



## **ANNUAL REPORT**

**2007 - 2006**

# **BLUE RIDGE POWER AGENCY**

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## **A Message from the President and the General Manager**

### **April 2008**

#### **Blue Ridge – Organization and Services**

FY2007 was a very busy year for Blue Ridge staff in working with members on the implementation of new power supply arrangements for some members and completion of arrangements for others as well as addressing federal and state legislative and regulatory issues related to energy and transmission. To better address the variety of power supply arrangements and the more diverse needs of members for services from Blue Ridge, a Strategic Plan was developed by the Board of Directors (“Board”) in November 2007 through a professionally facilitated planning session. The mission statement is:

*The Blue Ridge Power Agency is a united group of municipal and cooperative utilities dedicated to joint action that provides its members and their customers with reliable service at the lowest possible costs.*

As one product of the Strategic Planning session, there were changes made to the traditional financial model for Blue Ridge operations. In February of 2007, a new membership dues formula was implemented wherein 40% of the dues are shared equally and 60% are based pro rata on the prior fiscal year’s megawatt-hour wholesale purchases. In addition, a procedure was initiated to recover the cost of the General Manager’s (“GM”) services provided to members and related to Blue Ridge “Projects” to be charged directly to the member(s) benefiting from those services. The revenues from the GM services in the current fiscal year carry forward to the next to reduce the overall net dues that support the Blue Ridge administrative and general (“A&G”) budget.

A second result of the Planning effort are four principal strategies as refined from the facilitated planning session results by the Strategy Implementation Working Group (“Working Group”) made up of Board volunteers:

1. Provide cost-effective service to the cities, co-operatives and institutions that constitute Blue Ridge Power Agency.
2. Secure the lowest cost, most reliable wholesale power supply and transmission available.
3. Favorably influence Virginia public power policy and regulation—Provide the means to affect Virginia’s legislative and regulatory processes so as to ensure fair treatment of Blue Ridge members and their customers.
4. Favorably influence National public power policy and regulation—Provide the means to affect Congress and federal regulatory processes so as to ensure just and reasonable treatment of Blue Ridge members and their customers.

The Working Group developed several action items for each of these strategies. These action items remain a work in progress as the vast bulk of Blue Ridge staff time since the fall of 2006 has been taken up by member power supply priorities related to new contract implementation and administration as well as generation project power supply contracts and power supply portfolio development. Staff will continue to work toward the implementation of the action items identified.

## **Power Supply**

In last year's Message, the members' wholesale power supply arrangements were enumerated with Virginia Tech yet to have chosen its supplier. In June 2007, Tech signed a 20-year formula rate, full requirements contract with Appalachian Power Company ("APCo") as had members Radford and Salem in 2006. Service under that contract began July 1, 2007. These members chose APCo based on their belief that it is a low-cost generator in the region as it will likely be in the future and APCo had historically been their sole supplier prior to 1998, with reliable and quality service.

In the way of review, Bedford, Danville, Martinsville and Richlands have full requirements contracts with American Municipal Power – Ohio ("AMP-Ohio")<sup>1</sup> that began July 1, 2006 and under which their power supply needs are fulfilled with a market-based portfolio of varying supply components and term lengths through December 2008. Some components of their post-2008 portfolio have also been purchased and the balance will be purchased later under a strategic planning/purchasing process.

Bristol Virginia Utilities ("BVU") in September 2007 signed a 20-year, full requirements contract with TVA under which it began taking service January 1, 2008. As with the members who chose APCo as their supplier, BVU chose TVA because of its mix of generation resources, hydro, coal and nuclear tending to more stable and lower cost, plus TVA having been its sole supplier prior to 1998 which was a positive relationship.

Front Royal began service on July 1, 2006 under a 2-year, full requirements contact with American Electric Power ("AEP") and in February 2007 negotiations for an extension of that contract were finalized with a term running through May 31, 2010.

Central Virginia Electric Cooperative ("Central Virginia") continues service under a full requirements contract with Constellation Commodities Group ("CCG") that runs through May 31, 2012.

Much progress has been made on the development of the long-term, asset-based power supply portfolio that six members decided in 2006 is their best option to get long term control of costs. It was these members' decision at that time to join AMP-Ohio and take advantage of their considerably larger member/load base and generation asset development momentum. Bedford, Danville, Martinsville and Richlands became AMP-Ohio members in February 2006 and Front Royal also become a member in late 2007. Central Virginia has recently been contractually granted all the privileges that other AMP-Ohio members have without being a "member," since only municipalities can be "members" in that organization. They felt that the partnership of Blue Ridge and AMP-Ohio would afford them the most potential of achieving the same asset portfolio goal as the other Blue Ridge members.

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<sup>1</sup> AMP-Ohio is a joint action agency with 123 member systems in Ohio (81), Michigan (7), Pennsylvania (27), Virginia (6) and West Virginia (2), headquartered in Columbus, OH.

Much progress was also achieved during this fiscal year in the development of the AMP-Ohio generation assets in which some Blue Ridge members are participants. Work continued on the 960 net megawatt (“MW”) American Municipal Power Generating Station (“AMPGS”) with the State of Ohio regulators having granted approval of permits for both the air emissions and construction of the plant. Other permits such as the landfill, transmission siting and water-related, etc. are progressing. The PJM interconnection facilities studies are in process and the selection of the EPC (engineering, procurement, construction) contractor for the plant is close at hand. Bedford, Central Virginia, Danville, Front Royal, Martinsville and Richlands are AMPGS participants totaling 127 MW. Projected to be fully on line in the fall of 2013, the plant will be fully paid for in forty years under the AMP-Ohio fifty-year power supply contracts with the participants. The cost of constructing this project is estimated to be \$2.95 billion and including financing totals \$3.39 billion.

In addition, the development of another AMP-Ohio power resource project has come to fruition. AMP-Ohio secured a 368 MW ownership share of the Prairie State Energy Campus, 1,600 MW coal plant now under construction by several joint action agencies, as well as individual publicly-owned utilities in the Midwest at a site in southwest Illinois. Bedford, Danville, Front Royal, Martinsville and Richlands are participants in this project with total capacity of 72 MW. This plant should be fully on line by the spring of 2013 with the same 50 year contract and financing over 40 years as AMPGS. The AMP-Ohio share of the total capital cost estimated to be \$4.1 billion, is approximately \$965 million and including financing totals approximately \$1.15 billion. Both the PSEC and AMPGS projects will employ the latest in emissions control technology and will meet or exceed all federal and state environmental requirements and permit conditions.

Finally, another project under development is AMP-Ohio’s development of three hydroelectric generation facilities at existing dams—Cannelton, Smithland and Willow Island—on the Ohio River now utilized for flood control and that include locks for river transportation. The total capacity of these facilities is 191 MW with a total estimated capital cost of \$750 million. Danville, Martinsville and Richlands are participants in this project for a total capacity of approximately 24 MW. These plants should begin producing power in 2012. There are three additional hydroelectric facilities from which AMP-Ohio is in the process of securing capacity. In addition to the three current Blue Ridge participants, Central Virginia and Front Royal have indicated an interest in being participants in any future available capacity.

Seven Blue Ridge members continue to receive a capacity allocation from the Kerr-Philpott System of the Corps of Engineers hydroelectric projects as marketed by the Southeastern Power Administration (“SEPA”) totaling 21 megawatts. In addition, several members have behind-the-meter diesel, hydroelectric and/or steam generation. These are detailed in the “Statistics” page following this report. The General Manager was nominated by Martinsville and elected by the Kerr-Philpott Preference Customers to serve as one of the two customer representatives on SEPA’s Project Review Committee (“PRC”). The PRC, consisting of six members, two each from SEPA, the Corps of Engineers and the Preference Customers, will decide on which projects will be funded with revenues from the new Operations & Maintenance Funding Agreement among the three parties. This process allows a certain portion of annual revenues, as determined by SEPA, collected from preference customers for power to be used to directly fund work to repair and/or maintain the Corps’ hydroelectric facilities.

## **Transmission**

As has been the case since the transmission systems that serve the Blue Ridge members (AEP, Allegheny Power System (“APS”) and Dominion-Virginia Power (“DOM”)) integrated their systems into the PJM Interconnection (“PJM”), a Regional Transmission Organization (“RTO”), the transmission-related costs have continued to rise. Particularly with the implementation on June 1, 2007 of the Reliability Pricing Model (“RPM”), which was ostensibly developed to assure adequate generating capacity in the future, transmission costs will continue to rise until members have generation capacity of their own in the form of the coal and hydro units to offset those charges beginning in 2012.

Although the RPM charges do not affect those members in PJM with the APCo 20-year contracts and Central Virginia under the CCG contract, the costs related to expansion of the transmission system will affect all members. AEP has chosen to be responsible for its own generation and reserve needs as it had the resources to opt out of the RPM market—the only PJM utility that did so. Those facilities of 500 kilovolts (kV) or greater will be charged to all PJM customers and those below 500 kV will be charged to the control area in which they reside, for Blue Ridge members either AEP (all members except Front Royal), APS (Front Royal only) and DOM (part of Central Virginia only). The RPM or “Locational Reliability” initial rate, effective June 1, 2007, is approximately \$41/MW-day or \$1.24/kW-month and increases to \$174/MW-day or \$5.29/kW-month effective for the PJM planning year beginning June 1, 2010. The PJM auction into which generators bid and with the winners guaranteed these revenues for the 2011-2012 planning year are to be held in early May 2008. Thus, for every 10 MW of load, the cost to a member for this component of its transmission cost, it will go from \$149,000 to \$635,000 per year, a 324% increase over the initial annual cost, with the that initial cost being twice what PJM had predicted.

This unreasonable cost burden on both utilities and retail customers that buy from the PJM markets and which do not have generation to offset those costs have launched major efforts to implore the Federal Energy Regulatory Commission (“FERC”) to investigate the justness and reasonableness of the RPM capacity market. The American Public Power Association (“APPA”) is doing so through its Electric Market Reform Initiative (“EMRI”) which has completed several studies that confirm that the RPM as well as the single-clearing price energy markets in PJM are suspect. APPA is now launching a grass-roots effort to influence the FERC directly and through Congressional action in oversight or, as necessary, with legislation. Those also mounting efforts to address these issues are the consumer groups, industrial customers and state consumer advocates.

## **Advocacy Efforts**

In support of APPA’s EMRI effort, the General Manager shared Blue Ridge members’ less than acceptable experience with PJM with Congressional staff in a special briefing session. Two other representatives of a municipal utility and another joint action agency from Pennsylvania and Delaware, respectively, as well as an attorney involved with several clients in PJM also shared their experiences and observations of this RTO’s performance.

As part of Blue Ridge’s participation in the effort to convince FERC to act on the inequities of the wholesale markets, the General Manager testified in a panel titled Improving Opportunities for

Long-Term Power Contracting in Organized Markets, one of several at the Conference on Competition in Wholesale Power Markets. In addition, the General Manager participated in both Parts 1 and 2 of the PJM-facilitated Long Term Contracting Forum. Although the outcome of both of these efforts was less than satisfying, Blue Ridge did achieve disclosure to PJM, FERC and affirmation for other similarly situated stakeholders of the dysfunctional state of the energy and capacity markets. In addition, the General Manager met with each of the Blue Ridge member's Congressional offices, including the offices of both Virginia Senator's and speaking directly with Representatives Virgil Goode and Rick Boucher, Mr. Boucher being Chairman of the Energy and Air Quality Subcommittee of the House Energy and Commerce Committee. Mr. Boucher's Subcommittee has jurisdiction over the FERC and his constituents are Blue Ridge members BVU, Radford, Richlands and Virginia Tech.

### **Membership and Milestones**

Effective July 1, 2007, Craig-Botetourt Electric Cooperative is no longer a member of Blue Ridge. However, the two entities will continue to cooperate in endeavors where that effort may be mutually beneficial, including issues related to the APCo 20-year contract administration.

Three members established new all-time peak loads (winter): Central Virginia, 206 MW (a 16% increase); Front Royal 43 MW (+10%); and Virginia Tech 57 MW (+8%).

### **Blue Ridge Staff Activities**

December of 2008 will mark 20 years since Blue Ridge Power Agency was chartered in December 1988 as a non-profit corporation in the Commonwealth of Virginia. It also will be 12 years it began operating 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 and had fit in the ever more complex Blue Ridge member power supply issues with their normal busy day-to-day activities. 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. What began as the "Virginia Cities" have worked together to negotiate contracts and protect their common power supply and transmission interests in a mutually beneficial relationship that spans at least 36 years.

Blue Ridge's administrative and general budget for the 2007 fiscal year increased 7.7% over the 2006 fiscal year to cover the added costs associated with inflation in procured supplies/services, additional funding of contract accounting services and modest increases in salaries.

The Blue Ridge staff carried out its normal operation and special projects in 2007 as follows:

- Coordinated and assisted in the arrangements and disbursement of Seams Elimination Cost Adjustment ("SECA") refunds from Duke (Cinergy) and other transmission owners that involved an additional \$535,000 (\$1.2 million was refunded in FY2006. There is one small refund yet to be received for distribution.

- Assisted Front Royal and its counsel in the filing of a complaint in regard to PJM only issuing Front Royal 55% of its ARR/FTRs for the FY2007 planning year—costing it hundreds of thousands of dollars in extra transmission costs. In addition initiated and assisted in a separate Blue Ridge filing dealing with the same issues in the FERCs Long Term Transmission Rights case
- Assisted with and coordinated consultants activities in administration of the AEP, APCo and AMP-Ohio contracts; managed the PJM transmission agreements for four members including monthly power and transmission supplier invoice verification; prepared consolidated bills to six members and processed related collections and payments; dealt with various contract and billing questions that arose during the year from members, suppliers and/or PJM; participated as agent for seven members in PJM Members Committee meetings and protected all 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.
- Working with contract lobbyists from Troutman-Sanders and the Municipal Electric Power Association of Virginia, the General Manager assisted and coordinated successful efforts to introduce and pass legislation in both the House and Senate of the Virginia General Assembly and with the Governor’s signature put into place provisions in the state code allowing municipalities to: secure long term “take or pay” contracts with entities outside of the Commonwealth and to record the related payments for power as “operations“ expenses.
- Assisted members with National Electric Reliability Corporation (“NERC”) registration and standards issues. Blue Ridge was successful in eliminating registration requirements for Front Royal and provided assistance to BVU and Radford as well. AMP-Ohio is handling the NERC requirements assistance to its members.
- 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, Wolfe and Senators Allen and Warner) and to participate in TAPS and APPA 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 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 and his two terms (actually 7 years) on the Board ended on June 30, 2007;
- Planned, organized and facilitated the annual Fall Conference;
- 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

- As a volunteer member and Chairman of the Mid-Atlantic Broadband Cooperative’s (“MBC”) Board of Directors, the General Manager participated in the continued facilities expansion and marketing of the organization’s 750+ miles of open-access, fiber backbone system that spans the Southside counties that comprise the eastern part of the two Virginia regions that are beneficiaries of the Tobacco Indemnification and Community Revitalization Commission (“TICRC”) grants. MBC’s network also has rights to paths to major Internet points of presence (“POPs”) in Atlanta, Charlotte and Washington, D.C. as well as interconnections with Southside’s network (and BVU), the other TICRC beneficiary region, and other points in central and western Virginia. Several Blue Ridge members’ municipalities benefit from MBC’s network.

## Projects

Blue Ridge staff time and resources were also directed toward specific “projects.” The General Manager directed and coordinated legal counsel, power supply/rates consultants and a contract lobbyist for these efforts related to power supply procurement efforts as well as interventions, analysis and development of briefs to be filed at the FERC and included significant efforts as highlighted below:

- AMP-Ohio Base Load Plant Study—Blue Ridge members continued participation in this coal plant development study related to Blue Ridge members’ 127 megawatt share of the 2-unit, 960 net MW, coal-fueled American Municipal Power Generating Station. These due-diligence efforts by the General Manager and Blue Ridge consultant GDS Associates, included completing preparation for construction through the major permits, i.e. air quality, siting, landfill, cultural, water quality and transmission line permits as well as others necessary for the construction of this generation facility. It also included participation as part of the Project Team, the selection and recommendation of the Owner’s Engineer to the AMP-O Board of Trustees and the solicitation and evaluation of proposals for the EPC. The General Manager facilitated the re-allocation of the original 100 MW among the six current participants in the AMPGS project.
- 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, participated in a study which confirmed the feasibility of developing hydro-electric capacity at existing dams on the Ohio River and which is now under construction. Blue Ridge is also performing due diligence activities necessary in addition to that being done by AMP-Ohio and is representing Martinsville and Richlands on the Hydroelectric Project Participants Committee.
- 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 purchased as well as asset-based 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.
- PJM Interconnection, LLC (“PJM”) Regional Transmission Organization (“RTO”)—Blue Ridge continued to participate in coalitions 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 often 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 (with one of the other two being a Blue Ridge member). 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 with load in PJM that monitors each of the significant committees and work groups within the PJM organization and reports to as well as 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.) failed. Through a series of hearings, settlement discussions and rulings, SECAs ended up being charged from December 2004 through March 2006 and collected \$2.4 million from Bedford, 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. The Blue Ridge members have to date received \$2.0 million in refunds. The final and small refund from Baltimore Gas & Electric will likely be received by the summer of 2008.
- PJM Geographic Cost Allocations (FERC Docket EL05-121—coalition of Blue Ridge, VMEA, Indiana Municipal Power Agency, Harrison REA and Dowagiac)—The ruling in this case, as mentioned earlier set 500 kV facilities and above the costs of which will be spread across all PJM customers or "postage stamp" and those below 500 kV will be paid for by the customers in the control area the those facilities serve or "license plate." This decision is not as good for Blue Ridge members as was hoped for as AEP has a vast and expensive transmission system.
- Front Royal PJM ARR Complaint (FERC Docket EL06-94)—As mentioned earlier herein, in contrast to prior years' 100% allocation, PJM allocated only 55% of the Auction Revenue Rights ("ARRs") Front Royal needs to hedge PJM transmission congestion charges on its peak load of 39 megawatts. This is projected to cost the Town several million dollars which increased their overall wholesale supply costs above increases already absorbed due to increases in power purchased from the market. 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. Unfortunately, FERC denied the complaint.
- Long Term Transmission Rights Settlement (FERC #ER06-1218)—In relation to what FERC ruled in the case of Front Royal above, in this case, FERC approved a tariff provision

providing protection to PJM customers in the form of a staged process in which minimum allocations of ARRr that will award the majority of the member's needs. All Blue Ridge members received 100% of their needed ARRr for the 2008 PJM planning year.

- CVEC--AMP Generating Station Financing Arrangements—Blue Ridge, its consultant, GDS Associates, and its counsel, Brickfield, Burchette, Ritts and Stone, are assisting Central Virginia in negotiation of a master services agreement, development of a draft operating agreement with AMP-Ohio and work toward securing financing for its share, 24.2 MW, of the AMP-Ohio AMPGS project. For Central Virginia, this involves working with the Rural Utilities Services (“RUS”) of the U.S. Department of Agriculture as well as coordination with the Virginia State Corporation Commission which regulates their retail rates and services.
- Front Royal RFP--Power Supply for June 1, 2008-- Blue Ridge and its consultant, GDS Associates, assisted Front Royal in the negotiation of a 2-year extension of the full-requirements, market-based power supply contract with AEP.

## **Concluding Remarks**

As seems to be the flavor of this section of the Message each year now, the electric industry remains in a state of change and uncertainty driven by ongoing, unresolved issues such as wholesale market structures, transmission services markets and fast-developing regulations and initiatives regarding concerns over global warming mainly related to carbon dioxide (“CO<sub>2</sub>”) emissions.

FERC seem oblivious to the shortcomings and inequities of the RTO wholesale energy and capacity markets such as in PJM where the Blue Ridge members are located and from which they must purchase their wholesale power supply requirements. Although Blue Ridge will continue to be proactive itself and in cooperation and partnership with AMP-Ohio and other joint actions agencies as well as with APPA and TAPS, FERC will be slow to change and it may take Congressional pressure in the form of oversight hearings and/or legislation to get them engaged. The coming of a new President in 2008, especially if a Democrat, has the potential to change the dynamic.

Although the Virginia General Assembly passed legislation to re-regulate the investor-owned (“IOU”s) and cooperative utilities serving customers in the Commonwealth, the municipal utilities were virtually unaffected. The exception to that is that the IOU's rates remain capped through December 31, 2008, but that was a shortening by 2 years of the capped-rate period. However, loads of 5 megawatts and greater continue to have choice of supplier.

Historically, Blue Ridge members had some of the lowest retail rates in the country. However, due to the increased costs of fuel and being in an RTO market, members' rates are approaching the Virginia average and only 13% under that national average. The average residential rate for our municipal members is 8.0¢ per kilowatt-hour (up from 6.8¢, or 17%, the prior year), when the Virginia/national average for publicly-owned, investor-owned, and cooperative utilities was as follows: 8.3¢/9.2¢, 8.0¢/10.5¢, and 11.4¢/9.5¢ (up from, 7.2¢/8.6¢, 7.8¢/9.5¢, and 10.6¢/8.8¢ the prior year), respectively. The average residential rate for our two cooperative members was 9.8¢ per kilowatt-hour. It is of interest to note that Appalachian Power Company's (“APCo”) residential rate was 6.1¢, up 19% and Dominion-Virginia Power's (“DVP”) was 8.5¢, up 2%. These figures were

obtained from 2006 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 no competitive suppliers, and with de-regulation ending in December 2008, there aren't likely to be any. One can observe the effect from the prior years of cumulative rate increases for municipals in Virginia in that the municipal rate is now slightly more than the average in-state, investor-owned utilities' rates, where DVP was capped and rose only 2% while APCo was capped but went up 19% (both were allowed certain increased costs to be passed to customers with APCo having more such items allowed).

The focus for Blue Ridge and its members is to keep their retail electric rates as competitive as possible relative to those localities in the region 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 or simply lower cost. On January 1, 2009, 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 new timetable. Most other states that had not begun customer choice programs have halted or delayed implementation.

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 addition, it will seek to fulfill the initiatives of the Strategic Plan as well as work toward refinement of the related action items and identification of necessary resources to carry them out.

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



Timothy L. Taylor  
President



Duane S. Dahlquist  
General Manager

## **Board Information - Fiscal Year 2007**

### **OFFICERS:**

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

### **MEMBERS AND BOARD OF DIRECTORS (as of 6/30/07)**

#### 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 2009

#### Bristol Virginia Utilities

Director: Wesley R. Rosenbalm, President and CEO  
Alternate: 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 2009

#### 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 2009

Town of Front Royal

Director: Joseph E. Waltz, Director, Electrical Services  
Alternate #1: J. Michael Graham, Town Manager  
Alternate #2: Denny N. Pennington, Crew Supervisor, Electrical Services  
Official Term Expires: April 2009

City of Martinsville

Director: Lynn Short, Manager, Business & Technical Services  
Alternate #1: Paul R. Roop, Chief of Electric Operations  
Official Term Expires: April 2009

City of Radford

Director: William E. Willis, Director, Electric Utilities  
Alternate: Tim Logwood, Assistant Director, Electric Utilities  
Official Term Expires: April 2008

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”—national trade association)  
Municipal Electric Power Association of Virginia (“MEPAV”—state trade association)  
Transmission Access Policy Study Group (“TAPS”—transmission-dependent utilities across U.S.)  
Public Power Coalition (“PPC”—transmission-dependent utilities within PJM)  
Southeast Federal Power Customers (“SeFPC”—customers of SEPA for Federal hydropower)

## STATISTICS

(July 1, 2006 - June 30, 2007)

<u>BRPA Member</u>	<u>Year Established</u>	<u>Total Customers (meters)</u> (1)	<u>Population Served Within:</u>	
			<u>City/Town</u>	<u>Overall Territory</u> (2), (3)
City of Bedford	1899	6,652	6,300	13,304
Bristol Virginia Utilities	1945	16,102	17,367	32,204
Central Virginia EC	1937	32,792	n/a	65,584
Craig-Botetourt EC	1936	6,857	n/a	13,714
City of Danville	1886	42,090	48,500	84,100
Town of Front Royal	1894	7,110	13,800	13,800
City of Martinsville	1900	7,845	15,416	15,416
City of Radford	1922	7,203	15,859	15,859
Town of Richlands	1920	3,070	5,639	4,144
City of Salem	1892	13,192	24,747	24,747
Virginia Tech	1893	5,681	11,362	11,362
Totals		148,594	158,990	294,234

	<u>Peak System Loads (Megawatts)</u> (4)		<u>Energy Purchased FY2007 (Megawatt-Hours)</u> (4)	<u>Owned Generation Capacity (Megawatts)</u> (6)		<u>Power Supplier *</u>
	<u>FY2007</u>	<u>All-Time</u>				
				<u>Fuel</u>		
City of Bedford	53	56	219,642	9	hyd, dsl	AMP-Ohio
Bristol Virginia Utilities	122	135	606,585			AEP
Central Virginia EC	206	206	671,761			CPS
Craig-Botetourt EC	24 (5)	24 (5)	91,559			APCo & DOM
City of Danville	221	226	1,041,314	16	hyd, dsl	AMP-Ohio
Town of Front Royal	43	43	180,559			DOM
City of Martinsville	41	44	205,076	1	hydro	AMP-Ohio
City of Radford	53	72	280,121	1	hydro	APCo
Town of Richlands	20	21	70,920	1	diesel	AMP-Ohio
City of Salem	89	92	415,828	4	diesel	APCo
Virginia Tech	57	57	314,165	8	coal/gas	AEP
Totals(non-coincident)	929	976	4,097,530	40		

\* AEP = American Electric Power, CPS = Constellation Power Source, DOM = Dominion  
APCo = Appalachian Power Company (AEP subsidiary), AMP-Ohio = American Municipal Power - Ohio

Notes: (1) Customer data per 2005 data from American Public Power Association and Virginia, Maryland, Delaware Association of Electric Cooperatives 2007-08 and 2007 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 2006-2007 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 as to APCo and Dominion service areas.

(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 2007



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 2007 and 2006, 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 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 2007 and 2006, 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.

04 March 2008  
Danville, Virginia

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# BLUE RIDGE POWER AGENCY

## STATEMENT OF FINANCIAL POSITION

30 June 2007 and 2006

### ASSETS

	<u>2007</u>	<u>2006</u>
Current Assets		
Cash and cash equivalents - Notes B and H	\$ 340 928	\$ 1 519 649
Accounts and members' receivables - Note C	12 945 181	11 593 531
Accounts receivable - SECA credit overpayment	44 253	-
Deferred members' expense - APPA dues	77 688	47 760
Deferred members' expense - AMP Ohio project cost	-	82 000
Prepaid expenses	<u>314</u>	<u>3 523</u>
Total Current Assets	13 408 364	13 246 463
Capital Assets, Net of Accumulated Depreciation - Note D	<u>18 262</u>	<u>24 378</u>
Total Assets	<u>\$ 13 426 626</u>	<u>\$ 13 270 841</u>

### LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable - power related - Note F	\$ 12 358 994	\$ 11 200 419
Accounts payable - projects	82 015	276 584
Accounts payable - goods and services	2 010	3 390
Members' reimbursement payable - Note K	193 043	1 191 091
Accounts payable - Duke Energy (SECA refund) - Note K	236 308	-
Accounts payable - APPA dues	77 738	66 426
Payroll taxes and other accruals	5 566	6 158
Deferred members' revenue - APPA dues	77 738	47 760
Deferred members' revenue - AMP Ohio project cost	<u>-</u>	<u>82 000</u>
Total Liabilities	<u>13 033 412</u>	<u>12 873 828</u>
Net Assets		
Unrestricted		
General	279 279	256 950
Board designated - capital assets replacement /expenditures	68 761	62 645
Board designated - future projects - Note E	-	77 418
Board designated - future members' support	<u>45 174</u>	<u>-</u>
Total Net Assets	<u>393 214</u>	<u>397 013</u>
Total Liabilities and Net Assets	<u>\$ 13 426 626</u>	<u>\$ 13 270 841</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 2007 and 2006

	Unrestricted				
	General	Board Designated			Total
		Capital Asset s Replacement/ Expenditures	Future Projects	Members' Support	
Beginning Balance - 1 July 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 Replacement/ Expenditures Board Designation	( 7 742)	7 742	-	-	-
Ending Balance - 30 June 2006	256 950	62 645	77 418	-	397 013
Increase (Decrease) in Unrestricted Net Assets	91 312	-	566	-	91 878
Release of Net Assets for Board Designated Future Projects	-	-	( 77 984)	-	( 77 984)
Release of Net Assets for Legacy Project	( 17 693)	-	-	-	( 17 693)
Administrative Asset Replacement/ Expenditures Board Designation - Net	( 6 116)	6 116	-	-	-
Designation for Future Members' Support	( 45 174)	-	-	45 174	-
Ending Balance - 30 June 2007	<u>\$ 279 279</u>	<u>\$ 68 761</u>	<u>\$ -</u>	<u>\$ 45 174</u>	<u>\$ 393 214</u>

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

# BLUE RIDGE POWER AGENCY

## STATEMENT OF ACTIVITIES

For the Years Ended 30 June 2007 and 2006

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	<u>2007</u>	<u>2006</u>
Changes in Unrestricted Net Assets:		
Utility revenues	\$ 152 967 327	\$ 125 185 796
Cost of utility revenues	<u>( 152 967 327)</u>	<u>( 125 185 796)</u>
Net Utility Revenues/(Cost of Utility Revenues)	<u>-</u>	<u>-</u>
Projects revenues	1 064 542	1 441 943
Cost of projects revenues	<u>( 1 064 542)</u>	<u>( 1 441 943)</u>
Net Projects Revenues/(Cost of Projects Revenues)	<u>-</u>	<u>-</u>
Other revenues, support, income, and (expenses)		
Dues and support	293 340	284 809
VA equivalent consumption tax - collected	690 957	693 373
VA equivalent consumption tax - remitted	<u>( 690 957)</u>	<u>( 693 373)</u>
MEPAV - income	165	165
Miscellaneous income	378	-
Interest income	<u>85 684</u>	<u>34 576</u>
Total Other Revenues, Support, Income, and (Expenses)	<u>379 567</u>	<u>319 550</u>
Total Unrestricted Revenues and Other Support	379 567	319 550
Administrative and general expenses	<u>288 255</u>	<u>320 239</u>
Increase (Decrease) in Unrestricted Net Assets	<u>91 312</u>	<u>( 689)</u>
Changes in Board Designated Net Assets:		
Release of unrestricted net assets	<u>( 77 984)</u>	<u>( 102 577)</u>
Investment income - interest - Note E	<u>566</u>	<u>2 142</u>
(Decrease) in Board Designated Net Assets	<u>( 77 418)</u>	<u>( 100 435)</u>
Increase (Decrease) in Net Assets	<u>\$ 13 894</u>	<u>\$( 101 124)</u>

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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 2007 and 2006

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	<u>2007</u>	<u>2006</u>
Cash Flows (Uses) from Operating Activities:		
Changes in Net Assets	\$ 13 894	\$( 101 124)
Adjustment and Reconcile of Increase (Decrease) in Net Assets to Net Cash (Used) Provided by Operating Activities:		
Depreciation - capital assets	6 641	7 742
Net (increase) in accounts and members' receivables	( 1 413 546)	( 4 270 889)
Net decrease (increase) in prepaid expenses	3 209	( 159)
Net decrease (increase) in deferred members' expense	52 072	( 129 760)
Net increase in accounts payable and accruals	211 606	5 400 948
Net (decrease) in deferred members' support	-	( 18 450)
Net (decrease) increase in deferred members' revenue	<u>( 52 072)</u>	<u>86 553</u>
Net Cash (Used) Provided by Operating Activities	<u>( 1 178 196)</u>	<u>974 861</u>
Cash Flows (Uses) from Investing Activities:		
Acquisition of capital assets	<u>( 525)</u>	<u>( 1 939)</u>
Net Cash (Used) by Investing Activities	<u>( 525)</u>	<u>( 1 939)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	( 1 178 721)	972 922
Cash and Cash Equivalents - Beginning of Year	<u>1 519 649</u>	<u>546 727</u>
Cash and Cash Equivalents - End of Year	<u>\$ 340 928</u>	<u>\$ 1 519 649</u>

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

# BLUE RIDGE POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS

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### Note A - Summary of Significant Accounting Policies

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

Nature of the Organization - **Blue Ridge Power Agency** is a cooperative effort of eight (8) municipalities (the Cities of Bedford, Bristol, Danville, Martinsville, Radford, Salem, and the Towns of Richlands and Front Royal, 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

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### **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 2007 and 2006, the **Agency** had cash deposits on hand in various financial institutions of \$340,928 and \$1,519,649, respectively. The bank balances as of 30 June 2007 and 2006 included repurchase agreement balances of \$355,045 and \$1,412,984, 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 2007 and 2006 consisted of the following:

# BLUE RIDGE POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS

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

	<u>2007</u>	<u>2006</u>
Accounts receivable - members - APPA dues	\$ 77 738	\$ 47 761
Accounts receivable - members power	12 305 101	11 148 031
Accounts receivable - members - projects	105 198	211 248
Accounts receivable - members - VA equivalent consumption tax	53 894	52 387
Accounts receivable - vendor reimbursement	18 142	34 688
Members' receivable - AMP Ohio Generation Study Project	-	99 416
Members' receivable - PJM (SECA) Refund	<u>385 108</u>	<u>-</u>
	<u>\$ 12 945 181</u>	<u>\$ 11 593 531</u>

### Note D - Capital Assets

Capital assets as of 30 June 2007 and 2006, on the balance sheet at cost less accumulated depreciation, included the following major classifications:

	<u>2007</u>	<u>2006</u>
Leasehold improvements	\$ 14 167	\$ 14 167
Office furniture and fixtures	14 380	14 380
Office equipment	6 821	6 821
Computer equipment	16 452	15 927
Vehicle	18 865	18 865
Safety demo equipment	<u>4 496</u>	<u>4 496</u>
	75 181	74 656
Less accumulated depreciation	<u>( 56 919)</u>	<u>( 50 278)</u>
Net Capital Assets	<u>\$ 18 262</u>	<u>\$ 24 378</u>

Depreciation expense for the years ended 30 June 2007 and 2006 was \$6,641 and \$7,742, 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

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### 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 2007 and 2006, the amount of interest income earned on the sales proceeds was \$566 and \$2,142, respectively. For the fiscal year ended 30 June 2007, \$77,984 was used by those appropriate members for project expenses. At 30 June 2007, there were no funds remaining for expenditure by the members.

### Note F - Accounts Payable - Power Related

Accounts payable at 30 June 2007 and 2006 consisted of the following:

	<u>2007</u>	<u>2006</u>
Accounts payable - power	\$ 11 956 190	\$ 9 859 519
Accounts payable - transmission, net	<u>348 910</u>	<u>1 288 512</u>
	12 305 100	11 148 031
Accounts payable - VA equivalent consumption tax	<u>53 894</u>	<u>52 388</u>
	<u>\$ 12 358 994</u>	<u>\$ 11 200 419</u>

### Note G - Board Designated - Future Support

The Board of Directors of the **Agency** adopted a financial policy effective February 2007 in which a consultancy billing rate would be applied to the **Agency's** General Manager's time spent on various projects for members of the **Agency**. The General Manager's consultancy rate multiplied by the time units spent on these projects as well as actual related travel expenses resulted in additional billings to the members for the year. The Board of Directors further directed that such funds should be designated as support for members' expenses that may be incurred in the future. For the year ended 30 June 2007, the amount of time charges and actual expenses billed to the members and designated for future support was \$45,174.

# BLUE RIDGE POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS

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### 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 2007 and 2006, the **Agency** had funds invested in repurchase agreements, which are included in cash equivalents, of \$355,045 and \$1,412,984, 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 2007 and 2006 was \$12,614 and \$8,729, 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 \$14,400 for the years ended 30 June 2007 and 2006, respectively.

Future minimum lease payments for this lease are as follows:

2008	\$ <u>13 200</u>
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### 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.

# **BLUE RIDGE POWER AGENCY**

## **NOTES TO FINANCIAL STATEMENTS**

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### **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. These amounts reported represent the majority of the anticipated refunds from the companies.