

EASTERN MAINE ELECTRIC COOPERATIVE

2002 ANNUAL MEETING

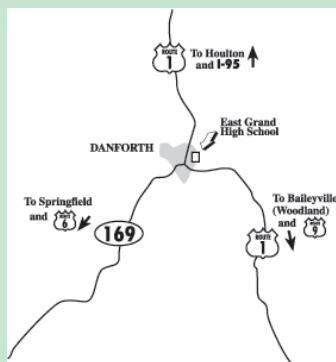


*Acclaimed Maine Humorist
Chaitanya York*

as

Henry Bascomb

"Ain't he some funny!"



WHERE: East Grand High School
Danforth, Maine

WHEN: Saturday, August 3, 2002
Registration begins at 11:30 p.m.
Lunch begins at 12:00 p.m.
Business meeting begins at 12:30 p.m.
Break for entertainment at 1:00 p.m.
Meeting reconvenes at 2:00 p.m.

(Admittance is free for members and their children and \$15 for guests.)

Bring your mercury medical or indoor/outdoor thermometer for a free exchange!

(See inside for more details)



2002 Annual Meeting Notice

Business Credential	(Inside Front Cover)
Proxy Form	(Inside Back Cover)
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2001 Annual Report

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Thermometer Exchange

Mercury is a toxic element that does not break down over time and that may accumulate in the food chain once released into the environment. In humans and animals, mercury can cause neurological and reproductive damage.

One dangerous source of mercury in the home is thermometers. Once a thermometer breaks, the mercury inside must be disposed of carefully, because exposure would be poisonous. Left alone, spilled mercury will evaporate, and the resulting vapor can also be dangerous. Federal and state environmental agencies are enforcing stricter and stricter regulations for the disposal of mercury thermometers.

At the Annual Meeting this year, the co-op offers free, safe disposal of your indoor, outdoor, or fever thermometers. Indoor-outdoor and fever thermometers will be exchanged for non-mercury digital thermometers.



2002 Annual Meeting



*Acclaimed Maine Humorist
Chaitanya York will appear as*

*Henry Bascomb
"Ain't he some funny!"*

Maine humor at its best!
Hilarious, original, wry & witty,
Henry Bascomb is a classic, colorful "Mainer"
portrayed by Maine native Chaitanya York,.

(This year's meal will be prepared by the Elm Tree Diner)

**August 3, 2002 at East Grand High School in Danforth
Registration begins at 11:30 a.m.**

Thermometer Exchange!

As part of this year's Annual Meeting, the cooperative will conduct a thermometer exchange. Bring your old mercury indoor, outdoor, and fever thermometers to the meeting, and they will be safely disposed of by trained environmental specialists. In return, EMEC will give you a non-mercury digital thermometer for every mercury thermometer you turn in, so visit with your neighbors, and bring their thermometers too! Please do your part to prevent the spread of toxic mercury in the environment.



Admittance includes the meal and is free
to members of Eastern Maine Electric Cooperative, Inc. and their children.

Admittance for guests will be \$15.00.

REGISTRATION (Begins 11:30 a.m.)

Registration will begin at 11:30 a.m. at East Grand High School. Meals will be free to registered members and their children; admittance for guests will cost \$15.00. Any married member with a single membership will be asked to sign his or her spouse up as a joint member; the spouse will then receive free admittance.

LUNCH (12:00 noon)

Food prepared by the Elm Tree Diner

Entree:	Roast Turkey / Baked Ham	
Served with:	Potato Salad	Baked Beans
	Cole Slaw	Rolls
	Macaroni Salad	Coffee
	Fresh Fruit Bowl	Fruit Punch
	Cranberry Sauce	
Dessert:	cookies, assorted baked squares	

ENTERTAINMENT will be Maine Humorist Chaitanya York

OFFICIAL NOTICE OF THE ANNUAL MEETING OF THE MEMBERS

The Annual Meeting of the members of the Eastern Maine Electric Cooperative, Inc. will be held pursuant to Article III, Sections 1, 3, 4, 5, 6, 8 and Article V, Section 1 of the Bylaws at East Grand High School on Route 1 in Danforth, Maine, August 3, 2002.

BUSINESS MEETING AGENDA (12:30 p.m.)

~A break for entertainment will take place at 1 p.m.~

1. Report of members present to determine a quorum.
2. Reading of Notice and Proof of Mailing.
3. Reading of unapproved minutes of previous meeting of the members and taking of necessary action thereon.
4. Presentation and consideration of reports of Officers and Directors.
5. Unfinished Business
6. New Business.
7. Adjournment.

There will be drawings for door prizes, along with a grand prize of an
Old Town "Discovery 174" Canoe.

Eastern Maine Electric Cooperative, Inc.

P.O. Box 425 Calais, ME 04619

(800) 696-7444 (207) 454-7555

Fax# (207)454-8376

www.emec.com

DIRECTORS

FRANK D. JONES - PRESIDENT	Zone 5
Albert W. Hartford, Vice President	Zone 3
Ralph L. Butterfield, Secretary	Zone 7
R. Scott Skinner, Treasurer	Zone 11
Vacant (election August 13, 2002)	Zone 1
Bruce P. Bailey	Zone 2
John W. Dray	Zone 4
Vernon M. Wentworth	Zone 6
Wallace H. Lindahl	Zone 8
Dwayne A. Young	Zone 9
Beverly D. Clark	Zone 10

CHIEF EXECUTIVE OFFICER

James L. Dean, III

ATTORNEY

Daniel L. Lacasse

AUDITOR

Berry, Dunn, McNeil & Parker, CPAs

2001 REPORT TO THE MEMBERS

Industry Developments

The direct impact on the energy industry of the September 11, 2001 terror attacks on New York and Washington has been minimal so far. Politically, new debates center around the best way to minimize dependence on foreign oil. Continual and sometimes escalating unrest in Northern Africa and Asia raise questions about the reliability of those sources. Other industry developments, unrelated to terrorism, have been more significant.



Enron



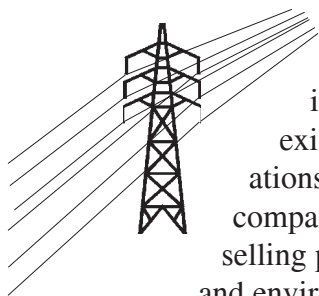
In autumn 2001, emerging news of accounting failures and reporting inaccuracies by influential Houston power marketer Enron Corporation rocked the energy industry. Despite fears about the impact from the failure of such a major market participant, electric reliability was largely unaffected by Enron's collapse.

Investigations also continue into allegations that Enron and other companies manipulated the California energy market and helped worsen the state's skyrocketing electric supply prices in Fall 2000 and Winter 2001.

Although the pace of deregulation has slowed since the Enron revelations, the process is expected to continue, but with more thorough safeguards for the protection of customers and investors. The fact that the market continued to function normally despite the Enron debacle has been taken by many as an indicator that deregulation will not destabilize the industry or greatly impact reliability in the short term.

Transmission Limitations

A less public, but growing concern within the industry has to do with the limitations of the nation's transmission grid. Few new transmission



lines have been built in the past twenty years, but the industry has continued to grow in generation capacity. Furthermore, the existing grids were built with regional considerations in mind, but the new reality is that generating companies and power marketers are increasingly selling power between regions. Market uncertainty and environmental concerns discourage the construction of new transmission lines, but the need for improved cross-regional market access is expected to make transmission construction an increasingly important issue in the near future.

Regional Updates

Proposed Division of New Brunswick Power

The supply of power for most Eastern Maine Electric Co-op members either comes from or through New Brunswick, Canada. (EMEC delivers and bills for power that customers purchase from other companies, but the co-op does not sell power, except to Domtar, formerly Georgia Pacific. For that reason, it is of interest to EMEC customers that the provincial government plans to divide New Brunswick Power Company (NB Power) into four smaller companies, based on function.

The four new companies would be NB Power Generation, NB Power Nuclear, NB Power Transmission, and NB Power Distribution and Customer Service.

The proposed changes increase the likelihood of competition within the generation segment of the province's electric industry. Immediately after the division was announced, competing companies expressed interest in purchasing the nuclear power plant at Point Lepreau and the Coleson Cove generating station, which is currently oil-fired.

Proposed Neptune Project

The Neptune Project is a proposed plan for connecting power sources in New Brunswick and Nova Scotia with the Northeastern United States via undersea transmission lines. As with the proposed 345

kiloVolt (kV) line through New Brunswick, Northern Maine would benefit from this construction in two ways. First, the new transmission line would potentially open up the sale of power into the Maritimes from the U.S. Second, Northern Maine should continually see price benefits because of the region's close proximity to new power plants likely to be constructed in the Maritimes.

The division of NB Power is not expected to affect the Neptune Project. If Neptune goes forward, completion of the first phase of the project could occur as early as 2003, with the final phase being completed about three years later.

Second Maine/Maritimes Transmission Line

Bangor Hydro-Electric Company, now a subsidiary of a Nova Scotia holding company, continues to plan the construction of a second 345 kiloVolt transmission line between New Brunswick and Maine. The line is intended to give the rest of New England increased access to power from Canada with the intent of lowering prices and improving reliability for the rest of the region. This would be only the second transmission line between New England and the Maritime Provinces. It would benefit EMEC members by providing them with access to generation sources in lower New England.

Although the proposed path for the line called for it to pass through Baileyville (Woodland), the plans have not been approved by the State of Maine, and the timing and location of the construction is not certain.

EMEC Operational Developments

At Eastern Maine Electric Cooperative, aside from generalized progress throughout the system, the following projects are either under way or are completed.

- Near the Codyville School lot, the cooperative moved nearly 3500 feet of three-phase line to the roadside to improve access for maintenance and to improve repair times during weather-related outages.

- In Carroll, EMEC relocated 7000 feet of line to the roadside by the Osgood Road for similar reasons.
- On Tarr Ridge in Prentiss, the cooperative is in the process of moving approximately 6000 feet of line to the roadside.
- An ongoing project involves replacing older poles on the Milltown circuit from the Salmon Falls substation, including all of the remaining cedar poles on that circuit. When completed, the project will have placed a substantial number of new poles at intervals along the Milltown circuit, including Route 191, Route 214, and Route 1 between Calais and Route 9.
- EMEC relocated 2000 feet of three-phase underground line as part of the construction project at Washington County Technical College. Underground lines are not prevalent in Eastern Maine Electric's service territory, and the WCTC project is the biggest underground project in the cooperative's history. WCTC is expected to complete construction of a new multipurpose building this summer.
- Co-op crews added further redundancy to circuits from the Salmon Falls (Calais) substation by upgrading 1000 feet of line on the Milltown circuit so that it can be connected to the South Street circuit. This upgrade allows various switching combinations to take place external to the substation, such that any one of three substation reclosers can be removed from service for maintenance without interruption of service to members.
- Right of Way maintenance with a skidder bucket and the Brontosaurus mower has been completed on the Oakfield circuit, the Silver Ridge circuit, the Kelly Hill cut, the Crystal Circuit, the Patten North cut, and along Codfish Ridge in Linneus.

[New AutoPay Service](#)

In 2002, the cooperative offered AutoPay, a new service that allows members and other customers to pay monthly bills through automatic bank withdrawals or credit card payments. Additional services for the convenience of EMEC's members will be offered in the coming year.

EMEC Financial Developments

The cooperative's lenders use two financial ratios as their chief measures of the cooperative's financial results. The first of these ratios is the Times Interest Earned Ratio (TIER), which is a measure of the relationship between margin and interest expense. The second is the Debt Service Coverage Ratio (DSC), which is a measure of the cooperative's ability to generate funds sufficient to cover its debt service payments.

EMEC's TIER for 2001 was 1.32, and its DSC was 1.0. These ratios would not meet the normal minimums required by the lenders (1.25 for both ratios). The lenders, however, waived their requirements for EMEC down to 1.0 for both ratios through 2004, after which the co-op will be required to meet the minimum standard ratio levels. These waivers were granted while the co-op is paying down the \$15 million Seabrook loan. The lenders also expressed their support for EMEC's multi-pronged plan for bridging a cash flow gap through 2004. In that year, EMEC's Seabrook-related stranded costs will be paid off, resulting in improved cash flow. Details of this multi-pronged plan were provided in the 1999 Annual Report, which was presented in 2000. That plan allowed EMEC to reduce the size of a necessary rate increase in October, 2000 to a very small percentage.

To further improve the co-op's financial standing, co-op staff continually monitor interest rates in the financial markets to lower EMEC's interest expense. This year, that monitoring once again bore fruit when the co-op repriced the interest rate on the remainder of the \$15 million Seabrook-related loan from the National Rural Utilities Cooperative Finance Corporation (CFC). The total interest savings will be \$115,000 through May 2004, and after a modest \$13,000 repricing fee, total savings to EMEC members will be \$102,000.

In mid-January, EMEC repriced other CFC loans from the long-term variable rate to a 3.85% fixed rate through December 2003. At that time, the co-op will evaluate the available pricing options.

EASTERN MAINE ELECTRIC COOPERATIVE, INC.
BALANCE SHEET
FOR THE YEARS 2001 AND 2000

ASSETS

Utility Plant:

	<u>2001</u>	<u>2000</u>
Electric plant in service - at cost	33,450,841	\$32,365,474
Construction work in progress	664,335	527,470
Total Utility Plant	34,115,176	32,892,944
Less: Accumulated provisions for depreciation	15,962,812	14,939,022
Net Utility Plant	18,152,364	17,953,922

Other Assets:

Deferred Charges	7,330	20,775
Non-utility Property	701	701
Investments in associated organizations	1,763,283	1,659,282
Note Receivable	700,000	700,000
Total Other Assets	2,471,314	2,380,758

Current Assets:

Cash - general	104,782	245,788
Accounts receivable - net	1,111,418	1,062,039
Materials and supplies	356,579	370,720
Other current assets	2,990	2,938
Total Current Assets	1,575,769	1,681,485

Deferred Debits:

Regulatory asset , net of amortization of \$5,554,557 in 2001 and \$4,805,628 in 2000	9,424,021	10,172,950
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Total Assets

\$31,623,468 **\$32,189,115**

LIABILITIES & EQUITY

Equities:

Memberships	\$ 47,540	\$ 47,170
Patronage Capital (members' ownership)	8,362,256	7,999,357
Total Margins & Equities	8,409,796	8,046,527

Long Term Debt, excluding current maturities:

Rural Utilities Service (RUS)	9,787,653	9,324,810
Cooperative Finance Corp. (CFC)	5,823,827	7,688,683
Federal Financing Bank (FFB)	550,000	0
Rural Business - Cooperative Service	678,124	700,000
Total Long Term Debt	16,839,604	17,713,493

Obligations under capital leases, excluding current maturities

47,412 **88,526**

Current Liabilities:

Current maturities of obligations under capital leases	39,133	39,721
Notes payable - line of credit	2,250,054	2,579,789
Current maturities of long-term debt	2,373,000	2,210,000
Accounts payable	829,737	740,535
Consumer deposits	94,571	95,442
Accrued interest	104,983	134,086
Other current and accrued liabilities	322,757	235,438
Total Current Liabilities	6,014,235	6,035,011

Deferred Credits

312,421 **305,558**

Total Liabilities & Equities

\$ 31,623,468 **\$ 32,189,115**

EASTERN MAINE ELECTRIC COOPERATIVE, INC.
STATEMENT OF OPERATIONS
FOR THE YEARS 2001 AND 2000

	<u>2001</u>	<u>2000</u>
Operating Revenues:		
Residential	\$ 3,703,660	\$ 4,150,630
Seasonal	362,907	367,432
Commercial	1,901,637	2,122,206
Street Lighting and Public Auth.	188,663	209,185
Industrial & Other	1,083,791	1,047,161
Other Electric	341,259	324,045
Total Operating Revenues	<u>7,581,917</u>	<u>8,220,659</u>
Operating Expenses:		
Purchased Power	1,089,489	2,099,068
Transmission	48,222	48,816
Distribution, operation	959,881	952,971
Distribution, maintenance	426,376	309,935
Consumer accounts	619,347	589,876
Customer service & informational exp.	84,719	85,668
Administrative & general	1,046,396	859,687
Depreciation	1,152,140	1,118,888
Amortization, regulatory asset	748,929	748,929
Interest - Long-term	969,225	1,057,352
Other interest and expenses	190,226	191,615
Total Oper. Exp. without Purchase Power	<u>6,245,461</u>	<u>5,963,737</u>
Total Operating Expenses	7,334,950	8,062,805
Operating Margins	246,967	157,854
Patronage Dividends	93,749	82,759
Net Operating Margins	<u>340,716</u>	<u>240,613</u>
Nonoperating Margins:		
Interest Income	19,990	20,022
Rental Expense	0	(12,111)
Other	5,336	(5,907)
Net Nonoperating Margins	<u>25,326</u>	<u>2,004</u>
Net Margins	<u>\$ 366,042</u>	<u>\$ 242,617</u>
T.I.E.R.	1.38	1.23
D.S.C.	1.00	1.00

Note: In accordance with electric restructuring (deregulation), the Cooperative stopped purchasing and reselling electricity effective March 1, 2000. The year 2001 was the first complete year under deregulation. Purchased power expense and revenue were therefore lower for the year 2000 and 2001 compared to prior years, which may distort comparisons with previous years.

AUDIT REPORT: The annual audit of records for the columns marked 2000 and 2001 were made by Berry, Dunn, McNeil & Parker, CPA's, 100 Middle Street, Portland, ME 04101. Copies of the audit report are on file with the Maine Public Utilities Commission, Augusta, Maine; the Rural Utilities Service, Washington, D.C.; and are available for inspection at the Cooperative's offices in Calais, Maine.

FIVE YEAR COMPARISONS

GENERAL STATISTICS

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Average Number of Active Accounts	11,887	11,769	11,741	11,645	11,657
Total Miles of Electric Lines	1620	1,605	1,583	1,577	1,575
Amount Allocated for Bad Debts (% Retail Billings)	\$72,933	\$48,567	\$53,183	\$54,335	\$43,885
Bad Debts Written Off (Actual for year)	\$69,908	\$66,520	\$62,865	\$77,931	\$72,848

REVENUE & EXPENSE STATISTICS

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Average Annual kWh/Member (Res.)*	6,171	6,276	6,233	6,152	6,286
Average Annual Rev. (cents/kWh) (Res.)*	7,390	8,188	12,423	13,015	13,000
Avg. # of Consumers per Employee	350	346	345	333	343
Operations & Maint./Mile of Line	\$856	\$787	\$703	\$836	\$474
Average Number of Employees	34	34	34	35	34
Consumer Accounts Exp. as % of Rev.	8.17%	7.18	4.74%	4.48%	3.23%
A&G Expense as % of Rev.	13.80%	10.46%	7.65%	7.17%	6.92%
kWh losses	8.20%	9.62%	9.11%	8.64%	8.31%

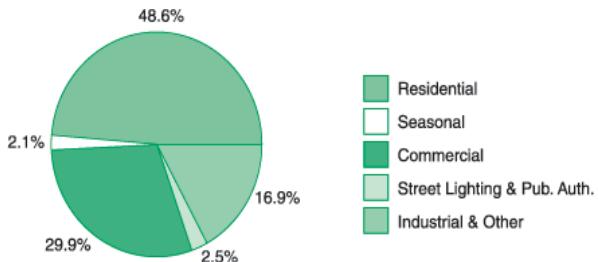
*Does not include seasonal sales.

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REVENUE CLASS SUMMARY

	KWH DELIVERED	PERCENTAGE OF TOTAL DEL.	% INCREASE (DECREASE) OVER 2000
Residential Delivery	50,119,660	48.6%	(1.1%)
Seasonal Delivery	2,103,861	2.0%	(2.2%)
Commercial Delivery	32,162,131	31.2%	3.2%
Street Lighting & Public Auth.	<u>2,621,017</u>	<u>2.6%</u>	<u>(0.6%)</u>
Total Retail Delivery	87,006,669	84.4%	0.4%
Industrial & Other Delivery	<u>16,048,000</u>	<u>15.6%</u>	<u>(9.1%)</u>
Totals	103,054,669	100 %	(1.2%)

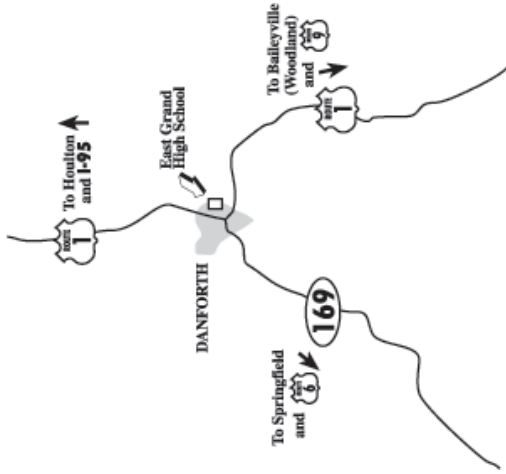
**kWh Delivered/Sold
by Revenue Class
2001**





9 UNION ST., P.O. BOX 425, CALAIS, MAINE 04619 207-454-7555
www.emec.com

ANNUAL MEETING NOTICE ANNUAL REPORT INCLUDED



(Map to East Grand High School)



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