responded by launching a “crash program” to commit all necessary U.S. talent and resources to putting an American on the moon by the end of the decade.

And, amazingly, we did it. Neil Armstrong set foot on the moon July 1969, well within President Kennedy’s proposed timeline.

As policymakers in Washington begin the daunting task of trying to reduce the greenhouse gases responsible for climate change, it is instructive to look back at Kennedy’s example. The Apollo program harnessed the resources of government to make this stunning achievement possible.

But not every crisis leads to such an impressive result. Some of you are not old enough to remember the first Arab oil embargo of 1973 – 35 years ago – or the several more that followed over the years. Each time we were inconvenienced at the pump – often with no gas available at any price – we heard our leaders pledge to develop a national energy policy that would free us from the sword the foreign oil producing nation’s hold over us and our economy. However, every attempt to formulate a serious national energy policy fizzled under the stress of competing special interests pulling policy makers in first one direction, then another.

And in fact, as Congress considers various approaches to dealing with climate change, lawmakers are already hearing from many of the same special interests.

The goal of addressing greenhouse gas emissions may pose a more difficult challenge than reaching the moon. True leadership on climate change will require balancing competing goals that all serve the public interest. Keeping electricity affordable and reliable is just as much in the public interest as mitigating climate change.

As we race to develop the technology to limit carbon dioxide, we must also ensure Americans have the energy they need, not just in their homes but also to grow the economy. Some of the legislative proposals under consideration, however, put at risk the current system that gives nearly every American access to dependable electricity. Congress needs to see the broader picture. That's where you, as co-op members, as electricity consumers, come in.

Each of us has a role to play in influencing this debate that will likely result in new laws on climate change soon after the new administration and new Congress begin their work in 2009.

Each of us has a role to play in making sure elected representatives remember their obligations to protecting the public's interest in maintaining affordable, reliable electricity.

Responsible leadership on energy and climate change means first answering hard questions about the economic impact on all of us. Congress must not only examine all the consequences, lawmakers should engage in an honest conversation about those consequences with constituents before taking action.

What they should not do is put in place arbitrary, unrealistic emissions targets set far in the future –when many of them will be retired from office.

Over the next 20 years, electric utilities must increase generating capacity by 30 to 50 percent just to keep up with projected demand. The excess capacity we enjoyed for decades has been **used up**. At the same time that lawmakers address climate change they need to address an impending electricity shortage, which in some parts of the country could be here as soon as 2011.

Some people say we can meet future demand through efficiency and renewable energy; and I am proud to say that electric co-ops have had great success in those areas. We are quickly integrating new renewable energy resources, deploying demand side management tools, increasing system efficiency, and promoting conservation and efficiency at the consumer level. And while that is a good thing.... **it is a drop in the bucket**. We need to remind Congress that energy efficiency alone won't solve the climate change challenge. Nor will renewable sources of energy suffice. Today, just over 11 percent of co-op power comes from renewable sources. That percentage is growing daily, but **renewables are a long way from becoming a major reliable source**.

Simply put, significant reductions in carbon emissions over the long term will not happen without the same kind of massive – and expensive – investment in research and development that got Americans to the moon in 1969. Without leadership at the federal level.... **this investment will not be made**.

Some people have proposed capping carbon emissions and letting the price of electricity rise. By letting the price rise, they argue, utilities could afford to pay for the new technology they need to meet growing demand and capture carbon.

But this approach puts the burden for mitigating climate change on those least able to pay for it. Consumers, particularly those retired or on fixed incomes, will not be able to afford electricity..... **They will not be able to afford electricity.**

We must remind our representatives that the climate change debate.... is a **debate with real consequences for real people**...and their interests must be heard and taken into account in reaching a balanced solution to this complex problem.

In the next 9 months, climate change legislation will be passed. All three remaining candidates for president.... and the congress....are poised to pass potentially poison legislation. It will probably happen within the first 100 days of the new administration in 2009. We will all be paying for the results of that legislation for the rest of our life, as will our children and grand children. You must make your voice heard with each of your elected officials, and keep score on those who support our position, and those who do not.

Here's what you can do. We have launched a national grassroots campaign, titled, "***Our Energy, Our Future: A Dialogue with America.***" It has one purpose: to encourage open discussion between electric co-op consumers and their elected officials about the challenge of keeping the lights on.

We have 40 million members. In my view, every one of them ought ... no... **must be involved**, in communicating with elected officials and helping them to understand.... that when the ink dries on any new legislation addressing climate change, the electric co-ops' twin goals of keeping electricity affordable and reliable must be achieved.

(Discuss folding card, questions, and post card here)

If we are united and clear about what we want policy makers in Washington to do.... and I believe we are.... then we will be on the internet tonight... sending e-mails & text messages..... and writing letters and making phone calls tomorrow to members of congress. We need a climate change plan that people can live with today even as they deal with the climate change problem of tomorrow.

We need a plan as carefully executed as FDR's New Deal or JFK's race to put a man on the moon. Public-private partnerships have worked in the past and they can do so again. But it will require an active role by our elected officials to provide guidance and support to those charged with the heavy lifting.

To be successful, the plan must be developed with the input of all parties, especially electric co-op member-consumers, and it must offer a balanced solution to climate change issues. Anything less will be a betrayal of the trust our member-consumers have placed in their elected leaders. Anything less will be a radical departure from the goals established for cooperatives by Congress over 70 years ago and supported by the actions of each succeeding Congress over the decades.

Now, here is one other thing you can do to help in this fight for your rights:

(Coop Owners for Political Action)

Closing

The need for a **reality based approach** to all of these issues is of utmost importance to us in the electric industry. America's electric cooperatives have pledged to work with Congress on climate change. This nation needs sound, responsible legislation. Good legislation will balance your electric bills.... the health of the economy.... and the needs of the environment.

There is no doubt, given all the worldly pressures, electric rates for the next generation will be substantially higher. The straight talk..... and there's no way around it, is that rates will inevitably go up. And, issues like the delivery of coal, and climate change will make them go up even more.

All of us may be judged on how successful we are in being able to power **more** with **less** electricity. The challenge is to make better..... wiser choices in the uses of the available electric power. But, that's really nothing different from what we have done throughout the history of this program. It is the duty of **every board member, every CEO, and every employee** of all electric cooperatives across this country, especially North Arkansas Electric Cooperative, to provide the membership with safe, reliable electric power, and to do that in the most cost-effective way we possibly can. Basically, it's to keep the lights on, and keep the electric bills affordable. Our success or failure will be judged on how well we do this job.

Let the dialogue begin.....it's **our energy**.....and it's **our future**.....!

