

2004 Annual Report

CENTRAL ALABAMA ELECTRIC COOPERATIVE

THE *Pillars* OF THE COOPERATIVE

THE PIONEERS WHO FOUNDED CENTRAL ALABAMA ELECTRIC COOPERATIVE IN 1938 HAD THE COMMON GOAL OF CREATING A BETTER QUALITY OF LIFE FOR RURAL RESIDENTS. THEY ALSO SHARED A BELIEF IN SOME CORE VALUES.

- A key ingredient in organizing CAEC was a faith in their friends and neighbors; they knew they had the *integrity* to deliver on their commitment.
- They believed in the *accountability* of the elected Board of Trustees and management.
- Under the guidance of Rural Electrification Administration engineers, they demonstrated *innovation* by using new construction techniques and engineering methods.

- Organizers went door-to-door to sign up members in those formative months. Later, CAEC taught members the benefits of electricity and how to use it safely. There was a sense of *community* among members.

Those same principles—integrity, accountability, innovation and commitment to community—were reaffirmed as our core values when CAEC updated its five-year strategic plan in 2004. These four values provide us with strength and inspiration. They are *The Pillars of the Cooperative*, forming a solid support structure for making member-driven decisions and for securing our future.

For our 2004 Annual Report, we reviewed the state of the cooperative from the perspective of *The Pillars of the Cooperative*. CAEC continues to adhere to these core values as we provide you with quality, reliable service.

CONTINUED ON PAGE 6

{ EXECUTIVE REPORT }

WHEN REVIEWING CALENDAR YEAR 2004, THE FIRST WORDS THAT COME TO MIND ARE *challenging, remarkable & “wow.”*



Tom Stackhouse
President/CEO

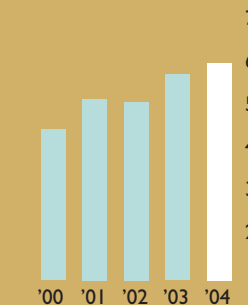


Chase Riddle
Chairman

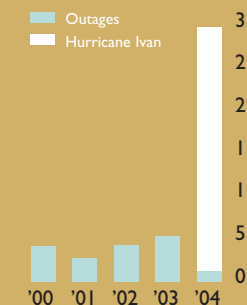
It was a roller coaster year that showed the strength and resilience of Central Alabama Electric Cooperative. We continued to be challenged by increasing wholesale power costs. We survived a brute named Ivan. We were awarded a 50-year military contract against formidable competition. How does a relatively small utility come through such an unpredictable year and stand tall?

We think it is because we have *The Pillars of the Cooperative*—our core values—to support us. During strategic planning in 2004, CAEC's Board of Trustees reaffirmed that our core values are integrity, accountability, innovation and commitment to community. CAEC's loyalty to these Pillars of the Cooperative adds strength and durability to the cooperative.

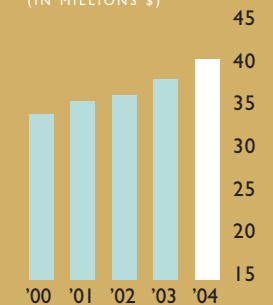
Wholesale Power Cost
(IN CENTS PER KWH)



Power Outages
(HRS. PER MEMBER)



Equity/Ownership of CAEC
(IN MILLIONS \$)



We'll remember 2004 for many events and accomplishments. Our wholesale power costs have been rising for several years, which means we have had to pass along these increases through the power cost adjustment on your bill. Our power supplier, Alabama Electric Cooperative, has been working diligently to stabilize these costs. However, market forces have been pushing the price of natural gas and coal higher.

Hurricane Ivan landed on the Gulf Coast and pushed inland on September 16. During the middle of the day, nearly all of our members were without power. CAEC crews restored power to 14,000 members the same day while winds and rains still punished the area. From Thursday until Tuesday, CAEC's employees and crews from other cooperatives worked dawn till dusk (and then some), battling fallen trees, downed power lines, snakes, kudzu and mud to get power back on.

CAEC and Dixie Electric Cooperative, Union Springs, formed Cooperative Utility Services, LLC, and were awarded a 50-year contract to operate, maintain and upgrade electrical facilities at Maxwell-Gunter Air Force Base in Montgomery. Providing service to the approximately 40 miles of distribution lines at the base is an excellent business fit with our core competencies.

Our success in meeting these tests demonstrates our stability and commitment to the enduring values of integrity, accountability, innovation and commitment to community—*The Pillars of the Cooperative*.

OUR VALUES ARE OUR PILLARS

INTEGRITY

At the heart of any successful cooperative is an understanding that the customer is a member. Our members are the reason we exist; therefore, we operate the business you own with integrity.

In the second quarter of each year, Jackson Thornton & Company PC conducts CAEC's audit for fiscal year ending April 30. The auditors found CAEC's accounting practices in conformity with generally accepted accounting principles. The co-op's financial procedures and policies protect your investment. The board frequently reviews policies and procedures to ensure they are up to date and fair to our members.

CAEC uses *Alabama Living* magazine, news releases, bill inserts, commentary from our CEO and our Web site to communicate important information about the business you own. Additionally, we use these same channels to advise members on how to save money by using energy wisely.

The employees and trustees of CAEC are people of character who not only work hard and are dedicated to quality service, but they also give back to the community through their own commitment to youth sports, military service, volunteer fire departments, church and charitable causes.

ACCOUNTABILITY

The democratic election of your Board of Trustees to represent members' interests is the key to maintaining accountability to the membership. Trustees, who are members themselves, set rates and policies for the day-to-day operation of CAEC. Voting for Trustees will become even more convenient if changes to CAEC's bylaws allowing mail balloting are approved at the August annual meeting.

Our member-elected board also laid the foundation of our 2004-2009 strategic plan. Trustees determined the plan's focus, concentrating on meeting members' needs now and in the future. We will measure our progress in improving the quality of our service, providing value and sustaining the financial health of CAEC so we are accountable to our member-elected Trustees' strategic vision.

We remain accountable by soliciting your feedback through phone surveys and links on our Web site. For example, starting in 2005, members are evaluating our performance every three months. We will compare our results to the scores of other co-ops, large utilities and even other industry sectors. Members like you will rate us on customer service and tell us specifically how we can improve. That's accountability.

INNOVATION

The essential method of delivering electricity to your home or business—poles, wires, transformers and so forth—has not changed dramatically in the past 50 years. In fact, the way you use power in your home or business is changing much faster!

Still, we have sought innovative ways to use technology to improve the reliability of your electrical service, to improve our customer service, to stabilize costs and to increase employee productivity. We are using computer-based systems in our operations, engineering and call center areas to make our employees more efficient, reduce outage times and allow us to respond to your inquiries more quickly and efficiently.

First, our member information database and mapping system are tied together. Employees using the mapping system, which includes global positioning system (GPS) coordinates for all electrical facilities, can access both engineering and customer data. Engineering personnel who plan and design lines and new services use the system in the field to enter information that automatically updates maps. This "staking" system also speeds the process of producing material lists and drawings for construction crews.

Line crews use computers in their trucks to access the most current maps and member information when working outages and service calls. Crews use GPS units to find the quickest route during regular work or if there is an outage.

A computerized outage management system, first used extensively during Hurricane Ivan in 2004, ties together our member information system, mapping system and software that predicts the possible location of trouble on the line during an outage.

We will soon begin using a computer system that identifies the phone number of a caller, matches it to numbers in our member information system and pops up a screen with information about the caller. This allows us to help you more quickly and makes our employees even more efficient.



Above: In 2004, CAEC equipped 22 company trucks with laptop computers with GPS (geographical positioning system) technology.

COMMITMENT TO COMMUNITY

CAEC's concern for its membership is also demonstrated through our commitment to improving the quality of life in our communities. We sponsor some programs ourselves. For example, CAEC funds creative teaching techniques, leadership training for our youth and scholarships for members' children. Also, we seek like-minded partners interested in building both the human and physical infrastructure of our communities. We call it capacity building—strengthening the ability of our communities to provide those things that improve the quality of our lives and ensure our economic well-being.

These efforts not only improve the quality of life in our region, but they also create an environment that can nurture the economic development efforts of our communities. CAEC supports economic efforts that will bring quality jobs to our area.

Interstate Business Park, next to our headquarters, is an example of a partnership to create such opportunities. A just-completed speculative building has been a magnet to attract potential employers.

In another part of our service area, CAEC worked with AEC and community partners in assembling funding for the speculative building project at the Lake Martin Regional Industrial Park in Coosa County and has been supportive of efforts in Chilton and Elmore counties as they work to attract new employers.



Above: Trustees Ruby Neeley and Jimmie Harrison Jr. visit Chilton County Schools to see the impact of our Bright Ideas Grant program.

THE FUTURE

CAEC demonstrates its dedication to integrity, accountability, innovation and commitment to community every day. These values ensure that you, as a cooperative member, have:

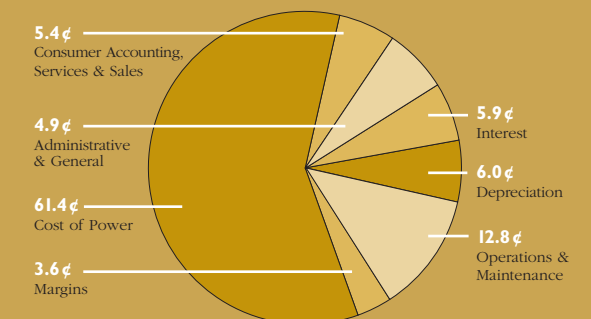
- Confidence that your neighbors are taking care of your utility.
- A voice in the co-op.
- Current technology to ensure reliable, quality service and sound use of your investment.
- An advocate for improving our economy and quality of life.

The Pillars of the Cooperative will continue to provide CAEC with strength and stability as we seek new ways to improve our service to you, our member.

Reflections of 2004

- Total utility plant grew to \$123 million, a 6% increase.
- Sold 600 million kilowatt hours, a 4.8 % increase over 2003.
- Earned over \$2 million in margins, bringing member equity to over \$40 million.
- CAEC paid \$561,360 in patronage capital retirements to members.
- Built 96 miles of new electrical lines.
- Constructed CAEC's 21st substation in the Chilton County community of Morning Star.
- Customer service personally handled 80,569 phone inquiries.
- Wal-Mart in Wetumpka completed its first full year as a CAEC member.
- Awarded \$16,000 to local schools through the Bright Ideas Grant Program, benefiting 32,000 students throughout the region.
- Partnered with the National Wild Turkey Federation's "Energy for Wildlife" program to promote vegetation management under electric lines that could provide ideal habitat for wildlife.
- 7 of the 10 Trustees earned Board Leadership certificates, the second level of certification available, through the National Rural Electric Cooperative Association.

Where Your Dollar Goes



Statement of Financial Condition

AS OF DECEMBER 31, 2004

ASSETS

Total utility plant	\$122,858,873
Less accumulated depreciation	24,488,016
Net utility plant book value	\$98,370,857
Equity in associated organizations	13,199,836
Cash	1,339,933
Accounts receivable	8,682,102
Material in inventory	639,360
Other current and accrued assets	113,933
Deferred charges	965,102
Total Assets	\$123,311,123

LIABILITIES AND MEMBER EQUITY

Membership, equities and deposits	\$40,099,251
Long-term debt	67,078,768
Notes and accounts payable	10,346,440
Other current & accrued liabilities	5,565,992
Deferred credits	220,672
Total Liabilities and Member Equity	\$123,311,123

Statement of Operations

REVENUE

Electric revenue	\$54,339,357
Other operating revenue	1,879,690
Total revenue	\$56,219,047

EXPENSES

Cost of purchased power	\$34,510,356
Operations and maintenance expense	7,185,593
Consumer accounting, services and sales	3,044,888
Administrative and general	2,779,517
Total operations and maintenance expense	\$47,520,354

Depreciation expense	\$3,387,381
Interest expense	3,280,453
Other deductions	8,398
Total cost of electric service	\$54,196,586

Interest income	54,963
Capital credits from associated organizations	585,866

Patronage capital	2,663,290
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Note: These unaudited figures came from the close of CAEC's 2004 books. The Official Audit Report for fiscal year ending April 30, 2005, will be available for review after the annual meeting.



Board of Trustees

(Seated, Left to Right)

Ruby J. Neeley, Secretary/Treasurer,
Jemison

Patsy M. Holmes, *Wetumpka*

(Second Row, Left to Right)

Don Whorton, *Wetumpka*

Jimmie Harrison Jr., Vice Chairman,
Maplesville

Terry Mitchell, *Stewartville*

Chase Riddle, Chairman, *Prattville*

(Third Row, Left to Right)

Van Smith, *Billingsley*

C. Milton Johnson, *Statesville*

David Kelley Sr., *Rockford*

Charles Byrd, *Deatsville*

Management Team

Tom Stackhouse, President/CEO

Arnelle Adcock, Vice President,
*Customer Service and Business
Development*

Jimmy Gray, Vice President,
Engineering and Operations

David Loe, Vice President,
Finance and Corporate Services

Julie Young, Vice President,
Administrative Services