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SAM HOUSTON ELECTRIC COOPERATIVE


[www.samhouston.net](http://www.samhouston.net)

A large, semi-transparent image of an electrical substation with complex metal structures and power lines, serving as the background for the lower half of the page.

# **BUILDING MOMENTUM**

## 2010 ANNUAL REPORT



Your Touchstone Energy® Partner 

# BUILDING MOMENTUM

2010 ANNUAL REPORT



 **Sam Houston**  
ELECTRIC COOPERATIVE  
Your Touchstone Energy® Partner 



**BUILDING MOMENTUM**  
SAM HOUSTON EC 2010 ANNUAL REPORT

Dear Members,

I am proud of Sam Houston Electric Cooperative. We're financially stable, continuing to exceed standards of service and launching exciting new



projects that will benefit our membership for years to come. I am proud because we're doing all this during a time when our industry is facing many challenges.

Across the country, electric providers are working to manage reliability as demand for power continues to grow. All the while, the costs of fuels used to generate electricity, such as natural gas and coal, continue to rise. Additionally, new regulations and legislation are adding to the cost of producing electricity. Sam Houston EC is tuned in to these concerns, working proactively and planning carefully to provide the reliable service you deserve while keeping rates among the lowest around.

You may have noticed we're working on projects that have created immediate change at Sam Houston EC. Last summer construction began on our new headquarters building in Livingston. Our old building truly outlived its service life and we are thrilled with our new "home." In addition, we implemented a variety of construction projects to build new facilities and upgrade existing infrastructure in 2010. Details of these projects and how they directly benefit our members are outlined in this report.

As always, the Cooperative keeps our democratic roots close to heart and works to provide reliable electric service and low rates. Serving our members to their satisfaction is a major part of this initiative.

I am pleased to report that through their dedication, commitment and genuine concern for our community, your Sam Houston EC staff achieved a five-year high in member satisfaction ratings last year. In addition to going above and beyond when meeting members' electricity needs, our employees spent countless hours serving our communities by participating in charitable, community and educational events throughout the year.

It's been said before but it warrants being said again, all of us at Sam Houston EC genuinely care for the members and the communities we serve. This sense of community guides everything we do. The past year was full of many challenges and successes for Sam Houston Electric Cooperative and we're looking forward to what's next. Momentum is building and exciting times are ahead.

Sincerely,

A handwritten signature in cursive script that reads "Kyle J. Kuntz".

Kyle J. Kuntz, P.E.  
Chief Executive Officer





# BUILDING FOR THE FUTURE

## UNDER CONSTRUCTION

### IN 2010

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#### **A New Home for Co-op Headquarters**

After six decades, several remodels and growth from 7,500 members in 1951 to roughly 51,000 members in 2010, Sam Houston EC broke ground on a new headquarters building in Livingston in the summer of 2010. The new facility is a bright and airy space that meets the latest energy efficiency standards and is designed to help better serve our members. With construction prices at the lowest they have been in years,

2010 was an opportune time to begin this project. Construction was completed and the headquarters staff was moved into the new space in the summer of 2011.





### **System Upgrades Increase Capacity and Ensure Reliability**

To accommodate growing demand on our electrical distribution system, Sam Houston EC carefully plans and implements system improvements on an ongoing basis. As we welcome new members and expand service to the farthest reaches of our territory, we must add capacity. Modern life demands more energy, and we are preparing to maintain the convenience of electric power at the flip of a switch. Reliability is essential to our service. System upgrades and expansions are critical to providing stable service.

At the core of Sam Houston EC's electrical distribution system is a series of substations that control the flow of electricity from the supplier to our members. Substations are an important part of our infrastructure investment and represented a significant component of our system upgrades in 2010.





## RELIABLE TODAY AND TOMORROW

### NEW FACILITIES AND SYSTEM UPGRADES

#### **Substation Construction and Conversion**

The Caney Creek substation, located outside of Willis, was replaced and moved down the road from the previous facility. When the size of the line that serves the substation was increased, Sam Houston EC upgraded the Caney Creek facility to increase its capacity. The result is a more robust system to serve the area. The Peach Creek substation, off Hwy 105 on FM 1484 near Conroe, underwent a similar conversion on the existing site. These upgrades are part of our effort to support growth throughout our service territory.

#### **Increased Capacity at Staley**

Sam Houston EC also started construction of a new substation in Point Blank last year. In conjunction with this project, the Cooperative built a new transmission line to connect the Staley and new Point Blank substations. The 7.6-mile transmission line relieved load and voltage issues identified on this portion of the Sam Houston EC system. Distribution feeders in the area are now “sectionalized,” which improves service reliability and reduces the duration of power outages.



#### **Enhanced Reliability in Diboll and Huntington**

Shady Grove substation, located east of Diboll off FM 1818, joined Sam Houston Electric Cooperative's electrical distribution system in late 2010. The substation came online as a solution to reliability issues surrounding the Diboll metering point.

In essence, a metering point allows Sam Houston EC to take load from another system's distribution line and begin a feeder that will connect back into the Cooperative's system. By building the new substation, the load comes directly from the larger transmission line to serve the Diboll and Huntington areas.

#### **EETC Power Plant Expands Peak Capacity**

In addition to our own construction projects, Sam Houston EC members also benefit from projects constructed by East Texas Electric Cooperative, our generation and transmission provider, to extend generation capacity. ETEC purchased four natural gas-fired peaking units in 2009 as a cost-effective solution to meet rising energy demands. Relocated from Warren, Miss., the units have been combined into two power stations, one south of Shepherd and the other south of Kountze. The station near Shepherd came online in 2009 and in January 2010 the Hardin station came online as well. Together the two stations have the ability to produce 300 megawatts of power. This added power supply is especially helpful during times of peak usage—such as long, hot summer days.



## A BLUEPRINT FOR A GREENER FUTURE

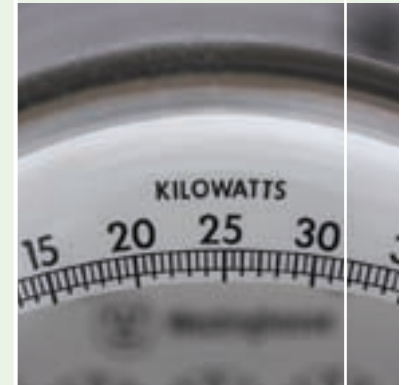
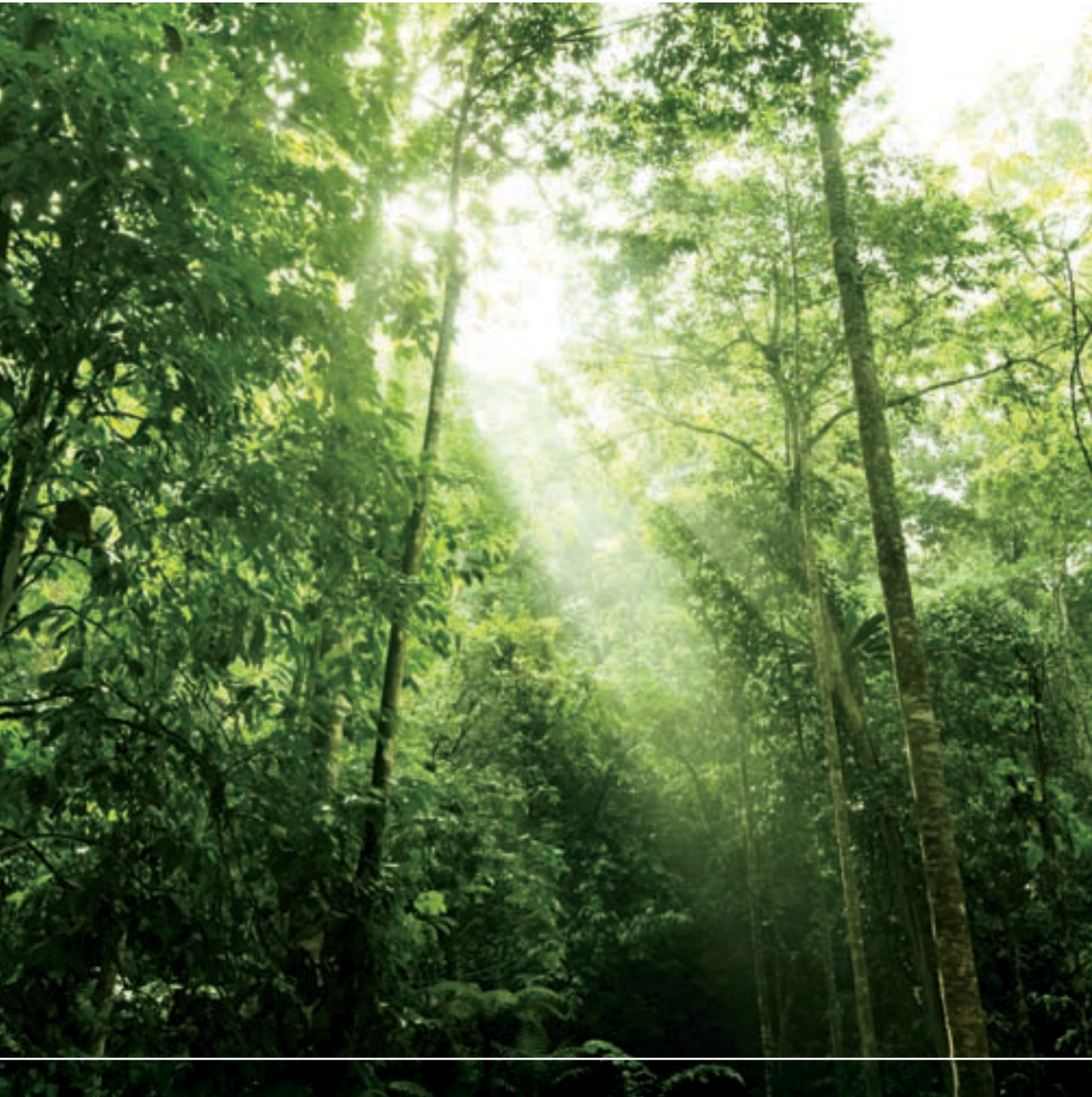
### RENEWABLE ENERGY & CONSERVATION

Sam Houston EC recognizes its role in a green future for generations to come. We have long made renewable energy part of our blend of generation resources. Moreover, the amount of renewable energy in our mix is on the rise due to projects East Texas Electric Cooperative is heading up on behalf of its member co-ops, including Sam Houston EC.

The Lake Livingston Dam will be the site of ETEC's hydroelectric plant. Expected to be complete by 2014, the plant is capable of generating 24 megawatts of power for ETEC member cooperatives.

That's enough to power more than 12,000 member homes. Hydro-power accounts for 86 percent of all renewable, carbon-free electricity used by co-ops across the nation. It's cost-effective and pollution-free.

In addition to the efforts to add renewable energy at the generation level, our members can make an impact on their own electric costs and the environment by taking steps to conserve electricity. If you're looking for ways to save energy, visit [www.TogetherWeSave.com](http://www.TogetherWeSave.com) to find tips and tricks that can make a measurable difference.





## MORE THAN ELECTRIC SERVICE MEMBER & COMMUNITY SERVICES

### **Service That's Second to None**

For the third year in a row, Sam Houston EC member satisfaction scores increased, reaching a five-year high of 91.6 percent in the third quarter of 2010. Member satisfaction is measured regularly by independent research firm Preston-Osborne.

"Among the numerous utilities for which we have conducted similar research, Sam Houston stands out as regularly being a top-scoring electric cooperative. This trend holds true for Sam Houston on the national stage as well," shared Leanna Comer, president of research at Preston-Osborne.

"When the Cooperative receives periodic performance scores from the American Customer Satisfaction Index, a nationally-recognized organization, Sam Houston always performs well above average among Touchstone Energy® cooperatives. Based on these high satisfaction scores, it's obvious that meeting members' needs and expectations is a high priority for Sam Houston Electric Cooperative."

### **Membership's Voice is Heard**

Cooperatives were created on democratic principles that have served Sam Houston EC well for more than 70 years. Director elections and the Annual Meeting of Members are two ways in which the Co-op



continues to practice these principles. In November, members attended the Sam Houston EC 2010 Annual Meeting of Members at the Alabama-Coushatta Tribe Multipurpose Facility. More than 7,000 ballots were returned to officially re-elect Directors Milton Purvis and Robert C. Boyd.

#### **Supporting the Next Generation**

In 2010, our scholarship program received 117 applications. Based on academic merit, financial need and other factors, 22 high school seniors received \$3,000 to continue their education at the university level. Additionally, six students received \$1,500 to pursue vocational studies. Since 1992, the Co-op has awarded approximately \$650,000 in scholarships to 460 students.

#### **Be“cause” We Care**

Sam Houston EC’s Relay for Life team has been raising money for the American Cancer Society since 2001. This year, the team rallied community members to participate in Relay events and organized the Co-op’s annual garage sale, fish fry and raffles to raise funds for the Polk County Relay event that was held in April of 2010.

In addition to our support of the American Cancer Society, Sam Houston EC has partnered with the Gulf Coast Regional Blood Center for the better part of two decades to host blood drives in our communities. In 2010, five blood drives were hosted at the Cooperative headquarters.



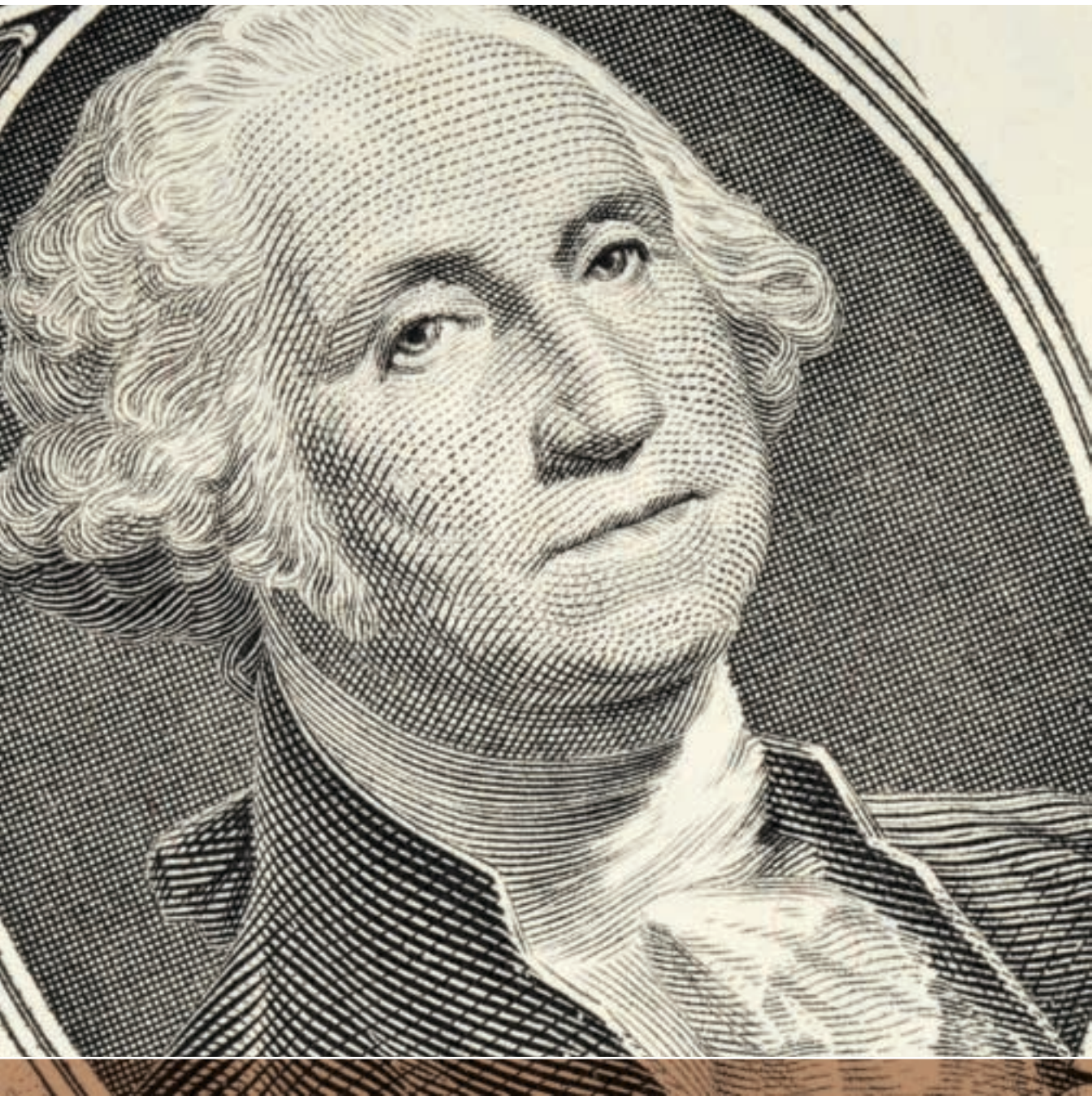
# CREDIT WHERE CREDIT IS DUE

## FINANCIAL BENEFITS OF MEMBERSHIP

Sam Houston EC is a not-for-profit, member-owned and democratically run organization. Our rates are some of the lowest around, but the financial benefits of membership don't stop there.

In February 2010 members received good news when they opened their Sam Houston EC bills. Credits totaling nearly \$5 million were applied to member bills. The average residential consumer received a recovery credit of \$68. Each year, the Co-op determines the price of electricity based on anticipated costs. In 2010 over-recovered funds from 2009 were returned to members when the wholesale costs for electricity were less expensive than projected.

In September members received a second credit. The Sam Houston EC Board of Directors approved distribution of \$2.2 million of capital credits to members based on their determination of the financial condition of the Co-op as stable and adequate to meet operating costs and debt covenants. Capital credits are allocated based on the dollar value of individual electric use, directly proportionate to electricity used. The payment of capital credits is similar to dividends paid to stock holders of for-profit companies. The difference is co-ops are not working to make big profits. We simply provide reliable service at the lowest possible cost.



**SAM HOUSTON ELECTRIC COOPERATIVE, INC.**  
**CONSOLIDATED BALANCE SHEETS**

December 31, 2010 and 2009

**SAM HOUSTON ELECTRIC COOPERATIVE, INC.**  
**CONSOLIDATED STATEMENTS OF REVENUE AND EXPENSE**

For the Years Ended December 31, 2010 and 2009

	2010	2009		2010	2009
<b>ASSETS</b>					
Utility Plant:			Operating Revenues:		
Electric plant in service	\$ 371 951 426	\$ 362 272 680	Sale of electricity	\$ 142 437 969	\$ 126 301 437
Construction in progress	20 744 081	9 759 502	Other electric revenues	3 833 789	3 879 194
	<u>392 695 507</u>	<u>372 032 182</u>	<b>TOTAL OPERATING REVENUES</b>	<u>146 271 758</u>	<u>130 180 631</u>
Less: accumulated depreciation	122 180 669	112 941 894			
<b>NET UTILITY PLANT</b>	<u>270 514 838</u>	<u>259 090 288</u>	Operating Expenses:		
Investments in associated organizations, at cost	31 832 732	25 990 107	Cost of power	88 483 239	73 374 832
<b>TOTAL INVESTMENTS</b>	<u>31 832 732</u>	<u>25 990 107</u>	Transmission expense	433 099	435 093
			Distribution expense - Operation	4 800 024	4 028 554
Current Assets:			Distribution expense - Maintenance	10 027 573	11 153 379
Cash and cash equivalents	7 492 131	1 314 809	Consumer accounts expense	8 664 848	5 474 066
Restricted funds	1 205 069	1 188 275	Administrative and general expense	4 105 882	3 986 475
Accounts receivable (less provision for doubtful accounts of \$585,608 in 2010 and \$475,908 in 2009)	16 400 943	15 590 544	Depreciation expense	11 011 524	10 718 350
Materials and supplies (at average cost)	604 472	673 296	Taxes other than income taxes	1 214 729	1 211 854
Other current assets	391 694	437 586	<b>OPERATING EXPENSES</b>	<u>128 740 918</u>	<u>110 382 603</u>
<b>TOTAL CURRENT ASSETS</b>	<u>26 094 309</u>	<u>19 204 510</u>	<b>OPERATING MARGINS BEFORE INTEREST EXPENSE</b>	17 530 840	19 798 028
Deferred charges	13 623 484	10 565 783	Interest on long-term debt and consumer deposits	8 362 119	9 156 768
<b>TOTAL ASSETS</b>	<u>\$ 342 065 363</u>	<u>\$ 314 850 688</u>	<b>OPERATING MARGIN</b>	<u>9 168 721</u>	<u>10 641 260</u>
<b>EQUITIES AND LIABILITIES</b>			Generation and transmission capital credits	5 211 777	2 657 871
Equities:			Patronage capital - Associated organizations	1 559 138	1 389 354
Memberships	\$ 615	\$ 750	Nonoperating Margins:		
Patronage capital	136 666 789	123 094 251	Interest income	104 088	106 547
Other equities	156,290	156 290	Other nonoperating income (expense)	(249 883)	(367 071)
Accumulated other comprehensive income	(1 953 809)	(1 527 681)	<b>TOTAL NONOPERATING MARGINS</b>	<u>(145 795)</u>	<u>(260 524)</u>
<b>TOTAL EQUITIES</b>	<u>134 869 885</u>	<u>121 723 610</u>	<b>NET MARGIN</b>	<u>\$ 15 793 841</u>	<u>\$ 14 427 961</u>
Long-term postretirement benefits liability	4 546 775	3 701 276			
Long-term debt, less current maturities	172 749 561	155 231 219			
Current Liabilities:					
Accounts payable and accrued liabilities	19 552 858	18 155 098			
Current maturities of long-term debt	5 425 753	6 247 335			
Current portion of postretirement benefits liability	97 564	136 851			
Accrued interest payable	1 168 109	1 089 679			
Patronage capital payable	234 555	220 372			
Consumers' deposits	1 774 511	1 786 474			
<b>TOTAL CURRENT LIABILITIES</b>	<u>28 253 350</u>	<u>27 635 809</u>			
Deferred credits	1 645 792	6 558 774			
<b>TOTAL EQUITIES AND LIABILITIES</b>	<u>\$ 342 065 363</u>	<u>\$ 314 850 688</u>			

**SAM HOUSTON ELECTRIC COOPERATIVE, INC.**  
**CONSOLIDATED STATEMENTS OF PATRONAGE CAPITAL**  
**AND COMPREHENSIVE INCOME**

For the Years Ended December 31, 2010 and 2009

**SAM HOUSTON ELECTRIC COOPERATIVE, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31, 2010 and 2009

	MEMBERSHIPS	PATRONAGE CAPITAL	OTHER EQUITIES	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
Balance, December 31, 2008	\$ 1 100	\$ 108 666 290	\$ (459 601)	\$ (1 214 315)	\$ 106 993 474
Comprehensive Income:					
Net margin	-	14 427 961	-	-	14 427 961
Other Comprehensive Income:					
Actuarial gain/(loss)	-	-	-	(313 366)	(313 366)
Total comprehensive income					<u>14 114 595</u>
Capital contribution to Sam Houston Services	-	-	615 891	-	<u>615 891</u>
Change in memberships	(350)	-	-	-	(350)
Patronage capital retired - Net	-	-	-	-	-
Balance, December 31, 2009	<u>750</u>	<u>123 094 251</u>	<u>156 290</u>	<u>(1 527 681)</u>	<u>121 723 610</u>
Comprehensive Income:					
Net margin	-	15 793 841	-	-	15 793 841
Other Comprehensive Income:					
Actuarial gain/(loss)	-	-	-	(426,128)	(426 128)
Total comprehensive income					<u>15 367 713</u>
Change in memberships	(135)	-	-	-	(135)
Patronage capital retired - Net	-	(2 221 303)	-	-	<u>(2 221 303)</u>
Balance, December 31, 2010	<u>\$ 615</u>	<u>\$ 136 666 789</u>	<u>\$ 156 290</u>	<u>\$ (1 953 809)</u>	<u>\$ 134 869 885</u>

	2010	2009
Cash Flows from Operating Activities:		
Net margin	\$ 15 793 841	\$ 14 427 961
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities:		
Depreciation expense	11 011 524	10 718 350
Patronage capital credits - Non cash - Associated organizations	(6 770 915)	(4 047 225)
Accumulated provision for pensions and benefits	380 084	247 368
Impairment loss - Investment in subsidiary	-	615 891
Cash Provided by (Used for) the Change in:		
Accounts receivable, net	(810 399)	(1 427 375)
Materials and supplies	68 824	281 928
Other current assets	45 892	17 176
Deferred charges	(3 057 701)	27 262 351
Deferred credits	(4 912 982)	4 875 094
Accounts payable and accrued liabilities	1 397 760	1 324 087
Accrual for hurricane restoration	-	(1 172 238)
Accrued interest payable	78 430	(152 104)
Consumers' deposits	(11 963)	7 957
TOTAL ADJUSTMENTS	<u>(2 581 446)</u>	<u>38 551 260</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>13 212 395</u>	<u>52 979 221</u>
Cash Flows from Investing Activities:		
Capital expenditures for utility plant, net of retirements	(22 436 074)	(15 885 782)
Net change in restricted cash	(16 794)	6 500
Proceeds from patronage capital - Associated organizations	928 290	1 141 287
NET CASH USED IN INVESTING ACTIVITIES	<u>(21 524 578)</u>	<u>(14 737 995)</u>
Cash Flows from Financing Activities:		
Proceeds from long-term debt	23 000 000	11 354 901
Payments of long-term debt	(6 303 240)	(14 314 753)
Net activity on lines of credit	-	(39 000 000)
Retirement of capital credits - Net	(2 221 303)	-
Decrease in memberships, net	(135)	(350)
Increase in patronage capital payable	14 183	(1 770)
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	<u>14 489 505</u>	<u>(41 961 972)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	6 177 322	(3 720 746)
Cash and cash equivalents at beginning of year	<u>1 314 809</u>	<u>5 035 555</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 7 492 131</u>	<u>\$ 1 314 809</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest expense, net of capitalized amounts	\$ 8 278 432	\$ 9 308 872
Noncash Investing and Financing Activities:		
Net actuarial loss on postretirement benefit plan	\$ 426 128	\$ 313 366