Homegrown and deep-rooted

CELEBRATING 70 YEARS

www.lcec.net

2010 ANNUAL REPORT
## 2010 Financial Highlights

### Key Figures

<table>
<thead>
<tr>
<th>Category</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenue</td>
<td>$420,673,790</td>
<td>$406,251,664</td>
</tr>
<tr>
<td>Operating Expense</td>
<td>$394,388,689</td>
<td>$364,312,695</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>$14,938,107</td>
<td>$16,012,387</td>
</tr>
<tr>
<td>Net Margins</td>
<td>$25,165,841</td>
<td>$35,467,819</td>
</tr>
<tr>
<td>Net Plant</td>
<td>$547,889,168</td>
<td>$545,188,585</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$666,847,059</td>
<td>$649,989,243</td>
</tr>
<tr>
<td>Total Customers</td>
<td>196,184</td>
<td>193,731</td>
</tr>
<tr>
<td>kWh Purchased</td>
<td>3,839,204,687</td>
<td>3,711,872,416</td>
</tr>
<tr>
<td>kWh Sold</td>
<td>3,619,825,989</td>
<td>3,512,603,036</td>
</tr>
<tr>
<td>Miles of Energized Line</td>
<td>8,041</td>
<td>8,038</td>
</tr>
<tr>
<td>Average Monthly Residential kWh Used</td>
<td>1,141</td>
<td>1,119</td>
</tr>
<tr>
<td>Equity Distribution</td>
<td>$13,417,995</td>
<td>$5,590,123</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>$36,812,016</td>
<td>$30,969,568</td>
</tr>
<tr>
<td>Customers per Employee</td>
<td>484</td>
<td>497</td>
</tr>
</tbody>
</table>
LCEC BY THE NUMBERS

5 counties served – 3.8 billion kilowatt hours purchased –
196,184 customers – 23 substations – 8,041 miles
of energized line – 72 percent of revenue paid to power supplier –
13 percent of revenue paid for depreciation taxes and interest –
6 percent of revenue allocated to members – 9 percent of revenue
spent on operating and maintenance costs – 2 million bills mailed–
1,000+ hours employees volunteered – $140,000+
raised by employees for United Way - $13.4 million in equity
returned – 97 net metering customers – 400+ free energy surveys
conducted – 700,000 customer letters produced

VISION
Delivering the power that energizes our community.

MISSION
We provide efficient, reliable, cost-competitive electric and emerging energy
solutions and quality service to our customers.

LCEC VALUES …
- safety as everyone’s responsibility.
- providing quality external and internal customer service.
- commitment to integrity, diversity, and respect.
- employees working together to make success happen.
- accountability for results.
- our responsibility to energize the community.
Early in the year, we were faced with several situations that were largely outside of our control. Our primary power supplier, Seminole Electric Cooperative, increased their power cost to LCEC by approximately 7.5 percent. Purchased power represents 72 percent of the overall cost to run our business, so the increase caused great concern. The Power Cost Adjustment (PCA) in LCEC rates had not been increased since the beginning of 2009 and therefore we were not fully recovering the cost of purchased power in our rates. Not helping the situation, there was extremely cold weather in January resulting in a new record peak for the season that was not forecast. Power usage increased with the cold weather, and it was reflected in higher customer bills. With the dire economic conditions facing customers, we wanted to do everything we could not to have to raise the PCA. Fortunately, strong sales, particularly during the summer months, and consistent spending below our budget throughout the year positioned us to deal with the power cost increase without impacting customers. The LCEC Board of Trustees redirected a portion of our base revenues to help with the power cost recovery shortfall without the need to raise the PCA. Customers did not see an increase, and we were able to pay down long-term debt and set the stage to enter 2011 fiscally sound. Also during the year the Board of Trustees approved an equity distribution of $13.4 million to both current members and inactive account holders. At year-end, LCEC’s strong financial position was preserved and the interests of our customers were protected in that we held off a PCA increase and we distributed member equity.

Service reliability early in 2010 also presented a challenge as performance fell below expectations. LCEC took action quickly to commission an independent review of our reliability-related practices. We
also performed visual inspections of the entire system, addressed the issues identified, expanded after-hours field coverage and accelerated system improvements and vegetation management. Starting in April, the trend turned positive, and we ended 2010 with the best reliability performance in more than a decade.

Although customer satisfaction survey results were below targets during the first quarter, many of the projects and programs slated for implementation throughout the year made a positive impact. By year-end, the key performance goal was met. Among projects that made a positive impact was an online customer guide to help inform customers about LCEC business practices. Additional services, such as an online energy gauge, usage alerts, additional payment methods and more timely payment posting, improved the customer experience. We also provided easier direct access to the Chief Executive Officer and Board of Trustees through our website.

We are proud of all that LCEC accomplished during the year and enthusiastic about the plans that we have for the future. We are honored to have the privilege to serve our customers. The employees and Board of Trustees, with the support of vendors, community leaders, customers and other stakeholders, are committed to providing reliable, cost-competitive electric distribution services and quality customer service.

Sincerely,

Larry Turbeville, President
Dennie Hamilton, Chief Executive Officer
LCEC was founded in Southwest Florida in 1940 when a group of people envisioned how electricity could improve their quality of life and produce endless possibilities for people of the area. These people cultivated the foundation for what has grown to be one of the largest cooperatives in the nation and has spread its roots throughout a five-county service area. More than 900 cooperatives in 47 states provide affordable electric service to more than 17 million homes and businesses.

Local cultivation
The seed was planted when orange grove owner George Judd sold his Mariana Grove power plant to a group of residents in North Fort Myers. They went out on a limb and borrowed the money to purchase the plant and strike out on their own. Their efforts included going door-to-door to add members and garner enough support to receive government funding. LCEC was founded with 15 miles of distribution line and 158 members in 1940. At the time, these customers represented almost one percent of Lee County’s population. The vision that was the driving force behind the original members continued to grow.
From there to here

Within its first year of operation, LCEC offered service to the rural areas of Pine Island, Sanibel and Captiva. In 1941, LCEC retired the Mariana Grove generating plant and signed a contract with Florida Power & Light (FPL) to purchase power. By 1951, electric service had been extended as far south as Chokoloskee. Two years later, LCEC expanded further and acquired the Everglades City Power Plant and built a new distribution line to serve the city. During the same time period, a new line was extended from Carnestown to serve Marco Island. In 1955, residents of Lehigh Acres began purchasing power from LCEC and in 1958, power was connected to the first six model homes in Cape Coral. No new service territory was added until 1986, when LCEC extended power to a rural section of Golden Gate Estates, and 1987, when LCEC energized a new section along Alligator Alley. In 1975, LCEC signed a new all-requirements power supply contract and became a member of Seminole Electric Cooperative. In 2010, a transition to purchase power from FPL began and will be finalized in 2014.

Maturing more and more

What started as a vision to provide electricity to unserved rural areas became a reality in spite of monumental challenges. Today, LCEC serves more than 196,000 customers and has over 8,000 miles of energized line. We are proud of our heritage and tradition of achievement but are careful not to become complacent. LCEC continues to advance and grow with an integrated business plan backed by dedicated employees, process improvement practices, technology and quality service.
Over the course of 70 years, LCEC has effectively endured the pressures of a rapidly changing utility industry and evolving service territory. **Strong roots alone are not enough to sustain an organization** and ensure continued growth. LCEC relies on an integrated business plan to guarantee stability. In 2010, economic strains, volatile weather and our promise not to raise base rates for the second year in a row put the plan to the test.

**Integrated business planning**

LCEC works year-round to ensure alignment, implementation and achievement of strategic priorities, long-range business objectives and balanced scorecard metrics. Components of the integrated business plan are linked to day-to-day operations as well as process improvement projects, organizational initiatives and the budget process. A standardized LCEC project management methodology helps to maximize success, and key performance indicators track our progress. Each employee within the organization plays a vital role in the plan and is accountable for results. Over time, the LCEC planning process has matured, and the organization has learned to think differently and become more agile.
Regulatory compliance

In 2010, LCEC continued to focus on complying with reliability standards as established and enforced by the North American Electric Reliability Corporation and certified by the Federal Energy Regulatory Commission. The regulatory environment has become more complex, and LCEC recognizes the importance of establishing a formalized framework to demonstrate, document and report compliance. A streamlined compliance program and improved structure includes planning, readiness, assessment, remediation and monitoring. Continuous training, self-audits and an inclusive compliance strategy help to ensure that requirements are met or exceeded.

Process improvement

Across the organization, teams aggressively address a multitude of operating procedures in a targeted effort to streamline processes, maximize efficiencies, utilize resources effectively, and reduce costs. An overall strategy, discipline and tracking of progress help to achieve the desired results and improve performance. Measurements such as return on investment, cycle time and customer satisfaction are used to evaluate the value of projects. Teams utilize process mapping as an important tool in clarifying critical information flows and identifying areas for improvement.

Storm restoration, business continuity and disaster recovery

LCEC has highly-developed recovery plans that are designed to maintain delivery of power and keep the organization running through any type of interruption. Comprehensive plans involve employees, external vendors and suppliers, governmental agencies, media and various other stakeholders. The LCEC plans are reviewed and updated annually so employees are ready to quickly address the need.
Since its incorporation in 1940, LCEC has remained focused on financial performance. Over time, external forces and circumstances have had various impacts on financial outcomes, and LCEC remained true to its mission and produced consistently strong financial results. In 2010, in the face of rising industry costs, slow customer growth and a challenging economic climate, LCEC remained financially secure. For the second year in a row, LCEC customers did not experience an increase in base rates. In addition, the power cost adjustment remained at the same level as the previous year despite an increase by our power supplier.

Managing costs

The ability to reposition the organization and exercise prudent business practices helped to keep LCEC financially sound in 2010. The LCEC financial position was tested, due to continuous pressure resulting from the rise in wholesale power costs, increased potential for bad debt caused by economic strain on customers, and the constant need to invest in the electric infrastructure. An aggressive budgeting process and responsibly managing operations and maintenance costs yielded positive results. Actions early in the year aided in meeting or exceeding financial requirements throughout the year. Projects and purchases were delayed when possible, positions were left vacant unless critical, and adjustments in work schedules helped to reduce costs while maintaining service levels. Every expenditure was carefully scrutinized and processes were evaluated for potential cost savings. By mid-year, the measures paid off. Base rates remained stable, customers received equity distributions, and the groundwork was laid for a firm foothold throughout the next decade.
Superior credit standing

Further strengthening the LCEC financial position is the superior credit standing maintained in 2010, allowing LCEC to receive some of the most competitive borrowing rates in the industry. An excellent track record for making credit, principal, and interest payments on time is a reflection of strong business practices and sound financial positioning.

Equity returns

During the first quarter, the LCEC Board of Trustees approved a $7.6 million distribution of equity to current and inactive members and an additional distribution of $5.8 million to accounts that had been closed since 2002. Not-for-profit cooperative members invest in the infrastructure needed to provide electric service. This helps keep rates competitive. Without member investment, additional loans with associated interest costs would be required. These costs would be recovered in the form of higher base rates. Clauses from LCEC lenders require financial ratios to remain at minimum levels, and depending on operating costs and capital requirements it is not always possible to return equity. LCEC has returned more than $164 million in equity over the past 20 years to active and inactive members.
LCEC was established when a small group of people worked to develop relationships for a common goal. Growing anything requires constant commitment and attention geared toward continued development. The LCEC mission of providing efficient, reliable, cost-competitive electricity and quality service to customers could not be achieved without the relationships that have been built over the years. These relationships are rooted deep within the organization and spread far and wide to external stakeholders.

Reliability

LCEC continued to enhance the electric system and reduce the number and duration of power outages throughout the service territory. In spite of an increased number of storm days and a record-setting demand peak early in the year, LCEC customers saw the best reliability in more than a decade. This was due in part to aggressive forecasting, proactive construction and maintenance plans, and a vegetation management program that minimized tree-related service interruptions. In addition, a new call-out system ensured that crews were alerted quickly and available when an outage did occur. Newly implemented work schedules also helped to minimize outage time by deploying multiple layers of resources that were ready when needed. A critical transmission loop was approved and construction began in an effort to improve reliability for customers in Cape Coral. LCEC continues to work hard to identify and implement processes to maintain and improve reliability.
Customer experience

Feedback from customers through both daily and periodic surveys helped to identify projects and programs that increased convenience and service. A cost-saving measure to eliminate an LCEC payment center in Cape Coral was mitigated with the addition of more than 20 authorized pay stations throughout Southwest Florida. Customers were also provided with the option of paying bills with debit or credit cards. The new choice complemented existing payment options including auto bank draft, pay-by-phone and online payment. New enhancements to already strong energy services aided customers in managing and reducing their bills. Along with continued free energy surveys, LCEC added tools to view and evaluate daily usage online. A new program, kiloWATCH, provides the option to receive a text message or email when usage exceeds a self-defined threshold.

Talent management

Throughout history, the people behind LCEC have been the driving force in the mission to deliver reliable power at competitive prices. It takes a dedicated team with progressive ideas and an open mind to grow the organization. LCEC continued to focus on hiring and retaining versatile and talented employees and providing development opportunities and succession planning to keep employees engaged. On-going employee engagement surveys help to make sure we are on track. LCEC is also proud of gaining state certification for its apprentice program. The program is designed to train and promote internal talent as well as attract and provide a career path for local candidates. LCEC also offers college intern opportunities. In 2010, several internships resulted in permanent employment. While products and processes are important, it is LCEC people who drive innovation, boost growth and lead to success.
LCEC continues to maintain core services while introducing new technologies that add to customer convenience and help add value to business operations. Balancing technology enhancements with business needs requires a focus on integration. A clear technology roadmap and strategy aligned with the LCEC business plan helps to deploy new technology infrastructure.

Business intelligence

Guided by strategic priorities and business objectives, the LCEC business intelligence architecture was developed, and implementation began in 2010. Providing the information required to operate the business more effectively and empower employees to make informed decisions based on real-time data, this product will eventually touch all areas of the organization and benefit customers. The adaptation to a changing source of information has already made a positive impact on the way the business is run. LCEC is also working to deploy an extensive meter data management system that will provide data in a secure and consistent environment. With the new technology in place, statistics and trends are updated more frequently, and information can be analyzed immediately.
For several years, LCEC has been working on workforce automation, and new strides were made in 2010. Automation has proven to increase productivity and streamline process execution. Employees in the field have real-time access to data and are able to make decisions and respond more quickly to customer needs. The elimination of manual processes reduces labor-intensive data collection and transactions, the use of paper forms, and the need to touch information twice. Improved connectivity between field employees and office staff has enhanced customer service and helps LCEC better manage inventory, people, processes and fleet vehicles.

**Net metering**

In 2009, LCEC established a net metering program allowing customers with renewable energy generation to utilize electricity produced by their system to offset their electric bill. After a full year, program data was analyzed to appropriately determine the cost of service for the program. In an effort to demonstrate support for the deployment of renewable energy resources, a revision to the LCEC net metering rider was approved at the end of 2010. Bills for net metering customers were reviewed, and for those months where the customer would have benefited had they been on the standard residential rate, a credit of the difference was provided during the first quarter of 2011. LCEC supports conservation and renewable resources while balancing the need to protect the financial interests of all cooperative members.

**Smart meters**

LCEC has been utilizing automated meters for residential and commercial customers for nearly eight years. Meter information is communicated over power lines to provide daily reads and outage information, reducing the need to deploy vehicles and field personnel throughout the five-county service territory. In 2010, LCEC developed a pilot program to add remote meter connect/disconnect functionality. The PowerNow program is aimed at meters that are difficult to access, located in transient areas or have a consistent history of disconnections. Aside from the cost-saving benefits from avoidance of trips to the same location, customers will also benefit from the ease and timeliness to connect or disconnect service.
The corporate vision at LCEC is to deliver the power that energizes our communities. This vision encompasses our delivery of electricity but it also expresses our commitment to supporting our communities in philanthropic endeavors and acting as good area stewards. It is the uncommon things that employees do within the community that make a difference. Extraordinary things come through collaboration and partnerships with neighbors to move forward and protect the best interests of customers, neighbors, the environment and each other.

**Power to Share**

The LCEC Power to Share Program is designed to be a short-term source of emergency assistance funding for customers who are unable to pay their electric bill. LCEC partnered with United Way to create a program funded by employee and customer contributions to provide assistance to customers of the program who meet the requirements. In 2010, nearly $34,000 was raised to assist customers in need. This was in addition to thousands of additional dollars that the organization and employees contributed to multiple agencies throughout the service territory.

To donate to Power to Share, visit www.lcec.net
Community outreach

Historically, LCEC has supported a wide variety of community agencies, programs, organizations, youth initiatives and Chambers of Commerce. In 2010, LCEC was once again within the top five United Way of Lee, Hendry and Glades Pacesetter companies and also contributed to the Collier campaign. In addition to being a major United Way contributor, LCEC employees teamed up to help others by volunteering thousands of hours in various roles to help community and health-related agencies, youth groups, civic organizations and individuals in need. Nearly every LCEC employee was involved in some way with their community. LCEC is proud of the many dedicated employees who share their time and talents to help others.

A delicate balance

For LCEC, conserving natural resources has always been an important step toward balancing the need for electricity with the needs of the environment. Year-round recycling efforts, avian protection, wildlife education, load management and customer conservation education are all part of the LCEC daily business practices. It is all part of being good community stewards, and it is the right thing to do.

Improving the economy

LCEC continued involvement with the Lee County Horizon Council and multiple local governmental agencies. True to our vision, energizing our community meant ensuring the needed infrastructure was available as well as lending valuable intellectual resources. Providing reliable, cost-competitive electricity is a critical component in helping to improve the local business environment, encouraging expansion of existing businesses, and attracting new and diversified employment to the area.

Safety

Safety is at the top of the list when it comes to LCEC core values and key performance indicators. Providing a safe work environment, investing in training, communication and enhancing employee involvement in safety policies are just a few of the measures that were taken throughout the year. An emphasis that safety is everyone’s responsibility helped to send the message that safety at work and home is important.
GROWING STRONG LEADERS

Trustee At Large - Carlos Cavenago
District 1 - Marco Island and Goodland - Curtis W. Bostick
District 2, Seat 1 - Cape Coral - Dr. Gary Jackson
District 2, Seat 2 - Cape Coral - Dr. Darlene Andert
District 2, Seat 3 - Cape Coral - David C. Scott

District 3 - Sanibel, Captiva, and Pine Island - Geoffrey W. Roepstorff
District 4 - Lehigh Acres - Larry Turbeville
District 5, Seat 1 - North Fort Myers - General James Dozier
District 5, Seat 2 - North Fort Myers - William G. Mathis
District 6 - Immokalee, Everglades City - Frank C. Garrett

Homegrown and deep-rooted
As an organization and as individuals, we are passionate about recycling. Through process improvement initiatives, we have reduced our office paper use and focus on efforts to recycle. The attached plantable seed paper is indicative of beneficial choices to affect the world around us in a positive way.

This small leaf of plantable seed paper, on the attached card, is embedded with wildflower seeds. To plant the paper, prepare a pot of soil or small patch of garden. Place plantable paper on top and cover with a thin layer of soil. Water well and give plenty of sunshine. Keep moist during germination and watch your flowers grow!
CORPORATE INFORMATION

Office:
4980 Bayline Drive
North Fort Myers, FL 33917-3910
(239) 995-2121 • 1-800-282-1643

Mailing Address:
Post Office Box 3455
North Fort Myers, FL 33918-3455

General Counsel:
Henderson, Franklin, Starnes & Holt
Post Office Box 280
Fort Myers, FL 33902-0280

Independent Auditors:
Jackson Thornton & Co., P.C.
200 Commerce Street
Montgomery, AL 36104-2591

www.lcec.net

LCEC is fully committed to Equal Employment Opportunity. We reaffirm our full support of Equal Employment Opportunity for all employees and applicants for employment at LCEC. We ensure that all employment actions are free of illegal discrimination based upon race, color, religion, gender, national origin, age, disability and veteran status. Employment actions include recruitment, selection, promotion, demotion, transfer, termination, layoffs, job classification, benefits, pay adjustments and training opportunities.

Click here to take a survey.