Integrity

Accountability

Commitment to Community

Innovation

2001 Annual Report

Wake Electric
Membership Corporation

Your Local Touchstone Energy® Cooperative

Wholesale Power Market Gets Attention

Manager's Report
—Jim Mangum

Everyone has heard about Enron. It's based in Houston, Texas and was, by far, the largest wholesale natural gas and electricity trading company in the country.

About 25% of the nation's wholesale natural gas and electricity was traded through Enron.

Based on 2000 revenue, Enron was the seventh largest corporation in the United States.

Its financial condition had been deteriorating, but many of the losses had been kept "off the books."

When a full accounting and disclosure of the losses was made in late 2000, Enron's financial structure collapsed and the company declared bankruptcy. Its stock price has lost 99% of its value, and employees and investors lost millions.

Enron's story demonstrates the high risk of commodities trading. Bad trades can quickly bankrupt even one of the largest corporations in the country.

But the Enron story is much more complicated than just commodities trading.

It's about Enron's attempt to redefine the wholesale energy business from a regulated, predictable resource for utilities to a completely unregulated, unpredictable and volatile marketplace where those associated with the company thought they could make millions of dollars every day.

It appears they expected to get paid for reducing the risk of the volatile marketplace they created.

It should be obvious to most folks that they were able to redefine a significant part of the market in such a short time, and appeared to be well on the way for more.

Without Enron, the wholesale energy marketplace may have a chance to become a useful resource again.

Like it or not, however, electric cooperative like Wake Electric buy, sell and trade wholesale electricity every hour of every day.

We fully expect that, over time, the new commodity market for whole completely replace the old bilateral contracts between a buyer and a seller.

Eventually, as the wholesale electricity marketplace becomes fully developed, this new approach may provide more flexibility and lower overall prices.

> ***'Without Enron, the wholesale energy marketplace may have a chance to become a useful resource again.'***

For the short term, we expect to see wholesale electricity prices be much more variable. Prices may change dramatically, hour by hour, based on market conditions.

What can we do about it? First, we can work to ensure that wholesale energy markets are independent and regulated enough to be honest and fair. Existing commodity markets like the Chicago Board of Trade or the New York Mercantile Exchange are good examples.

Enron's private wholesale energy market, now operated by a Swiss company, is a bad example.

Second, we can become more involved in the energy trading business. Our goals would be to reduce risk, stabilize prices and provide adequate supply.

Our goals would not include adding costs, increasing volatility and making money at someone else's expense.

Many years ago, the electric cooperatives formed North Carolina Electric Membership Corporation (NCEMC), a generation and transmission cooperative, to handle our power supply operations.

Now NCEMC and other power supply cooperatives across the country have joined together to form a new energy trading company, Alliance for Cooperative Energy Services (ACES) Power Marketing.

ACES Power handles energy trading for more than 250 electric cooperatives with more than four million members.

ACES just opened a new regional energy trading center in Raleigh. The center operates 24 hours a day, seven days a week, trading wholesale electricity on an hourly basis to ensure both adequate supply and the lowest possible cost.

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Employees at ACES Power Marketing work around the clock buying, trading and selling power.

'Providing reliable electric service will always be our chief objective.'

—Roy Ed Jones, Jr.
President, Wake Electric Board of Directors

Co-op Continues Commitment to Communities

President's Report
—Roy Ed Jones, Jr.

During the past year, Wake Electric made many improvements to its plant facilities to serve you better.

We completed an addition to the Youngsville Operations Center, which is helping make the overall operations of the Cooperative even more efficient.

Wake Electric continues to grow at a tremendous rate. To keep up with this growth, and to be able to provide a high level of service to you, we are constantly upgrading our system.

Providing reliable electric service will always be our chief objective. But, Wake Electric is also aware of its responsibility to be a good corporate citizen, helping to improve the quality of life in our communities.

This commitment to community has focused on education, economic development and support of community organizations.

One of the most visible is through our local school systems with the Bright Ideas Grant Program.

Since the program began in 1994, Wake Electric has awarded almost $84,000 in grants to area teachers to carry out special teaching projects.

The Cooperative has also funded student scholarships to the tune of $34,000 to 53 students since 1986.

Another way Wake Electric is encouraging and recognizing area students for academic achievement is the Give Us an "A" Program.

In the last six years the Cooperative has awarded $50 U.S. Savings Bonds to 270 students.

Wake Electric works with economic development organizations to bring new jobs to our area.

We are active in local chambers of commerce, which help develop existing businesses. Wake Electric and its employees also support the United Way.

During the past year the Board opted to simplify the process for making donations to the WE Care program.

By rounding up electric bills to the next dollar and pooling the extra change each month, Wake Electric and its members can make a difference in their communities.

These donations will go to such local organizations as volunteer rescue squads, fire departments and food pantries.

Small change CAN change lives!

The WE Care program is still a voluntary program, and members have the option to stop rounding up their accounts by notifying the Cooperative.

Integrity. Accountability. Innovation. Commitment to Community.

These four tenets of the Touchstone Energy program are the cornerstone of Wake Electric.

With your continued support, we as a Cooperative, will continue to work for and with our communities.

Your Board of Directors appreciates the interest you've shown in your cooperative and the support you have given us as we deal with the challenges facing Wake Electric.

Wholesale Power Market •

(Continued from page 2)

ACES is just the latest example of how electric cooperatives work. When consumers need additional services or resources, electric cooperatives respond with new ideas.

Sometimes, as with ACES, the solutions aren't completely new, but the consumer focus is.

ACES employees know their job is not to provide maximum profits for their company, but to provide maximum value to electric cooperative members at the end of the line.

Wholesale electricity accounts for more than half of the retail price of electricity.

By using new cooperative organizations, like ACES Power Marketing, those costs can be managed as we move toward a less regulated wholesale energy marketplace.

Consolidated Balance Sheets

as of December 31 ...2001 ...2000

	...2001	...2000
Assets		
Utility Plant		
Property, Plant & Equipment	$104,380,334	$89,267,766
Less: Accumulated Depreciation	(17,429,089)	(16,675,252)
Net Plant	86,951,245	72,592,514
Construction Work in Progress	4,302,564	8,764,184
Total Utility Plant	**$91,253,809**	**$81,356,698**
Other Assets		
Investments in Associated Organizations	$4,244,947	$3,407,042
Other Investments	1,194,270	1,058,087
Total Other Investments	5,439,217	$4,465,129
Current Assets & Deferred Charges		
Cash Equivalents	$ 502,950	$ 395,600
Accounts Receivable	5,403,841	6,043,166
Other Current Assets	2,105,253	1,790,412
Deferred Charges	802,759	929,354
Total Current Assets & Deferred Charges	8,814,803	9,158,532
Total Assets	**$105,507,829**	**$94,980,359**
Equities & Liabilities		
Equities		
Membership Fees	$ 101,150	$ 96,480
Patronage Capital	23,750,495	23,247,709
Other Equities	557,444	482,453
Total Equities	$24,409,089	$23,826,642
Total Long-Term Debt	**$71,924,659**	**$62,944,396**
Current Liabilities		
Current Portion of Long-Term Debt	$ 311,704	$ 306,697
Accounts Payable	5,938,305	4,763,081
Other Accrued Liabilities	1,306,436	1,410,625
Consumer Deposits	803,535	803,010
Total Current Liabilities	$8,359,980	$7,283,413
Other Non-Current Liabilities	814,101	925,908
Total Equities & Liabilities	**$105,507,829**	**$94,980,359**

Wake EMC's financial records are audited by Arthur Andersen, LLP of Raleigh, North Carolina. The reports for the fiscal years ending December 31, 2001 and 2000, are available at the Cooperative's office in Wake Forest, NC.

Consolidated Statement of Operations

as of December 31	...2001	...2000
Operating Revenue	$36,831,339	$35,350,137
Operating Expenses		
Cost of Purchased Power	18,945,892	17,727,096
Operations & Maintenance of Electric Plant	3,266,342	3,208,669
Consumer Accounting Expense	1,866,298	1,481,489
Consumer Service & Information Expense	301,645	488,846
Administrative & General Expense	2,733,155	2,869,296
Depreciation	2,668,424	2,450,534
Taxes	2,054,637	1,856,888
Total Operating Expense	**$31,836,393**	**$30,082,818**
Other Income/Expenses		
Interest Income	$ 80,291	$ 224,147
Interest Expense on Debt	(3,751,679)	(3,747,015)
Patronage Capital from Other Cooperatives	566,269	430,150
Other Income/Expenses	(616,593)	(242,506)
Total Other Income/Expenses	**(3,721,712)**	**(3,335,224)**
Net Margins	**$1,273,234**	**$1,932,095**

How Your Co-op Dollar Was Spent in 2001

	Per Dollar	Actual Amount
Cost of Purchased Power	51¢	$18,945,892
Operations & Maintenance of Electric Plant	9¢	3,266,342
Consumer Service Accounting Expenses	6¢	2,167,943
Administrative & General Expense	7¢	2,733,155
Depreciation	7¢	2,668,424
Other Expenses	0¢	(29,967)
Taxes	6¢	2,054,637
Interest Expense	10¢	3,751,679
Net Margins	4¢	1,273,234
Total	**$1.00**	**$36,831,339**

Report Ratios

Period Ending: December 31	...2001	...1996
Number of Consumers	23,426	17,559
Residential Consumers	22,110	16,481
Avg. Monthly kWh/Residential Member	1,194	1,143
Total Operating Revenue	$36,831,339	$28,269,471
Period: January 1—December 31	**...2001**	**...1996**
Residential kWh Sales	312,089,768	229,533,771
Total kWh Sales	416,129,253	317,507,955

Growth continues to spur construction

Wake Electric is one of the fastest growing cooperatives in the country.

The Research Triangle Park, our state's capital and local businesses continue to bring new families and businesses to our service area.

Wake Electric is committed to providing reliable electric service to our new neighbors and continuing to provide good service to our existing members.

In 2001, Wake Electric invested more than 10 million dollars in new poles, lines, transformers, meters substations, offices and other facilities.

The net utility plant investment is now greater than 91 million dollars.

In the northern portion of our system in Granville County, upgrades were made to our lines along Cannady Mill, Philo White, Conyers and Woodlief Roads.

In Vance County improvements were made on Dick Smith and Oak Ridge Church Roads.

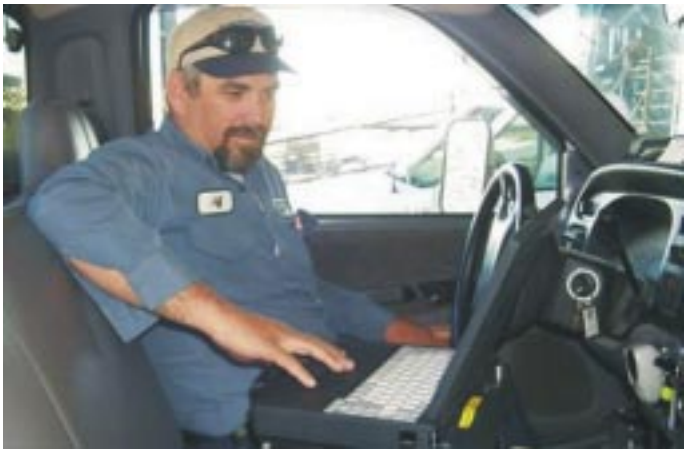
In the central portion of our system, lines were upgraded in Franklin County on Hill Roads, as well as portions of NC 96 and US 1.

Projects in Wake County included portions of NC 98, Thompson Mill, Jones Dairy, Cham–blee and Woodlief Roads.

In the southern portion of our system in Johnston County we rebuilt lines along NC 222, Feed Mill, Johnson and Old Beulah Roads.

We made substation upgrades to our Wake Forest, Lassiter, Walker's Cross Roads and MGI stations in 2001.

We completed our new Wake Electric Youngs–ville facility in 2001. This allowed us to consolidate our engineering staff into one building. We also moved our accounting and human resource staff to Youngsville.



Servicemen and crew leaders have computers in their vehicles with up-to-date maps.

New construction continued throughout 2001.

Engineering & Operations

The new facility has classroom and meeting spaces for training for our employees and for board meetings.

We have added warehouse space and a new transformer storage area to be able to handle the increased flow of materials through our warehouse facilities.

We upgraded our dispatch center to better track both daily work and for dispatching crews during system emergencies.

They can also track our local weather to aid in planning work.

We have upgraded our kitchen facilities and have added showers for when we have to work around the clock during major storms.

Our servicemen and crew leaders now have computers mounted in their vehicles with up to date maps.

This helps them locate our members quickly and to have up to date information on the electric system.

The reliability of an electric system comes from the efforts of many people.

We have engineers who design and model our electric system; linemen who build the system; right-of-way workers who keep the lines clear of trees; linemen who patrol, inspect and repair our lines, and servicemen who connect services, repair lights and trouble shoot problems.

The call center acts a hub for collecting requests and trouble calls from our members.

We use automated data from our field equipment and from meters that call our office if they sense a problem.

Our computers predict the location of problems based on the calls from members and our equipment.

Dispatchers work with all of this information to make quick decisions of where to send our men in times of problems.

All of these people are committed to making Wake Electric's power system work for you.