

STRAIGHT TALKING



**Spreading
the cooperative
message**

■ Proudly touting the co-op philosophy

United CEO and General Manager Ray Beavers was recently invited to appear on the Granbury Chamber of Commerce "Spotlight On Business" cable TV show, which regularly features key businesses and groups serving in the Granbury area.

The segment was taped at the Granbury High School Channel 7 Studio and was scheduled to be rebroadcast several times in November on the community's local cable channel.

During the interview, Beavers provided an overall profile of United Cooperative Services that included pertinent information about the co-op's service territory, employment data and its interest in contributing to each of the communities it serves.

He also noted differences

Please see MESSAGE, Page 6

INSIDE THIS ISSUE:



POWER: Perspectives Q&A

Taking a condensed look at some big issues facing the state's electric industry—some leading viewpoints.
.....PAGE 2

Rate Comparisons PAGE.....6

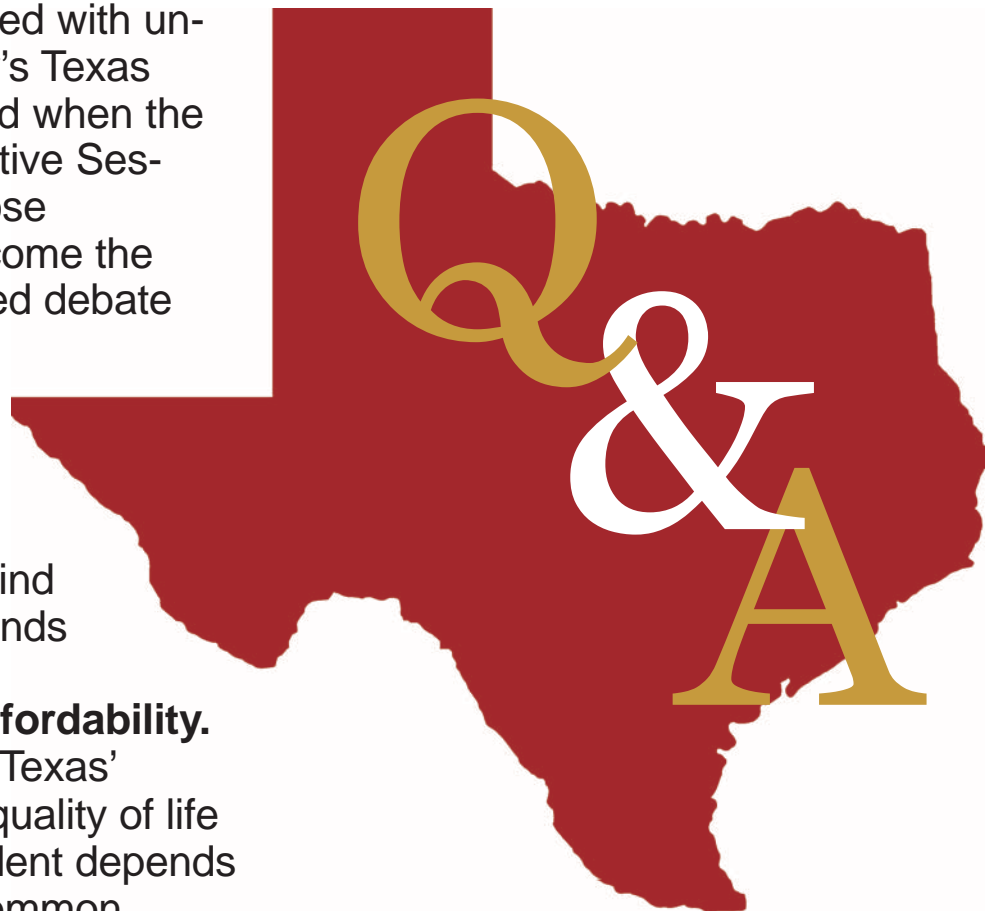
Winter Conservation Tips PAGE.....7

Manager's Message PAGE.....8

POWER: PER

Deregulation, price-to-beat, generation, transmission, capacity, load curtailment, reserves, demand-side management, and environmental protections are but a fraction of the many industry parlances associated with uncertainties in today's Texas electric market. And when the 80th Texas Legislative Session convenes, those buzzwords will become the thrust of a continued debate between policymakers, environmentalists, electric providers and consumer activists to find the metes and bounds between **reliability, profitability and affordability**. No small task. But Texas' economy and the quality of life of every state resident depends on finding some common ground.

Here are just a few of the state's leading viewpoints. More will follow in 2007.



PERSPECTIVES

TEXAS ELECTRIC COOPERATIVES



MIKE WILLIAMS
President/CEO
Texas Electric
Cooperatives

In your opinion today, what is the most critical challenge for the Texas electric industry?

Given the growth of our Texas economy, our most critical challenge is to simply keep the lights on. Ordinary folks don't generally care much about the details of doing that. They just want to know that when they flip the switch, the lights come on. And if the lights don't come on, then they want to know who to call. But to keep the lights on two things must happen: Additional generation must be built and new high-voltage lines must be constructed, which have the capacity to move that power from where it is produced to load centers where people consume it. Of course all of this must be done while keeping the costs as reasonable as possible and while protecting the environment.

What sort of role should the Texas Legislature play in meeting that challenge when the Legislature convenes in the 80th Regular Legislative Session?

The Legislature probably does not need to take any action. Laws and regulations already exist that should provide for this new capacity to be added in a timely manner.

YOUR LOCAL COOPERATIVE



RAY BEAVERS
CEO/Manager
United Cooperative
Services

In your opinion today, what is the most critical challenge for the Texas electric industry?

To list the single, most critical challenge facing the Texas electric utility industry is not as simple as one might think. The electric utility industry has many challenges that will eventually determine how we, as consumers, will use electric energy in the future. First, when the discussions concerning deregulation were launched more than 10 years ago, much of the talk focused on the planning required to meet the inevitable energy demand on our state's electricity infrastructure, namely new generation and transmission facilities. To our disappointment, the importance our regulating authorities had previously placed on this necessary planning has disappeared. That leaves us in our current predicament: we now have inadequate generation to meet our growing needs, an aging transmission infrastructure, raging environmental debates and political concerns. The state of Texas could eventually find itself in the same situation California consumers did early this century, when that state's electricity infrastructure was brought to its knees by capacity deficiencies. Just as in California, which lacked enough electric generation to handle growing demand for electricity and adequate transmission to deliver electricity to

Please see **POWER PERSPECTIVES**, Page 4

Q & A

POWER PERSPECTIVES

continued from **PAGE 3**

[Mike Williams]

What is your view of deregulation's current and future impact on the Texas energy market?

Many will argue that it is still too early to tell what the impact has been. The Texas experiment was designed with some artificial mechanisms, which were intended to "jump start" this market. The prevailing opinion of the Texas Legislature will likely be that it will be several more years before we know what the impact is.

Given your responses to the above questions, please explain whether you think the status of the state's energy sector will improve or worsen in the next five years.

I can't speak for the other market segments, but I know that electric cooperatives in Texas will continue to provide reliable electric service at a reasonable price as they have for almost 70 years.

[Ray Beavers]

and from different parts of the state, Texas' electric grid reliability could become a big concern.

What sort of role should the Texas Legislature play in meeting that challenge when the Legislature convenes in the 80th Regular Legislative Session?

There are many issues the Legislature will tackle in the upcoming session. Reinventing deregulation bill (SB7) and making wholesale changes would be like putting the genie back in the bottle. The debate shouldn't be over the virtues of deregulation because that decision was made seven years ago. Answering the public's concerns about such topics as the environment and the planning and siting of transmission lines is necessary if we're to find a quick solution to our potential power crunch. Unfortunately, time is a limiting factor. It takes years to build power plants. It will take an equally significant time

investment to bring our transmission infrastructure to a point where it can meet the demands that strain the system today. The political debate should be about these challenges, while allowing time for the competitive pressures to work out the market issues. Eventually, in my opinion, it could take years to have a self-sustaining competitive market.

What is your view of deregulation's current and future impact on the Texas energy market?

It is difficult to grade the effects of deregulation in our state. Some consider deregulation a success. From the standpoint of implementation, I agree. However, the promise of a truly competitive environment has not been realized. Normally, competition occurs when there is (1) excess inventory in the market and (2) a willing party that can sell it at a cost that is sufficient enough to sustain a profit and survive. There is no incentive for providers to lower prices when there is no excess generating capacity to offer in the market—all generators are already struggling to meet present demand, and at present pricing. In addition to those market constraints, Texas relies on natural gas as the primary fuel to run the generators and we're all aware of the dramatic price increases in the natural gas markets. Electricity is produced upon demand and cannot be stored in warehouses. And when everyone in the state decides to operate their air conditioners at the same time, they trigger an immense demand that requires generation and transmission to be fully operational and loaded. Transmission problems have also limited the ability to shift power from areas that need more of it to be truly competitive. For those reasons, I don't believe deregulation has fulfilled its basic promise: to lower consumer costs.

And beyond cost considerations, market participants have further eroded public trust after demonstrating the inability to explain their utility pricing structures to consumers—regulators have long-insisted that customer involvement and knowledge of the market is imperative to deregulation's success. However, the players in our state's deregulated electricity market have failed to educate and inform the very people—consumers—who should benefit from competition.

For deregulation to be successful, I believe consumers will one day have to choose between on-peak/off-peak usage and pricing that is based on that time of usage. This pricing signal will better promote the efficiencies of the electric system and ultimately bring savings to the consumers. Additionally, we will see more advances in the use of distributed generation and renewable energy as the price of electricity gets higher and the use of these

technologies becomes more affordable. All of this will be the outcome of deregulation.

Given your responses to the above questions, please explain whether you think the status of the state's energy sector will improve or worsen in the next five years.

I believe the next five years will present more challenges to the electric industry than we could have ever imagined. Consumers will be more involved in the decision-making process, because they should. Debates concerning the environment and siting generating plants and transmission lines are already primary concerns that are being expressed. The national energy picture needs to be scrutinized to insure the balance that we, as consumers, demand. That balance should include affordability, meeting consumers' needs, addressing environmental concerns—all without negatively affecting the economic conditions of the region or country. Yes, the next five years are going to bring monumental change in my opinion. But after 30 years in the industry, I believe proper awareness and preparation will provide the right answers.

TEXAS ATTORNEY



David Sibley
Former (Waco) State Senator and author of Senate Bill 7— legislation passed by the Texas Legislature in 1999 that began to restructure the state's electric industry into a deregulated market.

In your opinion today, what is the most critical challenge for the Texas electric industry?

Texas needs a more diverse mix of fuels in the generation of electricity. Approximately 70 percent of Texas' electricity generation capacity is natural gas while the rest of the nation is 40 percent. The price of gas has proven to be volatile in the last few years. It was approximately \$2 in 1999 and has gone as high as \$12. Texas needs to build more coal, nuclear and wind generation. Texas is experiencing rapid growth and we will be running out of generation capacity if we do not build more.

What sort of role should the Texas Legislature play in meeting that challenge when the Legislature convenes in the 80th Regular Legislative Session?

The role of the Legislature in the 80th Regular Session is oversight and education. Tight budgets in 2003 and 2005 removed much of the money for consumer education. The Legislature needs to restore this funding so the PUC can educate the public on the ability to shop for electricity.

What is your view of deregulation's current and future impact on the Texas energy market?

The market is working so far. Customers can choose from at least 35 service options offered by over 17 different electric providers. The PUC reports that prices are lower than they would have been if prices had remained regulated. Customers who switched have saved 10 to 15 percent from the prices paid to incumbent utilities.

Approximately 35 percent of customers have chosen a competitor for their electric provider and another 15 percent have chosen an offer from the incumbent investor-owned utility. I think that 50 percent of the customers making a choice is a vigorous market and the market is only partially deregulated at this time. Five years into long-distance telephone deregulation 19 percent of customers had switched.

The last of the rate regulation ends January 1, 2007, when the incumbent utilities will be allowed unfettered competition in their own territories.

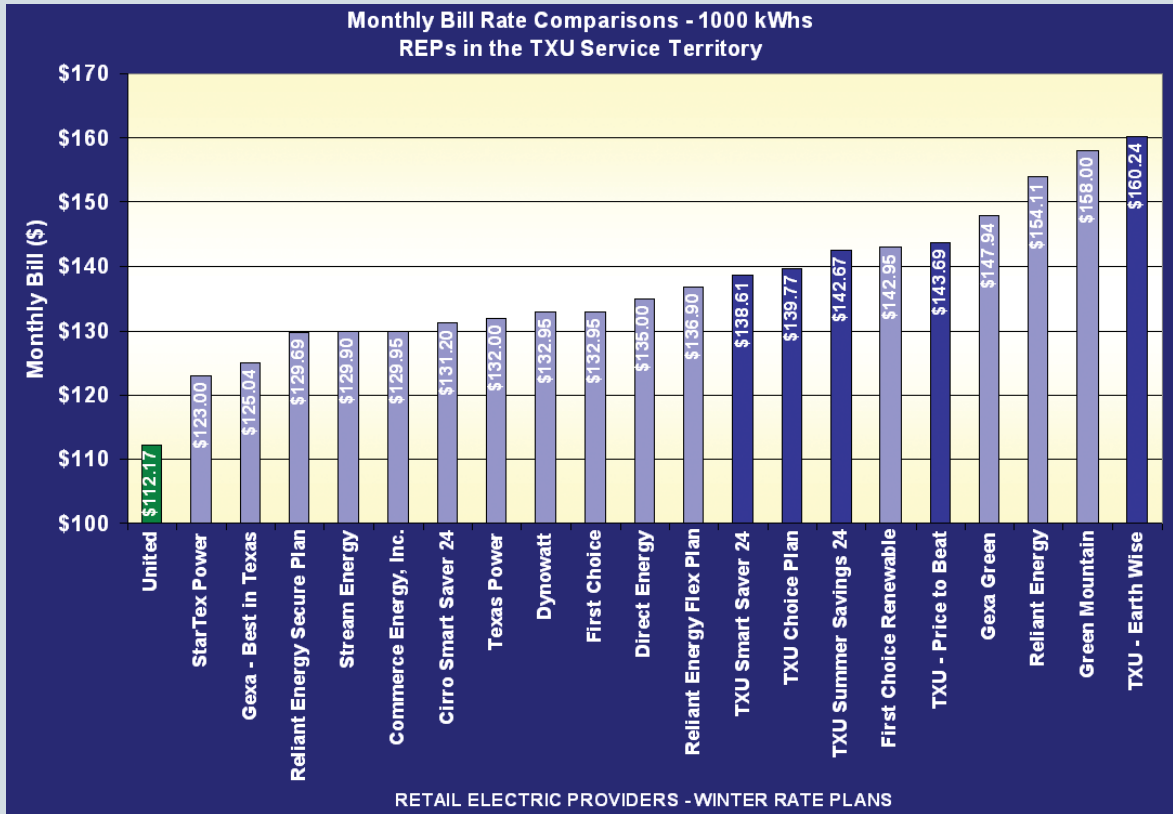
Given your responses to the above questions, please explain whether you think the status of the state's energy sector will improve or worsen in the next five years.

I believe the free market works. If Texas builds more generation and more diverse generation, electricity will be plentiful and affordable. If we don't build more generation, we will have a shortage of electricity and it will be more expensive.

Price-to-beat goes away on January 1, 2007, and the deregulated market goes full tilt. No one is sure what will happen afterwards, but everyone seems to agree that Pandora's box can't be closed after it has been opened.



RATE WATCH



Here's how we measure up against other regional providers.

RATE WATCH — The rate comparisons shown above represent a small portion of all rates offered in the North Texas Utility market for the month of December 2006. A complete comparison may be obtained by going to www.powertochoose.org.

MESSAGE

continued from **PAGE 1**

between the cooperative's business model and that of investor-owned utilities (IOUs)—explaining that while United's focus has always been on its members and their best

interests, the IOUs ultimately serve only the investor.

He also took the opportunity to explain some of the critical concerns the Texas energy market is facing today—namely a grid that is growing more and more strained during peak

demand periods because of widespread capacity deficiencies.

He said United would continue its proactive role in educating its membership about the state's power resources and the complexities of the energy market.

Top 10 Winter Conservation Tips

1. THERMOSTAT SETTING

In the winter, the recommended setting is 68 degrees Fahrenheit. For each degree above the recommended setting — energy consumption increases by about six to eight percent. Consider a programmable thermostat that raises or lowers the temperature by about five degrees when your home is unoccupied.

2. KEEP AIR FILTERS CLEAN

Check your filters every month. A filter clogged with dust and lint won't operate as efficiently — plus, clogged filters are more likely to promote service problems with the unit.

3. SEAL LEAKS

One of the least expensive, and most effective, ways you can do to prevent energy waste is to seal cracks around doors and windows. Make sure there is full weather-stripping around doors, windows and the attic stairway opening. Use caulk to seal small cracks around windows.

4. FIREPLACE ENERGY LOSS

A fireplace is an attractive addition to any home, but it can be a real energy waster if you forget to close the damper when it isn't being used. Close your fireplace flue. The hot air emitted from your heating system escapes out of your chimney almost as effectively as heat and smoke from your fireplace do, and keeping the damper open is like keeping a 48-inch window wide open during the winter; it allows warm air to go right up the chimney. A glass door for your fireplace will also help prevent energy loss.

5. CHECK ATTIC VENTILATION AND INSULATION

Proper attic ventilation will help remove unwanted heat in the summer and unwanted moisture all year long. If your home is not insulated — or doesn't have the proper level of insulation for your climate — you can reduce the amount of energy needed to heat and cool your home by adding insulation. Insulation is available in blankets, batts, pouring wool (or blowing wool), fiberglass or cellulose insulation. Make sure you have eave vents used in conjunction with ridge, gable or roof vents. Note: Insulation should be 12-14 inches thick with a recommended insulation value of R38 to R44.

6. OPEN DRAPES AND BLINDS

Leave curtains, drapes and shutters open during the day in winter to allow sunlight to enter your home, which will in turn provide additional heat. Close shades and blinds at night to reduce the chill you may feel from cold windows and the amount of heat lost.

7. CEILING FANS

Ceiling fans can effectively distribute heat throughout your home by breaking up the cool and warm layers, making the overall room temperature uniform. By simply flipping a switch to reverse the fan's normal operating direction, warm air is moved across the ceiling and down the walls without creating a cooling draft. Fans cost less to run and use less energy than central air or space heaters. Also, use kitchen, bath and other ventilating fans wisely; in just one hour, these fans can extract a houseful of warmed or cooled air.

8. HOT WATER

Anywhere from 14 to 20 percent of the total energy used in a home is used in heating water. To ensure that energy isn't being wasted, make sure your faucets aren't leaking and take showers instead of baths. Your main unit should be set at 120 to 125 degrees Fahrenheit. If your water heater is located in an unconditioned area, install an insulation blanket around it. These blankets can cut energy for heating water by up to 10 percent.

9. GASKETS

Seal off electric outlets and plates with foam or rubber gaskets or fiberglass insulation on exterior walls. Plug your home's air leaks. Plug gaps around pipes, ducts, fans and vents that go through walls; ceilings and floors from heated to unheated spaces.

10. LIGHTING

Consider using 4-watt mini-fluorescent or electro-luminescent night lights. Both lights are much more efficient than their incandescent counterparts and the luminescent lights are cool to the touch. Compact fluorescent bulbs are four times more energy efficient than incandescent bulbs and provide the same lighting — use them in all the portable table and floor lamps in your home.

Facing the real issues

Life takes us down many paths. Some of these paths are lighted so that we may find our way with ease, while other paths are filled with darkness and without any familiar landmarks to guide us. My older sons are realizing this as they now feel their way through parenthood and the future responsibilities that come with being fathers.

As new grandparents, my wife, Pat, and I have traveled that path and we well know the many challenges our sons will encounter. The point is: no matter which path we each choose to travel, we still have to know where we want to get—despite any obstacles we may face in that journey.

We have been writing for several months about the very real concerns we have for our state's electric utility industry, and our nation's larger energy picture. There are many factors that contribute to these concerns and it is difficult to focus only on one problem because each problem often rubs elbows with two close friends.

This new year should be very revealing. We, as Texans, will be forced to consider the virtues of deregulation. We will be forced to recognize that diminished reserves of electric generation capacity may lead to controlled blackouts. We will have to understand that an inadequate transmission infrastructure will create even more reliability and delivery problems and finally, we will have to acknowledge that our environmental concerns may preclude our need to build additional power plants.

We have seen electric generation costs increase by almost 50 percent in the past few years as natural gas prices have skyrocketed. Market prices have gone through the roof because generating capacity is struggling to meet rising demand. And, it is becoming more difficult to secure long-term market power at a reasonable cost since the power plants we need today to help alleviate those pressures take more than two years to construct.

Because of these issues, it is imperative that our great state and nation start looking at both short-term remedies and long-term solutions. I don't know anyone who has all the answers. In fact, we may not know all the questions, yet. The main point is: we don't have a great deal of time to resolve some of the issues we believe are becoming critical.

Nevertheless, our enduring promise here at United will be to share our discoveries with you so you may be better informed as a member-consumer.

My sons' new roles as parents are no less perplexing than the uncertainties the state faces with the electric industry. They can't always predict what problems await them down the road, but I think they fully realize they can't ever get to the end of the road by sitting on their hands. They must do their level best to deal with situations as they come along—and with the intention of doing what is best for their families' futures. Their true test will be **facing the real issues** head-on and then heading down life's path with every confidence they will find their way back home safely.



RAY BEAVERS
CEO/General Manager