the Wake Electric Difference

2004 Annual Report

Wake Electric
Membership Corporation

Your Local Touchstone Energy® Cooperative

Making the Best Energy Choices...

Manager's Report
Jim Mangum

Wake Electric makes energy choices on your behalf. Those energy choices will account for nearly 30 million dollars this year.

Many different factors help determine our choices, but most important are: reliability, price and price stability.

As a result, in 2004, 48 percent of the electricity used by Wake Electric members was generated with nuclear power.

Coal-fired generation accounted for 38 percent, and two percent came from hydro-electric generation at Kerr Lake.

These domestic production sources accounted for 88 percent of our generation requirements at relatively stable prices.

The remaining 12 percent of our electricity was generated by burning natural gas in combustion turbines (equipment similar to jet aircraft engines).

Natural gas prices have increased recently and have also been relatively unstable.

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The current average price of $7 per thousand cubic feet is nearly double the price a few years ago, and the price has varied recently from a low of $3 to more than $10.

Some utilities use natural gas for a significant part of their generation and have been forced to pass along thse big cost increases and variations.

Since natural gas is a relatively small part of our generation mix, our overall power supply costs have been relatively stable.

As a result, Wake Electric retail rates have changed very little over the past eight years—with no changes at all for nearly three years.

Individual members also have energy choices.

Most members use electricity for lighting, refrigeration and air conditioning, but have a variety of energy choices for heating.

As you might expect, we think a high-efficiency heat pump is a smart choice.

Approximately 50 percent of Wake Electric members use electricity to heat their homes.

New heat pump models are more comfortable and can use electricity 230 percent more efficiently than an electric furnace.

With stable electric rates and rising natural gas and propane prices, a high-efficiency heat pump was the lowest cost choice for home heating this past winter.

About 10 percent of Wake Electric members use natural gas. When natural gas is available, home builders install natural gas heating in almost all the new homes they build.

Apparently, builders believe that a home with natural gas heat is more desirable, even when natural gas energy was almost 20 percent more expensive than electricity on a BTU basis this winter and nearly 30 percent higher if you include "gas company" facilities charges.

Why do people choose natural gas when it's 30 percent more expensive than electricity? We think there may be several answers.

1) Consumers didn't like the early model heat pumps and think they won't like the newer models.

2) Natural gas prices used to be significantly lower than they are now.

3) We have a lot of new neighbors from up north where heat pumps don't perform as well and they are used to heating with gas.

Propane continues to be a popular energy choice. This is in spite of propane prices being relatively unstable from year to year.

Since propane is primarily a petroleum product, its price changes just as often and just as much as the gasoline for your car.

This past winter, heating with propane was at least 50 percent more expensive than a high-efficiency electric heat pump.

Further, about one-third of all Wake Electric members use propane as their energy choice for primary heating.

We think there are a couple of factors that make propane attractive in spite of the cost.

1) Propane prices used to be lower than they are now, and

2) Some older homes are not well insulated and they need a quick source of really hot air in order to be comfortable. Propane can do that.

As an individual, you make energy choices. In most cases, we think you should strongly consider a high-efficiency electric heat pump to keep you cool in the summer and warm in the winter—even if you live in a neighborhood where natural gas is available.

If you live in an area beyond natural gas pipelines—and 90 percent of our members do—we think an electric heat pump is clearly the best choice.

Wake Electric's goal is to provide you with energy choices and reliable information to help you make the best decision for your energy needs.

This is in addition to our long-standing goal of providing reliable electric energy at reasonable and stable prices.

Jim Mangum

President's Report
- Roy Ed Jones, Jr.

Wake Electric's Difference Pays Off in Service to Members

The "Wake Electric Difference" begins where the Cooperative began more than 60 years ago—with its members.

As a cooperative, we already have a headstart on providing remarkable customer service.

We own Wake Electric.

The governing board of directors is comprised of fellow member-consumers who are elected to serve by you, other member-consumers.

Decisions made by the Board affect each member of the Cooperative equally.

One of the most often recognized characteristics associated with the cooperative way of doing business is the return of capital credits to the member-consumers.

As a not-for-profit organization, Wake Electric credits the accounts of its member-consumers with the money left over after the Cooperative's bills have been paid.

The money is not returned immediately, but is used to finance necessary system facility improvements.

By doing this, Wake Electric can avoid paying interest charges on loans which would otherwise be needed to make these improvements.

And, because interest on loans must be figured into the rate schedule, this helps keep down your electric rates.

This also allows the Cooperative to build equity in the business for you, our member-owners.

Of course, Wake Electric does pay capital credits to the estates of deceased members to help clear up estates.

General retirements, or refunds, are made when the Cooperative is in financially sound condition.

For the tenth consecutive year, the Cooperative's Board of Directors approved a general retirement of capital credits.

This included a budgeted $500,000 for the retirement/refund of capital credits for the year.

Approximately $85,000 of this amount was used to help clear up the estates of deceased members.

The remaining $415,000 was returned in a general retirement/refund.

This included 100% of the credits for 1979, and a percentage (about 1.4%) of the credits for the years 1980 through 2003.

The Wake Electric difference is easily defined by both the return of capital credits and member-consumer voice in who determines the direction the Cooperative takes.

Providing reliable electric service is still the primary mission of Wake Electric. A new substation started during 2004 will improve service to members in its area.

Compared to investor-owned utilities, these are major differences.

Wake Electric is also very visible in our local communities.

Elsewhere in this report is a recap of the Cooperative's participation in various educational programs.

The Wake Electric Care Foundation represents another major difference for the Cooperative.

It is funded through voluntary donations from the Wake Electric's members and employees to serve special needs in our local communities.

Funds may be to supplement equipment for our local fire and rescue departments, provide additional educational grants or to help another member who may be in a crisis situation.

An independent group oversees the distribution of the money.

Providing reliable electric service has always been the primary objective of Wake Electric. 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.

Wake Electric is proud to be an active partner in the communities in which we provide power.

We're grateful to all of our employees who work long hours in extreme conditions to keep the electricity flowing. We applaud their dedication.

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

Consolidated Balance Sheets

As of December 31	...2004	...2003
Assets		
Utility Plant		
Property, Plant & Equipment	$125,289,171	$118,706,113
Less: Accumulated Depreciation	(23,890,420)	(21,464,638)
Net Plant	101,398,751	97,241,475
Construction Work in Progress	2,861,073	2,342,351
Total Net Utility Plant	**104,259,824**	**99,583,826**
Other Assets		
Investments in Associated Organizations	4,164,144	4,032,345
Other Investments	2,200,959	2,264,083
Nonutility Plant	917,570	65,995
Total Other Assets	**7,282,673**	**6,362,423**
Current Assets & Deferred Charges		
Cash & Cash Equivalents	499,805	730,025
Accounts Receivable	8,329,520	6,499,017
Other Current Assets	1,925,618	1,829,532
Deferred Charges	3,275,990	3,943,632
Total Current Assets & Deferred Charges	**14,030,933**	**13,002,206**
Total Assets	**$125,573,430**	**$118,948,455**
Equities & Liabilities		
Equities		
Membership Fees	$ 115,655	$ 110,035
Patronage Capital	27,106,761	24,431,729
Other Equities	3,318,866	3,221,085
Total Equities	**30,541,282**	**27,762,849**
Total Long-Term Debt	**76,671,627**	**77,014,545**
Other Long-Term Liabilities	**2,982,008**	**3,475,334**
Current Liabilities		
Current Portion of Long-Term Debt	604,744	651,560
Operating Line of Credit	5,647,500	1,850,189
Accounts Payable & Deferred Credits	6,429,747	5,735,786
Other Accrued Liabilities	1,477,075	1,352,546
Consumer Deposits	1,219,447	1,105,646
Total Current Liabilities	**15,378,513**	**10,695,727**
Total Equities & Liabilities	**$125,573,430**	**$118,948,455**

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, 2004 and 2003, are available for preview at the Cooperative's office in Youngsville, NC.

Consolidated Statement of Operations

As of December 31	...2004	...2003
Operating Revenue	$49,769,721	$ 44,058,964
Operating Expenses		
Cost of Purchased Power	25,923,924	22,460,667
Operations & Maintenance	6,095,084	5,466,860
Consumer Accounting Expense	2,645,944	2,727,273
Consumer Service & Information Expense	261,818	325,616
Administrative & General Expense	2,706,299	2,401,994
Depreciation	3,467,513	3,269,688
Taxes	2,204,270	2,066,685
Total Operating Expense	43,304,852	38,718,783
Other Income/Expenses		
Interest Income	30,431	35,130
Interest Expense on Debt	(3,778,238)	(3,647,314)
Patronage Capital from Other Cooperatives	379,752	354,058
Other Income/Expenses	173,505	(1,037)
Total Other Income/Expenses	(3,194,550)	(3,259,163)
Net Margins	$3,270,319	$2,081,018

How Your Co-op Dollar Was Spent in 2004

Taxes—4.4¢

Administrative Expense—5.4¢

Customer Services—5.8¢

Margins—6.5¢

Depreciation—6.9¢

Interest Expense—7.5¢

Operations & Maintenance—12.1¢

Cost of Purchased Power—51.4¢

Report Ratios

Period Ending: December 31	...2004	...1999
Number of Consumers	27,184	21,137
Residential Consumers	25,659	19,893
Avg. Monthly kWh/Residential Member	1,258	1,126
Period: January 1—December 31	**...2004**	**...1999**
Residential kWh Sales	378,508,222	262,963,388
Total kWh Sales	503,976,684	358,205,501

Engineering & operations

Consumer Base, kWh Sales Continue to

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

Our consumer base grew by nearly five percent in 2004. Sales of kWh grew by more then 10 percent during the 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 2004, Wake Electric invested approximately seven million dollars in new poles, lines, transformers, underground lines and meters. The total net utility plant investment is now $104.3 million.

Last year, the Cooperative built more than 1,500 new services to homes and businesses.

We added 69 miles of underground and one mile 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.

Larger conductor was installed to provide more capacity to our distribution system, and we relocated lines to improve access for inspections and repair.

In the northern portion of the system in Granville County, we upgraded and rebuilt the power line along Hester Road.

In the central portion of the system, lines were upgraded in Franklin County along Clifton Pond Road.

Projects in Wake County included a portion of O'Neal Road and increased capacity by 25 percent at our Walker's Crossroad Station on Burlington Mill Road.

Wake Electric employees Tony Kearney, Chris Baker and Clark Blackburn install a variety of equipment used to raise a transmission pole down at the Emit Substation. Work was done with 69,000 volts pulsing in the lines overhead.

Work is underway at a new substation near Kittrell. A crane was used to lift a transformer in place.

In the southern portion of the system in Nash and Johnston counties, we rebuilt lines along Buck, Selma and King roads as well as on NC 39, NC 42 and NC 96.

Wake Electric was not hit by the major storms that affected other areas of the state and the Southeast in 2004.

The Cooperative was able to mobilize crews to send to sister co-ops in North and South Carolina, Florida and Alabama.

In previous years we have called on help from our sister cooperatives to come to our aid.

Problems on our power suppliers' lines resulted in our consumers averaged being without service about 0.5 hour during the year.

All other problems, including wrecks, lightning, animals and people cutting trees which fell into the line, resulted in 1.3 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 trouble shoot problems.

In 2004, our right-of-way maintenance budget was more than one million dollars.

These efforts help reduce the damage to our lines caused by trees and help keep access to the

(Continued on page 7)

o Increase

lines for making repairs and doing normal maintenance to the system.

Wake Electric's total operation and maintenance budget for the electric system was more than $3.9 million.

The Cooperative's call center was relocated to our Youngsville Facility in 2004. The center acts as the hub for taking requests for service, receiving trouble calls and answering questions from our members.

Our automated phone system enables members to check account balances, update their phone numbers on the Cooperative's system and report an outage to the outage management system.

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.

Wake Electric's outage management computers predict the location of problems based on the calls from members and equipment in the field.

The Cooperative's 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.

Member, Community Programs & Services Make a Difference

The Wake Electric difference is epitomized by the programs and services offered by the Cooperative and its subsidiaries.

From high speed Internet service to grants for local teachers, Wake Electric continues to looks for programs and services its member-consumers want.

One of the most visible programs partially funded through the Wake Electric Care Foundation is the Bright Ideas Grant Program.

Together with money from our Statewide organization, the program has awarded approximately $231,000 since it began in 1994 for local educators to bring innovative teaching projects to their classrooms.

During 2004, the Bright Ideas Grant Program awarded nearly $45,000 for 39 grants to area teachers.

The Cooperative also established a program to allow educators to get technical equipment for their classrooms in its Classroom Technology Awards.

Almost 200 requests for funding were received. Of these requests, 28 projects were funded representing $21,732.

Wake Electric also gave $8,500 in scholarships to local students, and another 80 students each received a $50 U.S. Savings Bonds in the "Give Us an 'A' Program."

Last year, we joined with other electric cooperatives in the state to participate in the "Amber Alert" program.

We have also continued to promote "Green Power," which allows members who wish to participate voluntarily in using 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.

During 2004, the first contracts were awarded to individuals for providing green power.

The Cooperative also offers products such as power quality equipment (ie., surge suppressors) and portable standby generators.

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 Power–Guard surge suppressors.

Satellite speed Internet access with no phone lines, no cable, no dial-up is also being offered through Triangle Services Group, Inc. and touchnc.net.

Wake Electric and Touchstone Energy participated in Hispanic Library Day and handed out safety materials in Spanish. Author Pat Mora, far right, autographs copies of her book for for some of those attending.

John heard a powerful voice at the electric co-op meeting. His own.

Only your local electric co-op makes every consumer an owner of the business. Unlike other electric utilities, Wake Electric exists to make sure your needs are always met, not to make a profit. And since every electric cooperative is locally owned and operated, Wake Electric is always there with you, reinvesting in your community. That's why in an electric co-op, the people have the power.

Wake Electric Membership Corporation

Your Local Touchstone Energy® Cooperative

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