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MEMBER NEWSLETTER OF CENTRAL VIRGINIA ELECTRIC COOPERATIVE

"Improving the quality of your life in a quietly impressive way."

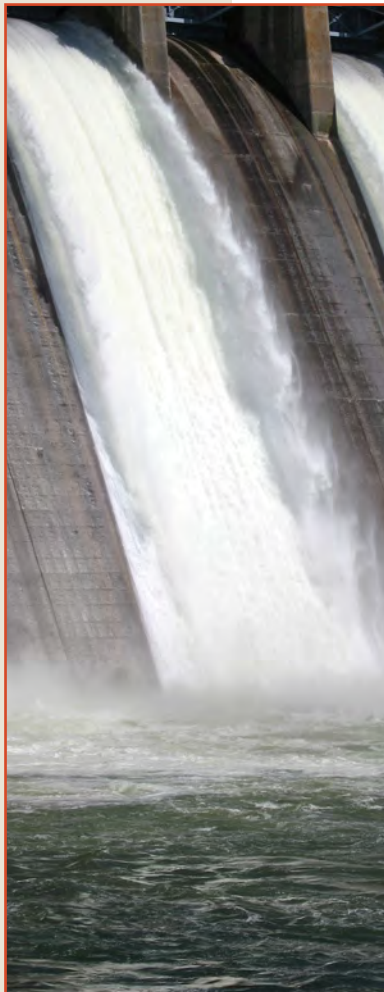
September 2010

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CVEC'S ENERGY FUTURE

CVEC Agrees to Purchase Hydroelectric Power

In the search for new sources of wholesale energy, one question is always at the forefront. Where will our Cooperative find a long-term source of reasonably priced power with low environmental emissions? CVEC needs about 220 megawatts of generation capacity to meet the needs of more than 30,000 members during periods of peak consumption, so there is no one answer to that question.



We received some good news regarding our future power supply at the beginning of June and one of the pieces to the wholesale energy puzzle fell into place. CVEC announced an agreement to purchase a portion of two hydroelectric generation plants sited on the Ohio River in Kentucky. The facilities are part of a five plant project being developed by American Municipal Power (AMP), a confederation of municipal power companies in Ohio. CVEC will get its power from the Cannelton and Smithland plants and our share of the two plants is 14.6 megawatts. Based on normal flows in the Ohio River, the plants would power about 3,000 CVEC homes. CVEC calls these new generation facilities our "AMP Hydro" plants and they are the largest investment in generation in CVEC's 73 year history as a distribution cooperative. These "run-of-the-river" plants, which

will have three generating units in each plant, will provide about 10% of CVEC overall energy needs or about 500 watts for every CVEC member.

In December of 2009, our Cooperative also purchased a small "hydro" plant on the Rockfish River in Nelson County that will produce about 200 kilowatts of power, which is enough to serve about 60 homes.

Every little bit helps.



Some members will ask, why is my Co-op buying generation facilities rather than just going to the market like we always have? There are a number of reasons why owning hydro makes sense as a part of our power portfolio:

- The energy market has changed. In the past we bought power from other utilities based upon their costs plus a modest profit. Today, the active players in the market are large Wall Street firms and foreign power companies, looking to sell at market based prices which are often well above the actual cost of the energy.
- In any power contract or market purchase, CVEC will always pay for the cost of the

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generation plant plus related financing costs, as well as the cost of fuel and environmental mitigation. Owning a portion of our energy sources eliminates the cost of third party profits, lowers the financing cost, and provides us with some equity.

- Working with American Municipal Power, a non-profit group, allows us to own generation assets while allowing them to develop and manage the project for their members.
- While the upfront costs are higher for hydroelectric, there are no fuel costs, unlike coal, gas and nuclear generators. The only variable costs for the plant will be related to the small operations crew and normal maintenance. Hydroelectric plants allow the owner to make much closer estimates of what their future costs for the energy the plants will produce.
- The per kilowatt-hour cost to CVEC members will be about 7.5¢, higher than we are paying today but the plants will certainly be a bargain throughout their 50 year life expectancy.
- With no environmental emissions, hydro is not subject to “carbon taxes” that are anticipated in the future with federal legislation targeting green house gases.
- The new power plants will be built at existing locks and dams on the Ohio River, providing good, reliable water flow for power generation.
- The projected cost for the CVEC portion of both plants is \$84 million. CVEC intends to borrow loan funds from the Rural Utilities Service (RUS) to finance most of the construction cost. Presently, the interest rate for the 35 year loan is projected to be near 4%.
- Construction of the Cannelton plant began last fall, and the Smithland plant construction got underway this year. The plants will be completed and begin commercial operation in late 2013 and early 2014.

CVEC will begin paying interest on the construction loans this fall. CVEC will seek permission from the State Corporation Commission to recover the cost of the interest in its rates in the general rate case that will be filed in November.

Look for updates on the AMP Hydro project as construction progresses. Have comments about Hydro on the Ohio?

Visit www.forcvec.com to share your thoughts.



Why buy part of a Hydroelectric Plant?

The announcement of the purchase of a portion of the two AMP Hydro projects represents a change in the way CVEC buys power. The change was not made without significant investigation, analysis and planning. Knowing that the present power supply contract was scheduled to terminate in 2012, CVEC has been searching for the best solutions for its members for several years.

Consideration was given to purchasing a portion of a coal plant that American Municipal Power was planning prior to cancellation last November. The coal plant offered an opportunity for the most cost effective baseload generation until construction prices skyrocketed causing cancellation of the projection.

CVEC also has reviewed the possibility of buying, or committing to take output from, a number of other generation projects under development. The Cooperative has held discussions with groups planning and building various plants that will be fueled by natural gas, wood pulp and timber residue, animal manure, and landfill methane gas. We have held discussions with solar and wind project developers. At this point, none of these solutions have provided the proper fit by timing, location and/or economics.

Each of the last two years CVEC has released Requests for Proposal (RFPs) asking power suppliers to submit bids to serve all or portions of the CVEC load for periods after 2012. From those efforts, CVEC is still in negotiations with several suppliers regarding blocks of energy. To supplement the hydroelectric output, one or more medium term contracts (ten years) will likely be signed to provide additional baseload

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CVEC is in the process of sending the following notice about the hydroelectric generation project to our members. You will find a copy in your August or September electric bill.

NOTICE OF AN APPLICATION BY CENTRAL VIRGINIA ELECTRIC COOPERATIVE CASE NO. PUE-2010-00080

On July 22, 2010, Central Virginia Electric Cooperative (“CVEC” or “Cooperative”) filed with the State Corporation Commission (“Commission”) an application for authority to finance ownership interests in two run-of-river hydroelectric generation projects currently under development on the Ohio River by American Municipal Power (“Application”). Specifically, CVEC requests Commission approval to obtain a loan in the amount of \$84,000,000 from the Rural Utilities Services (“RUS”) and for interim financing for the period prior to approval of the RUS loan. These funds would be used to finance an 8.9% interest in both the Cannelton and Smithland hydroelectric projects, with CVEC’s share of these facilities estimated to total 14.6 megawatts of nominal capacity. The Application indicates that CVEC is currently developing a diversified mix of power supply through short- and long-term contracts to replace the power supplied under an existing purchase power contract that will expire on May 31, 2012. Once operational, the Application indicates that the power generated from the two hydroelectric facilities will satisfy approximately 10% of the Cooperative members’ energy needs based on 2007 purchases.

The Application indicates that, with the full impact of the loan, CVEC’s financial ratios would drop below the minimum levels in the Cooperative’s mortgage agreement and below Board-approved financial goals. CVEC states further that it plans to file with the Commission later this year for approval of an increase in rates through a general rate case application and include interest expense on the loan in its base rates for electricity.

Pursuant to § 56-61 of the Code of Virginia, the Commission must act on the Application within twenty-five (25) days of the filing of the Application or it will be deemed approved by operation of law. However, the Commission may extend the time for review of the Application for a “specified reasonable period.”

The Commission entered an Order for Notice and Comment and Extending Time for Review (“Scheduling Order”) that, among other things, allows interested persons to file comments and to participate in any hearing established in this matter. The Scheduling Order also extends the period for Commission review through November 7, 2010.

The Application and the Commission’s Scheduling Order are available for public inspection during regular business hours at CVEC’s business offices in the Commonwealth of Virginia. Copies also may be obtained by submitting a written request to counsel for the Cooperative, Richard D. Gary, Esquire, Hunton & Williams LLP, Riverfront Plaza, East Tower, 951 East Byrd Street, Richmond, Virginia 23219. If acceptable to the requesting party, the Cooperative may provide the Application by electronic means. Copies of the Application, as well as a copy of this Order, also shall be available for interested persons to review in the Commission’s Document Control Center, located on the First Floor of the Tyler Building, 1300 East Main Street, Richmond, Virginia 23219, between the hours of 8:15 a.m. and 5:00 p.m., Monday through Friday, excluding holidays. Interested persons may also download unofficial copies from the Commission’s website: www.scc.virginia.gov/case.

On or before September 24, 2010, any interested person may submit written comments on the Application by filing such comments with Joel H. Peck, Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218-2118. Any interested person desiring to submit comments electronically may do so by following the instructions found on the Commission’s website: www.scc.virginia.gov/case. Interested persons shall refer in their comments to Case No. PUE-2010-00080.

On or before September 24, 2010, any person expecting to participate as a respondent in this matter shall file an original and fifteen (15) copies of a notice of participation as required by Rule 80 B of the Commission’s Rules of Practice and Procedure, 5 VAC 5-20-10 et seq. On or before September 24, 2010, any such person shall also file an original and fifteen (15) copies of any written comments on the Application. If a hearing is conducted in this proceeding, any written comments filed by a person who has properly filed a notice of participation shall only be considered as evidence if sponsored by a witness. All such notices of participation and comments shall be filed with Joel H. Peck, Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218-2118, or filed electronically by following the instructions found on the Commission’s website: www.scc.virginia.gov/case. Copies of any such filings shall refer to Case No. PUE-2010-00080 and shall simultaneously be served on counsel for CVEC at the address set forth above.

The Commission may consider the proposed Application based upon the papers filed in this matter without convening a hearing at which oral testimony is received. The Commission shall conduct a hearing, if necessary, on October 25, 2010, at 1:00 p.m., in the Commission’s Courtroom, Second Floor, Tyler Building, 1300 East Main Street, Richmond, Virginia 23219, to consider the Application for financing approval. Any hearing in this matter shall be established by a separate, future order of the Commission, which, if issued, may be viewed at the Commission’s website, www.scc.virginia.gov/case, by clicking the Docket Search function and entering the case number, PUE-2010-00080, in the appropriate box.

For More Information:

CVEC members who would like to learn more about the American Municipal Hydroelectric projects, or about the Cooperative’s decision to participate in the projects, should view the September issue of The Current Communicator, CVEC’s member newsletter, or visit www.forcvec.com. If you have any questions regarding the project, please call CVEC between 8:30 a.m. and 5 p.m., Monday through Friday, at (800) 367-2832.

The Co-op also placed a notice in your July and August electric bills to inform you about the Cooperative’s intent to file a general rate case application with the SCC on or after November 1, 2010. The notice stated: *“While terms of the rate increase have not been established, CVEC cited several factors that prompted the rate filing, including beginning payments on 15 MW of capacity from a hydroelectric generation facility that is under construction and a decision to increase the member’s equity level in CVEC to ensure favorable terms during long term energy contract negotiations.”*

The level of the rate increase has not been established, but it is expected to be moderate and members will have the opportunity to comment.



Jace Goodling
CVEC Chair

Jace Goodling, CVEC Chair, gave a rousing speech to members attending the CVEC Annual Meeting on June 23, 2010. Mr. Goodling commented about current conditions and upcoming changes for Co-op members, “The CVEC distribution system is in great shape and our electric rates are about the lowest in the Commonwealth. On the surface, one would be

tempted to think that all of our challenges are in the past ... but higher rates are on the horizon and it is our task, as Directors, to minimize the impact as much as possible.”

Jace Goodling shared the perpetual effort of Cooperative engineers to identify how much energy members will need and then locate wholesale power supply sources. Mr. Goodling asserted that, in the future, CVEC will be getting power from multiple sources and that every source will be more expensive.

Throughout his presentation, the board chairman discussed how the Directors as board representatives expect that CVEC employees be both efficient and member focused, that Co-op employees work to ensure electric service reliability, and that the Co-op is managed in a financially responsible manner. Mr. Goodling praised the Co-op for meeting and exceeding these standards and particularly complimented the employees for their dedication in restoring service during the winter storms.



CVEC linemen were also recognized for their dedicated service during an Independence Day parade.

He was followed on the program by Gary Wood, CVEC President & CEO, who provided members with solid overview of what occurred in 2009 and what we will see down the road.



Gary Wood
CVEC President & CEO

1. What happened last year?

Growth slowed in 2009, the lowest rate of new services for CVEC in 3 decades. One positive, fuel costs came down, while materials and equipment increases flattened. Electric sales were relatively strong due to weather patterns.

2. What is on the horizon?

The cost of materials and services has begun to rise. Employee related costs such as insurance and retirement also are increasing, and the cost of wholesale energy will rise significantly in 2012 when our present wholesale power contract expires.

3. How is CVEC adjusting to our challenges and working to keep costs down?

Gary Wood said that CVEC will “stick to its knitting” meaning focusing on our core competencies and internal efficiencies so that we can be the best electric utility possible. Actions include :

- a. Reducing staff from 120 employees to 100, attempting to do more with fewer.
- b. Increasing the use of technology.
- c. Outsourcing when it makes sense, including the use of a call center for after hours and major outages.
- d. Closing the CVEC subsidiary to consolidate our efforts and focus on the electric business.

4. The work never stops at the Co-op.

Maintenance and upgrades to the distribution system are ongoing, as well as new projects:

- a. CVEC is installing a new communications system to pass voice and data traffic between our office, field personnel

and the equipment in 30 substations. (Our existing radio system is 50 years old.)

- b. Members will soon have new options including pre-paid metering, a renewable energy rate, and expanded online capabilities such as paperless billing. (Look for details as new programs are put into place.)

5. Where will members get power after 2012?

The Co-op’s present long-term power supply contract will end May 31, 2012. For years, CVEC members have been paying significantly less than most others in Virginia. A new wholesale power portfolio will be more expensive and CVEC rates will rise to the same level of our neighbors served by other utilities.

- a. The world of power supply has changed over the past decade, with wholesale energy becoming more of a market commodity offered by foreign companies and large investment firms. Energy providers do a good job of maximizing their profits and reducing their level of risk, which raises the cost for the average energy consumer.
- b. The CVEC staff is working to build an energy portfolio that will provide members with the best available energy value. This will include owning some facilities such as the hydroelectric facilities, purchasing more under contract and then buying the remainder on the market whenever necessary.
- c. With a higher price tag after 2012, the cheapest energy will be the energy that we do not buy...meaning that conservation and efficiency by each and every member will allow CVEC to dial back our spending on wholesale power. It will take more than 30,000 members working together to drive down our energy purchases, but there are 100 CVEC employees willing and able to help.

6. How much will rates rise by mid-2012?

- No one knows for sure but here is the best estimate:
 - a. CVEC will file for a moderate rate increase at the end of 2010 to help pay for the

construction of the hydroelectric facilities and to increase CVEC’s equity level (the percentage of our assets that members collectively own outright.)

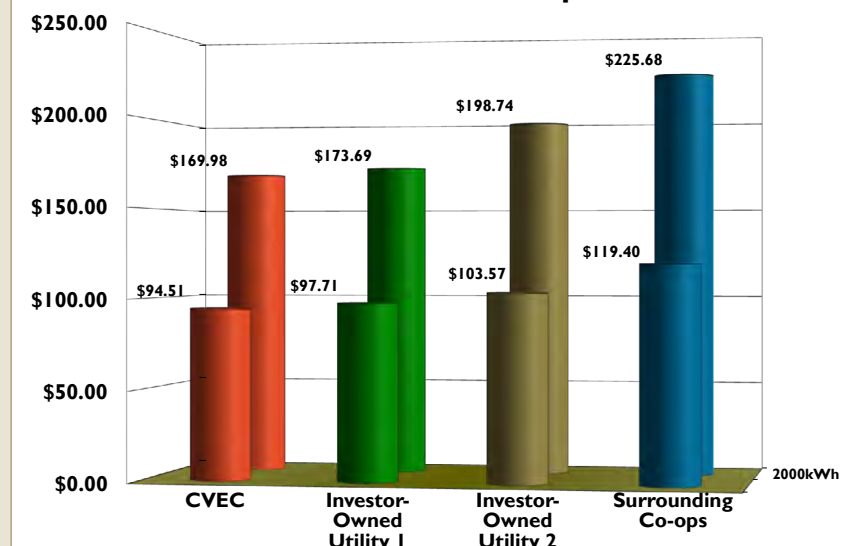
- b. A second and larger rate increase will occur in mid-2012 when the new cost of energy arrives. Estimates are a 30-35% increase for CVEC members, raising our rates to the level of other Virginia utilities.
- c. The long term outlook also indicates that rates will continue to rise based upon energy market conditions, as well as the cost of new power plants and energy legislation. As energy becomes more expensive, it is important that each one of us considers our daily habits saving where we can and investing in energy efficiency upgrades to capture long term savings.

The 100 employees of CVEC will be working with and for our members as we search for new sources of wholesale energy, maintain and deliver reliable power to your home or business, and help members implement energy saving strategies to reduce the impact of rising cost.

CVEC wants to hear from you as we all take on a challenge that will affect every member. Send a note or tell us what you think at

www.forcvec.com.

2010 Electric Rate Comparison



resources. These contracts would provide some guaranteed price for a period of time.

Another option that has been investigated, and is still being considered, is a formula rate contract with an investor owned utility. These contracts do not fix the price of electricity, but instead the price changes each year based on the actual costs of the utility, plus a premium for their profit. Typically these contracts extend twenty years. The advantage to these contracts is they provide some protection to the buyer from market prices going very high. On the other hand, all decisions for sources of power and fuel, and for all construction projects and purchased power supply contracts are put in the hands of the investor owned utility. There are no options to have regulators or the buyer review the decisions and determine whether the power plans are reasonable and economical. CVEC may sign such a contract for a portion of its requirements, but it may not be prudent to sign away all power supply decisions for 20 years under such an agreement.

The Cooperative can also purchase power from shorter term contracts or from the open market. These sources of energy have prices that move up and down quickly and, at times, the changes in price can be extreme. While some portion of the CVEC load might be served from shorter term arrangements, the Cooperative does not want to depend totally upon the short term market due to its volatility.

As you can see, CVEC has looked at many options over the last several years. Many suppliers have been contacted, and discussions have been held with dozens of companies who sell in the regional power markets or who are developing generation projects. At present, there is no single best answer to our power supply needs. Instead of having a single contract, CVEC is planning to develop a portfolio of assets and contracts to serve the members. The contracts will vary in lengths and there will be a mix of fuel sources in the portfolio. The AMP hydro will be one of the assets, and it will serve CVEC members reliably and economically for many, many years to come.

IBEC Update:

International Broadband Electric Communications (IBEC) is completing the pilot phase of a Broadband over Power Line Internet service on the CVEC distribution system. The broadband over powerline technology continues to show promise as IBEC works to perfect the field application of the technology.

CVEC and IBEC have reached agreement on a new contract that allows IBEC to expand into new substation areas as they achieve certain performance standards in the Martins Store and Colleen substation areas. Please visit the IBEC website <http://bpl.coop> for information about future deployment areas or call IBEC at 888-423-2275 if you have questions about your existing service.

Please keep in mind that IBEC and CVEC operate separately. Call IBEC with questions and requests about Internet service and call CVEC at 800-367-2832 to report an outage or discuss your electric service.

Central Virginia Electric Cooperative is an equal opportunity and affirmative action employer which does not discriminate on the basis of race, national origin, religion, age, color, sex, disability or veteran's status, or any other characteristic protected by local, state or federal laws, rules or regulations.

Energy Advice for You

Since heating and cooling your home typically accounts for more than 43% of your energy bill, you should first look for savings in that area.

Installing a programmable thermostat is a great idea. It will allow you to program temperature adjustments to save energy when you are away from home or asleep at night. The U.S. Department of Energy estimates that you can save 1% on your electric bill for every degree of setback over an 8 hour period per day. That equates to about 10% in potential savings if you set back your thermostat 10° while you are away at work. Follow recommended temperature settings of 68° in the winter and 78° in the summer, adjusting for comfort, then program your thermostat for increase savings.

CVEC will be providing regular information to members about energy conservation (*not using energy unnecessarily*) and energy efficiency (*accomplishing the same amount of heating, cooling, lighting, or work with less energy*). While none of us have any control over the cost of energy from the wholesale market, we all can work together as a member organization and as responsible individuals to use less and be more efficient



whenever possible. Look for more information on this important topic and let's work together to conserve and save.

If you have some energy savings tips that you think we should share with other members, please share them at ms@forcvec.com.



CVEC contract crews will be clearing right of way in the following areas:

- Cartersville,
- Crozet,
- Whitehall,
- Schuyler,
- Centenary.

If you have questions or comments, please contact our forester by e-mail: forester@forcvec.com or by calling 1-800-367-2832.

New Multiplier Coming for AMR Meters:

Did you know that half of CVEC's members have only 4 dials on their meter? The remaining portion of members have 5-dial meters. To date, the 4-dial members have received a bill with a 4-digit reading along with an explanation that the reading should be multiplied by 10 to determine the actual kilowatt-hour total. In October, CVEC will begin displaying the kilowatt-hour total in the 5-digit format for all members.

Watch for an insert in your September statement for details.



Sign up for Member Advisory Council

CVEC held meetings around the CVEC service territory earlier this year and learned a great deal from the comments that members offered and from the questions that were raised. To continue the exchange of ideas, the Board of Directors voted to establish a Member Advisory Council. The Council will meet during the Spring and the Fall of the year to receive updates about ongoing projects at CVEC, learn about new developments and share their ideas about how it will affect the overall membership. A meal will be provided at the evening meeting to help with your schedule.

If you would like to participate in the Member Advisory Council, please complete the short application form below and return it along with the payment for your electric bill. There are a limited number of seats on the Council from each district, so please respond right away to be sure you are included.

Central Virginia Electric Cooperative Member Advisory Council Application

Name (First, Middle, Last)

Home Address

City

State

Zip

County

Phone

E-Mail

CVEC Account No.

I am interested in serving on the CVEC Member Advisory Council and understand that meetings will be twice a year during the 3-year Council term.

Please feel free to attach a note to this application form expressing the reasons that you want to serve on the Council and what you hope to contribute.

Thank you in advance for your interest.
Please return this form to:
CVEC Member Advisory Council
P. O. Box 247 / Lovingston, VA 22949
Or return it with a payment for your electric bill



AT THE 2010 ANNUAL MEETING:

Three Directors Elected at Annual Meeting – Bylaw Revisions Approved

CVEC members returned almost 2000 proxy ballots in late June as part of the Annual Member Meeting. **Did you vote?**

Those who did vote chose three fellow members to lead our Cooperative for the next three years. **Henry Chiles** from Batesville, **Roberta Harlowe** from Troy, and **K. M. Beasley** from Dillwyn, were selected to represent us as Cooperative policies, issues and opportunities are considered.



Henry Chiles
Batesville, VA
Representing
the CVEC
West District



Roberta Harlowe
Troy, VA
Representing
the CVEC
East District



K. M. Beasley
Dillwyn, VA
Representing
the CVEC
South District

The members also ratified revisions to the Cooperative Bylaws, the rules that govern CVEC. These changes focused on the Director nomination process, creating a simple and streamlined process for any member interested in standing for election to the CVEC Board of Directors.

If you are interested, visit the CVEC website. Next year at election time, pick up a nomination petition and return it to the Co-op Headquarters with the signature of 100 fellow CVEC members, 75 days prior to the Annual Meeting.