



Grady
Electric Membership Corporation

P.O. Box 270 / Cairo, Georgia 39828 / Phone (229) 377-4182

Dear Members:

As we approach Grady EMC's annual meeting, I'd like to take a moment to update you on what has been going on at the EMC so far this year, share plans for the EMC's future, and answer some questions that have recently been raised in the community regarding Grady EMC.

At the beginning of this year, we spent time with our talented employees setting goals for the year, always mindful of our top priority: to be the best EMC. These goals range from technology implementation, evaluation of best practices, increased training and education, research of renewable technology, consideration of our system's long-term growth, and improved communication to members through enhanced website and newsletter communications.

Already this year, our team has implemented mobile technology to reduce outage times; analyzed renewable energy products through an on-site research facility; and continued to review our practices and training to derive the greatest benefits from our systems – all resulting in better service for our members.

As you may be aware, for the past few months a group has placed ads in area newspapers criticizing the EMC, its managers, and its Board members. In an effort to communicate with our membership directly, rather than through the media, we've enclosed a question and answer sheet with additional information regarding the matters raised in those ads. You may not be aware that, on October 7, 2014, some or all of the members of that same group filed a lawsuit against Grady EMC, each of our directors, Tommy Rosser and myself, in which they make many of the same claims raised in those ads. We take these allegations seriously, and will address them appropriately. At the same time, we intend to vigorously defend that lawsuit.

For more than 70 years, Grady EMC has provided its members an abundance of reliable power, in a cost-effective manner, at the highest practical level of service. The result, as shown by the enclosed rate comparison (taken from the Georgia Public Service Commission's most recent residential rate survey), is that Grady EMC's rates are lower than almost any other local provider.

We greatly appreciate your involvement with your cooperative and hope you will join us for your Annual Meeting of Members on October 17, 2014 at our operations complex. We look forward to celebrating 76 years of being your electrical provider and thank you for your support and dedication to building a cooperative that is truly one of the best.

Serving you always,

A handwritten signature in blue ink, appearing to read 'T. A. Rosser, Jr.', is written over a light blue horizontal line.

T. A. (Bo) Rosser, Jr.
President & General Manager

Georgia Public Service Commission

Residential Rate Survey – Summer 2014

2,000 kWh Level Ranking (Low to High)

		2,000 kWh	
Provider		Charges	Cents/kWh
*14	Grady EMC	\$222.00	\$0.1110
*62	Thomasville Utilities	\$252.80	\$0.1264
*82	Cairo Electric (City of)	\$270.55	\$0.1353
*86	Whigham Utilities (City of)	\$277.50	\$0.1388
*89	Georgia Power Company	\$290.02	\$0.1450

* Reference the full PSC Summer Survey

STATEWIDE AVERAGE

		2,000 kWh	
		Charges	Cents/kWh
		\$246.20	\$0.1231

Grady EMC

The Cooperative Structure

Grady EMC is a private, not-for-profit business that is owned by the members it serves. Our purpose is to provide affordable, reliable electric service for you, our members.

Our Board of Directors is elected from our membership base by a vote of members. The directors make decisions that directly impact their personal businesses and homes because they purchase their electricity from Grady EMC just like every other member. This creates a strong correlation between their decision-making processes and the needs of the membership at large.

Questions & Answers

Who approves wages and benefits and how are they formulated?

The Board approves all wages and benefits. These decisions are based on performance and independent industry surveys. The Board strives to ensure the salary and benefits for Grady EMC employees are in line with other electric cooperatives in Georgia of similar size. The electric business is complex, and transitions are typically carefully managed to ensure appropriate knowledge and background is shared among the team.

What are the current qualifications of Bo Rosser?

He has spent most of his life around the electrical business including working part-time as a groundman and truck operator as well as learning line work. While completing his undergraduate degree in business management, Bo worked in utility construction, and then earned a master's of business administration from Florida State University. While earning and obtaining an MBA, Bo spent nearly a decade in the finance and electric industry, gaining experience in risk analysis and maximizing investor returns through sound decision making based on financial and other factors. Last year, the Grady EMC Board asked him to transition Grady EMC into the future, focusing closely on all elements of our business: from generation, distribution, retail sales and ongoing system maintenance and improvement.

Does Grady EMC make financial investments? How and why?

In addition to planned, strategic investments in our own assets, the EMC also from time to time has made targeted investments in community assets that help Grady EMC serve its members. The Board analyzes, discusses and approves all investments. Where possible, Grady EMC prefers to invest and do business with local vendors.

One such investment that has been criticized was the purchase of stock at the formation of the only local bank in Grady County in 2000. The investment helped provide a local bank with necessary capital, at the same time it provided Grady EMC a sound, local option for banking services. In 2004, the Board decided to sell the stock, and former general manager Tommy Rosser offered to make the purchase. The purchase price was determined by an independent appraisal of the stock, which was an increase of more than \$125,000 over the original purchase price – a 50 percent return on the investment. Grady

EMC financed the purchase, and it made money on the stock sale and on interest from the loan, which Mr. Rosser has repaid in full.

What is member equity, and where is Grady EMC's \$43.4 million?

In the electric cooperative business model, member equity – also known as patronage capital – is the value of members' investment in the EMC. It is not simply dollars in a bank account. Patronage capital is accumulated this way: in years when Grady EMC takes in more money than it costs to provide electricity to its members, the remaining funds are credited as patronage capital to its members. In a member-owned cooperative, this member equity is used to invest in the physical assets of Grady EMC, including generation facilities, poles, transformers, power lines, trucks, and the like which are necessary to enable us to provide electric service. Member equity is also used to establish reasonable reserves, to fund future capital needs, and to maintain a reasonable capital structure, which often reduces the need to borrow money to run the business, saving us interest and expense, and helping hold down rates.

The benefit to members is not just when patronage capital is paid, but also by contributing to the ability to provide years of reliable service at lower costs. Unlike investor owned utilities or a city utility, our members receive the same benefits of affordable and reliable service in addition to a benefit that is payable when, in the Board's judgment, Grady EMC's financial condition permits patronage capital distributions. Currently, on a monthly basis, the Grady EMC Board approves the payment of patronage capital to a member estates upon application.

The EMC does not have \$43.4 million in the bank. The \$43.4 million figure that has been cited is from the EMC's balance sheet and represents Grady EMC's patronage capital and other equities, including the complex system of poles, wire, transformers, meters, other equipment, investments in other cooperatives, and operating cash that ensures you have reliable electric service. With respect to Grady EMC, similar to your personal financial investments, including the equity you may have accumulated in your home, the total amount of your equity in Grady EMC is not all held in cash. It is your share of the value of the assets of Grady EMC. For example for the Balance Sheet provided in your September 2014 newsletter shows that while \$43.4 million is held in patronage capital and other equities, only \$1.6 million is held by Grady EMC in cash on hand and temporary investments.

Is Grady EMC involved in large lawsuits?

There are currently two lawsuits involving other EMCs and organizations related to ours. We are not a party to any of those suits, but will monitor their progress, outcomes, and make any adjustments deemed necessary by the Board in response to these actions.

On October 7, 2014, Grady EMC was sued by several of its members, who make allegations similar to those made in recent newspaper ads. We take these allegations seriously, and will address them appropriately. At the same time, we intend to vigorously defend that lawsuit.

Why does Grady EMC own other LLCs?

Grady EMC along with several partners built a nearly 100 megawatt peaking power plant in Baconton, GA called SOWEGA Power (one megawatt is equivalent to the amount of energy produced by 10 car motors running at the same time). In addition, Shell Oil teamed with us to build an approximately 200

megawatt peaking plant on the same site. Upon the advice of counsel and our accountants, the Board approved the forming of several LLCs for these projects. These plants are maintaining and stabilizing our member rates every day and will continue to for years to come. This is a unique benefit and an excellent investment for our members. All related LLCs are owned by Grady EMC and are not paying separate salaries to Grady's managers or generating profits or capital that is held hidden from members in any way. Revenues from these LLCs are consolidated into the overall financials of the EMC.

Why does Grady EMC own a tract of land north of its headquarters under an LLC?

Grady EMC purchased a tract of land in a strategic location less than one mile from our headquarters in order to prepare for the future. Due to our past experience with generation as well as our landlocked headquarters, this tract of land located adjacent to one of our largest substations and two high voltage transmission lines is a perfect location for expansion, a future generation project or for staging crews and equipment in an emergency situation.

Why was the headquarters building renovated?

The renovations to our headquarters building – originally constructed in the 1950's -- were made for several critical reasons, including addressing a leaking roof and water infiltration throughout the facility; to accommodate technology and security updates; and to enhance customer safety and privacy.

Every effort was made to ensure that construction was done in a cost-efficient manner. We built primarily on the existing building's footprint, remained in the building during the renovation and utilized employees to do the construction whenever possible. We estimate that allowing our talented employees to work on the project enabled us to significantly reduce labor costs on the construction project.

How does Grady EMC prove its commitment to open communication?

Each year, we disclose information on our operations along with our financial information. We are subject to annual independent third party audits and are accountable to the USDA Rural Utilities Service. Your Board and staff are directly responsible for the operation of the cooperative and for protecting trade secrets and confidential information. Our critics are not subject to these same responsibilities and obligations. We want to hear your questions and concerns, as well as ideas to improve your cooperative. Please don't hesitate to contact us with ideas, questions or comments that can help us achieve our goals at 229.377.4182 or www.GradyEMC.com. Grady EMC staff and management are always willing to meet with any member and discuss any aspect of our organization. You have the opportunity to meet with us and share your thoughts at our annual meeting. Please join us on October 17th and take the opportunity to get to know your Grady EMC.