The Co-op. We Own It.

1979 Annual Report

To the Owners of Vermont Electric Cooperative, Inc.

June 1980

The Co-op. We Own It.

Because of the nature of our rural electric systems and the bylaws under which they operate, each dollar of payment by a member in excess of the cost of providing electric service is an investment in the cooperative by the members which the member is entitled to recover at some time in the future when the financial condition of the co-op permits. — *Capital Credits Study 1976 by the Capital Credits Study Committee commissioned by the National Rural Electric Cooperative Assn. and the National Rural Utilities Cooperative Finance Corporation.*

This is the June issue of Co-op Life, published each month by Vermont Electric Cooperative, Inc., School St., Johnson, Vermont 05656. Editor of all issues except this one is Pat Hunt of Morgan, Vermont.

Address inquiries about this Annual Report to Assistant Treasurer and Controller Jerry Bucholz, Vermont Electric Cooperative, Inc., School Street, Johnson, Vermont 05656.

Annual Report editor is Nathaniel P. Worman of Worman Associates, Franklin, Vermont 05457.

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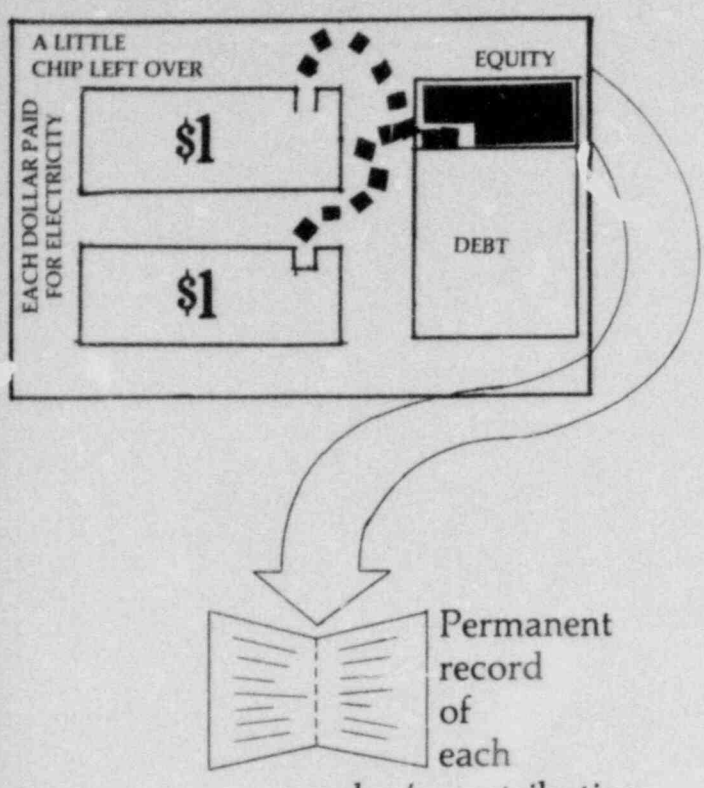
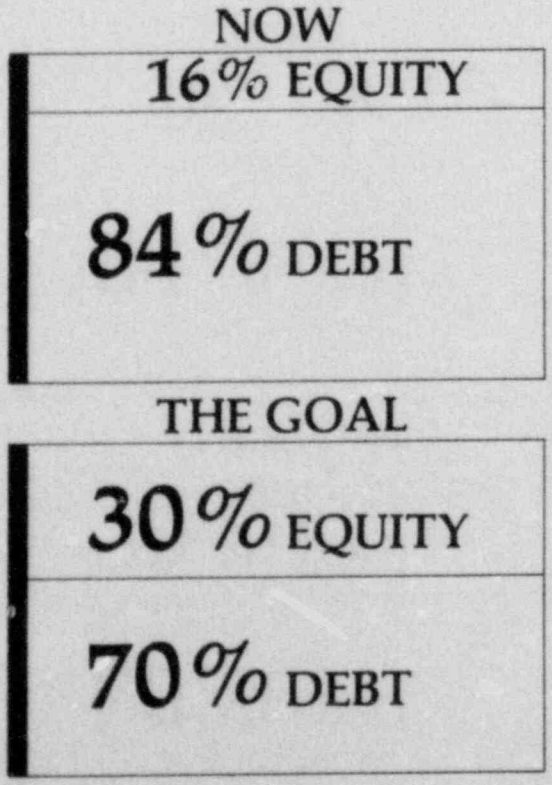
Rural Electric Systems in the U.S.



Permanent record of each member's contribution: All contributions taken together equal total ownership. The Co-op Corporation owns nothing. The Co-op members are the only owners. As ownership grows, debt diminishes.



Own It? How?

In a good year, every dollar a member pays for electricity has a little chip left over after all expenses have been paid for equity—for each member's investment in the co-op that makes him an owner.

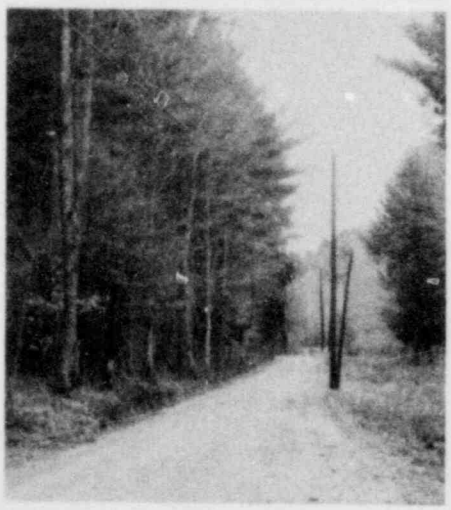
That's the plan, anyhow. But since rates we pay for electricity cannot be figured exactly ahead of time—and since the cost of power out-races income—it sometimes costs more to run the co-op than is taken in. Then there isn't enough for equity—not enough to build up member ownership in the co-op.

In good years, however, we build our individual ownerships by investing those bits, called *capital credits,* in tools. The Balance Sheet (pages 14 and 15) is a record of the tools (Assets) we buy. It is also a record of who owns those tools (Liabilities and Other Credits). We members own them (note the entry "Patronage Capital" on page 15), and so do institutions which lend us money to buy those tools.

Assets grow as we add members, buy generating facilities, and replace plant. And some of that money comes from our monthly electric bills—from those little chips assigned to our names called capital credits. Some comes from contributions in aid of construction as new members are connected.

But most of the money (capital) to buy new tools comes from borrowing. Electric companies thus always owe more than they own. Co-op members, for example (as the chart shows) presently own 16 percent of assets and owe 84 percent. The goal set by Trustees is also shown. Money borrowed in order to buy more tools is called debt capital.

The capital we contribute as members is called "equity capital." Because an electric company leans so heavily on borrowing for growth, an electric cooperative must show it is capable of reducing debt on one hand, and increasing equity on the other. The Co-op is then a better risk; bankers will be willing to loan more for less interest. Since interest on debt is part of the cost of operation, a strong equity means lower rates.



Armless poles marked the landscape when rural electric co-ops began popping up all over America. A handful of members each mile of line was an early trademark, shown today in Windham County. The rugged, remote areas the system serves is revealed as bear climbs tree. Members and what they own, right. The substation is in the town of Guilford.

Early in 1935, the new Rural Electrification Administration made an offer to all investor-owned utilities in the United States which was reasonable and tempting.

If the utilities would build lines to serve rural areas, then the REA would provide loans with low interest. Ninety-five percent of American farms were without electricity; thousands of rural banks had closed their doors on a countryside of poverty instead of plenty.

The administration of Franklin Delano Roosevelt envisioned electricity powering new industry and the utilities attracting it.

Within a year it was clear the plan had failed; a handful of electric companies had taken the government up on its offer. Their message to Washington was clear: we'll supply rural areas with electricity when it pays.

No Turning Back

But the appropriation for and the initials of REA stood for a commitment to rural electrification. There was no turning back. The administration decided to go ahead with cooperatives.

The idea was age-old, and cooperatives themselves an American building block. In the country especially, non-profit, member-owned and controlled co-ops were familiar; the Grange helped America grow, and by 1938 when a group of local people launched Vermont Electric Co-op, farm co-ops in the state were transacting business valued at $40 million.

Electric co-ops, established by local people, popped up all across the land. Nonprofit, member-owned, providing no return on capital invested except service in rural areas where it had never existed, the electric cooperative was eligible for low interest loans, bulletins on organization and engineering, and the REA project engineer, a job that brought to Vermont Walter Cook, the Co-op's second manager.

Fertile Minds

But even with co-ops, bringing electricity into a poor territory took guts, stamina, and fertile minds. Where was capital to come from in a capital-hungry business? How could stringing wire and erecting poles be made less expensive?

To an industry hemmed in by tradition, the answer to the second was jarring. Do away with the cross arm? It said so, right there in the REA bulletin. And lines held by armless poles began their cross-country march.

Capital to build those lines? Banks were closing; the courts recorded more and more bankruptcies. Instead of buying a new wick for a nickle, the skillful housewife made the last half inch serve by pinning a rag to it to soak up the kerosene. Even though "one patch was thrift and a patch on a patch penury," layered patches were common enough.

Simple Logic

When you got right down to it, there was a simple logic. If a nonprofit co-op outlawed return on investment and if each member was also to be an owner when just scraping together a living was hard enough, then capital, a little bit at a time, would have to be scraped together, too.

Where from? Here, the logic was complete. Out of each dollar paid for electric service, enough would be taken to run the co-op, and enough to be given back to a member at the end of the year.

But what if the member, instead of keeping that small amount, allowed the co-op to invest it in lines and poles? Couldn't the member supply capital that way? Give the co-op "the loan" of the money for, say, ten years? Then after using the money for that long, couldn't the co-op begin returning that capital to the member who supplied it in the first place?

Exactly The Plan

And that's exactly the plan. It works the same today as it did when the electric co-op movement began in 1938. Each year when there is money left over after all expenses have been paid, each member is credited with his share of the surplus, proportionate to the amount of electricity used.

And each year there is money left over, each member's ownership of the co-op grows. It's like money in the bank. Add together all the individual ownerships and that's the total ownership of the co-op, or its "equity."

When that total reaches a certain percentage of total assets, Trustees can then decide how to return to every member on the line from its beginning the surpluses from each year assigned to his name.

Those amounts are called *capital credits*. What the member leaves with the co-op to buy poles and wires is called *patronage capital*, and the surplus from which that capital comes is called *a margin*.

Today and Yesterday. The idea is as sound today as it was yesterday. Electric co-ops, nonprofit and member-owned, still serve territories that are as cross-grained and unprofitable as ever.

And so, member by member, rural electric co-ops are still writing their own histories; debts contracted in the 1940s are being paid off in the 1980s; ownership is still being built, penny by penny, slowly pushing total equity toward a level at which capital can be returned.

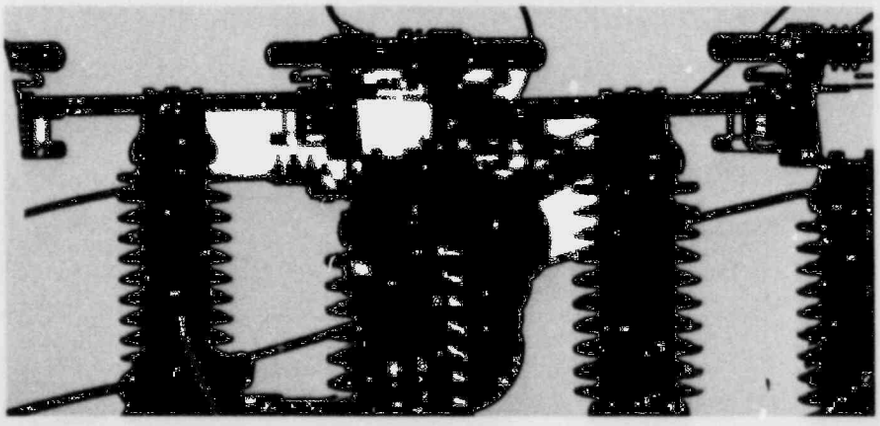
Person-to-Person

History is a list of obligations and commitments handed on. Owning resources locally combines burden with challenge. There may be other more tempting ways to organize the delivery of electricity that engage less of our attention and our thought. But they would not be democratic. And at first blush they might seem to cost less. In the long run, however, a handful of members per mile of line, rough terraine and local control will prove to be the combination that works.

Non-Profit, Pays Taxes

Vermont Electric Co-op has no income to tax since it is non-profit, provides service at cost, and pays all local property taxes, as well as all other local taxes, amounting to $108,246 in 1979.

The Cooperative's accounting system conforms to that which has been designated by the Federal Energy Regulatory Commission in Washington, D.C., and adopted by the Vermont Public Service Board as well as the Rural Electrification Administration of the United States of America. Vermont Electric Cooperative is incorporated under the laws of Vermont, and is run in accordance with bylaws as amended. Bylaws were reprinted with all amendments up to and including the August 1979 Annual Meeting.



HOW CONTROL AND OWNERSHIP GO TOGETHER

The only owners of Vermont Electric Cooperative, Inc. are the people who use its services. They control what they own by being members who elect trustees to represent them in setting policy. The trustees turn the day-to-day operation of the Cooperative over to a vice president/executive manager.

I
HINESBURG
HUNTINGTON
RICHMOND
STARKSBORO
Sumner F. Farr
Richmond, 1979
First Elected 1971

II
FRANKLIN
BERKSHIRE
SHELDON
Arnold C. Centabar
Berkshire, 1982
First Elected 1977

III
ENOSBURG
MONTGOMERY
RICHFORD
WESTFIELD* (Montgomery Rd.)
Clifford Snider
Richford, 1981
First Elected 1977

IV
BROWNINGTON
COVENTRY
JAY
IRASBURG
LOWELL
NEWPORT
TROY
WESTFIELD
Muriel Starr
North Troy, 1980*
Appointed 1978

V
DERBY
Benoit U. Blais
Derby Line, 1979
Appointed 1970
First Elected 1971

VI
BAKERSFIELD
FAIRFAX
FAIRFIELD
FLETCHER
GEORGIA
ST. ALBANS
SWANTON
J. Douglas Webb
Fairfax, 1979
First Elected 1952

VII
BELVIDERE
JOHNSON
MORRISTOWN
STOWE
WATERVILLE
Marshall Washer
Johnson, 1980*
First Elected 1964

VIII
ALBANY
CRAFTSBURY
EDEN
GLOVER
HYDE PARK
George Wright
Eden, 1980*
First Elected 1960

IX
BOLTON
ESSEX
JERICHO
MILTON
WESTFORD
Gerard Caron
Westford, 1981
First Elected 1957
Defeated 1977
Appointed 1978

X
CAMBRIDGE
UNDERHILL
William Kinney
Jeffersonville, 1982
First Elected 1970
Defeated 1974
Appointed 1979 to
fill the unexpired
term of Kenneth Hoeppner

XI
SHELBURNE
ST. GEORGE
WILLISTON
Henry Pillsbury
Williston, 1981
First Elected 1977

XII
ANDOVER
JAMAICA
TOWNSHEND
WARDSBORO
WINDHAM
Laura L.D. Howe
Jamaica, 1982
First Elected 1970

XIII
DOVER
NEWFANE
Clyde W. Jones
East Dover, 1980*
First Elected 1963
As Trustee For Former
Halifax Electric Co-op

XIV
MARLBORO
READSBORO
WHITINGHAM
WILMINGTON
Richard Allen
Wilmington, 1983
First Elected 1979

XV
GUILFORD
HALIFAX
VERNON
in Vermont
COLRAIN
LEYDEN
BERNARDSTON
in Massachusetts
J. George Butler
Halifax 1981
First Elected 1977

*Term expires 1980. The July Co-op Life will carry names of nominees. Date following hometown is date term expires.

"The Co-op. We Own It." makes clear as anything I know the way co-operatives do business.

It is something we do together, we are beneficiaries of low-cost public financing, and yet we each privately own our share of the Cooperative, combining the best of both worlds.

The rural electric co-op—privately, locally owned by the members it serves and nonprofit—is one of the monuments of government and people working together without unfairly burdening those who do not receive co-op electricity.

Begun in 1935 with an appropriation passed by Congress, the Rural Electrification Administration now makes money for the Federal Government as loans are paid off with interest by the more than 900 rural electric co-ops in the nation.

That is why co-ops work together, having the same traditions, the same bankers, the same regulations and the same aims. During 1979, a new era of cooperation began with the other electric cooperative in the state, Washington Electric Cooperative, benefiting us both.

This kind of cooperation not only with other co-ops, but with all utilities, is needed in an era of high inflation and low growth rates as we all face more and more rate increases.

Because costs will keep going up and we all will be paying more and more for electricity the sense expressed in "The Co-op. We Own It." is more and more important.

At my farm I pay more and more for energy, including electricity which is about 10 percent of my energy costs. I could curse these increases but I know from my close association with this and other cooperatives, that I am getting my electricity in the rural area as cheaply as it can be supplied.

"The Co-op. We Own It." is both a statement of fact and a suggestion that members take management and Trustees up on the invitation it implies—to behave toward the Cooperative like an owner, looking at its operations closely and taking part and helping whenever you can.

I am pleased to report that I survived my first year as your manager pretty much unscathed, except for the loss of my beloved father who died suddenly in May, 1979.

In spite of the worsening energy crisis, rampant inflation, unbelievably high interest rates and strangling Federal and State overregulation, your Cooperative continued to grow stronger during 1979. While we did suffer an operating deficit for 1979, caused purely by increased purchase power costs, our overall equity position remained stable thanks to an infusion of capital contributed by new members coming on the lines.

Many significant goals were achieved during the year which will help keep your cooperative strong during the remainder of the century.

FUTURE POWER SUPPLY

Nuclear

We finally obtained all necessary regulatory approvals to consumate our ownership in Seabrook Units 1 and 2, which we obtained from Connecticut Power and Light Company and Central Vermont Public Service Corporation. These ownership interests were financed with 35 year loans from the Rural Electrification Administration (REA) carrying an interest rate of 5%. Our ability to use our low cost money to invest directly as owners will result in savings of millions of dollars to co-op members in the late 1980's and 1990's.

We now have direct ownership shares in Seabrook Units 1 and 2, Pilgrim Unit 2 and Millstone Unit 3, which are the *only* baseload units presently planned or under construction in New England. These ownership interests will help us meet our future power requirements at relatively stable costs.

Hydro-Electric

After 17 frustrating months, we finally received a preliminary permit from the Federal Energy Regulatory Commission to study the feasibility of a hydro project at the North Hartland, Vermont Corps of Engineers Dam. The preliminary study was completed with the aid of a $56,000 grant from the Department of Energy. The project is strictly a peaking project and, because of the increase in the price of oil, the project appears to be feasible even though the estimated installed costs at $3,240 per KW are staggering.

We are presently working through the morass of Federal and State regulations to bring the project through the licensing stage. I fear I will have to spend much more time in Washington than I like, to see it through. However, I am determined to fight as hard as necessary for the right to build the project.

In early February, 1980, we received preliminary permits at three additional sites, and we will be evaluating them during 1980.

Wind Energy Conversion Systems

During 1979, we applied for Department of Energy grants to study wind energy possibilities at two sites in Southern Vermont. In February 1980, we received a grant to study a system on Stratton Mountain. The study will take about two years and, if successful, we will be in line for a grant to construct a windmill. Generation of electricity by wind on a large scale is an infant technology and we will be breaking new ground.

In-State Coal Generation

With the announcement in the latter part of 1979 that New England Power Pool planned generating units at Charlestown, Rhode Island, Montague, Massachusetts and Sears Island, Maine, had been cancelled, I requested permission from our Board of Trustees to persuade other Vermont utilities to join together in a study of possible in-state coal generation. My efforts have led to the establishment of the Vermont Generation Task Force and an agreement by the Vermont Public Service Board to finance such a study. Since only coal and nuclear are possible baseload generation in Vermont, and since we are already heavily into nuclear, I feel we must determine whether coal generation is environmentally and economically feasible in our state. We should know the answer by the end of 1980.

Solar Electric Generation

During 1979, the Department of Energy announced a program of prototype solar generation demonstration projects. To our disappointment (but not surprise), Vermont does not qualify for generation of electricity on a central station basis under existing solar technology. We simply have too much snow and cold weather and not enough sunshine. Thus, we were not eligible to participate. However, we will follow developments.

Distribution System

During 1979, we received a concurrent loan from REA and the Cooperative Finance Corporation for $3,702,000 to carry out the 1980/81 Work Plan. These funds, which carry an interest rate of 6.15%, will be used to make necessary improvements to your electric system to ensure that you continue to receive the same high quality of service as time goes on.

Conservation

Members continued to conserve electricity during 1979. Despite the fact that we connected 325 new members' services in 1979, actual KWH consumption declined slightly from 91,269,307 KWH in 1978 to 90,688,477 in 1979. However, the prolonged cold spell in February, 1979 took its toll on our peak, increasing it from 25,700 KW in 1978 to 28,300 KW in 1979, an increase of 10.1%.

Remember, we define conservation as "elimination of waste." Unless members conserve at peak time, their efforts are in vain. As the peak goes up, costs go up, no matter how much you conserve at other times. Please watch for the Wise Watt Owl© Alerts during winter months.

Staff Changes

The Board approved several changes in staffing patterns which I felt were necessary. The position of District Supervisor was established in Brattleboro, thus putting a full time member of management on the scene. Kevin Kidney was promoted to that position. The position of Assistant Superintendent– Northern District was created to relieve the Superintendent of many routine duties and allow him time to concentrate on intricate problems facing us in the 1980's. Dick Simays was promoted to that position. The position of Meter Department Head was implemented during the year with Pete Tilton being promoted. The position of Data Processing Coordinator was established to reflect our progress in data processing and was filled by Page Guertin.

Even with these staff changes, full time employees numbered 59 at the end of 1979, compared to 55 at the end of 1978.

Rate Changes

After holding rates stable since 1975 by using our ability to trade power supply, the OPEC nations finally caught up with us. Purchased Power Costs rose about $340,000 and without sufficient revenues to offset this, we filed in November, 1979, for an average 6.95% increase in rates. When you consider what has happened to the price of other energy sources (gasoline, fuel oil, etc.), we were quite certain the members would understand.

They did. Few complaints were filed with the Vermont Public Service Board (PSB). Unfortunately, the PSB did not allow the rate increase to become effective as we asked. They held a Public Hearing—nobody came to testify against the increase. The increase was therefore put into effect on the April bill.

Over-Regulation

One very serious problem faces your cooperative which only you, the members, can correct—OVER-REGULATION.

For every month that the PSB does not allow your cooperative to charge its members the necessary higher rates to pay for increased purchased power costs, we have to borrow the money, pay high interest on it, and eventually charge the interest to you.

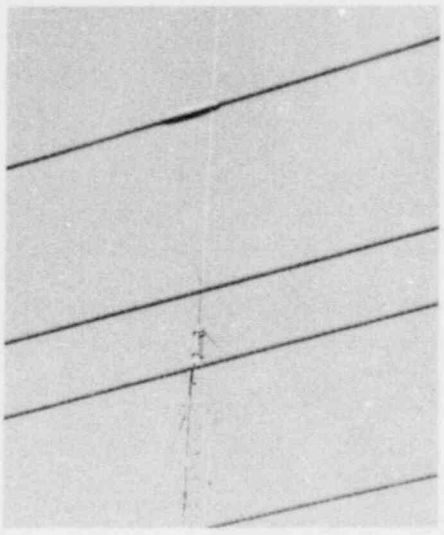
For every month of delay caused by Federal and State regulations holding up construction of our hydro project, we are incurring the effects of inflation and interest being added to the cost of that project.

It now takes between 10 and 14 years to license and complete a baseload coal or nuclear plant. Seven to 10 years of that time represent the paperwork of regulation—only 3 to 4 years are required to build the plants.

We are being strangled by the OPEC nations because of our dependence on imported oil. Yet, our government keeps putting more and more regulatory obstacles in the way.

Unless we can convince our legislators and Congressmen to streamline the process by which new generating plants, whether they be coal, hydro or nuclear, can be built, the fate of you, and all 25 million rural Americans served by rural electric cooperatives, will be higher and higher electricity costs.

At our Annual Meeting to be held August 23, 1980, I intend to speak further on the problem of OVER-REGULATION, how it is draining your pocketbooks, and how I believe we can overcome it. Please plan to be there and participate in person.



Vice President and Executive Manager William J. Gallagher and symbol of heart of a rural electric co-op's operation: wires foreground, and antenna of radio that coordinates movement in the field from north to south.

To make full use of low-cost capital, the Cooperative buys joint ownership in generating plants. Members own their share of these plants, just as they do the distribution system, the buildings, the trucks and the equipment which support the system.

The New G. & T. In his report, the Treasurer tells why the plants the members own will be placed in a member-owned subsidiary, the Vermont Electric Generating and Transmission Cooperative. Here, with the help of the diagram below, the meaning of the Co-op's power supply strategy comes clear, and the meaning of "baseload generation" underscored.

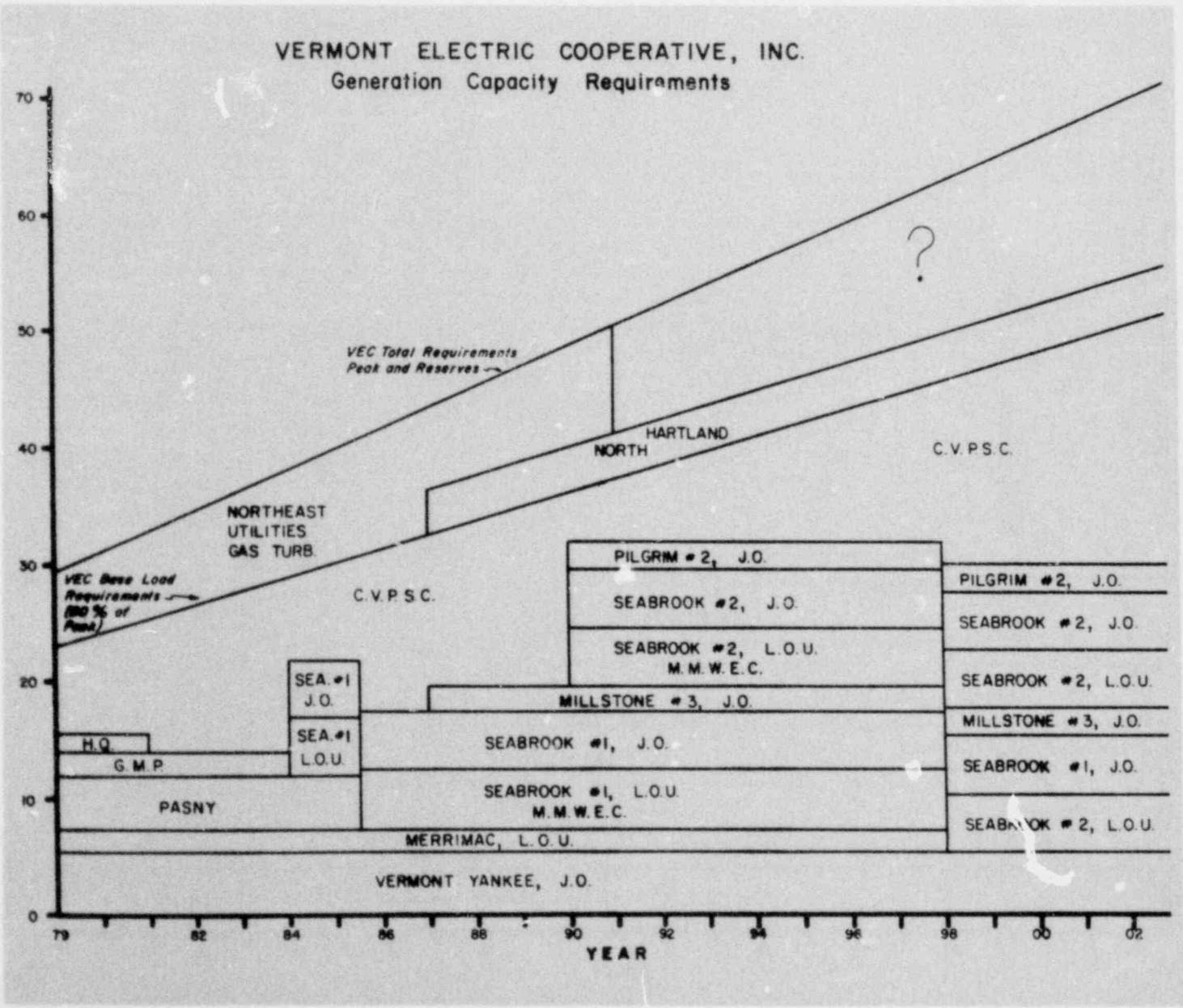
The number of megawatts needed by the Cooperative are shown from the bottom up—from baseload to peaking. The years each source will be needed runs from left to right.

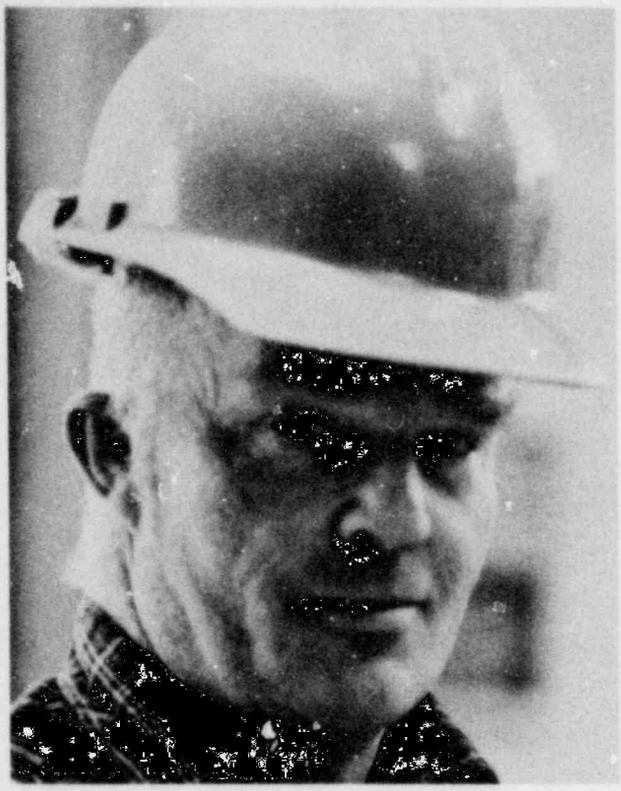
J. O. means Joint Ownership. L.O.U. means Life of Unit contracts. M.M.W.E.C. means Massachusetts Municipal Wholesale Electric Company and the fact that the power in a given unit is purchased through MMWEC.

The fall and rise of various power blocks indicates that one of the power sources is no longer available—for example, Power Authority State of New York after 1985, and Merrimac after 1998.

The upshot of the diagram is shown in the question mark and the initial CVPSC, Central Vermont Public Service Corp. The Co-op will be seeking new sources of peaking power shown in the question mark area, and new sources of baseload and intermediate to replace power purchased from CVPSC.

Approximate cost of the Joint Ownership sources shown by names Seabrook, Pilgrim, and Millstone is $16 million, owned by members through the Vermont Electric Generation and Transmission Cooperative.





CHIEF ENGINEER'S REPORT • John Bohn

"Indirect Accomplishment" is the hallmark of the Engineering Department for the year 1979.

Although we connected 335 new services to the system, prepared and carried out system improvement projects, and monitored performance, most of our work concerned future power supply, and the operation of the system itself.

A. Power

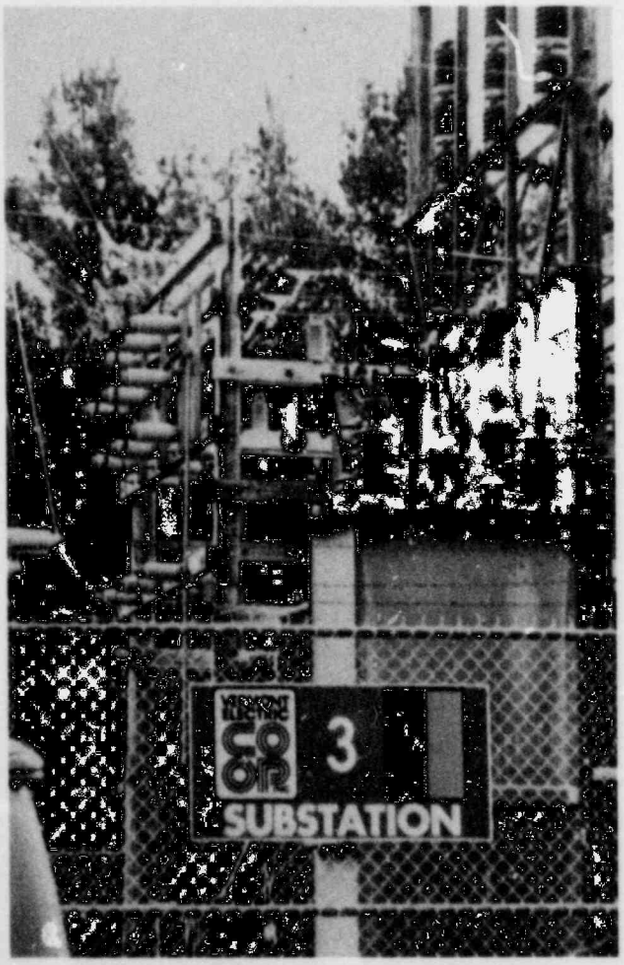
1. Assisted our Engineering Consultant, Acres American, Inc., in preparing a proposal to the Department of Energy for a Grant of 15% for the construction of our North Hartland Project. We were not one of those selected for a grant.
2. Further refined the Acres studies of the North Hartland Project. We now believe this project should utilize tw -2 Mw turbine generators.
3. We prepared, in house, two proposals to the Department of Energy, for grants to erect meteorological towers for the gathering of wind data. This data would then be used to study the feasibility of a Wind Energy Conversion System (windmill) at these sites. If a site showed feasibility, we would submit a second proposal to the DOE in late 1983, for a grant to erect a Wind Energy Conversion System.

   In February of 1980, the DOE announced that our Stratton Mountain site was one of eigh' en (18) grant winners in the United States for the erection of a meteorological tower.

   Our Dover, Vermont site was not chosen.
4. We studied the requirements for a proposal to DOE for a grant to erect a large solar energy electric generation park on the VEC system.
5. We continued our swap of surplus generation capacity and energy in the summer months with Northeast Utilities in Massachusetts and Connecticut.

B. System

1. We conduc ted a pole by pole inventory of Telephone Company attachments in four substation areas of the VEC system. This resulted in an additional $9,000 revenue for pole rental.
2. We prepared and printed in house, a complete booklet of the "Requirements for Electric Service" from VEC. These requirements were adopted by the Board of Trustees in November, 1979.
3. We revised and simplified the procedure and requirements for an Application for Electric Service.
4. We did an inventory and numbered every pole in three substation areas in the southern area.



Chief Engineer John Bohn and substation in Cambridge. It is one of 24 substations and metering points owned by Cooperative members for which the Engineering Department must plan additions or improvements. The Department also works with the Power Supply section on power planning, including alternative sources.

OWNERSHIP AND OUR LINES

LINE SUPERINTENDENT'S REPORT • Robert E. Lamb

The Line Department continued its right-of-way cutting and spraying program to maintain the many miles of power lines which serve our members along the hill sides of Vermont from one end of the State to the other.

The Vermont Department of Agriculture approved our request to conduct right-of-way spraying on our system. Treatment was made in the following towns: Albany, Craftsbury, Glover, Eden, Hyde Park, Johnson, Morristown, Cambridge, Fletcher, Fairfax, Westford, Essex, Underhill, Jericho, Bolton, Richmond, Huntington, Hinesburg and Starksboro. " use of herbicides has become an important tool for vegetation control in rights-of-way and results in lower maintenance cost.

Right-of-way cutting was done to prevent outages which are caused by trees falling on or near lines. Cutting was done in the following towns: Eden, Johnson, Underhill, Fairfield, Montgomery, Cambridge, Belvidere and Wardsboro. Hand cutting brush, like mowing a lawn, results in only temporary control because most hardwood stumps and roots will soon send up sprouts to replace those cut. The result is high cost for vegetation control and this is the reason why herbicides are used to control undesirable vegetation.

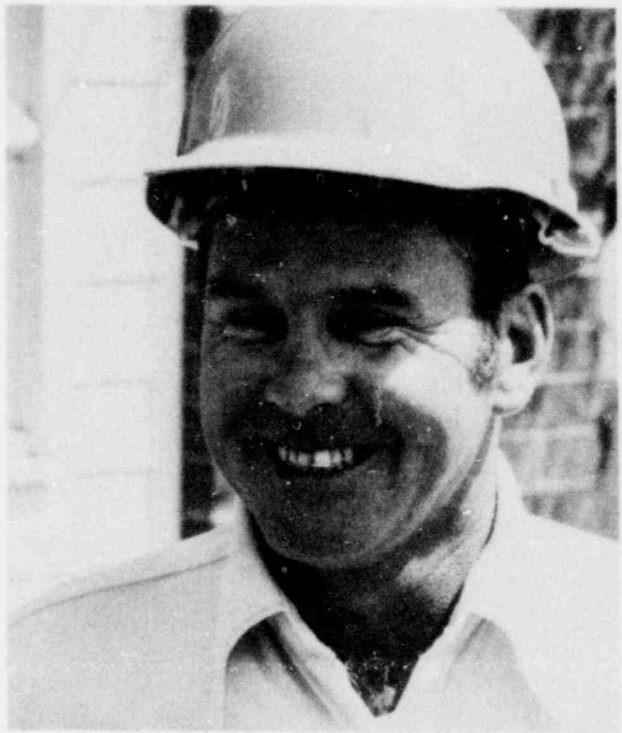
The Line Department also constructed power lines for connecting 335 new members to our system.

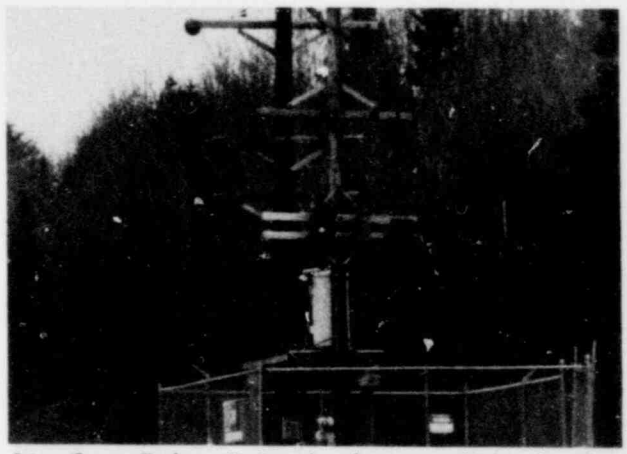
In the Halifax District we had two major storms. The first storm was on January 25, 1979 and it snowed continuously until the evening of January 26. There were reports of 1 to 4 feet of wet, heavy snow. Towns had a difficult time plowing the roads, cars were stuck and abandoned. Snow banks were so high and roads so narrow that trucks could not turn around. One crew reported backing up 3 miles to the main road because they could not turn around. I consider this one of the worst storms we have experienced since we joined with the Halifax District.

Our members were remarkably patient about the duration of the outages. There were very few complaints and many members praised the work of the line crews.

The second storm was on September 6, 1979 and was named Hurricane David. The winds were extremely high and damage was principally caused by trees blown down which broke several poles on our system.

I wish to offer thanks to all of our employees who worked so long and hard restoring service to our members.





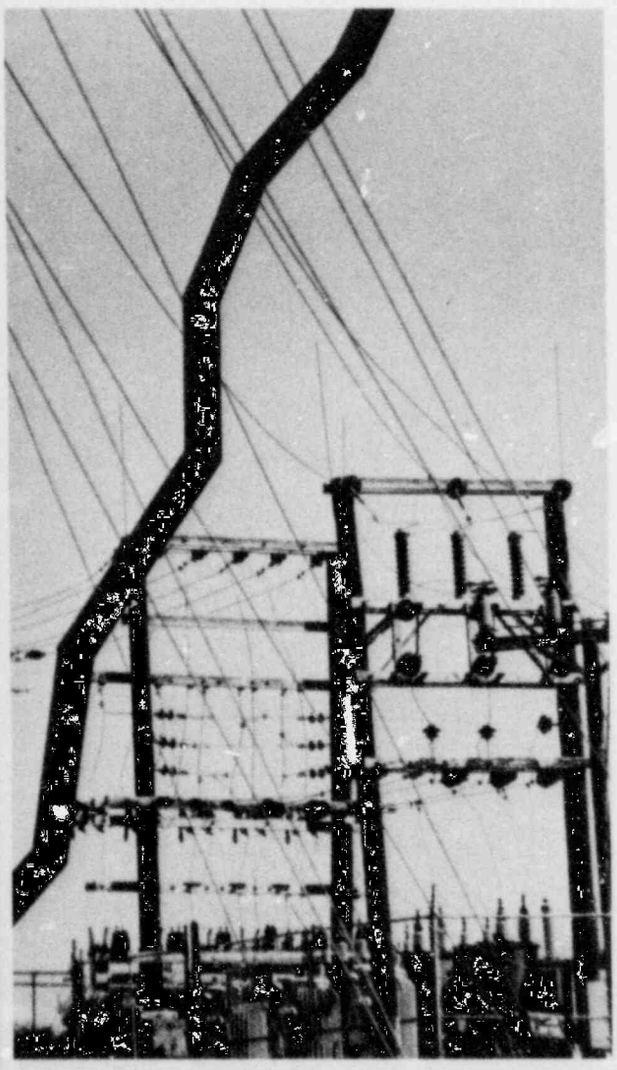
Line Supt. Robert E. Lamb, above, and Member Services Dept. Manager Philip Locke, below, and Substation 24 in Belvidere all represent service to owners.

OWNERSHIP AND APPLIANCE SALES & SERVICE

The Member Services Dept., under Manager Philip Locke, stocks, sells and services Hotpoint appliances, A. O. Smith electric hot water heaters, Singer Electromode heaters and farm and home electrical equipment. The department also answers complaints about high use of electricity and low voltage, calculates heat loss, makes special meter tests and answers inquiries about members' electrical problems.

In addition, the department maintains five generators: three at the radio transmitter sites in the northern district, one at the headquarters in Johnson, and one at the warehouse on Rt. 15. The department also assists line crews in repairing storm damage and provides on-call helpers outside regular working hours. It also installs primary and secondary underground services. The department also takes care of all non-energy billing and collections. Almost 61% of its payroll goes toward the primary business of the Cooperative—the supply of electricity.

Asst. Treasurer and Controller Jerry Bucholz.



Rising cost line over Williston substation shows what's happening to all aspects of rural electric co-ops, from wires to power that flows over them.

TREASURER'S REPORT • Marshall Washer

As long as the growth rate of electric sales is low and inflation high we will almost always be paying less for electricity than it takes to generate, transmit and distribute it. That's why, over the next several years, rate increases will come thick and fast: so that the price we pay can catch up with costs.

In 1979, we met this fact head on. Rates sufficient for early 1978, were insufficient by mid 1979; the cost of power and transmission alone had skyrocketed $340,000 in eleven months. The result was an operating deficit.

But since our cooperative revenues also come from non-operating sources—investment income and appliance sales—the *operating* deficit does not tell the whole story. Subtracting the operating deficit from non-operating income an overall margin of $74,125 remains.

The Cooperative thus continued to grow and get stronger. These margins in addition to contribution in aid of construction from new member connections, boosted the equity ratio of the distribution system about one percentage point, from 18 percent in 1978 to 18.9 in 1979.

The financial report, however, will show a *decrease* in equity percentage, a temporary condition caused by our investment in joint ownership of generating plants. Totalling over $3 million in 1979, these payments add to debt and subtract from equity. In order to prevent equity being undermined, Trustees established the Vermont Electric Transmission and Generation Cooperative to which all liabilities and assets associated with the generation construction projects will be transferred.

This not only returns Vermont Electric Cooperative to its original role as an electric distribution co-op, but reduces the amount members must contribute to equity since the Generation and Transmission Co-op requires that margins only equal the yearly payment on long-term debt and not exceed it by fifty percent, as in the distribution co-op. By the mid 1980s this will save members several hundred thousand dollars yearly.

The G & T is another example of our Cooperative's continuing effort to provide the best possible electric service at the lowest possible cost.

BALANC

The purpose of the balance sheet is to show the resources, called assets, which the Cooperative has accumulated in order to buy and distribute electric energy to our members. The origins of these assets are also shown: Resources provided by creditors are called liabilities. Resources received from member/owners are called patronage capital. Resources provided by the operation of the Cooperative are called margins.

ASSETS. The total assets of the Cooperative increased during 1979 by $3,975,144, a 25% jump over the previous year.

Utility Plant. This is the resource which is most visible to our members. Included in this category are the poles, wire, transformers, and other equipment which the Cooperative uses to distribute the electricity, and the equipment necessary to maintain these facilities.

It is also the category within which, during 1979, we included our investment in future generating facilities. Thus, the Cooperative's net utility plant increased by $3,810,437 in 1979. Of this increase,

—$548,878 was in distribution and transmission facilities,

—$2,850,579 in generating plant (see auditor's note number 2 for the details regarding the progress payments in the various generating units in which we are joint owners),

—$124,573 in general plant, which includes the trucks and equipment used by the Line Department in its construction and maintenance activities, and

—$286,407 to connect new members who contributed $218,648 of that amount.

Other Property and Investments. Included in this category of assets are the resources of the Cooperative which cannot be classified specifically as utility plant and equipment.

This category is principally made up of our investment ownership in Vermont Yankee Nuclear, Vermont Electric Power Company, Inc., and the National Rural Utilities Cooperative Finance Corporation (CFC).

The increase in this category is related principally to our obligation to invest in Capital Term Certificates issued by CFC (see auditor's note number 5) and an increased investment in Vermont Electric Power Company, Inc. (VELCO). The dividend and interest income received from these investments helped to hold down the income necessary from our retail electric rates.

Current Assets. This category of assets consists of those cash items or those investments which can be readily converted to cash. Current Assets increased by $194,914 at the end of 1979 compared to 1978.

This increase was primarily in the area of Notes Receivable, which reflects those amounts owed by members who financed their line extensions through the Cooperative.

The increase in materials and supplies is a result of the cost of each item of the inventory maintained by the Cooperative, not an increase in the number of items maintained in the inventory.

When the area of Accounts

BALANCE SHEET
DECEMBER 31, 1979 AND 1978
ASSETS (Note 1)

	1979	1978	Increase (Decrease)
Utility Plant: (Note 2)			
Electric plant in service—at cost	$16,015,791	$14,752,050	$ 1,263,741
Completed construction not classified	482,388	893,133	(410,745)
Work in progress	4,837,735	1,880,294	2,957,441
	21,335,914	17,525,477	3,810,437
Less: Retirement work in progress (dr)	(1,229)	(2,725)	1,496
Accumulated provisions for depreciation	4,411,553	3,951,985	459,568
	4,410,324	3,949,260	461,064
Net utility plant	16,925,590	13,576 217	3,349,373
Electric plant acquisition adjustment	73,701	84,230	(10,529)
Electric plant held for future use	2,800	3,600	(800)
Nuclear fuel in process	239,640	42,058	197,582
	316,141	129,888	186,253
Investment in Utility Plant	17,241,731	13,706,105	3,535,626
Other Property and Investment—At Cost:			
Non-utility property (Note 3)	42,952	20,000	22,952
Patronage capital from associated organizations (Note 4)	10,330	4,362	5,968
Investments in associated organizations (Note 5)	354,194	291,878	62,316
Other investments	563,521	539,181	24,340
Restricted funds	20,105	19,517	588
	991,102	874,938	116,164
Current Assets:			
Cash—general funds	15,131	37,195	(22,064)
Temporary cash investments	54,356	51,621	2,735
Special deposits	475	475	-0-
Notes receivable—net (Note 6)	231,974	156,493	75,481
Accounts receivable—net (Note 7)	438,802	362,091	76,711
Materials and supplies	398,839	341,622	57,217
Prepayments	52,905	48,071	4,834
Total Current Assets	1,192,482	997,568	194,914
Deferred Charges and Debits	356,008	227,568	128,440
TOTAL ASSETS	$19,781,323	$15,806,179	$ 3,975,144

(The accompanying notes are an integral part of this statement)

d Liabilities
SHEET

Receivable is adjusted for an extraordinary item due from New England Telephone, it represents 7.7% of revenues as compared to 7.4% of revenues for 1978. According with the wish of members, the Cooperative continues its strict enforcement of collection policies by adhering to the rules and regulations filed with the Vermont Public Service Board. This, along with the members' cooperation in paying electric bills promptly, meant we were able to keep the related Accounts Receivable at a level consistent with previous years.

LIABILITIES AND OTHER CREDIT EQUITIES AND MARGINS. The members' ownership, reflected in equities and margins, increased by $284,693 in 1979 over that of 1978.

This continued growth in equity exemplifies the Cooperative's continued strong financial position, which will allow it to continue to secure long-term financing at the most reasonable rates available.

Three hundred and forty-four new consumers joined our Cooperative during 1979, and it is anticipated that the Cooperative will experience this continued growth in new members far into the future. To adequately supply this growing demand for electricity it is necessary to build member ownership (equity) in order to secure the financing necessary to provide the supply of power, transmission and distribution facilities.

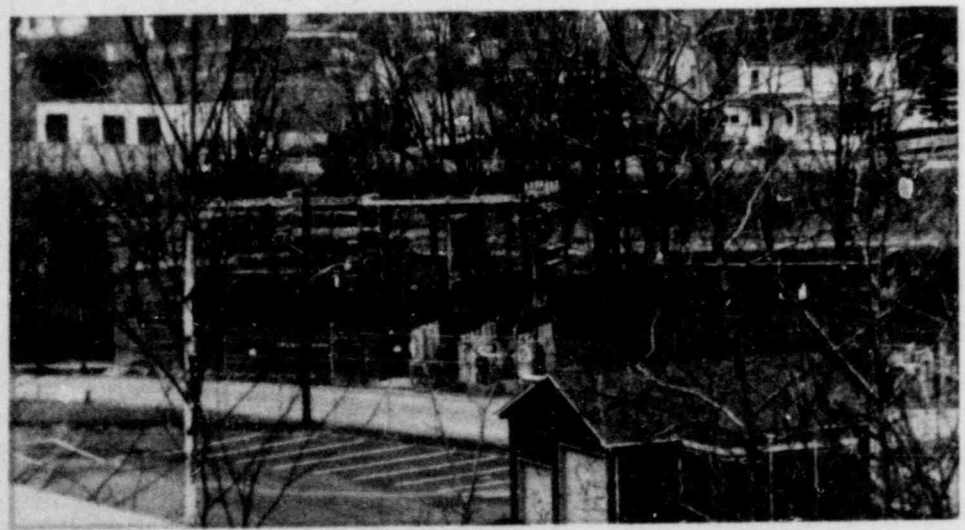
Long-Term Debt. Our primary source of Long-Term Debt continues to be the Rural Electrification Administration and Cooperative Finance Corporation. During 1979 our long-term debt increased by $2,764,206 over 1978, $2,107,000 of which is directly related to our continuing investment in joint ownership of generation facilities. This increase bears an interest rate of 5% per annum, and is repayable over a 35-year period. But with the strict cash management, we are able to control our borrowing to the greatest extent possible in order to maintain a balance between our debt and equity. As a result, we have $15,941,147 of unadvanced long-term funds committed to us by REA and CFC. We will continue our policy of drawing upon these funds only when necessary to make the required investment in generation and distribution facilities.

Current Liabilities. This category is made up of items which are related to the day-to-day operations of the Cooperative and are expected to be paid during the next operating year. Because expenses outstripped income in 1979 the Cooperative made use of the short-term lines of credit with CFC. We continued to apply our strict policy of cash management in order to keep our short-term borrowing requirements to a minimum. However, our short-term notes payable balance increased by $885,000 by year end. This amount was reduced substantially during the first quarter of 1980. The other current liabilities represent the normal operations of the Cooperative's business. Their increased balances are directly related to the growing size of the Cooperative's operations.

BALANCE SHEET
DECEMBER 31, 1979 AND 1978
LIABILITIES AND OTHER CREDITS

	1979	1978	Increase (Decrease)
Equities and Margins:			
Memberships	$ 45,775	$ 45,295	$ 480
Patronage capital (Note 8)	2,599,823	2,322,608	277,215
Other equities	137,023	134,841	2,182
Donated capital	37,857	33,041	4,816
Total Equities and Margins	2,820,478	2,535,785	284,693
Long-Term Debt (Note 9)	15,635,172	12,870,966	2,764,206
Current Liabilities:			
Notes payable	960,000	75,000	885,000
Accounts payable	225,161	195,654	29,507
Consumers' deposits	62,413	54,627	7,786
Taxes accrued and payable	30,796	29,762	1,034
Other current and accrued liabilities	-0-	16	(16)
Total Current Liabilities	1,278,370	355,059	923,311
Deferred Credits	28,050	26,084	1,966
Operating Reserves	19,253	18,285	968
TOTAL LIABILITIES AND OTHER CREDITS	$17,781,323	$15,806,179	$ 3,975,144

(The accompanying notes are an integral part of this statement)



Substation in Derby Line

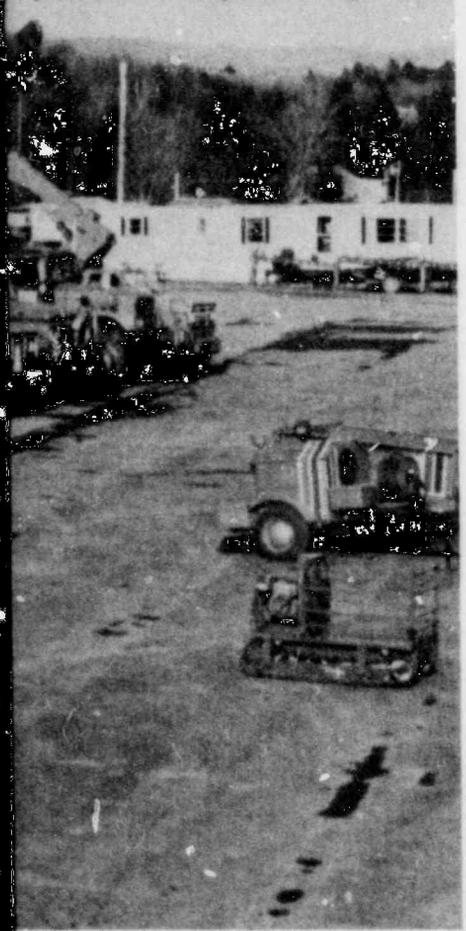
HOW MUCH YOU OWN

Members own a fleet of trucks that maintain lines and meet emergencies. How much they own of whole cooperative is shown in report of Patronage Capital on next page.

PATRONAGE CAPITAL

Patronage Capital. Vermont Electric Cooperative, Inc., maintains the status under both federal and state law of a non-profit corporation. While holding this status, all the revenues of the Cooperative in excess of expenses must be assigned to the members and accounted for in each member's name. The accumulated Patronage Capital at the end of 1979 is $2,599,823, representing a 11.9% increase over 1978. This Patronage Capital Investment, which is the investment of the members was 91.6% of the Cooperative's equity.

Other Equity. This exhibit is presented by the auditor to show the sources of change in Patronage Capital and other equities that took place during 1979.



STATEMENT OF PATRONAGE CAPITAL AND OTHER EQUITIES FOR THE YEARS ENDED DECEMBER 31

	1979	1978	Increase (Decrease)
Patronage Capital:			
Assignable	$1,522,250	$1,450,307	$ 71,943
Assigned	12,212	12,212	-0-
Patrons capital credit—G.O. 52 (Assigned)	1,065,361	860,089	205,272
	$2,599,823	$2,322,608	$ 277,215
Other Equities:			
Operating margin	($ 207,501)	($ 126,837)	($ 80,664)
Non-operating margin	334,726	251,880	82,846
Capital gain	9,798	9,798	-0-
	$ 137,023	$ 134,841	$ 2,182

STATEMENT OF PATRONAGE CAPITAL AND OTHER CREDITS DECEMBER 31, 1979

PATRONAGE CAPITAL

	Assignable	Assigned	Balance
Balance—January 1, 1979	$1,438,765	$ 12,212	$1,450,977
Operating margin			
Non-operating margin transfer	71,943		71,943
Transfer from Halifax Cooperative, Inc.	11,542		11,542
Balance—December 31, 1979	1,522,250	12,212	1,534,462
Patrons Capital Credits G.O. 52:			
Balance—January 1, 1979		860,089	860,089
Additions 1979—net		205,272	205,272
Balance—December 31, 1979		1,065,361	1,065,361

OTHER EQUITIES

	Operating Margin	Non-Operating Margin	Capital Gain	Total
Balance—January 1, 1979 (deficit)	($126,837)	$251,880	$9,798	$134,841
Operating margin	(80,664)			(80,664)
Non-operating margin 1979—net		82,846		82,846
BALANCE—December 31, 1979	($207,501)	$334,726	$9,798	$137,023

OPERATING REVE

STATEMENT OF OPERATING REVENUES AND EXPENSES
FOR THE YEARS ENDED DECEMBER 31

		1979	1978	Increase (Decrease)
	Operating Revenues	$5,036,517	$4,882,963	$ 153,554
I	OPERATING EXPENSES			
	Cost of power	2,264,648	2,145,935	118,713
	Transmission expense—by others	452,292	397,882	54,410
	Subtotal	2,716,940	2,543,817	173,123
II	CONSUMER SERVICE-RELATED OPERATIONAL COSTS			
	Transmission expense—operation	31	824	(793)
	Distribution expense—operation	228,030	216,620	11,410
	Transmission expense—maintenance	1,417	5,029	(3,612)
	Distribution expense—maintenance	347,363	357,123	(9,760)
	General plant maintenance	16,206	15,805	401
	Consumer accounts expense	251,432	284,154	(32,722)
	Sales expense	13,371	7,062	6,309
	Administrative and general expense	508,168	449,898	58,270
	Subtotal	1,366,018	1,336,515	29,503
III	UTILITY PLANT-RELATED FIXED COSTS			
	Amortization	10,529	10,529	-0-
	Depreciation	481,370	449,589	31,781
	Tax expense	186,994	171,016	15,978
	Interest on long-term debt—net	469,375	372,315	97,060
	Allowance for borrowed funds used during construction	(82,334)	(47,415)	(34,919)
	Other interest charges	6,819	3,444	3,375
	Subtotal	1,072,753	959,478	113,275
	Miscellaneous income deductions	13,722	1,851	11,871
	Total Operating Expenses	5,169,433	4,841,661	327,772
IV	PATRONAGE CAPITAL AND MARGINS			
	Net Operating Margin (Deficit)	(132,916)	41,302	(174,218)
	Income applicable to prior years	52,252	-0-	52,252
		(80,664)	41,302	($ 121,966)

Operating Revenues and Expenses. The purpose of the statement of Operating Revenues and Expenses is to provide the detailed information related to the income which the Cooperative earned from operations during the year and the associated expenses it incurred to maintain electrical service over 1500 miles of distribution line in 63 towns to over 9300 patrons.

The expense of supplying this ser-

Operating Revenues. Operating Revenues increased during 1979 by 3.1% over 1978. Since the Cooperative did not have any rate increases during 1979, the increase in revenues was produced primarily by new members on the system.

Operating Expenses

I. Cost of Power. The cost of Purchased Power increased by 5.5% during 1979. Many factors contributed to this increase.

They were the higher cost of operations for the generating facilities which provide the electricity the Cooperative purchases related to the inflationary increases in the cost of fossil fuels;

—the increase in the capacity charges which the Cooperative incurred related directly to the peak demand recorded during February, which the Cooperative must pay for the remainder of the year.

—an increase in the wholesale cost of energy (kilowatt-hours) from 2.5 cents per KWH in 1978 to 2.7 cents per KWH in 1979.

The Cooperative also experienced a 6.1% increase in the cost of transmitting the electrical energy from the generating source to our system.

II. Consumer Service-Related Operational Costs. Overall increase in this category of expenses was 2.4%,

JES AND EXPENSES

vice continues to increase. For 1979 our expenses exceeded our income and resulted in an operating deficit.

The single largest expense—and the one which increased the most—was the cost of Purchased Power. During 1979, the Cooperative's members used 90,688,477 kilowatt-hours of electricity. The system's high peak demand was 28,297 KW recorded during the month of February. The low monthly peak was 13,519 KW in July.

the largest increases being in:

1. Distribution Operational Expenses—The increased costs in this area are related primarily to the increased cost in materials and labor required during normal operations.

2. Administrative and General Expense—These expenses increased as a result of rising cost of insurance, employee benefits and increased activity by regulatory agencies.

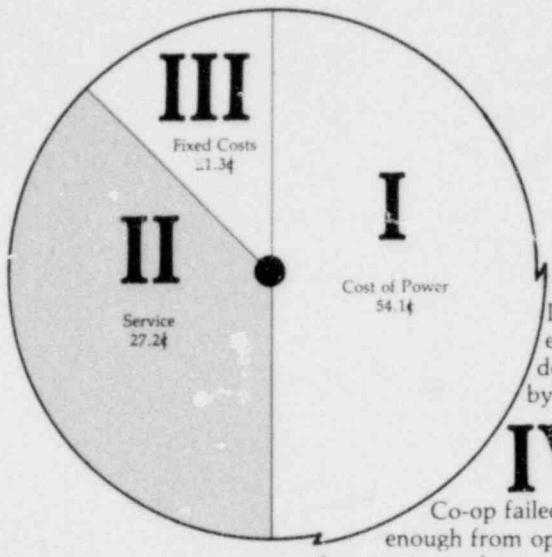
III. Utility Plant-Related Fixed Costs. These costs and the associated increases are related directly to the growth of the Cooperative's investment in plant facilities.

IV. Margins and Patronage Capital. Members build ownership from each dollar paid for electricity except when expenses exceed revenues. For that reason, there is no margin and patronage capital shown in the illustration, right, in connection with the operating statement. There are, however, other sources of margins, investment income and income from appliance sales. In addition, equity is increased from contributions in aid of construction, paid by new members when they are connected to the system. For more discussion of patronage capital and margins, kindly see Treasurer's Report on Page 13.

*When there is an operating deficit, there is no operating margin. It is, in fact, shown as a "negative margin" (the bulge) because it must be subtracted from the margin made from income from interest payments and the sale of appliances in order to establish the total margin for any given year.

WHERE DOES YOUR DOLLAR GO?

*Pie Shows Expenses Met By Each Dollar Members Pay for Electricity: I. Power. II. Service. III. Fixed Costs, and IV. Margins (Patronage Capital).**



Power Costs exceeded each dollar of revenue by 2.6¢.

IV

Co-op failed to make enough from operations for margins and patronage capital.

II. CONSUMER SERVICE-RELATED OPERATIONAL COSTS

27.2 ¢ of Each Dollar Paid By Members, They Represent Costs Over Which There Is Some Measure of Control.

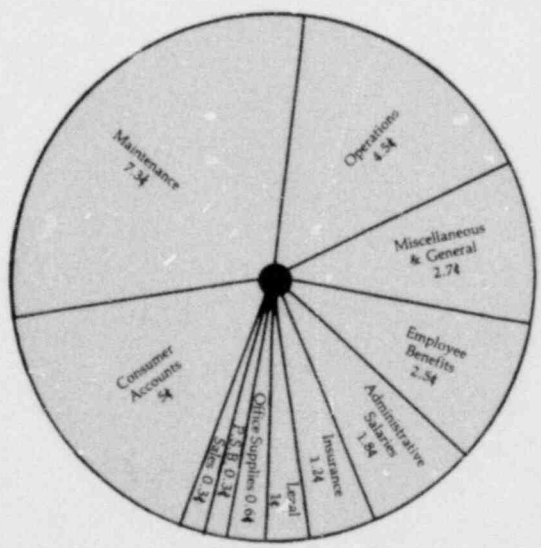


Exhibit 2c, Merchandising Revenues and Costs

Statement of Non-operating Revenues and Expenses. This statement shows income earned by the Cooperative from sources other than the retail sale of electricity to its member-consumer-owners. It also shows the expenses which are incurred to provide this income.

It should be noted that although the Cooperative showed a deficit from its retail electrical service distribution operations during 1979, the Cooperative was still able to achieve an overall operating margin for 1979 because of non-operating revenues.

Some of these revenues come from the Member Services Department, which continued to be self-supporting during 1979 in its function of appliance sales and providing jobbing services, even though it did experience a reduction in overall revenues for the year.

Member Services personnel are also employed in other areas of the Cooperative's operation. The sales and service of appliances operations continues to absorb a portion of the payroll burden and contributes to the margin of the Cooperative. The combination of these two factors allow the department to play a dramatic roll in keeping the electric rates as low as possible.

The other primary source of non-operating revenues is from interest and dividend income. This income is derived from dividends received on our investments in Vermont Yankee and VELCO stock, and interest earned on temporary cash investments made throughout the year.

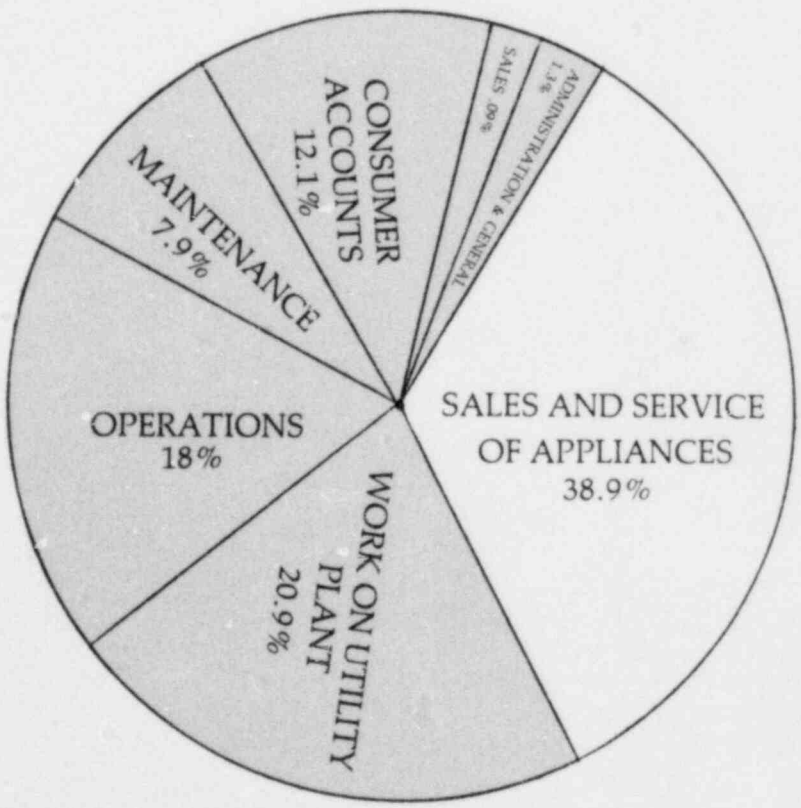
STATEMENT OF NON-OPERATING REVENUES AND EXPENSES FOR THE YEARS ENDED DECEMBER 31

	1979	1978	Increase (Decrease)
Merchandising revenues	$365,913	$399,597	($ 33,684)
Merchandising costs	357,074	384,117	(27,043)
Net Merchandising	8,839	15,480	(6,641)
Allowance for funds used during construction (A)	40,309	28,036	12,273
Miscellaneous income	6,032	2,656	3,376
Interest and dividend income—net	99,609	105,218	(5,609)
Net Margin for Period	154,789	151,390	3,399
Less: Transfer to patronage capital	(71,943)	(80,907)	8,964
	82,846	70,483	12,363
Balance—Beginning of year	251,880	450,042	(198,162)
Transfer prior years to patronage capital		(268,645)	268,645
BALANCE—END OF YEAR	$334,726	$251,880	$ 82,846

(A) Represents the capitalized interest charge of general funds expended on nuclear generation projects.

Revenue and Expenses

	1979	1978
APPLIANCE		
Revenue	$292,509	$338,729
Expense	277,511	315,560
	$ 14,998	$ 23,169
ELECTRIC HEAT		
Revenue	$ 1,299	$ 569
Expense	739	526
	$ 560	$ 43
WATER HEATERS		
Revenue	$ 30,389	$ 27,202
Expense	28,132	25,932
	$ 2,257	$ 1,270
JOBBING		
Revenue	$ 17,298	$ 18,715
Expense	16,341	18,287
	$ 957	$ 428
SERVICE OUT OF WARRANTY		
Revenue	$ 24,418	$ 19,383
Expense	34,351	28,813
	($ 9,933)	($ 9,430)
TOTAL REVENUE	$365,913	$399,598
TOTAL EXPENSE	357,074	384,118
	$ 8,839	$ 15,480



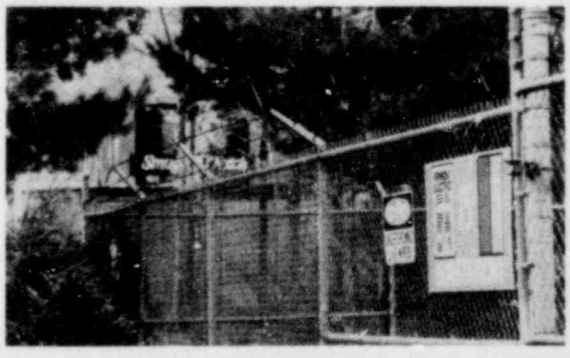
Pie is 100% of labor costs of Member Services Dept. White area shows only 38.9% devoted to sales and service of appliances.

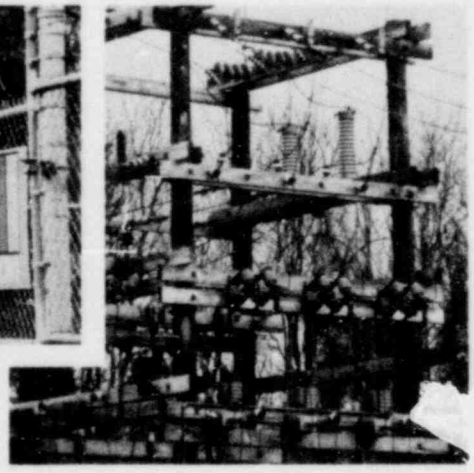
Exhibit 3, Statement of Changes in Financial Position

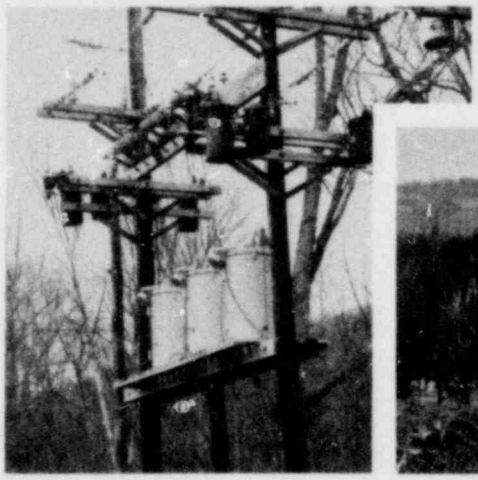
Statement of Changes in the Financial Position. The purpose of this statement is to illustrate the sources and applications of the money handled by the Cooperative during the operating year. As in previous years, most of the funds, 82.3% in 1979, were used for plant additions and replacements. This statement as well as those previously illustrated reflect that your Cooperative continues to grow and strengthen its financial position. It is essential that we continue to demonstrate this ability to grow to the financial community in order that when it becomes necessary to borrow from these financial sources, the Cooperative can present itself in the most favorable position possible.

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEARS ENDED DECEMBER 31

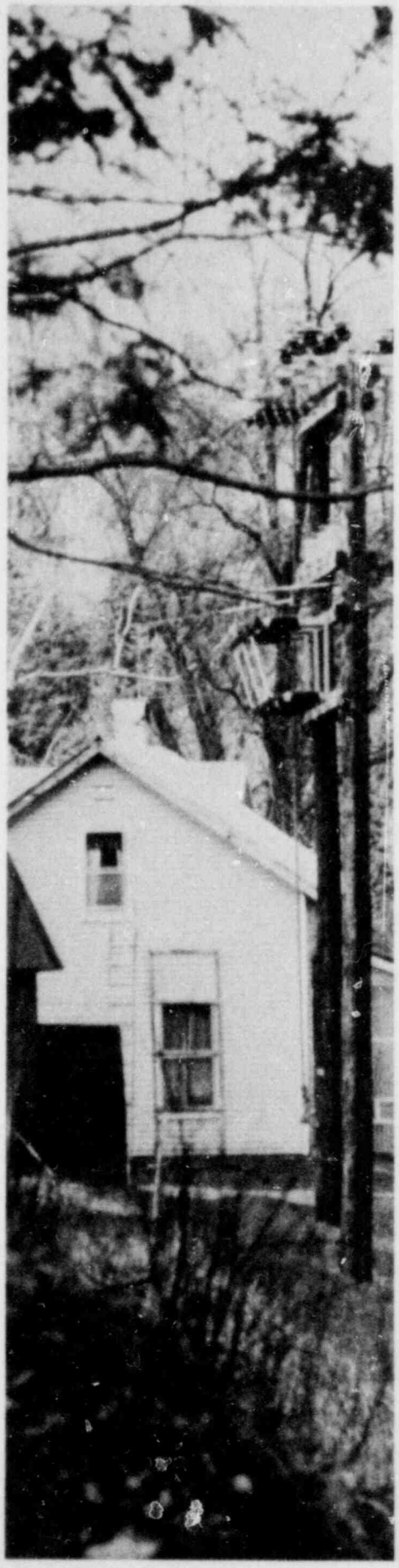
	1979	1978
Funds Were Provided By:		
Operating margin—net	($ 80,664)	$ 41,302
Non-operating margin	154,789	151,390
Depreciation and amortization expense	491,899	460,118
	566,024	652,810
Depreciation allocated	48,091	44,329
Memberships	480	4,450
Advances from R.E.A. and C.F.C.	3,142,000	1,613,000
Retirement salvage	71,956	53,280
Decrease in working capital (increase)	728,396	(303,401)
Operating reserve	969	893
Donated capital	4,316	1,611
Other patronage capital—G.O. 52	205,272	187,780
	$4,768,004	$2,254,752
Funds Were Used For:		
Extension and replacement of classified plant	$1,378,749	$ 993,643
Payments on long-term debt	377,793	368,275
Cost of plant retirement	26,842	79,381
Increase in other property and investments	116,164	57,779
Increase in net deferred debits over deferred credits	126,475	147,531
Electric plant held for future use	(800)	2,800
Addition to plant unclassified and under construction	2,546,696	601,065
Addition to nuclear assets	197,582	3,637
Retirement work in progress—credit (debit)	(1,497)	641
	$4,768,004	$2,254,752







Co-op substations—owned by members—dot Vermont. Some are tucked into the landscape, like Pleasant Valley, lower right, or beneath trees, like Smuggler's Notch. Others, like Scotts Bridge in Windham County, lower left, are visible.



NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1979

1. **Assets Pledged:**
   All assets are subject to the first mortgage lien held by the United States Government.
2. **Electric Plant and Depreciation Procedures:**
   The major classification of plant is as follows:

	1979	1978
Intangible plant	$ 1,547.99	$ 1,547.99
Transmission plant	945,316.33	927,532.24
Distribution plant	13,575,132.59	12,453,748.91
General plant	1,493,794.31	1,369,221.10
Completed construction unclassified	482,388.45	893,132.86
Construction work in progress (A)	4,837,734.62	1,880,294.13
	$21,335,914.29	$17,525,477.23

(A) Construction work in progress consists of:

General and distribution plant		$ 235,452.98
Generation:		
Millstone Nuclear Unit #3 of which the cooperative has a .2% interest	$ 1,326,549.09	
Pilgrim Nuclear Unit #2 of which the cooperative has a .2% interest	708,305.68	
New England Power Nuclear Units #1 and #2 in which the cooperative was to acquire a .2% interest	94,265.28	
Seabrook Nuclear Units #1 and #2 in which the cooperative will acquire a .2% interest	2,471,666.35	4,600,786.40
Eagle Mountain project		1,495.24
		$ 4,837,734.62

In the opinion of management any adverse effect of New England Power Units #1 and #2 will be minimal.

The cooperative is obligated for the proportionate share of the carrying and progress costs in the nuclear projects.

Provision has been made for straight line composite depreciation of the transmission and distribution plant at the rates of 2.6% and 3.0% per annum.

General plant depreciation rates have been applied on a straight line basis at the following rates:

Leasehold improvements	2 years
Buildings	composite rate
Office furniture and equipment	composite rate
Stores equipment	10 years
Shop equipment	composite rate
Laboratory equipment	composite rate
Power operated equipment	based on usage
Communication equipment	8 years
Miscellaneous equipment	composite rate
Demonstration equipment	composite rate
Transportation equipment	3-10 years

Electric plant acquisition is being amortized over a fifteen year period. During 1979 the amortization totaled $10,528.80.

Electric plant held for future use represents the cost of the Waterville pump storage project.

Nuclear fuel in process represents the cost aggregates of the proportionate share of the fuel costs to date of:

Seabrook Nuclear units	$183,717.58
Pilgrim Nuclear units	11,032.28
Millstone Nuclear units	23,434.53
New England Power Nuclear units	21,455.20
	$239,639.59

3. Represents 20 acres located in the Town of Troy, Vermont, the Van Everest property and properties in Jay Valley.

4. **Patronage capital from associated organizations:**
The balance represents the patronage capital certificates received of the National Rural Utilities Cooperative Finance Corporation.

5. **Capital term certificates:**
Investments in associated organizations include capital term certificates (CTC) of the National Rural Utilities Cooperative Finance Corporation in the following amounts:

1979	1978
$353,194.00	$290,878.00

The corporation is obligated to purchase additional CTCs in 1980 through 1985 in the amount of $481,821.00 in annual installments based on the estimated revenue of the years.

6. **Net of the following provisions for doubtful accounts:**

1979	1978
$4,185.34	$4,185.34

7. **Net of the following provisions for doubtful accounts:**

1979	1978
$54,628.32	$62,699.01

8. Under the provisions of the first mortgage note agreements with the U.S.D.A. accumulated patronage credits may not be remitted the applicable patrons until the total of equities and margins equals or exceeds 40 percentum of the total assets of the cooperative.

The long-term debt to R.E.A. is represented by two percentum first mortgage notes payable to the United States government, totaling $7,586,349.60 remaining balance and five percentum notes of $7,313,853.05 outstanding balance. The notes are for 35 year periods each and principal and interest installments are due quarterly in equal amounts of approximately $222,368.36. It is estimated that installments of $889,473.44 due within the next twelve months will include $378,406.84 in principal. The notes are scheduled to be fully repaid at various times from April, 1979 to June, 2014. Long-term debt to N.R.U.C.F.C. was $734,969.60 at December 31, 1979.

Litigation:
We have requested that corporate counsel advise us of any litigation of which he is cognizant.

Pension benefits are provided for all eligible employees under the retirement and security program of the National Rural Electric Cooperative Association. The cost of the plan to the cooperative was $117,110.42 which was allocated to expense and construction and retirement cost aggregates.

Certification of Certified Public Accountant

Peter A. Castalde
Certified Public Accountant
44 Highland Place
Ridgefield Park, N.J. 07660

March 7, 1980

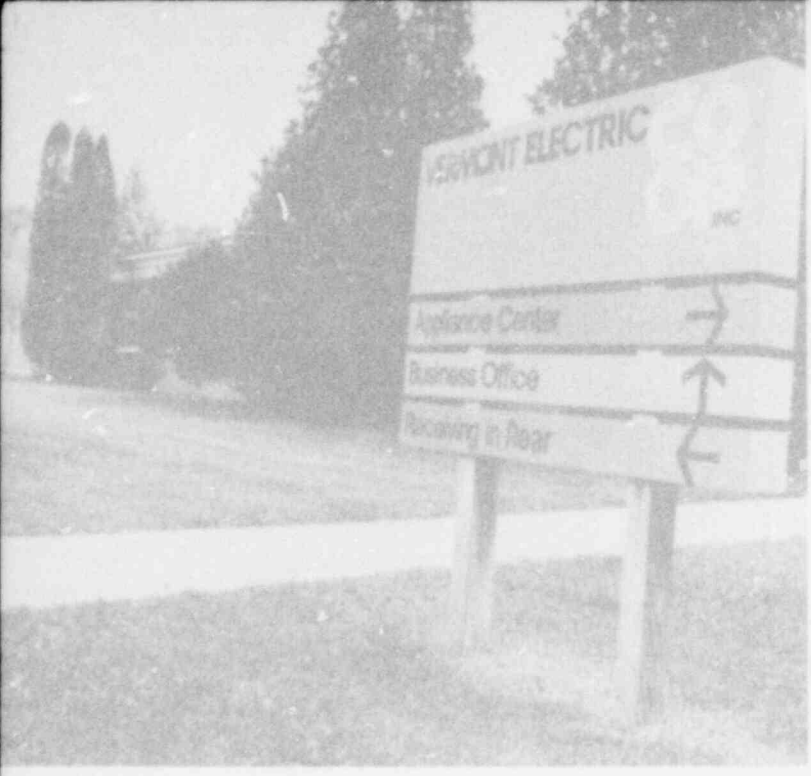
J. Douglas Webb, President
The Board of Directors
Vermont Electric Cooperative, Inc.

Gentlemen:

We have examined the Balance Sheet of the Vermont Electric Cooperative, Inc. (a Vermont corporation) as at December 31, 1979, and the related statements of Operating Revenue and Expense, Income and Earned Surplus and Source and Application of Funds for the twelve months then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Vermont Electric Cooperative, Inc. at December 31, 1979, and the results of its operation and changes in financial position for the twelve months then ended in conformity with generally accepted utility accounting principles applied as a basis consistent with that of the preceding period.

Peter A. Castalde, C.P.A.



1979 Annual Report
Vermont Electric Cooperative, Inc.
Johnson, Vermont 05656

Address Correction Requested

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