

*Focusing on
the Future*



ANNUAL REPORT
2018-2019

The Future of Volunteer Energy Cooperative



Rody Blevins
President/CEO

Volunteer Energy Cooperative

Today is the 83rd annual Membership Meeting of Volunteer Energy Cooperative (VEC). The occurrence of this meeting means two things have happened, another year of operation has been successfully completed, and we are once again turning our focus to VEC's future. Over the past several years, you have heard us talk about our Vision 2020 plan. Vision 2020 is the concerted effort we have put into upgrading our entire electric system infrastructure. Completed upgrades include replacing or rebuilding all of our electric substations, enhancing electric grid components and controls, reconfiguring our computer network and website, and upgrading our communication and fiber systems. As 2019 ends, the Vision 2020 plan will be wrapping up and VEC will have one of the most advanced digital platforms of any electric company operating in the United States.

As Vision 2020 winds down, we will continue to address other critical issues facing VEC. Of primary concern are the rising costs of wholesale power from the Tennessee Valley Authority (TVA). Over the past six years, TVA has increased base wholesale power rates by 2.5% each year. While the rate increases have helped TVA lower their total debt by over \$4 billion, the increases have also increased the rates to a point where TVA is now among the highest cost options of power suppliers in the Southeastern United States. This brings VEC to a place where critical decisions on the future direction of the cooperative need to be made.

In April of this year, TVA's former CEO Bill Johnson left TVA to go to work in California. Mr. Johnson was one of the primary catalysts for the perennial TVA rate increases. Upon his departure, TVA hired a new CEO, Jeff Lyash. Mr. Lyash has spent a considerable amount of time talking to the leadership of the power companies serving the Tennessee Valley, including VEC. One of the chief messages communicated to Mr. Lyash has been the urgent need for relief from the TVA rate increases. The good news is, the message has been heard. TVA is proposing a new financial plan that directs the path TVA will follow over the next decade. This plan includes no new rate increase for the current year, and it proposes no rate increases for the next 10 years.

In addition to the development of a new financial plan, TVA has also proposed a new 20 year power contract for the local power companies to consider. Anyone willing to commit to a 20 year contract with TVA will receive a 1.7% retail bill credit. This credit could be used to reduce rates, or it could be used by the local power companies to offset other costs. While the idea of a bill credit sounds appealing, the contract comes with a number of drawbacks. First, the contract has a rolling 20 year term, meaning that until notice of termination is given, a company will always be 20 years away from utilizing a more affordable power supplier, should one be desired. Second, any power company agreeing to the new 20 year contract would immediately begin to accrue stranded costs with TVA. These stranded costs would become due upon termination of the contract, and could tally in the tens of millions of dollars. Third, there are clauses in the contract that would prevent the local power companies from offering any in-house load reduction programs. These programs benefit both the customer and the cooperative by reducing electric costs. And finally, clauses are included in the contract that would protect TVA from legal action over breach of contract, giving TVA legal immunity once the contract has been signed.

While the promise of having no rate increases from TVA for the next 10 years and the offer of a 1.7% retail bill credit are both a move in the right direction, VEC believes these actions are not enough to take on a 20-year commitment with TVA. There are significant changes going on in the wholesale power markets outside the Tennessee Valley. In addition, electric cooperatives across the country are now generating some of their own power from low-cost renewable options. These new options for power generation could result in significant cost savings to our members. As we focus on the future, VEC is studying various options for future power supply to our members. This process will take time, but know that VEC is working in your interest to keep electric rates low. As we continue doing so, we will continue updating you with our progress. One way or another, we are committed to providing reliable and low-cost power to our members.

Rody Blevins

Volunteer Energy Cooperative Board of Directors



Laney Colvard
Chairman
Cumberland
County - West



Aubie Smith
Assistant
Secretary/Treasurer
Hamilton County



Larry Storie
Vice Chairman
Pickett County



Randy Bond
Cumberland
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Sammy Norton
Secretary/Treasurer
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William J. Campbell
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McMinn County



Scott Humberd
Bradley County



Tim Handler
Roane & Loudon
Counties



David J. Milen
Polk County



Jerry Henley
Rhea & Bledsoe
Counties



Keith Phillips
Putnam, White,
& Overton Counties

SEVEN COOPERATIVE PRINCIPLES

- 1 Open and Voluntary Membership:** VEC is a voluntary organization open to all people able to use its services and willing to accept the responsibilities of membership without gender, social, racial, political, or religious discrimination.
- 2 Democratic Member Control:** VEC is a democratic organization controlled by its members – those who buy the goods or use the services of the cooperative – who actively participate in setting policies and making decisions. A member-elected board of directors set the policy and procedures that govern the cooperative.
- 3 Members' Economic Participation:** Members contribute equally to, and democratically control, the capital of the cooperative.
- 4 Autonomy and Independence:** VEC is an autonomous, self-help organization controlled by its members. If VEC enters into agreements with other organizations or raises capital from external sources, it is done based on terms that ensure democratic control by the members and maintains the cooperative's autonomy.
- 5 Education, Training, and Information:** VEC provides education and training for members, elected representatives, managers, and employees so they can contribute effectively to the development of the cooperative.
- 6 Cooperation Among Cooperatives:** VEC serves its members most effectively by working together through local, national, regional, and international structures.
- 7 Concern for Community:** While focusing on members' needs, VEC works for the sustainable development of communities through policies and programs accepted by the members.



Fiber Broadband

Introducing a new partnership to bring better technology and more reliability to our members. Learn more at www.vec-twinlakes.com.



Light Speed - How VEC Fiber is Connecting Communities

Since its inception, the internet has had a revolutionary impact on our culture, commerce and technology. Today, the scientific and technological communities have made digital networking capabilities one of their chief concerns. Consequently, the amount of data that can now be transmitted has increased exponentially, reaching almost instantaneous speeds. Sadly, the proliferation of these new technologies and capabilities has not moved at instantaneous speeds. For that reason, Volunteer Energy Cooperative (VEC) made the decision to enter the broadband market, to help expedite the delivery of broadband services to our rural members.

In 1993, the internet represented only 1% of the information flowing through two-way networking. By the year 2000, it represented 51% of the information transferred, and by the year 2007, 97%. Today, over 3.2 billion people are connected to the internet, representing over half of the world's population. Unfortunately that figure also means that about half of the world's population does not have access to the internet. In the United States, about 76% of American's have internet access. The majority of those who do not, live in rural communities.

That brings us to the original mission of VEC, to provide access to a service that others are unable or unwilling to provide. With the vast majority of VEC members living in rural Tennessee communities, the VEC board of directors decided VEC should be the vehicle that would bring internet accessibility to the unserved communities of VEC. In 2017, the passage of the Tennessee Broadband Accessibility Act finally allowed that idea to become a reality.

In early 2017, VEC formalized a partnership with Twin Lakes Telephone Cooperative to initiate the deployment of broadband access to our members. By the end of 2018, VEC had installed enough fiber optic cable in Northern Bradley County to provide access to 616 homes. During that same period, VEC was awarded two different grants, one by the federal government and another by the Tennessee state government. Both of those grants will be used to aid in the cost of additional fiber construction.

The first grant that was awarded to VEC was a \$1 million matching grant. This grant will be utilized to provide access to 730 homes in the Birchwood community (Meigs and Hamilton counties). The second grant that VEC was awarded was a \$1.3 million matching grant. This grant will be utilized to provide access to 942 homes in the Spring Creek community (McMinn County). Construction on the Birchwood project started in late August 2019, and construction on the Spring Creek project is set to begin before the end of the year.

Meanwhile, VEC continues planning for new areas of construction, and fighting for new sources of funding. There are currently multiple grants outstanding with the State of Tennessee. If approved, these grants will provide the funds needed to begin construction in the Ten Mile community (Meigs County and Southern Roane County), and will allow for an expansion of the construction already underway in the Birchwood community (Meigs County).

While we understand that there are many of our members who are in desperate need of internet connectivity, we must approach the task responsibly. VEC has established a crowd fiber website, which is being used to coordinate the effort. The site tabulates the locations of those members awaiting service and helps us determine which areas to build into next. If you have not signed up on the crowd fiber site, please visit www.vec-twinlakes.com.

For those who continue to wait for service, please remember that we are working as quickly and efficiently as we can. The installation of fiber costs the cooperative over \$22,000 per mile of line and requires weeks of time for the installation of each mile. We are working tirelessly, and we continue to look for every opportunity to attain funding to expedite the spread of our broadband service.

Strategic Planning for Reliability

Some things get better with age - fine wines, cheese, blue jeans, trees and antiques. One item that doesn't follow this trend is a power transformer. In May of this year, Volunteer Energy Cooperative was informed by Tennessee Valley Authority (TVA) officials of a critical issue at the TVA East Cleveland substation. The substation (as well as the equipment inside) is between 60-100 years old and reaching the end of its useful life. One of the power transformers is showing signs of degradation and runs a high risk of failure. TVA brought in a mobile transformer, but does not have a long-term solution.

Facing the possibility of unpredictable power interruptions, we developed a strategy that will remove the danger of power loss if the TVA power transformer fails and will also increase capacity and reliability. The areas affected include South Polk County (the Ocoee Area), South Bradley County (the McDonald Area), North Cleveland (the Tasso Area), and Riceville in McMinn County.

VEC linemen and contract crews will upgrade the Ocoee and South Bradley Substations. This upgrade includes new transformers as well as changing distribution lines to carry more load. Both the upgrade and line change will increase capacity and reliability. In addition to the substations, we will construct a new transmission circuit on the Highway 411 corridor between the Benton and Ocoee substations.

As of September VEC linemen and contract crews have worked successfully on the South Bradley Substation. They completed the additional circuit on Tunnel Hill.

They upsized the line on Lebanon Valley Church Road, converted Candies Creek Road, Rakestraw Road, Old Johnson Road, and part of Tunnel Hill from 7,200 volts to a capacity of 14,400 volts. They also were able to remove 3 step-down transformers at the intersection of Candies Creek Road and Tunnel Hill.

The next step in this process will be to convert the remaining portions of Tunnel Hill, portions of Old Alabama Road and part of Leadmine Valley Road. Blue Springs Road and Blue Springs Church Road are also scheduled in the next upgrade.

Each step of the project has one objective, moving the load from the TVA East Cleveland substation and securing reliable service to our customers. Providing our customers with reliable, safe and efficient electric service is our mission and we are investing in long term reliability.



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Lillard-Shadow Scholarship



This scholarship program began in 2003 as a way to honor Willis A. Shadow and J.W. Lillard, founders of the Meigs County Power Association which would ultimately become Volunteer Energy Cooperative. Four \$2,000 scholarships are awarded to high school seniors each year by VEC using an independent panel of judges.

This year's winners were Alexi Inman (Crossville Service Area), Kelsie Norris (Jamestown Service Area), Kiana Hooper (Cleveland Service Area), and Jason Vincent (Decatur Service Area).



Alexi Inman



Kelsie Norris



Kiana Hooper



Jason Vincent

Washington Youth Tour

The Washington Youth Tour, sponsored by Volunteer Energy Cooperative (VEC) and the Tennessee Electric Cooperative Association, provides young leaders with an opportunity to explore Washington, D.C., learn about how government affects cooperatives and develop their leadership skills. President Lyndon Johnson inspired the tour in 1957 when he encouraged electric cooperatives to send students to the nation's capital.

Students were selected for the trip by writing a short story titled "Electric Cooperatives - Connecting Communities." Each story explained how co-ops are connecting their communities with power, information and opportunities. VEC alternates each year which schools in our service areas participate. This year's participating schools were: Alvin C. York Institute, Clarkrange High School, Cumberland County High School, Midway High School, Monterey High School, Rhea County High School and Stone Memorial High School.



4-H Electric Camp

The 4-H Electric Camp is a joint venture of the Tennessee Electric Cooperative Association and its member cooperatives, including VEC; University of Tennessee Extension; Tennessee Municipal Electric Power Association and its municipal power systems; and the Tennessee Valley Authority. At 4-H Electric Camp, students explore the world of energy, electricity and the basic sciences in fun-filled, “hands-on” learning centers. This year’s learning centers featured:

Electric Lamps - Students used a lamp kit and electric insulators to make an electric lamp.

Solar Energy - Students learned how to use the sun to power everyday items.

Wind Energy Generation - Students focused on how to harness the energy in wind to generate electricity.

Home Energy Conservation - Students learned how conserving electricity at home not only helps to lower their electric bill, but also helps to conserve the environment.

Electric Vehicles - Students practiced driving an electric golf cart and learned about DC current used in Electric Vehicles.

Electrical Safety - Students were taught important safety measures around electricity how to be safe around high voltage power lines.



Youth Leadership Summit



The Youth Leadership Summit is a partnership between Tennessee Electric Cooperative Association (TECA) and VEC to promote leadership within our state. Delegates to the annual event receive a hands-on look at state government, learn networking and leadership skills and develop a better understanding of electric cooperatives.

While in Nashville, the students visit the State Capitol Building where they are welcomed by members of the Tennessee General Assembly. In addition to lawmakers, this year students heard from Tennessee leaders like Miss Tennessee 2018 Christine Williamson; Adam Hammond, anchor for Nashville’s News Channel 5; and trooper Jeffrey Buchanan and K-9 Major with the Tennessee Executive Protection Detail.

Two delegates from one of the schools in our service area are chosen by their guidance counselors and principals. This year the delegates were McMinn Central High School’s Laura Jenkins and Jalen Walker.



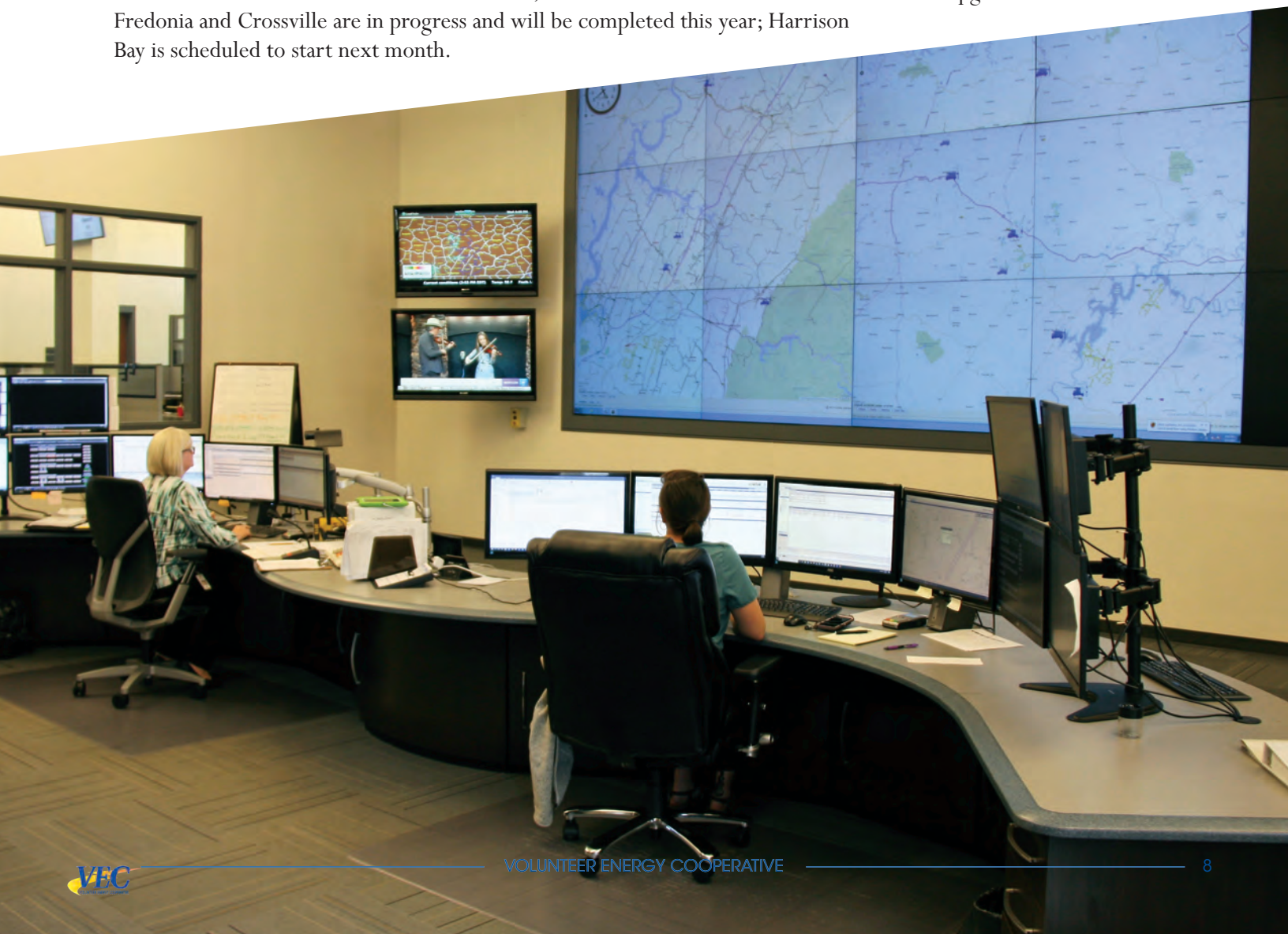
Vision 2020: An Update

In 2015 VEC vice president Matthew Teague along with CEO and president Rody Blevins created a new strategic vision for VEC that would guide the cooperative throughout the year 2020. The vision included strategic planning for system and technology upgrades. It included equipment and technological improvements to maintain a strong electric system.

The goal of Vision 2020 was to improve power reliability, develop better communication with our members, and develop better training tools for employees. Components of the Vision 2020 plan included power system technology upgrades, completing the Supervisory Control and Data Acquisition (SCADA) system, as well as communications and network server upgrades.

Substation Upgrades

- *Upgrade Control Panels:* Lantana, Crossville and Sugar Grove are complete. Fredonia has components in stock that are ready for installation. Ten Mile is scheduled for next year with Harrison Bay.
- *Regulator & Recloser Controls:* All recloser controls have been upgraded to an electro-mechanical type. Substation Regulator Controls are 90% completed with the upgrade scheduled to be completed by next year.
- *Substation Breakers:* The breakers in the Lantana, Ravenscroft and Ten Mile stations have been upgraded. Fredonia and Crossville are in progress and will be completed this year; Harrison Bay is scheduled to start next month.



VOLUNTEER ENERGY COOPERATIVE SYSTEM WIDE SUBSTATIONS

JAMESTOWN SERVICE CENTER

BYRDSTOWN

GRIMSLEY

JAMESTOWN

COMMUNICATIONS

COMMUNICATIONS
GRAPHS

SYSTEM
DEMAND

NEUTRAL
VALUES

RECLOSER /
GROUND STATUS

VOLTAGE
REDUCTION

CROSSVILLE SERVICE CENTER

CAMPBELL
JUNCTION

CRAB ORCHARD

CROSSVILLE

FAIRFIELD
GLADE

FREDONIA

LANTANA

MAYLAND

MONTEREY

RAVENSCROFT

WEST
CROSSVILLE

WEST
FAIRFIELD

DECATUR SERVICE CENTER

ATHENS

GOODFIELD

RICEVILLE

SANFORD

ST CLAIR

SPRING CITY

R101

R102

SPRING CREEK

TEN MILE

VEC
SYSTEM
DEMAND

450.04 MW

Sys Dem Graph

VEC MONTHLY

CLEVELAND SERVICE CENTER

SCADA Enhancements

- All substations are now being monitored by the SCADA system.

Communication Upgrades

- Aclara (AMR) Servers - Complete
- Email Servers - Complete
- Phones - Complete
- Digital Two-Way Radios - Complete

Expand Fiber System (Substation)

The Sugar Grove and Fairfield lines are complete. The fiber to the Fredonia Substation is in planning.

Upgrade Security and Document Retention

- *Security:* We have installed PTZ cameras at some substations, digital exterior cameras at the service centers, and replaced one lobby camera with a digital one.
- Digital Archives are at 95% with all the completed contracts, Engineering, Accounting, IT, Decatur, Crossville, Brydstown, Monterrey and Jamestown. Still remaining are half of the Cleveland and Benton applications.

Upgrade Employee/Member Access to Data

- Completed the implementation of the Meter Data Management System and the SmartHub Deployment.
- Completed upgrade of the VEC website.
- Completed the Social Media initiative. Our customers can access information via instagram, Facebook, Twitter and LinkedIn.
- Completed the update to employee desktop computers.





Your Change Changes Things

The VECustomers Share program began in 2001 and has surpassed \$6.8 million in grants to community organizations. In the last fiscal year, 366 different organizations across our service area received \$334,100.00. Each month the VECustomers Share board of directors meet and review grant requests received the previous month. Each director allots their service area's portion of the monthly grant amount. Recipients vary from each service area but all have community impact. Each month the grant award winners are published in Powerlines, the monthly bill insert newsletter.

Hamilton County Special Tactics and Rescue Services, Inc. (Stars) is one of the many organizations VECustomers Share grants have assisted with funding. Hamilton county STARS are designed to provide special tactical and technical support to area fire, rescue and police services throughout Chattanooga, Hamilton County, Tennessee and the surrounding area. The STARS Team is a support group of the Hamilton County Emergency Services. This organization operates solely by volunteer effort. Founded in 1983, they have assisted with more than 500 successful missions.

Grant applications can be picked up at the local service center or can be downloaded at <https://vec.org/community-programs/vecustomers-share/>.



FAST FACTS

Customer Service and Outage Calls

Calls Answered by CSR: 186,123

Calls Answered by IVR: 604,489

System Maintenance

Poles Inspected: 1,527

Acres of Brush Sprayed: 2,997

Miles of Line Trimmed: 1,504

Service Reliability:

99.91% Average

Statement of Nondiscrimination

Volunteer Energy Cooperative is the recipient of federal financial assistance from the Rural Utilities Service, an agency of the U.S. Department of Agriculture. In accordance with Federal civil rights law and U.S. Department of Agriculture (USDA) civil rights regulations and policies, the USDA, its Agencies, offices, and employees, and institutions participating in or administering USDA programs are prohibited from discriminating based on race, color, national origin, disability, or age. Remedies and complaint filing deadlines vary by program or incident.

Persons with disabilities who require alternative means of communication for program information (e.g., Braille, large print, audiotape, American Sign Language, etc.) should contact the responsible Agency or USDA's TARGET Center at (202) 720-2600 (voice and TTY) or contact USDA through the Federal Relay Service at (800) 877-8339. Additionally, program information may be made available in languages other than English.

To file a program discrimination complaint, complete the USDA Program Discrimination Complaint Form, AD-3027, found online at www.ascr.usda.gov/complaint_filing_cust.html and at any USDA office or write a letter addressed to USDA and provide in the letter all of the information requested in the form. To request a copy of the complaint form, call (866) 632-9992. Submit your completed form or letter to USDA by:

- (1) mail: U.S. Department of Agriculture
Office of the Assistant Secretary for Civil Rights
1400 Independence Avenue, SW
Washington, D.C. 20250-9410
 - (2) Fax: (202) 690-7442
 - (3) Email: program.intake@usda.gov.
- VEC is an equal opportunity provider.

FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

Volunteer Energy Cooperative Balance Sheet as of June 30, 2019

Assets

Electric plant in service	\$ 477,088,067
Less depreciation	<u>235,249,240</u>
Total	241,838,827

Other property and investments 21,377,064

Current and accrued assets

Cash and temporary cash investments	47,615,480
Accounts receivable	15,923,699
Materials and supplies	3,430,156
Prepayments	728,954
Other current assets	<u>1,677,100</u>
Total	69,375,389

Deferred debits

Receivables-conservation	4,397,136
Other deferred debits	<u>883,793</u>
Total	5,280,929

Total assets \$ 337,872,209

Capital and Liabilities

Capital

Membership certificates	\$455,945
Earnings reinvested in system assets	<u>273,546,867</u>
Total	<u>274,002,812</u>

Long term debt 13,659,509

Other noncurrent liabilities 7,475,749

Current and accrued liabilities

Other notes payable	-0-
Accounts payable	19,133,272
Customer deposits	4,889,512
Taxes and interest	1,251,601
Other current liabilities	<u>916,412</u>

Total 26,190,797

Deferred credits 16,543,341

Total capital and liabilities \$337,872,209

Volunteer Energy Cooperative Statements of Income and Earnings Reinvested in System Assets Fiscal Year Ended June 30, 2019

Operating Revenue

Sale of electric energy	
Residential	\$155,665,630
Commercial	23,950,068
Industrial	58,690,313
Street and other lighting	<u>4,190,262</u>

Total sale of electric energy 242,496,273
Other revenue 6,254,406

Total operating revenue 248,750,679

Operating Expenses

Cost of power purchased from TVA	\$189,071,978
Distribution and transmission expense	17,121,741
Customer accounts expense	3,700,134
Customer service, sales and information expense	648,186
Administrative and general expense	8,969,644
Depreciation	16,512,361
Taxes	3,093,154
Interest expense	<u>1,078,708</u>

Total operating expense and interest 240,195,906

Operating Income 8,554,773
Other income 2,041,553

Net Income \$10,596,326

Earnings Reinvested in System Assets

Beginning of fiscal year	\$263,871,095
End of fiscal year	<u>\$273,546,867</u>



Corporate Office

18359 Highway 58 North • Decatur, TN 37322
423-334-1020

Benton

2178 Parkville Road • Benton, TN 37307
423-338-2569

Byrdstown

1109 Olympus Drive • Byrdstown, TN 38549
931-864-3685

Cleveland

5335 Georgetown Road NW • Cleveland, TN 37312
423-476-6571

Crossville

235 O'Brien Drive • Crossville, TN 38555
931-484-3527

Decatur

18359 State Highway 58 N • Decatur, TN 37322
423-334-5721

Georgetown (Hamilton County)

8212 Mahan Gap Road • Georgetown, TN 37363
423-344-8382

Jamestown

1023 Old Highway 127-S • Jamestown, TN 38556
931-879-5853

Monterey

213 Stratton Avenue • Monterey, TN 38574
931-839-2217

Spring City

425 Wassom Memorial Highway • Spring City, TN 37381
423-365-5220

www.vec.org

