



ANNUAL REPORT

2005 - 2004

BLUE RIDGE POWER AGENCY

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A Message from the President and the General Manager

Power Supply

In September 2004, eight Blue Ridge members signed all-requirements power supply contracts with the lowest responsive and responsible bidder, American Electric Power (“AEP”), which would begin at the termination in 2005 of the seven-year, fixed rate agreements with Cinergy Corporation and AEP on June 30, 2005. The rates under the Cinergy and contracts were among the lowest in the nation at the time. The other three bidders in the competitive process were Cinergy, Constellation and Dominion. As was anticipated given the high price of natural gas and the relationship of power prices to those of gas in the market, the result was an average wholesale power supply cost increase across the eight members of approximately 70%. Their retail customers faced rate increases of 35-50% and even more in some cases.

Since the “brokenness” of the long term electric power supply market (1 year and longer contracts) was evident before the low bidder was chosen or contracts signed and the impending huge increases were eminent, Blue Ridge embarked on efforts to educate federal regulators, legislators and other public power entities of that fact. The message was then and is now that the markets need significant changes to bring to the consumer any semblance of the benefits that the crafters and caretakers of these markets promised. Blue Ridge has met with senior Federal Energy Regulatory Commission (“FERC”) management and the staff of the one Virginia legislator that sits on an energy committee to explain in person the substantial financial impact that the market rates were having on our members’ consumers and their communities. Blue Ridge also carried the message to our national association, the American Public Power Association (“APPA”) where it was incorporated into their national energy policy initiatives at the FERC and in Congress as well as included in an excellent and widely distributed APPA white paper, *Restructuring at the Crossroads: FERC Electric Policy Reconsidered*. Make no mistake, changing federal energy policy is not an easy nor quick process—it will take months and months to effect change and only with the combined efforts of other public power systems relating their experiences; APPA the cooperatives and consumer groups weighing in; and legislative oversight adding pressure based on input from local politicians and customers.

The disconnect between the cost to generate power and a “just and reasonable” wholesale price we have termed “generate at coal and sell at gas (natural)” which represents the unreasonably high profits generation companies are realizing in the current market structure. Blue Ridge will continue its efforts in FY 2006 to carry the message to anyone in Washington who will listen and solicit the support and help of any others in the industry that can be of assistance and/or are experiencing similar pain.

As was stated last year, the strategy being pursued for dealing with these out-of-control wholesale prices is two-pronged. The first is for Blue Ridge members to secure shorter term contracts (1 to 3-year) for power supply than might have been the case in the past, so that high prices are not locked in for the long-term. Barring any unexpected calamities in the fuels markets, there is expected to be a moderation of natural gas prices due to positive impacts from

exploration, storage amounts and lower and more stable oil prices when international uncertainties subside, coupled with an increase in liquefied natural gas (LNG) imports. There are many factors, both physical and political, all of which are beyond control or accurate prediction and that impact power prices these days.

The second and most critical action deals with Blue Ridge members' gaining more control of power supply costs. As stated earlier, the power supply markets continue to be volatile and risky, a condition that has only gotten worse over the last few years. This situation led the Blue Ridge Board of Directors ("Board") to make a strategic decision in July 2003 to look for ways to stabilize the wholesale cost of electricity to its members. Based on many prior discussions and the likely continuation of market conditions it was obvious that the way that shows promise is to build a portfolio of resources made up of base load, intermediate, peaking and load following assets and services through ownership (joint or sole) and/or long-term contracts. It was also determined that Blue Ridge members should begin the effort with the securing of either ownership in or a long term purchase power agreement from base load, coal-fueled generation ("Base load" is the minimum amount of capacity that is needed every hour of the year and represents the majority of a member's energy needs). To that end Blue Ridge in late 2003 found a base load project being developed by a wholly municipal organization, American Municipal Power of Ohio (AMP-Ohio). Blue Ridge negotiated an agreement with AMP-Ohio wherein it would be a 100 Megawatt ("MW") partner in what was at the time a 750 MW, single unit project. The Blue Ridge Board then authorized the project and its members committed to funding the 2 to 3 year study effort, the product of which would be a financially viable design and associated permitting efforts sufficient to finance and construct the project. The 100 MW of capacity is being allocated on a pro rata basis among Blue Ridge members participating in the effort. Over the intervening months of the study, another joint action agency partner has joined the effort, Michigan South Central Power Agency and the plant has increased to a 2-unit, 1,000 MW coal-fired plant to be on line in the 2011-12 time frame. AMP-Ohio is joint action agency like Blue Ridge, with a similar approach to member participation in agency efforts and has over 100 members in Ohio, Pennsylvania, Michigan and West Virginia. Blue Ridge members as a whole have approximately 300 MW of base load resource needs, however, from a reliability standpoint, it is limiting any single resource to 100 MW. Blue Ridge continues to explore with several developers the potential to address the balance of 200 MW from other developments that are in the making.

Transmission

The cost for the transmission of wholesale electric power from the supplier's generation resources to Blue Ridge members also has had significant upward pressure on costs. Although this component currently represents only about 10% of the total delivered cost of power, it is a significant dollar amount. Blue Ridge members and other public power utilities across the Eastern United States, where the transmission grid is interconnected and virtually all of it is 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 other municipal and cooperative utilities own very few or no 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, transmission reliability, tariff administration. 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: create questionable market structures for more and more services; increase facilities and staff and, thus costs, virtually unchecked and, worst of all as discussed earlier, to morph into operating wholesale electricity markets as well. These things have 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. On October 1, 2004, Blue Ridge members who were receiving transmission service from AEP began receiving those services from PJM, and as expected, at increased rates. In addition, Blue Ridge members were forced to begin paying Seams Elimination Cost Adjustment ("SECA") charges, which over the course of their imposition, December 2004 through March 2006, will potentially cost \$2.4 million. The SECA charges were designed to preserve the transmission owners' lost revenues due to the development of a single, system-wide rate across the entire MISO-PJM footprint. Blue Ridge will be arguing that the responsibility for the bulk of these charges lie with the power suppliers under the terms of their power supply contracts with the Blue Ridge members.

Federal Legislation

At the end of the fiscal year, meaningful energy legislation under the direction of Senate Energy and Commerce Committee Chairman Dominici, was on a path to yield an energy policy bill that both houses of Congress and the President could support—finally, after an effort that is now in its ninth year. Although Blue Ridge would have been satisfied if the reliability section of the legislation had been the only language to pass, public power did come away in a much better position than it anticipated. Thus, if it was inevitable that an energy bill was to pass, this was the year in which public power had the most success at preserving its members' interests in the language. The following provisions are notable: mandatory and enforceable reliability standards; long-term transmission rights for load-serving utilities; voluntary participant funding; FERC authority to address market manipulation; enhanced FERC authority to review mergers; a mechanism for "clean energy" bonds for municipal utilities to develop renewable resources and reform of the hydroelectric licensing process.

Blue Ridge Activities

Blue Ridge, as its core mission, has and will continue to devote 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 meeting with the FERC staff regarding policy issues and the Virginia Congressional delegation in Washington, D.C. To

provide more clout and lower cost through economies of scale, Blue Ridge works not only with its sister joint actions agency in Virginia (the Virginia Municipal Electric Association #1) but also 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 and greater embodiment of "joint action." Further, efforts continue to be 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 over 50 municipal and cooperative, TDUs from 33 states. The varied membership of APPA, being made up both transmission-owning and non-owning members, lead to the formation of TAPS prior to the Energy Policy Act of 2002 to insure that TDU issues before FERC and Congress were addressed with sufficient focus.

The end of the 2005 fiscal year marked 16 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 9 ½ 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 the member utilities. Blue Ridge members can look back with pride and satisfaction on many accomplishments that are testimony to the effectiveness of their own joint action and local self-representation resulting in significantly more effectiveness than any other entity could have adequately provided on their behalf. As one includes the years prior to 1988 when the "Virginia Cities" (the name used in their joint filings at the FERC) worked together to negotiate contracts and protect their common power supply and transmission interests, the relationship spans over 30+ years.

Blue Ridge's administrative and general budget for the 2005 fiscal year increased 4.4% over the 2004 fiscal year to cover the added costs associated with inflation in procured supplies/services, travel associated with power supply resource development 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 operation and special projects in Fiscal 2005 (ending June 30, 2005) as follows:

- Coordinated and assisted in the continued analysis and evaluation of the 2002 request for proposals ("RFP") to secure new power supply agreements and associated transmission for the eight members with contracts which were to expire in June 2005;
- Participated and assisted counsel and consultant in completing the negotiation of power supply contract language with the four finalists in the 2002 RFP as well as with the Southeaster Power Administration ("SEPA") on behalf of the six Blue Ridge preference customers and the associated scheduling agreement between SEPA and the supplier;
- Participated in and directed/coordinated counsel and consultants in the implementation of the new AEP contracts regarding arrangements with PJM and power/transmission billing arrangements;
- Negotiated a favorable settlement with Cinergy in regard to financial responsibility for ancillary service charges following the transfer of AEP's transmission system into PJM.
- Performed the tasks related to the administration of member power supply agreements: for the five members who purchase their power requirements from Cinergy (Bedford, Danville, Martinsville, Richlands, and Salem) and the new AEP power supply

agreements that began in January and March of 2005 (BVU and Craig-Botetourt, respectively); managed the transmission agreement including monthly power and transmission supplier invoice verification; prepared consolidated bills to members and processed related collections and payments; and dealt with various contract and billing questions that arose during the year from members, suppliers and PJM;

- Coordinated the legal and regulatory work of the following Blue Ridge consultants along with invoice verification and consolidated billing to members: counsel - Brickfield, Burchette, Ritts & Stone, power supply/rates consultant - GDS Associates, Inc. and counsel for TDU coalition and TAPS, Spiegel & McDiarmid;
- The General Manager made trips to Washington, D.C., to visit with the Blue Ridge members' delegation and/or their staffs (Congressmen Boucher, Goode, and the offices 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, 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;
- Monitored electric and, as time permitted, telecommunications industry activities in the legal, regulatory, and legislative areas and disseminated significant information to the members; and

As mentioned above, Blue Ridge resources were also directed toward specific ongoing efforts or "projects" in the regulatory and legislative arena as well as some new initiatives. These activities included providing direction and coordination 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, responders were eliminated over the intervening months based on the established criteria resulting in a ultimate short list of 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). Final price quotes were obtained in September and contracts signed by the eight RFP participants with the low bidder, AEP in September 2004.
- In February 2005 a new RFP was issued to secure a new power supply agreement to pick up at the end of the term of seven of the new contracts, June 30, 2006. There were responses from 14 entities, eight of which submitted proposals for the full requirements of Blue Ridge members. The balances were for only certain portions of the supply, such as block purchases, participation in coal plant developments or the proposals lacked specifics. The proposal evaluation continued into fiscal year 2006.

- **AMP-Ohio Base Load Plant Study**—Blue Ridge members participated financially in this coal plant study pro-rata based on historical kilowatt-hour energy purchases. The study progressed well with the selection of the primary and alternate sites, development of estimated bus bar costs, completion of evaluation of alternatives (the self-build option proving to be the most feasible choice), transmission corridor selection, and initiation of permitting activities. Blue Ridge stayed intimately involved in the study process with its General Manager and consultants performing due diligence review of the project and providing input through participation in the Project Team and AMP-Ohio's Base Load Generation Committee.
- During this fiscal year Blue Ridge and its consultants solicited a proposal from one of the suppliers for a long-term, cost-of-service or formula-based proposal. It began to get traction by the first of 2005 as the supplier was beginning to formulate its proposal. It was anticipated that there would be a draft contract to review and consider during the fall of 2005.
- **Strategic Planning**—Outside of committing financial resources to projects that hold definite promise, such as the AMP-Ohio coal plant project, Blue Ridge continues to explore additional potential long-term resources for its members. The "Strategic Planning" effort provides resources for initial evaluation of potential long-term member power supply portfolio additions. Blue Ridge joined a consortium including the lead and sponsoring utility, Dominion-Virginia Power, as well as AEP, Old Dominion Electric Cooperative and VMEA to study the feasibility of a base load coal project in southwest Virginia. The Virginia restructuring legislation provides for favorable cost recovery of such a project if it serves native Virginia customers. In addition, Blue Ridge continues to evaluate another base load coal-fired project in the Midwest that is well into the permitting process. The results of these efforts and other activities were reported to the Blue Ridge Board during the year and also presented to and discussed at each of the semiannual conferences.
- **AEP Transmission Rate Case**—In March 2005, AEP filed for a significant rate increase of 18% effective June 1, 2005 and an additional 60% effective March 1, 2006. Blue Ridge partnered with ODEC in its rate filing and Blue Ridge's counsel; John Conway of BBR&S served as lead counsel. Blue Ridge joined other AEP wholesale municipal and cooperative transmission customers from Indiana, Michigan and Ohio to sponsor expert rate testimony by Blue Ridge's consultant on rate of return and another consultant on ancillary services and plant value issues. The joint effort was successful in the initial effort to have the FERC order two things: the effective date for the rate increase be delayed 5 months to November 1, 2005 and that all issues be set for hearing. The next steps were to be settlement discussions among the interested parties prior to preparation for hearings.
- **Regional Transmission Organizations ("RTO")**—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 its members' interests as FERC regulations are developed, rules are interpreted through regulatory/court litigation and PJM continues to develop or revise its tariffs, services and

markets. 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 ("ODEC") representing 12 of the 14 cooperative distribution utilities across the Commonwealth. Of particular interest to Blue Ridge's members is insuring that the reliability, governance, rates, terms/conditions of service, access, operation, and planning that are within the RTO's responsibilities are in the members' best interest. Blue Ridge has joined the Public Power Coalition a group of transmission dependent municipal utilities and joint action agencies within PJM that monitors each of the significant committees and work groups within the PJM organization and advises members on developing issues and PJM initiatives.

- Transition to PJM—AEP successfully transferred its transmission system operation and tariff administration to PJM effective October 1, 2004. On behalf of 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) Blue Ridge successfully submitted the applications for membership in PJM with Blue Ridge acting as agent for eight members. Applications were also submitted for BVU and Craig-Botetourt who began receiving transmission service from PJM in January and March, respectively. There was significant effort to develop a credit package that would satisfy PJM requirements. That process was successful with the members providing individual guaranties to secure the Blue Ridge letter of credit effective September 30, 2004. However, in November 2004 PJM notified Blue Ridge that they could extend the required credit unsecured, which eliminated the requirement for the letter of credit and it was subsequently rescinded.

As is obvious from the discussion above, the 2005 fiscal year continued to see the electric industry feel the pains of restructuring in both the wholesale and retail sectors. As stated before, what is needed now is for there to be pressure applied to FERC and Congress to recognize the regulatory and statutory actions needed to assure a more stable industry able to deliver reasonable returns for investors and lower cost, reliable electric service for all consumers.

Historically, 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: 6.3¢/8.0¢, 7.6¢/8.8¢, and 9.5¢/8.1¢, respectively. It is of interest to note that Appalachian Power Company's ("APCo") residential rate was 5.4¢ and Dominion-Virginia Power's was 8.1¢. These figures are from 2003 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 continues to be 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 with 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. However, even with increased retail rates that will be in effect under the new contracts, member's rates are still less than all other regional investor-owned and cooperative rates except for APCo's rates which are less. It is important to note that APCo's rates will increase as well over the next year due to environmental, reliability, fuel and operations/maintenance cost increases. 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 securing reliable power supplies and delivery at the lowest cost possible while representing and protecting the interest of its members and doing so in the most effective, 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 knowledge experience, insight from a local, Virginia perspective and its proven legal and power supply/rates consultants while seeking alliances and coalitions that can provide maximum effect and save members expense in promoting its interests the current industry and regulatory turmoil.

In the service of the Blue Ridge members and their citizens-customers-owners:



Timothy L. Taylor
President



Duane S. Dahlquist
General Manager

**Board Information
Fiscal Year 2005**

OFFICERS:

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

MEMBERS AND BOARD OF DIRECTORS (as of 6/30/05)

City of Bedford

Director: Eugene ("Gene") L. Ratzlaff, Director, Electric Department
Alternate #1: F. Craig Meadows, City Manager
Official Term Expires: April 2007

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 2007

Craig-Botetourt Electric Cooperative

Director: Gerald H. Groseclose, General Manager
Alternate: Eddie Helems, Operations Manager
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 2007

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 2007

City of Radford

Director: William ("Bill") E. Willis, Director, Electric Utilities
Alternate: Tim Logwood, Assistant Director, Electric Utilities
Official Term Expires: April 2007

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”)

Public Power Coalition (“PPC”, TDUs within PJM)

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	6,627	6,300	13,300
City of Bristol	1945	15,815	17,367	31,600
Central Virginia EC	1937	31,041	n/a	62,100
Craig-Botetourt EC	1936	6,605	n/a	13,200
City of Danville	1886	42,058	48,500	84,100
City of Martinsville	1900	8,067	15,416	15,416
City of Radford	1922	7,048	15,589	15,589
Town of Richlands	1920	2,997	4,144	4,144
City of Salem	1892	13,000	24,747	24,747
Virginia Tech	1893	5,648	11,296	11,296
Totals		138,906	119,692	275,492

	<u>Peak System Loads</u> (4)		<u>Energy Purchased</u>	<u>Owned Generation</u> (6)		<u>Power Supplier *</u>
	<u>(Megawatts)</u>		<u>FY2005</u>	<u>Capacity</u>		
	<u>FY2005</u>	<u>All-Time</u>	<u>(Megawatt-Hours)</u>	<u>(Megawatts)</u>	<u>Fuel</u>	
City of Bedford	56	56	221,976	7	hyd, dsl	AEP
City of Bristol	133	135	608,030			AEP
Central Virginia EC	176	178	625,169	10	diesel	CPS & DVP
Craig-Botetourt EC	23 (5)	23 (5)	87,855			AEP & DVP
City of Danville	214	226	1,025,570	16	hyd, dsl	AEP
City of Martinsville	40	44	196,971	1	hydro	AEP
City of Radford	60	72	305,335	1	hydro	AEP
Town of Richlands	21	21	67,479	1	diesel	AEP
City of Salem	86	88	421,622	4	diesel	AEP
Virginia Tech	52	52	302,002	8	coal/gas	AEP
Totals(non-coincident)	861	895	3,862,009	48		

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

- Notes: (1) Customer data per 2003 data from American Public Power Association and Virginia, Maryland, Delaware Association of Electric Cooperatives 2005-06 and 2005 annual directories, respectively. The Danville figure is net of approximately 7,000 area light accounts/"customers."
- (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 2005-2006 Directory of State & Local Government Officials--Twentieth Annual Edition.
- (4) These figures reflect only purchased capacity and energy, i.e. do not include owned generation.
- (5) Craig-Botetourt EC loads are non-coincident peak figures.
- (6) Bedford, Central Virginia, Craig-Botetourt, Danville, Martinsville, Radford, Richlands and Salem have an allocation totaling 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 2005



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 2005 and 2004, 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.

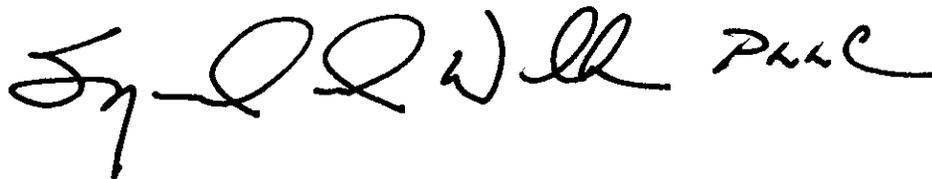
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Agency** as of 30 June 2005 and 2004, and the results of its operations and its changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements of the **Agency** taken as a whole. The accompanying financial information, listed as "supplementary information" in the table of contents, is presented for purposes of additional analysis and is not a

To the Board of Directors
Blue Ridge Power Agency

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required part of the basic financial statements of the **Agency**. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Snead & Williams P.L.L.C.".

17 November 2005
Danville, Virginia



BLUE RIDGE POWER AGENCY

STATEMENT OF FINANCIAL POSITION

30 June 2005 and 2004

ASSETS

	<u>2005</u>	<u>2004</u>
Current Assets		
Cash and cash equivalents - Notes B and H	\$ 546 727	\$ 1 043 851
Accounts and members' receivables - Note C	7 322 642	5 084 717
Prepaid expenses	<u>3 364</u>	<u>856</u>
Total Current Assets	7 872 733	6 129 424
Noncurrent Assets		
Members' receivable - project - Note C	-	209 000
Capital Assets, Net of Accumulated Depreciation - Note D	<u>30 181</u>	<u>36 150</u>
Total Assets	<u>\$ 7 902 914</u>	<u>\$ 6 374 574</u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable - power related - Note F	\$ 6 978 470	\$ 5 214 796
Accounts payable - projects	346 468	325 451
Accounts payable - goods and services	3 684	11 855
Accounts payable - other	6 884	-
Payroll taxes and other accruals	7 614	7 332
Deferred members' support - Note G	18 450	16 614
Deferred members' revenue	<u>43 207</u>	<u>-</u>
	7 404 777	5 576 048
Noncurrent Liabilities		
Accounts payable - project	<u>-</u>	<u>209 000</u>
Total Liabilities	<u>7 404 777</u>	<u>5 785 048</u>
Net Assets		
Unrestricted		
General	265 381	262 913
Board designated - capital assets replacement/expenditures	54 903	44 210
Board designated - future projects - Note E	<u>177 853</u>	<u>282 403</u>
Total Net Assets	<u>498 137</u>	<u>589 526</u>
Total Liabilities and Net Assets	<u>\$ 7 902 914</u>	<u>\$ 6 374 574</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 2005 and 2004

	Unrestricted				
	General	Other	Board Designated		Total
			Capital Assets Replacement/ Expenditures	Future Projects	
Beginning Balance - 1 July 2003	\$ 286 108	\$ 8 195	\$ 32 224	\$ 277 377	\$ 603 904
Decrease in Unrestricted Net Assets	(19 404)	-	-	-	(19 404)
Increase in Net Assets for Board Designated Future Projects	-	-	-	5 026	5 026
Release of Net Assets for Board Designated Capital Assets Replacement/Expenditures	(2 470)	-	2 470	-	-
Fiscal Year 2004/05 Budget Funding Designation	8 195	(8 195)	-	-	-
Administrative Assets Replacement/ Expenditures Designation	(9 516)	-	9 516	-	-
Ending Balance - 30 June 2004	262 913	-	44 210	282 403	589 526
Increase in Unrestricted Net Assets	13 161	-	-	-	13 161
Release of Net Assets for Board Designated Future Projects	-	-	-	(104 550)	(104 550)
Release of Net Assets for Board Designated Capital Assets Replacement/ Expenditures	(2 362)	-	2 362	-	-
Fiscal Year 2005/06 Budget Funding Designation	-	-	-	-	-
Administrative Asset Replacement/ Expenditures Designation	(8 331)	-	8 331	-	-
Ending Balance - 30 June 2005	\$ 265 381	\$ -	\$ 54 903	\$ 177 853	\$ 498 137

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

BLUE RIDGE POWER AGENCY

STATEMENT OF ACTIVITIES

For the Years Ended 30 June 2005 and 2004

	<u>2005</u>	<u>2004</u>
Changes in Unrestricted Net Assets:		
Utility revenues	\$ 68 317 260	\$ 53 781 466
Cost of utility revenues	<u>(68 317 260)</u>	<u>(53 781 466)</u>
Net Utility Revenues/(Cost of Utility Revenues)	<u>-</u>	<u>-</u>
Projects revenues	1 055 855	759 584
Cost of projects revenues	<u>(1 055 855)</u>	<u>(759 584)</u>
Net Projects Revenues/(Cost of Projects Revenues)	<u>-</u>	<u>-</u>
Other revenues, support, income, and (expenses)		
Dues and support	290 917	264 758
VA equivalent consumption tax - collected	685 462	703 515
VA equivalent consumption tax - remitted	<u>(685 462)</u>	<u>(703 515)</u>
MEPAV - income	240	495
MEPAV - expense	<u>(375)</u>	<u>(450)</u>
Interest income	<u>16 541</u>	<u>8 834</u>
Total Other Revenues, Support, Income, and (Expenses)	<u>307 323</u>	<u>273 637</u>
Total Unrestricted Revenues and Other Support	307 323	273 637
Administrative and general expenses	<u>294 162</u>	<u>293 041</u>
Increase (Decrease) in Unrestricted Net Assets	<u>13 161</u>	<u>(19 404)</u>
Changes in Board Designated Net Assets:		
Transfer to unrestricted net assets	<u>(108 721)</u>	-
Investment income - interest - Note E	<u>4 171</u>	<u>5 026</u>
(Decrease) Increase in Board Designated Net Assets	<u>(104 550)</u>	<u>5 026</u>
(Decrease) in Net Assets	<u><u>\$ (91 389)</u></u>	<u><u>\$ (14 378)</u></u>

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 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash Flows (Uses) from Operating Activities:		
Changes in Net Assets	\$(91 389)	\$(14 378)
Adjustment and Reconcile of (Decrease) in Net Assets to Net Cash (Used) Provided by Operating Activities:		
Depreciation - administrative assets	8 331	9 516
Net (increase) in accounts and members' receivables	(2 028 925)	(896 369)
Net decrease in deferred members' expense	-	59 139
Net (increase) decrease in prepaid expenses	(2 508)	302
Net increase in accounts payable and accruals	1 574 686	1 287 452
Net increase (decrease) in deferred members' support	1 836	(8)
Net increase (decrease) in deferred members' revenue	<u>43 207</u>	<u>(58 654)</u>
Net Cash (Used) Provided by Operating Activities	<u>(494 762)</u>	<u>387 000</u>
Cash Flows (Uses) from Investing Activities:		
Acquisition of capital assets	<u>(2 362)</u>	<u>(2 471)</u>
Net Cash (Used) by Investing Activities	<u>(2 362)</u>	<u>(2 471)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(497 124)	384 529
Cash and Cash Equivalents - Beginning of Year	<u>1 043 851</u>	<u>659 322</u>
Cash and Cash Equivalents - End of Year	<u>\$ 546 727</u>	<u>\$ 1 043 851</u>

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

BLUE RIDGE POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

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); a state institution (Virginia Polytechnic Institute and State University); and two (2) electric cooperatives (Central Virginia Electric Co-op and Craig-Botetourt Electric Co-op) 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

Note A - Summary of Significant Accounting Policies (Continued)

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.

Reclassifications - Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Note B - Deposits Held in Financial Institutions

As of 30 June 2005 and 2004, the **Agency** had cash deposits on hand in various financial institutions of \$546,727 and \$1,043,851, respectively. The bank balances as of 30 June 2005 and 2004 included repurchase agreement balances of \$233,911 and \$651,548, respectively, which are not covered by Federal Depository Insurance coverage but was 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 2005 and 2004 consisted of the following:

BLUE RIDGE POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

Note C - Accounts and Members' Receivables (Continued)

	<u>2005</u>	<u>2004</u>
Current		
Accounts receivable - members - power	\$ 6 920 575	\$ 4 727 943
Accounts receivable - members - projects	140 762	90 978
Accounts receivable - members - VA equivalent consumption tax	52 305	56 796
Members' receivable - AMP Ohio Generation Study Project	<u>209 000</u>	<u>209 000</u>
	<u>\$ 7 322 642</u>	<u>\$ 5 084 717</u>
Noncurrent		
Members' receivable - AMP Ohio Generation Study Project	<u>\$ -</u>	<u>\$ 209 000</u>

Note D - Capital Assets

Capital assets as of 30 June 2005 and 2004, on the balance sheet at cost less accumulated depreciation, included the following major classifications:

	<u>2005</u>	<u>2004</u>
Leasehold improvements	\$ 14 167	\$ 13 451
Office furniture and fixtures	14 380	14 052
Office equipment	6 821	6 821
Computer equipment	13 988	12 670
Vehicle	18 865	18 865
Safety demo equipment	<u>4 496</u>	<u>4 496</u>
	72 717	70 335
Less accumulated depreciation	<u>(42 536)</u>	<u>(34 205)</u>
Net Capital Assets	<u>\$ 30 181</u>	<u>\$ 36 150</u>

Depreciation expense for the years ended 30 June 2005 and 2004 was \$8,331 and \$9,516, respectively.

Note E - Board Designated - Future Projects

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 - Board Designated - Future Projects (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 Net Assets Board Designated - Future Projects 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 fiscal years ended 30 June 2005 and 2004, the amount of interest income earned on the sales proceeds was \$4,171 and \$5,026, respectively. For the fiscal year ended 30 June 2005, \$108,721 was used by those appropriate members for project expenses. These funds are currently being held in cash and cash equivalents.

Note F - Accounts Payable - Power Related

Accounts payable at 30 June 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Accounts payable - power	\$ 6 926 165	\$ 4 279 685
Accounts payable - transmission	-	878 315
Accounts payable - VA equivalent consumption tax	<u>52 305</u>	<u>56 796</u>
	<u>\$ 6 978 470</u>	<u>\$ 5 214 796</u>

Note G - Deferred Members' Support

Deferred members' support at 30 June 2005 and 2004 consisted of an additional ten percent (10%) of those members' base dues for the years ended 30 June 2005 and 2004, respectively, who collectively participated through the **Agency** in the purchase of power as follows:

<u>Member</u>	<u>2005</u>	<u>2004</u>
Bedford	\$ 2 126	\$ 1 931
Danville	9 827	8 783
Martinsville	1 881	1 752
Richlands	655	576
Salem	<u>3 961</u>	<u>3 572</u>
	<u>\$ 18 450</u>	<u>\$ 16 614</u>

BLUE RIDGE POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

Note H - 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 2005 and 2004, the Agency had funds invested in repurchase agreements, which are included in cash equivalents, of \$333,911 and \$751,548, respectively, of the net cash deposits on hand in financial institutions.

Note I - 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 2005 and 2004 was \$21,063 and \$20,338, respectively.

Note J - 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 \$14,400 and \$15,600 for the years ended 30 June 2005 and 2004, respectively.

Future minimum lease payments for this lease are as follows:

2006	\$	14 400
2007		14 400
2008		<u>13 200</u>
Total Minimum Future Lease Payments	\$	<u>42 000</u>

Note K - 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 was secured by guarantees of those members that participate in the wholesale purchase power contract and the Agency was subject to certain covenants primarily relating to the

BLUE RIDGE POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

Note L - Commitments and Contingencies (Continued)

sale of all or substantially all of its assets. In early 2005, the **Agency** was informed that the letter of credit arrangement was no longer required as a condition of service. Accordingly, the credit arrangement was cancelled by the **Agency**.