



**CENTRAL ELECTRIC
COOPERATIVE, INC.**

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2010 ANNUAL REPORT



CENTRAL ELECTRIC
COOPERATIVE, INC.

ANNUAL REPORT 2010



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Mileposts in Central Electric History

- 1940 - Rural residents file Articles of Association with State of Oregon for Central Electric Cooperative, Inc.; elect nine charter members for board of directors; capitalize the company with \$244,000 loan from Rural Electrification Administration.
- 1941 - Board Chairman Carl H. Baker throws switch at Deschutes Junction Substation, energizing 11 Redmond area farms.
- 1949 - To help finance lines, poles and transformer infrastructure, CEC implements Capital Credits Plan, still in effect today.
- 1956 - Election of board of directors changed from “at large” selection to representation based on geographic districts reflective of communities served.
- 1962 - Oregon Public Utility Commission approves Central Electric service territory boundaries, resolving differences over exclusivity with Pacific Power & Light.
- 1977 - Redmond Chamber of Commerce gives Community Improvement Award to CEC for co-op’s new Redmond headquarters campus.
- 1978 - CEC initiates energy conservation program, later expanded to Home Energy Efficiency Program in 1982, which is still in effect today.
- 1995 - CEC and 11 other cooperative members of Power Resources Cooperative build and operate 2.5 megawatt Coffin Butte landfill gas-to-electricity renewable energy facility; expanded in 2007 to 5.66 megawatts.
- 2001 - CEC achieves a 60-year record low for power outage time - 18 minutes, 31 seconds per member.
- 2010 - Capital Credits repaid to members exceeds \$13 million.
- 2010 - Launched three-year program to install Advanced Metering Infrastructure across CEC system.

CHAIRMAN'S MESSAGE



Ray Clarno
Chairman
District No. 6
Redmond

The past year Central Electric Cooperative has shown us that electric cooperatives remain as relevant now as they were 71 years ago when our co-op was first formed. As a not-for-profit, member-owned cooperative, CEC has been able to adapt to recent economic challenges and changing federal and state regulations, while still delivering energy at rates 17 percent lower than the average Oregon rate and 37 percent below the national average. Your Board of Directors sets corporate policies that anticipate and respond to a growing set of challenges, ensuring that CEC fulfills its mission to provide electric energy to its members at the lowest cost consistent with good management practices.

There were numerous achievements and positive developments during the past year that indicate CEC remains on very strong financial footing and is performing at a high level of efficiency.

We regularly look for your input on how well CEC meets your electrical service needs. Our bi-annual member survey gathers your input on how we as a company are performing and how we can improve even further. We were grateful for your responses, and very pleased with the 97 percent satisfaction rating you awarded us. This is the highest

satisfaction rating in the history of the cooperative.

Our 2010 record for service reliability was exceptional. Our 2010 performance places us in the top 15 percent among electric cooperatives in the United States for reliable delivery of electric service. We attribute our strong record for service reliability to proactive system maintenance, continued dedication to safety, and a positive work environment that encourages our experienced employees to pursue innovative solutions.

A significant achievement in 2010 was the growth and profitability of Central Electric's three for-profit subsidiary companies. These subsidiary corporations were established to provide alternative sources of income to offset future increases in power costs. These subsidiaries contributed nearly \$1 million to CEC income last year alone.

In 2010 Central Electric was again able to pay out more than \$1 million in capital credits to you as members. Those capital credits show one of the biggest differences between CEC and investor-owned utilities. The revenues that CEC receives above the cost of utility operations are returned to you as capital credits.

As the Board looks to 2011 and beyond, several issues facing CEC stand out.

Last year CEC raised its rates for the first time since 2001 to cover many years of rising wholesale electricity rates from the Bonneville Power Administration, our main power supplier. Unfortunately, BPA rates continue to be volatile. The agency has stated it will again increase its wholesale rates October 1, 2011. The major reason given by the BPA for the increase is the need for major investment in the maintenance and refurbishment of the BPA's hydroelectric and nuclear generating facilities and transmission lines. The agency also cited its loss of \$350 million over the last two years due to poor hydroelectric generating conditions and the national economic downturn. The BPA-proposed average increase is 8.5 percent and could be higher, depending on the economy and snowpack levels required for hydropower generation. This significant increase in the cost of power will unfortunately mean that CEC will have to adopt another rate increase in 2011.

Due to federal and state mandates, taxes and hidden costs from the

government, we also face increasing operating costs. CEC is an active participant in our public policy forums, working with legislators to make them aware that their energy policies, however well-intentioned, have a major impact on rates.

In recent years, government mandates have required the development of renewable energy resources. The mandates promote carbon-free energy resources that have zero fuel costs in order to make our country more energy independent. Wind power and solar photovoltaic power are the resources most commonly developed to meet the mandates. However, the energy derived from these sources comes at costs that average between 170 percent and 480 percent more than traditional hydroelectric power production costs. Although we are committed to complying with the government mandates, we will call upon our extensive experience working with renewable, emission-free hydro power to ensure that commitment is met in a fiscally responsible manner and our members are not burdened by unnecessary costs.

Finally, although signs of a modest economic recovery are surfacing, our communities continue to experience financial hardship and challenge. Supporting the communities we serve is a high priority for CEC. I would like to recognize our employees for their commitment to volunteer thousands of hours each year to numerous local organizations. I also want to thank our members for their support of CEC's Project Helping Hand, which allows you to round up your bill to the next dollar with the difference helping those in need pay their electricity bill.

As a cooperative, we devote our resources to serving our members. I am proud to report Central Electric rests on sound economic footing and is poised to continue meeting your energy needs in a safe, reliable and financially responsible manner.

Sincerely,



Ray Clarno
Chairman
Central Electric Cooperative, Inc.

BOARD OF DIRECTORS



Ray Clarno
Chairman
District No. 6
Redmond

Tom Strand
Vice-Chairman
District No. 5
Terrebonne



Shirley McCullough
Treasurer
District No. 9
Prineville

William B. Keeton
Secretary
District No. 2
Tumalo



David C. Clemens
Director
District No. 1
Sisters



Kip Light
Director
District No. 3
Madras



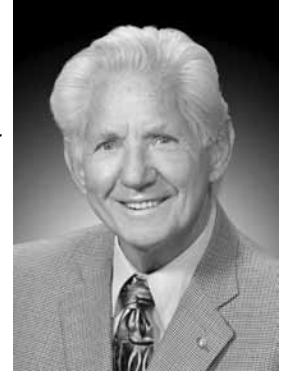
Kelly McFarlane
Director
District No. 4
Powell Butte



Ken Miltenberger
Director
District No. 7
Alfalfa



Russell Kiel
Director
District No. 8
Bend



PRESIDENT'S MESSAGE



Dave Markham
President
Chief Executive Officer

As your president and CEO, I am pleased to have this opportunity to review with the membership of Central Electric Cooperative the accomplishments of 2010 and our plans for the future.

For more than 70 years now, it has been the primary goal of CEC management each year to maintain and improve quality, safety and reliability in the delivery of power to all of our members. In order to meet this goal, the management and employees of CEC never rest on past successes. We are always in search of new ways to improve your already efficient and financially successful cooperative.

While the national and local economies continued to struggle through 2010, CEC management had taken steps to prepare for this economic environment. Chief among the concerns facing CEC in 2010 was the dramatic increase in power costs charged by the Bonneville Power Administration, our primary wholesale power supplier. Over the past ten years, BPA rates had increased more than

23 percent, including a seven percent increase in 2009 alone. Through sound management practices we were able to avoid raising members' rates until this latest BPA rate increase. Even then, we restricted the increase to 9.5 percent, in part due to CEC's utilization of a rate stabilization account instituted years ago for just the very purpose of reducing future rate increases. Our management continues to look for innovative ways to keep our members' energy costs as low as possible in the face of further rate increases from BPA.

We have launched the Advanced Metering Infrastructure program that I first told you about a year ago and began the installation of nearly 32,000 advanced electronic meters across our service area. This program has many significant benefits to our members. Among them are cost savings from the eventual elimination of the expense of manual meter reading services. As this becomes a thing of the past and reduces associated costs, it also will reduce our carbon footprint in the process. Remember that half

of the costs for this new metering program are paid by a special federal program. CEC is one of a select few cooperatives chosen to participate.

While management is constantly looking for more economical ways to deliver power to our members, we will always maintain our focus on safety and service reliability. Along with extending our impressive safety record, 2010 was an exceptional year for service reliability. Our reliability service levels last year ranked within the top 15 percent of cooperatives nationwide and were at the highest levels of uninterrupted service recorded in the past eight years. While we are certainly proud of this accomplishment, the management at CEC will continually strive to find new ways to increase the strength of our reliability record in the coming years.

The biggest single challenge facing CEC in the coming year will be the ever increasing power costs resulting from BPA rate increases. We already

know that the BPA plans an average increase of 8.5 percent this year that could be even higher depending on the economy and hydroelectric generating conditions. No level of cost cutting at CEC can make up for such significant rate increases. As a result, another rate increase for CEC members is planned for later this year.

Rising energy costs lend even greater importance to the value of our energy efficiency and conservation programs. Through the continued growth of these programs, we can mitigate and offset some of the need for future rate increases. Energy efficient heat pump installations, weatherization programs and energy efficient home building programs are some of the methods by which CEC works with its members to reduce overall electric consumption and help keep electric rates as low as reasonably possible.

In summary, 2011 will be another year of innovation and building upon our already successful business model.

Management at CEC is ready to meet the challenges we face in the upcoming year through lean, efficient utilization of our resources with an unrelenting focus on safety and reliability.

I want to thank each of our members for the support they have shown CEC's Board and management. We look forward to working together with you to keep our cooperative operating at its highest levels of efficiency and reliability.

Sincerely,



Dave Markham
President/CEO
Central Electric Cooperative, Inc.

BALANCE SHEET

Prepared from financial statements December 31, 2010

Assets	2010	2009
UTILITY PLANT		
Utility Plant in Service	\$ 189,581,751	\$ 181,351,002
Construction Work in Progress.....	4,113,842	5,879,002
Gross Utility Plant.....	<u>193,695,593</u>	<u>187,230,004</u>
Less: Accumulated Depreciation	64,384,123	59,621,208
Net Utility Plant.....	129,311,470	127,608,796
INVESTMENTS	6,787,022	6,365,168
ASSETS OF AFFILIATES	25,725,750	24,159,169
CURRENT ASSETS		
Cash and Cash Equivalents	30,685	649,942
Temporary Investments	2,042,172	2,148,862
Notes and Accounts Receivable	4,331,468	3,251,553
Unbilled Revenue	2,730,019	2,682,639
Materials and Supplies.....	1,398,766	1,352,512
Other Current Assets.....	529,554	469,634
Total Current Assets.....	<u>11,062,664</u>	<u>10,555,142</u>
DEFERRED DEBITS	8,079,704	7,018,000
	<u>\$ 180,966,610</u>	<u>\$ 175,706,275</u>
LIABILITIES AND EQUITY		
EQUITIES AND MARGINS	\$ 56,956,090	\$ 53,075,997
LONG-TERM DEBT	73,836,398	74,831,275
LIABILITIES OF AFFILIATES	20,723,977	17,726,031

STATEMENT OF OPERATIONS

Prepared from financial statements December 31, 2010

	2010	2009
CURRENT LIABILITIES		
Notes and Accounts Payable	10,757,708	10,289,725
Customer Deposits.....	518,745	487,859
Other Current and Accrued Liabilities	<u>4,590,707</u>	<u>4,212,308</u>
Total Current Liabilities	15,867,160	14,989,892
DEFERRED CREDITS	13,582,985	15,083,080
	<u>\$ 180,966,610</u>	<u>\$ 175,706,275</u>
OPERATING REVENUES AND PATRONAGE CAPITAL	\$ 49,109,574	\$ 47,087,086
OPERATING EXPENSES		
Cost of Purchased Power.....	24,603,096	23,732,845
Transmission Expense.....	74,415	98,642
Distribution Expense — Operation & Maintenance.....	3,246,012	3,133,915
Consumer Accounts Expense	1,378,522	1,385,558
Member Services Expense	571,553	462,751
Information Systems Expense.....	577,570	584,646
Administrative and General Expense	4,410,208	3,859,816
Depreciation and Amortization Expense	5,260,371	5,086,995
Tax Expense	1,799,652	1,743,363
Interest Expense	4,289,694	4,381,013
Other Deductions	<u>23,685</u>	<u>33,755</u>
Total Cost of Electrical Service	46,234,778	44,503,299
NET OPERATING MARGINS	2,874,796	2,583,787
NON-OPERATING MARGINS		
Investment Income, Patronage Capital and Other	1,029,062	830,160
Income (Loss) from Affiliates.....	<u>908,076</u>	<u>1,286,384</u>
Total Non-operating Margins	1,937,138	2,116,544
NET MARGINS	<u>\$ 4,811,934</u>	<u>\$ 4,700,331</u>

THE 2010 REVENUE DOLLAR



IRRIGATION 6¢	RESIDENTIAL 74¢	OTHER 1¢
INDUSTRIAL 5¢	SMALL COMMERCIAL 14¢	

TAXES 4¢	PURCHASED POWER 50¢	INTEREST EXPENSE 9¢
OPERATING EXPENSES 20¢	DEPRECIATION 11¢	OPERATING MARGINS 6¢

WHERE IT CAME FROM:

RESIDENTIAL	\$36,498,156	74%
SMALL COMMERCIAL	6,697,102	14%
IRRIGATION	3,176,931	6%
INDUSTRIAL	2,314,605	5%
OTHER ELECTRIC REVENUE	422,780	1%
TOTAL	\$49,109,574	100%

HOW IT WAS USED:

PURCHASED POWER	\$24,603,096	50%
OPERATING EXPENSES	10,281,965	20%
DEPRECIATION	5,260,371	11%
INTEREST EXPENSE	4,289,694	9%
OPERATING MARGINS	2,874,796	6%
TAXES	1,799,652	4%
TOTAL	\$49,109,574	100%

FIVE-YEAR GROWTH COMPARISON

	2010	2009	2008	2007	2006
Total Utility Plant, Undepreciated	\$193,695,593	\$187,230,004	\$179,844,157	\$175,415,167	\$166,656,785
Thousands of Kilowatt-Hours Sold	643,956	678,367	675,256	651,720	623,050
Gross Revenue	\$ 49,109,574	\$ 47,087,086	\$ 47,049,092	\$ 43,165,581	\$ 39,785,710
Net Margins	\$ 4,811,934	\$ 4,700,331	\$ 4,641,254	\$ 3,534,044	\$ 1,624,981
Taxes	\$ 1,799,652	\$ 1,743,363	\$ 1,844,524	\$ 1,589,244	\$ 1,393,822
Avg. Number of Accounts Billed	31,068	30,956	30,900	30,471	29,513
Avg. Monthly Residential KWH Consumed	1,380	1,455	1,434	1,394	1,414
Avg. Monthly Residential Bill	\$ 103.98	\$ 105.66	\$ 105.06	\$ 102.65	\$ 103.45
Avg. Minutes Outage Per Member	56.7*	256.6	77.6	70.6	78.3

★

Note: CEC average minutes outage per member in 2010 = 54.9 excluding those outages caused by vandals, other utilities, and planned outages.

DIRECTORS:

The Board of Directors of CEC is elected directly from the membership. The co-op is divided into nine districts, and one director is elected from each district. Term of office is for three years and there are three directors elected each year. It is the directors' duty to plan and guide the development of your co-op, and they are expected to keep themselves informed of all the national, state, or local matters that affect the co-op. Directors serve without salary, but receive a fee and expenses for attending Board or other designated meetings. You, as a member, are eligible to petition, be elected and serve as a director.

2010 CEC HIGHLIGHTS

■ Board of directors authorized payment of \$1,017,515 in capital credits to members. That payment brought the total amount returned to members since 1958 to more than \$13.7 million.

■ “Project Helping Hand” distributed \$22,200 to members needing assistance paying their electric bills. The funds were provided by the monthly charitable contributions of 2,722 CEC members.

■ Provided \$739,500 in Bonneville Power Administration incentive funds in support of CEC’s conservation, energy efficiency and renewable energy programs, which enabled members to save 2.8 million kilowatt-hours of electricity.

■ Distributed rebates for 46 water heaters, 353 clothes washers, 101 dishwashers, 280 refrigerators and 30 freezers to CEC members who purchased energy-efficient appliances.

■ 1,162 CEC members purchased 4,812,639 kWh of clean, renewable “Green Power” generated at our Coffin Butte plant at a Willamette Valley landfill.

■ Conducted 401 free home energy efficiency audits for CEC members with weatherization needs.

■ Provided programs for weatherization of 354 homes for a total of 3,713 homes weatherized since 1983.

■ Installed 213 new permanent meters.

■ CEC-sponsored high efficiency heat pump program facilitated installation of 200 units.

■ Connected 68 net metered alternative power systems to CEC’s grid since 2003.

■ Gave electrical safety trailer demonstrations to more than 2,000 members of the public.

■ Installed 348 water heater timers in homes of members voluntarily participating in The Peak Project, a pilot effort to determine the benefits of moving morning peak electricity demand later in the day to reduce system and member power costs.

