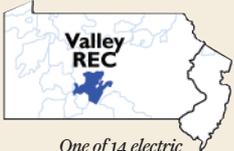


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FROM THE PRESIDENT & CEO

Your co-op: no lip-synching here



by Wayne Miller
President & CEO

THERE HAS been a lot of media coverage lately about things that once seemed real turning out to be a little less than authentic. Revelations of pretending, faking and outright lying have been top stories since the new year.

There was champion cyclist Lance Armstrong admitting to doping after years of denying the allega-

tion. Sports writers had reported on the death of Notre Dame football standout Manti Te'o's long-distance girlfriend. The story turned from tragic to bizarre when it was revealed the woman hadn't died because she had never lived. Te'o had been hoaxed.

The "Star Spangled Banner" was performed at the presidential inauguration, but it was all a "performance." The audio was pre-recorded to avoid the possibility of a flub. And we learned that the bidders on A&E's hit television show, "Storage Wars," were hitting the jackpot with those abandoned lockers only because the rare and valuable items were planted by the show's producers to make good TV.

That many newsmakers turn out to be less than forthcoming no longer surprises us; at least it shouldn't. And we don't expect our "reality" TV to be completely factual. But at times, the steady stream of deception and duping leaves us looking for the good news stories, those that are empowering and genuine. Your co-op's story is one of those — no scripted endings, no nonexistent characters and no lip-synching.

Valley Rural Electric Co-op exists to power communities and to empower you. The "cooperative difference" as we call it is real because the cooperative business model offers the perfect tool for tackling tasks too big for one person to handle

alone. To effectively wield the power of cooperation, we need a common purpose. What is that purpose today?

To answer that question, we must think about the impact electricity made in rural areas 75 years ago. Men and women no longer had to work from dusk to dawn at backbreaking chores. Farm production jumped. Things like running water, lights and stored food were possible — and with those leaps, new opportunities came into the lives of our ancestors.

A few of you may remember our beginnings from your younger days. You know full well the power of neighbors uniting behind a common purpose. But most people don't remember when folks in this area banded together to get the lights on. Many don't realize how hardscrabble life was before cooperation changed an oftentimes harsh reality. But we're proof that when folks unite with a single focus, we can turn dreams into substance.

Now that the lines are up and the lights are on, do we still need a cooperative? Is Valley REC's job done or do our members still share that common purpose? The reality is that all our members have invested in our past and have a vested interest in how the co-op takes on the work of today. We're upgrading our lines, improving our metering and outage management systems, and rolling out a new demand response initiative so more members can get involved in smoothing out peaks in wholesale power prices.

There's a lot more work to accomplish, and that makes the co-op model as relevant today as it was when the first pole was planted. We exist today because co-op members like yourself 75 years ago believed they could turn darkness into daylight. The work to turn the lights on is finished. The very real work to keep them shining continues. 

Plan the work, then ...



2013 to include multiple projects for Valley REC

BY DOUG ROLES
Director of Member Services

VALLEY REC crews are continuing to put check marks next to the many items on the co-op's operations to-do list. Each completed improvement project brings the co-op closer to closing out a multi-year, multi-million-dollar work plan that expires in December.

The goal of the work is to increase system reliability while causing minimal disruption to members. Completion of this year's projects leads right into the next round of upgrades.

"This is the last year of our current, four-year work plan," notes Terry Hutchison, Valley REC manager of engineering and technical services. "It was a rather large project for us."

The 2010-2013 work plan budget was set at \$25,698,888. Work in 2012 accounted for \$6,674,006 of that amount.

Hutchison is already gathering data for creation of the 2014-2017 plan. He will review two years of work orders, looking at many pieces of information — number of new meters installed, where line has been damaged/repared and where service has already been upgraded — to determine what has to be done next.

"It's an all-encompassing road map of what we project to do in the next four years," Hutchison says. "And it can change based on the economy."

An area's development has to be considered. Improvements should be large enough to meet potential growth, such as construction of a housing development, but not so large that capacity far surpasses load (actual amount of electric use).

Large projects completed in 2012 included upgrading wire size and operating voltage on the north feeder of the Piney Ridge Substation near Huntingdon to increase its capacity. The improvement boosted back-feeding capabilities allowing power to be restored more quickly during an outage. Crews completed a major project in the Harrisonville area of Fulton County to upgrade the Route 30 Substation and associated distribution circuits. And line replacement work was finished in a housing development near Fort Loudon, Fulton County, and in Reeds Gap, Juniata County. Stringing of new wire and placement of new poles are being completed in portions of Henderson Township, Huntingdon County.

The work to replace aging poles and electric line in the area of Blue Knob, Blair County, is nearly finished. The new, heavier line provides increased capacity, but requires additional poles to support the greater weight of the new line.

"We started the whole project back in April," Mike Shawley, Martinsburg district manager, reports. "The construction part of the project concluded at the end of February."

WORK THE PLAN



Shawley says the actual line conversion work, to put the line into service, will happen later. A planned outage of several hours is needed for crews to “flip the switches” to the increased voltage. That work will be done during warmer weather so members don’t lose much home heating during the changeover.

“We’ll be bringing crews in from the other two districts (Huntingdon and Shade Gap) to help with that,” Shawley says.

Work to upgrade lines and equipment throughout Freedom, Greenfield and Juniata townships in Blair County was also completed in 2012.

A contracted crew will rebuild about six miles of line in 2013. In the area of Blairs Mills, Huntingdon County, 4.2 miles of electric line will be converted from a single-phase line to a three-phase line to break up load and improve reliability. In Juniata County, a contracted crew

“It’s an all-encompassing road map of what we project to do in the next four years.”

Terry Hutchison
Valley REC manager of engineering/technical services

started work in September to install larger line in the Perulack area to carry more voltage and improve service. Portions of the existing line that were in distant rights-of-way were moved closer to roadways.

“Moving the line means less right-of-way maintenance and cost,” notes Todd Ross, Valley’s operations manager. “It’s easier to troubleshoot line near the road and it eliminates a lot of potential outages.”

The Juniata County project also includes installation of



Far left: Braving a 5-degree morning, journeyman linemen Bill Bogel, left, Bill Kreider and Greg Dilling, crew chief, prepare to set a new pole in Juniata Township, Blair County, as Justin Berrier operates the auger. At left: A small herd of buffalo near Blue Knob watches Berrier operate the track digger. Above: Bogel, left, and Dilling place a temporary line holder, called a layout arm, on a pole. Below: Work is progressing on a project to replace aging poles and string new wire near Perulack, Juniata County. (Photos by Doug Roles)

new transformers and insulators. The work should be completed by early spring. A tap off of the substation in Metal Township, Fulton County, has been rebuilt this year.

These projects are funded through a mix of Valley REC-budgeted funds and loans through the United States Department of Agriculture Rural Development Program.

Hutchison says it’s important to get the loan-funded work completed as planned because not doing so would mean federal monies earmarked for Valley REC would have been better used elsewhere.

Hutchinson is pleased with the progress of the projects.

“It was a rather large work plan and we’ll get done what we committed to do,” he says. “It’s a good place to be.”



Dividing lines

The difference between electric cooperatives and other types of utilities lies in their core mission

BY MAGEN HOWARD

BECAUSE Valley Rural Electric is a cooperative, *Penn Lines* often refers to “the cooperative difference.” The differences between electric co-ops and other electric utilities range from the terms used — co-ops serve “members” or “consumers,” not “customers” — to the business model itself.

For example, electric co-ops operate on a not-for-profit basis. Revenues above operating costs, called “margins,” are returned to members in the form of capital credits. Valley REC returned more than \$930,000 last year and has returned nearly \$20 million over the years.

In the United States, there are two other kinds of not-for-profit electric providers: public utility districts (PUDs) and public power districts (PPDs). There are also two other types of electric utilities: city-owned municipal electric systems and profit-driven private power companies. In every case, utilities receive financial assistance from the federal government in some fashion. Below is a look at each.

Cooperatives, PUDs, PPDs

Electric cooperatives are joined by public power districts — located exclusively in Nebraska — and public utility districts (all in the Pacific Northwest) as being not-for-profit. But while cooperatives choose directors/trustees from the membership (those served by the co-op) and are required by state law to hold annual membership meetings, PUDs and PPDs are local government units, similar to school districts, and are not required to hold annual meetings or allocate capital credits. In addition, their directors (commissioners in the case of PUDs) are elected on the state ballot. Candidates only need to reside within the PPD/PUD’s boundaries to serve on a board; they do not have to receive power from the utility.

Federal assistance to electric co-ops comes in the form of low-interest loans from the United States Department of Agriculture Rural Development Program,

formerly the Rural Electrification Administration (REA). Based on current interest rates, these loans actually make money for the federal government — about \$274 million in fiscal year 2012. Aside from aiding in construction of critical infrastructure that keeps electric service reliable and electric rates affordable, Rural Utilities Service (RUS) financing remains important because household incomes in co-op service territories run about 11 percent lower than the national average.

Co-ops serve an average of 7.4 consumers per mile of line, over which they collect annual revenue of about \$14,900. Nationally, electric co-ops pay \$1.4 billion in state and local taxes each year.

Municipal electric systems

Municipal electric systems are distribution utilities owned by a city, borough or other incorporated community. As public entities, they can levy taxes, issue government bonds, and adopt and enforce rules and regulations. Not-for-profit municipals serve the most consumers per mile of line, an average of 48, and collect an average of \$113,301 per mile of line. The federal government subsidizes municipals, too.

When cities or boroughs issue tax-exempt bonds, interest paid to bond owners is not taxed. The cost of this benefit in 2003 (the last year data is available) was \$909 million, or \$55 per consumer.

Investor-owned utilities

Investor-owned utilities, or IOUs, are governed by and generate profits for shareholders (stock owners) who do not necessarily live in the utility’s service area. IOUs average 34 cus-

tomers and \$75,498 in revenue per mile of line. In virtually every case, private power companies charge electric rates that include amounts for presumed federal tax liabilities. However, available tax breaks (investment tax credits and accelerated depreciation) allow IOUs to retain most of the taxes collected, a total of roughly \$107 billion to date. At a cost to the government of \$4.6 billion in 2010, this federal subsidy to IOUs works out to about \$44 per customer.

Back to the cooperative difference

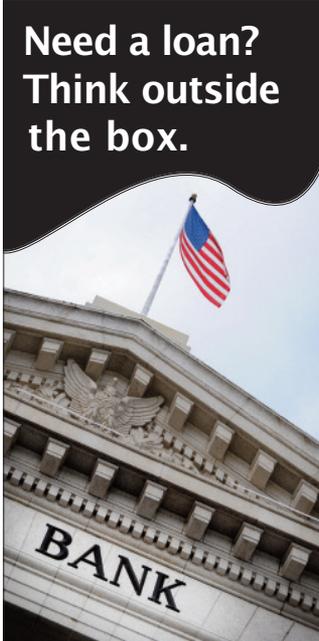
Valley REC is here to provide affordable, reliable, environmentally responsible electric power. But at the core, it’s really about improving the quality of life in the communities we serve. That’s the main difference — the cooperative difference.

For more information about your co-op, visit www.valleyrec.com.

Source: National Rural Electric Cooperative Association. Contributor: Doug Roles.

Magen Howard writes on consumer and cooperative affairs for the National Rural Electric Cooperative Association, the Arlington, Va.-based service organization for the nation’s 900-plus consumer-owned, not-for-profit electric cooperatives.

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