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Grid gold

Transmission continued to be a critical asset from 1996 to 2011. The 9,600 miles of the Associated system's transmission grid were impressive for their very length. They spanned the cornfields of Iowa and northern Missouri, the bottomlands of the great rivers, the forests of the Ozarks, cotton land in the Missouri Bootheel, cattle country of the southwest, Indian reservations of Oklahoma and growing suburbs spilling into the countryside everywhere.

Don McQuitty, NW Electric Power Cooperative's CEO, general manager and an Associated board member, described the Associated transmission grid in this way: "It's like squares of a quilt, a patchwork tied together with contracts. But we own more squares than the rest of them put together. What it does for us is serve our load. We're able to access generation economically. Some other parties don't have that."

Couple the mileage with more than 180 transmission interconnections; 21 transmission interconnection agreements; and transactions with investor-owned and municipal utilities, electric cooperatives, power marketing firms and regional transmission organizations. Then factor in the system's very location in the nation's heartland. The result was some very valuable real estate indeed. A treasure not to be bargained, sold, acquired or compromised in any way.

That was Associated's position from day one. Fifty years later, control of its own transmission remained vital to Associated's strength and future. And it remained the single most important element in guaranteeing reliable

Constructing, operating and maintaining high-voltage transmission lines, like this 345-kV line near the Thomas Hill Energy Center, as well as the related substations, are key roles of the six generation and transmission cooperatives that own Associated.

Part of its continuing investment in transmission is construction of the 57-mile, 345-kV Thayer-to-Gobbler Knob transmission line in fall 2006. Construction is coordinated by Sho-Me Power Electric Cooperative, and the line gives Associated the ability to move generation out of southeast Missouri into southern Missouri and provide support to Sho-Me's transmission system in the Thayer, West Plains and Willow Springs area.

service to members, a hallmark of Associated's mission. Redundancies built into those 9,600 miles added security and flexibility to the network.

"Transmission is one of our most important assets. What makes us different from other G&Ts is that we own and operate and control our transmission and have strong objections to government interference and takeover," said Gary Fulks, Associated board member, former director of the Engineering and Operations Division and general manager of Sho-Me Power Electric Cooperative.

"One thing the board has consistently done is build needed transmission projects. It has always approved that investment. When we look around the country, the blackouts in Cleveland and the western states, in its 50-year history, Associated has never had a major blackout. … We've devoted the resources to build the transmission to ensure redundancy," he said.

From the outside, Associated's transmission system looked strong too. "I've always believed a key strength of Associated is its transmission, the ability to interface with other utilities. That's the infrastructure, and it's been there since the beginning," observed Mike Bollenbach of Siemens Energy.

From 1996 through 2011, Associated's commitment to transmission did not slacken in any way. The investment continued, totaling nearly $475 million through 2009 in repairs, improvements and new line. Major achievements included:

- Associated and Ameren Missouri jointly constructed a $25 million, 345-kilovolt line 54 miles from near Chamois to an Associated substation at Franks. Significant coordination with Ameren occurred in the St. Charles, Mo., area in the interconnection of the 345-kV system at Enon to Central Electric Power Cooperative's 161-kV system. Additional 161-kV ties with Ameren Missouri were completed at Troy and Kisker and provided critical support to loads growing steadily around the outskirts of St. Louis.

"It was important to [illegible] and greatly improve reliability for both Ameren Missouri and Associated customers. One testament to our mutually beneficial relationship is the fact that Ameren Missouri has more tie lines with Associated than it has with any other utility company," Ameren CEO Tom Voss said.

- The G&Ts significantly expanded their 138-kV and 161-kV systems. Near Thomas Hill, Central Electric Power Cooperative completed the Thomas Hill-to-Higbee 161-kV line construction at a cost of more than $14 million. Northeast Missouri Electric Power Cooperative also increased transmission capacity near Thomas Hill by building a new line to Axtell, which was built for 161-kV operation.
- In southwest Missouri, KAMO Power and Sho-Me Power Electric Cooperative constructed significant interconnections with the city of Springfield for the benefit of

member-owners. Sho-Me constructed the McCartney-to-Holman 161-kV line that provided reliable interconnections for the Marshfield area; and KAMO constructed the 161-kV line from City Utilities' Southwest Power Plant substation to Jamesville, which supplied reliable service to cooperative members south of Springfield.

- Following the switch of Noranda Aluminum, the state's largest electricity user, from Associated to Ameren Missouri, Associated needed to demonstrate it had the capacity to move that 465 MW of "new" power to other parts of its system. The construction of a 57-mile line from the Gobbler Knob substation south of Poplar Bluff to Cox Creek near Thayer did that and, significantly, provided a path for Dell Power Plant's generation to flow to central Missouri. Built for 345 kV but operated at 161 kV, the line would be the first step in building a 345-kV line across southern Missouri. Significantly, too, it was built for $400,000 a mile – about half what comparable lines would cost.
- Associated worked with the Tennessee Valley Authority to upgrade the 161-kV tie line from 410 MW to 600 MW between New Madrid Power Plant across the Mississippi River to Tiptonville, Tenn. The increased capacity in the line was gained by installing a high-temperature conductor in both the line section from New Madrid to the river and in the span crossing the river. The investment in changing out the conductor more than paid for itself in increased energy sales to the South and in additional transmission revenue for Associated. The upgrade was another example of Associated's working with neighboring utilities for the benefit of member-owners.
- Associated worked with the coordinating committee of the Integrated Transmission System jointly owned by Grand River Dam Authority and KAMO Power to upgrade the MAID-to-Tahlequah 161-kV line and add a spare transformer at the Catoosa substation. This work ensured reliable delivery of power from Associated's Chouteau Power Plant and demonstrated how well Associated worked with other entities in transmission.
- From 2006 to 2008, Associated persistently worked to gain approval from the Kansas Corporation Commission for KAMO Power and Associated to build a 92-mile transmission line through southeast Kansas to maintain reliable service for Oklahoma and Missouri members. The project saved $20 million over the cost of alternative routing and presented an opportunity for Associated to work closely with Ted Hilmes, now COO of KAMO Power but formerly the Associated engineer who helped find a solution to KAMO's entry into Associated. The project team, headed by Chris Bolick, manager of transmission planning and operations at Associated, encountered many hurdles. Among them was a KCC condition for approval that Associated rejoin the Southwest Power Pool. Associated successfully rebutted that condition. When completed, this line from the Blackberry substation to the Sportsman Acres substation would enable Associated to move power from Chouteau 2, when completed, into Missouri without having to purchase transmission service from SPP. It also would help KAMO serve its Oklahoma load.

Employee excellence: Chris Bolick, Jeff Johns, Tony Gott and Pat Baumhoer of Headquarters earned a 2008 Excel Award for their efforts in gaining approval for the important Blackberry transmission line through southeast Kansas.

Projects like these clearly showed the emerging threat to Associated's transmission did not come from a slack in investment. Rather it came from the long arm of FERC.

The search for Tom Blackburn

Deregulation of the wholesale electricity and gas markets knocked Associated for a loop, as it did all utilities. It became increasingly clear about mid-1994 that the Federal Energy Regulatory Commission was going to open up the transmission system to require utilities to allow others to move electricity on their wires. Even though Associated was not a FERC-regulated utility at the time, it needed someone who understood what FERC was doing, knew

From top: Associated Engineering and Operations staff: Tony Gott; and

Jeff Johns.

Towers are constructed to support the 161-kV transmission line stretching 3,600 feet across the Mississippi River. The line is completed mid-1993, connecting Associated and the Tennessee Valley Authority. Similar to the MINT line, this interconnection with TVA gives Associated a number of options for buying and selling power with other utilities.

what Associated's rights would be and knew how the landscape could change. It needed a legal mind who could sort through the confusing muddle of deregulation to help Associated define a strategy and stick with it.

Jura could read the writing on the wall. "When all this was happening I thought to myself, 'Well, I can't avoid it now. We've got to get a good FERC attorney.'" Jura called an old friend at Florida Power & Light Co. and asked for the names of three top FERC attorneys he could interview. That call eventually led Jura to George Bruder and Tom Blackburn, who specialized in energy law, especially matters pertaining to FERC.

"Tom and George were new to cooperatives … and in their early meetings with Jim McNabb, they were fascinated with our transmission capability and our system. … It took several meetings for them to understand the cooperative world, but we've never regretted that decision. It was a key one," said Jura.

Blackburn was indeed what Associated needed. From the mid-1990s through 2010, he helped Associated develop a unique open access tariff to allow it to participate in the new markets, advised Associated on legal requirements related to power marketing and represented Associated on filings with FERC and energy disputes with other companies.

With Blackburn's help, Associated deftly resisted FERC's strong-arm tactics to force it into a regional transmission organization that would effectively have taken control of the Associated transmission system. When push came to shove, Associated left SPP in 1997.

FERC Order 888 and Associated's open access tariff

With Order 888, issued in 1996, every investor-owned utility and some other electric utilities that provided transmission across state lines had to offer customers access to transmission systems that was comparable to the service that the utilities provided to themselves. FERC established a tariff – basically a set of terms and conditions for transmission service that it required each public utility to adopt and required each utility to establish rates for that service that met FERC's standards.

RUS-financed electric cooperatives such as Associated and certain other electric utilities, including the Tennessee Valley Authority and municipal utilities, were not directly subject to Order 888. However, if they wanted to take transmission service from other utilities pursuant to the Order 888 standards, they were required to provide transmission service to each utility from which they were taking transmission service. That service had to be comparable to the service they were receiving.

"The point was that FERC didn't want a cooperative getting open access transmission service and at the same time denying access to its competitors," Blackburn explained.

That didn't mean all entities had to adopt the FERC tariff, but they did have to provide transmission service that was comparable to what they were receiving. FERC's open access requirement meant Associated needed an open access tariff. That happened in 1997, when Associated opened up its transmission system. It was classic Associated: if you're in the game, play fair.

Associated opened up its transmission system. It was classic Associated: if you're in the game, play fair.

Chris Bolick, Associated's manager of transmission planning and operations, stated at the time, "We see the potential to use the transmission system more than we are now … and to increase revenues for the members. The best way to do that is to unbundle like other utilities."

Associated expected about 100 customers initially for the transmission system, mainly power marketers who wanted transmission agreements in place for fast-paced buying and selling of power. Associated, in its central location, would become a link between low-cost generation in the North and markets for more expensive generation in the South.

Associated took a different approach than most G&Ts. As explained by Blackburn, Associated adopted a more limited scope, point-to-point transmission tariff that didn't provide all the bells and whistles of the tariff that FERC adopted in Order 888. But, it met FERC's requirement that Associated provide service that was comparable to the service it was receiving from public utility transmission providers.

"That's been a very successful approach for the last 14 years," Blackburn said. "Some of the G&Ts adopted the FERC tariff. A fair number didn't do anything at all but waited to see if anyone denied them service. Those were the two biggest groups. … Associated was in the minority in adopting a limited-scope tariff. From my perspective, it was a good approach because Associated didn't adopt tariff provisions it didn't think would be needed to meet FERC's comparability requirement, but it had the flexibility to broaden the scope of the service it was offering if there was a complaint. So their approach was both responsive to FERC and innovative."

From top: Chris Bolick, Associated Engineering and Operations staff; and

Patrick Baumhoer, Associated general counsel and chief compliance officer.

Reliability was integral to Associated's mission ... But reliability compliance was a new beast, with layers on layers of regulations.

Instrumental in crafting this tariff with Blackburn and fine-tuning it through the years were Jim McNabb; Gary Fulks, when he was Associated staff; and later Bolick, Jeff Johns, David McNabb and Pat Baumhoer.

It's all about reliability

After 9/11 and the widespread power blackout that cascaded across eight eastern states in August 2003, the federal government became increasingly concerned about the reliability and security of the national electricity grid. Through the Energy Policy Act of 2005, the hammer of FERC came down once more on utilities, this time creating a national electric reliability organization, later to become the North American Electric Reliability Corp., overseen by FERC. This time, Associated was indirectly regulated by FERC through NERC and one of its regional reliability entities, the SERC Reliability Corp.

To meet the growing demands of NERC, Associated began adding staff dedicated to, along with the G&Ts, reliability compliance. In 2010, Associated restructured its reliability compliance team, beefed up with new staff. The new department within the Executive Division brought together staff from Engineering and Operations and Information Services (formerly known as Business and Technical Services) who reported directly to Pat Baumhoer, general counsel and Associated's chief compliance officer.

Regulatory compliance was, of course, not new to Associated, which had an excellent track record from its earliest years. And reliability was integral to Associated's mission: to provide affordable, reliable power. But reliability compliance was a new beast, with layers on layers of regulations. Every utility struggled to meet the new requirements. The early round of compliance audits by SERC was a learning experience for everyone, including Associated, but helped utilities ratchet up their policies and procedures to meet the new expectations. By September 2010, Associated was ready for SERC scrutiny, successfully passing the audit.

Here come the RTOs

As the power industry deregulated, FERC conceived of regional transmission organizations as a way to handle the surge of transactions taking place in the new competitive power sales markets. Its Order 2000 of December 1999 required all public utilities that owned, operated or controlled interstate transmission facilities to report how they would create or join an RTO or what prevented them from joining such a group. The RTO would bring all public utility transmission systems within a region under common control. Utilities would give up control of their transmission facilities and be required to share the revenues for use of the combined transmission systems of all utilities in the RTO.

As Fulks described it, "The RTOs basically socialized the costs and revenues. Customers could move power over long distances with one-stop shopping and pay less."

Events such as the California electricity crisis of 2000 and 2001 reinforced FERC's call for control of transmission. 9/11 heightened concerns about national grid security and reliability. Then, in August 2003, the world's second largest electrical failure occurred when 265 power plants went down, affecting an estimated 10 million people in Ontario and 45 million in eight northeastern states. An investigation ultimately pointed to major transmission lines coming into contact with trees, as well as computer and equipment failures.

Although utilities were pressured to join an RTO, Associated held firm. According to Gary Fulks, director of the Engineering and Operations Division at the time, analysis indicated Associated would lose about $10 million per year in an RTO.

Blackburn stated, "It was Associated's strategic choice not to join the RTO and instead to preserve its transmission assets, to stick with operating its own transmission system."

The alphabet soup of regulation: FERC, NERC and SERC

According to Blackburn, FERC finally backed off using the big stick to force independents into RTOs. But then in 2005, Congress passed the Energy Policy Act, and FERC gained jurisdiction over Associated in several significant ways. First, the Act gave FERC the right to apply its non-discrimination requirements to unregulated utilities, such as Associated.

"It meant Associated has had to walk a fine line," explained Blackburn. "It's had to be extremely careful to avoid any customer complaints, which could lead to FERC scrutiny and possible action."

Second, the Energy Policy Act also created mandatory reliability standards and authorized FERC to issue fines of up to $1 million a day for violation of the standards. It set up the North American Electric Reliability Corp. to establish the standards and set up regional corporations to audit compliance and assess potential penalties for non-compliance. The former Southeastern Reliability Council, which Associated joined after leaving SPP in 1997, was reorganized as SERC Reliability Corp. Associated rejoined SERC in 2008.

"Now, Associated has got to pay attention to SERC, NERC and FERC reliability standards. It takes a lot of time and effort, and utilities are spending a huge amount of money to comply," said Blackburn.

There was more. The third significant new form of jurisdiction for FERC was authority over manipulation of energy markets. This was Enron stuff. Before, FERC only had jurisdiction over public utilities, but now if Associated or other utilities engaged in Enron-style manipulation of the market, FERC could issue fines of up to $1 million a day.

"So FERC is creeping ever closer," Blackburn said. And there is always the possibility of customer complaints about Associated's transmission service that would get the attention of FERC. In his opinion, Associated has nothing to fear from individual residential customers who get all the power they want from Associated. Public utilities also have never challenged a cooperative on the grounds of inadequate service. If a challenge should come, it will most likely come from a municipality within one of the six G&Ts.

The next challenge: regional planning organizations

FERC has continued to issue regulatory orders. Looking ahead to the next round of regulatory challenges, Blackburn said that a proposed new FERC regulation would require entities like Associated to participate in regional planning organizations. For example, Associated's system would be used to move wind power from western Kansas to customers in St. Louis. Instead of Associated's customers paying for the transmission, the end customers in St. Louis would pay.

"That's important for Associated," Blackburn said. "Expect to see increased pressure for Associated to participate in a regional planning organization of transmission lines. Where Associated goes on this, we don't know yet." What *was* known was that Associated would approach the regional planning question strategically, and in 2011 it was already spending more time coordinating with RTOs on transmission planning and construction. Operating strategically became a guiding principle in this period.

Employee excellence: Mike King learned a lot about transmission as he managed the internal audit process at Associated. G&T general managers praised him for his timely, professional and accurate conduct of the compliance audits that looked at transmission costs and the primary credits Associated paid to the G&Ts for use of their facilities. His travel throughout the Associated system gave him a unique perspective, forged strong relationships and earned him an Excel award.

From top: Charles Baile, former Associated board member, and Mike King, manager of internal audit at Associated; and

Kenny Switzer, Associated Engineering and Operations staff. Switzer is Associated's longest-serving employee in 2011, celebrating 43 years with the cooperative. He started in the Thomas Hill coal yard in 1968, moving to Headquarters in 1973 to work as a dispatcher in system operations. He said technology has brought the most change. When he started, he used two computer screens. Today, he monitors the Associated system on 18 screens.

Larry Swilley, Power Production staff at New Madrid Power Plant.

The storm of the century

John Farris, general manager of M&A Electric Power Cooperative and an Associated board member, described the ice storm of Jan. 26-28, 2009, as "the storm of our century." It was all that and more.

"It looked like we'd been bombed," said Larry Swilley, coal yard operations superintendent at New Madrid Power Plant. Ice, strong winds and heavy rain hit in two punches. As employees Larry and Alice Swilley drove in ditches to get to New Madrid Power Plant on the second day, they found nary a pole standing. The ice-shrouded power plant, as well as St. Francis Power Plant and Essex Power Plant, shut down for 32 hours, unable to operate because the transmission lines needed to send the power were down.

The storm damaged some 20 high-voltage transmission lines in the service areas of M&A and Sho-Me Power Electric Cooperative. Among the most damaged, were two sections of 345-kV transmission line stretching over 50 miles, affecting M&A's territory and lines owned by Associated, M&A and distribution cooperatives.

But the strength of the storm was overshadowed by the strength of the cooperatives' response. The six G&Ts went to work rebuilding the damaged high-voltage transmission system. Due to the redundancy that Associated and the six G&Ts had built into the transmission system, Associated was able to send power to members who could receive it.

However, many could not. Distribution cooperatives worked around the clock in their communities to restore electric service, first to priority customers such as nursing homes, gas stations and grocery stores.

The Association of Missouri Electric Cooperatives pitched in, as well, communicating the damage, outages and needs of the cooperatives and coordinating line crews coming from other areas and neighboring utilities to help restore service. Among them was Ameren Missouri.

AMEC's Rob Land took the lead in working on Associated's behalf with Missouri Gov. Jay Nixon, Missouri National Guard Adjutant Gen. Steve Danner, U.S. Rep. Jo Ann Emerson,

As the sun rises in late January 2009, Associated employees head to work through precarious conditions to New Madrid Power Plant. Often driving in ditches to avoid downed power lines, they see little steam is coming from the plant stack. Electricity production at the 1,200-MW plant has been scaled back because the lines to send out the power have been brought down by inches and inches of ice. Photo by Scott Harvey.

The storm of the century, continued

the State Emergency Management Agency, and Missouri Farmers Association to bring fuel to St. Francis Power Plant to start it up. Nixon and Emerson also helped speed up transmission repairs and facilitate Federal Emergency Management Agency arrangements. FEMA aid would eventually absorb 75 percent of Associated's cost of repairs.

As thousands of members sat in their dark, cold houses, Associated's response was swift: for the first time in its history, it got into the transmission construction business. The ice storm had toppled high-voltage lines at a scale beyond the ability of one G&T to rebuild. The board abandoned the normal practice of having the G&Ts handle transmission construction and repairs and directed Associated staff to work with the G&Ts to begin recovery of both Associated and M&A's 345-kV lines. In an extraordinarily short 17 weeks, nearly 100 contractors worked seven days a week, 12 hours a day to rebuild nearly 50 miles of the two high-voltage lines.

Thanks to early involvement of FEMA in the disaster and careful record keeping on the part of Associated, Associated and M&A recovered 75 percent of the allowable expenses, or about $12 million. Total expenses for the storm were more than $17 million for Associated.

AMEC estimated the damage done to Missouri electric cooperatives overall as more than 17,000 poles replaced, 64,000 co-op members without power, 3,300 workers restoring power and $180 million in damages. As Jake Fisher, an Associated board member from Pemiscot-Dunklin Electric Cooperative, said about the damage within his own cooperative, "It took 60 years to build the lines, three days to tear them down and three weeks to rebuild them. … I've never seen a group come together as a family more than with the ice storm. They came from all over the state. … Associated and everybody chipped in. It was a family thing."

Employee excellence: Larry Swilley, as well as Brad Austin, Rhonda Day, Kevin Hopper and Steve Murray of Headquarters earned an Excel award for coordinating rebuilding efforts with the G&Ts, AMEC and other utilities.

From top: Associated board member John Farris shows ice from a downed transmission line to U.S. Rep. Jo Ann Emerson. He estimates the weight of ice on each span of line between crossarms at 10,000 pounds; and

Associated employee Excel award recipients Kevin Hopper, Brad Austin, Rhonda Day and Steve Murray.

A historical perspective on regulation from Glenn English

Glenn English of the National Rural Electric Cooperative Association, a lobbying organization for cooperatives throughout the country, aptly observed that in any industry, including electricity, the philosophy pendulum swings back and forth between regulation and deregulation. In the power industry, regulation ruled for about 50 years. Then, deregulation slowly took hold.

In the late 1980s and through the 1990s and into the 2000s, the push for deregulation, open access and retail competition moved through the industry, pushed and pulled by Enron and other energy marketing companies. Retail competition, many believed, would provide more choice, lower electric bills and improve service. But history proved otherwise. Whether rail or banking or electricity, sometimes the opposite occurred.

English, with his keen sense of history, blamed government for allowing too much manipulation of the industry by companies in it for the money and no interest in meeting the needs of consumers. Eventually, he said, "The retail competition got a cold shower. California served as the canary in the coal mine. Enron played a huge role, and that was where the regulators were not overseeing the system. Enron got the freedom to abuse the system, and a bunch of folks who were traders found opportunities in California."

"Now we're moving back in the other direction again," he said. Throughout these swings, Associated and other utilities must continue to operate – no easy task. "One of the responsibilities of NRECA and Associated, with its great expertise, is helping deal with things that are not the way we wish they were and how we might improve our situations. It's the art of the possible."

Clockwise from left: Glenn English, CEO of NRECA (sidebar);

meeting in Washington, D.C., on issues that concern electric cooperatives are, from left, U.S. Rep. Jo Ann Emerson; Barry Hart, AMEC CEO; Gary Harris, board of directors, Co-Mo Electric Cooperative Inc.; Don McQuitty, Associated board member; and Jim Jura, Associated CEO (Photo courtesy of NRECA); and

Barry Hart, U.S. Rep. Ike Skelton and Associated board member Don Shaw talk in June 2010 at the AMEC legislative conference, where Skelton announced legislation to stop the Environmental Protection Agency from regulating greenhouse gases under the Clean Air Act, which was not intended for that purpose (Photo courtesy of AMEC).

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Getting strategic

In war, politics and chess, "strategy" is a plan of action to win. In business, strategy is the roadmap that gets the company to its goal. From 1996 through 2010, Associated, under Jim Jura, focused on the art of strategy.

The mission, of course, was already in place: to provide an economical and reliable power supply and support services to its members. What Jura did early in his tenure was create a vision of what Associated aspired to be: the lowest-cost wholesale power supplier. Not "one of" but "the" lowest-cost supplier. He began honing and refining the strategies he saw embedded in the Associated culture to achieve the mission and turn vision into reality.

The process got started as Associated prepared for its first formal bond rating in 1996. The agencies expected a company to have formal business strategies and objectives. Jura's deep thinking – "I had them in my head" – and use of senior executives as a sounding board, led to five strategies:

- Focus on core business
- Commitment to financial strength and flexibility
- Proactive and conservative management of risk
- Development and management of strategic alliances
- An informed and involved membership

Along with these business strategies, Associated began to develop yearly objectives. One was to "electrify our culture with excitement and teamwork." Stirring the senior management pot was one way Jura sought to electrify the Associated culture.

"I wanted them to think like they sat in my chair," he said.

Posing for a photograph for CoBank's 2010 annual report at the Chouteau Power Plant are, from left, Duane Highley and David McNabb of Associated and Todd Telesz, sector vice president with CoBank.

In November 2007, contractors work on final demolition of the Thomas Hill Unit 3 precipitator, which was removed to allow installation of a new design that improved capture of fine particles in the flue gas before it is released from the power plant. Precipitator improvements were part of the $426 million environmental controls project completed in 2008.

Personnel shuffling began. For example, Supervisor of Resource Planning Duane Highley was sent to New Madrid Power Plant in 1996 to run the plant, later returning to Headquarters as director of Power Production. Later, David McNabb moved from Engineering and Operations to Accounting and Finance as CFO. Business and Technical Services was refocused into Information Services, with Ron Murphy becoming the director. Joe Wilkinson transferred from Information Services to become director of Member Services and Corporate Communications. To further mix things up, at presentations to rating agencies, Jura might ask David Stump, director of the Human Resources Division, to make a presentation on power production. All of this, Jura said, was aimed at broadening perspectives, forcing his senior team to think like CEOs and moving them out of self-imposed silos.

Jura also recruited from outside. In 1998, he brought in Mike Miller from Silver Dollar City as CFO. He recruited Keith Hartner from Bonneville Power Administration to take up the mantle of Marketing and Communications, later known as Member Services and Corporate Communications. He hired Roger Clark, son of former Associated president O.B. Clark, from Boone Electric Cooperative to head up Member Services and Corporate Communications in 2007, then moved him to director of the Engineering and Operations Division in 2008. Jura created the special assistant to the CEO and general manager position. In time, Jim McNabb, Hartner and Miller each moved to that slot, creating opportunities for Gary Fulks, Roger Clark and David McNabb to fill their shoes.

"When I came here, the organization was doing very, very well. I looked at where I could add value," Jura said. What he saw were a lot of divisional silos where individuals functioned very well within their narrow space but had no idea what was going on in the rest of the company. Jura sought to break down those walls and to make it comfortable for everyone to take pleasure in others' successes – not just their own.

"Are they sincerely trying to make each other successful?" Jura asked. "That's what I look for."

He also sought to develop candor. "I wanted everybody to be candid. … Because I don't know the business as well as they [senior staff] do, I know I'm capable of asking them to do something stupid. But if I asked them to do something that doesn't make sense, they need to tell me that," he said.

The Executive Development Program and a mentoring program, administered by Stump, helped accomplish these objectives. EDP, aimed at the "critical gene pool of up-and-comers," according to Jura, identified an individual's strengths and weaknesses, then sought to improve on the weaknesses and put the strengths to work, often in new environments with new teammates. EDP, along with pairing up staff with senior mentors, was an investment in personnel that Jura considered critical to implementing Associated's strategies.

"When I came to Associated, I was impressed with what a lean organization it was. It wasn't bloated. People worked hard and welcomed responsibility and accountability. That was already there, but the EDP was a way to identify who those high achievers were and to get them to work together. The expectation was they would take over the business some day," Jura said.

As he worked on his management team, he taught them the art of writing issue papers, tested them in front of the board and required them to think like CEOs. Most importantly, he drilled them on strategy and message. As the years rolled along, the strategies, the mission and the vision were pushed down through the rank and file and out through the three-tiered system. The result was an amazingly consistent cohesion at all levels and a message genuinely believed and practiced. Over the past 15 years, the strategies became more than mere words on paper. In fact, Associated walked its strategic talk.

Jim Jura, Associated CEO.

"Part of Jim's initiative was to try to remove and take down the silos within the divisions. He wanted us to think like CEOs."

– Mike Miller
retired Associated CFO

From top: Summer 2007 construction of environmental controls at Thomas Hill Energy Center; and

Jim Campbell, Peabody Energy.

"Associated seems to know where its competencies are and where to seek out partners. ... That's unusual."

– Craig Weeks
Siemens

Focusing on the business

Associated never strayed from its core business of generating power and delivering it over high-voltage lines. But during the years when Enron was riding high, other utilities did, spinning off subsidiaries and dabbling in other lines of business as a way to hold on to existing customers and attract more. Associated stuck to coal generation, supplemented by hydro, gas and wind. By 2010, it was looking at nuclear again, but nuclear was simply another fuel resource, not a new line of business. Associated also was not padding its payroll with extra staff whose responsibilities could more efficiently and cost effectively be handled by strategic partners and vendors.

Strategic partners seemed to appreciate the fact that Associated did not cop an attitude or pretend to be something more than it was.

Craig Weeks of Siemens noted, "The Associated footprint is pretty small and focused, but Associated didn't do things it wasn't good at and instead reached out to make global partnerships to get the best application of technology to serve clients. Small companies need to understand they have their limitations. Jim understands that. Associated hasn't tried to build an enormous engineering arm. It has stayed focused on its customers and knows its value proposition. Associated seems to know where its competencies are and where to seek out partners. … That's unusual."

Committing to financial strength and flexibility

In the 1960s and 1970s, Associated was like a family struggling to pay its monthly bills. The money sometimes didn't stretch far enough for timely payments. But fiscal discipline taught the Associated board and management the hard lessons of frugality, creditworthiness and cash reserves. And its strong member base gave lenders, primarily federal lenders, the confidence and trust to make critical loans.

By 1996, Associated's financial house was in order.

Looking ahead, though, Jura and his team could see the necessity for ratcheting up to a whole new level of financial strength and flexibility. Flexibility was wanting, but in 1996 Associated took the first step to becoming more nimble when it formally went to the bond markets. The ratings and an indenture freed Associated from the limitations of loans from the Rural Utilities Service and the National Rural Utilities Cooperative Finance Corp. (CFC). Guided by Miller and David McNabb, Associated pushed open new lending doors and acquired new strategic financial partners. By 2010, Associated was well established as something of a financial icon in the cooperative world.

Speaking for CFC, which loaned Associated many millions of low-cost dollars through the years, Tom Hall said about its very substantial borrower, "Even with a sizeable capital expenditure program, Associated continues to maintain very solid financial ratios and overall financial strength."

Proactively and conservatively managing risk

Reining in risk became a trendy topic in the 1990s, peaking about the time Miller joined Associated in 1998. Associated had long made risk management a business priority, but downside risks in the late 1990s got a whole lot more serious. The zeros got longer behind the dollar signs to pay for SCRs and gas plants. The Wild West of deregulation opened the markets to energy traders who owned no transmission or generation assets. Associated began to worry about risk. "It got pretty scary," said CFO David McNabb.

9/11 didn't help either. The Sept. 11, 2001, attack was the largest insured event in history at the time with claims estimated up to $70 billion and an immediate and lasting impact on the insurance industry. Utilities like Associated were rocked with exploding property insurance premiums as high as 400 percent increases. Insurers began to limit their coverage, many dropping terrorism coverage, for example. Associated's property insurance carrier pulled out of that market in 2002. Associated's plants in southeast

Missouri and northeast Arkansas in an earthquake zone made finding insurers more difficult and expensive. That forced Miller and Risk Manager Richard Burlison to go shopping, ending up sealing deals with Lloyd's of London and other European insurers. By 2010, Associated had insured values of more than $5 billion, including earthquake, fire and property coverage.

But risk management was far more than property insurance, general liability and workers' compensation. Miller remembered that soon after he arrived, Jura called his senior staff to each bring 10 areas of risk to the table for discussion. Each director brought his unique perspective to the task, yet, according to Duane Highley, there was "remarkable alignment" among the team in the first list of top 10 risks.

"Part of Jim's initiative was to try to remove and take down the silos within the divisions. He wanted us to think like CEOs," said Miller. And so, annually senior staff would repeat the exercise, and over time, the risk list became even more homogenous. "David Stump's were very similar to Gary Fulks,' and his were very similar to Duane's. Jim had accomplished his goal of us thinking like CEOs and becoming more skilled at identifying risks that would have an impact on Associated."

Miller explained that the 10 risks would be boiled down to five, and those would be listed on a single PowerPoint slide. Then, when staff and the board made their presentations to the rating agencies in New York, "We would spend half our time on that one slide. Each risk would have a champion, and we would talk about what we were doing to mitigate that risk." For example, to mitigate loss of a unit, Associated would stockpile critical parts, build cash reserves, strengthen its contracts and relationships with other utilities and maintain 670 MW of reserves.

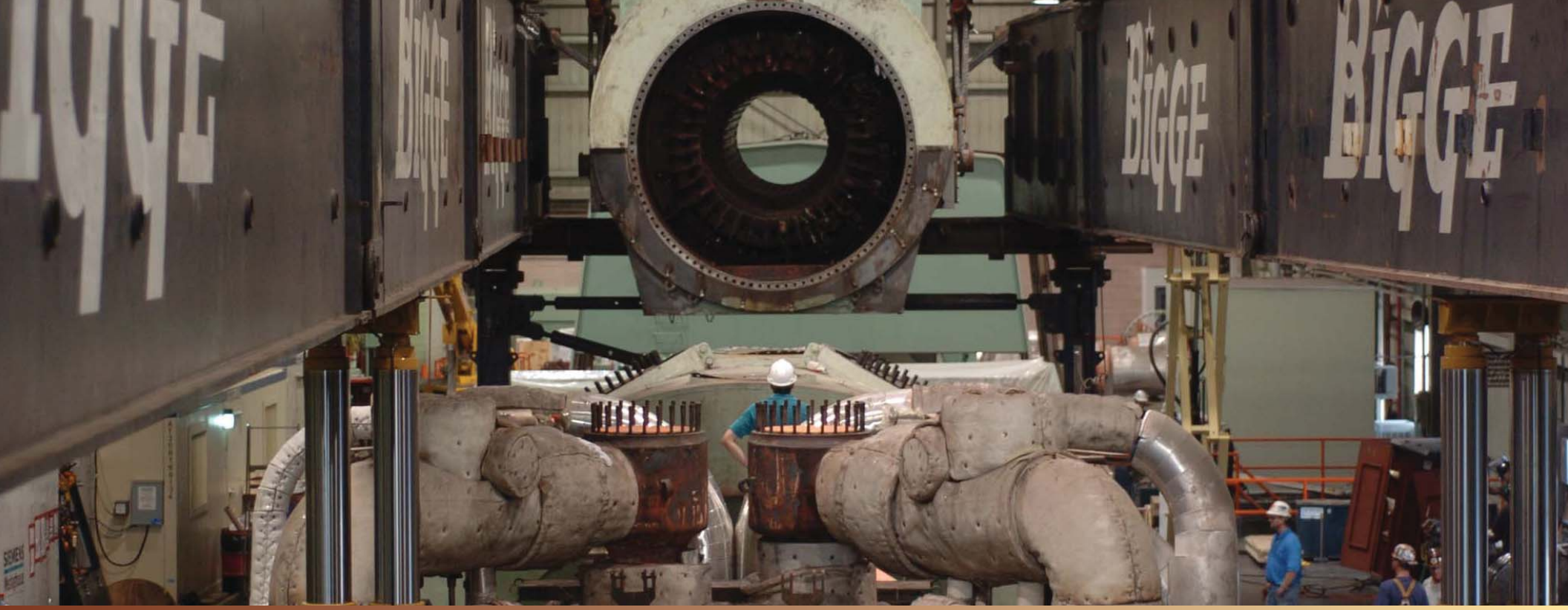
In 2005, that plan was tested in Thomas Hill/New Madrid shutdowns. The cooperative lost more than 900 MW as Thomas Hill Energy Center and New Madrid Power Plant lost units back to back. Associated's proactive risk management strategy helped offset the lost power sales of $12 million at Thomas Hill and $36 million at New Madrid, and insurance covered about $30 million of the $34 million property loss and extra fuel expense resulting from the outages.

The one billionth ton of low-sulfur coal shipped from Peabody's Wyoming mines arrives June 1, 2006, at New Madrid Power Plant. Associated was one of the first utilities to convert its large coal units to low-sulfur coal in 1994 to meet clean air standards and receives all its coal, about 9 million tons annually, from Peabody's North Antelope Rochelle Mine. Photo by Jessica Krienert, Obata Design.

Developing and managing strategic alliances

Strong alliances with neighboring utilities, vendors and other entities have been an Associated hallmark from its founding. The ability of Jura or a senior executive to pick up the phone and call a counterpart to expeditiously fix a problem or facilitate a decision is one of the most valuable cards management has to play.

The Thomas Hill/New Madrid shutdowns of 2005 taught Associated just how critical strategic relationships could be. In May, as operating crews were bringing down the 303-MW Unit 2 at Thomas Hill Energy Center for a spring maintenance outage, voltage dropped to zero in one



June 28, 2005, Associated Plant Performance Manager Kevin Murphy (center) watches as the damaged 250-ton Unit 2 generator stator is lifted out at Thomas Hill Energy Center. Associated staff worked with the railroads, heavy hauler and Siemens to bring in a replacement generator and set it in place June 29, enabling Associated to return the unit to service in seven weeks – versus months of downtime originally projected. Photo by Jim McCarty, AMEC.

minute, the hydrogen panel went into alarm and the unit tripped. The result: a severely damaged generator estimated to take 26 weeks to repair. A month later, New Madrid Power Plant Unit 1's rotating and stationary turbine blades were damaged when water was drawn into the low-pressure turbine. Worldwide demand for forged blades put the lead time at an estimated 18 months for new turbine blades on the 600-MW unit.

At New Madrid Power Plant, Associated again relied on long-standing business relationships with the original equipment manufacturer, Alstom Power Inc., as well as other utilities. Nebraska Public Power District and American Electric Power sent spare blades they had in stock, enabling employees to get Unit 1 on line in seven weeks.

"One of the things I have learned is the strength of strategic relationships. When you can pick up the phone and call a CEO … that's very valuable," Jura said. And that's what he did on the Thomas Hill damage. He first called Siemens, which sprang into action and found a sister generator mothballed in Texas. He then called Matt Rose, CEO of BNSF Railway, and Jim Young, now CEO at Union Pacific Railroad, explaining the situation and the urgent need to get the generator to Thomas Hill. The railroads responded. Using special trains and cars and opening up rail lines that were particularly congested at the time, Union Pacific expeditiously got the 250-ton generator to Kansas City, and BNSF from there to Thomas Hill. The generator arrived June 26 while an engineered lift was being built to remove the Unit 2 generator and bring in the replacement. After seven weeks, the unit was back on line July 9 for a second round of hot summer days and system peaks.

Jura admitted that many utilities don't have this kind of relationship with the railroads. "It's just better to have trust," he said simply.

The utilities

Other vital relationships evolved with Ameren Missouri and the Tennessee Valley Authority. The lines that connect Associated to its neighboring utilities have proven to be literally the ties that bind through the decades. Though deregulation changed the "we'll look out for each other" mentality, long-term relationships with Ameren and Kansas City Power & Light held firm. In the case of Ameren, ice storms in St. Louis brought help to Ameren from cooperatives in the Associated system. The favor was returned in 2009 in the great ice storm of southeast Missouri.

Transmission and substation projects, such as the 54-mile line from Chamois to Franks mentioned in "Grid gold," called for collaboration. But for Ameren Corp. Chairman, President and CEO Tom Voss, the solid relationship between the two utilities reached "a new level" in 2004 when the two worked together to change Noranda's supplier from Associated to Ameren Missouri.

In 2010, the two utilities were part of a consortium of energy providers urging the legislature to preserve the option of a second nuclear power plant in Callaway County, Mo., by Ameren. The proposed legislation would let Ameren Missouri recover its costs of obtaining an early site permit for the plant.

In the new regulatory landscape, both TVA and Associated belonged to SERC, and TVA was Associated's reliability coordinator. "We watch for reliability issues that might cascade, and if problems arise, we stop them at the front door and don't let them in the house," said TVA CEO Tom Kilgore.

TVA also bought generation from Associated virtually every day, primarily because the power was low cost and plentiful. Kilgore anticipated at least two more areas where TVA and Associated could interconnect. One was wind: if TVA buys wind power in the Midwest, it likely will be transmitted to TVA via Associated's transmission system. Second was nuclear. Associated joined a group of G&Ts studying the proposition of building a nuclear power plant as a joint venture. TVA, with its long experience with nuclear power, was a resource for that group.

Other utility alliances proved vital, too. Associated discovered that a strong balance sheet, financial flexibility, nimbleness in the marketplace and low-cost generation made it attractive to other organizations wanting to do business with it. Utilities on every side of Associated's territory struck deals to buy, sell and transmit power, including Entergy Power Corp., Nebraska Public Power District, Arkansas Electric Cooperative, TVA, Kansas City Power & Light Co., SWPA and GRDA.

Associated's entry into gas forged new partnerships, first with PanEnergy and then with Duke Energy Corp. after it acquired the former. The new relationship added strength and stability to Associated's competitive position.

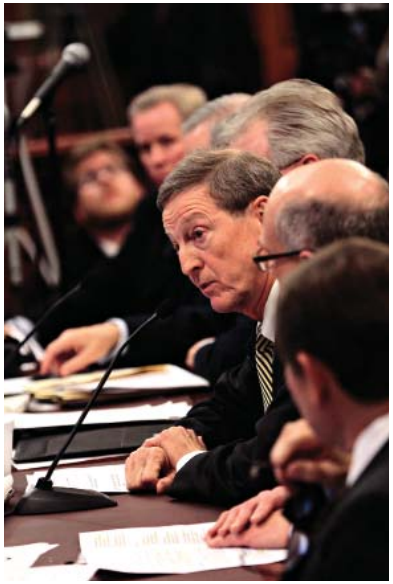
Some utility alliances got weaker. In 1998, an alliance with Entergy allowed Associated to share and use energy in a different way, such as sharing operating reserves. Both utilities became huge customers of one another. A capacity contract with Entergy gave Associated Entergy's cost plus 10 percent, a far better deal than retail rates, and access to large quantities of Entergy's power. Eventually, though, as Associated diversified its own generation mix, the capacity contract was not renewed, though Entergy and Associated remained important trading partners.

Some strategic customers went away. Noranda Aluminum, Associated's largest customer for about 30 years, announced in 1997 it would spend about $60 million to expand aluminum production. But by 2003, as told in "Shakedowns, shake-ups" Noranda and Associated mutually agreed to part ways, each benefiting in the process.

Labor

Relationships with organized labor were important, too. An alliance between Associated and the International Brotherhood of Electrical Workers, which represented its skilled employees at the power plants, resulted in several extensions of the labor contract from 1995 to mid-2013.

In 1998, agreements with Boilermakers helped cut the



Associated CEO Jim Jura testifies in March 2011 before a Missouri Senate committee in support of proposed legislation to preserve the nuclear energy option for future electric supply. Photo courtesy of AMEC.

From top: Associated Power Production staff members are Kim Reno;

Ron Hollies; and

Tom Harris.

length of outages, saving upward of $100,000 a day in lost generation. Relationships with labor contractors like Graycor and Enerfab also were critical. As explained by Highley, solid relationships with such contractors gave Associated as reliable a source of labor as its own employees. When outages needed to start early, the workers were there.

The regulators

Some strategic relationships were particularly vital to Associated's interests. In each, open, honest, frequent communication built stronger ties of trust. One was with a regulator that didn't even have authority over Associated: the Missouri Public Service Commission. As documented in "Win-Win," the two entities had a long relationship. More recently, Jeff Davis has been the face of the PSC to Associated, and he related his long personal history with cooperatives, beginning with his grandfather, who served on the boards of Pemiscot-Dunklin Electric Cooperative, M&A Electric Power Cooperative and AMEC.

On issues of statewide importance and the nuts and bolts of making sure people got affordable, reliable electricity, Davis was always a ready ear, most frequently communicating with Jura, Highley and Roger Clark, and at AMEC with Barry Hart, David Klindt and Brent Stewart. The strengths of Associated – its transmission system, diversified baseload, extraordinary leadership and strong customer relationships – set Associated apart from the state's utilities, in Davis' view, and prepared it for the challenges ahead.

"We are operating in a rising costs environment, and it's a double-edged sword. Not only are costs rising, but there's the need to invest in infrastructure for the next generation to make sure customers or members have reliable service they can afford for the next 50 years. It's extremely difficult to plan when the rules keep changing," Davis said.

Although not regulated by the PSC, Associated interacted with it on a number of fronts. Rate increases were one. After deregulation, power marketing, environmental and transmission regulations and fuel cost volatility kicked in, all utilities began to feel the squeeze of higher costs. For the first time in years, boards were talking increases.

"Even with our two biggest utilities, AmerenUE [formerly Union Electric and now Ameren Missouri] and Kansas City Power & Light, no one had raised rates from the mid-1980s through 2005. You had directors on the boards for 10 years who had never voted for rate increases," recalled Davis. The PSC invited utilities, including Associated, to a meeting in 2005 at the Lake of the Ozarks to discuss rate increases and how to handle them. At the time, Associated had already informed members of its 10-year rate plan calling for increases beginning in 2006.

Natural disasters also seemed to bring out the best in utilities even without encouragement from the PSC. Remembering summer storms in 2006 and 2007 in St. Louis that took down everything, with temperatures hovering at 100 degrees, Davis said, "People in the city were not as equipped as people out in the country. It was literally life or death for the elderly and homebound. … Without those cooperatives' sending their linemen [to assist Ameren] and having these assistance agreements, it could have been a lot worse situation. They helped save people's lives."

When the 2009 ice storm in southeast Missouri devastated Davis' grandfather's cooperative and the entire region, the utilities rallied again, investor-owned, municipal and cooperative alike. Ameren Missouri's Tom Voss agreed at a meeting with U.S. Rep. Jo Ann Emerson to release contractors to the electric cooperatives, keeping them in the area instead of going to other states.

"That sort of thing doesn't happen every day, when a U.S. Congresswoman asks you to sit down with the CEO of Ameren," AMEC's Barry Hart said.

The Missouri Department of Natural Resources proved to be another important ally. Anita Randolph, former director of the Energy Department in the Division of Energy, began reaching out to Associated as soon as she joined the division in 1998.

"We were extremely interested in reaching out and

> The thing that has always struck me about Jim Jura is he would set aside the contracts and the structure and talk about what's right for Associated and for Siemens. That's a very unusual perspective.
>
> – Craig Weeks
> Siemens

forming partnerships with various Missouri utilities to advance some utility programs that helped customers. We began what turned out to be a very productive and fruitful conversation with Associated about energy efficiency," she recalled. "It was very obvious Mr. Jura was a real advocate for energy efficiency and the role it can play."

Randolph watched as Take Control & Save took hold and produced results. In 2009 and 2010, the division worked with Associated to share information with the distribution cooperatives about funding through the American Recovery and Reinvestment Act of 2009 for weatherization of homes for low-income families. As a result, several cooperatives received funding to participate in the state's weatherization assistance program.

"We started a conversation with Associated more than a decade ago, and it's been really gratifying to see that conversation increase and see the host of energy efficiency programs Associated now offers to its members," she said.

The excellent relationship between Associated and DNR garnered some national recognition for Associated's environmental record. DNR nominated Associated for "2006 Wind Cooperative of the Year," awarded by the U.S. Department of Energy, and for the Kenes C. Bowling National Mine Reclamation Award from the Interstate Mining Commission.

The contractors

Relationships with contractors also were vital. The complexity of baseload electricity generation from coal and gas requires strong, long-term relationships between utilities and the companies that provide the fuel, do the engineering, build and maintain the plants, implement the electronic controls, etc. Ever-changing technology may streamline processes, but the nuts and bolts of building, operating and maintaining power plants just aren't simple.

Associated discovered decades ago the importance of building lasting ties to its contractors and suppliers, among them Siemens Energy, Burns and Roe, Peabody Energy Corp., Burns & McDonnell and Sega Inc. Their stories and relationships with Associated continued to evolve from 1996 through 2011. The commitment to long-term relationships at the highest levels within the companies helped all parties work through difficult details of complex power plant construction, environmental controls and modification projects. A sense of "we're in this together, no matter what, because we trust each other to do the right thing" expanded the tiers of trust to include these critical partners.

Duane Highley, who was involved at a high level in many strategic alliances as head of Power Production, pointed out that establishing and maintaining strategic partnerships were ingrained in the Associated culture. It started with the board, which was somewhat unique in the industry for truly taking the long view. As successful businessmen in their own right, board members knew firsthand the importance of fairness and integrity if business relationships were to be long lasting.

"They have confidence in staff to do the right thing. At Associated, we have a 'virtuous cycle' in which the board trusts the staff, and so the staff goes out and makes

Mike Bollenbach, Siemens.

> "What comes around goes around. You have to be fair and honest because sooner or later you'll need a favor from Associated."
>
> – Jim Campbell
> Peabody Energy

Dell Power Plant in northeast Arkansas.

the deals," Highley said. "If we just worried about this quarter's finances, we couldn't make those deals. If you're driven by some financial metric that will earn you a bonus, you're not going to make the same decisions."

Siemens – Gas and Siemens are inextricably linked at Associated. The German-based company was the critical third partner in Associated's first venture into gas with the St. Francis Power Plant. The turnkey arrangement with Siemens for it to design, construct, operate and maintain the plant became the model for Associated's other gas plants.

Craig Weeks, CEO of Siemens' Fossil Services Business entity, noted that though Siemens has a footprint around the world, "We spend time creating relationships with people we respect. Jim doesn't have a Kremlin red phone, but he can call me anytime." That personal relationship was important in the Thomas Hill generator swap in June 2005 and at other times in the numerous points of interaction between Siemens and Associated.

And in the last 15 years, there have been many. "The thing that has always struck me about Jim [Jura] is he would set aside the contracts and the structure and talk about what's right for Associated and for Siemens. That's a very unusual perspective," said Weeks. "We're two businessmen, with over $1 billion in transactions, and Associated is one of our best customers. Jim from the beginning was always clear and at some point in our discussions would say that if for whatever reason we have a deal and don't pay enough money, we'll do right by you. He didn't see that as a weakness. … He has a doctrine of fairness. It's not that you win or he wins, you both win.

"It's a strange industry. In 2000, it was a time you could let your ego get so fanned up and flamed up and blown up … To Jim and his team, that was kind of like watching a soap opera. I don't think he was ever tempted to do that."

Siemens' Mike Bollenbach, a district sales manager, made his first trip to Springfield around 1972 when he worked for Westinghouse Electric Co. (acquired by Siemens in 1997), and so he has observed the contractual relationship flourish. "On a day-to-day basis, the relationship builds over time, over the years. That's true of any customer. I think that our relationship with Associated is such that we find a way to solve problems, to bring things to resolution. We know Siemens is critically important to Associated. Siemens knows Associated relies on us and depends on us, and we can't fail them," he said. "When it comes to problem solving, we find a way. They're complementing what we do in problem solving. We collectively find a way."

Burns and Roe – In the early decades of rural electrification, Burns and Roe, an engineering, procurement, construction, operations and maintenance company, was one of the go-to contractors rural electric cooperatives went to for coal plants – including Associated. As gas came on line, Burns and Roe became the go-to for those plants as well, including in 1998 the original Dell Power Plant owned by TECO Energy.

According to Bob Milhiser, senior vice president of the company's power services division, that project abruptly ended before completion after 9/11 and the Enron collapse. "The infrastructure was about 70 percent complete, Milhiser recalled, "but it sat dormant until Associated acquired it in 2005. So that fall, Associated asked us to look at the project and do an assessment of what was needed to revive it. There had been no real maintenance of the project for a while, but it generally was in good shape."

As it turned out, many instruments and valve packing had to be replaced. Originally, Dell was designed to be a baseload plant but Associated asked Burns and Roe to redesign it as a cycling plant that could better chase members' peak demand and market opportunities. Burns and Roe ran the project beginning in spring 2006; the plant went on line in fall 2007.

"I think we had a good association," Milhiser added. "If there was a problem, Jim Jura would call me or Duane [Highley] would do the same thing, and we'd have the problem resolved immediately. … Keith Roe [president] and I would meet quarterly with Associated's executives to make sure we had good communication at all levels, and I think that's why the project went so well."

Milhiser recalled some unexpected "quick turnarounds" as parts that were expected to be OK had to be replaced. "Because of that, we had to forecast a tight schedule and costs and that ensured more frequent communication, really keeping the finger on that."

Milhiser, who regularly attended Associated's annual meetings, recalled getting to know the members. "One of the reasons I found them so interesting and important was that they were mainly agricultural people. That's their business, and they were all equity owners of the business who really felt like they owned the company. Typically, when you talk to people who own power plants, they're not the persons running a farm. They're usually business people."

Peabody – From the inception of Thomas Hill Unit 1, Associated and Peabody Energy have had a close supplier/customer relationship. The close proximity of a Peabody mine to the proposed new plant helped seal the deal for that first unit.

Associated, through the decades, was Peabody's largest Missouri customer. In turn, Peabody coal was Associated's largest expense in generating low-cost electricity, totaling nearly $120 million in 2010 alone, according to Jim Campbell, Peabody's senior vice president of sales and marketing for Colorado and the Southwest.

In 1978, Associated bought and operated Peabody's Bee Veer and Prairie Hill mines. When Associated closed those mines in the 1990s, Peabody bought some of the draglines and other mining equipment from Associated. Later, those same draglines would be rebuilt at the very mine in Wyoming where Associated's low-sulfur coal was mined. And Peabody once again in 1994 became Associated's sole coal supplier to both Thomas Hill and New Madrid plants, now low-sulfur coal from the Powder River Basin in Wyoming.

More than 30 years earlier, Campbell remembered watching the first negotiating sessions between Peabody and Associated about delivering coal to the New Madrid plant. He saw how Jim McNabb conducted himself with the Peabody negotiators. Afterward, Campbell asked his boss, "Why didn't you press them … The answer I got was, 'What comes around goes around. You have to be fair and honest because sooner or later you'll need a favor from Associated.'"

For Jura, the relationship was so important that he even testified before the U.S. Congress, saying Associated was very pleased with its coal service at a time when the antagonism between some co-ops and the railroads compelled congressional hearings. He admitted when he joined Associated that he actually thought the coal supply should be diversified; after all, under most business models, a company would not want to be locked into a single supplier. "But Jim McNabb really put his foot down on that. 'You've got to understand the relationship we have with Peabody,' he told me. He made a believer out of me!" Jura recalled.

And so this contract between Peabody and Associated

From top: Associated buys mines from Peabody and operates them in the 1980s to serve its Thomas Hill power plant; and

the longstanding business relationship continues after Associated converts its coal units to burn low-sulfur coal supplied by Peabody from its Powder River Basin mines.

From top: Building the environmental controls at Thomas Hill Energy Center was like building a ship in a bottle due to limited space, especially on units 1 and 2 that were built in the 1960s. About 1,300 tons of structural steel and 1,600 tons of plate steel went into equipment like the Unit 1 SCR tower; and

Scott Harvey, Power Production staff.

has continued, providing great value for both Peabody and Associated. Using a market-basket approach to pricing, "They make a buck, and we make a buck," Jura said.

Burns & McDonnell – Virtually every big construction project for Associated in the past 15 years has "Burns & Mac's" stamp on it. And for CEO Greg Graves, there has been no more important client for the Kansas City-headquartered firm than Associated. The relationship between the two easily goes back 50 years. Graves "cut his teeth" on Thomas Hill Unit 3 in his first year with Burns & Mac climbing smokestacks and doing performance reviews.

Burns & Mac was particularly involved in helping bring Associated up to new clean air standards at its coal plants. "Typical of Associated, it has gone in early and often and kept ahead of the game. Typical of O.B. Clark and Jim Jura and Duane Highley, they knew when to go in to get the best deal for Associated and members. I've really got to give it to Jim and Duane, in particular, that they knew

> "... we get in situations where customers aren't very concerned about our well-being as a partner. But Associated has always treated us as part of the team ..."
>
> – John Brown
> CEO and president of Sega

when to make the jump to natural gas, knew when to buy the turbines and knew when to step back and wait … to see how the market went. When making $100 million decisions, that CEO gut has to be very strong and confident, and that's very true of Jim," said Graves.

What Graves has valued most about Associated is its commitment to partnership and project success. "Making electricity cheap is clearly no easy task, especially if dominated with fossil fuel mix. … Those are very complicated projects to design and build as well. You don't start them in January and hope to be finished in the summer. When taking on projects like New Madrid or Thomas Hill, they are five, six, seven years or even longer projects," he said.

Graves went on to say, "It's most important that those firms have permanent relationships they can't walk away from, and they have to know what project success means. They have to resolve differences and have everyone pointed in the same direction in terms of project success, and have the same definition of what project success means: … There's only one definition of project success and that's where everyone wins."

As Burns & Mac moved into more design-and-build

projects in recent years, it created a new risk review process that covers client solvency, loyalty, fairness, trust, among the criteria. Graves summed up the Associated relationship by saying, “When we do the Associated risk review, we just pass those pages by. It makes for a shorter meeting.”

Sega – Since 1986, the engineering and technical services firm of Sega Inc. in Kansas City, Mo., has worked with Power Production and Engineering and Operations staffs on many Associated projects, including the computer programming that ultimately runs the plants. As technology has changed from dials and switches to computers and keyboards, Sega Inc. has applied that at Associated and trained its people to use the new systems. Projects have included putting new distributed control systems on all three units at Thomas Hill Energy Center and water treatment upgrades. More recently, Sega was the project engineering firm at Chouteau 2, managing the construction contract to ensure a quality installation.

CEO and President John Brown described the Sega-Associated relationship: “It’s a team effort. They [Associated’s engineers] come to our facility while we’re programming because no one knows their plants better than they do,” Brown said. During projects, Associated personnel meet monthly with their Sega counterparts, asking “What’s your opinion? Are there other approaches? What are the issues? How can we resolve them? How can we get a win-win to move forward?

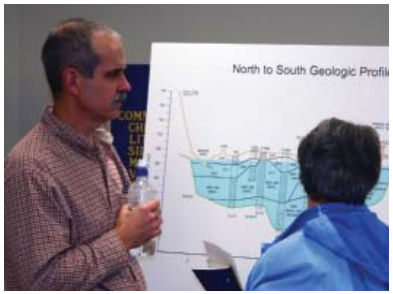
“Some people in the business world are about placing blame and pointing fingers. Being a hired gun, outsourced service, we get in situations where customers aren’t very concerned about our well-being as a partner. But Associated has always treated us as part of the team, which makes for more successful communication.”

Brown praised Associated for getting the right people in the right positions, all working as a team. “The people we work with never talk about other people in the organization. They’re always positive about their people and us. If someone has a problem and a challenge, others jump in and support them. I see that over and over, the way they treat people. It really works,” he said.

Employee excellence: Not only vendors, but also small towns near Associated’s power plants and neighbors proved to be key relationships through the years. Good relationships and doing the right thing also extended to electricity customers and property owners around construction sites. Associated’s Jerry Bindel, who helped with property matters, went out of his way to be a good neighbor to farmers who might someday find a power plant in their backyards. One farmer even helped move snow at a construction site, then lost a favorite hunting dog when it was hit by a truck on the site. Bindel didn’t hesitate. “He bought the farmer a new hunting dog. It wasn’t a common thing to do, but he knew that it wasn’t anything that would be questioned. He did the right thing,” related Duane Highley, director of Power Production.

Informed and involved member-owners

A fifth strategic priority for Associated was informed member involvement. There were a lot of members to



From top: Control room operator Victor Scott monitors Unit 2 operation and performance through a distributed control system that provides information from thousands of points throughout the New Madrid Power Plant; and

Power Production staff Jerry Bindel at public meeting on Norborne project.

From top: Directors and staff from distribution cooperatives tour Chouteau Power Plant; and

Harold Jordan, former Associated board member.

inform. Associated's six G&T owners had 51 member-owners, the distribution cooperatives in Missouri, Iowa and Oklahoma. Those cooperatives were owned by the customers they provide electricity to. The better the communication between all these member-owners, the better the governance by informed and involved members.

It might seem unnecessary to make "informed and involved member-owners" an expressed business strategy. But Associated's six owners did not always see eye to eye or coexist harmoniously. Only in the last two decades were those differences and sharp edges largely dissipated, replaced by the realization that what was good for Associated was going to be good for the G&Ts, the distribution cooperatives and the members at the end of the line.

So communicating with members at all levels was important enough to formalize it as a core strategy. By doing so, Associated moved members from the back seat to the front seat. Members, in Associated's case, the G&Ts, had to be informed and involved to help navigate and drive the cooperative forward. Without information, the G&Ts could not adequately and accurately explain to their members the why and how of what Associated was doing and planning. Without information, members could not fully engage with Associated in critical two-way communication. The driver in the front seat didn't need a back-seat driver. The driver needed a co-driver up front, looking at the roadmap, making suggestions, asking questions. Without information, there could be no tiers of trust. As described later in "Family ties," annual "update" meetings helped fill the information void, funneling data, talking points and strategy to the cooperatives.

Communication became more frequent, diversified, transparent and two-way. Associated's annual meetings morphed from one-day business meetings to three-day information events at which members learned about relevant issues and trends, often with fresh, different and diverse points of view. Headquarters staff went calling among the distribution cooperatives. Communications went electronic with a members-only section to the Associated website. Printed communications changed titles and formats. In 2011, employee newsletters and some cooperative communications went electronic versus being printed.

Update meetings with the G&Ts relayed valuable information from Associated to the G&Ts and distribution cooperatives. Equally important, though, was the input that flowed back to Associated from members. Retired board member Harold Jordan, who served during much of the current history, observed that the more information members received, the better they seemed to accept rate hikes, the termination of the Norborne project and other difficult issues. "We tried to inform more than ever. If we informed well enough, the members supported us," he said. "I didn't get near as many calls as I once did," crediting the difference to that flow of information. As a grocery store (Independent Grocers Alliance) businessman, Jordan was on the front lines of contact with members.

The Member Services and Corporate Communications Division offered fact sheets, talking points and briefing books that not only flooded members with facts and figures but also the rationale for actions taken or planned. Rick Holmes and other staff from Member Services and Corporate Communications took to the road with a Take Control

& Save exhibit, setting up at cooperative annual meetings, fairs and festivals. Member services staff took the temperature of member satisfaction in surveys, coordinated advertising campaigns and hooked cooperatives up with Touchstone Energy resources.

Nothing is forever, including strategies

Periodically strategies may change to reflect the times. What was on point in 1996 may not be completely relevant in 2011. Yearly, at its annual retreat in December, the board and senior management continued to look at the five strategies that had stood the test of 15 years. As Jura put it, "I like to invite the staff members and board to challenge the strategies. If we follow them, I think no matter what comes along, we'll be just fine, but they do need to be reviewed and challenged and tested from time to time."

Thinking strategically is one thing. Governing is another. Relationships between management and the board and dynamics within the board can make or break a company. In Associated's case, getting governance right never missed a beat.

Employee excellence: Fostering strong relationships with contractors is critical in a construction project. No one did it better than Scott Harvey, who in 2002 applied his knowledge of combustion turbines during construction of the Holden peaking plant. His mutually trusting relationships led to operational training at Siemens and gave him access to important need-to-know, though sensitive, information. His relentless pursuit of resolution of construction and commissioning issues earned him an Excel award.

Making strategy

Associated struck it lucky in its general managers. Neil Adams, Gerry Diddle, Jim Jura: each proved to be the right man for the job.

Adams, the promoter, put the deals together that set Associated in motion and anchored its feet in baseload generation plants at Thomas Hill and New Madrid.

Diddle methodically worked his way through the serious financial woes of Associated's middle years, turned that around and continued to build power plants fueled by coal to provide cheap and abundant power.

Associated business strategy

- A focus on core business
- Commitment to financial strength and flexibility
- Proactive and conservative management of risk
- Development and management of strategic alliances
- Informed and involved member-owners

Jura took the assets and relationships developed by Adams, Diddle and their right-hand man, Jim McNabb, and made them even more robust. Right out of the gate, Jura didn't flinch from executing the decision to close the mining operation and make the switch to low-sulfur coal.

Jura, with 20 years of service at Bonneville Power Administration, the federal Office of Management and Budget and the U.S. Department of Labor's Occupational Safety and Health Administration, was a quick study in adapting to the cooperative world. He wasn't afraid to shake things up and set about to prod, push, pull and poke Associated into a new level. Certainly, he quickly "got it" as far as who his bosses were.

As Jerry Divin, who retired from the board in 2008, observed, "Jim wanted to hear from the little old lady at the end of the line."

That concern for the human face of his member-owners was sometimes overshadowed by Jura's cool analytical approach to the issue at hand. In an organization of engineers, two of his hallmarks quickly gained traction. One was the white board, learned at Bonneville Power Administration, and the second was the issue paper, used to present issues to the president during Jura's years working in the Nixon, Ford and Carter administrations. Midway through a discussion, Jura would jump to his feet, move to the board and, pen in hand, quickly diagram a point of discussion.

"He always approached a problem very analytically. He'd look at the issue, its problems, solutions, situational analysis. Here's the issue. Here's the situational analysis. Here's the opportunity. Here's the best solution, and here's the reason why. It was classic organizational style, and I saw him bring that discipline to the chamber board," said Jim Anderson, president of the Springfield Area Chamber of Commerce. "He always did his homework. I never saw him unprepared."

Getting involved in the Springfield business community became an Associated priority.

Making strategy, continued

Jura set the example by serving as the chamber's chairman in 1997.

The Associated board and management also were realists. Craig Weeks of Siemens, a vital contact in the years when Associated was stepping into gas, observed that Associated's management team was "continually engaged and connected to reality. … They live in a real world and that cascades up to the board table. Someone's got to manage all that and give analysis and propose solutions."

Horace Harrod of Farm Credit Bank of Texas believed Jura's no-nonsense approach made him "the E.F. Hutton of cooperatives and the electrical world. When he speaks, they listen."

Jeff Davis of the Missouri PSC watched and interacted with Associated and Jura for years. "He's one of the most experienced people out there in the power industry. … He really cares about the customers Associated serves, knows who the members are and puts their interests first. That's what members expect. They expect he's going to be thrifty and frugal. … Jim is a voice of reason. Because Associated is a not-for-profit and operates in rural Missouri, they just have a special relationship with their customers that I don't think the municipals or investor-owned utilities have. Because of that, Jim has credibility that other people don't have."

Don Hodel, retired U.S. Secretary of Energy and also Interior, described Jura as the cooperative world's statesman. "He has a broad vision. He's very analytical. He has the ability to not only deal with the current situation but to anticipate what's coming. Obviously, he has the gift of tact and diplomacy to operate a G&T with numerous bosses. … I'm sure Jim has to be able to understand where people are coming from and be able to work with them. There are stories in the NRECA co-op country of managers who didn't have that gift and didn't last all that long."

Jura let off steam and took a break from the relentless pressure of his job by following two of his early passions: basketball and running. Jura, the athlete, wasn't that different from Jura in the corner office. As the old saying went, "Give me one game one-on-one, and I'll tell you all about the player's character." Watching him on the basketball court, you saw a relentless drive, a feeling of go-go-go, make the move, take the shot. He seemed to be two steps, two seconds ahead of real time, anticipating moves, knowing where the ball would be.

In running, Jura favored distance, calling for stamina, strength and slow, steady progress in the long haul to the finish line. Talking about the marathons he's run, he said, "You have an objective, then you commit to it and work toward the goal. Anyone can run a marathon. It's about conditioning your body. What you need to do is make the commitment and have a plan."

A favorite Jura saying, "You don't have to be sick to get better" ultimately expressed his ambition for Associated. The cooperative's 50th celebration in 2011 marked Jura's 20th year as CEO. Under his leadership, Associated had strengthened its position as a super G&T, a smaller but equally strong likeness to the Duke Energys and Amerens of the industry. Associated had shown that size was less important than a company strategically on course to meet its mission and realize its vision.

As Jura might put it, the robust health of Associated in 2011 didn't mean it couldn't be even more healthy, wealthy and wise. It just needed to keep getting better.

The member at the end of the line, whether a resident, farmer or a business like Burgers' Smokehouse in California, Mo., where Terry McGill works, has always driven the mission of Associated to provide an economical, reliable wholesale power supply. Burgers' is a member of Co-Mo Electric Cooperative Inc., which provides electricity and other services to help the family-owned business use energy efficiently. Burgers' employs about 250 people in rural Missouri; McGill has worked there since 1988, advancing to senior supervisor at the plant.

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