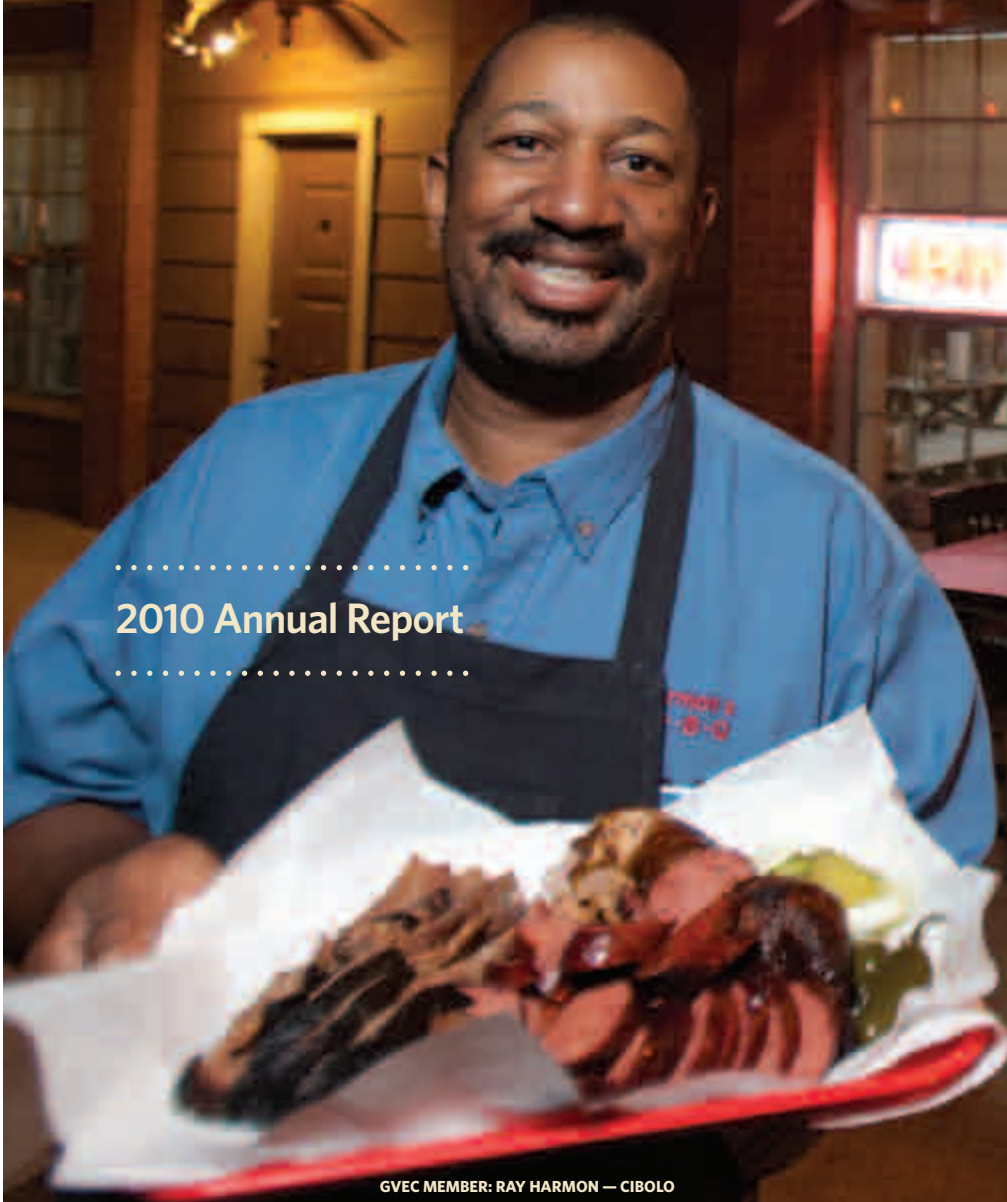


HARMON'S  
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CATERING

**gvec**  
Your kind of power.®

GuadalupeValleyElectricCooperative, Inc.

.....  
**2010 Annual Report**  
.....



Only in the Guadalupe Valley.

GVEC MEMBER: RAY HARMON — CIBOLO

.....  
 With every line and pole put up, we know we are not only touching our members' lives, but also helping to make life better in the Guadalupe Valley.  
 .....



**President's and General Manager's Message:**

**The Guadalupe Valley: it's here that we build memories of raising our children, cultivate life-long relationships with friends, and work to leave a lasting mark on our communities. Look around our area and you'll find one-of-a-kind people, places, and experiences. So, it only makes sense that our 2010 strategy for the future of the Guadalupe Valley Electric Cooperative should also be custom-made, just for us. The steps we took wouldn't work for just any electric company; but, they were a perfect fit for the unique place we call home.**

Taking the right steps in 2010 for GVEC members meant continued focus on evolving member needs. It was a year of strategic decisions for the Board of Directors. Those decisions, a culmination of several years of extensive research, analysis, and evaluation, were necessary to maintaining service reliability for steady area growth as well as providing GVEC with the flexibility to effectively manage our future energy needs.

market offered more options than ever before to self-manage our wholesale power needs. Standing solid with a strong financial position, the timing was right to make a change. Doing so will increase the Cooperative's flexibility to adapt to potential political, economic and technological factors affecting the electric industry more quickly than ever before, resulting in increased control over affordability.

As part of that strategy, GVEC officially broke ground on construction for the Western Operations Center in April 2010 and occupied the facility a little over a year later in the second quarter of 2011. The decision to develop the Center was based in part on a 20-year projection of population and meter growth for the entire GVEC service area. The study, conducted in 2005, indicated the GVEC membership could grow as much as 100% by 2025, with the majority of growth in Guadalupe and Wilson Counties. To date, new census data proves the initial numbers to be conservative with actual population reaching thousands beyond original projections. The location of the Center, the literal geographic center of the western end of our territory, will enhance line crew response times as well as maximize distribution efficiencies. Most importantly, over time, this will translate into lower operational costs and is part of the necessary investments to provide long-term value for the members of GVEC.

When making these important decisions, we recognize at the end of the day GVEC members expect their lights to be on and want that service at the lowest possible cost. For those reasons, we've made confident decisions to proactively prepare the Cooperative to more readily adapt to the challenges of the future. To that same end, we continue to work tirelessly to strengthen our member communities by supporting our youth, economic development, and local organizations and programs that mean so much to us all.

Keeping a vigilant eye on the future, we remain cognizant of our responsibility to maintain dependable service every day and contribute to our members' quality of life. The work of GVEC is all about doing what's right for the Guadalupe Valley: that special place we are proud to call home.

One area we consider significant to long-term value for members is our wholesale power strategy for the future. In 2010, GVEC chose to carve a new path and announced our intentions not to renew a 25-year purchasing agreement with our long-time provider, the Lower Colorado River Authority (LCRA). After an exhaustive process of exploring every available option, the Board concluded changes in the wholesale power

*Lewis Borgfeld*

**Lewis Borgfeld**  
 President

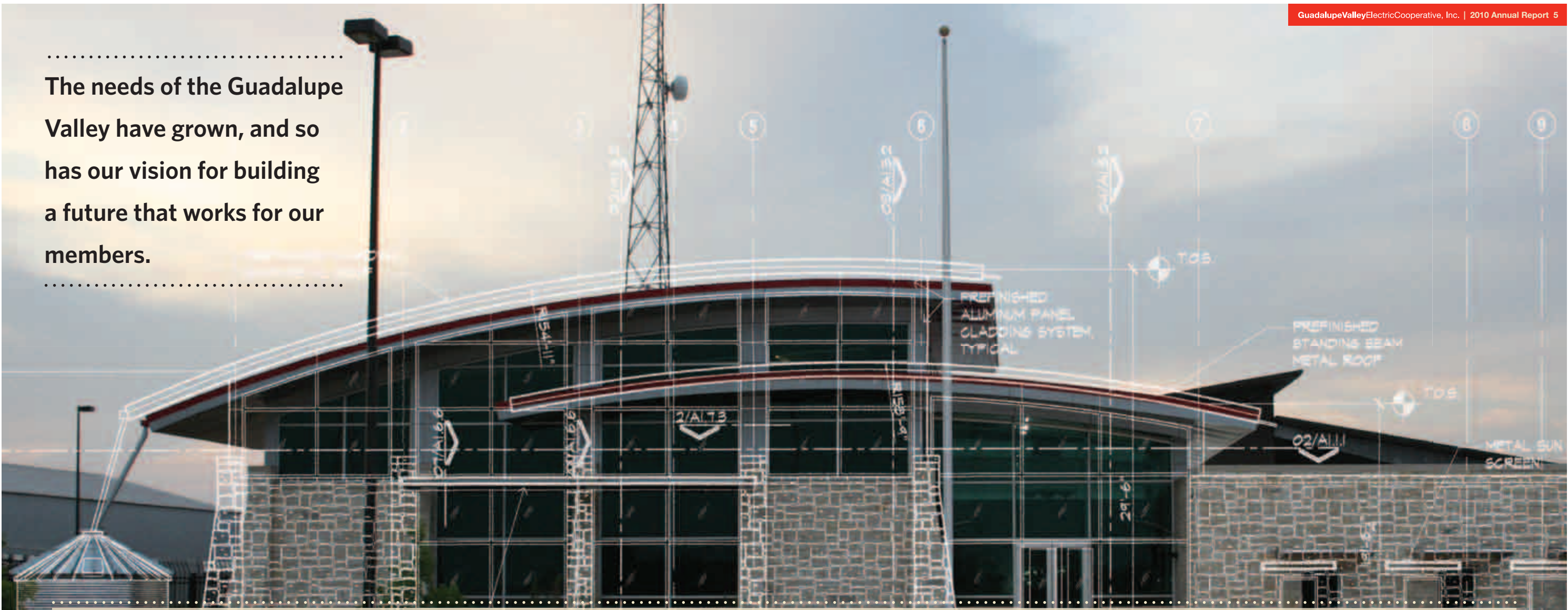


*Darren Schauer*

**Darren Schauer**  
 General Manager and CEO



.....  
The needs of the Guadalupe Valley have grown, and so has our vision for building a future that works for our members.  
.....



For over 70 years, GVEC has proudly been an integral part of the Guadalupe Valley community, supplying the electric power that is so essential to enhancing our members' lives. It's not a responsibility we've taken lightly, which is why we consider 2010 such a year of milestones. With our members' diverse needs in mind, we've made unique decisions to position the Cooperative for a bright future.

**Positioned for Future Flexibility**

To maintain our core goal of providing affordable, reliable electric power to GVEC members, we needed a new way of thinking to address new industry challenges. In the last 36 years, significant changes have taken place in the wholesale power market. The market has transitioned from being highly regulated by the Public Utility Commission (PUC) to one that is deregulated, creating more competition with greater savings options than ever before.

GVEC's current structure and terms for purchasing wholesale power, which is the single largest component

of members' electric bills, are based on a contract negotiated decades ago. With this wholesale power purchase agreement coming up for renewal in 2016, we were challenged with developing a strategy that would ensure GVEC meets future demand at the most affordable prices possible.

Today's pricing is based on our having an all-requirements contract with the Lower Colorado River Authority (LCRA), meaning we must purchase the majority of our power from LCRA. We were offered a contract extension by LCRA that would allow us to purchase a portion of our electric energy from other suppliers, but this would require another long-term commitment that would leave the majority of our energy requirements up for renewal at one time — similar to our situation today. With the deregulation of the wholesale power market, looming environmental and climate change regulations, and continued advancements in technology, a lengthy contract could significantly limit

GVEC's ability to quickly adapt to political and economic factors in the future.

After detailed study, analysis and consultations, we re-engineered GVEC's wholesale power strategy to include the ability to negotiate with multiple suppliers; utilize diverse fuel sources such as natural gas, coal and renewables; and take advantage of staggered contract terms. By doing so, GVEC will not be forced to renew our entire power supply at one time, or be locked into one supplier for the majority of our power needs. To date, we've secured the major portion of our needs by signing contracts with three suppliers and others are in negotiation. These contract changes will not take place until June 2016, but when they do, they will be seamless in terms of power availability for GVEC members.

**Prepared for Growth**

With the number of GVEC members growing significantly in Guadalupe and Wilson Counties, and the

relocation of a number of new industries to our area, the new Western Operations Center is an integral part of an ongoing, proactive and strategic approach to meeting member needs.

Located on a 32-acre tract at the northwest corner of IH-10 West and Nickerson Farms Road in Guadalupe County, our facility became operational during the second quarter of 2011, and now houses Engineering, Technical Services, Information Services Technicians, and line crew, transportation and warehouse personnel. The new Center will help us lower operational costs over time by consolidating warehousing for efficiency in purchasing and materials handling. The Center will also enable enhanced data integrity by providing redundancy for critical information management systems such as the Supervisory Control and Data Acquisition System (SCADA) outage prediction and meter reading systems, which are vital components used to control outage management and improve reliability.



.....  
 Going the extra mile to  
 ensure reliability of service  
 is our way of helping our  
 members reach their goals.  
 .....

## Ensuring Service and Reliability

### Transmission, Distribution and Communications Investments in 2010

Keeping the lights on means we must focus on members' daily needs through upgrades, system improvements and ongoing maintenance. This past year was a busy one in the field as we identified and made improvements to areas with the greatest need; proactively upgraded aging equipment and technology; strengthened our communications capabilities for faster response to outages; and continued our ongoing maintenance programs to ensure reliability throughout the GVEC service territory.

#### Transmission Projects Included:

- Change out of 43 identified at-risk transmission poles in the DeWitt County area to improve reliability.
- Replacement of 2 transmission breakers in the Gonzales Substation and 3 breakers in the Gonzales Interchange for ongoing reliability.
- Upgrade of 69 kV line panels on the Gonzales Substation to Gonzales Interchange transmission line for improved relaying capability by utilizing newly installed fiber lines.
- Enhancement of substation metering panels by implementing ethernet capabilities to Shiner, Cost, Nixon, Nash Creek, Lakewood and Smiley Substations.
- Property purchase, and the engineering, building and energizing of the Yorktown Substation to improve area service and reliability.

#### Distribution Projects Included:

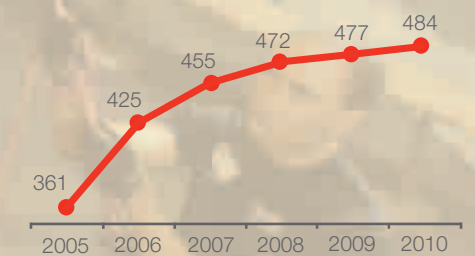
- Inspection of 12,000 distribution poles to identify those needing replacement in La Vernia, Wilson and Seguin West areas.
- Change out of 1,681 at-risk poles to reduce the potential for future outages.
- Clearing over 800 miles of vegetation around power lines for control along the rights-of-way of nine distribution circuits, including Capote Circuits 2 and 3; Geronimo Circuit 4; Gonzales Circuit 1; New Berlin Circuits 1 and 3; Ottine Circuits 1 and 4; and Smiley Circuit 2.
- Replacement of underground wire in the Val Verde and Rio Vista subdivisions.
- Upgrade of facilities in the New Berlin Circuit 1 area to improve service and reliability to members.

#### Communications Projects Included:

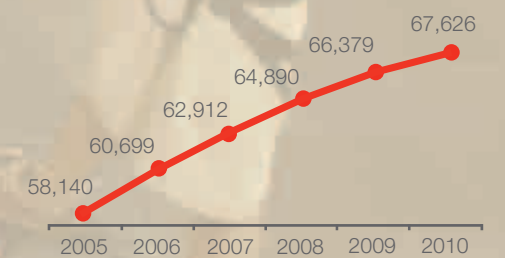
- Installation of Schumannsville Communications Tower to strengthen field communications for improved response.
- Extension of communications capability to 22 existing field devices prioritized for outage restoration.
- Installation of fiber line from Gonzales Interchange to Gonzales Substation to improve system communication.



Miles of Overhead Distribution Line



Miles of Underground Distribution Line



Total Meters



.....  
**Good communication is the basis of good service, which is why we care about what members have to say.**  
 .....

## Listening to Our Members

### *What Members Said*

As a GVEC member, you're an owner too. And, we are truly interested in your feedback. To help us improve our communications, we completed a random survey with members this past year and learned more about what they want to hear from GVEC. Results showed that the preferred method of communication about the Cooperative was through *Texas Co-op Power* magazine; however, some were interested in receiving information by electronic means such as email or text message. Members also told us that the information they like to receive the most included tips on safety and efficiency, as well as how-tos for saving money through energy efficiency rebates.

We also enhanced [www.gvec.org](http://www.gvec.org) to make it easier to use. For example, you'll find a new search feature that helps you find the answers to questions members ask the most. There are also new links on our home page that connect directly to bill payment, as well as to informative sites like GVEC.net, GVEC Home and *Texas Co-op Power* magazine.



Our presence on Facebook and Twitter this past year was new, too, as another way to engage with our member-owners. We promoted safety, efficiency, community events, and even GVEC job opportunities. However, the true value of social media became apparent during last February's

winter storm when we were able to reassure members that GVEC was there for them by providing service updates and answering questions in real time.

### *Working to Exceed Expectations*

We know our members are busy and need account information when it's convenient for them. To provide 24/7 service, members can access our new online Self-Service Portal on [www.gvec.org](http://www.gvec.org). Although our customer service representatives will continue to offer the friendly, helpful service we strive to give, members now have the ability to manage their own accounts, pay bills online, research and print past statements, and set up email and text message alerts. Also for members' convenience, we consolidated billing for those with multiple outdoor security light accounts.

Although we have been alerting members regarding pole inspections and right-of-way vegetation management by leaving door hangers, we realized that it was important that you be aware of any GVEC projects that might affect your activities or disrupt your daily routine. To serve you better, we extended our communications to include letters and automated phone messages to let you know when you will be affected by special system projects and planned outages.

### *Good People At Your Side*

Without our dedicated employees, it would be impossible to respond to our members' needs. From the lineman on the pole and customer service representative, to the control center operator and everyone in between, GVEC employees strive to provide the quality service our members expect and deserve. To do so, we sharpen our skills through training, by competing against others in our industry to benchmark our skills, and by working hard to expand our knowledge so we can become the best of the best. At GVEC, our development is centered on making you *want* to do business with us, and we are motivated to professionally grow in the name of good service to our members.

GVEC MEMBERS: ALEX COOPER AND HIS MOTHER, KAY — LA VERNIA



.....

**GVEC represents you.**

**That's why we strive to exceed your needs and care for our neighbors.**

.....

**Partnering with the Community**

GVEC is owned by and operated for our members, and we make every effort to contribute to a better way of life. Caring for our communities through safety education, energy efficiency, and economic development are just a few of the ways your cooperative is here for you.

**Helping to Grow Our Communities**

At GVEC, it's a part of our traditional values to help strengthen the communities we serve. We partner with communities by offering development grants and assisting local chambers of commerce with activities to support economic development. Our economic development team also provides services to prospective industry and commercial businesses interested in relocating to our area. We do this knowing that new jobs and an expanded tax base will not only help our communities prosper, but they will also attract new talent, and just as important, keep the talent we already have here at home.

In 1987, GVEC created the Guadalupe Valley Development Corporation (GVDC), a nonprofit subsidiary, as a way to help make a substantial commitment to economic development. The GVDC has provided loans to public

service organizations such as volunteer fire departments and rural water supply corporations. It has also been instrumental in the development of several area industrial parks by assisting with infrastructure, and offering spec buildings and shovel-ready sites to business and industry interested in relocating to our area.

**Supporting Our Youth**

Whether you find our employees coaching youth sports or collecting for a local food bank, it's all an essential part of another GVEC traditional value — giving back to the community. In addition to our employees' volunteer activities, we offer a variety of community programs to support our members. For example, we are focused on helping our youth, who represent our future leadership. This past year, through the GVEC College Scholarship Program, 15 outstanding high school seniors received \$2,500 scholarships for the first year of college. GVEC also sponsored the Electric Cooperative Youth Tour for the first time in 2010. Area high school students competed to win a week-long, all-expense paid trip to Washington, D.C. where they joined youth from other cooperatives nationwide. Three students represented GVEC as they sharpened their leadership skills, learned about our government, and absorbed our country's heritage.

**Meeting Diverse Needs**

We're much more than reliable, affordable electricity. The need for additional services has grown along with our membership, which is why GVEC Home® and GVEC.net® were created. Although our subsidiaries are for-profit businesses, and are open to the public, they share GVEC's traditional values.

GVEC Home, with stores in Gonzales, La Vernia and Seguin, offers friendly, hometown service and sells energy-efficient, major brand electric home appliances and central heating and cooling units. Their licensed technicians also service and repair what they sell, as well as existing appliances and central heating and cooling units purchased elsewhere.

GVEC.net is committed to providing quality, high-speed wireless and dial-up internet access. It serves a majority of the GVEC electric service territory, the Karnes Electric Service territory, and portions of bordering counties.

**Encouraging Environmental Responsibility**

As environmental awareness heightens, we know members expect us to be good stewards by helping them live greener lives. That's why we invest in energy efficiency programs

and renewable energy, and provide the information members need to make smart energy choices. From in-home energy audits to loans and free online energy saving tools, GVEC is here to help.

Our Energy Efficiency Rebate program helps to offset the cost of updating to energy-efficient appliances and incorporating energy efficiency into newly constructed or remodeled homes. This past year we introduced our Online Rebate Center, which makes it easy to apply for and receive rebates. All information is online, including applications and status updates, and now rebate payments that are under \$1,500 are credited directly to members' electric account.

GVEC also supports the use of renewable energy sources such as solar and wind, and has been studying the impact of using these types of energy through installations around the area. Wind turbines can be purchased through GVEC Home. And, GVEC makes it more affordable to invest in renewable energy through rebates on wind turbines, solar photovoltaic systems, solar water heaters, and solar water well pumps.

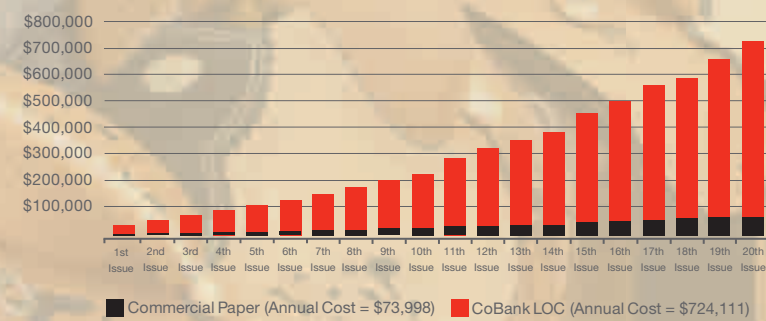


**Leveraging Our Financial Strength**

GVEC remains financially strong. For the fourth consecutive year, we maintained an "A+" from Standard & Poor's, one of the world's top credit rating institutions. GVEC also attained an "AA-" long-term rating, and an "F1+" short-term rating (which is the highest short-term rating) from another of the world's top credit rating agencies, Fitch Ratings.

In an unprecedented move in the world of distribution electric cooperatives, GVEC became the nation's first to seek out and utilize the Commercial Paper Program (CPP) method of borrowing for strategic debt management. This method allows GVEC to take advantage of lower, short-term interest rates when funding capital investments.

Although this is not a long-term financing solution, utilizing our CPP has led to significant interest costs savings over the first year (\$650,000). Utilizing products like the CPP helps keep GVEC's rates lower and our goal of retaining affordable service for members a reality.



GVEC MEMBER: JOHN DEBORD, DOUBLE J SADDLERY — YOAKUM

**GVEC Balance Sheet**

**Assets 2010**

Current and Accrued Assets	\$28,091,295
Electric Plant	
Original Plant	420,929,157
Depreciation	(113,333,183)
Net Value of Electric Plant	307,595,974
Investment & Fund Accounts	10,316,147
Deferred Debits	978,878
<b>Total Assets</b>	<b>\$346,982,294</b>

**Liabilities**

Current and Accrued Liabilities	\$1,449,940
Indebtedness to CFC	36,645,109
Indebtedness to CoBank	27,801,530
Commercial Paper	24,000,000
Bonds	35,400,000
Accounts Payable	27,390,926
Deferred Credits	17,070,747
<b>Total Liabilities</b>	<b>\$169,758,252</b>

**Member Equity**

Membership Fees	2,110,145
Patronage Capital & Other Equities	175,113,897
<b>Total Member Equity</b>	<b>177,224,042</b>
<b>Total Liabilities &amp; Equity</b>	<b>\$346,982,294</b>

**2010 Income Statement**

**Operating Revenue**

Revenue from Rates	\$150,036,600
Other Revenue	11,348,913
<b>Total</b>	<b>161,385,513</b>

Cost of Power	110,137,105
<b>Gross Margin</b>	<b>\$51,248,408</b>

**Expenses**

Operating Expenses	\$23,594,623
Interest on Debt	6,179,545
Depreciation	12,733,972
Other Income	-72,340
<b>Sub-Total Expenses</b>	<b>42,435,800</b>

Operating Margin	8,812,608
Other Capital Credits	886,596
Other Margin	545,931
<b>Total Margin</b>	<b>\$10,245,135</b>

**2010 Cash Flow**

**Cash Flows from Operating Activities**

Net Income	\$10,245,135
Adjustments to Reconcile Net Income to Net Cash	
Depreciation & Amortization	13,049,298
Provision for Bad Debt	392,608
Disposal of Non-Utility Property	-
Patronage Capital Credits	(498,258)
Equity in Earnings of Investee	7,147
(Increase) Decrease in Assets	1,357,828
Increase (Decrease) in Liabilities	8,248,213
<b>Total Adjustments</b>	<b>22,556,836</b>

**Net Cash Provided by Operating Activities**

\$32,801,971

**Cash Flows from Investing Activities**

Purchases of Property, Plant & Equipment	(32,258,966)
Patronage Capital Dividends	288,053
Purchase/Proceeds from Investments	(134,564)
<b>Net Cash Used by Investing Activities</b>	<b>\$(32,105,477)</b>

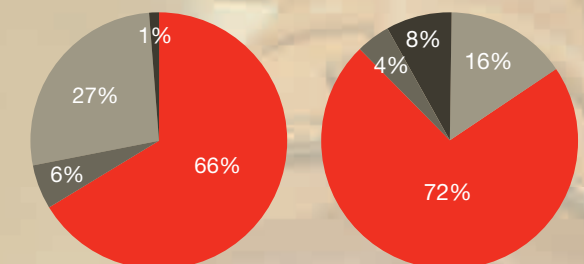
**Cash Flows from Financing Activities**

Change in Member Deposit & Other Equities	499,150
Dividends Paid	(3,404,209)
Proceeds from New Debt Issued	24,000,000
Repayment of Debt	(17,424,361)
<b>Net Cash Provided by Financing Activities</b>	<b>\$3,670,580</b>

**NET INCREASE IN CASH AND CASH EQUIVALENTS** 4,367,074

**CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** 3,242,435

**CASH AND CASH EQUIVALENTS AT END OF YEAR** \$7,609,509



Total Revenues: \$161,385,513

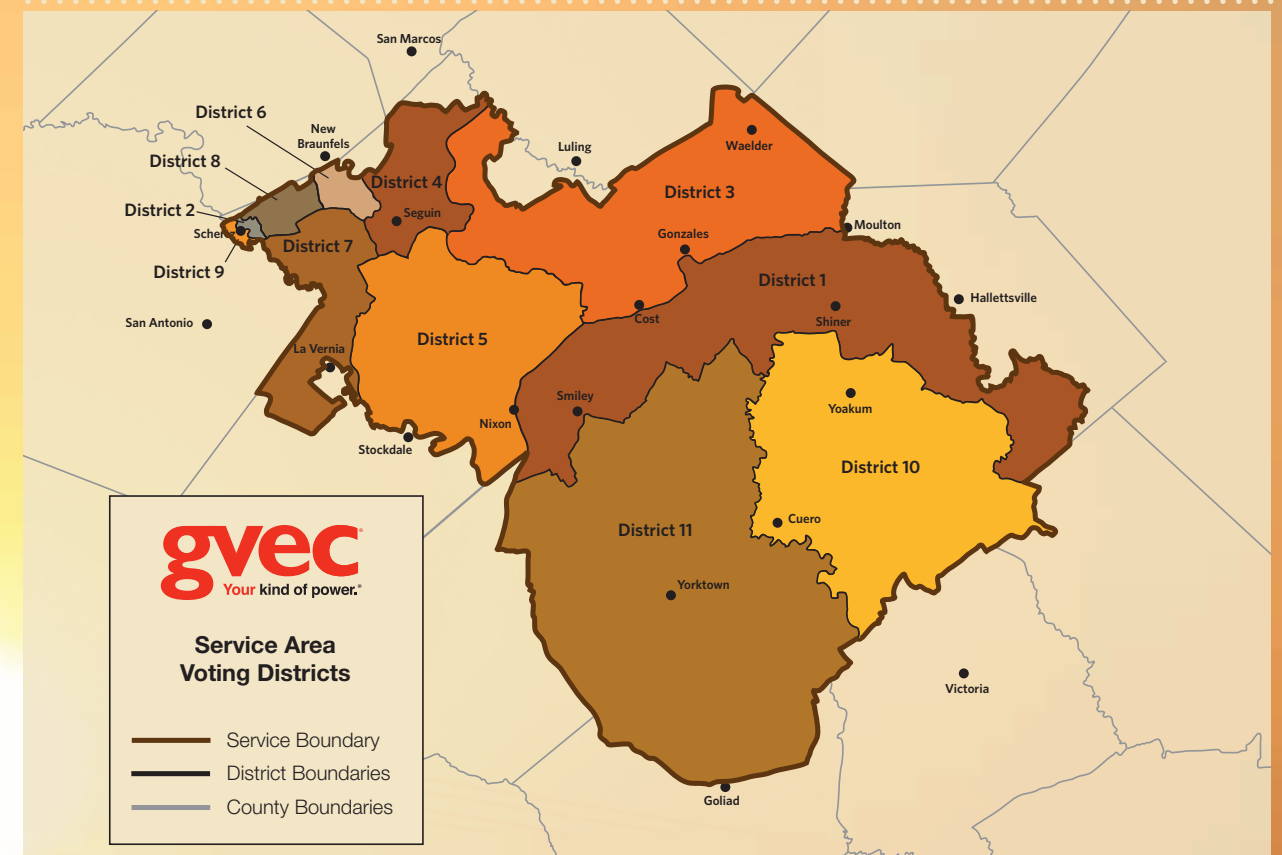
Total Expenses: \$152,572,905

- Residential
- Small Commercial
- Large Commercial
- Street Light
- Cost of Power
- Operating Expenses
- Interest on Debt
- Depreciation

Note: All charts and graphs within this report reflect GVEC financials only.

GVEC Financials Are Audited By:  
**Padgett, Stratemann & Co.**

.....  
**From rural ranches and farms to residential neighborhoods and commercial industry, members can rely on us to be there to energize their lives.**  
 .....



GVEC planted its roots in the Guadalupe Valley in 1938 when a group of farmers from Cost joined together to bring electricity to areas outside the city, something that investor-owned electric companies were not interested in doing. By 1940, the first GVEC lines were in service for about 150

members in the Monthalia-Bebe area. Today GVEC serves more than 67,626 meters in 13 counties. The service area extends approximately 100 miles from East to West and 75 miles from North to South, totaling about 3,500 square miles of service territory.



GVEC Board of Directors pictured from back, left to right: David Warzecha (D11), Henry C. Schmidt, Jr. (D3), Shawn Martinez (D4), Mark Roberts (D8), Emmett Engelke (D6), and Robert J. Werner (D1). From front, left to right: W.A. "Bill" Lott (D5), Dr. Tom DeKunder (D9), Melvin E. Strey (Vice President, D7), Lewis Borgfeld (President, D2), and Don Williams (Secretary/Treasurer, D10).

FOLLOW US ON



**Gonzales**

825 E. Sarah DeWitt Dr.  
830.857.1200

**Cuero**

909 E. Broadway  
361.275.2334

**La Vernia**

13849 U.S. Hwy 87 W  
830.253.1600

**Schertz**

908 Curtiss Ave.  
210.658.7033

**Seguin**

927 N. Hwy 46  
830.379.2114



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