

WEC CO-OP CURRENTS

66th Annual Meeting Takes Flight May 3

Ornithologist Pfeiffer Featured Speaker

Whatever else might be said of the year that has passed since WEC held its last Annual Membership Meeting, it definitely has not been "for the birds."

The Co-op has had an exciting and unique year, beginning with the approval of the Vermont Public Service Board last June of a Certificate of Public Good for WEC's proposal to build an electric generating plant fueled by the organic decomposition of garbage at the state's largest landfill. That was followed on June 29 by a special vote of the Co-op's membership, who approved the project, 1,633 to 86.

Summer and fall were spent planning for construction, which began in November. As Annual Meeting time rolls around again, the Co-op anticipates a May or June start-up for the project that, in time, is expected to deliver a third to a half of WEC's power needs – from an in-state facility, at a beneficial cost.

Discussion and an opportunity for members to ask questions about the project will be a feature of the Annual Meeting, scheduled for Tuesday, May 3, at the Montpelier Elks Club. But General Manager Avram Patt doesn't want anyone to think WEC has lost its focus.

"I will emphasize that all through this process of developing our new generation plant we remember that the thing we have to do at the Co-op, day in and day out, is keep people's lights on, and constantly improve our performance in that regard. That never goes away. Even though Coventry tends to be in the headlines and has attracted attention this year at the State House, we make sure to focus on our 24/7 contact with our members, which is through our power lines."

Adding an element of entertainment to this year's Co-op gathering, WEC has invited a featured speaker – well-known naturalist and writer (and Washington

Electric Co-op member) Bryan Pfeiffer, of Plainfield. Pfeiffer, an engaging personality and enthusiastic speaker, will present a talk, with photos and personal stories, titled "WEC, Wires and Wildlife."

"There's more than current moving along WEC's power lines," said Pfeiffer.



Bryan Pfeiffer

"Members may be surprised to learn what I've discovered flapping, fluttering, slithering and creeping through our rights-of-way."

Pfeiffer has conducted birding tours, is a co-host of "For the Birds," an award-winning radio program on WDEV,

and is co-author of the field guide, "Birdwatching in Vermont." Lately he has expanded his interest and expertise to other winged creatures, particularly butterflies, dragonflies and fireflies.

"We also know Bryan from the 1980s when he was a reporter for *The Times Argus*," said General Manager Patt. "It was a time of hotly contested Board elections and debate about the future direction of the Co-op. So he has a perspective on many of the things that are important to us."

"Plus, he's a member now. We think the folks who come to our Annual Meeting will find Bryan both informative and entertaining."

The doors will open at the Elks Club at 5 p.m. People who haven't already voted by mail in the election for Co-op Directors, and on the bylaw amendments proposed by the Board, can cast their ballots at the meeting. Ballot boxes will close at 7 p.m., and the results will be announced before the meeting adjourns.

As always, the Annual Meeting will feature dinner (see the agenda on page 1, and the dinner menu and reservation coupon on page 8). Following the meal, WEC President Barry Bernstein will convene the yearly business meeting,

continued on page 6

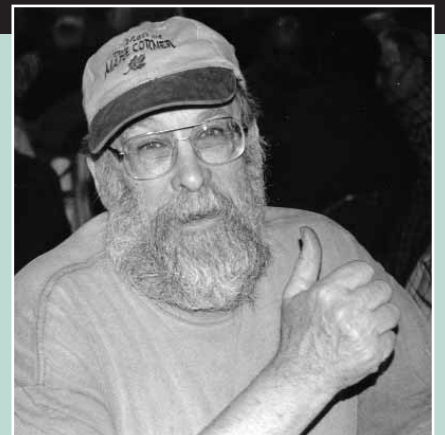
Inside

Officers' Annual Reports: WEC's **President** (page 2), **General Manager** (page 3), and **Treasurer** (page 6) update you on your Co-op.

Three candidates for the Board of Trustees seek your support. Meet them on page 4.

Board seeks your approval of bylaw amendments changing some of the language, but not the thrust, of capital credits. Page 5.

Washington's ice sculptor, George Matheson, rides again! Page 8.



Greg Gallagher of Calais, a regular attendee, gives thumbs-up to WEC's Annual Meeting at last year's event.

WASHINGTON ELECTRIC COOPERATIVE, INC.

66th Annual Membership Meeting

**Tuesday, May 3, 2005
Montpelier Elks Lodge
(East of Rtes. 2 & 302 Junction)**

Agenda

- 5:00 p.m.** Registration– Ballot Boxes Declared Open
- 5:30 p.m.** Chicken and Meatless Mostaccioli Dinner Served (Reservations Required - Coupon on Page 8)
- 6:30 p.m.** Business Meeting Called to Order (Ballot Boxes Close at 7:00 p.m.)
Reports from Officers: President's Report, Treasurer's Report, Manager's Report,
Update on Coventry Landfill Methane Project, Wind and Other Power Supply Issues
Question/Answer Session on any subject of interest to members
Bryan Pfeiffer presents "WEC, Wires and Wildlife"
Door prizes to be drawn throughout the evening.
- 8:30 p.m.** Adjournment

(The meeting is scheduled to adjourn at 8:30, but it will continue as long as there are questions from the membership.)

Official Notice and Annual Report

President's Report

Coventry Project, the Community Fund and (Again) No Rate Hike Highlights of a Successful Year

By Barry Bernstein

Major Milestone

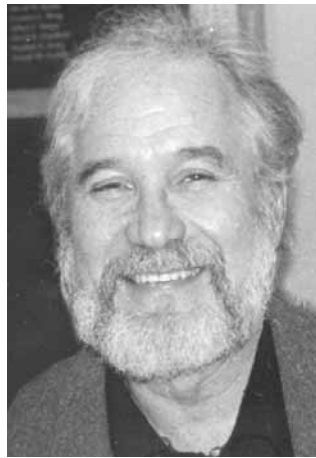
This year's Annual Meeting marks 66 years since rural central Vermonters joined together to form Washington Electric Co-op and bring electricity and lights to themselves and their neighbors.

In 2004, our cooperative reached a milestone, with the approval by our membership to build the Coventry landfill gas-to-electric generating plant. In June we received our Act 248 permit from the Vermont Public Service Board, conditional on the landfill's owner, NEWSVT, receiving its own permit under Act 250.

Construction began at the end of November, with the startup of operation expected during the second quarter of 2005.

The Coventry plant, when operating at full capacity, will provide our membership with 50 percent of our

energy needs, at a reliable cost, for the next 20 to 30 years. It will produce power at a 20-year levelized rate of 4.3 cents/kwh (in 2005 dollars), well below even today's spot market rate. When we factor in the sale of the Renewable Energy Credits, which will be sold separately, for the next two years at 4.8 cents/kwh, in essence the power will be free for that period and WEC will receive additional added revenue. That revenue will help us avoid rate increases for the next few years. Remember, our last rate increase was in 1999.



Barry Bernstein

Membership Involvement

Like all co-ops, we are owned by our membership, and as a member-owned business we are focused on serving you. In 2004 we held local meetings, with dinner, in Chelsea and Plainfield (with the help of the Chelsea United Church and the Twinfield High School Spanish class), which gave your Board members, Manager and

employees an opportunity to hear from members, and to discuss what's on your mind and ours. We plan to hold more local meetings like these in 2005.

We also welcomed two new members to the Board of Directors following elections at last year's Annual Meeting. Kim Cheney from Middlesex and Roy Folsom from Cabot joined the Board, following the election of Marion Milne (Washington) the year before, marking significant turnover and new perspectives on our Board of Directors.

Our membership newsletter, *Co-op Currents*, continued to keep our readers informed on a wide range of issues important to our co-op. *Currents* carried specials on wind-energy development in Vermont; on statewide political candidates, who discussed energy issues in our pages; on the development of our landfill gas-to-electricity project in Coventry; and stories on the wholesale power market, the Connecticut River dams, WEC operations, and special features on our Co-op employees.

Last year also marked the second year for WEC's Community Fund, which is supported by Co-op members who have chosen to donate their capital credit refunds to the program. The fund contributes to worthy causes in central Vermont. Thanks to those people's donations of their 2003 capital credits, the Community Fund was able to grant \$9,280 to 28 organizations in 2004. With \$17,455 collected in the fall of 2004 we will be able to expand our support to community organizations in 2005.

This year we will offer members the opportunity to check off on an ongoing contribution to the fund.

Speaking of capital credits, your Board plans to approve a distribution of credits again in 2005, for the seventh year in a row. As in the past, we will refund a portion to members of record for 2004, based on kilowatt-hour usage – which will be equivalent to approximately a 1-percent decrease in rates – and another portion to members of record in 1984. Capital credit refunds are an important feature of being a cooperative, differentiating us from other types of businesses.

Operations

The new South Walden substation, which we brought on line in September, replaced a 40-year-old substation. Our own line workers and Operations team,

under Director of Engineering & Operations Dan Weston, built the substation, which was designed by Dufresne-Henry Inc. It will improve service to 1,500 Co-op members. Thanks again to our talented and versatile staff for this project.

I would like to formally welcome Linda Nelson as our new Director of Finance. Linda, who came to WEC in 1983, stepped up to replace long-term Finance Director Janet LaRochelle, who retired at the end of 2004. Linda and her staff kept things moving smoothly during the transition.

When we factor in the sale of the Renewable Energy Credits for the next two years, in essence the power from Coventry will be free for that period, and the added revenue will help us avoid rate increases for the next few years.

My thanks go also to General Manager Avram Patt and our dedicated employees, who helped to ensure a successful year in 2004. It is really true at WEC that all the parts make up the whole. Special thanks to the Board of Directors and officers, who give a consid-

erable amount of their time and energy to the Co-op.

I want to particularly express our gratitude to all who have helped with our Coventry project. These include our general counsel, Diamond & Robinson; our power consultants, La Capra Associates; Palmer Management; Dufresne-Henry; EPRO Engineering; Pizzagalli Construction; WEC employees Denise Jacques, Dan Weston, Debbie Brown, Bob Fair and the other employees who have been involved, including everyone who has had to carry additional weight while those folks were up north.

Adieu Bud Haas

At the Annual Meeting the Board will be saying goodbye to Bud Haas, who has decided not to run for re-election after serving two separate stints as a Co-op director (1992-1998, and 2002-2005). Bud has at various times been our Treasurer and chair of our Finance & Administration and Power & Operations



Bud Haas

committees. His penchant for asking tough questions, and persistence in pursuing issues until they are resolved, is an important aspect of the dynamics of a successful board process. His contributions will be dearly missed.

I hope many of you will vote in this year's election for Co-op Directors, and for the bylaw changes supported by your Board. I also hope you will join us to share dinner and attend the business session at our 66th Annual Membership Meeting at the Elk's Club in Montpelier on Tuesday, May 3.

Co-op Currents

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Avram Patt Donald Douglas Wendell Cilley Will Lindner

The Board of Directors' regularly scheduled meetings are on the last Wednesday of each month, in the evening. Members are welcome to attend. Members who wish to discuss a matter with the Board should contact the president through WEC's office. Meeting dates and times are subject to change. For information about times and/or agenda, or to receive a copy of the minutes of past meetings, contact Administrative Assistant Deborah Brown, 802-223-5245.

Manager's Report

'A Day In The Life,' And the Connections That Make it All Worthwhile

By Avram Patt
General Manager

Tuesday, March 29, was a busy day for me. It ended on a high note, and I thought it might serve as a snapshot of the scope of activity at your Co-op.

After a full day of working with our staff, consultants, board members, potential business partners, utility lobbyists, regulators and politicians on a variety of matters great and small, a Co-op member delivered a message to me that reminded me in the plainest way why we do the work we do, and why Washington Electric Co-op exists. While I don't keep a daily journal, here's what it might look like for that day if I did:



Avram Patt

- **7:30-10:00AM.** Review memos and messages about a wind project WEC might become involved with; forward information to board members in preparation for Wednesday night's board meeting. More phone calls and e-mailing about potential Homeland Security requirements that might hinder WEC's ability to use small amounts of explosives to set poles in ledge. Review various updates about construction progress at our landfill-methane generating project in Coventry. Respond to questions from a board member about a staffing item on the agenda for tomorrow's meeting. Re-read the latest draft of the "Renewable Portfolio Standards" bill that has passed the Vermont Senate and is being reworked by a committee in the House.
- **10:00 AM- Noon.** Head over to WEC's Operations Center for a two-hour First Aid and CPR refresher training session that all employees are taking today, in two shifts. The instructor talks about defibrillators. The cost has come way down and he recommends that WEC place them in our buildings and trucks. I try to stay concentrated on my CPR training instead of wondering whether we can squeeze defibrillators into next year's capital budget.

- **Noon-3:00 PM.** Returning to the office, some good news from Operations Director Dan Weston about the explosives question: we probably don't need to change how we've been setting poles in ledge. Review our consultant's latest

economic analysis of the Coventry project. More correspondence about wind projects. Review draft agenda for upcoming board retreat. Make notes in preparation for testimony at the Legislature. Discuss a revised monthly financial report format with Finance Director Linda Nelson, as well as the sale of our Renewable Energy Certificates to buyers in Connecticut.

- **3:00-5:30 PM.** Head for the State House in Montpelier. House Natural Resources & Energy Committee trying to wrap up its deliberations on the renewable energy bill, a three-day parade of witnesses for one last round of testimony. In the hall, compare notes about our positions with representatives of other utilities, sometimes agreeing with them and sometimes not. Keep my comments brief this time. WEC is recognized as a state leader in renewable energy. Whether they accept all of our suggested changes to the bill or not, people are paying attention to what WEC has to say, but who knows how the bill will read when they're done? Committee adjourns. Get out the cell phone to call the office, hoping no one has left any urgent messages. There is one message.

- **5:45 PM.** On my voicemail, from a longtime Co-op member in Cabot: He wants to commend our crew that's been replacing a line by his 92-year-old mother's house. Our employees have been "the nicest people in the world to her." He mentions the names of a couple of our linemen, and there are a few others whose names he doesn't know. He asks me, when I get a chance to "give 'em a pat on the back. Like I say, thank them all kindly and thank you. We are very fortunate

to have Washington Electric Co-op." Sometimes, a message arrives from out of the blue at just the right moment, makes your day, and reminds you what it's all about.

In this annual meeting issue of *Co-op Currents*, Treasurer Don Douglas reports on your Co-op's finances, and Board President Barry Bernstein recaps some of the major issues and developments we have discussed in great detail here over the past year.

I've given you my "day in the life" report for another reason, and it's not to impress you with how busy the General Manager is. (Some days are actually much slower than March 29th was.)

A large part of my job is about planning for the future, be it managing budgets and construction plans, making long- and short-term power-supply purchases, or extraordinary projects for our little Co-op like getting a landfill gas power plant designed, approved and built. I represent our Co-op's positions and policies, as adopted by your Board of Directors, to the outside political and regulatory world.

The other part of my job, and what almost everyone else who works here does day in and day out, is to deliver electricity to you over 1,200 miles of power lines strung over the most rural utility territory in Vermont. Whether it is the lineman you see climbing a pole or the administrative or member services employee in the office, keeping the lights on remains at the core of Washington Electric Co-op's purpose, and it is what our staff is most dedicated to.

Some WEC members follow energy issues closely, and others don't. But what unites all of WEC's members is that they want their lights, the water pump and the TV to come on whenever they're needed, and when a storm knocks the power out they expect us to do whatever it takes to get it back on as soon as we can. No one likes to pay

their electric bill, but if service isn't what it should be, we like it even less.

This past year, we have continued to improve our system, to increase reliability and decrease the number and the duration of outages that do occur. Our statistics, reported here in March, show that we are making slow, steady progress and that our efforts are paying

off. But as our whole system improves, those areas where we do have problems tend to stick out even more, so it helps us focus our efforts on where they are most needed.

March 29 was a hectic day spent dealing with pretty much every aspect of Washington Electric Co-op's business, from the small details to the really big picture. Standing in the State House, ready to go home after lobbying legislators to do the right thing for Vermont's energy future, I had the privilege of listening to the voice of a Co-op member from out in Cabot reporting that we'd done right by that line relocation, and by his elderly mother.

The connection we have with every WEC member is actually physical. Our lines are

bringing you electricity at every hour, and what you do in your home or business at any moment affects the demand on our system, all the way from your meter back to the generating plants.

That's part of the connection. The other part is the human one. The Co-op is your utility, and I am proud of our employees who, in addition to their skill and experience, deliver the cooperative spirit into the communities we serve.

I hope to see you at our Annual Meeting, and if not, your board members and I are always available to answer questions, hear your concerns, and if you just want to say thanks for something, we take those calls, too. (Our phone numbers and addresses are on page 2.)



*Whether it is the
lineman you see
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Position Statements of the 2005 Candidates for the Co-op Board of Directors

The Questions

Three candidates are seeking election to Washington Electric Cooperative's Board of Directors in 2005. Three seats are available on the nine-member Board. All seats are for three-year terms. Of these candidates, two (**Wendell Cilley** and **Donald Douglas**) are incumbents. **Timothy Guiles** is the third announced candidate. The WEC Committee on Candidates has verified that Cilley, Douglas and Guiles met the requirements of the election process as set out in the Cooperative's bylaws, submitting timely petitions with the requisite number of member-signatures.

Each year three Board positions expire, which enables the membership to elect a third of the Board that makes leadership and policy decisions for the customer-owned utility. The seats that will terminate at the time of the 2005 Annual Membership Meeting are those of directors Cilley, Douglas and Charles Haas. Haas served two terms on the Board from 1992 to 1998, and then served again from 2002 to 2005; he has decided not to seek re-election.

In ballots cast at the Annual Meeting on May 3, and in

mailed ballots returned to the Co-op by a deadline prior to the Annual Meeting (check your election materials for additional balloting and deadline information), members can vote for any of the three candidates who appear on these pages. Ballots also provide space for voters to write in the names of up to three alternative candidates. People must be Co-op members to serve on the Board.

To help inform members about the qualifications and interests of the candidates, each candidate was asked to respond in writing to the following questions and requests developed by the Board of Directors.

The Questions

1. Please introduce yourself.

- Where do you live and how long have you lived there?
- Under what town is your Co-op membership listed?

- How long have you been a Co-op member?
- How may members contact you (address, phone number, e-mail)

2. Please briefly describe your background – for example, your education, occupation and/or other experiences that you would like members to know about.

3. Why are you seeking a position on the Co-op Board? Why would you make a good Trustee?

4. What do you think are the most important issues that the Cooperative must face in the next few years? What should WEC do about those issues?

5. Is there anything else you would like to tell the members?

Wendell Cilley

1. I have lived in West Topsham and have been a Washington Electric Cooperative member for the past 23 years. My residence and Co-op membership is in Topsham and my address is 5 Warsley Road, West Topsham, VT 05086. I can be reached by phone at 439-6138 and by e-mail at cilley@tops-tele.com.



and operated a small pallet-manufacturing company producing custom pallets and skids for food service equipment and furniture companies.

3. I am seeking a fifth term on the WEC Board of Directors because I feel I can continue to represent the interests of the members. During the time I have served on the Board I have come to appreciate many of the ways in which WEC can make an impact on the quality of its members' lives. I have supported and would continue to support ways to minimize the Co-op's financial impact on members. While WEC's rates remain high, the Board continues to seek ways to provide reliable, high-quality power that puts the minimum financial burden on its member/owners. It is particularly exciting to anticipate power generated by our project in Coventry being available to our members, and I look forward to other ways to keep the cost of power affordable and to have renewable power sources comprise a larger portion of our power portfolio.

I feel that one of the most important of a director's many duties is to listen. I would continue to bring to the Co-op Board a keen ear and a reasoned response.

4. While Coventry will supply long-term, affordable power to the Co-op, there will be power-supply issues that WEC will have to face when Hydro-Quebec and Vermont Yankee are no longer power sources for Vermont and WEC. The focus for the near future should remain on doing the core business of the Co-op better. Affordable, reliable, quality power that has a minimal negative environmental impact both in its generation and its distribution, should

continue to be the end goal of what we do. Balancing the ability of the Co-op to use renewable power sources with availability and cost will become more important.

The Board and management will need to continue to struggle with ways to keep members interested and committed to WEC. As more and younger people join the Co-op, the need to find ways to engage them in cooperative activities will grow. The Co-op will need to look for more ways to help members with their total energy needs.

5. I would like to thank the members for their support and participation.

Donald Douglas

1. I live in East Orange with my wife, Fran. I have been a Washington Electric Co-op member for 26 years. I can be reached at 439-5364. My mailing address is 21 Douglas Rd, East Orange, VT 05086. I can also be reached by e-mail at runasimi2@aol.com. I am always ready to talk about WEC and energy issues.



2. I am employed by the US Postal Service. I have been driving my rural route out of the West Topsham Post Office for more than 20 years. I had a wide variety of jobs before the postal

service, from labor to professional and from self employment to working in the private sector. I have a BA from Washington University and an MA from the University of Texas. I have been an active member of my community. I was a volunteer fireman with the Tri-Village Fire Department for 14 years. I was the vice-president of the board of Orange County Court Diversion, and for the past 6 years I have served on the Washington Electric Co-op Board.

3. I would like to be re-elected to a seat on the Board. I have been an active member of the Board for the past seven years. I have the time necessary to devote to this position. I believe we are headed in the right direction. Our Board members work well together and with the management at the WEC.

4. I am interested in our future power contracts. I would like to see some wind in our power portfolio. We have managed the transition from our power contract with Vermont Yankee to landfill gas by building our own generating plant. We still have to figure out how to transition from our Hydro Quebec contract. Unfortunately, the rest of Vermont does not seem to be following us toward renewables, and I believe that while we have the highest rates in the state right now, in the future the other utilities will be increasing their rates and our rates will no longer look so high. We have not had a rate increase since 1999.

5. I would like to thank the members for their support and for giving me the opportunity to represent them on the WEC Board.

For the past 18 years I have owned

Timothy Guiles

1. I live off Baptist Street on Young Road in Williamstown. Though I have lived here for 13 years, I have been a Co-op member for only the last six years.



Prior to that I made most of the electricity I needed with solar panels. I can be reached through the mail at 746 Young Road, Williamstown, VT, 05679; by phone at 279-2168; or with e-mail at TimGuiles@mac.com.

2. I grew up in Maine, where I graduated from Gorham High School in 1977. I went on to receive two engineering degrees from Dartmouth College in

1981. I worked as a R&D software engineer for eight years before entering the environmental engineering Ph.D. program at Johns Hopkins University to study sustainability issues. During my three years at graduate school I created all the electricity for my downtown seventh-floor apartment with four solar panels mounted outside my south-facing windows. My thesis dealt with the social and environmental consequences that flowed from different lifestyle choices.

I currently make my living as a musician. I play the piano for Barre Town Elementary school, the Rumney School, People's Academy, many regional festivals, and for singing groups like the Randolph Singers, the Barre Choraleers, the Mad River Chorale and the Vermont Symphony Chorus.

3. I am impressed that in recent years the WEC Board has brought our Co-op to a non-nuclear position, and I want to be sure there are always candidates who are interested in affordable and sustainable power. I believe in the direction that the Co-op is currently moving in, and I want to lend my creative talents and energy to the effort. I believe my personal interest in safe, clean energy and my educational background make me a strong candidate for the WEC board.

4. It seems that the most important issue facing WEC is the constant challenge of securing dependable and affordable electricity for its members, while being responsible about the long-term social and environmental costs of different energy choices. I am very pleased that our Co-op puts emphasis on using less power as the first way to "create" more power. I am con-

fidant that we can continue to reap considerable benefits from this approach in the future.

I have been very interested in the debate about harnessing wind energy in Vermont. After visiting the Searsburg wind farm in southern Vermont, I feel optimistic about wind energy becoming a reasonable part of Vermont's energy future, though I look forward to learning more about this issue as the healthy debate unfolds.

5. I feel it is essential that we be as thoughtful and responsible as we can be about our energy choices, so that members of future generations, like my 14-year-old son, Zachary, will have not only plenty of energy to help power their dreams, but also a cleaner and more peaceful world than the one we inherited.



Board Proposes Fixes To Co-op Bylaws

Amendments Address Tax Concerns, Credits for Former Members

When Co-op members read their ballot materials this year they will find that the Board of Directors has proposed changes to four sections of WEC's bylaws.

The proposals pertain in various ways to the Co-op's capital credit distribution program. They would not affect the program in its important role of dividing the Co-op's margins equitably among the members, for those years when revenue exceeded expenses. In the first two instances (Article X, sections 3 and 4) they are language changes, intended to clarify the company's practices, for tax purposes, to the Internal Revenue Service (IRS). In the cases of Article X, sections 6 and 7, they pertain to former, usually very short-term, Co-op members who never accumulated enough capital credits to meet the minimum amount (\$20) that WEC has required for issuing a refund check – or former members whom the Co-op has been unable to find.

The issues came to light as WEC has moved to substantially increase its use of renewable energy. By contracting for methane-generated power from a Connecticut landfill in 2001, and now building its own generation station using landfill methane in Coventry, Vermont, Washington Electric has qualified for Renewable Energy Certificates (RECs). WEC sells the certificates to utilities that need to increase the renewable energy they can claim in their power portfolios.

The Co-op hired a consultant from the nationally known accounting firm

Deloitte & Touche to learn if there were tax implications for the Co-op from selling the RECs. His findings led to the bylaw amendments proposed this year.

"The changes are basically house-keeping amendments, which don't deal with large amounts of money or go to the heart of our organizational structure," explained Director Roger Fox, who chairs the Board's Members & Markets Committee, where the proposals originated. "We believe we should pursue these changes, but we didn't feel they were weighty enough for to require a separate vote on each one. That's why we've presented them on the ballot as a group. It seemed more efficient to put them together for a yes or no vote, and hope people will agree with our reasons for making the changes."

For the following discussions, readers should refer to the bylaws and proposed amendments on page 8. Words with a line through them would be eliminated, and words that are underlined and in italics would be added.

Article X, Section 3. Electric cooperatives can qualify as tax-exempt corporations under IRS code if at least 85 percent of their income derives from the sale of electricity to their members. (WEC has in the past always met that threshold).

However, WEC's tax consultant believed that the IRS could decide to count "Contributions in Aid of Construction" as *non-member* income for the Co-op. Those "contributions" are the costs members take upon

themselves if they need a power line extension, for example to reach a new home. Under Vermont law, electric co-ops enter the value of those Contributions in Aid in the member's capital credit account, even though they are not counted as patronage. (Patronage, which means the purchase of electricity from the Co-op, is the basis for determining how much money the member receives in the annual capital credit distributions.)

Although the bylaw, as originally written, sought to make the distinction clear between patronage and Contributions in Aid (even though both can appear as entries in people's capital credit accounts), the tax consultant worried that the final sentence could lead the IRS to classify Contributions in Aid as income not derived from member services. The Board therefore proposes to eliminate that sentence, which does not alter the bylaw's meaning.

Article X, Section 4. This amendment simply proposes to add the words "in writing" to this section's provisions for notifying members about additions to their capital credit accounts. If WEC were someday to lose its tax-exempt standing under the 85-percent rule (described above), IRS would require the notices to be extended in writing, or the Co-op would not be allowed to deduct those capital credits from its taxable income.

Actually, the Co-op already does this; all such information is provided to members in writing. Adding the words to

the bylaws would state that practice more formally for the benefit of the IRS.

Article X, Section 6. The remaining revisions deal primarily with retiring (or paying out) capital credits to former Co-op members.

When WEC makes its annual capital credit distributions, current members receive the benefit as a deduction from their November electric bills. Former members (people who are no longer WEC customers) get a check, if the Co-op can find them. However, if the credits those former members are owed for the specific year, or years, covered by the November distributions are less than \$20, WEC does not issue payment. Instead, it returns that amount as a bookkeeping entry into the former member's account; if the distributions from following years bring the ex-member's allocation up at least to the minimum, the check finally is written.

But what if that former member's account will never reach the minimum? WEC's practice has been to claim those small sums, as if they were forfeited, to reduce the cost of the program.

"Our consultant told us no, you can't do that," said Fox.

This amendment proposes not only to pay out that small distribution, but at the same time pay out the entire sum in the former member's account – for the year in question and for any other years the person was a WEC member.

"The benefits of closing those accounts are greater than the cost of making premature retirements," said Fox. "The sums are small, and it's better to close the account and be finished with it."

This amendment also addresses another issue: patronage distributions to customers who are not members of Washington Electric Co-op. There are a

continued on page 8

Treasurer's Report

Power Costs Up Sharply in '04, But WEC's 'Renewable Energy Certificates' Held Rates in Check

By Donald Douglas, Treasurer

Washington Electric Cooperative finished 2004 with \$334,000 in net margins. This was sufficient to meet the requirements set by our primary lender, Rural Utilities Service (RUS).

Our priority on the Finance Committee is to ensure that we meet both our operational expenses and our mortgage requirements, while being sensitive to the need to keep our rates stabilized and our members' bills as low as possible. WEC is required to collect in rates enough to meet our TIER, which is a ratio of long-term debt to revenue. It is a challenge to end the year with just the right amount of revenue. We try not to finish with margins higher than we need, so as not to burden our membership by collecting more in rates than is necessary to efficiently run the Co-op.

In 2004 we were presented with a new revenue opportunity in the form of Renewable Energy Certificates (RECs). As a result of our New Milford power contract (for electricity generated from methane at a Connecticut landfill), WEC, in addition to receiving energy, also received RECs that had a market value of \$720,000. Over the next few years, beginning in 2005, WEC will also have revenue from REC sales associated with the power generated by our new Coventry plant. However, nobody knows how long this market will exist, or exactly what value to place on future RECs.

In 2004 we exceeded our lenders' revenue requirements, and we expect to do so for the next several years. However, without the proceeds from the sale of RECs, WEC would need a rate increase.

WEC will be implementing a rate-stabilization plan which will allow us to defer excess revenues above lender's requirements. The intention of this plan is to set aside revenue and accumulate it to help WEC put off future rate increases, and lessen their impact when they do occur.

Revenue

Our revenue in 2004 was \$895,000 more than 2003, totaling \$11,577,698. The majority of this increase is due to the sale of RECs (again, Renewable Energy Certificates). The weather is always a factor in how much energy is used by the members. Also, we continue to see robust growth in new connections. There were 206 new connections in 2004, compared to 179 in 2003.



Donald Douglas

Power Costs

This year's power costs increased approximately 10 percent over last year, and

2003's power costs exceeded 2002's costs by nearly 9 percent. These past two years we have been in transition from long-term contracts with Vermont

Yankee and other sources. As a result, we have been heavily dependent on the short-term spot market, which has been quite volatile.

Once our Coventry landfill gas-to-electric generating plant comes on line in late

spring of this year, with power output reaching nearly 4 megawatts (MW), we will be less reliant on the spot market and have a more stable and predictable power supply.

Operations and Maintenance

The 2004 operation and maintenance expenses were higher than last year's, by 6.1 percent and 16 percent, respectively. A portion of the increase is due to increased right-of-way (ROW) clearing and removal of dangerous trees from near the power lines. We are continuing to add to our ROW clearing budget in order to reduce the duration and frequency of outages. Trees are the leading cause of outages for WEC.

The audited financial statement of Washington Election Cooperative for the year ending December 31, 2004, is available by contacting the office. WEC's 2005 Equity Distribution Plan will be available and posted on our website in May.

Administrative and General

Administrative and General Expenses were \$852,319, which was an increase over the previous year of about \$33,000. Factors contributing to this 4-percent increase included capital credit, board expenses, and building maintenance.

Capital Credits

In 2004 WEC continued to refund capital credits, distributing \$248,742 to members of record for the years 1984 and 2003. The 2004 distribution was an increase of \$60,000 over the amount of the refund in 2003. Each year the Board of Directors decides which year or years will be targeted in the distributions (they must be years in which the Co-op had revenues in excess of expenses), and how much of our capital credits to distribute. Total patronage capital credits as of 2004 are \$5,735,276.

I want to thank Linda Nelson, our Director of Finance, and her staff for their faithful service this past year.

Copies of the 2004 audit are available to you at the office and at the annual meeting.



Consumer Accounts and Member Service

The expenses in this area decreased again this year. In 2002 we saw a \$5,000 decrease, and in 2003 there was an \$18,558 decrease. These costs continue to decrease, with 2004 expenses \$16,000 less than 2003. This continued decrease is due to the amortization of the early years of WEC's Demand Side Management Programs nearing completion.

Annual Meeting

continued from page 1

with reports from the president, treasurer and general manager. Staff members will receive awards for employment milestones, and throughout the evening events will be interrupted for door prizes (provided by area merchants and the Co-op itself).

Most important, the Annual Meeting provides the Co-op family a chance to spend time together. The directors and general manager, all of whom are members themselves, fill people in on what their Co-op has been doing to provide electricity and improve services and reliability. For members, it's an opportunity to express opinions, perhaps air complaints, and get answers to questions they put to the leadership.

Bring someone along

The annual membership meeting

is an excellent opportunity for veteran Co-op members to bring along younger neighbors and relatives who are also Co-op members but may not understand all that that means. The future belongs to those younger members. The Coventry project will provide affordable power to them for the next 30 years.

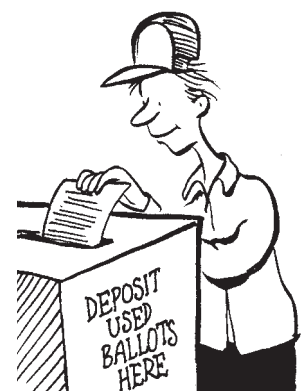
Democratically governed electric co-ops were created to extend power lines to rural Americans during the Great Depression. It changed their lives. More than 60 years later, as not-for-profit, customer-owned utilities, their focus remains on service, not dividends for shareholders. Electric co-ops are uniquely accessible and involved with the rural communities they serve.

WEC is one of some 930 rural electric co-ops, which provide power to 37 million Americans in 47 states. It's a proud tradition that we hope to pass on to the next generation.



Notice

Members may vote at the Annual Meeting on May 3 or by ballots accompanying this issue of *Co-op Currents*. Mailed ballots must be received at the Barre Post Office no later than 3 p.m. on Monday, May 2. Members mailing their ballots from out of state are advised to mail them several days before the deadline to be sure that their ballots will qualify. Local members, too, are encouraged to allow a few days for postal delivery. Anyone with questions about voting or deadlines can call Debbie Brown at the Co-op.

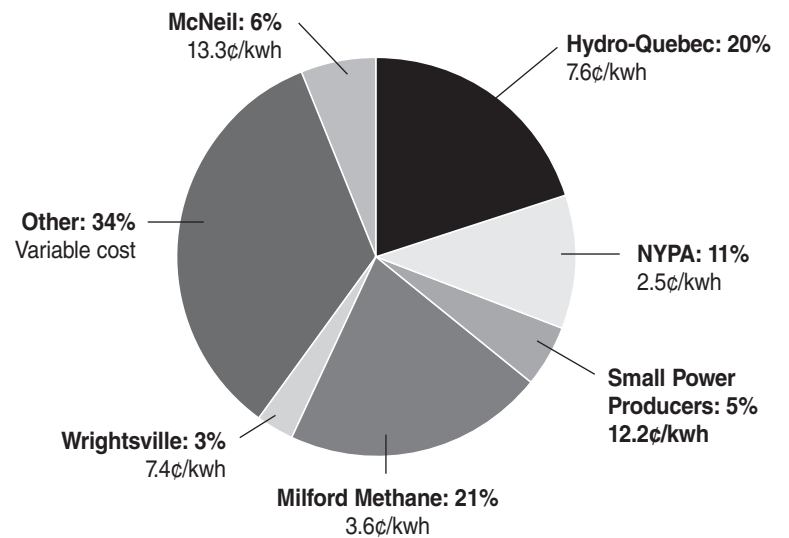


Balance Sheet

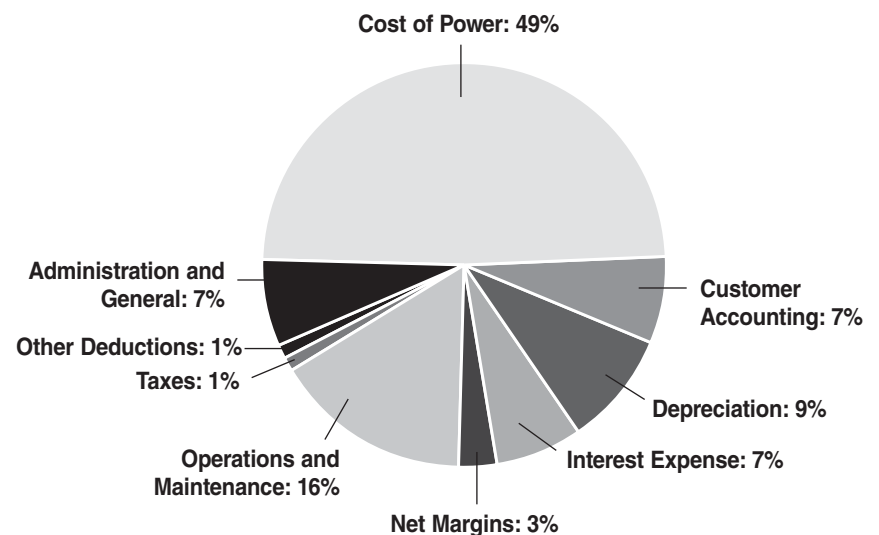
Assets and Other Debits			
	12/31/03	12/31/04	Increase (Decrease)
Utility Plant			
Total Utility Plant in Service	\$38,510,176	\$40,400,449	\$1,890,273
Construction Work in Progress	947,340	5,384,263	4,436,923
Total Utility Plant	39,457,516	45,784,712	6,327,196
Accum. Provision for Depreciation	11,837,956	12,637,453	799,497
Net Utility Plant	\$27,619,560	\$33,147,259	\$5,527,699
Other Property and Investment - At Cost			
Invest. in Assoc. Org. - Patronage Capital	113,428	126,513	13,085
Invest. In Assoc. Org. - Central Vt. Mem. Civic Center	417,826	377,112	(40,714)
Invest. in Assoc. Org. - Other	489,611	487,474	(2,137)
Other Investments	158,957	372,972	214,015
Total Other Property and Investments	\$1,179,822	\$1,364,071	\$184,249
Current Assets			
Cash - General Funds	325,589	281,055	(44,534)
Temporary Investments	575,621	428,914	(146,707)
Notes Receivable - Net	32,245	16,530	(15,715)
Accounts Receivable - Net	1,873,975	2,333,423	459,448
Materials and Supplies	207,529	176,688	(30,841)
Prepayments	41,117	37,540	(3,577)
Total Current and Accrued Assets	3,056,076	3,274,150	218,074
Deferred Debits	1,304,190	750,662	(553,528)
Total Assets and Other Debits	\$33,159,648	\$38,536,142	\$5,376,494
Number of Consumers	9,753	9,934	181
kWh Sold	65,906,026	67,244,026	1,338,000

Liabilities and Other Credits			
	12/31/03	12/31/04	Increase (Decrease)
Memberships	\$77,980	\$79,680	\$1,700
Patronage Capital Credits	5,761,934	5,735,276	(26,658)
Contributions-in-Aid-of-Construction	7,134,843	7,553,661	418,818
Operating Margins - Prior Years	0	0	0
Operating Margins - Current Year	98,466	199,382	100,916
Non-Operating Margins	123,617	134,618	11,001
Other Margins and Equities	168,569	174,149	5,580
Total Margins and Equities	\$13,365,409	\$13,876,766	\$511,357
Long-Term Debt			
Long-Term Debt - RUS	13,686,202	14,561,496	875,294
Central Vt. Memorial Civic Center	421,400	378,536	(42,864)
Long-Term Debt - Other	4,357,488	3,879,578	(477,910)
Total Long-Term Debt	\$18,465,090	\$18,819,610	\$354,520
Current Liabilities			
Notes Payable	11,742	1,361,819	1,350,077
Accounts Payable	692,782	3,730,188	3,037,406
Consumer Deposits	119,980	132,585	12,605
Other Current and Accrued Liabilities	347,681	374,918	27,237
Total Current and Accrued Liabilities	\$1,172,185	\$5,599,510	\$4,427,325
Deferred Credits	156,964	240,257	83,293
Total Liabilities and Other Credits	\$33,159,648	\$38,536,143	\$5,376,495

2004 Sources and Costs of Power



Where the Dollars Went



2004 Statement of Operations			
	Actual 12/31/03	Actual 12/31/04	Increase (Decrease)
Operating Revenue	\$10,682,560	\$11,577,698	\$895,138
Cost of Purchased Power	5,008,362	5,566,226	557,864
Cost of Generated Power - Wrightsville	58,586	48,710	(9,876)
Total Cost of Power	\$5,066,948	\$5,614,936	\$547,988
Other Operation & Maintenance Expense			
Transmission Expense	12,165	11,085	(1,080)
Distribution Expense - Operation	804,289	856,945	52,656
Distribution Expense - Maintenance	1,001,560	1,161,862	160,302
Consumer Accounts Expense	537,277	545,304	8,027
Customer Service & Education	292,070	268,032	(24,038)
Administrative and General Expense	819,706	852,319	32,613
Total Other Operation and Maintenance Expense	\$3,467,067	\$3,695,547	\$228,480
Fixed Expenses			
Depreciation and Amortization Expense	1,049,658	1,100,608	50,950
Tax Expense - Property	19,975	9,107	(10,868)
Tax Expense - Other	103,856	112,527	8,671
Interest on Long-Term Debt	845,781	833,598	(12,183)
Interest Expense - Other	7,580	14,134	6,554
Other Deductions	34,297	25,933	(8,364)
Total Fixed Expenses	\$2,061,147	\$2,095,907	\$34,760
Total Cost of Electric Service	\$10,595,162	\$11,406,390	\$811,228
Operating Margins	87,398	171,308	\$83,910
Non-Operating Margins - Interest	52,572	56,014	3,442
Non-Operating Margins - Other	82,113	106,678	24,565
Extraordinary Item	0	0	0
Net Margins	\$222,083	\$334,000	\$111,917
Times Interest Earned Ratio (TIER)	1.34	1.40	0.06

Bylaws

continued from page 5


small number of these accounts. WEC's practice has been to return patronage capital to those people along with Co-op members. However, WEC discovered during this review that state law prohibits distributions to non-members.

The Board now proposes to bring WEC's bylaws into conformance with that provision of Vermont law. Only Co-op members would enjoy the opportunity to recoup at least a small portion of the money they have paid for electric power – which is as it should be.

Article X, Section 7. This amendment also addresses the principle that WEC cannot rightly claim, as

forfeited, capital credits belonging to former members. Here, however, the subject is unclaimed credits. Sometimes former members or their heirs cannot be found, even after a period of years.

The amendment would prevent WEC from closing the account, but it proposes a service charge to compensate the Co-op for the costs of maintaining it. If the owner never came forward the balance would eventually drop to zero and the account would be closed.

Members with questions about the proposed bylaw amendments are invited to contact the General Manager or any of the Co-op's Directors. Phone numbers, e-mail and street addresses are listed on page two. 

2005 Proposed Bylaw Amendments

1. Article X, Section 3. Contributions-in-Aid-of-Construction as Paid-in Capital

...The Cooperative shall determine, in its sole judgment, the initial value on its books of any line extension not constructed by the Cooperative, pursuant to the policies of the Cooperative, and such amount shall be credited to the capital account of such patron, as Construction Capital. ~~Contributions-in-Aid-of-Construction shall not be deemed to have been received from the furnishing of electric energy.~~

2. Article X, Section 4. Capital Accounts

...The Cooperative shall, within a reasonable time after the close of the fiscal year, notify each patron *in writing* of the amount of capital so credited to the patron's account. ...

3. Article X, Section 6. Retirement of Credits

...To minimize administrative expense, the Board of Directors may set a minimum amount below which individual retirement distributions shall not be paid directly. The Board may provide for an alternative payment method or for deferral of such distribution. Any deferred distributions shall be maintained in patrons' accounts and added to the amount to be retired in the next distribution. ~~If, at any time of distribution, a patron is no longer purchasing energy or services from the Cooperative a former member is entitled to a scheduled distribution, and the total remaining amount in the patron's member's account is below the minimum, then that outstanding capital shall be converted to permanent donated capital of the Cooperative shall retire and pay all remaining capital credits allocated to that former member.~~

At no time, however, shall a distribution be made to a patron who is not a member of the Cooperative. If such person does not become a member of the Cooperative within one year after the amount of his or her distributive share equals the membership fee required by the bylaws of

the Cooperative, he or she shall cease to be entitled to such distribution, in which case, the amount of distribution shall be paid into the Cooperative education fund, as authorized by statute.

4. Article X, Section 7. Unclaimed Capital Credits

Capital credits which have been declared payable by the Board of Directors, as hereinabove set forth and which cannot be paid because the former member's whereabouts are unknown and no known estate of his or her or any exists, and cannot be ascertained ~~during a period of five years from the due date of payment of the capital~~

~~credit~~ following reasonable search and inquiry, which search and inquiry shall include an advertisement in newspapers with a combined circulation sufficient to cover the Cooperative's entire service territory, that all such sums due and payable as capital credits ~~may at the direction of the Board of Directors of the Cooperative be transferred to the Cooperative as donated capital; provided that if at any time within a period of ten years following said five-year period shall be retained in the member's patronage account until such time as the member or a rightful heir of said member comes forward~~

and presents proof to the satisfaction of the *Board of Directors* of his or her or their rights to said capital credits so declared, that such sums shall be paid to said claimant or former member without interest, and such payments shall be in full discharge of the Cooperative's obligation to the member and his or her or their heirs.

The Cooperative may periodically impose a reasonable dormancy or service charge for each year a patron or former member fails to claim capital credits retired and payable to the patron or former patron.

Dinner Menu

- Oven-Baked Chicken
- Meatless Mostaccioli
- Tossed salad, Rolls
- Milk, Tea or Coffee
- Ice Cream Brownie

RESERVATIONS ONLY - Please return this form, with payment, no later than Monday, April 25, to WEC. Meal tickets will not be mailed to you, but will be distributed at the meeting.

Dinner Reservation

for 66th Annual Membership Meeting on May 3, 2005

To be returned with check or money order
(Please do not return in ballot envelope.)

Name: _____

Address: _____

Number of persons attending: _____

Amount enclosed: _____ Cost: \$6 per person



Who says Barre has all the sculptors?
In Washington, Co-op member George Matheson has been making ice sculptures of his mythical horse, Snowdrift, since 1987. And only special girls can ride him.

*If you are kind of heart and kind of soul,
To you will come the horse of snow!
He will bring you joy, bring a smile.
With the sun's warmth he must go!
With final words of 'Don't forget me.'
But with his leaving, don't feel sad,
For like Sunny Days and Skies of Blue,
One day he'll appear for another kind girl like you!*

(by 'Old George' Matheson)

