

***SOUTHSIDE ELECTRIC COOPERATIVE  
2013 ANNUAL MEETING  
HOOPER PARK, CREWE, VIRGINIA  
SEPTEMBER 28, 2013 @ 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 28, 2013.

**INTRODUCTIONS**

Franklin D. Harris, Manager of Member Services and Public 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.

**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 Christine Marston, SEC Executive Assistant, 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 Christine Marston 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 640 members were present in person, and 2,698 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 2012 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 – Michael A. Lobue  
District II – Frank W. Bacon  
District III – Dorsey L. Drawhorn

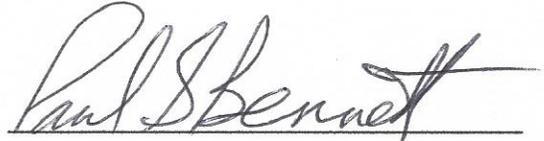
On motion made and seconded:

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

**MOTION CARRIED**

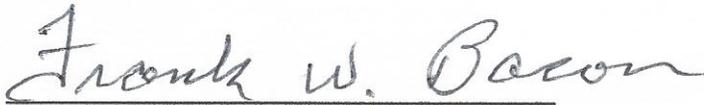
**QUESTION AND ANSWER SESSION & ADJOURNMENT**

General Counsel Boswell opened the floor for a question and answer period. There being no questions from the membership and nothing further to come before the meeting, it was adjourned at 11:58 a.m.

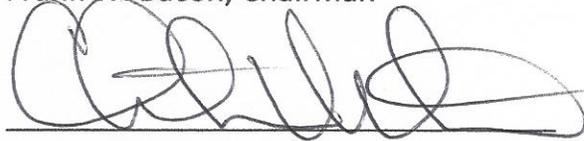


Paul S. Bennett, Secretary

Approved:



Frank W. Bacon, Chairman



Christine Marston, Recording Secretary

# ***CHAIRMAN'S SPEECH***

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## **WELCOME**

Good morning and welcome to the 76<sup>th</sup> annual meeting of Southside Electric Cooperative. It is always great to see fellow cooperative members who participate in the day's events to learn more about the cooperative business that you OWN. On behalf of the entire Board, thank you for taking time out of your busy weekend to be here today.

## **HISTORY OF SEC**

The cooperative was founded 76 years ago to meet a critical need that existed, one not being met otherwise by traditional means. That need was for electricity in the rural areas. Traditional investor owned utilities (like Dominion VA Power) were not interested in serving rural areas as they weren't populated enough to generate desired profit levels. And so, brave rural leaders joined together to form Cooperatives to meet this need. I know you agree with me that cooperatives across the nation, throughout the Commonwealth of Virginia, and your very own Southside Electric Cooperative have done a great job meeting that need.

## **STRATEGIC PLANNING BY YOUR BOARD AND MANAGEMENT**

Some major responsibilities of your elected Board include: establishing policies, providing broad oversight, monitoring the financial condition, and setting long-term goals for the cooperative. Your Board and management have a two day meeting every other year to complete a strategic planning session. At these meetings we discuss trends in our

industry and develop strategic goals for management to follow. The Board monitors management's success at reaching these goals.

## STRATEGIC GOALS OF YOUR COOPERATIVE

- **Improved Member Communication and Education**

During the most recent member satisfaction surveys, you told us that we could do a better job of educating and communicating with you. In response, management developed a comprehensive communications plan that will improve both of these areas. This plan includes the rollout of social media for those members using that technology, an electronic newsletter delivered to your email address, increased presence at community events, and the delivery of timely information through a variety of communication methods such as bill stuffers, radio broadcasts, newspapers, newsletters, etc. We plan to increase the number of member surveys conducted to determine if we are meeting your needs. If you are selected to participate in these surveys, please take the time to complete it. After all, this is your cooperative and your feedback is very important to us. If we don't know your concerns, we certainly can't work to address them.

- **Improved Power Reliability**

As time has progressed, we have seen many technological and political changes that affect the way we operate and the types of programs we offer to you. The Board and management recognize that first and foremost, you want reliable power that is **KEEP THE LIGHTS ON**. The Board established a goal of improving reliability during our strategic plan 4 years ago, and reaffirmed that goal in our most recent planning activity this year. Cooperative management developed a reliability improvement plan that outlines various methods of achieving

improvement. These range from things as simple as an improved right of way maintenance program, to as complex as down line distribution automation. This project allows cooperative personnel to monitor and switch feeder lines remotely to dramatically shorten the duration of outages when possible. The reliability improvement plan not only identifies methods of improvement, but also establishes goals and predicts costs associated with the projects. This plan is closely monitored and adjusted annually. I have heard from many of you that your power is more reliable now than ever before. That is a great thing for a director to hear, and we are confident that through the efforts established in the reliability improvement plan your service will continue to improve. I would remind you that the very best systems can't stay on 100% of the time and that there are events completely out of our control that create outages such as severe storms and auto accidents. We are doing our best to minimize outages that occur on blue sky, fair weather days.

- **Improved Succession Planning**

The CEO and attorney positions are mission critical to the success of the cooperative. The most important responsibility of your Board is the recruitment and hiring of an excellent CEO. It is important that the Board have a process to replace these individuals prior to the time they leave the organization. Replacing these two positions using a structured, pre-determined process is critical in maintaining continuity throughout the cooperative and to provide you the very best service possible. Succession plans for all key positions at the cooperative will be completed in the near future.

- **Improved Savings for you the Members**

A major goal established in the prior strategic plan is to find ways to help you save money. Southside operates in a very rural part of Virginia, and finding ways to save money is inherent to our nature. As a result of this quest, we began participating in the **cooperative connections card program** last year at this very time. This program allows cooperative members to use their cooperative connections card to obtain discounts when shopping at participating local vendors, and when using services or buying products provided through national chains. **Since the program's inception 1 year ago, Southside members have saved in excess of \$41,000 in prescription costs alone.** These savings are tracked by our national group Touchstone Energy and reported to the cooperative monthly. Savings found at local shops and restaurants are not tracked, but it is safe to say that **our members have saved in excess of \$50,000 when looking across the entirety of the program.** We have 89 local merchants that participate throughout our service territory. These merchants are identified on a sign located under the tent at the bottom of the hill to my left. You can also use these cards when traveling through other participating cooperatives territory. This further demonstrates the power of cooperatives working together. I hope you find the card useful, and if you have any questions about the cooperative connections program, please feel free to contact Southside for more information. Fred Davis, our Director of Key Accounts can answer your questions today if you can locate him prior to leaving. For those of you that use smartphones, there is a smartphone app you can download that enables you to pull up your co-op connections card on your phone, and lists the deals currently offered by our participating merchants.

- **Continued Emphasis on getting Capital Credits back to YOU**

A major advantage we have as cooperative members is the return of capital credits. **This is truly the COOPERATIVE DIFFERENCE.** This is the 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 2012 (over \$50 per member), and have returned a total of \$36M 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. We anticipate retiring approximately \$2.4M once again this December. We hope you find this program beneficial.

## CONCLUSION

LET ME ASSURE YOU, your Board and Management want to provide you with the very best service possible at the very best price. That is our commitment to you. **THIS IS YOUR COOPERATIVE AND THE BOARD, MANAGEMENT, AND ALL EMPLOYEES ARE HONORED TO SERVE YOU.** Thank you for your time and attention, and I will now call on our President and CEO, Jeff Edwards to present his report to you.

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## ***PRESIDENT/CEO'S SPEECH***

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Thank you Dr. Bacon and Good morning! It is indeed a pleasure to see everyone here this morning. I want to focus on several changes that have taken place at your Cooperative over the past year, and then discuss an upcoming change that you will be hearing more about in the next several months.

Your Cooperative began using automated meter reading in the late 1990's. This was done in an effort to reduce expenses at the Cooperative as traditional meter reading was very labor intensive and expensive. The technology selected used power line carrier technology to transmit meter readings through the power lines back to the substations, then to the office where they were collected and subsequently bills were generated. This technology served the Cooperative and its members well for a period of time and certainly produced costs savings over its lifetime. However, like all technology, we began to see degradation in its performance over the last several years. We had to estimate bills and read meters for several thousand accounts annually. As a result of the system failing, we began to experience increased costs and decreased customer service levels. We began to explore replacing the system several years ago and analyzed several different technologies that would provide stable, accurate meter readings, and also provide tools the engineering and operations staff could use that would improve our service to all of the members. As we examined the various proposals vendors submitted to us, we identified the TWACS system as our choice. This system uses power line carrier technology, just like our last system did, only it is a much improved technology in the way it transmits data. We can read a meter upon request in about 15 seconds; the old system took almost 24 hours. We can ping the meter to determine if a location has power. We could not do that with the old system. During major storms, this will aid us in restoring power more quickly, and to ensure we aren't leaving anyone off. It also prevents us from dispatching crews to locations that have power. This happened more frequently in the past than you can imagine and this new technology will eliminate unnecessary trips, thus reducing costs. We have virtually eliminated the need for estimated bills as the new technology performs extremely well reading meters. This technology proved invaluable during the aftermath of severe thunderstorms that passed through on June the 13<sup>th</sup> of this year. Following this storm, we had no ability to take phone calls from the membership due to damage suffered by the telephone company serving our main office. In the past that would have meant that we spent hours riding across our 8100 miles of line visually inspecting our lines to identify outages. Using this technology, we were able to communicate with the meters and determine where outages had

occurred, and dispatch our line personnel efficiently. This is one major advantage that you have due to this new technology.

This latest technology will allow us to offer a new service to members in the near future. This service is known as pre-paid metering. Members who volunteer to participate in this program will pay for the electricity prior to using it, just like buying gas for their car. They will be able to monitor their usage and get alerts when the amount purchased is getting low. These members can purchase as much or as little as they want, they can purchase as often or as infrequently as they desire. It really puts them in charge of how they spend their money on electricity. Studies have shown that members participating in this type of program do a better job of conserving energy and actually lower their usage over time. This program also eliminates the need for the Cooperative to collect a security deposit from those members that ask to be placed on the pre-paid program. We are empowering members to take control of their energy budgets. We anticipate taking this program to the SCC in the near future and following their approval will notify the membership and begin signing up participants.

One of the Cooperative's largest expenses besides wholesale power costs is that of maintaining our rights-of-way. We are constantly looking for ways to improve that process and reduce expenses, if possible. You may have noticed over the past few years a temporary browning of the undergrowth within our easements. This is due to the herbicide program we adopted that eventually minimizes or eliminates the mowing of our rights-of-way. The herbicide program eventually will turn the brushy undergrowth into a grassy cover that will not grow tall enough to impact the power lines, or affect the reliability to your homes. The grassy undergrowth is also more conducive for wildlife habitat as it provides a better environment for small animals such as quail and rabbits.

If you reviewed the financial report in the September issue of the *Cooperative Living magazine*, you probably noticed that we had very small operating margins in 2012. They were slightly under \$1M. We have actually operated on a razor's edge when it comes to operating margins for several years. This is due to continued rising costs of materials necessary to build and maintain our electric plant and the absence of a rate change in over 12 years. We have worked diligently to reduce costs in all areas by re-negotiating contracts, taking competitive bids for various projects and goods, eliminating waste and reducing the Cooperative workforce. As a cooperative, we operate as a not-for-profit business, so we are not interested in generating excessive margins, however, we must meet the revenue requirements placed on us by our lenders. This is a very capital intensive business which requires that we borrow the majority of the money used to operate the Cooperative. We have been able to postpone a rate increase as a result of our internal efforts, and the low interest rates that have been available due to the depressed economy. We have not had a rate increase since 2001, but after all of our

efforts, and our ability to delay a rate change, we are currently undergoing a cost of service study to insure our ability to meet the lenders requirements. This process has been many months in the making as we continue every effort to develop rates that will minimize the impact experienced by you, the members. As you are aware, all excess margins, no matter the amount, are returned to you in the form of capital credit retirements. We will be communicating more about the rate change in the next several months as the process draws to a close. We are anticipating a change in our rates to be effective in January, 2014.

We are in the process of developing new ways to communicate with you in the near future. Results from our last member survey indicated you wanted more information, presented in a timely manner. You also told us that we needed a presence on social media. As a result of your guidance, we have developed a Facebook page that is available for communications exchange. We are in the process of developing an electronic newsletter than can be delivered via email. We hope to publish stories and articles in the Cooperative Living Magazine that you find informative and entertaining. We will also be refreshing the look of our website. I hope you find all of these efforts to be more informative and user-friendly. For those of you that use mobile devices to access the internet, please be sure to download our mobile app that is available for both apple and droid devices. We have almost 1000 members that have already downloaded that app in the last 3 months.

I want to thank the employees for doing a stellar job in providing service to you, and doing this safely. We have only had 1 lost time incident in almost 3½ years. We have seen improvements in the time it takes to restore power, and we have seen a decline in the number of outages we experience due to an aggressive reliability improvement plan. This has all taken place with 33 fewer employees than we had in 2007. This reduction in workforce is a result of the economic impact the recession had on the housing industry in our service area and our improved use of technology. I want to thank our employees for stepping up to provide improved service to you. This is important to the Board, and important to me. We have a great group of employees that want to exceed your expectations, and they work hard every day to do so.

Thank you for your time and attention and for allowing me to serve as your CEO. I hope you have enjoyed the annual meeting thus far and enjoy the great chicken dinner prepared by the Crewe Volunteer Fire Department and Brock's catering. They do a fantastic job in preparing these meals.

Thank you.