

The 69th Annual Report

for the year ending December 31, 2005



A Touchstone Energy Cooperative
The power of human connections

There is a difference in the Cooperative way of doing business.
Quite simply, we, at Central Electric, put our members first.



Central Electric Cooperative, Inc.

A Touchstone Energy[®] Cooperative

The power of human connections

1-800-521-0570



President and CEO & General Manager's Report



by **Richard L. Weaver**
President



and **Larry S. Adams**
CEO & General Manager

THE COOPERATIVE DIFFERENCE

We at Central Electric believe there is a difference in the Cooperative way of doing business. There is a difference in the overall mission of our organization. There is a difference in employee and board of director attitudes. There is a difference in service and reliability. Most importantly, the culture at Central Electric is different. From the person answering the telephone to those working in the field, we are dedicated to providing our member/owners with a high level of service through system reliability and making sure each member gets the greatest value for his or her energy dollar. In summary, the Cooperative business model is simply a better way to do business, simply because it always puts the consumers needs first.

We are proud of our accomplishments and how we've applied the Cooperative difference in achieving these results during 2005. We would like to review some of these achievements with you in this year's annual report to our membership. Here is some straight talk on what we've accomplished throughout the past year and what we hope to accomplish in the coming years ahead.

WE'RE DOING ALL WE CAN TO HOLD DOWN RATES

Keeping electricity rates stable in a period of skyrocketing energy costs is an ongoing challenge for your Cooperative. Despite this challenge, CEC rates remained stable throughout 2005 and will continue to do so throughout the remainder of 2006. While Central Electric's generation rates and the Fixed Cost Recovery Charge were increased slightly in 2003, CEC's distribution rates have remained the same since January 1, 1999.

As a member-owned Cooperative, it's about controlling costs and using our members' money wisely. Through hard work and good planning, through the use of new technologies and operating as efficiently as possible, we're doing all we can to keep rates as low as possible both now and in the future. Our goal is to provide the membership with safe reliable power at the lowest possible cost.

LOAD MANAGEMENT SAVES ENERGY DOLLARS

Throughout 2005 CEC offered its members the opportunity to purchase a new water heater at a very attractive price when connected to the Co-op's load management system. The Cooperative has made arrangements with a local dealer, Dr. Waterheater located in Butler County, to provide this service to all interested members. By coupling the water heater program with our load management program, each member participating, benefits in two ways. The first is they can purchase a quality water heater at an excellent price, and secondly, through the Co-op's load management system, can help lower their and other Co-op members' costs for generation and transmission service. The end result for doing this is the avoidance of having to pay costly demand charges from our wholesale power supplier for electricity that would have otherwise been used during peak demand periods. By taking advantage of this proven technology we can keep members' bills at a lower level than they would otherwise be. During 2005, (77) 80-gallon water heaters were sold and installed in members' homes with load management receivers attached. This brings the total number of electric water heaters being controlled throughout CEC's service territory to 2,607 tanks.

We are seeing more and more members switching their home heating to clean efficient electric energy. During 2005 the Cooperative installed 46 new all-electric heating systems bringing the total number of electric heating systems under control to 419 systems. This all adds up to savings for the member. Electricity is a great value when compared to all other forms of energy!

PROVIDING RELIABLE SERVICE IS A TOP PRIORITY

As a Cooperative, reliability is not just about good numbers. It's about providing a valuable service to the member/owners. CEC employees are dedicated to reducing outages in number and length in order to keep the lights on for all CEC members. Your Cooperative tracks what causes power interruptions on its distribution system and looks for ways to prevent or reduce future power outages. This is accomplished through a variety of ways such as changing our aging poles and wire and conducting an aggressive tree trimming program throughout the Cooperative's seven-county service area. We invested extensively in 2005 to improve the reliability of the distribution system.

Throughout 2005, your Co-op inspected 4,716 poles through the Osmose Company, an independent contractor. In addition, Co-op line crews changed out 1,008 electric poles and replaced over 64 miles of old wire. Approximately 21,867 trees were trimmed on CEC electric line rights-of-way and an additional 14,518 trees that were threatening power lines were removed completely to prevent future outages.

Other major system improvement projects completed during 2005 were the completion of two-way feeds between the Cooperative's Rockland and Coalhill substations located in Venango County and its Prospect and Coaltown substations located in Butler County. These improvements will allow the Co-op to switch the flow of electricity to adjacent substation feeders when large outages occur. If this happens CEC will be able to back feed power from one substation to another restoring power until the problem at the other substation is corrected. This will improve service reliability to the members affected. Central Electric received favorable ratings from the members regarding service reliability throughout 2005.

NEW TECHNOLOGIES IMPROVE EFFICIENCIES & RELIABILITY

Central Electric Cooperative continually strives to offer its members the latest technology to improve efficiency and reliability. During 2005 CEC began a major computer conversion of its Consumer Information System (CIS). In late summer of 2005 your Cooperative began the process of converting its older system referred to as "CAPS-XL-PLUS" to a totally integrated system known as IVUE. IVUE refers to **"The Vision to see. The Power to do."** It offers many more features than the CAPS-XL-PLUS. This new computer system enables the Co-op to better serve its members in a more timely fashion because all the information flows through each Department at CEC using a single data entry point. When fully operational the new system offers outage management, point of sale invoicing, staking, member contact tracking and a very efficient work management system to monitor all work orders for timeliness and accuracy. It also allows CEC to provide customer care for other types of service such as WildBlue High Speed Internet Service that CEC began offering to its members and others throughout 2005. At the year-end 2005 Central Electric had 165 WildBlue subscribers taking advantage of this much-needed service throughout western Pennsylvania.

Another service offered in 2005 was electronic billing known as **E-Bill**. The new E-Bill option gives members the ability to instantly view and pay their bill online with a debit/credit card or have the payment automatically deducted from their checking account by using the new E-Check feature. The E-Bill system allows the member to view their payment history, electricity usage and monthly cost comparisons online. Members were given the opportunity to have instant access to their account 24 hours a day and can pay the bill electronically at their convenience. The E-Bill feature is provided through a secure server so the members' information is kept private and safe.

Another new project undertaken during 2005 was the Co-op's project to inventory and remap its electric distribution system. The mapping system that was in use at CEC is 45 years old. It has been manually maintained and is a paper-based system. The new system currently being implemented is a computerized graphical information system that

will be much easier to maintain. This major task began in the fall of 2005 and will be completed in 2007. Ultimately the Cooperative hopes to interface its new mapping system with other systems such as outage management so your Cooperative has much better information about what's happening on its electric distribution system on a real-time basis. This project follows another completed multi-year project that has produced major benefits to the membership. This was the installation of automated meter reading devices on all the monthly read accounts of the Co-op including seasonal accounts. At the end of 2005 CEC had 21,861 automated meters in use.

A TOUCHSTONE ENERGY COOPERATIVE



As a Touchstone Energy Cooperative, CEC remained committed throughout 2005 to the basic principles under which it has pledged to operate. Touchstone Energy is a national brand used to identify Electric Cooperatives nationwide. It symbolizes Central Electric's pledge to operate with **Integrity, Accountability, Innovation** and a strong **Commitment to Community**. Central Electric is different from an investor-owned business. One major difference is CEC's strong commitment to the local communities it serves. CEC employees and directors take an active role in economic development agencies, planning commissions, local fire companies, ambulance associations and other community groups that work toward the common good of its members and local residents by enhancing the quality of life both now and for future generations to come.

CO-OP REFUNDS \$627,000 TO ITS MEMBERS

As a Cooperative member, your rates do not increase to please shareholders and reliability does not suffer to increase profit margins. As a not-for-profit business dedicated to delivering reliable and affordable electric service, your Cooperative reinvests in the Cooperative's electric distribution system and allocates any profit back to the members. The amount each member receives is an allocation of dollars credited to their account in proportion to the amount of electricity used. Therefore the greater amount of electricity used, the

greater amount of money given back to the member. The amount refunded to each member is given back as a credit on the member's bill. The credit given this year appeared on your July electric bill, and the total budgeted refund for all members was \$627,000. Since the beginning of the capital credit refund program, your Cooperative has refunded approximately \$12,750,000 to its members. This money remains in the local communities where it is used to strengthen the local economy. Belonging to a Cooperative gives members a voice in the organization and allows financial participation through the allocation of capital credits.

We charge what it costs and give back the rest.



That's The Cooperative Difference!



We charge members what it costs to provide electricity and return what is left.

This year Central Electric Cooperative refunded \$627,000 in Capital Credits to its members.



That is the Cooperative Way and the Cooperative Advantage.



Central Electric Cooperative, Inc.

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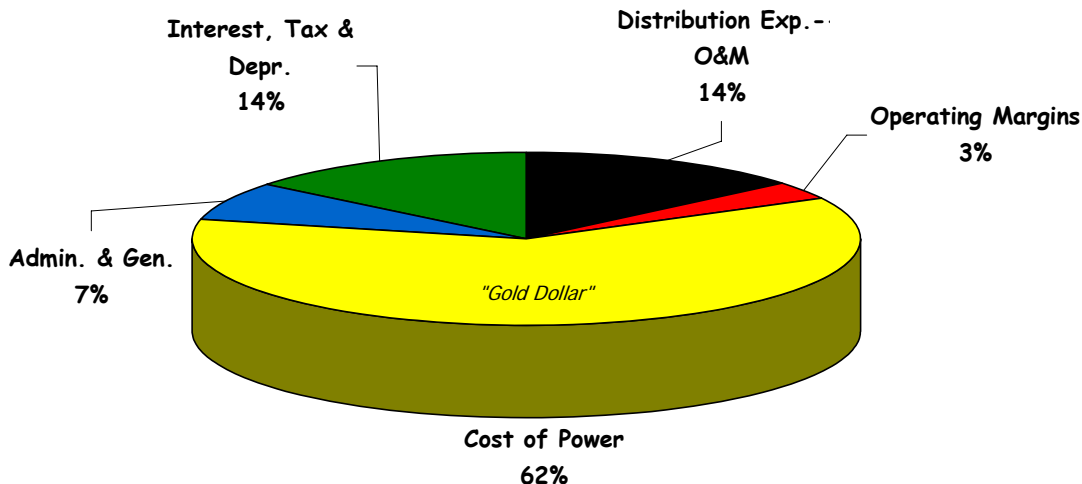


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ANNUAL REPORT

Year-End Review -- 2005
[Total Operating Budget: \$28,232,584]

Where Your Electricity Dollar Went



COOPERATION AMONG COOPERATIVES

On four separate occasions during 2005 Central Electric joined other Pennsylvania Cooperatives in sending workers to assist those less fortunate due to severe weather. CEC sent line crews to assist the Pearl River Valley Association in Mississippi following Hurricane Katrina. The Co-op and its employees also collected over \$6,000 and sent the money to aid Co-op employees in Mississippi who had been severely affected by the hurricane with severe damage or the complete loss of their homes. Central Electric also sent line crews to assist Beaugard Electric Cooperative in Louisiana following devastation caused by Hurricane Rita. On the home front CEC assisted neighboring United Electric Cooperative in DuBois, PA and Somerset Rural Electric, Somerset, PA after a couple of severe early season snowstorms caused widespread power outages.

During these trying times we witnessed human nature at its very best throughout the Cooperative program. Nowhere is the spirit of giving, sacrifice and cooperation more evident than in the community of electric cooperatives such as CEC, including its directors, management and employees that respond to the aid of their fellow man when floods, hurricanes and tornadoes and ice and snow hit causing widespread damage.

WE'RE PROUD OF OUR ACCOMPLISHMENTS

As you can see, 2005 was a very challenging, but successful year. Your Cooperative finished 2005 with solid margins and in sound financial condition. We are meeting all of our obligations required by our lenders and we are attaining the goals of the Board's Equity Management Plan, which includes an equity position at year-end of 30.37% and a Times-Interest-Earned-Ratio or TIER of 1.95. By maintaining these levels, we protect our ability to borrow funds for on-going maintenance and future construction. Also through our marketing efforts we were able to collectively achieve record KWH sales at year-end 2005. We take great pride in communicating this information to you. The support of the Board of Directors and the hard work of all CEC employees, along with their willingness to examine and understand the need for change in the way CEC does business, contributed to the Co-op's successful operation during 2005. The Cooperative took advantage of several opportunities to improve service, while continuing to provide safe, reliable electric power to its member/owners. We are proud of our accomplishments, and we are eagerly working to improve the overall business that is owned by our consumers both now and in the future. **That's the cooperative difference.**

CENTRAL ELECTRIC COOPERATIVE, INC. MEMBERS' FINANCIAL REPORT FOR 2005

STATEMENT OF REVENUE AND PATRONAGE CAPITAL

Year ended December 31	<u>2005</u>	<u>2004</u>
OPERATING REVENUES:		
Electric energy revenue	\$ 27,574,395	\$ 26,575,130
Customers' forfeited discounts and penalties	121,308	116,671
Rent from electric property	431,358	318,720
Miscellaneous service revenue	175,640	9,321
Miscellaneous electric revenue	<u>22,246</u>	<u>81,487</u>
TOTAL OPERATING REVENUES	<u>28,324,947</u>	<u>27,101,329</u>
OPERATING EXPENSES:		
Cost of power	\$ 16,321,206	\$ 15,432,808
Distribution - operations	1,239,430	1,055,651
Distribution - maintenance	2,621,182	2,470,015
Consumer accounts	1,071,559	954,570
Customer service and information	337,780	317,361
Sales	70,296	31,063
Administrative and general	1,893,954	1,840,549
Depreciation and amortization	2,414,015	2,162,318
Taxes	34,659	68,844
Interest - other	<u>54,658</u>	<u>63,216</u>
TOTAL OPERATING EXPENSES	<u>26,058,739</u>	<u>24,396,395</u>
Operating margins before fixed charges	2,266,208	2,704,934
FIXED CHARGES:		
Interest on long-term debt	1,439,146	1,163,246
Operating margins after fixed charges	<u>827,062</u>	<u>1,541,688</u>
G & T AND OTHER CAPITAL CREDITS:	<u>65,172</u>	<u>65,092</u>
Net operating margins	<u>892,234</u>	<u>1,606,780</u>
NON-OPERATING MARGINS:		
Interest income	72,199	43,487
Equity in earnings of subsidiary	35,325	935
Gain on sale of assets	250,467	-
Other	<u>43,437</u>	<u>19,353</u>
Total nonoperating margins	<u>401,428</u>	<u>63,775</u>
NET MARGINS BEFORE TAXES ON INCOME:	1,293,662	1,670,555
TAXES ON INCOME:	<u>(14,275)</u>	<u>(865)</u>
NET MARGINS:	1,307,937	1,671,420
PATRONAGE CAPITAL, at beginning of year:	20,286,796	19,508,076
RETAINED EARNINGS, at beginning of year for subsidiary:	<u>145,041</u>	<u>86,956</u>
PATRONAGE CAPITAL AND RETAINED EARNINGS, before reclassification of non-operating margins not allocated and retirement of capital credits:		
	21,739,774	21,266,452
PRIOR YEAR MARGINS NOT ALLOCATED:	318,720	258,850
RETIREMENT OF CAPITAL CREDITS:	<u>627,324</u>	<u>575,765</u>
PATRONAGE CAPITAL AND RETAINED EARNINGS, at end of year:	<u>\$ 20,793,730</u>	<u>\$ 20,431,837</u>

BALANCE SHEETS

Year ended December 31	<u>2005</u>	<u>2004</u>
ASSETS		
PROPERTY AND EQUIPMENT:		
Electric plant in service - at cost	\$ 79,484,206	\$ 76,159,375
Non-utility plant	479,777	280,490
Construction work in progress	<u>1,988,211</u>	<u>1,754,816</u>
	81,952,194	78,194,681
Less accumulated provisions for depreciation	<u>20,106,571</u>	<u>18,436,307</u>
TOTAL ELECTRIC PLANT	<u>61,845,623</u>	<u>59,758,374</u>
OTHER ASSETS AND INVESTMENTS:		
Non-utility property, at cost	3,180	3,180
Deposits and pre-payments	3,863	1,607
Investments in associated organizations	5,098,051	5,206,456
Investments in economic development projects	66,666	111,110
Energy resource conservation loans	<u>11,152</u>	<u>21,108</u>
TOTAL OTHER ASSETS AND INVESTMENTS	<u>5,182,912</u>	<u>5,343,461</u>
CURRENT ASSETS:		
Cash - general funds	1,639,711	1,266,035
Temporary investments	50,000	50,000
Accounts and notes receivable:		
Trade (less accumulated provision for uncollectible accounts of \$28,804 and \$58,823 for 2005 and 2004, respectively)	5,503,084	5,180,633
Other	168,293	52,496
Materials and supplies (at average cost)	332,832	461,472
Other current and accrued assets	<u>212,179</u>	<u>196,925</u>
TOTAL CURRENT ASSETS	<u>7,906,099</u>	<u>7,207,561</u>
DEFERRED CHARGES:	<u>51,677</u>	<u>827</u>
	<u>\$ 74,986,311</u>	<u>\$ 72,310,223</u>
EQUITIES AND LIABILITIES		
EQUITIES:		
Memberships	\$ 145,530	\$ 151,050
Patronage capital	20,660,113	20,286,796
Retained earnings - subsidiary	133,617	145,041
Other equities	<u>1,678,048</u>	<u>1,341,815</u>
TOTAL EQUITIES	<u>22,617,308</u>	<u>21,924,702</u>
LONG-TERM DEBT:		
RUS mortgage notes, less current maturities	29,146,584	28,426,878
CFC mortgage notes, less current maturities	13,963,463	13,217,190
RUS economic development notes, less current maturities	66,666	111,110
Other, less current maturities	<u>563,333</u>	<u>843,333</u>
TOTAL LONG-TERM DEBT	<u>43,740,046</u>	<u>42,598,511</u>
ACCUMULATED POST RETIREMENT BENEFIT OBLIGATIONS:		
	<u>2,638,037</u>	<u>2,414,191</u>
CURRENT LIABILITIES:		
Demand notes payable	54,000	-
Current maturities of long-term debt	2,055,254	2,000,122
Accounts payable:		
Purchased power	1,565,971	1,330,838
Other trade payables	309,533	129,298
Consumer deposits and prepayments	767,073	757,441
Other current and accrued liabilities	<u>702,426</u>	<u>640,652</u>
TOTAL CURRENT LIABILITIES	<u>5,454,257</u>	<u>4,858,351</u>
TOTAL LIABILITIES	<u>51,832,340</u>	<u>49,871,053</u>
DEFERRED CREDITS:	<u>536,663</u>	<u>514,468</u>
COMMITMENTS AND CONTINGENCIES:	<u>\$ 74,986,311</u>	<u>\$ 72,310,223</u>

The above statements are compiled from the 2005 Audit Report as presented by the firm of Lloyd and Company. A complete copy of the audit is available for examination at the Cooperative's office during normal business hours.