

2011 ANNUAL REPORT



Shining brightly for 75 years!



Presque Isle Electric & Gas Co-op

Your Touchstone Energy® Cooperative 

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, Daryl Peterson, Allen Barr and David Smith. Seated (from left): Allan Berg, Bernice Krajniak and John Brown.

To Our Member-Owners



Brian Burns and John Brown

With record revenue and near-record energy deliveries in 2011, the reliability of your co-op's energy delivery infrastructure is more important than ever in providing the electricity and natural gas service you desire. To this end, the year saw more than \$3,500,000 invested in new and rehabilitated utility plant while operating and maintenance programs furthered the safe and dependable delivery of energy to your homes, cottages and businesses.

The year also marked the board of directors' decision to return approximately \$960,000 in capital to members—the first return (retirement) of capital credits since 2003—and a hallmark of the cooperative business model. Checks were delivered in September to more than 12,000 members—in large part to those who took service in 1982, but also to members from other service years.

To ensure a long-term and stable source of electricity, significant investments in power supply were made in 2011 by Wolverine Power Cooperative—a not-for-profit entity providing

distribution, transmission, power supply and ancillary services—on behalf of Presque Isle Electric & Gas Co-op. The costs of those power supply investments were eventually reflected in a July 2011 wholesale rate increase to PIE&G, which is now reflected in retail electricity rates (see page 6). These assets will continue to bring value to you, our members, for years to come.

In 2011, PIE&G did request revenue increases beyond that needed for wholesale power from the Michigan Public Service Commission—for both electric and natural gas service—to ensure a financially sound co-op and improve reliability. The requests were granted by the MPSC. While retail electricity prices increased, the opposite was true for retail natural gas prices—which were lowered in 2011 due to decreasing wholesale prices that offset delivery rate increases.

As this piece is written in 2012, we mark the Co-op's 75th Anniversary. In the challenging economy of northeast Michigan, it is the exception to achieve such a significant business milestone. This is a testament to the importance of energy and the integrity of the cooperative business model.

We thank you for your support as we strive to be your trusted energy and community partner.

Respectfully,
Presque Isle Electric & Gas Co-op

John Brown
Chairman of the Board

Brian J. Burns
President & Chief Executive Officer

Treasurer's Report



Presque Isle Electric & Gas Co-op's Statement of Operations and Balance Sheet for the years ending December 31, 2011 and 2010 are included in this annual report. As indicated by these financial reports, the cooperative has completed another successful year with margins being \$2,078,199. 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.

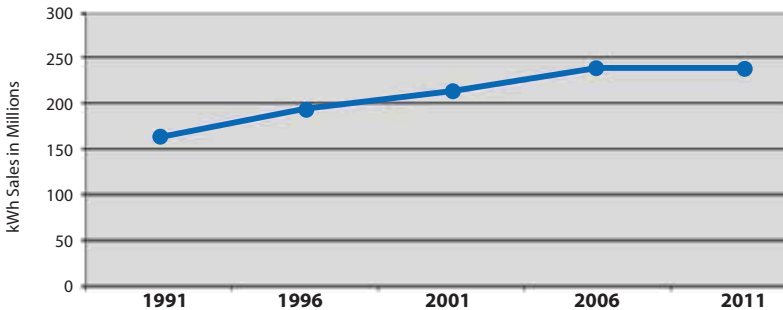
It has been my distinguished pleasure to serve as treasurer for the past year.

– Daryl Peterson, Treasurer

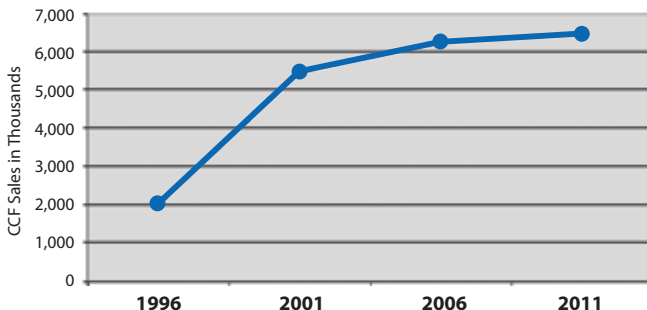
Statement of Operations

	2011	2010
OPERATING REVENUES	\$ 40,303,746	\$ 38,555,890
OPERATING EXPENSES		
Cost of Purchased Power	23,596,605	23,085,268
Operations & Maintenance Expense	8,377,788	8,237,765
Depreciation	3,267,176	3,149,984
Interest	3,151,240	3,183,844
Taxes	1,091,380	1,076,643
Total Operating Expenses	39,484,189	38,733,504
Net Operating Income	819,557	(177,614)
NON-OPERATING MARGINS		
Capital Credits - G&T and Other	1,493,963	389,126
Non-Operating Margins - Other	(235,321)	(107,419)
NET MARGINS	2,078,199	104,093

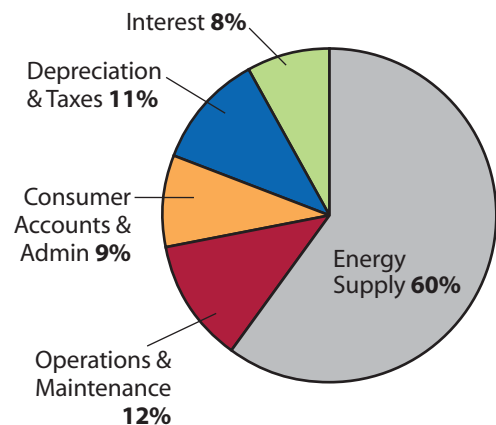
Electric kWh Sales



Natural Gas CCF Sales



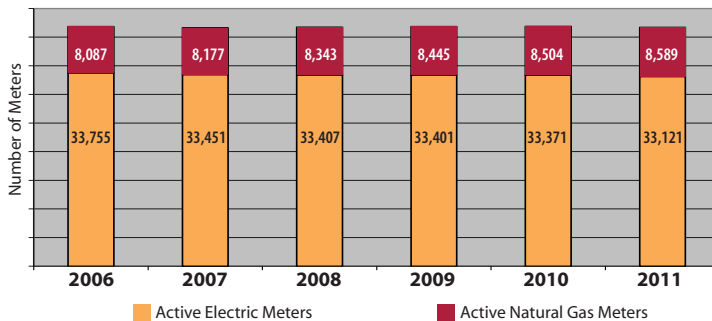
2011 Expenses



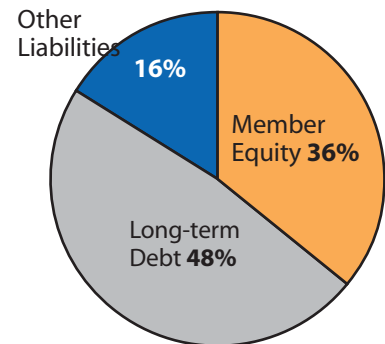
Balance Sheet

	2011	2010
ASSETS		
Total Utility Plant	\$ 121,535,778	\$ 117,986,598
Accumulated Depreciation	(45,954,018)	(42,985,018)
Net Utility Plant	75,581,760	75,001,580
Investments in Associated Organizations	20,885,708	20,330,630
Cash & Cash Equivalents	1,830,054	1,577,131
Accounts Receivable	4,725,144	4,910,699
Materials & Supplies	1,285,871	1,233,075
Other Assets	292,889	122,217
Deferred Debits	155,512	177,497
Total Assets	104,756,938	103,352,829
EQUITIES & LIABILITIES		
Margins & Equities:		
Patronage Capital	39,171,503	38,050,765
Other Equities	(1,301,485)	(1,571,251)
Total Margins & Equities	37,870,018	36,479,514
Liabilities		
Long-Term Debt	50,559,819	52,442,254
Notes Payable	6,200,310	5,056,478
Accounts Payable	9,710,237	8,886,116
Other Current & Accrued Liabilities	416,554	508,467
Total Liabilities	66,886,920	66,873,315
Total Equities & Liabilities	104,756,938	103,352,829

Active Meters



**2011 % 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 2011 financial statements was unqualified, and completed by the certified public accounting (CPA) firm, Harris Group of Traverse City.

Residential Rate Comparison

MPSC-Regulated **Electric** Utilities

As of Aug. 1, 2012

1,000 kWh

UTILITY*	MONTHLY BILL
Thumb Electric Cooperative	\$ 112.98
Midwest Energy Cooperative	\$ 127.90
Alpena Power	\$ 129.32
Cloverland Electric Cooperative	\$ 129.86
PIE&G	\$131.82
Consumers Energy/CMS	\$ 145.12
Detroit Edison/DTE	\$ 150.91
Ontonagon County REA (Cooperative)	\$ 199.44

* Includes Michigan regulated co-ops and other utilities

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

MPSC-Regulated **Natural Gas** Utilities

As of Aug. 1, 2012

100 ccf

UTILITY	MONTHLY BILL
Mich Con/DTE Energy	\$ 91.46
PIE&G	\$115.08
Aurora Gas Company*	\$ 125.00
Propane Equivalent @ \$2/gal.**	\$ 224.00

* Not set by the MPSC; based on \$12/mo. minimum plus \$1.13/ccf

** Not set by the MPSC; 112 gal. propane equivalent to 100 ccf natural gas

Source: dleg.state.mi.us/mpsc/gas/rates/gasrates.pdf

Commercial Rate Comparison (in cents per kW)

MPSC-Regulated **Electric** Utilities

Small Commercial

As of Aug. 1, 2012

25 kW
1,000 kWh

UTILITY*	MONTHLY BILL
Thumb Electric Cooperative	10.42
PIE&G	10.94
Midwest Energy Cooperative	11.14
Alpena Power	12.49
Cloverland Electric Cooperative	12.73
Detroit Edison/DTE	13.34
Consumers Energy/CMS	13.55
Ontonagon County REA (Cooperative)	16.74

*Includes Michigan regulated co-ops and other utilities

Source: Michigan Public Service Commission
dleg.state.mi.us/mpsc/gas/electric/download/rates1.pdf

Large Commercial

As of Aug. 1, 2012

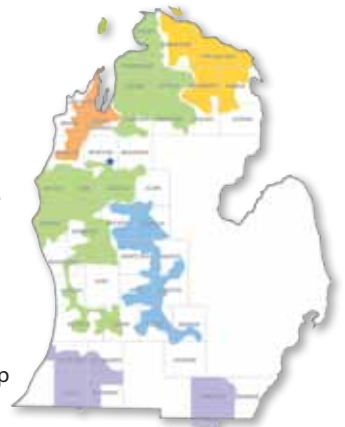
100 kW
28,800 kWh

UTILITY*	MONTHLY BILL
Midwest Energy Cooperative	10.88
PIE&G	11.51
Alpena Power	11.53
Thumb Electric Cooperative	11.80
Cloverland Electric Cooperative	11.96
Detroit Edison/DTE	12.74
Consumers Energy/CMS	13.16
Ontonagon County REA (Cooperative)	15.46

2011 Highlights for Wolverine Power Cooperative



- Cherryland Electric Cooperative
- Great Lakes Energy
- HomeWorks Tri-County Electric Cooperative
- Midwest Energy Cooperative
- Presque Isle Electric & Gas Co-op
- ★ Wolverine Power Cooperative



- Wolverine began serving members with 150 megawatts of baseload power from the Ohio Valley Electric Corporation (OVEC). OVEC consists of two plants, both equipped with modern pollution controls. Wolverine purchased an ownership interest in OVEC in late 2010 to further implement its strategy to own power supply and ensure long-term price stability for its members. Baseload power plants generally operate 24 hours a day, seven days a week.
- Wolverine continued to improve its transmission system in 2011, upgrading over 50 miles of line and constructing a new transmission substation and a new distribution substation. Wolverine's transmission system serves Cherryland, Great Lakes, HomeWorks, Midwest Energy and Presque Isle. It extends 1,600 miles across more than 35 counties in the Lower Peninsula.
- Wolverine continued to purchase the total output of the Harvest Wind Farm. The project's 32 turbines generated 142,819 megawatt hours of electricity, surpassing annual production from all previous years. Wolverine is purchasing the entire output from Harvest, the state's first commercial-scale wind farm, under a long-term agreement.

Wolverine Clean Energy Venture Update

Wolverine Power Cooperative is limiting work on the Wolverine Clean Energy Venture (WCEV) in 2012. Emission rules passed by the U.S. Environmental Protection Agency in late 2011 make construction of a new power plant like the WCEV extremely difficult for any utility in the United States. The co-op is focused on legal defense of the air quality permit issued for the project and also monitoring regulatory and political developments. The bid process for project components has been suspended. Wolverine proposed the 600-megawatt WCEV for a site near Rogers City in 2006.

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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pieg.com



Your Touchstone Energy[®]
Cooperative