

***SOUTHSIDE ELECTRIC COOPERATIVE
2014 ANNUAL MEETING
HOOPER PARK, CREWE, VIRGINIA
SEPTEMBER 27, 2014 @ 11:15 A.M.***

The Annual Meeting of the members of Southside Electric Cooperative was held at Hooper Park, 1500 feet west of the Cooperative Headquarters Office, on U. S. Highway No. 460, in the Town of Crewe, State of Virginia, at 11:15 a.m. on Saturday, September 27, 2014.

INTRODUCTIONS

Allan Sharrett, Vice President of Public & Member Relations, introduced Pastor Lisa Taylor of Dominion Community Church in Crewe, Virginia for the invocation.

Frank W. Bacon, Chairman of the Board of Directors was introduced to the membership and presided over the meeting.

Chairman Bacon recognized the special guests attending the Annual Meeting.

Allan Sharrett announced the winner of the Proxy Prize drawing, Charlotte Randall and then introduced three participants of the 2014 Youth Tour.

BUSINESS MEETING

The business meeting was called to order and motion was requested from the membership to appoint John M. Boswell, Southside Electric Cooperative's General Counsel, as parliamentarian over the business session of the meeting, and to appoint Jean Morris, SEC Vice President of Human Resources, as recording secretary of the meeting.

On motion made and seconded:

"John M. Boswell is appointed as Parliamentarian over the Business Session of the meeting and Jean Morris is appointed as Recording Secretary."

MOTION CARRIED

SECRETARY'S REPORT

Chairman Bacon introduced the members of the Board of Directors of Southside Electric Cooperative, and then called Paul S. Bennett, Secretary of the Board of

Directors, to read the notice of the meeting and quorum statement. After proof of due notice of the meeting, the attendance was checked, and it was determined that 704 members were present in person, and 2,299 members were present by proxy, said members constituting a quorum of the membership for the purpose of this meeting. A list of those present in person and by proxy will be retained by the Cooperative.

On motion made and seconded:

“The reading of the minutes of the 2013 Annual Meeting of members is dispensed with, since a copy of such minutes was published in the Cooperative Living magazine and said minutes are approved as written.”

MOTION CARRIED

REPORT OF OFFICERS

The next order of business, according to the *Bylaws*, was the presentation of reports of officers, which will be attached to and made a part of the Annual Meeting Minutes. This included the Chairman’s report and the President/CEO’s report.

On motion made and seconded:

“The reports of officers are approved as presented.”

MOTION CARRIED

UNFINISHED BUSINESS

The floor was opened for unfinished business, but there was none.

NEW BUSINESS

The floor was opened for new business. Chairman Bacon introduced General Counsel John M. Boswell to conduct the remainder of the meeting.

Nominations were received for Districts I, II and III pursuant to the Bylaws. Board members are elected for a 3-year term and petitions must be received by all nominees not less than 60 days before the Annual Meeting of the members. A list of candidates for all districts shall be mailed to each member not less than 10 days before any meeting where directors are to be elected. Accordingly, the following were placed in nomination:

District I – Paul S. Bennett
District II – Herbert E. Winn
District III – Kristie Martin-Wallace

On motion made and seconded:

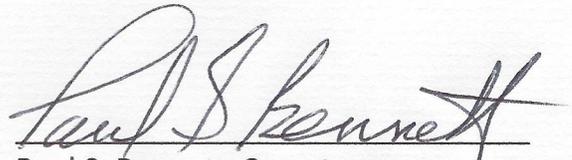
“Nominees for Districts I, II and III are unanimously elected by acclamation to represent their territorial district.”

MOTION CARRIED

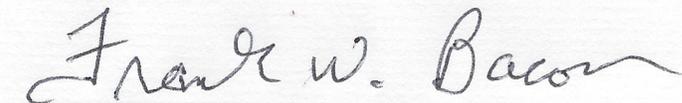
QUESTION AND ANSWER SESSION & ADJOURNMENT

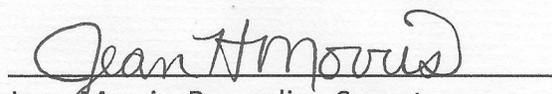
General Counsel Boswell opened the floor for a question and answer period. Forest Clay inquired as to the responsiveness of the Board to the membership when their contact information is not published. Mr. Boswell notified the membership that the Board sets policy and management is responsible for the application and enforcement of policy.

There being nothing further to come before the meeting, it was adjourned at 12:10 p.m.


Paul S. Bennett, Secretary

Approved:


Frank W. Bacon, Chairman


Jean Morris, Recording Secretary

CHAIRMAN'S SPEECH

WELCOME

Good morning and welcome to the 77th Annual meeting of Southside Electric Cooperative. As always, it is great to see everyone here today, taking interest in the health and operation of your cooperative. I hope you have had the opportunity to talk to old acquaintances, and maybe even made a few new friends this morning.

We hold this event every year and it serves multiple purposes. First, it gives the Board and Management an opportunity to **report to you on the financial and operational health of your cooperative**. It allows you to **select directors**, who represent your interests by serving on the Board. **It also allows us to give back to our members** in the form of the always popular health fair, educational opportunities, hot air balloon ride, and to provide the best barbeque chicken dinner in Southside Virginia.

BOARD RESPONSIBILITIES

RATE INCREASE AND COST CONTROL

Your Board of Directors has a wide range of responsibilities that we take very seriously. We establish policies that management follows to run the day to day activities of your cooperative. We receive monthly reports from management regarding the condition of the cooperative in all areas. Based upon these reports, decisions are made regarding changes that lead to improvements. One such decision that was made in the last quarter of 2013, and implemented on January 1st, 2014 was a rate change that places your cooperative on solid financial ground. Rate changes are always a tough decision. The Board recognizes the impact that rate increases have on the membership, and we always look for ways to maximize the effectiveness of existing rates prior to approving changes. In this case, we were certain management had done everything they could to get the most out of the existing rate prior to approving the increase. Management has reduced expenses in many, if not all areas, of the cooperative. We have reduced inventory by over \$1M by partnering with TEMA, a material supply cooperative in NC. We have reduced our controllable expenses so that they are \$200,000 less than they were in 2006.

Your cooperative is working with fewer employees, 40 less than in 2007. This results in substantial savings to you, and our service has improved in the areas of reliability and customer service.

The Board, just like you, doesn't like to see rate increases, but I can assure you that this one was inevitable. We had gone 13 years without an increase and could no longer meet the requirements placed upon us by our lenders without the change.

RELIABILITY IMPROVEMENT

I would like to talk to you about other advances at SEC. The Board receives and reviews monthly reports on reliability. Improvement in this area is a strategic initiative, and we take this very seriously. We have seen the number of outages reduced, the length of those outages occurring has diminished, and our response time has improved. I have had several of you visit with me today and express your appreciation for the improvements made in reliability and I can assure you we are continuing our efforts to make it even better.

COMMUNICATION

We also take great pride in our ability to communicate with you through various methods. We process calls more quickly than ever before, with our average answer time at 11 seconds. Compare this with other service providers and I think you will be pleased with our efforts. We began using social media such as Facebook and Twitter to communicate approximately 18 months ago and many of you have taken advantage of this effort. We have also developed a Youtube channel where informational videos can be viewed. This is a growing area and we will continue to look for ways to enhance and improve our communications with you.

LEGISLATIVE RESPONSIBILITY

Another responsibility of your Board is lobbying elected officials on behalf of our membership. This occurs on both the federal and state levels. We visit these officials at least once per year to discuss legislation, and how it will affect your cooperative, and ultimately your power bill. We are currently monitoring the latest EPA proposals which will place severe restrictions on emissions at existing power plants. This will force a premature shut down of some facilities, which causes concern over system reliability. Inadequate generation results in blackouts. It will also push rates higher due to limited supply versus the required demand. We will continue to monitor the EPA's progress in this regard and keep you informed via your newsletter.

CAPITAL CREDIT RETIREMENT

Being a cooperative member has distinct advantages. Your participation as a member-owner instead of a customer is never more evident than through the retirement of capital credits. This is the cooperative's equity, or operating capital collected that exceeds the amount needed during each fiscal year. In traditional business models, this is referred to as profits, and are kept by the business owner, or returned to stockholders. In cooperatives, these are called margins, and are returned to each member that received service in the years that are returned based upon the amount of electricity purchased. Southside has a proud history of returning capital credits to our members. We returned approximately \$2.4M to you, the members in 2013, and have returned a total of \$38M since we began the retirement process, and \$13M in just the last 5 years. These dollars are returned via a check in the month of December and help

bolster the economy in the areas we serve. This is all really positive information. ***I have really good news regarding capital credit retirements for 2014. We will retire approximately \$5M this December. This is approximately double the highest amount ever retired in the history of SEC.*** We hope you find this retirement, and entire capital credit program beneficial.

CONCLUSION

We are constantly looking for ways to make your cooperative better. I hope you recognize those things done in recent years to better serve you. I want to ensure you that this is an on-going process and Your Board, Management, and employees are dedicated to providing you with exemplary service, each and every day.

Thank you

PRESIDENT/CEO'S SPEECH

I want to take a few minutes to expand upon Dr. Bacon's comments regarding the operational and financial health of your cooperative.

We live in an area of the country that is so very beautiful and green. Southside serves 18 counties in the Commonwealth. We serve an area that covers a wide range of terrain form, the flatter lands in our eastern territory, to the rolling hills in the central area, up to mountainous geography in the western district. We have 8,100 miles of line to maintain. A common theme in our maintenance practice is cutting, trimming and spraying our rights of way. A recent inventory performed by professional arborists indicated that we have to perform some form of maintenance on a total of approximately 1.2 million trees in one right-of-way clearing cycle; 1.2 million trees that require some form of pruning. We cannot possibly cut the right-of-ways wide enough to prevent trees from impacting the line. We maintain a 30-foot wide right-of-way from three-phase lines and typically have trees 100-foot tall just outside our right-of-way. If they fall towards the line, well you can just imagine they will impact our facilities. To minimize the amount of tree related outages, we phased out our tree maintenance program and added danger tree crews that stay on our system year-round. These crews remove leaning trees, rotting trees, or trees that otherwise show a potential of creating outages.

This certainly minimizes the number of outages we experience, and that is a goal of the Cooperative. However, we want to make sure when the power does go off, and unfortunately that is inevitable, that we respond and restore your lights as quickly as possible. In 2013, we began aggressively installing distribution automation to assist in the restoration process. This allows Cooperative personnel to isolate sections of faulted lines and restore power through back-feed capabilities, minimizing the amount of time many members experience during outages. This technology has been used many times in the past year. In one instance, we were able to restore power to all of our members without rolling a truck. We will continue to install and utilize distribution automation for your benefit over the coming year.

We completed the metering conversion in 2013. Our old system was failing rapidly after 12-years of service. We installed a new technology that continues to use power line carrier as the communications medium. This new technology allows us to offer new services such as prepaid metering. It also aids us greatly in outage identification and restoration as we can communicate with the meters. We can quickly determine the size of an outage, or identify if a member is still without power, following a restoration. This means more efficient use of your dollars, eliminates unnecessary overtime, and quicker response time during outages.

Our monthly and annual reliability reports indicate that these new technologies are working in your favor. We have seen significant improvements in reliability, and I hope that you have experienced this at your homes and businesses. Due to the area in which we live, the amount of trees that surround us and the weather we experience; lightning, hurricanes, tornadoes and winter weather, we will always be subject to experiencing outages. You can be sure that SEC is taking steps to minimize this issue.

I am going to switch gears and discuss the financial health of the Cooperative with you. You may have noticed over the past several years that our financial health was deteriorating. We were able to make the minimal financial requirements necessary to satisfy our lenders, but just barely. Our energy sales were less than stellar, and our rate structure was aged. Reductions in margins resulted in a diminished TIER. For those reasons, we made a rate change effective January 1 of 2014. This change places your Cooperative in a stronger financial position and allows us to meet the requirements of our lenders without being so dependent upon the weather. We have experienced good sales thus far in 2014 and our financial status is strong. It is the strong financial position that allows us to retire \$5M in capital credits this December.

We retired \$2.4M in 2013, placing us among the top cooperatives in the country regarding patronage capital retirements. Retirement of \$5M will place us among the very highest performers in this area.

We pride ourselves on our safety program. Our employees have adapted a culture of safety as they exercise this daily in their job activities. This protects not only them but you the members as well. We have had only 1 lost time accident in 4 years, and we are averaging only one recordable incident annually. Recordable incidents include things like tick bites, poison ivy, beestings and splinters. We will continue to work safely on your behalf to deliver safe, reliable energy to your home.

SEC continues to be involved in the communities we serve through various activities. We installed new poles and lights for a local ball field in Crewe this year. We have sponsored youth teams attending national events, we sent 8 students to our nation's capital this year, and we began the day in the life of a lineman program. This program is unique to your Cooperative. We invite students from schools in our service area to attend a 4-hour session to introduce them to the skills needed to be an electric lineman. This program has been well received, and we expect to see some choose this as a potential career path. Hopefully, some of these students will return and work as lineman in their communities and for your Cooperative.

Dr. Bacon mentioned earlier that we are tracking the latest proposed rule changes by the EPA and their potential impact on you. Their proposed carbon dioxide emission standards will result in the closing of some existing coal-fired plants, placing reliability and affordability in jeopardy. The entire mid-Atlantic and northeast parts of the United States were in danger of

rolling blackouts during January's polar vortex. If we are forced to close existing coal plants and then face another winter like this past January, we could face blackouts from a lack of generation. Also, reduction in generation will most likely push wholesale prices higher as the simple rule of supply and demand takes over. We will continue to monitor the progress of these new rules and keep you informed through our newsletter and Facebook page.

I want to end by thanking you and the Board for allowing me the privilege of serving as your CEO, and to thank all of the employees for their hard work and dedication in providing great service to all of our members.

Thank you for your attention, and I will now turn it back over to Dr. Bacon.