

ADDING VALUE TO SERVICE...

2003 Annual Report



Wake Electric
Membership Corporation

Your Local Touchstone Energy® Cooperative



What We Can Learn from the Past...

In the past couple of years, we've all seen a lot of media coverage of the failure of the electric utility deregulation experiment in California and the collapse of energy trading companies like Enron.

Most of these ventures started out as good ideas that had the **potential** to provide benefit to the general public.

Unfortunately, we've seen that these ventures can be hijacked, without us seeming to notice, by individuals driven by greed and ego and turned into vehicles that do great harm to our nation and our economy.

How do we prevent these catastrophes in the future? Some say that additional accounting rules or tougher enforcement of existing laws will help. I wish I were more optimistic that we have an easy answer.

First, one more example of the electricity utility business gone wrong. The difference with this story is that it's one of the best [or worst] examples of utilities being hijacked by Wall Street and you probably haven't heard this on CNN.

It started in Chicago with the Midland Utilities Company. Midland intro-

duced the concept of a public utility holding company. This allowed the company to raise the large amounts of capital it needed for expansion.

But, it also allowed the company to be controlled by a relatively few individuals in a way that ensured huge profits and little risk.

Within a few years, this had become the model for utility mergers and takeovers across the country. Eventually, only eight of these "holding" companies controlled 75% of the electric utility business in the U.S.

Ultimately, the scheme collapsed and while the Wall Street investment bankers made and kept millions, most of the ordinary utility stockholders lost all their investments, utility employees lost their retirement funds and million of consumers across the country paid more for electricity.

Much of the public outrage was toward a system that allowed the concentration of power in the hands of a few individuals. Does this sound familiar?

The reason this crisis hasn't been on CNN lately is that it is an old story. Midland Utilities Company was formed in

1924 and some say their collapse was one of the factors that helped trigger the Depression.

In the 1930's, in the aftermath of scandal, greed and mistrust of Wall Street's control and manipulation of the nation's large investor-owned utilities, many felt the creation of a network of consumer-owned, locally controlled electric cooperatives across the country would provide an alternative.

As a result, the Rural Electrification Administration was formed in 1935 and electric cooperatives across the country soon followed. (Wake Electric was founded in 1940.)

Over the years, electric cooperatives have been a successful alternative and fulfilled much of that potential created more than 60 years ago.

As an example, more than 50% of the land area in North Carolina is now served by electric cooperatives.

As we find ourselves recovering from another self-inflicted energy crisis and crisis of confidence in the energy markets and stock markets, the electric cooperatives have continued to provide a successful alternative

model.

We have remained close to our roots and have remembered that we exist to provide a basic and essential service to our members.

As we discuss how to avoid future problems in the electric energy industry, we should recall there's a saying that those who don't learn from history are doomed to repeat it.

After the Midland Utility Company's bubble burst 70 years ago, there were years of congressional hearings, investigations and criminal trials, and many safeguards (including the creation of the Securities & Exchange Commission) were adopted.

But these safeguards alone were not able to prevent our recent problems. As soon as you have new rules, it seems you have new efforts in bending or breaking the rules.

Large corporations, such as Enron, controlled by a relatively small number of investors attracted by the possibility of huge returns is one solution.

As an alternative, a large number of small corporations (like Wake

How do we prevent these catastrophes in the future?

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(Continued on page 3)

PROVIDING 'VALUE-ADDED' SERVICE IS GOAL OF WAKE ELECTRIC

Almost since the first time electric service was offered as a commodity for sale to consumers, utilities have placed the primary emphasis on providing dependable service.

Over the years Wake Electric has expanded its original mission to include additional energy-related services for its consumers.

"Value-added" services—the new buzz term in marketing—has its own meaning for Wake Electric members.

While providing dependable electric service will ALWAYS be the primary focus of the Cooperative, making services available such as free home energy audits to help make the best use

of the energy consumers buy, is just one of Wake Electric's "value-added" services.

By the same token, consumers have the option of paying their bills electronically or by bank draft, checking their accounts any time, day or night, and reporting outages through an automated reporting system.

The list of value-added services goes on and on. For example, each Wake Electric member receives a subscription to *Carolina Country* magazine. In addition to being entertaining, the magazine includes helpful safety information, energy use tips and items about new technology.

Last October, Wake Electric joined with other electric utilities across the state to offer "green power" to consumers who want to participate in using renewable energy sources to generate electricity. This is just

more of the "value-added" programs/services the Cooperative offers.

Electricity at the flip of a switch is probably one of the most *valued* services there is.

Just the convenience of heating and cooling homes and businesses, preparing food and operating labor-saving machines is a bonus any way you look at it.

It's the *value-added* services that many people don't normally recognize which also provides conveniences to consumers.

During the coming year, the staff and management of Wake Electric, with input from the Board of Directors, will continue to look for additional ways to provide value-added services.

We will, however, continue to keep in mind that providing reliable electric service at a competitive price is the primary goal of Wake Electric.



Long-Time Director Recognized

WHEREAS, Roger L. Moss has served with distinction for the past twenty-seven years as Director of Wake Electric Membership Corporation, North Carolina; and

WHEREAS, Mr. Moss's community involvement and leadership abilities within the Cooperative are widely recognized by Cooperative members, staff and employees; and

WHEREAS, Roger Moss has distinguished himself through his excellent representation of Cooperative members as reflected in the following areas:

- Participation in Directors' Board Meetings over the past twenty-seven years;
- Enhancing the Cooperative's image in the community;



Roger Moss
1926—2003

- Leadership roles in the Community; and
- Participation in member advisory committee meetings;

WHEREAS, in all things, Roger Moss has provided outstanding leadership and has served the Cooperative as its Director ably and well in full partnership with Wake EMC and his fellow Board members.

NOW THEREFORE, in grateful appreciation for the foregoing services and a job well done, the Board of Directors of Wake EMC hereby resolves its thanks and appreciation to Roger Moss for the excellent and professional manner in which he has conducted himself as Director of the Cooperative;

FURTHER RESOLVED that a copy of this Resolution be spread upon the Minutes of this Cooperative and that a framed copy thereof be presented to the family of Roger Moss with the Board's thanks and appreciation.

General Manager's Report • (Continued from page 2)

Electric), each locally owned and controlled, driven only by the need to provide essential services is another solution.

I think history has given us examples of

both good and bad choices. I hope that, as we continue this national debate, we will choose wisely.

Jim Mangum

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31

...2003

...2002

Assets

Utility Plant

| | | |
|--------------------------------|---------------------|---------------------|
| Property, Plant & Equipment | \$118,706,113 | \$112,603,945 |
| Less: Accumulated Depreciation | <u>(21,464,638)</u> | <u>(18,998,033)</u> |

Net Plant

| | | |
|-------------------------------|-------------------|-------------------|
| Construction Work in Progress | <u>97,241,475</u> | <u>93,605,912</u> |
| | <u>2,342,351</u> | <u>2,022,545</u> |

Total Utility Plant **\$99,583,826** **\$95,628,457**

Other Assets

| | | |
|---|---------------|---------------|
| Investments in Associated Organizations | \$ 4,032,345 | \$ 3,791,534 |
| Other Investments | 2,264,083 | 2,697,842 |
| Nonutility Plant | <u>65,995</u> | <u>65,907</u> |

Total Other Assets **6,362,423** **6,555,283**

Current Assets & Deferred Charges

| | | |
|----------------------|------------------|----------------|
| Cash Equivalents | \$ 730,025 | \$ 1,155,114 |
| Accounts Receivable | 6,499,017 | 7,921,653 |
| Other Current Assets | 1,829,532 | 1,638,596 |
| Deferred Charges | <u>3,943,632</u> | <u>717,027</u> |

Total Current Assets & Deferred Charges **13,002,206** **11,432,390**

Total Assets **\$118,948,455** **\$113,616,130**

Equities & Liabilities

Equities

| | | |
|-------------------|------------------|------------------|
| Membership Fees | \$ 110,035 | \$ 105,685 |
| Patronage Capital | 24,431,729 | 22,984,725 |
| Other Equities | <u>3,221,085</u> | <u>3,183,776</u> |

Total Equities **\$27,762,849** **\$26,274,186**

Total Long-Term Debt **\$78,864,734** **\$77,698,240**

Other Long-Term Liabilities **3,475,334** **731,659**

Current Liabilities

| | | |
|-----------------------------------|------------------|----------------|
| Current Portion of Long-Term Debt | \$ 651,560 | \$ 466,192 |
| Accounts Payable | 5,735,786 | 6,485,297 |
| Other Accrued Liabilities | 1,352,546 | 1,009,920 |
| Consumer Deposits | <u>1,105,646</u> | <u>950,636</u> |

Total Current Liabilities **8,845,538** **8,912,045**

Total Equities & Liabilities **\$118,948,455** **\$113,616,130**

Wake EMC's financial records were audited by McNair, McLemore, Middlebrooks & Co., LLP, of Macon, Georgia. The reports for the fiscal years ending December 31, 2003 and 2002, are available at the Cooperative's office in Wake Forest, NC.

CONSOLIDATED STATEMENT OF OPERATIONS

AS OF DECEMBER 31

...2003

...2002

| | | |
|---|----------------------|---------------------|
| Operating Revenue | \$ 44,058,964 | \$42,382,631 |
| Operating Expenses | | |
| Cost of Purchased Power | 22,460,667 | 21,362,721 |
| Operations & Maintenance | 5,466,860 | 5,293,240 |
| Consumer Accounting Expense | 2,727,273 | 2,462,848 |
| Consumer Service & Information Expense | 325,616 | 297,816 |
| Administrative & General Expense | 2,401,994 | 2,568,540 |
| Depreciation | 3,269,688 | 3,074,323 |
| Taxes | <u>2,066,685</u> | <u>1,775,037</u> |
| Total Operating Expense | \$38,718,783 | \$36,834,525 |
| Other Income/Expenses | | |
| Interest Income | 35,130 | 63,238 |
| Interest Expense on Debt | (3,647,314) | (3,672,208) |
| Patronage Capital from Other Cooperatives | 354,058 | 384,497 |
| Other Income/Expenses | <u>(1,037)</u> | <u>58,940</u> |
| Total Other Income/Expenses | (3,259,163) | (3,165,533) |
| Net Margins | \$2,081,018 | \$2,382,573 |

How Your Co-op Dollar Was Spent in 2003



REPORT RATIOS

| | | |
|--------------------------------------|----------------|----------------|
| Period Ending: December 31 | ...2003 | ...1998 |
| Number of Consumers | 25,832 | 20,037 |
| Residential Consumers | 24,591 | 19,083 |
| Avg. Monthly kWh/Residential Member | 1,219 | 1,154 |
| Period: January 1—December 31 | ...2003 | ...1998 |
| Residential kWh Sales | 351,516,812 | 256,705,794 |
| Total kWh Sales | 457,447,842 | 329,964,464 |



Improvements to electric plant system keeps pace with growth

The Triangle has been rated by **Business 2.0** as the hottest boom area in the country. They rated us number one among 61 metropolitan areas of over one million people in creating new high paying jobs.

Wake Electric's service area continues to be one of the fastest growing in the country. Hundreds of new families and businesses move to our area each year.

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

In 2003, Wake Electric invested \$6.5 million in new poles, lines,

transformers, underground lines and meters. The net utility plant investment is now greater than \$99.5 million.

Last year Wake Electric built over 1,300 new services to homes and businesses. We added 53 miles of underground and five miles of overhead lines to serve new consumers as well as to improve service to our existing consumers.

We also upgraded the overhead lines in many parts of our system. We installed larger conductors to provide more capacity to our distribution system, and we relocated lines to improve access for inspections and repair.

In the northern portion of our system in Vance County, we upgraded and rebuilt our line along Rice Road. We also upgraded some of our lines along US 1 in the county.

In the central portion of our system, lines were upgraded in Franklin County along Jackson and Holden Roads.

Projects in Wake County included Jackson, Camp Kanata, Tharrington and Horton roads. We also built a new feeder line to improve service in Wake and Franklin counties from our Lassiter Substation on NC 96.

We continued our replacement of old portions of our underground elec-

tric system, which had begun to fail. We replaced all of the high voltage cable in the Horse Creek Subdivision in Wake County in 2003.

A new transmission breaker station was built near Wake Forest. The new station was required to make room for the NC 98 bypass which is under construction south of town.

In the southern portion of our system in Nash County, lines along NC 264A were rebuilt, as well as some of our cross county lines serving the Middlesex—Bailey areas.

North Carolina faced a major ice storm in December of 2002. Two months later, our area experienced two more ice storms in February.

In September 2003, Hurricane Isabel struck North Carolina. Wake was able to mobilize crews from several states to make repairs as these storms hit our system.

Our expanded facility in Youngsville made dispatching, feeding and distributing materials to the crews much easier than in the past.

Though some Wake Electric members were not out of power because of the storms,

our average consumer was out of service for 5.5 hours during the year because of major storms.

Problems on our power suppliers' lines resulted in our average consumer being out over one hour during the year.

All other problems, including wrecks, lightning, animals and people cutting trees which fell into the line, resulted in 1.9 hours of average outage time.

Wake Electric strives to build and maintain a reliable electric system. The reliability of an electric system comes from the combined efforts of many people.

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

In 2003, our right-of-way maintenance budget was more than one million dollars. Those efforts help reduce the damage to our lines caused by trees and help keep access to the lines for making repairs and doing normal maintenance to the system.

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Wake Electric





The net utility plant investment is now greater than \$99.5 million

The total operation and maintenance budget for the electric system was over \$3.6 million.

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

We doubled the number of lines we can answer at one time with our automated phone system in 2003. The system enables members to report an outage to our outage management system by entering their phone number when they call.

We also use automated data from our field equipment and phone calls from hundreds of our meters that call our office if they sense a problem.

Outage management computers predict the location of problems based on the calls from members and our equipment in the field. Our dispatchers work with all of this information to make quick and effective decisions of where to send our men in times of problems.

Wake Electric's employees and contractors are committed to making Wake Electric's power system work for you.

'GREEN POWER' TOPS LIST OF VALUE-ADDED SERVICES

"Green power." Electronic bill payments. Local centralized call center. Bright Ideas grants. Student scholarships.

These are but a few of the value-added services Wake Electric offers to its member-consumers.

In October 2003, the Cooperative began allowing consumers to sign up to designate green power, or renewable energy sources, to generate electricity.

Sold monthly in blocks of 100 kilowatt-hours at \$4 per block, or one-time contributions, green power costs are billed through Wake Electric on behalf of NC GreenPower.

This voluntary, non-profit program was established to encourage the development of renewable energy sources for our state's power supplies.

Since its beginning, Wake Electric has worked to provide energy-related services which members requested.

As these type of services become more common in the marketplace, Wake Electric continues to look for other related services to offer members.

Home energy audits and HVAC inspections by qualified Energy Specialists are available to Wake Electric consumers.

The Cooperative also offers products such as

power quality equipment (ie., surge suppressors) and portable standby generators.

For consumer convenience, the Cooperative has extended office telephone hours between 7 a.m. and 9 p.m., Monday through Friday, as well as 24-hour emergency dispatch service.

The Call Center is staffed with experienced employees to respond to consumers' requests. Wake Electric believes it is important for consumers to speak with a "live" person locally.

When the technology became available for consumers to check their accounts and pay their bills through the Internet, the Cooperative made these options available.

Through Wake Electric and its subsidiary, Triangle Services Group, Inc., consumers have access to a number of products and services.

These include electrical wiring and repair services, standby generators, home security systems and PowerGuard surge suppressors.

The Cooperative also offers the following value-added services:

- Bank draft bill payments

- Handi-Pay for electric service payments

- Automated outage reporting system

- Automated account information system

Wake Electric continues to work to bring consumers related programs and products which complement the core business of providing electricity.

The Cooperative also is committed to helping improve our communities through contributions to the schools.

During 2003, the Bright Ideas Grant Program awarded nearly \$51,000 for 41 grants to area teachers.

Wake Electric also gave \$6,500 in scholarships to local students, and another 80 students each received a \$50 U.S. Savings Bonds in the "Give Us an 'A' Program."



Bright Ideas Grants gave local teachers \$51,000 in additional equipment and materials.

Commitment to Community

Whether it's in the classroom or the boardroom, your local Touchstone Energy® Cooperative is committed to providing everyone in your community with leading energy technology and personalized service they can depend on.

Plus a special blend of integrity, accountability, innovation and commitment to community, only Wake Electric can offer.

After all, we're part of an alliance of consumer-owned electric utilities across the country—serving more than 16 million consumers in 38 states. Proving that we put “The power of human connections” to work for you every day, in every neighborhood.

Including yours.



Wake Electric Membership Corporation

Your Local Touchstone Energy® Cooperative 

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Wake Forest—Downtown
414 East Wait Avenue

Wake Forest
Market at Wake Forest

Louisburg
216 North Bickett Boulevard

Zebulon
901 North Arendell Avenue

Oxford
104 Granville Corners