

North Arkansas Electric Cooperative 2010 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:

The Rural Electric Program turned 75 years old on May 11th. On that day in 1935, by executive order, President Franklin D. Roosevelt created the Rural Electrification Administration. The REA was one of Roosevelt's New Deal programs, and was the beginning of rural electric cooperatives.

I recently pulled some excerpts from the 1936 congressional records....and here are some of the opposing comments from the Senate debate:

“How can it be said that furnishing of electricity to farmers in rural communities is for the general welfare of the United States..? The farmers in these rural areas cannot be served at low and reasonable rates. This clearly is not a matter of national concern.”

Congressman Rankin, who fought so hard for the REA creation said... “One of the gentlemen opposing this bill made fun of these washing machines. I should like to see him bow down over a washtub and a scrub board, and do the family washing for a few weeks...that would convert him. If I have ever pioneered any one thing in my life, it has been in my effort to bring cheap electric energy to the American People.....to light their homes, their barns and outhouses, running water, operate their radios, washing machines, vacume cleaners, electric

stoves, feed grinders, and other electrical appliances necessary to lift **BURDENS FROM THEIR SHOULDERS.....TO RELIEVE HIS WIFE AND CHILDREN OF THE NERVE-RACKING, HEALTH-WRECKING, AND YOUTH-DESTROYING DRUDGERY.”**

And finally a letter from his one of his constituents talking about getting electricity for the first time, “it is the most wonderful thing that has ever happened. It is better than an oil field. It means the difference between drudgery and luxury.”

The REA was created to bring electricity to all Americans. But, investor owned power companies refused to serve rural communities. Long term--- low interest loans were made available to these large investor owned companies-----but they declined. They could make more money elsewhere. But here in rural America, we needed electricity too. So, we formed our own companies---electric cooperatives. Partnerships were created between the people making decisions about the operations of the business, and the members receiving the service. Coop old timers will tell you of going door to door signing up members for service---- and it was not unusual to see volunteers digging holes for the poles, and pulling wire.

We have come a long way since those early days. Today there are 1000 electric cooperatives, and the lives of more than 42 million Americans are improved with a wonderful quality of life in rural America.

What makes cooperatives different? What makes North Arkansas Electric Cooperative different? –Our principles and our commitment to service excellence. 2010 marks the 70th year this cooperative has been providing electricity to our member-consumers in North Arkansas, and tonight we are proud to be celebrating our 70th birthday.

After over 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: profits might be nice..... technology might be nice..... but 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.

The honesty, the integrity, and the service orientation of a coop offer an irresistible appeal during these tumultuous, un-trusting times.....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. To keep the lights on, and the bills affordable.

North Arkansas Electric is a Touchstone Energy affiliated cooperative. Touchstone Energy is an alliance of more than 700 local, consumer-owned electric cooperatives across the country committed to providing superior service to all customers, large and small.

Touchstone Energy—the national brand of electric cooperatives—has core values that customers have long associated with electric cooperatives: integrity, accountability, innovation, and genuine commitment to our communities. We set goals and achieve high standards of service to all customers—residential, commercial, and industrial. Touchstone Energy has created Co-op Connections, a member benefit card that offers co-op members product, service and pharmacy discounts at participating retail businesses. In turn, participating businesses benefit from increased customer traffic, as well as from promotions in co-op communications and advertising materials. Co-op members can get a flavor for which businesses are participating in the Co-op Connections program by logging on to www.naeci.com. All members should have received their card at registration. For those members who are not in attendance tonight, the co-op will be mailing them in the coming weeks.

2009 was a very challenging year. Last year we reported to you on the condition of the cooperative following the most devastating ice storm this cooperative has ever experienced. The average outage duration for that storm was around a week, with some members out of power for 19 days. Our response was unprecedented with over 900 men and women responding to the devastation. Work continues today on the permanent restoration of the system, and we expect that work to continue through the end of next year.

Total costs of the ice storm are expected to exceed 37 million dollars, with FEMA paying all but about 5 million dollars. I am happy to report that since cooperatives are eligible for FEMA disaster assistance, and because of our efforts to control costs last year, the cooperative will complete this restoration without adding these ice storm costs on member bills.

Today, your cooperative is in good shape financially.....2009 was actually a strong year financially, considering all that we went through. We also continue to focus on our quality of service...and offering you the members the programs and services you need and desire. 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.

Energy Efficiency & Conservation

The current energy & climate debate rightly so is focusing on energy efficiencies and conservation. However some policymakers would like to mandate that all electric utilities decrease energy sales and demand by large percentages over short periods of time. Now as to how that is to be accomplished must reside in the vivid imagination of these folks. Many global warming activists would like for rates to get so high, that each of you could not afford your bills, and you would....like those people prior to the formation of the REA....have to get out the lanterns and washboards.....or at the very least, reduce your quality of life.

North Arkansas Electric has always fought to keep costs down, just like we fought in the early days to bring electricity to rural areas. Climate change legislation is pretty much in the hands of our elected officials, and will have a dramatic effect on your electric bill. Conservation is a life style change....and is achieved when we reduce our total consumption of electricity either with good habits such as turning off anything that consumes electricity when not needed....or the more radical approach which affects our comfort levels or changes our quality of life.

Energy efficiencies and conservation.....good energy use habits..... is something we...the coop and members....have always partnered on to save energy and money. Policymakers need to realize that cooperatives....in particular and with emphasis...North Arkansas Electric..... have been promoting efficiencies and conservation for decades.

Since the early 80's your cooperative has been actively involved in efficiencies.... energy audits, demand side management through our load management switches, and low interest loans for high efficiency heat pumps and weatherization improvements that save energy and save you money. As a matter of fact I just learned that we, your cooperative, leads all cooperatives nationwide in those loans, having loaned over 15 million dollars to homeowners for energy efficiency projects.

With the rising cost of new generationefficiency is the least-cost generation resource. And, with new federal programs in the energy bill, and stimulus package.....energy efficiency measures can now be partially offset by federal tax credits and Weatherization Assistance Programs.

Nationally we are supporting legislation that would give cooperatives 5 billion dollars in lending authority through the Rural Energy Savings Program Act.....for low interest, energy efficiency loans to individuals and businesses.

Now....during this debate....miraculously.... investor owned utilities have found this word... efficiency. Well, I say its about time they did, and policymakers need to understand cooperatives set the efficiency standard that investor owned utilities will find very hard to meet. So, an unachievable mandate to meet a certain reduction by a certain time is totally unacceptable. We will continue in our efforts to reduce energy consumption through efficiencies, **and we do not need a government mandate to tell us to do what we know is the right thing to do..... and are already doing.**

Rates, Power Supply, Renewable Energy & Climate Change

We are very pleased that member electric bills were much lower in 2009, about 6%, and should be this year too.....but it's a constant struggle....given all the pressures. Normal coal shipments, and the depressed global energy prices....especially natural gas....have really helped bills to come down over the last year or so, primarily through the "Power Cost Adjustment" But...several factors remain on the horizon which will have an effect on wholesale electricity prices. Cooperatives in Arkansas are nearing an end of excess electricity generation...which means to avoid brownouts or blackouts.....very expensive generating plants must be constructed....which all Arkansas cooperative members must pay for. And the costs of those plants have been driven up too by the climate change debate. As a matter of fact, we may have already seen the last coal-fired generating plant built in Arkansas.....thanks largely in part to federal policymakers, and environmental groups gross over-reaction to carbon emissions from coal plants.....and their underestimation of the electricity needs of this country...and your unwillingness to pay exorbitant prices for more expensive generation. We /you have already seen wholesale price increases....due mainly to skyrocketing generating costs and environmental regulations. As for retail rates.....they have remained constant since our last rate increase in 2005. And when you compare our rates....which are virtually no different than they were in the late 80's..... to other utility services...and especially other forms of energy....our track record is pretty good.

Our hopes were to make it 4 or 5 years between retail increases. Next year will be 6 years. It appears now that sometime in 2011 we will adjust our rates, but we will do everything we can to keep that to a minimum. Our last was about \$5/month for the average member. The management team and employees of NAEC have worked very hard on internal efficiencies that today are saving millions of dollars annually....which is our responsibility to you, and has helped us keep your bills as low as possible. Unlike investor owned utilities we have no stockholders to please, and we operate at cost. Our goal is for margins to be adequate enough to maintain equity at responsible levels, keep our lenders happy, and be in a position to return capital credits annually to the membership.

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 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. As I stated last year.....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 the affordability of 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. 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. Low cost 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..... There is a reality gap in this climate change debate. National and State policymakers really don't understand the electricity needs of this country.....especially when they tell us those needs can be met with renewable energy. Electric cooperative demand for power has grown and continues to expand at twice the national average for utilities....over 2% per year, and we must provide that power.

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 next year.

Cooperatives have worked for years to increase our renewable generating capacity.....and nationally all coops get about 11% of our energy from renewable sources. But.....significant renewable resources such as wind, solar, & bio-mass are not readily available, and certainly not affordable...and the transmission lines are not in place to deliver this energy.....and, therefore cannot help meet the capacity needs. And....recent surveys by a national polling group.....well respected polling group used by congress..... tell us one important fact....and this is very important.....electric consumers of all utilities in this country are **not** willing to pay the necessary dollars on their electric bill for expensive renewable generation.

As we have said many times before....there is no silver bullet..... the technology does not exist today to supply our nation's electric needs without coal.

As I quoted two years ago.....President Kennedy observed that the great enemy of truth is very often not the lie—deliberate, contrived, and dishonest.....but instead the myth—persistent, persuasive, and unrealistic. Many today enjoy the comfort of opinion.....without the discomfort of thought.

Over the past 30 years...the issue of Climate Change has been an issue on our national agenda. Lawmakers have discussed it. And, certainly the news media has focused on it. And, over the past few years it has taken on mythical proportions as people discuss it back and forth.

The reality is that we have experts who are voicing their opinions on both sides. The reality is that no one can prove their position. So what we are left with are experts stating theories which are really opinions.

But, we do have some facts before us today: the United States Supreme Court has ruled that the Environmental Protection Agency, under the Clean Air Act, today has the authority to regulate carbon emissions in this country.

What can be proven is that the President has stated his intention to regulate carbon emissions, but has asked the congress to address this important issue.

What also can be proven is that the leadership in congress has expressed their intention to pass legislation this year which will regulate carbon emissions. Now, in my opinion that will be extremely hard since there are fewer than 20 days left on the legislative calendar, and especially with the “scorched earth” mindset in Washington right now. But, I still believe the issue before us today is not will carbon be regulated..... but... how and when will carbon be regulated.

Now, those extreme elements of climate change...those extreme advocates.....are urging congress to simply let the EPA.... the professional bureaucrats who run EPA....write the rules that will regulate carbon. They want little or no input from you and others in this nation through the legislative process in determining how that will be carried out.

Electric cooperatives...and North Arkansas Electric.....are fighting to make sure that doesn't happen and supporting current legislation that would strip EPA of their authority over carbon. The clean air act was never intended to regulate carbon...it was written to regulate industrial toxins. Carbon is not a toxin, in fact it is necessary for the sustainability of life on our planet. Former Chairman of the House Energy & Commerce Committee, and co-author of the clean air act John Dingle, said that EPA's regulation of carbon would be a glorious mess. And, that glorious mess translates hundreds of millions of dollars you and every other electric cooperative member will be paying if the current administration and EPA get their way.

Cooperatives do want to find a bill we can support...and get to yes in this debate. A bill that takes into consideration our nation's environmental needs, and at the same time keeps electricity available, reliable, and most importantly..... affordable. The senate currently has a bill, the Kerry-Lieberman bill which is the centerpoint of debate in the Senate. The House of Representatives last year wrote and passed a 946 page bill....which among other things would establish a system of carbon emission permits that could be bought, sold or traded to comply with carbon emissions. Cap & trade was a part of that bill. That bill alone was estimated to cost Arkansas Cooperative members \$100 Million dollars in 2010, escalating to \$850 million a year by 2030, with a cumulative cost of \$3.1 Billion dollars.

Cap & Trade actually worked pretty good in the '80s....but today's cap & trade involves Wall Street... involving wall street (**now there's a bunch we all trust**) in a scheme that will do a couple of things....raise trillions of dollars for federal government spending.....and generate

more profits for wall street.....and guess who pays.....you do, I do...we all do. Those are not bills we can say yes to, and we will continue to vigorously oppose them both unless we can get coop friendly language inserted.

The objective of North Arkansas Electric and America's 900 plus electric cooperatives is to help congress pass a simple, affordable, flexible, and effective piece of legislation to address the nation's energy and environmental objectives. In 2010, electricity is intertwined with every American's quality of life and the nations' economic productivity. In 1932, President Franklin Roosevelt declared that electricity was a necessity...not a luxury. He committed to make it available and affordable to all Americans. We must not turn back on that commitment of 78 years ago. Maintaining the affordability of electricity is the principle against which all cooperatives will judge all climate change and energy legislation.

True leadership on climate change will require balancing competing goals that all serve the public interest.

Each of us has a role to play in influencing this debate

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 electric bills

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.

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.

We have 42 million members. In my view, every one of them **must be involved** in communicating with elected officials and helping them to understand... that when the ink dries on 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 common sense legislation that people can live with today, even as we deal with the climate change problem of tomorrow.

Closing

Electric bills are going up all around this country, and there is not much we can do about that. But, we can control by how much they are going up. Energy is changing in America...future economic growth will require additional sources of power....the most expensive ever built.....and in the midst of a struggling economy. Government must be honest with consumers about the costs and who pays...with no back-door taxes or hidden agendas. And cooperatives, as member owned not-for-profit organizations will work with government to meet these challenging goals....educate our members....work to manage costs...and, help you save money and energy. The operation of today's electric cooperative will likely require a rewriting of the book. We must be innovative and creative in rewriting that book, how best we can operate most efficiently for you our members...and try to minimize those increases in electric bills. But, in the end, we really don't have much choice. We can adapt and embrace change....and we can be creative and come up with new ideas. We can in fact re-invent and develop ourselves for the future.....in keeping with those cooperative principles we hold so dear.

This will require great strength, great determination & great conviction on the part of your cooperatives leadership, employees, and you the members. All of us must join together & stay together.....as they did 75 years ago, when generations before us fought so hard to bring electricity to all Americans.....**knowing it was a necessity....and not a luxury.** Right prevails.....we are in this business for all the right reasons.....and we will continue to provide you the members with the service you deserve..... and at a price you can afford to pay.