



## **ANNUAL REPORT**

**2004 - 2003**

# **BLUE RIDGE POWER AGENCY**

## **ANNUAL REPORT**

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## **A Message from the President and the General Manager (not the same person)**

As the 2004 fiscal year ended, Blue Ridge Power Agency (“Blue Ridge”) continued to evaluate prices for eight of its members through the 2002 request for proposals (“RFPs”). Prices from the short-listed power suppliers were 70% to 114% greater than its members’ current wholesale power supply rates. This was not completely unexpected but is much worse than the 43% increase that had been anticipated. The benefits of the wholesale competitive market that Blue Ridge members enjoyed in 1997 have evaporated and are but a distant memory, while observing that natural gas virtually drives electricity prices with the same volatility and extremes as that fuel’s prices. This seems to be true even though the long-term contracts that Blue Ridge members always enter into should not logically be this volatile and the suppliers are unlikely to be supplying from new gas-fueled facilities in all hours, as the prices would indicate. It should not go unsaid that Blue Ridge’s members fully expected, and would have felt it reasonable, for prices to increase in the range of 40% just from the increases in all costs over the intervening six years and the shrinking surplus in base load power resources. As was stated in last year’s Message: “[Blue Ridge] came into the 2003 fiscal year with its members enjoying, as they have for decades past, very competitively priced wholesale power supplies, some of the lowest in the eastern United States.” However, the actual increases are unreasonable.

It is a sad day for these eight Blue Ridge communities that now may face retail rate increases in the 35% to 60% range. Denied what should be the ongoing benefits that wholesale competition promised following the 1992 Energy Policy Act, these communities, already reeling from loss of manufacturing and tobacco processing jobs, will have an even bigger challenge to retain and recruit industry to their communities. The Federal Energy Regulatory Commission (“FERC”) has a mandate in the Federal Power Act to assure that wholesale rates, for both electric power and transmission, are “just and reasonable”. It is the opinion of Blue Ridge and many of its sister agencies across the nation that prices in the long term wholesale market are far from meeting this standard. It is our intent to pursue this issue in every venue possible to see that prices reflect the cost to produce, plus a reasonable profit and not just competition for competition’s sake. It is of little comfort that it is fully expected that costs and, thus, retail rates will rise for other utilities as well and ease the competitive position of Blue Ridge member communities. It is also not helpful that the Virginia General Assembly has seen fit to extend retail rate caps for the state’s investor-owned utilities from the prior end of December 2007 to December 31, 2010, leaving Blue Ridge members competing with rates that are not market driven.

The strategy being pursued for dealing with these out-of-control wholesale prices is for Blue Ridge members to secure shorter term contracts for power supply than might have been the case, so that high prices are not locked in for the long-term. There is hope for the moderation of gas prices due to the increase in liquefied natural gas (LNG) imports coupled with positive impacts from exploration, storage amounts and lower and more stable oil prices when international uncertainties subside. There are many factors, both physical and political, all of which are beyond control or accurate prediction, that impact power prices these days.

The cost for the delivery of wholesale electric power from the suppliers to Blue Ridge members also has had significant upward pressure. Although this component represents only a 10-15%

range of the total delivered cost of power, it is a significant amount. Blue Ridge members and other public power utilities across the Eastern United States, where the transmission grid is interconnected and virtually all the property of investor-owned utilities that also own generation, wanted some means of insuring that the grid was operated in an open, non-discriminatory and fair manner. Blue Ridge and most others own no or very few transmission facilities and must depend on others for these services. Thus, these “transmission-dependent utilities” (“TDUs”) were initial strong supporters of independent system operators (“ISOs”) and what FERC later defined as regional transmission organizations (“RTOs”) that would provide integrated operation, reliability, tariff administration, etc. with a governance and organizational structure that would assure no influence from the generation/transmission owners. However, the FERC has allowed what was originally intended to be only independent transmission-related organizations to morph into operating wholesale electricity markets as well. This has introduced much higher cost for operation of the RTOs and increased the cost and risk of securing actual transmission services needed to deliver the power and energy, such as the introduction of prices that fluctuate hourly (or more often) based on the location of the buyer’s delivery point on the grid and loadings on transmission facilities between the loads and the generating resources serving them. The current RTO model makes securing long-term transmission rights more complex, risky and expensive.

It is difficult to quantify what the increase in transmission costs will be at this point. There are, and will be, many proceedings in process at the FERC related to transmission, including: developing a single, region-wide rate across both the PJM Interconnection, LLC (“PJM”) and the Midwest Independent System Operator (“MISO”), AEP’s revenue requirements filing in the spring of 2005 and others. As of October 1, 2004, Blue Ridge members who were receiving transmission service from AEP were to begin receiving those services from PJM. AEP will transfer its system into PJM after a protracted series of regulatory and court proceedings at both the state and federal level.

Last, but not least, meaningful energy legislation continues to be stuck in the Senate and/or House, with bills being debated, amended, reaching conference, but never actually being passed—an effort that is now entering its ninth year. Not even the reliability legislation has been passed, which should be a no-brainer given the Blackout of August 2003. Blue Ridge and others, including the National Electric Reliability Council (“NERC”), tried hard to get the reliability legislation passed as a stand-alone bill. However, it must be said that for Blue Ridge and many other public power organizations, given the provisions of the current version of the bill, it is better off not passing. It is uncertain but likely that there will be yet another effort to pass energy legislation in the upcoming 109<sup>th</sup> Congress in 2005.

Blue Ridge, as its core mission, is devoting its resources to securing the most reliable and lowest possible cost power supply available for its members. At the same time it is working to insure reliability, open access to the transmission grid and reasonable transmission rates through participation in proceedings at the FERC as well as lobbying the Virginia Congressional delegation in Washington, D.C. To provide more clout and lower cost through economies of scale, Blue Ridge works with coalitions involving many other joint action agencies and utilities, both municipal and cooperative, throughout the Mid-Atlantic and Midwest region to present and protect our common interests in FERC proceedings. This demonstrates another form of “joint action”. Further efforts are being made to influence Congress and FERC through both the public power national trade association, the American Public Power Association and the Transmission

Access Policy Study Group (“TAPS”), a coalition of municipal and cooperative TDUs from 33 states.

Given the situation in the power supply market, the Blue Ridge Board of Directors (“Board”) made a strategic decision in 2003 to look for ways to stabilize the wholesale cost of electricity to its members. One way that shows promise is to secure either ownership in or a long-term purchase power agreement from base load, coal-fueled generation. To that end, with authorization of funding by the Board, Blue Ridge joined as a partner in a base load generation study that American Municipal Power of Ohio (AMP-Ohio) initiated to secure 720 megawatts (“MW”) of base load capacity by approximately 2011. AMP-Ohio is a joint action agency like Blue Ridge. Although Blue Ridge members as a whole have approximately 300 MW of base load (this is the minimum amount of capacity that is needed every hour of the year), it was decided that initially, from a reliability standpoint, it would seek 100 MW from a single resource and this is the Blue Ridge share of the AMP-Ohio project. Blue Ridge continues to explore the potential to address the balance of 200MW from other developments that are in the making.

The end of the 2004 year marked 15 ½ years since Blue Ridge Power Agency, Inc. was chartered in December 1988 as a non-profit corporation in the Commonwealth of Virginia. It also marks eight years of being in operation with a full-time staff. Before January 1996, it was operated by the officers of the Board of Directors as employees of its member utilities. Blue Ridge members can look back with satisfaction at accomplishments that are testimony to the effectiveness of joint action. In fact, most of the members have been working together for nearly 30 years on wholesale power supply issues.

Blue Ridge’s administrative and general budget for the 2004 fiscal year increased 2.1% over the 2003 fiscal year to cover the added costs associated with inflation in procured supplies/services, office rent and modest increases in salaries. This budget continues to be within the “year-over-year range of 5% and less”.

The Blue Ridge staff carried out its normal duties and some special projects in 2004 as follows:

- Coordinated and assisted in the continued analysis and evaluation of the 2002 request for proposals (“RFPs”) to secure new power supply agreements and associated transmission for the eight members with contracts expiring in 2005—an ongoing project;
- Participated and assisted counsel and consultant in the negotiation of power supply contract language with the four finalists in the 2002 RFP;
- Performed the responsibilities related to the administration of the current power supply agreements of five of the members who purchase their power requirements from Cinergy (Bedford, Danville, Martinsville, Richlands, and Salem) and managed the transmission agreement including monthly power and transmission supplier invoice verification and consolidated billing to members;
- Monitored electric and telecommunications industry activities in the legal, regulatory, and legislative areas and disseminated significant information to the members;
- Coordinated the legal and regulatory work of our consultants along with invoice verification and consolidated billing to members: Blue Ridge counsel - Brickfield, Burchette, Ritts & Stone, power supply/rates consultant - GDS Associates, Inc. and TDU coalition and TAPS counsel, Spiegel & McDiarmid;

- The General Manager made trips to Washington, D.C. to visit with the Blue Ridge member delegation and/or their staff (Congressmen Boucher, Goode, and Goodlatte and Senators Allen and Warner) and to participate in TAPS group visits with FERC Commissioners and staff, as well as corresponding with those offices throughout the year on energy-related issues;
- The General Manager worked with the Municipal Electric Power Association of Virginia (MEPAV) legislative committee and lobbyist, Tom Dick, including travel to Richmond as necessary to represent Blue Ridge members' interest in both electric and telecommunications legislation;
- Planned, organized and facilitated the annual Fall and Spring Conferences;
- The General Manager carried out his duties as a member of the Board of Directors of the American Public Power Association and Executive Committee of TAPS; and
- The General Manager participated in the formation and ongoing operation of the Mid-Atlantic Broadband Cooperative ("MBC"), a non-profit corporation, as Vice-Chairman of its ten-member Board of Directors. MBC is managing an effort called the Rural Broadband Initiative to provide high-speed internet access and connectivity across Southside Virginia.

As mentioned above, Blue Ridge resources were also directed toward ongoing efforts in the regulatory and legislative arena, as well as some new initiatives. These activities included the use of legal counsel and power supply/rates consultants for power supply procurement efforts as well as interventions, analysis and development of briefs to be filed at the FERC involving significant efforts such as:

- Power Supply Solicitation—In October 2002, a request for proposals was developed and disseminated to interested suppliers. There were 21 responses and, after evaluation and discussion with the suppliers, a short list of five had been developed by April of 2003. The list was subsequently reduced to four in the spring of 2004—American Electric Power Service Corporation (AEP affiliate), Cincinnati Gas & Electric (Cinergy affiliate), Constellation Power Source (old Baltimore Gas & Electric), and Dominion Energy Marketing (Dominion affiliate).
- Member Load Forecasts—Ten-year load forecasts using accepted industry techniques and standards were updated for the eight Blue Ridge members. These forecasts provided long-term load projections for use by suppliers in the power supply RFP.
- Regional Transmission Organizations ("RTOs")—Blue Ridge continued to participate in coalitions involving all or some of 9 other joint action agencies as well as individual municipal/cooperative utilities in Virginia and from the states of Indiana, Michigan, Missouri, North Carolina, Ohio, Pennsylvania and Wisconsin to protect our interest as FERC regulations are developed, rules are interpreted through regulatory/court litigation and regional transmission organizations are formed. The Virginia participants include Blue Ridge's sister joint action agency, the Virginia Municipal Electric Association No. 1 (Cities of Franklin, Harrisonburg and Manassas and the Towns of Blackstone, Culpeper, Elkton and Wakefield) and Old Dominion Electric Cooperative representing 12 of the 14 cooperative distribution utilities across the Commonwealth. Of particular interest to Blue Ridge's members is PJM into which AEP will be integrated on October 1, 2004 and Dominion-Virginia Power (DVP) which plans to integrate toward the end of 2004. Of

major concern to Blue Ridge and the coalitions is insuring that the reliability, governance, rates, terms/conditions of service, access, operation, and planning included in the RTO's responsibilities are in the members' best interest. At the end of the fiscal year, the State Corporation Commission ("SCC"), based on their determination of it being of benefit to the consumers of the Commonwealth and other stipulations, was close to approving, or would shortly consider orders of approval of, integration into PJM for AEP and DVP, respectively.

- Transition to PJM—As it became a virtual certainty that AEP would be a member of PJM, it was necessary that those members who purchase transmission services unbundled from their energy supply (the five members who purchase their energy from Cinergy and Central Virginia which purchases from Constellation Power Source) renew the application process for membership in PJM that was started a year earlier. There was significant effort to develop a credit package that would satisfy PJM requirements. That process was ongoing at the end of the fiscal year with the members providing individual guaranties to secure the Blue Ridge letter of credit by the September 30 deadline.
- Strategic Planning—Energy markets, transmission issues and initial information on potential base load generation facilities were studied and analyzed. The results of these studies and other activities were reported as appropriate during the year and also presented to and discussed with the Board at each of the semiannual conferences.
- Midwest Independent System Operator (ISO) Rate of Return—The Midwest ISO filed for a rate of return of 13.0% for calculating its transmission rates. Since this case would set a precedent for returns for all future RTO/ISO rates, Blue Ridge intervened with a coalition that includes the RTO coalition described above plus eight additional cooperatives, municipalities, and consumer coalitions. In 2003, FERC allowed a 12.88% rate of return and the coalition and the State of Kentucky have appealed the decision to the U.S. Court of Appeals. Both rates are excessive and include unwarranted incentive components. This case is to be decided by early to mid 2005.

As is obvious from the discussion above, the 2004 fiscal year saw the electric industry continue to feel the pains of restructuring in both the wholesale and retail sectors. In addition, the industry has shaken out considerably from the criminal charges, bankruptcies, speculative ratings, mergers and exits from the business for significant energy companies that began in 2002. It appears that, for the most part, this was a cathartic experience for those companies that remained in the business and the result has been that many utilities are "going back to basics" and developing more sound financial standing and business models. What is needed now is for there to be pressure applied to FERC and Congress to recognize the regulatory and statutory needs to assure a more stable industry able to deliver reasonable returns for investors and lower cost, reliable electric service for all consumers.

Historically, as mentioned above, Blue Ridge members have had some of the lowest retail rates in the country with the average residential rate for the municipal members being 5.8¢ per kilowatt-hour when the Virginia/National average for publicly-owned, investor-owned, and cooperative utilities was as follows: 6.1¢/7.6¢, 7.6¢/8.7¢, and 9.4¢/7.8¢, respectively. It is of interest to note that AEP's residential rate was 5.4¢ and Dominion-Virginia Power's was 8.2¢.

These figures are from 2002 Energy Information Administration data—the latest readily available.

Although retail deregulation in Virginia has been in place for most consumers since the winter of 2003, there are virtually no competitive suppliers. Municipal electric utilities in Virginia are exempt from the “customer choice” mandates put in place by the 1999 enabling legislation. That is to say, municipal systems can allow customer choice at a time and in a manner of their choosing as they are regulated by their city/town councils and not by the State Corporation Commission (“SCC”). The cooperative systems, including Blue Ridge members Central Virginia and Craig-Botetourt, are regulated by the SCC and have offered competition since January 1, 2004, but no competitive offers have been received to date.

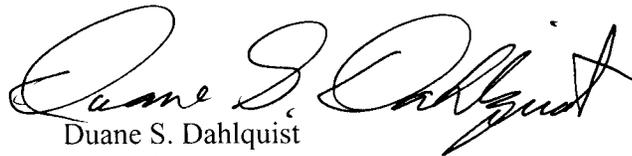
The key for Blue Ridge members is to keep their retail rates as competitive as possible to those with whom they compete for jobs and customers. This is particularly challenging during the period for which retail rates for investor-owned utilities are capped and made even more challenging over the short term with the run-up in wholesale prices. The majority of Blue Ridge municipal members have felt that providing consumers the best electric utility service, price included, is more important to the communities they serve than offering customer choice and the associated uncertainties. On January 1, 2011, the rate caps will be removed for retail rates in investor-owned areas, barring any action by the General Assembly or the SCC to change the current timetable. Most other states that had not begun customer choice programs have halted or delayed implementation. Blue Ridge has been assisting its members in this area by monitoring the customer choice activity and providing pertinent information on retail rates and other related aspects of this issue.

Blue Ridge continues its strong commitment to representing and protecting the interest of its members while doing so in the most effective and cost efficient manner possible. Under the leadership of its experienced and knowledgeable Board of Directors, Blue Ridge will continue to be successful by utilizing its proven legal and power supply/rates consultants and seeking alliances and coalitions that can provide maximum effect and save members expense in promoting its interests during the current industry and regulatory turmoil.

In the service of the Blue Ridge member localities and their citizen-customers-owners:



Timothy L. Taylor  
President



Duane S. Dahlquist  
General Manager

**Board Information**  
**Fiscal Year 2003**

**OFFICERS:**

President: Timothy (Tim) L. Taylor  
Vice-President: William (Bill) E. Willis  
Secretary/Treasurer: Eugene (Gene) L. Ratzlaff

**MEMBERS AND BOARD OF DIRECTORS**

City of Bedford

Director: Eugene (“Gene”) L. Ratzlaff, Director, Electric Department  
Alternate: F. Craig Meadows, City Manager  
Official Term Expires: April 2005

City of Bristol

Director: Wesley R. Rosenbalm, President and CEO  
Alternate #1: Danny Jessee, Manager, Vice President, Administrative Affairs  
Alternate #2: Buddy Snodgrass, Vice President, Operations  
Official Term Expires: April 2006

Central Virginia Electric Cooperative

Director: Howard L. Scarboro, President and CEO  
Alternate: Gary Wood, Vice President, Engineering & Operations  
Official Term Expires: April 2005

Craig-Botetourt Electric Cooperative

Director: Gerald H. Groseclose, General Manager  
Alternate: Eddie Helems, Technical Engineering Services Supervisor  
Official Term Expires: April 2006

City of Danville

Director: Jerry L. Gwaltney, City Manager  
Alternate #1: Joseph (“Joe”) C. King, Assistant City Manager for Utilities  
Alternate #2: Paul D. Kalv, Director, Power & Light  
Official Term Expires: April 2006

City of Martinsville

Director: Robert L. Harris, Manager Business & Technical Services  
Alternate #1: Wade Bartlett, Director of Finance & General Services  
Alternate #2: Paul R. Roop, Chief of Electric Operations  
Official Term Expires: April 2005

City of Radford

Director: William (“Bill”) E. Willis, Director, Electric Utilities  
Alternate: Tim Logwood, Assistant Director, Electric Utilities  
Official Term Expires: April 2005

Town of Richlands

Director: Timothy (“Tim”) L. Taylor, Town Manager  
Alternate: Kevin Blankenship, Electrical Engineer  
Official Term Expires: April 2006

City of Salem

Director: A. K. Briele, III, Director, Electric Department  
Alternate: Jeff Farmer, Assistant Director, Electric Department  
Official Term Expires: April 2006

Virginia Tech

Director: William (“Bill”) M. Elvey, Interim Ass’t. Vice-President-Facilities  
Alternate #1: Alvin B. Myers, Director of Utilities  
Alternate #2: Fran DeBellis, Director, Virginia Tech Electric Service  
Official Term Expires: April 2006

**STAFF**

Duane S. Dahlquist, General Manager  
Debbie Mobley, Administrative Assistant/Secretary

**PRIMARY CONSULTANTS/SERVICE PROVIDERS**

Legal Counsel: Brickfield, Burchette, Ritts & Stone, Washington, D.C.  
Primary contact: Frederick (“Fred”) H. Ritts

Engineering: GDS Associates, Inc., Marietta, GA  
Primary contact: Jack D. Madden

Auditors: Snead and Williams, P.L.L.C., Danville, VA  
Primary contact: Charles (“Chuck”) W. Snead

Accounting: LBS Consultants, Danville, VA  
Primary contact: Linda Stegall

**PRIMARY AFFILIATIONS**

American Public Power Association (“APPA”)  
Municipal Electric Power Association of Virginia (“MEPAV”)  
Transmission Access Policy Study Group (“TAPS”)  
Southeast Federal Power Customers (“SeFPC”)

**STATISTICS**

<u>BRPA Member</u>	<u>Year Established</u>	<u>Population Served Within:</u>		
		<u>Customers</u> (1)	<u>City/Town</u>	<u>Overall Territory</u> (2), (3)
City of Bedford	1899	6,419	6,299	12,800
City of Bristol	1945	16,007	17,367	32,000
Central Virginia EC	1937	30,817	n/a	61,000
Craig-Botetourt EC	1936	6,651	n/a	13,300
City of Danville	1886	41,822	48,411	83,600
City of Martinsville	1900	8,111	15,416	15,416
City of Radford	1922	7,057	15,859	15,859
Town of Richlands	1920	3,042	4,144	4,144
City of Salem	1892	12,950	25,000	25,000
Virginia Tech	1893	5,634	11,300	11,300
<b>Totals</b>		<b>138,510</b>	<b>120,130</b>	<b>274,419</b>

	<u>Peak System Loads</u> (4)		<u>Energy Purchased</u>	<u>Owned Generation</u> (5)	<u>Fuel</u>	<u>Power Supplier *</u>
	<u>(Megawatts)</u>		<u>FY2004</u>	<u>Capacity</u>		
	<u>FY2004</u>	<u>All-Time</u>	<u>(Megawatt-Hours)</u>	<u>(Megawatts)</u>		
City of Bedford	48	52	215,236	5	hydro	Cinergy
City of Bristol	121	135	624,556			Cinergy
Central Virginia EC	178	178	649,163	25	diesel	CPS & DVP
Craig-Botetourt EC	20	22	86,263			AEP & DVP
City of Danville	218	226	1,032,847	12	hydro	Cinergy
City of Martinsville	42	44	199,236	1	hydro	Cinergy
City of Radford	55	72	312,939	1	hydro	AEP
Town of Richlands	18	21	68,725			Cinergy
City of Salem	88	88	421,958			Cinergy
Virginia Tech	52	52	288,948	7	coal/gas	AEP
<b>Totals(non-coincident)</b>	<b>840</b>	<b>890</b>	<b>3,899,871</b>	<b>51</b>		

\* AEP = American Electric Power, CPS = Constellation Power Source, DVP = Dominion-Virginia Power

Notes: (1) Customer data per 2002 data from American Public Power Association and Virginia, Maryland, Delaware Association of Electric Cooperatives 2004 annual directories.

(2) Counties in which some portion is served by a BRPA member are as follows:

**Bedford**--Bedford County

**Bristol**--Lee, Scott and Washington Counties

**Central Virginia EC**--Albermarle, Amherst, Appomattox, Augusta, Buckingham, Campbell, Cumberland, Fluvanna, Goochland, Greene, Louisa, Nelson, Orange and Prince Edward

**Craig-Botetourt EC**--Allegheny, Botetourt, Craig, Giles, Montgomery, Roanoke and Monroe, WV

**Danville**--Henry, Halifax and Pittsylvania Counties

(3) Populations estimated based on 2± people per meter, actual where all service is within city/town based on the 2003-2004 Directory of State & Local Government Officials--Seventeenth Annual Edition

(4) These figures reflect only purchased capacity and energy, i.e. do not include owned generation.

(5) Bedford, Central Virginia, Craig-Botetourt, Danville, Martinsville and Salem and Richlands have rights to some 21.3 MW of capacity from Southeastern Power Administration via the Kerr-Philpott System of Army Corps of Engineers hydroelectric projects.

**BLUE RIDGE POWER AGENCY**

**FINANCIAL STATEMENTS**

30 June 2004

# BLUE RIDGE POWER AGENCY

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Business Advisors and Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors  
**Blue Ridge Power Agency**  
Danville, Virginia

We have audited the accompanying statement of financial position of **Blue Ridge Power Agency** (the **Agency**) as of 30 June 2004 and 2003, and the related statements of changes in net assets, and activities, and cash flows for the years then ended. These financial statements and the schedules referred to below are the responsibility of the **Agency's** management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Agency** as of 30 June 2004 and 2003, and the results of its operations and its changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

28 September 2004  
Danville, Virginia

# BLUE RIDGE POWER AGENCY

## STATEMENT OF FINANCIAL POSITION

30 June 2004 and 2003

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents - Notes B and I	\$ 1 043 851	\$ 659 322
Accounts receivable - Note C	4 969 767	4 397 348
Deferred members expense	-	59 139
Prepaid expenses	<u>856</u>	<u>1 158</u>
Total Current Assets	6 014 474	5 116 967
Noncurrent Assets		
Members receivable - project - Note C	94 050	-
Capital Assets,		
Net of Accumulated Depreciation - Note D	<u>36 150</u>	<u>43 195</u>
Total Assets	<u>\$ 6 144 674</u>	<u>\$ 5 160 162</u>

### LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable - power related - Note F	\$ 5 214 796	\$ 4 296 493
Accounts payable - projects	210 501	115 596
Accounts payable - goods and services	11 855	62 655
Payroll taxes and other accruals	7 332	6 238
Deferred members support - Note G	16 614	16 622
Deferred members revenue	<u>-</u>	<u>58 654</u>
	5 461 098	4 556 258
Noncurrent Liabilities		
Accounts payable - project	<u>94 050</u>	<u>-</u>
Total Liabilities	<u>5 555 148</u>	<u>4 556 258</u>
Commitments and Contingencies - Note L	<u>-</u>	<u>-</u>
Net Assets		
Unrestricted		
General	262 913	286 108
Board designated - other	-	8 195
Board designated - capital assets replacement	<u>44 210</u>	<u>32 224</u>
Total Unrestricted Net Assets	<u>307 123</u>	<u>326 527</u>
Temporarily Restricted - Note H	<u>282 403</u>	<u>277 377</u>
Total Net Assets	<u>589 526</u>	<u>603 904</u>
Total Liabilities and Net Assets	<u>\$ 6 144 674</u>	<u>\$ 5 160 162</u>

The accompanying notes are an integral part of these financial statements.

## BLUE RIDGE POWER AGENCY

### STATEMENT OF CHANGES IN NET ASSETS For the Years Ended 30 June 2004 and 2003

	Unrestricted				
	General	Board Designated- Other	Board Designated- Capital Assets Replacement	Total	Temporarily Restricted
Beginning Balance - 1 July 2002	\$ 259 880	\$ -	\$ 42 889	\$ 302 769	\$ 272 144
Increase in Unrestricted Net Assets	23 758	-	-	23 758	-
Increase in Temporarily Restricted Net Assets	-	-	-	-	5 233
Release of Net Assets for Board Designated Capital Assets Expenditures	20 684	-	(20 684)	-	-
Fiscal Year 2003/04 Budget Funding Designation	( 8 195)	8 195	-	-	-
Administrative Assets Replacement Designation	( 10 019)	-	10 019	-	-
Ending Balance - 30 June 2003	286 108	8 195	32 224	326 527	277 377
Decrease in Unrestricted Net Assets	( 19 404)	-	-	( 19 404)	-
Increase in Temporarily Restricted Net Assets	-	-	-	-	5 026
Release of Net Assets for Board Designated Capital Assets Expenditures	( 2 470)	-	2 470	-	-
Fiscal Year 2003/04 Budget Funding Designation	8 195	( 8 195)	-	-	-
Administrative Asset Replacement Designation	( 9 516)	-	9 516	-	-
Ending Balance - 30 June 2004	<u>\$ 262 913</u>	<u>\$ -</u>	<u>\$ 44 210</u>	<u>\$ 307 123</u>	<u>\$ 282 403</u>

The accompanying notes are an integral part of these financial statements.

# BLUE RIDGE POWER AGENCY

## STATEMENT OF ACTIVITIES For the Years Ended 30 June 2004 and 2003

	2004	2003
Changes in Unrestricted Net Assets:		
Utility revenues	\$ 53 781 466	\$ 54 010 379
Cost of utility revenues	( 53 781 466)	( 54 010 379)
Net Utility Revenues/(Cost of Utility Revenues)	-	-
Projects revenues	759 584	407 512
Cost of projects revenues	( 759 584)	( 407 512)
Net Projects Revenues/(Cost of Projects Revenues)	-	-
Other revenues, support, income, and (expenses)		
Dues and support	264 758	262 206
VA equivalent consumption tax - collected	703 515	737 128
VA equivalent consumption tax - remitted	( 703 515)	( 737 128)
MEPAV - income	495	885
MEPAV - expense	( 450)	( 900)
Interest income	8 834	16 270
Gain on disposal of capital asset	-	2 500
Miscellaneous income	-	5 103
Total Other Revenues, Support, Income, and (Expenses)	273 637	286 064
Total Unrestricted Revenues and Other Support	273 637	286 064
Administrative and general expenses	293 041	262 306
(Decrease) Increase in Unrestricted Net Assets	( 19 404)	23 758
Changes in Temporarily Restricted Net Assets:		
Investment income - interest - Note E	5 026	5 233
Increase in Temporarily Restricted Net Assets	5 026	5 233
(Decrease) Increase in Net Assets	\$( 14 378)	\$ 28 991

The accompanying notes are an integral part of these financial statements.

**BLUE RIDGE POWER AGENCY**  
**STATEMENT OF CASH FLOWS**  
For the Years Ended 30 June 2004 and 2003

	2004	2003
Cash Flows (Uses) from Operating Activities:		
Changes in Net Assets	\$( 14 378)	\$ 28 991
Adjustment and Reconcile of (Decrease) Increase in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation - administrative assets	9 516	7 519
Net gain on disposal of capital asset	-	( 2 500)
Net (increase) decrease in accounts and members receivables	( 666 469)	462 821
Net decrease (increase) in deferred members expense	59 139	( 59 139)
Net decrease in prepaid expenses	302	772
Net increase (decrease) in accounts payable and accruals	1 057 552	( 891 601)
Net (decrease) increase in deferred members support	( 8)	2 601
Net (decrease) increase in deferred members revenue	( 58 654)	58 654
Net Cash Provided (Used) by Operating Activities	387 000	( 391 882)
Cash Flows (Uses) from Investing Activities:		
Acquisition of capital assets	( 2 471)	( 34 114)
Proceeds from disposal of capital asset	-	2 500
Net Cash (Used) by Investing Activities	( 2 471)	( 31 614)
Net Increase (Decrease) in Cash and Cash Equivalents	384 529	( 423 496)
Cash and Cash Equivalents - Beginning of Year	659 322	1 082 818
Cash and Cash Equivalents - End of Year	\$ 1 043 851	\$ 659 322

The accompanying notes are an integral part of these financial statements.

# BLUE RIDGE POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS

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### Note A - Summary of Significant Accounting Policies

The summary of significant accounting policies of **Blue Ridge Power Agency** (the **Agency**) is presented to assist in understanding the **Agency's** financial statements.

Nature of the Organization - **Blue Ridge Power Agency** is a cooperative effort of seven (7) municipalities (the Cities of Bedford, Bristol, Danville, Martinsville, Radford, Salem, and the Town of Richlands; two (2) electric cooperatives (Central Virginia Electric Co-op and Craig-Botetourt Electric Co-op); and a state institution (Virginia Polytechnic Institute and State University) engaged in purchasing wholesale electric power and the participation in projects relating to that effort within the utility industry. The **Agency** is a nonprofit organization exempt from federal income taxes under Section 501(c)(12) of the *Internal Revenue Code* and has been classified as an organization that is not a private foundation under Section 509(a)(2) of the *Internal Revenue Code*. However, contributions are not deductible by donors under Section 170(c)(2) of the *Code*.

The financial statements of **Blue Ridge Power Agency** have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and substantially in conformity with the Federal Energy Regulatory Commission's Uniform System of Accounts.

The financial statements are presented in accordance with the provisions of Financial Accounting Standards Board's (FASB) Statement 117, *Financial Statements of Not-For-Profit Organizations*, and the American Institute of Certified Public Accountants' (AICPA) *Audit and Accounting Guide for Not-For-Profit Organizations* (the Guide).

Under the provisions of FASB Statement 117 and the Guide, net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of the **Agency's** Board of Directors' restrictions. Accordingly, the net assets of the **Agency** and changes therein are classified and reported as follows:

### Net Assets

Unrestricted Net Assets - represent resources over which the **Agency's** Board of Directors has discretionary control and are used to carry out operations of the **Agency** in accordance with its bylaws. An increase in unrestricted net assets represents the excess of total unrestricted revenue, gains, and other support over administrative expenses; whereas a decrease in unrestricted net assets represents the excess of administrative expenses over unrestricted revenue, gains, and other support. The **Agency's** Board of Directors has designated amounts for future fiscal operations of the **Agency** and for the replacement of capital assets.

# BLUE RIDGE POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS

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### **Note A - Summary of Significant Accounting Policies (Continued)**

Temporarily Restricted Net Assets - represent resources that are specifically allocated to members based on such members' participation in projects conducted by the **Agency** or the purchase of power through the **Agency**. An increase in temporarily restricted net assets represents the excess of specifically allocated revenue, gains, and other support of members over such specifically allocated expenses to such members; whereas a decrease in temporarily restricted net assets represents the excess of specifically allocated expenses of members over members' specifically allocated revenues, gains, and other support.

Capital Assets - Acquisitions of capital assets in excess of \$300 are capitalized. Capital assets are recorded at cost. Depreciation, for financial reporting purposes, is computed principally using the straight-line method over the estimated useful lives of the assets as determined by management.

Estimates - The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Cash and Cash Equivalents - In general, for purposes of the statement of financial position, the **Agency** considers all highly liquid investments with maturities of three months or less to be cash equivalents.

### **Note B - Deposits Held in Financial Institutions**

As of 30 June 2004 and 2003, the **Agency** had cash deposits on hand in various financial institutions of \$1,043,851 and \$657,508, respectively. The bank balances as of 30 June 2004 and 2003 included repurchase agreements of \$651,548 and \$269,875, respectively, which are not covered by Federal Depository Insurance but are secured by the financial institution through United States Treasury obligations.

### **Note C - Accounts and Members Receivables**

The majority of all significant accounts receivable are due from medium to large-sized municipalities and cooperatives. Due to the low credit risk associated with these entities, management believes all accounts receivable are fully collectable. Accounts receivable at 30 June 2004 and 2003 consisted of the following:

# BLUE RIDGE POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS

### Note C - Accounts and Members Receivables (Continued)

	2004	2003
Current		
Accounts receivable - members - power	\$ 4 727 943	\$ 4 245 056
Accounts receivable - members - projects	90 978	53 240
Accounts receivable - members - VA equivalent consumption tax	56 796	51 437
Accounts receivable - APPA Dues	-	47 615
Members receivable - AMP Ohio Generation Study Project	94 050	-
	<u>\$ 4 969 767</u>	<u>\$ 4 397 348</u>
Noncurrent		
Members receivable - AMP Ohio Generation Study Project	<u>\$ 94 050</u>	<u>\$ -</u>

### Note D - Capital Assets

Capital assets as of 30 June 2004 and 2003, on the balance sheet at cost less accumulated depreciation, included the following major classifications:

	2004	2003
Leasehold improvements	\$ 13 451	\$ 13 659
Office furniture and fixtures	14 052	13 806
Office equipment	6 821	7 066
Computer equipment	12 670	12 670
Vehicles	18 865	18 865
Safety demo equipment	4 496	4 497
	70 355	70 563
Less accumulated depreciation	( 34 205)	( 27 368)
Net Capital Assets	<u>\$ 36 150</u>	<u>\$ 43 195</u>

Depreciation expense for the years ended 30 June 2004 and 2003 was \$9,516 and \$7,519, respectively.

### Note E - Changes in Temporarily Restricted Net Assets

Under the terms and conditions of an agreement between the **Agency** and PSI Energy, Inc., an operating company of Cinergy Corp., the **Agency** received on behalf of four members participating in the agreement 1,274 emission allowances that were not utilized in the purchase of power from the vendor during the term of that agreement. During the year ended 30 June 2001, the

# BLUE RIDGE POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS

### Note E - Changes in Temporary Restricted Net Assets (Continued)

emission allowances were sold for \$259,896 (\$204 per allowance). Inasmuch as the ownership of these allowances was vested with the members of the Agency that participated in the purchase agreement, the total value of the proceeds are reported as temporarily restricted assets pending a decision by each member involved as to the disposition of such funds for its proportionate share. Ownership allocations are the same as those agreed to by those members for allocation of power purchased from the vendor, respectively: Bedford, 15.23%; Danville, 62.48%; Martinsville, 16.01%; and Richlands, 6.28%.

For the year ended 30 June 2004, the amount of interest income earned on the sales proceeds plus interest earned and accumulated from the prior years was \$22,507. These funds are currently being held in cash and cash equivalents.

### Note F - Accounts Payable - Power Related

Accounts payable at 30 June 2004 and 2003 consisted of the following:

	<u>2004</u>	<u>2003</u>
Accounts payable - power	\$ 4 279 685	\$ 3 798 326
Accounts payable - transmission	878 315	446 730
Accounts payable - VA equivalent consumption tax	<u>56 796</u>	<u>51 437</u>
	<u>\$ 5 214 796</u>	<u>\$ 4 296 493</u>

### Note G - Deferred Members Support

Deferred members support at 30 June 2004 and 2003 consisted of an additional ten percent (10%) of those members' base dues for the year ended 30 June 2004 and 2003, respectively, who collectively participated through the Agency in the purchase of power as follows:

<u>Member</u>	<u>2004</u>	<u>2003</u>
Bedford	\$ 1 931	\$ 2 046
Danville	8 783	8 717
Martinsville	1 752	1 748
Richlands	576	596
Salem	<u>3 572</u>	<u>3 515</u>
	<u>\$ 16 614</u>	<u>\$ 16 622</u>

# BLUE RIDGE POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS

### Note H - Temporarily Restricted Net Assets

Temporarily restricted net assets reported on the statement of financial position at 30 June 2004 and 2003 were composed of the following:

	<u>2004</u>	<u>2003</u>
Proceeds and interest earned from sale of emission allowances	\$ <u>282 403</u>	\$ <u>277 377</u>

### Note I - Fair Value of Financial Instruments

The **Agency** invests excess funds in short-term repurchase agreements of U.S. government securities and certificates of deposit (cash equivalents). The carrying value of these financial instruments approximates fair market value because of the short maturity of the investments and the **Agency** believes that it is not exposed to any significant risk on its investments. As of 30 June 2004 and 2003, the **Agency** had funds invested in repurchase agreements, which are included in cash equivalents, of \$751,548 and \$369,875, respectively, of the net cash deposits on hand in financial institutions.

### Note J - Retirement Savings Plan

The **Agency** has a Defined Contribution Retirement Plan under Section 403(b) of the *Internal Revenue Code* that is offered to all employees. The Board of Directors, at its discretion, may contribute a percentage of a participating employee's salary up to 15%. The contribution by the Board of Directors for the years ended 30 June 2004 and 2003 was \$20,338 and \$19,287, respectively.

### Note K - Operating Lease

The **Agency** entered into a noncancelable operating lease in April 2003 for real estate that expires in May 2008. Rental expense under this lease amounted to \$15,600 and \$1,200 for the years ended 30 June 2004 and 2003, respectively.

Future minimum lease payments for this lease are as follows:

2005	\$ 14 400
2006	14 400
2007	14 400
2008	<u>13 200</u>
Total Minimum Future Lease Payments	<u>\$ 56 400</u>

# BLUE RIDGE POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS

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### Note L - Commitments and Contingencies

The **Agency** entered into an irrevocable standby letter of credit arrangement for an amount of \$1,586,000 on 22 September 2004 in favor of PJM Interconnection, L.L.C. (PJM) as a condition for PJM providing power transmission services beginning 01 October 2004 to the **Agency** on behalf of such members of the **Agency** that participate in a wholesale power purchase contract and have agreed to have the **Agency** act as their agent for procurement of transmission services. The standby letter of credit is secured by guarantees of those members that participate in the wholesale purchase power contract and the **Agency** is subject to certain covenants primarily relating to the sale of all or substantially all of its assets.

Members of the **Agency** that are participating in the current wholesale contract for power supply managed by the **Agency** entered into a contract on 23 September 2004 with another wholesale power supplier for wholesale power supply that is scheduled to commence on 01 July 2005 which coincides with the termination of the current existing power supply contract.