

2010 ANNUAL REPORT



Reliability • Value • Community

Representing You

Alpena District:	<i>Bernice Krajniak</i>	<i>Robert Wegmeyer</i>
Cheboygan District:	<i>Allen Barr</i>	<i>John Brown</i>
Montmorency District:	<i>Daryl Peterson</i>	<i>David Smith</i>
Presque Isle District:	<i>Allan Berg</i>	<i>Raymond Wozniak</i>
Director At-Large:	<i>Sally Knopf</i>	

Your Co-op Board of Directors



Standing (from left): Raymond "Burke" Wozniak, Robert Wegmeyer, Sally Knopf, David Smith and Allen Barr. Seated (from left): Allan Berg, Bernice Krajniak and John Brown. Not pictured: Daryl Peterson.

To Our Member-Owners



Allen Barr



Brian Burns

The goal is simple—affordable and reliable energy. With that in mind, we use old-fashioned northeastern Michigan frugality to achieve the former, and continue to invest in our delivery systems and implement maintenance programs to improve the latter.

While 2010 was challenging in many ways, for your cooperative it was most notable in the historic October wind storm that caused approximately two-thirds of our electric system to lose power. Restoration efforts, with outside assistance, took well beyond our normal response time—although 90 percent of power was restored within four days, some members were without for much longer.

The recent trend in lower wholesale natural gas prices will offset the need to increase natural gas rates to generate necessary margins for a financially sound co-op and to meet lender requirements.

The year also marked a thorough review of our capital credits policy. The end result of that review will be to return nearly \$1 million to members in capital credits—a true testament to the unique cooperative business model.

Please review this annual report to learn more about your cooperative and gauge our performance. See you in Posen on Friday, October 28, 2011!

Respectfully,
Presque Isle Electric & Gas Co-op

Allen Barr
Chairman

Brian J. Burns
*President & Chief
Executive Officer*

“Nearly \$1 million in capital credits will be returned to members—a true testament to the unique cooperative business model.”

Treasurer's Report



Presque Isle Electric & Gas Co-op's Statement of Operations and Balance Sheet for the years ending December 31, 2010 and 2009 are included in this annual report. As indicated by these financial reports, the cooperative has completed another successful, but challenging year with margins of \$104,093. Our electric and natural gas operations continue to provide competitive energy alternatives for our members.

Our independent auditor, Harris Group, has confirmed that the financial statements and records presented to them accurately reflect the financial position of the cooperative. The reports of the results of our operations are in conformity with generally accepted accounting principles.

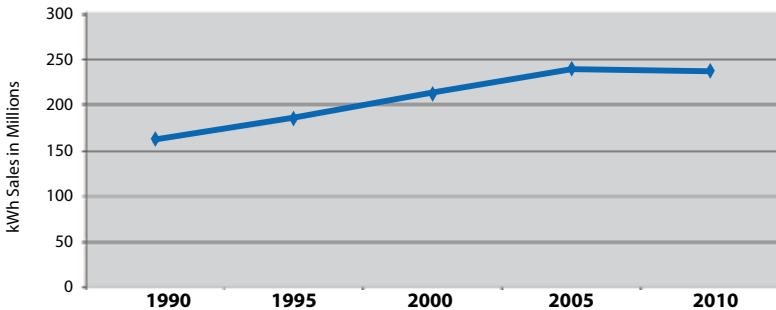
It has been my pleasure to serve as treasurer for the past year.

– Daryl Peterson, Treasurer

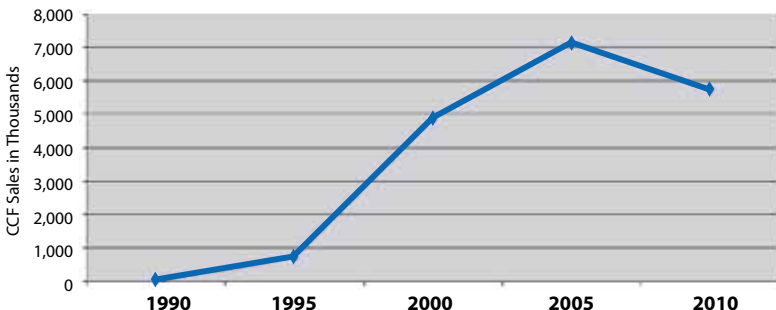
Statement of Operations

	2010	2009
OPERATING REVENUES	\$ 38,555,890	\$ 38,743,083
OPERATING EXPENSES		
Cost of Purchased Energy	23,085,268	23,896,355
Operations & Maintenance Expense	8,237,765	7,517,989
Depreciation	3,149,984	3,037,565
Interest	3,183,844	3,085,774
Taxes	1,076,643	1,052,132
Total Operating Expenses	38,733,504	38,589,815
Net Operating Income	(177,614)	153,268
NON-OPERATING MARGINS		
Capital Credits – G&T and Other	389,126	1,815,990
Non-Operating Margins – Other	(107,419)	(257,134)
NET MARGINS	\$ 104,093	\$ 1,712,124

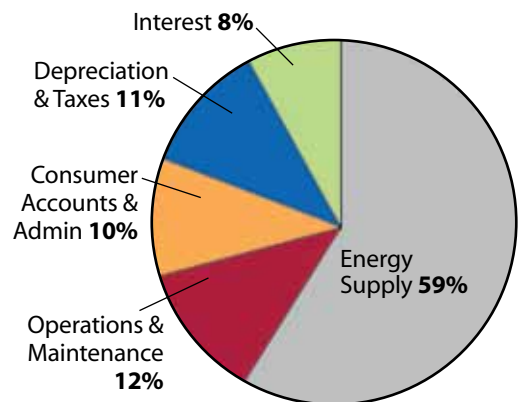
Electric kWh Sales



Natural Gas CCF Sales



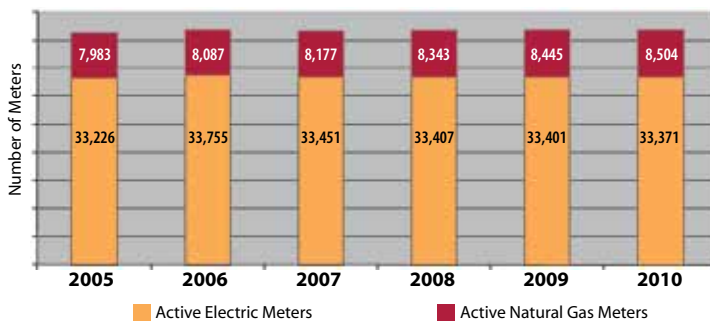
2010 Expenses



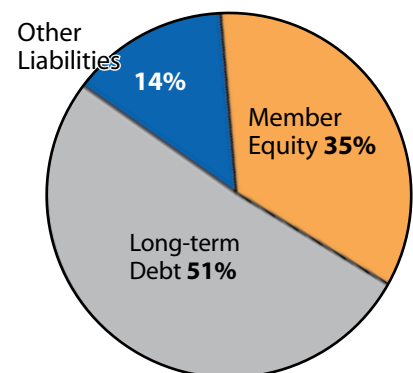
Balance Sheet

	2010	2009
ASSETS		
Total Utility Plant	\$ 117,986,598	\$ 115,638,323
Accumulated Depreciation	(42,985,018)	(40,989,784)
Net Utility Plant	75,001,580	74,648,539
Investments in Associated Organizations	20,330,630	20,133,730
Cash & Cash Equivalents	1,577,131	1,555,544
Accounts Receivable	4,910,699	4,717,266
Materials & Supplies	1,233,075	1,112,929
Other Assets	122,217	119,228
Deferred Debits	177,497	207,682
Total Assets	103,352,829	102,494,918
EQUITIES & LIABILITIES		
Margins & Equities:		
Patronage Capital	38,050,765	37,935,106
Other Equities	(1,571,251)	(1,571,322)
Total Margins & Equities	36,479,514	36,363,784
LIABILITIES:		
Long-Term Debt	55,237,406	53,917,031
Notes Payable	5,056,478	5,010,248
Accounts Payable	6,070,964	6,187,321
Other Current & Accrued Liabilities	508,467	1,016,534
Total Liabilities	66,873,315	66,131,134
Total Equities & Liabilities	\$ 103,352,829	\$ 102,494,918

Active Meters



**2010 % of Assets
"Who Owns PIE&G?"**



Complete, audited financial statements are available at the Onaway office of Presque Isle Electric & Gas Co-op, or on our website at pieg.com. The independent audit of 2010 financial statements was unqualified, and completed by the certified public accounting (CPA) firm, Harris Group of Traverse City.

Residential Rate Comparison

MPSC-Regulated Michigan Electric Cooperatives and Utilities

As of Aug. 1, 2011

1,000 kWh

UTILITY	MONTHLY BILL
PIE&G.....	\$119.72
Midwest Energy	\$120.33
Great Lakes	\$123.92
Cloverland.....	\$125.77
Thumb.....	\$127.90
Alpena Power	\$133.83
Detroit Edison/DTE Energy	\$137.36
Consumers Energy	\$150.38
Ontonagon	\$195.92

Source: Michigan Public Service Commission
dleg.state.mi.us/mpsc/electric/download/rates2.pdf

MPSC-Regulated Natural Gas Utilities

As of Aug. 1, 2011

100 ccf

UTILITY	MONTHLY BILL
Mich Con/DTE Energy.....	\$ 96.21
PIE&G.....	\$ 115.97
Aurora Gas Company ¹	\$ 126.75
Propane Equivalent ² @ \$2/gal.	\$ 224.00

¹ Not set by the MPSC; based on \$10.75/mo. minimum plus \$1.16/ccf
² Not set by the MPSC; 112 gal. propane equivalent to 100 ccf natural gas

Source: dleg.state.mi.us/mpsc/gas/rates/gasrates.pdf (p. 4)

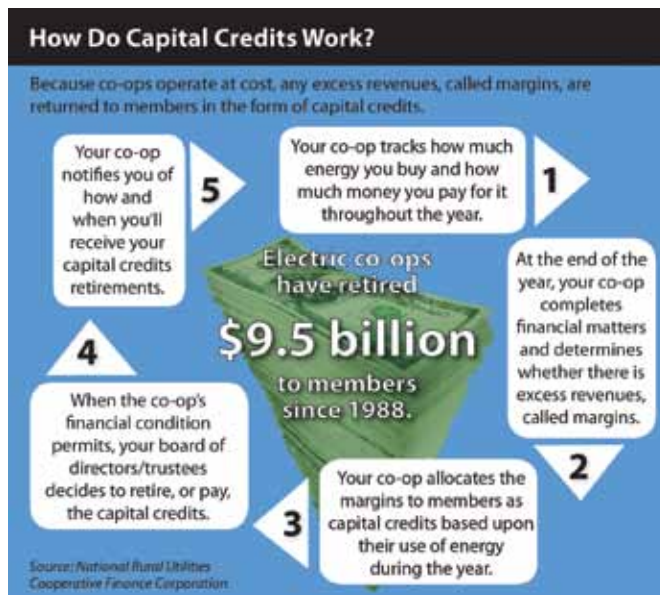
Capital Credit Refunds

Presque Isle Electric & Gas Co-op is a member-owned, not-for-profit business. Technically, we don't earn profits. Instead, if revenues exceed expenses, the difference is "capital" that is "credited" to members proportionately.

These capital credits are used for the mutual benefit of members and may be used by the co-op to build and rehabilitate facilities needed to serve the co-op's members. Capital credits are refunded to members by the board of directors when it is determined the co-op's financial condition will not be impaired.

At their regular meeting in February, PIE&G's Board of Directors authorized a retirement of nearly \$1 million in capital credits allocated to members of record for patronage primarily during years 1982 and 1983, and for tax credits for the years 2000-2009.

Co-ops like PIE&G are the only type of utilities that return money directly back to their customers (member-owners) who live in the local community. Investor-owned utilities share any profits with shareholder-investors who are often located in distant places outside the service area.



Supply Opportunities For Wolverine Power and It's Members

Wolverine Power Cooperative has taken two significant steps to secure efficient, competitively-priced power supply for its members, including Presque Isle Electric & Gas Co-op. Wolverine purchased the Sumpter peaking power plant near Belleville, MI, as well as a baseload interest in the Ohio Valley Electric Corporation (OVEC).

These accomplishments were preceded by years of preparation and hard work by Wolverine staff and the vision of the Wolverine board of directors, their members' boards, and the six co-op CEOs, who all recognized that Wolverine needed financial strength in order to own generating assets and realize the benefits ownership would bring.

Sumpter Peaking Plant

Wolverine purchased the Sumpter plant in March 2010. The plant has four natural gas-fired units capable of generating a combined total of 340 megawatts of electricity. Wolverine acquired the facility, constructed in 2002, from FirstEnergy Generation Corporation.

Peaking power plants typically operate during periods of high energy demand,



such as hot summer days. The Sumpter plant has performed well for Wolverine.

OVEC

In December 2010, Wolverine purchased a 150-megawatt ownership in OVEC from FirstEnergy. OVEC consists of two power plants capable of generating close to 2,400 megawatts of baseload electricity. Baseload power plants typically operate 24 hours a day, seven

days a week.

OVEC plans to install modern pollution control equipment on the plants located in Ohio and Indiana. When completed, they will rank among the cleanest generating facilities in the Midwest. Energy from the OVEC plants will replace, in part, Wolverine's primary wholesale power contract, set to expire at the end of 2011.

A Long-Term Strategy

While proud of its recent accomplishments, Wolverine plans to further implement its strategy to own power supply and ensure long-term price stability for its members. Electric utilities in Michigan will face challenges in the years ahead. Power plants in the state average 50+ years in age, and many will soon be retired. Wolverine will continue seeking opportunities to invest in new, state-of-the-art generation facilities.

Wolverine Clean Energy Venture Update

The Michigan Department of Environmental Quality (DEQ) approved the air quality permit for the proposed Wolverine Clean Energy Venture (WCEV) power plant in June 2011. Wolverine has considerable analyses to complete before determining whether to proceed with the project, including construction costs, projected fuel costs over the life of the plant, and the impact of potential future regulatory requirements.

Under state and federal law, Wolverine has 18 months from the date the DEQ issued the air quality permit to commence with construction at the proposed WCEV site near Rogers City. The permit allows for two units, each capable of generating 300 megawatts of electricity.

VISION

Our members and northeast Michigan will regard us as a trusted energy and community partner.

MISSION

To provide energy and other services to sustain and improve the quality of life for our members through the use of a cooperative business structure.

VALUES

In support of our mission, we commit to the following values:

- To conduct our business with honesty and integrity.
- To treat our members and each other with fairness, dignity and respect.
- To support the professional goals of our employees.
- To create a work environment that fosters innovation, participation, pride, ownership, safety and enjoyment.
- To be a good corporate citizen with attention to the environment and the communities we serve.
- To constantly improve our performance, reliability and value.



Presque Isle Electric & Gas Co-op

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Onaway, MI 49765

pieg.com



Your Touchstone Energy[®]
Cooperative