



Shane L. Larson,
Chief Executive Officer

Report from the Chief Executive Officer and the Chairman



Darrel Weber
Chairman of the Board

“Electricity is a modern necessity of life (and not a luxury. That necessity ought to be found in every village, in every home, and on every farm in every part of the wide United States.”

That belief of Franklin D. Roosevelt paved the way for the Rural Electrification Act of 1936, which allowed the federal government to make low-cost loans to non-profit cooperatives for the purpose of bringing electricity to rural America. In the mid-1930s, there was a vast difference between the prosperity of city dwellers and rural folks, largely because of the availability of electricity. More than 90 percent of people living in cities had electricity, but only 10 percent of rural areas had power.

Like Roosevelt, a group of Rock County farmers believed that electricity was a necessity for progressive farming and ultimately improving the lives of rural folks. They had requested power from the local utility company but were turned down because it wasn't considered economically feasible.

It became clear to the local farmers that if rural areas were going to get electricity anytime soon, they would have to do it themselves. On April 22, 1936, the group founded the Rock County Electric Cooperative Association, now known as Rock Energy Cooperative. Not only

did these highly motivated individuals start a cooperative, they also worked out a power supply agreement, signed up members, borrowed money, hired employees, put poles in the ground, and strung wire. They were successful in bringing the promise of a better life to the countryside.

At the co-op's upcoming 2011 annual meeting, we will pay tribute to these hard workers as we celebrate 75 years of illuminating people's lives.

The Cooperative Difference

The reason that cooperatives around the country were able to successfully bring electricity to rural areas comes down to one simple statement: Co-ops are different. They don't need to worry about making a profit for out-of-town investors. They exist for the people they serve. That's why here at Rock Energy we refer to you as members, not customers. Without you—the members—there would be no Rock Energy.

Members participate in the democratic process of Rock Energy by electing fellow members to represent them on the board of directors. At the March 28 annual meeting, you will elect directors in three districts and consider a change in the bylaws.

Members also participate financially through our capital credit program. At the end of each year, any margins that exceed annual costs are allocated to members in the form of capital credits. In 2010, Rock Energy distributed more than \$550,000 in capital credits to members. In our 75 years of doing business, more than \$9 million has been paid back to past and current members.

At a recent meeting, Jon Wellinghoff, chairman of the Federal Energy Regulatory Commission, said the cooperative business model is the best way to distribute electricity. He praised co-ops for being more innovative and forward thinking than other sectors of the energy industry.

One principle that sets co-ops apart is our concern for community. As a cooperative, we have a special responsibility to support the areas in which our members live and work. From sponsoring high school scholarships to providing the reliable electrical service needed to sup-



This photo, taken in the early 1950s, shows co-op representatives with a brand new vehicle. At the time, this utility vehicle was considered state-of-the-art.



port business and industry, we are a driving force in the communities we serve.

Honoring Our Forefathers

As we celebrate our 75th anniversary, it's important to remember our roots. Earlier we mentioned the group of forward thinkers who founded our co-op. We also want to name them individually because Rock Energy wouldn't exist without their dedication and hard work.

The signers of the 1936 articles of incorporation were George Ballmer, Ed Mahlum, Michael Weis, Emmett Yale, C. J. Damerow, James A. Conway, J. O. Woodman, H. S. Anderson, William Florin, Clarence Knutson, Adam Lunowa, Grant Rice, H. A. Haried, and J. B. Dybevik. You might recognize some of the names because their family members still live in the area. In fact, Stanley Dybevik, a director since 1971, is the son of founder J. B. Dybevik.

These men created a solid foundation on which the co-op has built for 75 years. We have a tremendous responsibility to continue the tradition of hard work and devotion that the founders first demonstrated in 1936. With the support of dedicated members like you, this commitment will guide us into the future as we stand on the shoulders of those who came before us.

Industry Happenings

You probably are aware that the U.S. Congress did not pass a comprehensive climate change bill in 2010, and it's difficult to predict what—if anything—might happen in 2011. However, Glenn English, CEO of the National Rural Electric Cooperative Association, believes that the current Congress will struggle to find consensus on energy legislation, climate change, and other issues important to co-ops. He attributed the predicted gridlock to the fact that many moderate Republicans and Democrats were voted out of office in November and replaced by more liberal Democrats and more conservative Republicans.

If the gridlock prevents legislation from being passed, it's likely that changes could be forced through regulation. Starting this year, the U.S. Environmental Protection Agency has the power to regulate greenhouse gases, using the Clean Air Act to curb carbon emissions. Rock Energy is joining co-ops nationally to ask Congress for a two-year moratorium on EPA regulation. This delay would give Congress the chance to enact climate change legislation. We clearly believe it should be Congress, and not the EPA, that regulates greenhouse gases.

As part of the Our Energy, Our Future campaign, co-ops throughout the nation have asked members to contact their representatives about EPA regulation. We're



Rock County Electric Cooperative's line crew in charge of construction and maintenance in the early 1940s was, from left, front: Ed West, Lavern Brecklin, Leroy Fitzsimmons, Mervin Stone; back: Al Manthey, Don Williams, James Polglaze, Kenneth Hessenauer, Hugh Curtis, and Line Superintendent Phil Yuengst.

proud to report that Rock Energy members have sent 1,235 messages to representatives about the issue. That's in addition to the 1,419 messages urging lawmakers to keep any climate change legislation fair, affordable, and achievable. If you want to join the campaign, visit www.ourenergy.com.

It appears certain that government regulations will increase the cost of electricity, but new regulations won't be the only culprit. Prices for fuel, materials, and equipment are continuing to rise. On a more positive note, natural gas prices remain low largely because of increased supply related to new technology that has allowed producers to drill for gas in shale rock.

At Rock Energy, keeping energy bills affordable is a priority. Just as we have since we were founded 75 years ago, we will continue to put our members first.

Co-op Highlights

Financially, the cooperative is in good shape. All obligations and requirements in 2010 were satisfied, and we are forecasting another positive year in 2011. We encourage you to review the financial statements on page 16c.

Assuring that our members have reliable and safe energy continues to be our priority. Our investment in new facilities along with maintaining existing infrastructure ensures that our distribution system provides the quality of service our members deserve.

The Red Hawk substation in Milton Township was constructed in 2010 and went on line early this year.

This brings to 14 the number of substations that

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Rock Energy Cooperative

Statements of Revenue & Patronage Capital (subject to audit)

	Years Ended December 31,	
	<u>2009</u>	<u>2010</u>
Operating Revenue	\$45,577,213	\$50,957,429
Operating Expenses:		
Cost of Power	32,471,416	37,202,352
Distribution- Operations	1,688,004	1,800,683
Distribution- Maintenance	1,105,203	1,292,583
Member Accounts	1,044,049	1,075,510
Member Service & Information	235,981	294,395
Administrative & General	1,925,749	1,920,729
Depreciation	2,330,023	2,626,123
Taxes	333,904	233,397
Other Deductions	4,257	4,289
Total Operating Expenses	<u>41,138,586</u>	<u>46,450,061</u>
Operating Margins - before Fixed Charges	4,438,627	4,507,368
Fixed Charges:		
Interest on Long-Term Debt	2,303,164	2,311,238
Interest on Short-Term Debt	167,780	91,595
Total Fixed Charges	<u>2,470,944</u>	<u>2,402,833</u>
Operating Margins - after Fixed Charges	1,967,683	2,104,535
Patronage Capital Allocations	<u>303,180</u>	<u>279,411</u>
Net Operating Margins	2,270,863	2,383,946
Non-Operating Income:		
Interest Income	13,645	161,952
Equity Investments & Other	294,739	152,961
Total Non-Operating Income	<u>308,384</u>	<u>314,913</u>
Net Margins for Period	2,579,247	2,698,859
Patronage Capital-Beginning of Period	<u>14,856,919</u>	<u>16,886,196</u>
	<u>17,436,166</u>	<u>19,585,055</u>
Retirement of Capital Credits	<u>549,970</u>	<u>715,690</u>
Patronage Capital-End of Period	<u>\$16,886,196</u>	<u>\$18,869,365</u>

Balance Sheets (subject to audit)

	As of December 31,	
	<u>2009</u>	<u>2010</u>
ASSETS		
Utility Plant:		
In Service	\$79,421,451	\$81,150,642
Construction Work in Process	209,316	1,628,238
	<u>79,630,767</u>	<u>82,778,880</u>
Less: Accumulated Depreciation	25,997,314	28,307,851
Net Utility Plant	<u>53,633,453</u>	<u>54,471,029</u>
Investments:		
Associated Organizations	1,179,294	3,331,130
Other Investments	1,277,747	1,352,527
Total Investments	<u>2,457,041</u>	<u>4,683,657</u>
Current Assets:		
Cash & Temporary Investments	73,497	57,374
Accounts Receivable	5,869,101	5,519,848
Inventory, Materials & Supplies	1,394,692	1,601,285
Other current assets	101,493	308,819
Total Current Assets	<u>7,438,783</u>	<u>7,487,326</u>
Deferred Debits	<u>-</u>	<u>-</u>
Total Assets	<u>\$63,529,277</u>	<u>\$66,642,012</u>
EQUITIES & LIABILITIES		
Equities:		
Patronage Capital	\$16,886,196	\$18,869,365
Other Equities	432,645	529,615
Total Equities	<u>17,318,841</u>	<u>19,398,980</u>
Long-Term Obligations	36,227,439	35,251,499
Current Liabilities:		
Current Maturities of Long-Term Debt	867,221	970,726
Notes Payable- Line of Credit	405,115	1,342,365
Accounts Payable	5,607,981	6,516,199
Member Deposits	531,365	495,016
Accrued Taxes	315,355	376,513
Other Current Liabilities	1,528,935	1,569,976
Total Current Liabilities	<u>9,255,972</u>	<u>11,270,795</u>
Deferred Credits	<u>727,025</u>	<u>720,738</u>
Total Equities & Liabilities	<u>\$63,529,277</u>	<u>\$66,642,012</u>

CEO & Chairman's Report

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serve more than 17,000 meters along 1,300 miles of line in southern Wisconsin and northern Illinois. Red Hawk will serve the increasing demand for electricity in the Milton Township area and support anticipated growth of the Milton Crossroads Business Park. In addition, it will provide backup support for neighboring townships, ensuring the reliability of service to members.

Also in 2010, we worked to improve communication with members. In addition to this monthly magazine that members receive and the newsletter delivered with monthly energy bills, we have started to send out periodic emails with news of interest to members.

If you would like to join our email list, visit www.rock.coop and enter your email address in the box that says "Join Our Email List to Receive Important Announcements." We won't load your inbox with unnecessary spam or provide your information to anyone for any reason. We just want to communicate things like planned outages, energy efficiency tips, program deadlines, and other information to you quickly.

In another effort to improve communication, we have conducted meetings with specific groups of members during 2010. For example, in September we met with representatives from some of our larger commercial and industrial accounts to make sure we understand their energy needs and are doing everything we can to meet them. Our gas crews also meet periodically with emergency responders and government officials in an effort to increase public awareness about natural gas safety.

For the past 75 years, your co-op has provided members with safe and reliable energy at an affordable price. Our commitment to you for the next 75 years and beyond is that Rock Energy will continue to put you—our members—first while meeting your energy needs.

We hope you'll join the Rock Energy board, employees, and hundreds of members in our co-op family at our 75th annual meeting on Monday, March 28, at the Eclipse Center in Beloit. Registration starts at 4:30 p.m., and you will learn more about the co-op's rich history during the program, which begins at 5:30 p.m. Then during dinner while long-term members reminisce about the early days of electricity, everyone will try to imagine what life was like 75 years ago before the co-op illuminated the countryside.

Happy 75th anniversary to Rock Energy Cooperative. ■

2011 Proposed Change to Rock Energy Cooperative Bylaws

The Board of Directors has voted to recommend the following modification to the membership:

Inserted text

Article III. Directors

Section 4. Director Nominations and Qualifications: The chairman shall appoint a nominating committee from the respective director districts who are scheduled for election for each annual meeting to prepare a slate of candidates from each expiring district. The committee slate of director nominations shall be included in the notice of the annual meeting. Director nominations will be accepted from the floor during a designated time period at the annual meeting. Floor nominations must be only for those expiring districts and subject to applicable bylaw requirements. No person shall be eligible to become or remain a director of the Cooperative who is an employee, outside or independent contractor of the Cooperative, or who has within five (5) years preceding the date of the election been an employee, outside or independent contractor of the Cooperative. No person shall be eligible to become or remain a director of the Cooperative when employed in any way by or has a financial interest in a business that sells energy, services, or supplies to the Cooperative. No person shall be eligible to become or remain a director when employed by or has a financial interest in a competing enterprise. No person shall be eligible to become or remain a director when closely related to an incumbent director or current permanent employee. Whether by blood or through marriage, "closely related" shall be defined as a spouse, parent, child, sibling, grandchild, grandparent, aunt, uncle, nephew and niece, and any other family member or person residing in the same residence. Additional qualifications may be determined by cooperative policy.



Shane Larson, CEO
Barbara Uebelacker,
Editor

P.O. Box 1758
2815 Kennedy Rd.
Janesville, WI 53547

P.O. Box 126
15229 Willowbrook Rd.
South Beloit, IL 61080

(608) 752-4550 • (866) 752-4550