BLUE RIDGE POWER AGENCY

"PROVIDING ELECTRIC ENERGY TO THE BLUE RIDGE"

ANNUAL REPORT

2006 - 2005

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A Message from the President and the General Manager
October 2006

Power Supply

For eight of our eleven member systems, 2006 was the most difficult year in their history in regard to making long term power supply decisions. As all-requirements purchasers having virtually no generation, they were and are essentially totally dependent on power suppliers selling through the PJM[1] wholesale market. That was the case as well in September 2004 when seven of these members signed one-year contracts with the low bidder of four finalists, American Electric Power ("AEP")—lowest bid but over 70% higher than the prior 7-year, fixed price contract with Cinergy and AEP. Their retail customers faced 40-50% rate increases. Contracts were for one year because the best thinking and market projections at the time indicated that the markets would be down in a year. Obviously, this was a very hard and trying time for our members, their governing bodies and for their retail customers. The markets at the time those contracts were signed were as low as they had been for months, but prices were high relative to current rates and were very volatile, swinging up/down and tied closely to the natural gas market prices.

In February 2005, seven of the members issued an RFP for power supply to begin July 1, 2006. The markets remained volatile and with unexpected events such as hurricane Katrina disrupting gas supplies from the Gulf and geo-political turmoil in foreign oil/gas supplying nations, the prices were even higher than the previous year. Members and their city/town councils and boards again had very difficult decisions to make in an atmosphere of the recent steep rate increases they had to impose in 2005. Long term (1 to a maximum 3 years) market wholesale prices were now 25% higher than those in the contracts soon to end, 100% higher than the Cinergy contract that ran from 1998 to 2005—a 60% overall increase in retail rates in two years.[2]

The final choices for the supplier in the Spring of 2006 essentially narrowed down to choosing one of two approaches to the contract structure and term. One option was to execute an all-requirements contract with American Municipal Power-Ohio ("AMP-Ohio")[3] for 1 to 3 years and over the next several years invest in generation assets and/or sign mid- to long-term purchased power agreements for power from units thus building an asset-based power supply portfolio over time.[4] (Activity in this direction had already begun in 2004 when nine Blue Ridge members began participation in the development study phase for a 2-unit 1,000 MW coal plant to be built jointly by AMP-Ohio, Blue Ridge and Michigan South Central Power Agency ("MSCPA") and projected to go on line in 2012. That study is ongoing at this time and in the

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[1] PJM Interconnection, LLC (www.pjm.com) is the regional transmission organization ("RTO") that operates the transmission system and administers the wholesale market within its footprint. It has 400 member/customers and serves all or parts of 13 states, including Virginia—51 million people, 1,271 generators, 164,634 megawatts peak load and 56,070 miles of transmission lines.

[2 and 4] See Blue Ridge's Annual Report 2005 – 2004, Message from the President and General Manager, Power Supply section for a discussion of the state of the long term electric power supply markets and asset-based portfolio development.

[3] AMP-Ohio is a joint action agency with 119 member systems in Ohio, Michigan, Pennsylvania, Virginia (the 4 Blue Ridge members) and West Virginia, headquartered in Columbus, OH.

permitting stage with the plant site and land options secured.) The second option was to sign a 20-year, all-requirements formula-based contract with Appalachian Power Company ("APCo," a subsidiary of AEP). With the assistance of Blue Ridge and its consultants, a 20-year load forecast was developed and prices projected for the two approaches plus those for the wholesale market. Councils and Boards spent much time and effort evaluating these two very different approaches, recognizing that each had its own set of risks and weighing all factors involved for their individual circumstances.

In the end, members had differing choices. Members Bedford, Danville, Martinsville and Richlands chose to go with the long-term portfolio approach with an initial contract term of 2½ years for power from the market (Membership in AMP-Ohio was a requirement of the power supply agreements.), while Craig-Botetourt, Radford and Salem chose to sign the 20-year contract with APCo. Member Front Royal signed a 2-year, all-requirements, market-based contract with AEP. Member Bristol Virginia Utilities ("BVU"), going through a very similar process, this September signed a 20-year, all-requirements contract with Tennessee Valley Authority ("TVA").

To complete the power supply picture for the balance of the Blue Ridge members, Central Virginia Electric Cooperative ("Central Virginia") is continuing to receive power from Constellation Power Source under an all-requirements contract that terminates in 2012. Central Virginia is a participant in the AMP-Ohio/BRPA/MSCPA 1,000 MW coal plant development effort. Virginia Tech is at this time in the final phases of an RFP and evaluation process very similar to what the other members went through to select a supply arrangement to begin July 1, 2007.

As a consequence of these very different arrangements for power supply over the next 20 years, Blue Ridge's mission will of necessity be different in order to serve the varying power supply and transmission related needs of each member. The initial thinking is that for those members taking service from AMP-Ohio and Central Virginia (for its needs beginning in 2012), Blue Ridge would maximize the development of their portfolios by taking advantage of long term asset-based power supply resource options (generation and/or purchase power agreements) developed by both AMP-Ohio and Blue Ridge with Blue Ridge performing the necessary due diligence as well as assisting in the contract negotiation efforts for the members. For Front Royal, Blue Ridge would assist as it has in the past in the securing of power supply arrangements necessary at the end of their current contract in June 2008. Blue Ridge will provide assistance to Virginia Tech with power supply issues based on the outcome of their current procurement process and their needs.

In November 2006, a one and a half day facilitated strategic planning session was held at Blue Ridge's Annual Fall Conference to develop mission, goals, strategies and action plans to serve its members in the future. The facilitator conducted pre-conference interviews with at least one Director from each member and that member organization's management. Those interviews were to review the vision of Blue Ridge members as well as the mission of Blue Ridge by ascertaining concerns, needs, perception of value of the organization, threats/opportunities in our industry environment will be compiled and be the framework for discussions. The end product should be a Blue Ridge organization that provides its members with added value and meets the new opportunities and challenges.

Transmission

Transmission access, rights and cost to deliver power to Blue Ridge members from the various power suppliers today, as well as remote generation assets in the future, is a continuing concern of all Blue Ridge members regardless of the type of power supply contract in place. For those buying power from the market and developing long term remote generation/purchase power resources and where the member is charged for all aspects of transmission service, it is of particular importance. All Blue Ridge members, with the exception of Virginia Tech, currently buy their transmission services from PJM. Blue Ridge is customer of PJM and agent for six of its members and for those with the 20-year contracts, the power supplier is their agent. With the increased overall cost of power, transmission now comprises 5-10% of total delivered cost of power.

PJM continues to develop new markets for various transmission services, the latest being for reserve capacity referred to as the Reliability Pricing Model ("RPM") and on which the Federal Energy Regulatory Commission ("FERC") is soon to issue a final ruling based on a settlement agreement filed on behalf of all stakeholders—transmission owners and PJM customers. The energy markets for which purchase prices are set based on location, called location marginal price ("LMP") and the RPM reserve markets are supposed to provide a financial incentive for companies to build transmission and generation where it is needed and in a timely manner. It has yet to achieve those goals to date, but these mechanisms in PJM continue to be in place and new markets instituted and approved by the FERC in each instance. The consumer who was to benefit from the restructured electric industry with more competition and lower prices continues to see only increases in cost. Blue Ridge member transmission costs have significantly increased over the past two years (this is included in the delivered power costs discussed in the Power Supply section above).[5]

As with securing control of energy supply, public power entities including Blue Ridge are exploring the possibility of joint ownership of transmission lines. Public power is pushing this concept with the FERC, the Department of Energy, RTOs including PJM and with other industry stakeholders. Joint ownership would give the public power utilities with remote generation/purchased power resources a pro rata share of the capacity over those lines versus having to bid for line capacity in the current PJM-administered annual auctions.

Federal Legislation

The Energy Policy Act of 2005 was passed by the House and Senate in late July and signed by the President into law on August 8, 2005—nine years in the making. Provisions of that law of particular interest to Blue Ridge members were: updated language on native load and service obligation; strong market manipulation protections; voluntary as opposed to mandatory participant funding, enhanced FERC merger review authority necessary given the repeal in this law of the Pubic Utility Holding Company Act; mandatory reliability standards; and federal backstop transmission siting authority.

The FERC is now promulgating rules to implement the provisions of the energy act. In regard to Congress' role in the electric utility industry going forward, public power is working to educate

[5] See Blue Ridge's Annual Report 2005 – 2004, Message from the President and General Manager, Transmission section for a additional discussion of PJM, RTOs and transmission issues.

the house and senate committees with oversight authority so that they will act appropriately to either strongly encourage FERC and DOE to take action and/or hold oversight hearings to achieve the goal of consumers seeing the benefits intended by the Energy Policy Acts of 1992 and 2005.

Blue Ridge Staff Activities

Blue Ridge, as its core mission to date, has devoted its resources to securing the most reliable and lowest possible cost delivered 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 the other joint action agency in Virginia (the Virginia Municipal Electric Association #1—"VMEA") 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 ("APPA") and the Transmission Access Policy Study Group ("TAPS"), a coalition of over 50 municipal and cooperative transmission-dependent utilities ('TDUs") from 33 states. The varied membership of APPA, being made up of both transmission-owning and non-owning members, led 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. TAPS was very involved in promoting our interests in the provisions of the Act of 2005 as well.

APPA has initiated a campaign titled the Electric Market Reform Initiative ("EMRI") to examine what in fact has happened in the power industry, and where we need to go next. EMRI will proceed in two stages; the first to assess and the second to address market failures and other serious challenges facing public power in wholesale electricity markets across the country. The effort is funded by voluntary contributions from its members, including Blue Ridge members' contribution of $7,000, as well as $100,000 from APPA's reserve funds.

The first phase will entail a thorough evaluation of the myriad problems in electric markets, such as detailed studies of the theory and effectiveness of LMP pricing in RTOs, how prices compare to actual costs (the "coal at gas prices" or "dark spread" that Blue Ridge members are experiencing), how electricity meets the economic criteria for competitive markets, how retail restructuring has affected consumers, and which companies are benefiting from the current market structure.

In the second phase, APPA will seek to educate and influence policy makers on the problems of the electricity markets and needed reforms. These efforts will be targeted at the Federal Energy Regulatory Commission and the RTOs themselves. Educating members of Congress and Public Utility Commissions on the issues and problems in electricity markets is also central to the initiative, as these entities provide oversight of FERC, DOE and RTOs.

As part of the EMRI initiative, just this month the General Manager of Blue Ridge was part of a panel which briefed Congressional Staff on the issues related to PJM. He spoke to the terrible experience Blue Ridge has had with PJM's energy markets with rates rising 100% in two years and the other panelists spoke to other issues related to financial transmission rights and rising RTO operational/administration costs. It has taken years for the electric industry to get into its current precarious condition and it will take many, many months if not years to get it corrected.

The end of 2006 will mark 18 years since Blue Ridge Power Agency was chartered in December 1988 as a non-profit corporation in the Commonwealth of Virginia. It also marks 10 years of being in operation with a full-time staff. Before January 1996, it was operated by the officers of the Board of Directors who were 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, especially 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, a relationship that spans 35 years.

Blue Ridge's administrative and general budget for the 2006 fiscal year increased 2% over the 2005 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 2006 (ending June 30, 2006) as follows:

- Coordinated and assisted in the analysis and evaluation of the 2005 request for proposals ("RFP") to secure new power supply agreements and associated transmission for the eight members with contracts which expired in June 30, 2006;
- Participated and assisted counsel and consultant in completing the negotiation of power supply contract language with the two finalists in the 2005 RFP as well as with the Southeastern Power Administration ("SEPA") on behalf of the six Blue Ridge preference customers to make appropriate modifications to the associated scheduling agreements between SEPA and the suppliers;
- Participated in and directed/coordinated counsel and consultants in the implementation of the new AEP, APCo and AMP-Ohio contracts involving PJM for power/transmission scheduling, accounting and billing arrangements;
- Coordinated with FERC counsel the refund of approximately $1.2 million from Duke ("Cinergy") as a result of successful settlement of the Seams Elimination Cost Adjustment charges that had been collected from Blue Ridge members.
- Performed the tasks related to the administration of member power supply agreements: for the eight members who purchased their power requirements from AEP; managed the PJM 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; participated as agent for eight members in PJM Members Committee meetings and protected Blue Ridge members' transmission interests by coordinating, monitoring and voting via the Public Power Coalition with assistance as needed from our consultant in the many PJM active committees and work groups.

- 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.; counsel for TDU coalition and TAPS - Spiegel & McDiarmid; and counsel for Front Royal, Miller, Balis and O'Neil.
- 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 of 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 its lobbyist to represent Blue Ridge members' interest in both electric and telecommunications legislation;
- As a member of the APPA Board of Directors, the General Manager was active in the initiation, development and implementation of the EMRI effort;
- Planned, organized and facilitated the annual Fall and Spring Conferences;
- The General Manager carried out his duties as a member of the 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

Projects

Blue Ridge resources were also directed toward specific "projects." The General Manager directed and coordinated legal counsel and power supply/rates consultants for these projects such as power supply procurement efforts as well as interventions, analysis and development of briefs to be filed at the FERC and included such significant efforts such as:

- Power Supply Solicitation—In February 2005, a request for proposals was developed and distributed to interested suppliers to provide power supply to pick up at the end of the AEP 1-year contract on July 1, 2006. There were 14 responses, 8 of which met the member's full requirements need. The balance of proposals were for only certain portions of the supply, such as block purchases, participation in coal plant developments or the proposals lacked specifics. After evaluation and discussion with the suppliers, several responders were eliminated over the intervening months based on the established criteria, resulting in a ultimate short list of four in August 2005—American Electric Power Service Corporation (AEP affiliate), American Municipal Power – Ohio ("AMP-Ohio"), Cinergy, and Constellation Power Source (parent of Baltimore Gas & Electric). In January 2006, Front Royal joined into the RFP effort as their contract with Dominion Energy was to also end July 1, 2006. Over the remaining months before a final decision, various circumstances, such as the Duke-Cinergy merger and competitiveness, left members with two finalists and three proposals, AEP and AMP-Ohio with market supply and AEP affiliate Appalachian Power Company ("APCo") with 20-year, formula-based proposals. By the end of May 2006, all seven Blue Ridge members had executed contracts with their suppliers: Bedford, Danville, Martinsville and Richlands with AMP-Ohio for all-requirements market power for a term of 30 months and one base load portfolio component for 6 years; Craig-Botetourt, Radford and Salem with APCo for all-requirements, formula-based for a 20 year term and Front Royal with AEP for market power for a term of 2 years.

- AMP-Ohio Base Load Plant Study—Blue Ridge members continued participation in this coal plant development study related to Blue Ridge's 100 megawatt share of the 2-unit, 1,000 MW coal plant. This effort includes completing preparation for construction through the major permits, i.e. air quality, siting, landfill, cultural and transmission line permits as well as others necessary for the construction of this generation facility. The study has progressed well with the securing of the plant site and purchase options on those lands, development of estimated bus bar costs, the completion of transmission corridor selection and application to PJM for interconnection facilities of the plant to the grid. The selection of an owner's engineer is in its final stages and a draft AMP-Ohio-member power purchase contract will be issued soon. Blue Ridge has been 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. With several of the original Blue Ridge participants signing 20-year power supply agreements, there will need to be a reallocation of the 100 megawatts among the remaining participants up to the maximum recommended for their portfolio.
- AMP-Ohio Hydro-electric Developmental Study—Similar to the coal plant study, three of the four Blue Ridge members that are purchasing their power supply from AMP-Ohio, Danville, Martinsville and Richlands, are participating in a study to confirm the feasibility of developing hydro-electric capacity at existing dams on the Ohio River. A fourth member, Bedford, already has in its portfolio a significant amount of hydro capacity and, therefore, chose not to participate in the AMP-Ohio hydro studies. Blue Ridge is also performing due diligence activities necessary in addition to that being done by AMP-Ohio.
- Strategic Planning/Portfolio Development—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, which we now refer to as "portfolio development," provides resources for initial evaluation of potential long-term member power supply portfolio additions. Blue Ridge remains active in a consortium including the lead and sponsoring utility, Dominion-Virginia Power, as well as AEP, Old Dominion Electric Cooperative and VMEA studying 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 other base load, intermediate and peaking opportunities in the form of asset ownership and/or long term purchase power agreements. The results of these efforts and other activities are reported to the Blue Ridge Board throughout the year and these efforts compliment similar potential portfolio components that AMP-Ohio may offer to its membership for consideration, including the four Blue Ridge members who are individual members of AMP-Ohio as well.
- PJM Interconnection, LLC ("PJM") Regional Transmission Organization ("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 VMEA (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 (the other two being Blue Ridge members). 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. To further Blue Ridge's effectiveness, it continues to be a member of 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.

Major Activities pursued in this effort during FY2006 are as follows:

- Seams Elimination Cost Adjustments ("SECAs"—FERC Dockets EL-111 et. al.)—After years of litigation (since 2002), this attempt by FERC to achieve a single tariff across the combined footprint of PJM and the Midwest Independent System Operator ("MISO") which was to eliminate "pancaked charges" (Additive transmission charges as separate systems were crossed from generation to load.). Through a series of hearings, settlement discussions and rulings, SECAs ended up being charged from December 2004 through March 2006 and collected to the tune of $2.4 million from Bedfrord, Danville, Martinsville, Richlands and Salem and $400,000 from Central Virginia. The efforts to keep Bristol, Radford and Craig-Botetourt exempt from SECA charges were successful. Over the past several months of settlement discussions, our litigation team achieved success with refunds coming mainly from Cinergy but also from other transmission owners to whom SECA payments were allocated. The Blue Ridge members have to date this fiscal year received $1.4 million in refunds and it appears that there will be an additional $290,000 to come in this fiscal year and hopefully most of it before the end of 2006.
- PJM Geographic Cost Allocations (FERC Docket EL05-121—coalition of Blue Ridge, VMEA, Indiana Municipal Power Agency, Harrison REA and Dowagiac)—This matter concerns whether costs associated with high-voltage transmission facilities owned by AEP and Allegheny Power, and located within their respective service territories, will be collected solely from network service customers located within those areas, or will be pooled with the high-voltage costs of other PJM transmission owners and collected over a broader area. AEP and Allegheny Power System ("APS") are disproportionately invested in high-voltage transmission facilities in comparison to other PJM zones, region-wide transmission cost pooling would reduce aggregate network service charges to coalition members who take and pay for PJM network service. The Administrative Law Judges Initial Decision is, for most Blue Ridge members, positive and will mean lower rates, perhaps retroactive back to April 2006 and to some members nearly neutral, but importantly no negative effects have resulted.

- 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. This case was settled in October 2005. AEP filed for a rate increase to go from the then current rate of $1.03/kilowatt-month to $1.22 beginning June '05 to $1.84 in April '06 (78% over 10 months)—it got $1.09 beginning in November '05 to $1.63 in April '06 to $1.77 in August '06 but the latter also includes incorporation of the new AEP 765 kV line from Wyoming, WV to Jackson Ferry, VA. Annual savings over filed rates are $1.5 million annually plus $3.1 million for 2006-7 and $588,000 from the 5-month suspension or a total of $3.7 million. Litigation costs for this proceeding were about $350,000 or a little over 10% of the savings—an excellent return on investment.

- Front Royal PJM ARR Complaint (FERC Docket EL06-94)—In contrast to prior years, PJM allocated only 50% of the Financial Transmission Rights ("FTRs") Front Royal needs to hedge PJM transmission congestion charges on its peak load of 39 megawatts. This is projected to cost the Town $3.3 million which will increase their wholesale purchase costs by 25% over an already absorbed wholesale rate increase of 76%. Blue Ridge partnered with the litigation team of Chambersburg, PA who had the same issue to make a joint complaint filing on behalf of both communities. The FERC has yet to act on the complaint.

Membership

In February 2006 Blue Ridge membership expanded to eleven members with the addition of the Town of Front Royal, Virginia, our newest member. Front Royal has a population of 14,000 people and is located on the Allegheny Power transmission system serving 7,100 customer accounts with a peak load of 39 megawatts. It has no generation and, like our other members, is wholly dependent on the wholesale market for its power supply needs. In years past, it had aligned itself with the other wholesale municipals in the Allegheny system in dealing with power supply and transmission issues. However, as wholesale power supply became fully unbundled and there was the other equalizer of everyone in the region buying from the PJM market, Front Royal saw in its future more commonality and advantage working with its Virginia sister systems and chose to join Blue Ridge. Welcome Front Royal! We're pleased that you are part of our joint action team.

Concluding Remarks

As one can see from the discussion above, the 2006 fiscal year continued to see the electric industry feel the pains of restructuring in both the wholesale and retail sectors. As we said last year in our message, what is needed is for there to be pressure applied to FERC by all involved, including Congress, to recognize the regulatory actions needed to initiate reforms that will assure a more stable industry able to deliver reasonable returns for investors and lower cost, reliable electric service for all consumers at just and reasonable rates.

Historically, Blue Ridge members have had some of the lowest retail rates in the country with the average residential rate for our municipal members being 6.8¢ per kilowatt-hour when the Virginia/National average for publicly-owned, investor-owned, and cooperative utilities was as follows: 7.2¢/8.6¢, 7.8¢/9.5¢, and 10.6¢/8.8¢, respectively. The average residential rate for our two cooperative members was 9.4¢ per kilowatt-hour. It is of interest to note that Appalachian Power Company's ("APCo") residential rate was 5.4¢ and Dominion-Virginia Power's was 8.4¢. These figures were obtained from 2005 Energy Information Administration data—the latest readily available. For 2006, assuming an average 40% increase in rates, Blue Ridge member residential rates would have been in the 8-9¢ range. 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 initiative for Blue Ridge members is to keep their retail electric 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 the increased retail electric rates that will be in effect under the new contracts, member's rates are still competitive with all other regional investor-owned utilities, except for APCo, and almost all cooperatives. It is important to note that APCo's rates will increase as well over the coming years 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 and cooperative 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.

Blue Ridge continues its strong commitment to securing reliable power supplies, transmission 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 and protecting its interests in all forums—NERC, FERC, Congress, PJM RTO, Virginia Legislature and SCC.

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 2006

OFFICERS:

President:	Timothy L. Taylor
Vice-President:	William E. Willis
Secretary/Treasurer:	Eugene L. Ratzlaff

MEMBERS AND BOARD OF DIRECTORS (as of 6/30/06)

City of Bedford

Director:	Eugene L. Ratzlaff, Director, Electric Department
Alternate #1:	Charles P. Kolakowski, City Manager
Alternate #2:	Robert L. Harris, Assistant Director, Electric Department
Official Term Expires:	April 2007

Bristol Virginia Utilities

Director:	Wesley R. Rosenbalm, President and CEO
Alternate #1:	Danny E. Jessee, Vice President, Administrative Affairs
Alternate #2:	Buddy Snodgrass, Vice President, Operations
Official Term Expires:	April 2008

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 2008

City of Danville

Director:	Jerry L. Gwaltney, City Manager
Alternate #1:	Joseph C. King, Assistant City Manager for Utilities
Alternate #2:	Richard L. Weaver, Director, Power & Light
Official Term Expires:	April 2007

Town of Front Royal

Director:	Joseph E. Waltz, Director, Electrical Services
Alternate #1:	Blair D. Mitchell, Town Attorney

Alternate #2:	Denny Pennington, Crew Supervisor, Electrical Services
Official Term Expires:	April 2007

City of Martinsville

Director:	Lynn Short, Manager, Business & Technical Services
Alternate #1:	Wade Bartlett, Ass't City Manager/Dir. of Fin. & Gen. Services
Alternate #2:	Paul R. Roop, Chief of Electric Operations
Official Term Expires:	April 2007

City of Radford

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

Town of Richlands

Director:	Timothy L. Taylor, Town Manager
Alternate:	Kevin Blankenship, Electrical Engineer
Official Term Expires:	April 2008

City of Salem

Director:	A. K. Briele, III, Director, Electric Department
Alternate:	Jeff Farmer, Assistant Director, Electric Department
Official Term Expires:	April 2008

Virginia Tech

Director:	William 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 2008

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 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 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

(July 1, 2005 - June 20, 2006)

BRPA Member	Year Established	Total Customers (meters) (1)	Population Served Within: City/Town	Population Served Within: Overall Territory (2), (3)
City of Bedford	1899	6,627	6,300	13,300
Bristol Virginia Utilities	1945	15,983	17,367	31,600
Central Virginia EC	1937	31,847	n/a	62,100
Craig-Botetourt EC	1936	6,769	n/a	13,200
City of Danville	1886	41,329	48,500	84,100
Town of Front Royal	1894	7,050	13,800	13,800
City of Martinsville	1900	8,014	15,416	15,416
City of Radford	1922	7,123	15,589	15,589
Town of Richlands	1920	3,004	4,144	4,144
City of Salem	1892	13,122	24,747	24,747
Virginia Tech	1893	5,661	11,322	11,296
Totals		146,529	157,185	289,292

	Peak System Loads (4) (Megawatts) FY2006	Peak System Loads (4) (Megawatts) All-Time	Energy Purchased (4) FY2006 (Megawatt-Hours)	Owned Generation (6) Capacity (Megawatts)	Fuel	Power Supplier *
City of Bedford	46	56	230,543	7	hyd, dsl	AEP
Bristol Virginia Utilities	118	135	619,909			AEP
Central Virginia EC	169	178	656,333			CPS
Craig-Botetourt EC	19 (5)	23 (5)	88,392			AEP & DOM
City of Danville	220	226	1,013,886	16	hyd, dsl	AEP
Town of Front Royal	37	39	179,831			DOM
City of Martinsville	43	44	200,538	1	hydro	AEP
City of Radford	51	72	305,343	1	hydro	AEP
Town of Richlands	19	21	68,321	1	diesel	AEP
City of Salem	92	92	421,169	4	diesel	AEP
Virginia Tech	53	53	309,939	8	coal/gas	AEP
Totals(non-coincident)	867	939	4,094,204	38		

* AEP = American Electric Power, CPS = Constellation Power Source, DOM = Dominion

Notes:
(1) Customer data per 2004 data from American Public Power Association and Virginia, Maryland, Delaware Association of Electric Cooperatives 2006-07 and 2006 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 include SEPA but not 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 2006

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 2006 and 2005, 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 2006 and 2005, 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

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.

Snead & Williams PLLC

30 August 2006
Danville, Virginia

BLUE RIDGE POWER AGENCY

STATEMENT OF FINANCIAL POSITION
30 June 2006 and 2005

ASSETS	2006	2005
Current Assets		
Cash and cash equivalents - Notes B and H	$ 1,519,649	$ 546,727
Accounts and members' receivables - Note C	11,593,531	7,322,642
Deferred members' expense	129,760	-
Prepaid expenses	3,523	3,364
Total Current Assets	13,246,463	7,872,733
Capital Assets,		
Net of Accumulated Depreciation - Note D	24,378	30,181
Total Assets	$ 13,270,841	$ 7,902,914

LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable - power related - Note F	$ 11,200,419	$ 6,978,470
Accounts payable - projects	276,584	346,468
Accounts payable - goods and services	3,390	3,684
Accounts payable - members' reimbursement - Note K	1,191,091	-
Accounts payable - other	66,426	6,884
Payroll taxes and other accruals	6,158	7,614
Deferred members' support - Note G	-	18,450
Deferred members' revenue	129,760	43,207
Total Liabilities	12,873,828	7,404,777
Net Assets		
Unrestricted		
General	256,950	265,381
Board designated - capital assets replacements/expenditures	62,645	54,903
Board designated - future projects - Note E	77,418	177,853
Total Net Assets	397,013	498,137
Total Liabilities and Net Assets	$ 13,270,841	$ 7,902,914

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 2006 and 2005

	Unrestricted			
		Board Designated		
	General	Capital Assets Replacements/ Expenditures	Future Projects	Total
Beginning Balance - 1 July 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 Replacements/Expenditures	(2,362)	2,362	-	-
Administrative Assets Replacements/ Expenditures Board Designation	(8,331)	8,331	-	-
Ending Balance - 30 June 2005	265,381	54,903	177,853	498,137
(Decrease) in Unrestricted Net Assets	(689)	-	-	(689)
Release of Net Assets for Board Designated Future Projects	-	-	(100,435)	(100,435)
Administrative Assets Replacements/ Expenditures Board Designation	(7,742)	7,742	-	-
Ending Balance - 30 June 2006	$ 256,950	$ 62,645	$ 77,418	$ 397,013

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

BLUE RIDGE POWER AGENCY

STATEMENT OF ACTIVITIES
For the Years Ended 30 June 2006 and 2005

	2006	2005
Changes in Unrestricted Net Assets:		
Utility revenues	$ 125,185,796	$ 68,317,260
Cost of utility revenues	(125,185,796)	(68,317,260)
Net Utility Revenues/(Cost of Utility Revenues)	-	-
Projects revenues	1,441,943	1,055,855
Cost of projects revenues	(1,441,943)	(1,055,855)
Net Projects Revenues/(Cost of Projects Revenues)	-	-
Other revenues, support, income, and (expenses)		
Dues and support	284,809	290,917
VA equivalent consumption tax - collected	693,373	685,462
VA equivalent consumptioin tax - remitted	(693,373)	(685,462)
MEPAV - income	165	240
MEPAV - expense	-	(375)
Interest income	34,576	16,541
Total Other Revenues, Support, Income and (Expenses)	319,550	307,323
Total Unrestricted Revenues and Other Support	319,550	307,323
Adminstrative and general expenses	320,239	294,162
(Decrease) Increase in Unrestricted Net Assets	(689)	13,161
Changes in Board Designated Net Assets:		
Release of unrestricted net assets	(102,577)	(108,721)
Investment income - interest - Note E	2,142	4,171
(Decrease) in Board Designated Net Assets	(100,435)	(104,550)
(Decrease) in Net Assets	$ (101,124)	$ (91,389)

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 2006 and 2005

	2006	2005
Cash Flows (Uses) from Operating Activities:		
Changes in Net Assets	$ (101,124)	$ (91,389)
Adjustments and Reconcile of (Decrease) in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation - capital assets	7,742	8,331
Net (increase) in accounts and members' receivables	(4,270,889)	(2,028,925)
Net (increase) in prepaid expenses	(159)	(2,508)
Net (increase) in deferred members' expense	(129,760)	-
Net increase in accounts payable and accruals	5,400,948	1,574,686
Net (decrease) increase in deferred members' support	(18,450)	1,836
Net increase in deferred members' revenue	86,553	43,207
Net Cash Provided (Used) by Operating Activities	974,861	(494,762)
Cash Flows (Uses) from Investing Activities:		
Acquisition of capital assets	(1,939)	(2,362)
Net Cash (Used) by Investing Activities	(1,939)	(2,362)
Net Increase (Decrease) in Cash and Cash Equivalents	972,922	(497,124)
Cash and Cash Equivalents - Beginning of Year	546,727	1,043,851
Cash and Cash Equivalents - End of Year	$ 1,519,649	$ 546,727

The accompanying notes are an integral part of these 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 eight (8) municipalities (the Cities of Bedford, Bristol, Danville, Martinsville, Radford, Salem, and the Towns of Richlands and Front Royal, the latter being a new member as of February 2006); 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 revenues, gains, and other support over administrative expenses; whereas a decrease in unrestricted net assets represents the excess of administrative expenses over unrestricted revenues, 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.

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 2006 and 2005, the **Agency** had cash deposits on hand in various financial institutions of $1,519,649 and $546,727, respectively. The bank balances as of 30 June 2006 and 2005 included repurchase agreement balances of $1,341,180 and $247,961, respectively, which are not covered by Federal Depository Insurance coverage but were 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 2006 and 2005 consisted of the following:

Note C - Accounts and Members' Receivables (Continued)

	2006	2005
Accounts receivable - members - dues	$ 47,761	$ -
Accounts receivable - members - power	11,162,054	6,920,575
Accounts receivable - members - projects	211,248	140,762
Accounts receivable - members - VA equivalent consumption tax	52,387	52,305
Accounts receivable - other	20,665	-
Members' receivable - AMP Ohio Generation Study Project	99,416	209,000
	$ 11,593,531	$ 7,322,642

Note D - Capital Assets

Capital assets as of 30 June 2006 and 2005, on the balance sheet at cost less accumulated depreciation, included the following major classifications:

	2006	2005
Leasehold improvements	$ 14,167	$ 14,167
Office furniture and fixtures	14,380	14,380
Office equipment	6,821	6,821
Computer equipment	15,927	13,988
Vehicle	18,865	18,865
Safety demo equipment	4,496	4,496
	74,656	72,717
Less accumulated depreciation	(50,278)	(42,536)
Net Capital Assets	$ 24,378	$ 30,181

Depreciation expense for the years ended 30 June 2006 and 2005 was $7,742 and $8,331, 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, 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 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

Note E - Board Designated - Future Projects (Continued)

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 2006 and 2005, the amount of interest income earned on the sales proceeds was $2,142 and $4,171, respectively. For the fiscal year ended 30 June 2006, $102,577 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 2006 and 2005 consisted of the following:

	2006	2005
Accounts payable - power	$ 9,859,519	$ 6,926,165
Accounts payable - transmission, net	1,288,512	-
Accounts payable - VA equivalent consumption tax	52,388	52,305
	$ 11,200,419	$ 6,978,470

Note G - Deferred Members' Support

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

Member	2005
Bedford	$ 2,126
Danville	9,827
Martinsville	1,881
Richlands	655
Salem	3,961
	$ 18,450

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 2006 and 2005, the **Agency** had funds invested in repurchase agreements, which are included in cash equivalents, of $1,412,984 and $333,911, respectively, of the net cash deposits on hand in financial institutions.

Note I - Retirement Savings Plan

The **Agency** has a defined contribution and a salary reduction 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 to the plan. The contribution by the Board of Directors for the years ended 30 June 2006 and 2005 was $8,729 and $21,063, 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 for each of the years ended 30 June 2006 and 2005.

Future minimum lease payments for this lease are as follows:

2007	$ 14,400
2008	13,200
Total Minimum Future Lease Payments	$ 27,600

Note K - Members' Reimbursement

This reimbursement to certain members (Bedford, Danville, Martinsville, Richlands, and Salem) from Duke Energy (the "new" Duke Energy, a merger of Duke Energy and Cinergy) resulted from a settlement agreement in a regulatory proceeding at the Federal Energy Regulatory Commission (FERC). The related proceedings involved several cases beginning in 2002 with a FERC investigation that resulted in a decision to eliminate "pancaked" rates between the Midwest Independent System Operator (MISO) and Pennsylvania Jersey Maryland Interconnection, L.L.C. (PJM) transmission systems through implementation of a Seams Elimination Cost Adjustment (SECA). The **Agency**, among many other transmission customers, protested these SECA charges.

Note K - Members' Reimbursement (Continued)

In 2006, a settlement was reached between the **Agency** and Duke Energy, one of the several MISO and PJM transmission-owning companies to which the **Agency's** SECA payments were allocated. The amount reported represents the majority of the anticipated refunds from the companies with additional refunds to be forthcoming in the next fiscal year.