

# Union Power Cooperative

A member-owned energy provider

Your Touchstone Energy® Cooperative   
The power of human connections®

2006 ANNUAL REPORT



**We're here,**  
*looking out for you*

A supplement to Carolina Country

# Executive Message



**Tony E. Herrin**  
Executive Vice President,  
General Manager

**B. L. Starnes**  
President,  
Board of Directors

Cooperatives are different from most companies. One of the most important differences is that co-ops are not driven by profit. For-profit companies aim to return a profit to their shareholders. After all, these shareholders have invested their money in the business. A co-op's mission is different. Cooperatives operate to provide at-cost electric service to their members. Union Power and electric cooperatives across the state look out for their members by meeting their needs for goods or services. This is the co-op way of doing business.

At a time when Americans' electric bills are going up around the country—in some places by as much as 40 percent—the co-op way of doing business strives to keep costs manageable. A cooperative, however, is still going to see its operating costs rise when the price of doing business goes up. There's no better example of this than what is going on in the electric utility industry right now. The cost of fuel to run power plants is at a record high. We work everyday to achieve operating efficiencies as we face these cost increases. We are conducting a cost of service study and evaluating how rising power costs are affecting our operations. If the study reveals it necessary to pass along power supply increases to our members, you can trust the decision will be based on keeping the business financially strong on behalf of all members.

## Looking Out For You Through System Upgrades

Union Power is looking out for its members. Upgrading our electrical system is integral in providing reliable electric service to our members at an affordable cost. This year we began an underground equipment inspection program. This process involves inspecting connections and the physical condition of each padmount transformer. We also check to see that the trans-

former is adequately secured and locked and the appropriate warning signs are posted. The plan is to complete inspection of 3,000 padmount transformers each year.

We are currently doing infrared scans of all of our substations on an annual basis. This process allows us to look for hot spots that may cause equipment damage which could result in a power outage. We conduct routine maintenance on our twenty-two substations on a three-year rotation. During these inspections we physically inspect and replace worn or damaged parts and test for proper operation.

The main reason for the upgrades is pure and simple. The rapid and exponential growth that's occurring in our service area is putting a strain on our system. North Carolina Electric Membership Corporation, the supplier of power to Union Power and 25 other North Carolina co-ops, has prepared a load forecast predicting that if Union Power's system growth continues at the same rate over the next five years, we could have close to 80,000 members. To stay ahead of this tremendous growth, we are upgrading and expanding transmission and distribution lines and substations, as well as building new lines and substations where they are needed.

## Money Back to You: The Cooperative Difference

As a locally owned cooperative, we sell electricity to our members at the lowest possible cost with our focus on service rather than profit. Any profit from kilowatt hours sold is reinvested in the operational needs of Union Power or returned to members as patronage capital credits, also known as member dividends. Paying back member dividends is the very heart of being a cooperative. This year is the first time that we will be returning member dividends to all members who signed up through the end of 2005. We will be returning nearly \$1.6 million this year. Since we are member-owned and controlled, our focus is on service rather than profit.

## Looking Out For Our Employees

One of Union Power's most valuable assets is its employees, and like other areas of our organization we face challenges in training our workforce on new and effective ways to do business. The goal is to increase knowledge and provide the resources needed to work in a safe and efficient manner. The safety of our employees and the public is one of Union Power's most important responsibilities and we strive to create a culture of safety. In addition to weekly safety meetings, employees attend specialized training sessions throughout the year to

learn more about doing their jobs safely. We also provide safety incentives and rewards for our employees who perform work safely on the job.

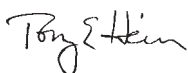
### Looking Out For Our Members

One of our main goals is to give our members choices and convenience. We know that everyone's schedules are different and that's why Union Power offers you many different ways to manage your account. You can access account information and pay your bill 24 hours a day, 7 days a week by phone or on our web site, [www.union-power.com](http://www.union-power.com). We also accept many payment methods, including debit or credit cards and draft payments that are automatically deducted from your checking account each month.

Another area we are concentrating on is protecting the security of our members' private and personal information. Unfortunately in this day and time, identity theft is a huge concern. At Union Power, we are making every effort to safeguard our systems so that we protect your information. We have in place multiple layers of protection to prevent certain threats such as computer viruses or information theft.

Your Board, management, and employees will continue to work hard to provide you with the most reliable, affordable, and safe electric service possible. Our mission focuses solely upon you and all members of Union Power Cooperative. We extend our sincere thanks for allowing us to serve you.

Cooperatively yours,



**Tony E. Herrin**  
Executive Vice President,  
General Manager



**B. L. Starnes**  
President,  
Board of Directors



## Board Members

(Pictured From Left to Right):

- William R. Wilson**, Vice President, District I
- B. L. Starnes**, President, District III
- Vann Hilton**, Secretary, Treasurer, District III
- Dent H. Turner, Jr.**, District II
- Juanita Poplin**, District II
- Ralph Johnson**, District IV
- Richard L. Simpson**, District III
- Rufus E. Reid**, District V
- Neil W. Hasty**, District IV
- Jim T. Hartsell**, District V
- Jan Haigler**, Asst. Secr./Treas., District IV



## Service Territories

### District I

Rowan County covers 159 miles of energized line and 1,030 meters.

### District II

Stanly County is our second largest service area and covers 1,082 miles of energized line and 8,328 meters.

### District III

Union County is our largest service area and covers 3,468 miles of energized line and 38,943 meters.

### District IV

Mecklenburg County covers 309 miles of energized line and 5,036 meters. District IV is also comprised of a small portion of Union County.

### District V

Cabarrus County is our third largest service area and covers 588 miles of energized line and 6,277 meters.



### **Commercial Growth Follows Residential Development**

The residential growth in Union Power's five-county service area is astounding. We are connecting as many as 400 new members each month. The largest service area of Union Power is within Union County, which is the fastest growing county in North Carolina. Most of the residential growth that is taking place is at the Union-Mecklenburg County border with retail development following the many homes being built in the area.

As the residential housing market has grown in Union County, commercial growth is beginning to follow the same trend. Union Power's commercial accounts continue to increase as we now serve more than 1,650 commercial accounts. Projections are that by 2015 that number will double to more than 3,000. Union Power is presently serving several business parks that bring economic growth to the region such as Old Hickory Business Park, Industrial Ventures I and II, Union West Business Park, and Sardis Business Park.

Old Hickory Business Park covers 225 acres and is located just 2.5 miles from Interstate 485. In 2006 alone, nearly \$6 million worth of land and buildings have been sold by Crosland, Inc. and Merrifield Partners, LLC. New businesses recruited include Micro Lens Technology, Rosenberg USA, Morse Industries, American Power, PODS, Genius Babies.com, Signature Self Storage, and Extreme Ice.

The Extreme Ice Center is the largest and most unique facility in the park, which opened in late summer. This 76,000 square foot facility is the home to the Charlotte Checkers and will also be the venue for athletic competition and entertainment to ice hockey and figure skating enthusiasts.

From Weddington to Waxhaw, Union Power will serve over 2 million square feet in planned retail centers. With all of the new homes and residential growth continuing, more commercial growth is eminent.

### **Keeping Up With Changing Technology**

The Cooperative's accounting and finance staff continuously explore and implement the best finance and accounting practices. Financial success requires foresight regarding future energy demand, power supply, financing needs and the impacts of these forces on rates charged to members.

Each year, employees of Union Power attend training sessions to learn more about supervisory skills, customer service skills, and safe working habits. Employees are one of the most important resources of the company, so Union Power strives to keep all employees up-to-date on the latest methods and techniques to enable them to perform at their best.

Union Power Cooperative strives to keep up with changes in industry technologies. One of the major tasks performed over the last year has been the preparation of a disaster recovery plan. In the event of a major disaster, the critical internal business operations must be brought back online as efficiently and as quickly as possible to minimize the disruption of its customer service, human resources, and administrative capabilities.

Union Power has established more safeguards to protect our members' personal information. Multiple layers of protection have been established in our system to prevent certain threats such as computer viruses or identity theft by computer hackers. Information pertaining to accounts is shared with only the person whose name the account is listed in and their designated contact. A member must set up a password when accessing account information online. Members can view and pay their bill online through our secured web site, [www.union-power.com](http://www.union-power.com).

Union Power Cooperative members can be assured that the financial procedures, information safeguards, and recovery systems are continually examined and tested to ensure as little interruption to our members as possible.



### Energy Efficiency is Important

With the rising energy costs nationwide, interest in energy efficiency has become more important to our members. Natural gas and propane fuel costs have skyrocketed. With that in mind, a high efficient electric heat pump is even a better choice for comfort and value. Studies have shown that seasonal heating costs for propane can be twice as expensive as a high efficiency heat pump. Electric water heating is also cheaper than propane. With the recent increase in natural gas costs, the heat pump beats natural gas on efficiency and cost savings.

To better assist our members with energy usage, we provide a free Online Home Energy Audit and a Home Energy Savings Guide. Our online Home Energy Audit offers a realistic cost analysis to determine where you are spending your energy dollars. It will offer you suggestions for upgrading items that impact energy usage with an estimated savings and return on your investment. The Home Energy Savings Guide gives valuable energy saving tips that can help you to start saving immediately. Visit our web site at [www.union-power.com](http://www.union-power.com) and refer to the Residential Services menu for Home Energy Usage.

In an effort to promote cleaner energy alternatives, Union Power offers its members the option to participate in NC GreenPower. NC GreenPower was created by the North Carolina Utilities Commission and is the first statewide, multi-utility program of its kind in the country. It is designed to help improve the quality of the environment by allowing North Carolinians to choose cleaner, "greener" energy solutions. Union Power is the 35th participating utility in the program. Our members can voluntarily contribute \$4 per month on their power bill to NC GreenPower, which will add one block or 100 kilowatt-hours of green energy to the state's power supply. Participating in NC GreenPower is an easy, effective way to help protect the environment and to ensure an adequate, green energy supply for the future.

### Upgrading and Expanding a Growing System

Between 2004 and 2005, Union Power's entire system grew at a rate of over six percent. This kind of growth keeps our engineering staff on their toes. They are continually working with Electrical Consulting Engineers, Inc. on a new Long Range Plan for the future development of the Cooperative's electric system. This plan will provide an outline and guide for future system expansion as the system grows and load increases.

Progress continues on the acquisition of right-of-way for a new transmission line to run from Locust to our substation in the Flowes Store area of Cabarrus County. The goal is to complete the right-of-way acquisition this year and for construction of the line to begin during 2007. Engineering work has begun for the conversion of the Flowes Store substation from 44,000 volts to 100,000 volts. This conversion will be done in conjunction with the construction of the Locust to Flowes Store transmission line. Capacity will be increased from 10 million watts to 25 million watts.

In western Union County, Union Power's system demand grew at an astounding rate of 42 percent between 2004 and 2005. We took measures to upgrade our Marvin Substation in western Union County where capacity was doubled, from 50 million watts to 100 million watts. While this upgrade will help meet immediate needs, more electric capacity is needed in this region to meet the future demand for power. We are in the process of building a new substation in this area to meet electrical demands and ensure safe and reliable power to western Union County.

The initial deployment of the Cooperative's Automated Vehicle Locating (AVL) system was completed this year with the goal of increasing productivity and safety. Reports are generated detailing the activity of Cooperative vehicles enabling improvements to be made in areas such as routing vehicles, work planning, efficient dispatching, improved response time, and reduced fuel expense. Safety and improved fleet maintenance are also benefits of this new system.

This year, a new automated dispatching system was successfully installed, which will enable dispatchers to more accurately track outages. Calls that come in are automatically logged by the computer and are grouped according to what area of the system they live. The computerized system will make predictions as to what devices are out and are causing the outage. It will also maintain an on-going log of the number of customers that are out of power throughout the system. All of these upgrades and additions will help to ensure our members have safe, reliable power.

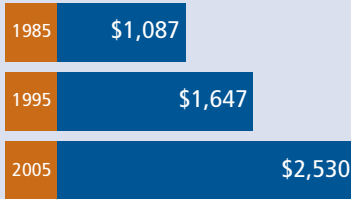
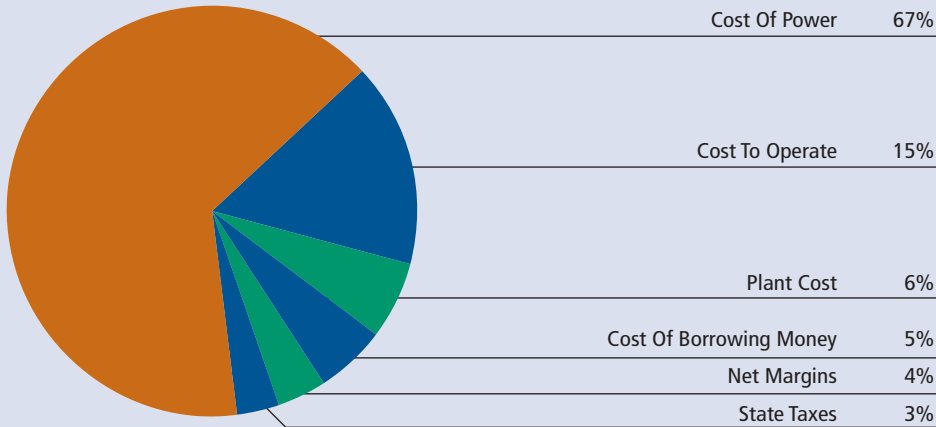
# Financial Report

(as of December 31, 2005)

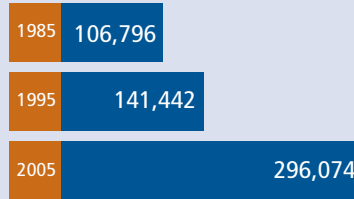
<b>What We Own</b>	<b>ASSETS</b>	
	Original cost of Our System	\$181,389,584
	We Estimate it Has Depreciated	36,629,544
	<b>Net Value of Our Property</b>	<b>\$144,760,040</b>
	Cash and Investment Reserves:	
	Cash on Hand and in Bank	7,790,109
	Members Owe Us for Electric Bills	6,947,108
	Materials and Supplies on Hand	2,516,672
	Other Investments for Reserves	209,921
	Other Property and Prepaid Expenses	90,490
	<b>TOTAL ASSETS</b>	<b>\$162,314,340</b>
<b>What We Owe</b>	<b>LIABILITIES</b>	
	Long Term Debt	\$77,808,387
	Notes Payable	13,252,227
	We Owe for Power, Material, & Supplies	15,564,235
	We Hold Consumer Deposits and Payments	6,314,255
	<b>TOTAL WE OWE</b>	<b>\$112,939,104</b>
	Membership Fees and Other Capital	0
	Patronage Capital Credits and Margins	49,375,236
	Net Worth (Total Ownership by in Co-Op)	\$49,375,236
	<b>TOTAL LIABILITIES AND NET WORTH</b>	<b>\$162,314,340</b>
<b>Where the Money Came From</b>	<b>Revenues</b>	
	Sale of Electric Energy	89,596,745
	Non-Operating Income	921,415
	<b>Total Revenue</b>	<b>\$90,518,160</b>
<b>How the Money was Used</b>	<b>Expenses</b>	
	Wholesale Power Cost	59,248,546
	Operating Expenses	14,696,627
	Depreciation Expenses	5,228,192
	Taxes	2,874,732
	Interest	4,807,750
	<b>Total Expense</b>	<b>\$86,855,847</b>
	<b>Net Margins</b>	<b>\$3,662,313</b>

<b>Statistical Highlights</b>	<b>1985</b>	<b>1995</b>	<b>2005</b>
Average Meters Billed	21,419	33,069	55,659
Miles of Distribution Line	2,903.34	3,833.67	5,441.90
Member per Mile of Line of Distr	7.38	8.63	10.23
Total Assets	28,687,643	69,937,501	162,314,340
Net Investment in Plant	23,759,823	55,592,344	144,760,040
Total Kwh Purchased	338,350,676	580,663,013	1,042,539,207
Number of Employees	57	92	110

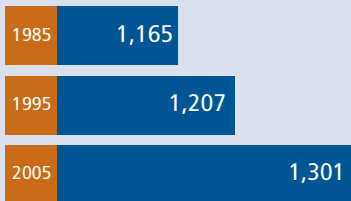
How Your Dollar Is Spent



Plant Investment per Member



kW Peak Demand



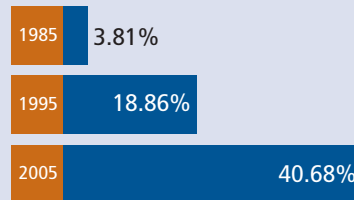
Monthly kWh Use per Residential Member



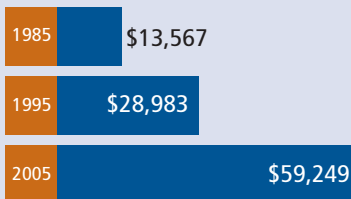
Miles of Underground



Right-of-Way Maintenance



% of Distribution System That Is Underground



Wholesale Power Costs (in thousands)



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P.O. Box 5014  
Monroe, NC 28111-5014  
704-289-3145 or 1-800-922-6840  
[www.union-power.com](http://www.union-power.com)