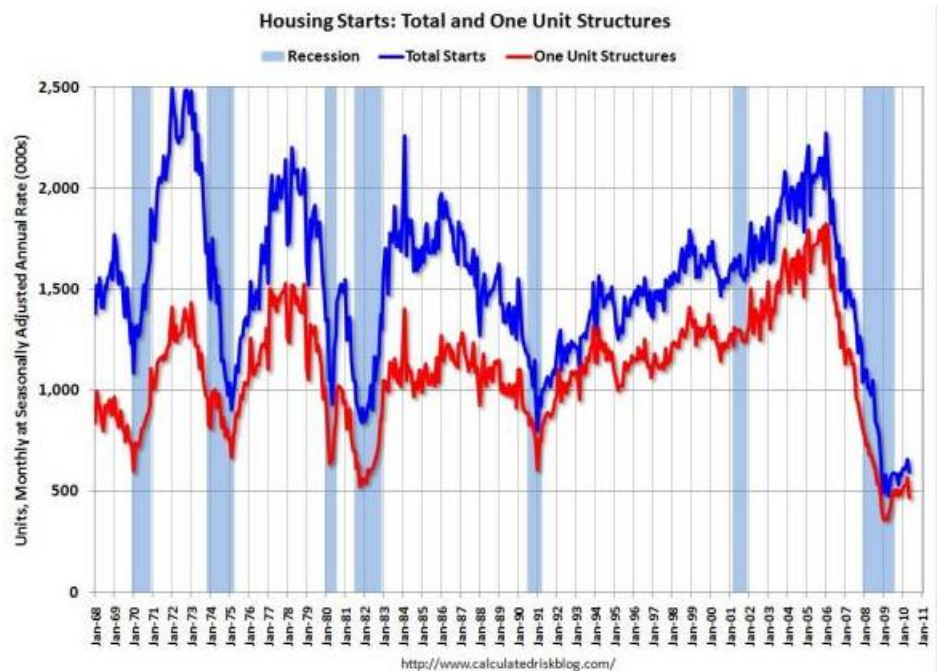


In January of 2010 with the oversight of the Board of Directors, Blue Ridge Mountain EMC's management team began a comprehensive review of all aspects of our business operations in an effort to identify areas for improvement, evaluate staffing and employee training needs, and to assess the financial health of our company. The first phase of this work has taken some five months to complete, but the Board and management team now have a better handle on where we stand as an organization. Several improvements have been implemented and others are still yet to be installed. A few of the changes implemented have been painful for our employees, and a few will be difficult for our members. The bottom-line, however, is that our members should realize benefits from this work, as BRMEMC will be a stronger company going forward. This document will serve to explain a few of these improvements and provide reasoning for some of the changes that will occur as a result of our assessment and improvement efforts.

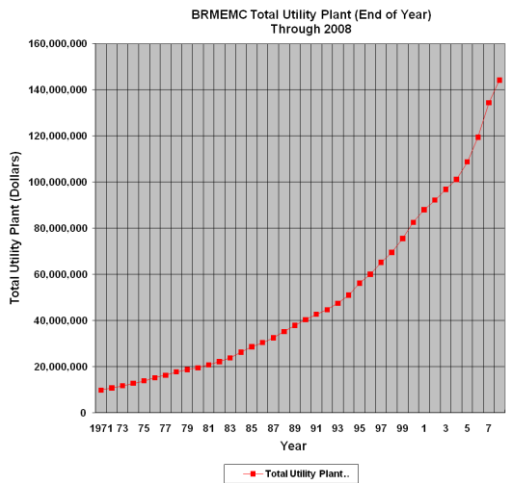
Unbelievable Growth

Blue Ridge Mountain EMC has, like the rest of the region in which it operates, experienced incredible growth over the past 20-plus years. Our business has grown from 24,868 meters in 1990 to over 48,845 in 2010. Our annualized growth rate over this period has been calculated at approximately 4.5%, and our business and employee numbers have grown accordingly. At the same time our meters and employees were growing in number, our kilowatt-hour sales were also rising at a rapid pace. BRMEMC's total kilowatt-hour sales rose 126% over the two decades from 1990 through 2010. Since the late 1980's we have been continually ramping up for system growth and in 2006 our growth rate peaked. Since that time the growth has slowed quite a bit; however, we continue to add new customers even today. By January of 2009 we found ourselves with 208 total employees and more than 46,121 member-customers. Since that time we have realized significantly reduced growth in new residential meters, negative growth in small commercial meters, and have held somewhat steady in terms of large commercial and industrial meters.



New Growth Demands New Investment

In order to meet electric demands placed on our system during the growth period described above, BRMEMC made significant and costly capital investments in our system-wide electric plant. We have upgraded substations, purchased new and better equipment and upgraded the skills of our workforce in an effort to adequately serve and maintain the system at a level that would increase



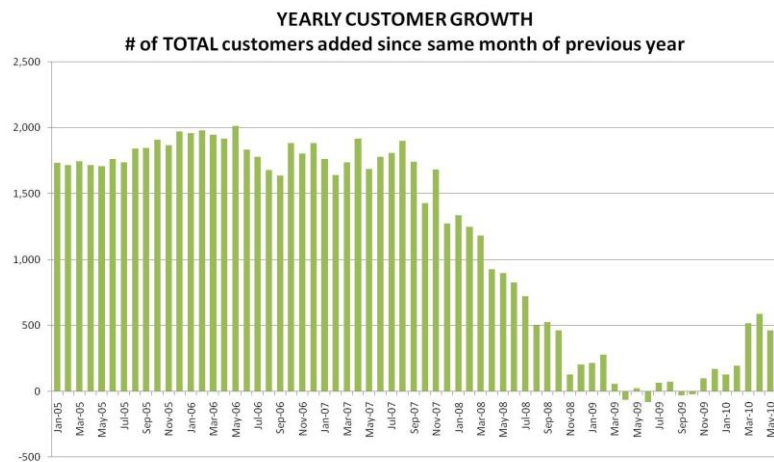
reliability and reduce outage time for our members. In 1990 BRMEMC owned only 4 substations and serviced 3,479 miles of distribution line. Today, BRMEMC owns and supports 9 state-of-the-art substations and maintains over 5,800 miles of distribution and 32 miles of transmission line. Our system is in the best shape it has ever been, and this has been evidenced by continually declining numbers of blinks, reduced outage occurrences and shortened outage durations. Our system is well-positioned to handle additional growth and increasing customer numbers, and has substantial capacity to meet future demand growth.

The Slowdown

What those of us in the utility business could neither have predicted nor expected began to take shape both in our local and national economy, as the residential housing market, our engine of economic stability, began to grind to a halt. With this recent economic slowdown in mind we began to look at cost cutting measures such as; reducing our employee numbers, freezing wages and salaries, amending our replacement schedule for vehicles and equipment and reprioritizing our plans for new system improvements and facilities. It has been important to make these changes slowly and methodically so that we do not jeopardize our reliability and service quality. Sweeping cuts to our workforce would only lead to inadequate resources to respond to severe storms or the needs of our members should new housing starts return to our region in the short-term. We evaluated all relevant input data available: statistical models, economic predictions, growth projections, quantity of new service installations expected, environmental and operating policies being mandated by State and Federal legislation (which are fundamentally changing how we do business in the electric industry), all of which presented a much clearer picture of just what had to be done.

Becoming More Lean

Beginning in mid to late 2009 we began making earnest efforts to reduce our workforce, and today BRMEMC finds itself with 14 fewer employees than this time last year. This was accomplished through implementation of an early retirement program, and by not replacing most of the employees who have left our workforce. An extensive employee cross-training program has allowed us to reduce our workforce without diminishing the quality of service provided to our customers. Re-studying our system needs with the help of our engineering consultants let us extend our long-range system improvement plans. We have considered postponing several new initiatives including future substations and line improvements. It may yet be determined that some of these projects may have to be postponed indefinitely. One particularly difficult issue was what to do with the projects already underway. Contrary to what some might think, planning for new infrastructure including upgrades to



existing distribution lines, substation builds, and facilities begins many years in advance of when they are actually needed. Once our models predict a future requirement in a particular community, it may take several years to see it come to fruition. We were well underway with meeting a number of previous timeline needs so it was decided to finish the projects under construction and bring currently planned facilities online as quickly and efficiently as possible.

Focus on Rates

Our review process took a hard look at our long-range financial health and ability to pay for these facilities. Our members have always been provided the lowest construction rates and electricity costs possible, and our electric rates have remained extremely competitive compared with other distributors across Georgia and North Carolina. In fact, in looking at electric rates across Georgia, BRMEMC has continually ranked in the lowest quartile in the State. See the Georgia PSC website at <http://www.psc.state.ga.us/electric/surveys/residentialrs.asp> If we compare our customer charges with other distributors in the TVA system, our rates are much lower than most others in our region. In the past, we were able to keep these rates low for several reasons, one of which was the sheer growth we experienced in our system. But now our growth advantage has been removed and yet we still have to pay for the new infrastructure that those years of growth have necessitated. One of the most difficult yet necessary conclusions was that in order to meet cash flow needs for the future we must have a rate increase very soon. This increase will need to take several forms, and should fall in the low 6% range overall. Our customer charges will increase to bring us more in line with our sister TVA distributors. We will do this to ensure that our members share equitably in the costs of operating our business without regard to their electric usage. We will also increase our kilowatt-hour charges for electricity. This will be done in an effort to help recoup our actual costs of delivering electricity in the face of declining kilowatt-hour sales. Finally, we will evaluate and adjust, as appropriate, our aid-to-construction costs (charges for new service installations in our system), which is necessary to adequately cover the actual costs associated with new services built within our service territory.

While these increases are also being felt by other electric distributors in the region, it does not diminish in our minds that these actions will be painful given the state of our economy and level of joblessness regionally. It is a hardship that will also be shared by our employees and their families who live and work in this area. However, we also know that in order to operate our company in the way it should be and is mandated to be operated, we must take these actions.

For more information on the customer charge and what it is used for, please see our companion piece on this subject that can be obtained from our office or online at www.brmemc.com/rateincrease2010.html.

Looking Forward

Looking towards the future the most troubling report we hear from experts in our business is that this trend is not going to subside anytime soon. Electricity costs are expected to continue to rise fairly significantly over the next several years as TVA and other Generation & Transmission (G&T) organizations struggle to meet new federal mandates on clean air, carbon emissions, and requirements to charge higher rates to customers who use more electricity at certain times of the day and during certain seasons of the year (known as Time-of-Use rates). The net result will be higher costs for power, especially for those customers who have little control over when they are using electricity.

Headquarters

It is inevitable that some of our members will identify the rate increase with our new headquarters building currently under construction in Young Harris, but we want to emphasize that the increase will still be needed, with or without a new building. This rate increase comes as a result of the lack of growth in our area, rising costs to serve customers, regulatory changes and obligations from previous capital investments and system upgrades. The new headquarters project is being financed by the federal Rural Utility Service (RUS) and the loan is structured to minimize the impact on customer electric bills. Paying for this project will only add approximately \$1.49 per month to the bill.



As a member of the community we serve, where our families live and work and go to school, we are sensitive to the needs of that community, especially during challenging times like these. Our management team and our financial consultants have spent months crunching the numbers in an effort to minimize the impact of an inevitable rate increase. After careful consideration we have decided to proceed with the construction of the new facility, one, because we desperately need the facility, two, because proceeding according to plan will minimize the impact on our bills and three, because of the needed stimulus to our local economy that this project will bring. We have already witnessed the benefits of building in a weak economy in terms of cost savings for site preparation, grading and construction. We also believe that with so many folks in our community out of work and unable to replace their former construction jobs, this is a perfect time to help put a few of these folks back to work, if even for a short period of time. For more information on this specific topic, please see our companion piece on the new Headquarters Building project that can be obtained from our office or online at www.brmemc.com/rateincrease2010.html.

Commitment to Quality

BRMEMC's goal is to ensure that each of our member-customers receives high-quality customer service whenever they call or visit our office. Due, in part, to frustration with our weak economy members are much less tolerant of any service that they receive that is substandard...and rightly so. We have always prided ourselves in delivering solid service and believe in "Members Serving Members" and as part of our "Operational Stability Initiative" we are implementing new procedures to improve our customer service. For example, in early 2010 we created a new Customer Call Center and began training our employees assigned to that call center. Our Call Center representatives are to assist the customer with whatever needs they have without transferring their call to another department. We are only a few months into this initiative and are pleased to report that our Call Center and Customer Service departments are taking between 1,500 and 2,200 calls per week, several hundred walk-ins and are doing better than ever at meeting our customers' needs. Our goal is to implement a quality improvement process that we firmly believe will provide higher-quality service to every member.

BRMEMC values each of its members and hopes that this document serves to help communicate the tough decisions we have been facing. We know that our members demand great service and competitive pricing and it is our commitment to strive toward that goal each day. Please assist us with this improvement process by letting us know how we can improve our customer service at each point of interaction with our valued members.

Thanks again for allowing BRMEMC to serve you!