

Haywood Electric Membership Corporation

# ***Times of Change***

*1939–2009 Seventy Years Strong*



## ***2008 Annual Report***



Seventy years ago, when a group of farmers in the Cruso community got together and formed the first electric cooperative in western North Carolina, the way of life was very different from today. Advances in technology and communications have brought great changes to the electrical utility industry. But one thing has remained constant over the past 70 years; the responsibility Haywood Electric Membership Corporation has to our members.

### Cost Control Measures

At Haywood EMC, we are committed to providing the best service at the least possible cost to all members, large or small. We accomplish this, in part, through a variety of cost control efforts and are an advocate to our members by looking out for your best interests. HEMC sees this as more than a responsibility; it is a privilege as well.

Annually, your electric cooperative looks at cost control options through competitive bidding on contracts for right-of-way maintenance, line construction, meter reading options and other services that can be outsourced. In addition, most of Haywood EMC's outsourced services are provided by companies who hire local people, therefore helping our local economy while still meeting the needs of our members.

An equally important factor to cost control is maintaining the in-house knowledge and experience within co-op employees, which is required for

Haywood EMC to operate as efficiently as possible. We employ a full-time work force of people who are well educated in their fields of service. Each employee receives ongoing training mandated by ever-changing technological advancements. As a result, you can be sure Haywood EMC has a competent work force that will never be dependent on any outside contractor or service provider. Our commitment is that the knowledge stays here. In fact, because of the competence of HEMC's work force, neighbors occasionally call on us for assistance. Even so, to ensure we provide ongoing affordable, reliable and safe services at the least possible costs, your electric co-op will continue to evaluate the use of contract labor, provided it proves to be cost effective.

Another area that HEMC aggressively monitors and evaluates is the purchase of wholesale power through different power supply options to ensure purchases are at the least possible cost. With wholesale power purchases consuming approximately 50 percent of every dollar, this is the single most expensive cost for your cooperative. It just makes sense to look here for cost control options that can save our members money in the end.

In 2008, we negotiated a new deal with Progress and Duke Energy for the purchase of wholesale energy that allowed us to hold retail rates steady. Your board of directors and management of Haywood EMC did this even while state regulators approved retail rate increases as high as 10.2 percent for other utilities in North Carolina.

While stability in retail rates is good, it is temporary and for how long is uncertain. We are sensitive to the fact that pending climate change legislation is on the horizon at the federal level. No one knows for sure what effects this will have on electric rates, all indications are pointing to major increases nationwide. This, coupled with a poor economy, costs associated with a state mandate to implement energy efficiency and increased use of renewable energy, makes it difficult to know how soon and how much a future rate increase will be.

### Energy Saving Tips

- Choose compact fluorescent lights (CFLs) when replacing light bulbs.
- Regularly clean or replace the air filter in your furnace or heat pump.
- Weatherstrip and caulk your doors and windows if you can see light or feel air coming through them.
- When replacing an old furnace or air conditioner, look for an Energy Star rated unit (14 SEER or higher).
- Increase insulation in the attic, walls and crawl space, if needed.

Technology in Automatic Meter Reading, or AMR, Outage Management Systems, Interactive Voice Response Systems, energy efficiency and updated billing and accounting software systems are all examples of other cost control programs that HEMC has or is working on implementing. Each of these programs has or will save you and your co-op money, and allow us to operate much more efficiently.

## Renewable Energy

We have all heard the term "renewable." What some of us may not know is the cost associated with this term. Renewable energy includes electricity generated from wind, hydro, solar, geothermal and bio-fuel. While each of these can play an important role in reducing greenhouse gas emissions, they all have their limitations since technologies are still developing and, in most cases, the cost is high.

North Carolina General Assembly passed legislation that requires utilities to generate more electricity from renewable energy resources. The state's Renewable Energy and Energy Efficiency Portfolio Standard (REPS) mandates that by the year 2018, 10 percent of the electricity Haywood EMC delivers to its members must be generated by renewable resources or offset by energy efficiency and conservation programs.

Many of the renewable resources mandated by this legislation produce power with lower carbon emissions than traditional fuels. On a federal level, as Congress continues to seek solutions to reduce carbon emissions, the nation's electric cooperatives are advocating reasonable timelines for introducing renewables into the energy portfolio and mandating reductions in existing carbon emissions. Any program to reduce carbon emissions should avoid a profound negative impact on our nation's economy.

We must encourage our congressional delegates to do their due diligence in finding solutions that reduce emissions in a way that will also keep electric rates affordable and our economy thriving. In doing so, legislation must

encourage research in viable technology to reduce our nation's carbon footprint, especially carbon capture and coal gasification. This makes sense considering that coal is one of the most inexpensive ways to generate electricity and currently meets 50 percent of our nation's electrical needs. Coal is a fuel which the US has in abundance. It has been said that coal is to the US as oil is to the oil producing countries in the Middle East.

Nuclear power also needs to be evaluated in the mix with renewables because it is relatively clean and emits no greenhouse gases. For these reasons, nuclear power is becoming more appealing and is a great resource for our energy needs.

Haywood EMC is an advocate of a clean environment and will always continue to encourage energy efficiency for our members. In addition, there are benefits to a diversified energy portfolio that includes renewable energy. It is well documented that generation from renewable resources currently costs more than power generated from traditional fuels such as coal, nuclear energy and natural gas. This additional expense of developing and expanding renewable energy will ultimately be passed down to you, the consumer, but at what cost? That depends on decisions made in the legislature and Congress.

## Our Energy, Our Future

Experts say that our nation's growing electricity needs will soon go well beyond what renewables, conservation and efficiency can provide. The



## Energy Saving Tips

- Turn down the thermostat at night and when the house is empty, or install a programmable thermostat.
- Cook with a microwave or a barbeque instead of the stove or oven.
- For an older hot water heater, consider a water heater blanket or replace with an Energy Star rated unit.
- Wash only full loads of laundry and dishes and use water- and energy-saving settings whenever possible.
- Unplug your second refrigerator and put all your food in one.

## Our Energy, Our Future

- Experts say that our nation's growing electricity needs will soon go well beyond what renewables, conservation and efficiency can provide. What is your plan to make sure we have the electricity we'll need in the future?
- As our country's use of electricity increases faster than available supply, what are you doing to speed the development of new technology, which will allow me to have the electric power I need while meeting our national climate policy goals?
- Balancing electricity needs and environmental goals will be difficult. How much is all this going to increase my electric bill and what will you do to make it affordable?

federal government must exercise true leadership, the same leadership that got Americans to the moon in the 1960s. Without that leadership – without a sound, responsible plan – government risks not only the reliability of our electric system, but literally the ability of many Americans to be able to afford to pay their electric bill.

We needed a plan people could use to help let representatives know our concerns. To make things easy, Haywood EMC participated in a nationwide campaign titled "Our Energy, Our Future," which allowed Americans to ask a series of basic but critical questions to representatives in Washington.

In doing so, your voice was heard. In 2008, HEMC sent over 21,000 emails on your behalf to your representatives. Nationwide, some 1.5 million emails were sent. As a result, pending climate change legislation, that the EPA suggested could raise electrical rates by 44 percent, was voted down in Washington.

New climate change legislation narrowly passed the U.S. House of Representatives on June 26 of this year with a 219 to 212 vote.

Haywood EMC, along with hundreds of others across the country, has worked hard with legislators on the importance of keeping electricity affordable, and we have had some success. Your voice, and the hard work of your congressional delegates, has helped reduce the cost impact.

We support meaningful, achievable climate change legislation as defined

by the program outlined by the Electric Power Research Institute (EPRI). You can see this at [www.ourenergy.coop](http://www.ourenergy.coop) by clicking on **Technology** and then, under Resources, choose **Pathways to Sustainable Power in a Carbon-Controlled World**.

However, we still welcome further improvements to the Waxman-Markey Climate Change Bill, especially in the area of decreasing costs and protecting consumers. Therefore, as the Senate now takes their turn studying and considering the Waxman-Markey Bill, electric cooperatives across the country will continue our work to remind Senators and the administration that cost does matter, and that they should not pass measures that put too heavy a burden on consumers.

We need to continue the dialogue until legislation balances affordable energy and reliability with a clean, safe environment for the future.

## Capital Credit Retirements

Haywood EMC was able to distribute a Capital Credit refund for 2008. Capital credits reflect the nonprofit nature of the cooperative. We work hard each day to keep your rates as low as possible. But it's nice to know that when there are profits, they come back to you. They demonstrate the power of being a member of Haywood EMC. Your Board of Directors approved a capital credit refund of about \$267,000 for the people who were members during 1983 - 2002. In addition to the approximate \$267,000 retirement, Haywood EMC has retired approximately \$310,000 in capital credits to estates of deceased members for a total retirement of about \$577,000. This is equivalent to a reduction in power costs of about 1.7 percent. We hope that the refund helped some of our members during this time of economic struggle.

## New Headquarters

Also in 2008, HEMC announced its plans for the construction of a new



facility to relocate its Waynesville headquarters in the Jonathan Creek Community.

We moved into the Asheville Road building in 1953. Since that time, our membership has grown from 3,936 to almost 26,000 accounts today. And of course, technology has taken giant leaps that are difficult to accommodate without expensive and disruptive refurbishments. Recognizing the need for expanded facilities, the Board of Directors studied and researched a number of options to satisfy the growing needs of the cooperative's membership.

As of just a few weeks ago, we are now in our new facility at 376 Grindstone Road, off Highway 276, in Jonathan Creek. Our new headquarters houses the latest technology in energy efficient lighting and high-efficient air source heat pumps. The decision to build a new facility is the best way to manage the needs of a growing co-op while wisely controlling the stability of the co-op's future.

### Policy Changes

Policy revisions were announced during the past year to help members better manage their finances by keeping them out of debt as much as possible. Changes were made to late charges, delinquent notification, payment arrangements, power theft, cut off, connect fees, security deposits, returned checks and non-payment disconnection returned checks. Members experiencing hardships in paying their bills can contact HEMC prior to the disconnection date to discuss credit arrangements.

### Spotlight on Excellence Award

Haywood EMC received recognition in the 2008 "Spotlight on Excellence" national awards program, sponsored by the Council of Rural Electric Communicators and the National Rural Electric Cooperative Association. Haywood EMC received an Award of Excellence in the Best Video/DVD Category for "The Cooperative Difference."



"One judge summed it up by describing the overall quality of work as simply outstanding," said Maggie Tilley, administrator of Spotlight on Excellence. "In quality of writing, clarity of presentation, and level of creativity these professionals are excelling at serving the people with whom they are communicating."

### Project HEMC

Haywood EMC has been offering its members the opportunity to join a program that helps fund energy needs for members in our communities who are experiencing desperate circumstances. The program is called "Helping Each Member Cope," or Project HEMC.

To date, 80 percent of Haywood EMC members participate in the program. In 2008 these members collectively contributed over \$119,000 to assist families or individuals experiencing hardships paying energy costs brought about by extreme weather conditions, or who were experiencing an unusual or unexpected crisis beyond their control. As of the end of 2008, this program has provided about \$250,000 to more than 800 members.

HEMC gives 100 percent of the collected funds to the Department of Social Services where they follow strict guidelines in establishing eligibility for needy members in the Haywood EMC service area. Upon confirming the need, a check is written to the fuel or energy provider, whether it is propane, oil, electricity or wood, to meet the emergency needs of the cooperative member.

### Project HEMC Here is how it works:

Members can have their monthly electric bill rounded up to the next highest dollar.

For example, if your month's bill was \$86.81, it would be rounded up to \$87.00 with 19 cents being contributed to "Project HEMC."

A participating member contributes an estimated average of just 50 cents per month or \$6.00 per year.

It works out to be less than the cost of one soft drink, candy bar or cup of coffee a month. This small, monthly contribution can make a huge impact!

While HEMC prides itself on its commitment to community, much of the credit goes to the cooperative members for their participation in projects like "Helping Each Member Cope" to improve the quality of life for our members in our communities.

### Supporting Our Youth

In cooperation with our statewide office, NCEMC, we sponsored many youth programs, including Bright Ideas, the Rural Electric Youth Tour and Cooperative Leadership Conference, the Touchstone Energy Scholarship, the Youth Leadership Council and the N.C. State Women's and Roy Williams basketball camps.

All of these youth programs are part of HEMC's ongoing commitment to our communities. This year's Bright Idea grant program brought in 36 applications from around western North Carolina. Local teachers submitted many fresh and innovative ideas to incorporate some excitement and fun into their classrooms. Over \$9,000 was awarded to seven of these outstanding teachers. Haywood EMC believes that education must be a top priority for the children in our communities. In addition, five Haywood EMC high school students received a combined total of \$7,000 in scholarships to attend college.

### Supporting Our Fire Departments

As always, Haywood EMC values the importance of local volunteer fire departments. We share the same goal to serve and protect our communities. Five departments looked to the co-op for assistance in 2008 and we were glad to help. The Board of Directors approved contributions for the purchase of new radios, safety equipment and tools necessary to protect county citizens. Helping to keep our local volunteer fire stations operating smoothly, will in turn, help keep our membership safe.

### Final Thoughts

Each year brings with it change. Sometimes change is a benefit that helps people. Other times change is uncertain and even discouraging. Haywood EMC and our members have faced many changes over the past seventy years. We have weathered the storms together, enjoyed the benefits that only a member-owned cooperative can provide, and we are confident that we will continue to operate as a community involved company throughout the future. We are your advocate. We are your electric utility cooperative.



**Bobby J. Tucker**  
President

*Bobby J. Tucker*



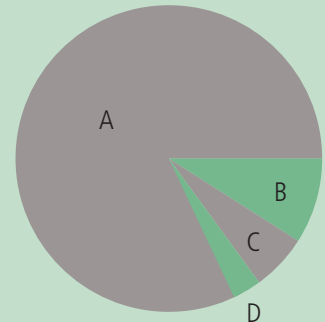
**Norman Sloan**  
Executive Vice President  
and General Manager

*Norman Sloan*

## Financial Report

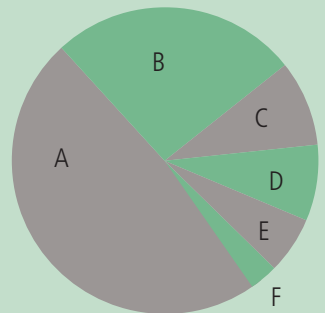
(reflects independent auditing firm's consolidated report)

### Where Our Dollar Comes From



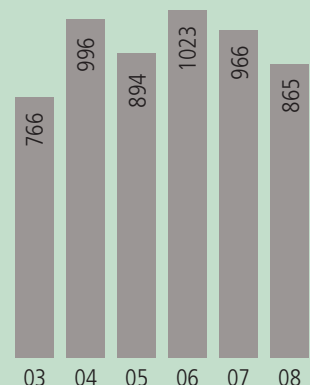
A: Residential	82%
B: Seasonal	9%
C: Sm Commercial	6%
D: Industrial	3%

### Where Our Dollar Goes



A: Purchased Power	48%
B: Operating Expense	27%
C: Interest	9%
D: Depreciation	9%
E: Member Equity	4%
F: Taxes	3%

### New Services Connected



## Operating Statement

2008 2007

for years ending December 31, 2008 and 2007

Operating Revenue & Patronage Capital	\$35,041,183	\$33,308,919
<b>Operating Expenses:</b>		
Cost of Power Purchased	17,222,605	16,265,033
Transmission - Operation	6,831	15,948
Transmission - Maintenance	17,340	16,796
Distribution - Operation	1,877,386	1,677,948
Distribution - Maintenance	3,412,744	3,124,371
Consumer Accounts	1,343,914	1,294,568
Customer Service and Informational	461,313	417,163
Administrative & General Expenses	2,084,325	2,048,017
Depreciation and Amortization	3,180,550	2,891,299
Taxes	1,166,257	1,110,727
Interest on Long-Term Debt	3,317,551	2,992,629
Other Deductions	13,215	106,333
<b>Total Operating Expenses</b>	<b>34,104,031</b>	<b>31,960,832</b>
<b>Operating Margins before Patronage Allocations</b>	<b>937,152</b>	<b>1,348,087</b>
<b>Patronage Allocations</b>	<b>397,091</b>	<b>344,747</b>
<b>Net Operating Margins</b>	<b>1,334,243</b>	<b>1,692,834</b>
<b>Nonoperating Margins</b>		
Interest Income	93,827	189,171
Gain on disposition of property and equipment - net	26,213	3,507
Other	10,584	18,470
	130,624	211,148
<b>Net Margins</b>	<b>1,464,867</b>	<b>1,903,982</b>
<b>Patronage capital - Beginning of Year</b>	<b>28,922,934</b>	<b>28,023,797</b>
<b>Margins not subject to allocation</b>	<b>(130,624)</b>	<b>(211,148)</b>
		-
<b>Retirement of capital credits - net</b>	<b>(710,819)</b>	<b>(793,697)</b>
<b>Patronage capital - end of year</b>	<b>\$29,546,358</b>	<b>\$28,922,934</b>

## Key Statistics

2008 2007

Total Services in Place:	29,621	29,218
Total Kilowatt Hours Sold:	278,685,520	270,528,808
Total Number of Employees:	74	70
Miles of Transmission Line:	20.71	20.71
Miles of Distribution Line:		
Underground	793.36	745.95
Overhead	2,037.34	2,035.81
Total Miles of Line:	2,851.41	2,802.47

## Balance Sheet

2008 2007

for years ending December 31, 2008 and 2007

### Assets

#### Utility Plant

Electric plant in service (at cost)	\$113,200,819	\$107,342,360
Construction work-in-progress	7,694,402	3,386,276
	120,895,221	110,728,636
Less- accumulated provision for depreciation/amortization	(22,598,591)	(22,021,101)
<b>Utility Plant - net</b>	<b>98,296,630</b>	<b>88,707,535</b>

#### Other property and investments (at cost)

Non-utility property	130,109	130,109
Investments in associated organizations	2,560,286	2,381,846
Notes receivable - less current portion	48,542	44,938
<b>Total other property and investments</b>	<b>2,738,937</b>	<b>2,556,893</b>

#### Current assets

Cash and cash equivalents	773,582	4,253,610
Consumer accounts receivable (less provision for doubtful accounts of \$272,344 in 2008 and \$217,260 in 2007)	3,005,130	2,477,973
Unbilled revenue	1,689,417	2,211,837
Other accounts receivable	435,721	659,193
Materials and supplies	736,433	689,176
Prepayments	48,762	46,042
Other current assets	7,311	7,645
Notes receivable - current portion	23,016	6,465
<b>Total current assets</b>	<b>6,719,372</b>	<b>10,351,941</b>

#### Deferred debits

	2,404,558	610,372
	\$110,159,497	\$102,226,741

### Liabilities & Equities

#### Equities

Patronage capital	\$29,546,358	\$28,922,934
Other equities	3,510,956	3,159,701
Donated capital	693	1,201
Accumulated other comprehensive income	(196,000)	-
<b>Total equities</b>	<b>32,862,007</b>	<b>32,083,836</b>

#### Noncurrent liabilities

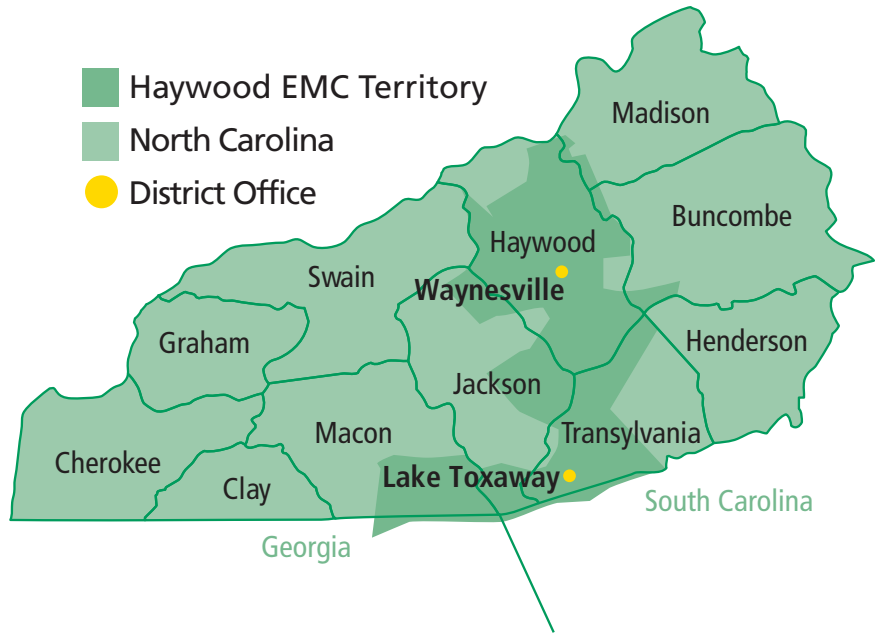
Long-term debt - less current portion	67,252,206	62,668,296
Other long-term obligations	354,257	180,810
	67,606,463	62,849,106

#### Current liabilities

Current portion of long-term debt	2,026,074	1,691,830
Accounts payable	5,195,412	4,349,782
Line of Credit	1,000,000	-
Consumer deposits	649,253	510,484
Accrued taxes	58,123	43,720
Other current and accrued liabilities	762,165	697,983
<b>Total current liabilities</b>	<b>9,691,027</b>	<b>7,293,799</b>
	\$110,159,497	\$102,226,741

## Haywood Electric Membership Corporation

is a member-owned electric cooperative serving more than 25,500 electric services in Western North Carolina, as well as a part of South Carolina and Georgia. District offices are located in Lake Toxaway and Waynesville.



## Board of Directors



**Bobby J. Tucker**  
President  
12 years on the board



**Larry Clark**  
Vice President  
18 years on the board



**David Noland**  
Secretary/Treasurer  
18 years on the board



**James P. Boyette**  
3 years on the board



**David Edwards**  
36 years on the board



**Dr. Kenneth Israel**  
19 years on the board



**Ted Mullett**  
3 years on the board



**Roy Stamey**  
27 years on the board



**Emmitt Wood**  
30 years on the board



**Norman Sloan**  
Executive Vice President  
and General Manager



A Touchstone Energy<sup>®</sup> Cooperative

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