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COPPER VALLEY ELECTRIC ASSOCIATION

Mission of the Cooperative

**To provide exceptional
customer service through safe,
reliable, cost-effective electric
service and programs**

**SOLOMON GULCH
FUELING HYDRO POWER**

Message to the Membership

2006 was another difficult year wrestling with the high cost of power driven largely by high oil prices. Copper Valley Electric Association produces 60% of its energy from the Four Dam Pool owned Solomon Gulch hydroelectric project. The remaining 40% is produced using fossil fuels, and fuel prices continue to remain high as a result of high oil prices. The combined weighted cost of hydro and fuel averaged 11.56¢ per kWh in 2006, up from 10.09¢ in 2005.



Robert Wilkinson, CEO
Robert Wilkinson

What have we done to try to make sense of the problem? For starters we developed an education document we call the *Strategic Issues Paper* which was published in September 2006. This document explains how CVEA produces and charges for energy, impacts of oil prices on power bills, and, in addition discusses several other topics of interest to the Membership, including ongoing power supply planning efforts to help lower the cost of electricity. CVEA followed the *Strategic Issues Paper* with a reconnaissance level study of specific power supply alternatives. The study looked at wind, hydro, geothermal, solar, and coal as potential resources to lower the cost of energy in the region. While the study did not identify near term options to reduce rates, it did suggest the Allison Lake hydroelectric project, near Valdez, should be further investigated. Both of the aforementioned documents are available on www.cvea.org for review. The subject of power supply will be discussed in greater detail at the Annual Meeting.

In an effort to further improve communication with the Membership, CVEA began offering Ruralite Magazine in January 2007. This regional publication has a circulation of 350,000 in the northwestern portion of the U.S., including seven cooperatives in Alaska. Also in 2007, we are planning some changes to the website in hopes to make it a more user friendly source of information for you.

Sound financial management continues to be a top concern for the Cooperative. Although CVEA has a strong equity of 40% and a healthy working capital position, the lack of growth in customers and kilowatt hour sales is of ongoing concern. For several years now the Co-op has relied on heat sales revenues from the Cogeneration Project to produce operating margins and to achieve financial targets. This situation will be addressed through a rate study to be conducted in 2007.



James Manning, President

James Manning

Notwithstanding what fuel costs and no growth portend for electric rates, there are some exciting issues before the electric industry and your cooperative including possible break up of the Four Dam Pool, proposed legislation concerning financing renewable energy projects, and an Alaska gas project, among others.

We hope you will join us at the Annual Meeting to discuss issues facing your Cooperative.

BOARD OF DIRECTORS



Jim Manning
President



Lyle Von Barga
Vice President



Tom Kuckertz
Secretary



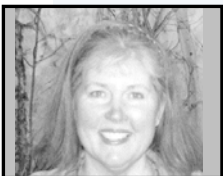
Dan Stowe
Treasurer



Jeff Saxe
Director



Fred Williams
Director



Jane Brown
Director



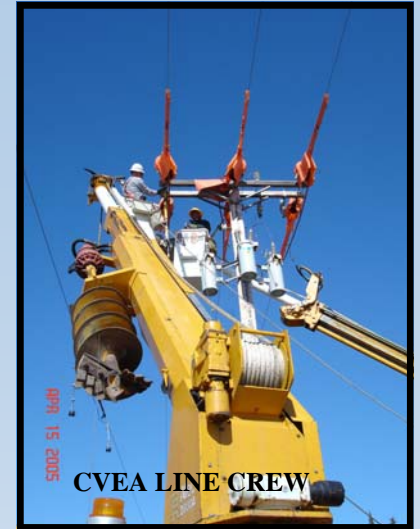
Carl Crosman
Director



CVEA TRANSMISSION LINE



DISPATCH



CVEA LINE CREW

DID YOU KNOW....

CVEA WAS INCORPORATED IN 1955!

CVEA SERVES OVER 3,600 CUSTOMERS!

CVEA COVERS 260 MILES ALONG THE RICHARDSON, GLENN, AND EDGERTON HWYS!

CVEA OPERATES OVER 500 MILES OF DISTRIBUTION & TRANSMISSION LINES!

CVEA HAS 34 MEGAWATTS OF GENERATING CAPACITY!

CVEA EMPLOYS 39 ALASKANS!

CVEA CAN OPERATE ALL GENERATING PLANTS FROM ONE MAIN STATION!

2006 ACCOMPLISHMENTS

- Strategic Issues Paper
- Alternative Generation Review
- Distributed \$1,244,305 in Capital Credits
- Awarded \$6,000 in local scholarships

WE'RE PART OF THE COMMUNITIES WE SERVE.....

CVEA is an active part of the communities we serve. In 2006, we participated or sponsored over 20 events system wide. Not only did we provide much needed support, but were able to promote CVEA, help educate members, and promote electrical safety.

2006 events include: Copper Basin 300, CREMS Auction, Copper Basin Senior Citizens Auction, Gakona Volunteer Fire Dept., American Legion, Copper Basin Recycling, Copper Valley Chamber, Gakona and Glennallen School PTO, VHS Senior Drug Free Party, Valdez Library Book Basket, Frosty Fever, Valdez Hospital Auxiliary, Rotary, Copper Basin Health and Safety Fair, High School Career Fairs, and the Alaska Travel Industry Association Convention in Valdez.



Copper Basin 300



School Education



ATIA Convention



Copper Basin Health & Safety Fair

HOW CVEA PRODUCES POWER.....

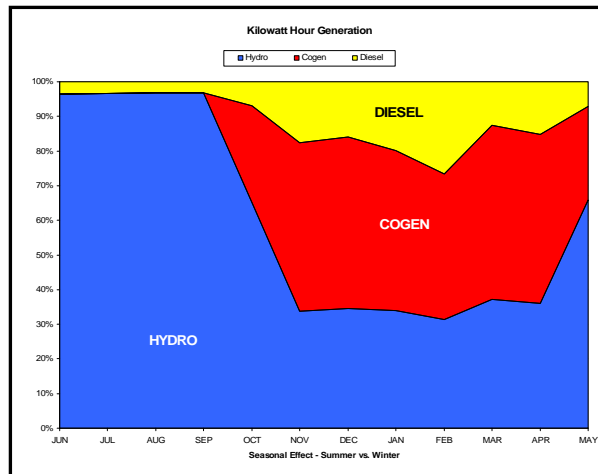
Diverse power generation capabilities result in lower costs and increased reliability for our consumers.

CVEA generates energy from three sources:

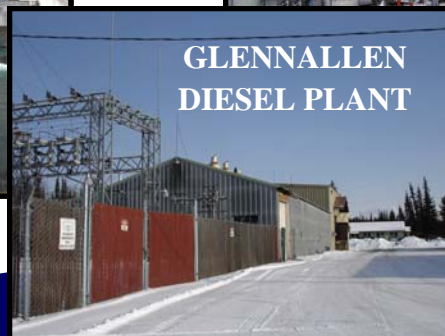
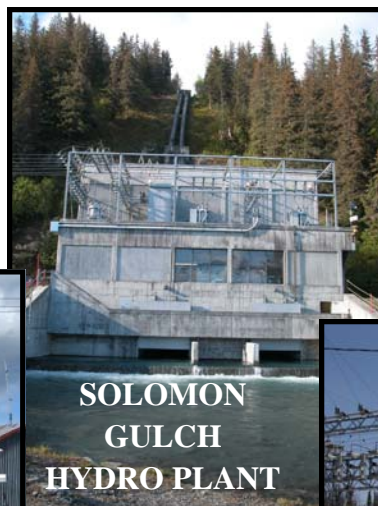
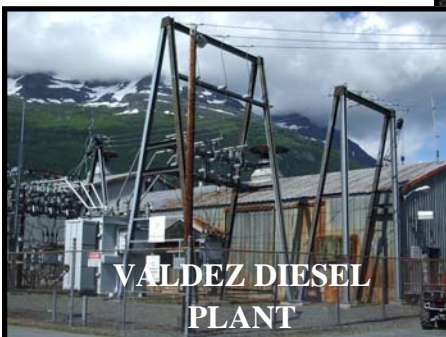
Hydro—60%

Cogeneration—25%

Diesel—15%



CVEA produces electricity at four power plants subject to seasonal and contractual requirements. During the summer season the Solomon Gulch Hydro Project carries the entire system. During the winter months as much as 70% of system requirements is generated with fuel.



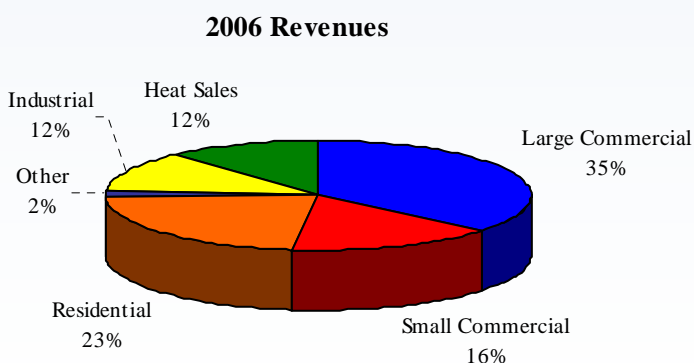
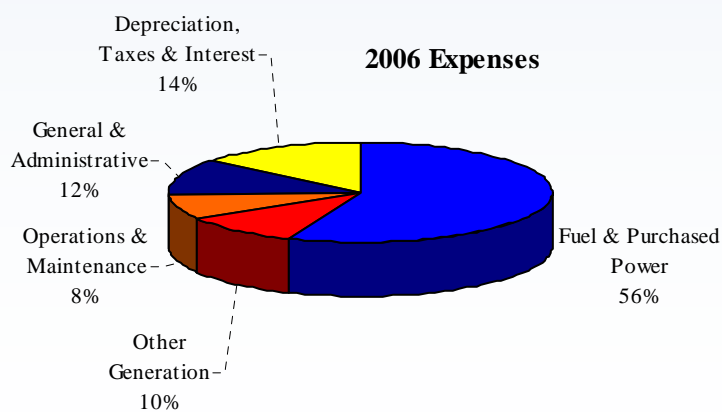
2006 FINANCIAL REPORT

<i>Balance Sheets</i>	<i>2006</i>	<i>2005</i>
Net Utility Plant	\$18,508,724	\$19,743,440
Investments	1,357,540	1,655,681
Current Assets	8,645,743	8,678,848
Total Assets	<u>28,512,006</u>	<u>30,077,969</u>
Member Equity	12,001,302	12,389,620
Long-term Debt	12,206,584	12,397,135
Current Liabilities	3,132,567	3,575,665
Other Liabilities	411,553	425,549
Operating Provisions	760,000	1,290,000
Total Liabilities & Equity	<u>\$28,512,006</u>	<u>\$30,077,969</u>

<i>Statements of Income</i>	<i>2006</i>	<i>2005</i>
Electric Revenues	\$14,904,282	\$14,834,462
Heat Sales	1,954,883	1,591,988
Non-Operating Margins	796,186	273,926
Total Revenues	<u>17,655,351</u>	<u>16,700,376</u>

Fuel & Purchased Power	9,403,475	8,651,648
Other Generation	1,711,383	1,352,424
Operations & Maintenance	1,362,462	1,094,786
General & Administrative	1,998,869	1,968,738
Depreciation	1,591,282	1,570,337
Interest	693,992	624,313
Taxes	37,901	38,680
Margin Stabilization	0	760,000
FPPC Reserve	0	530,000
Total Expenses	<u>16,799,364</u>	<u>16,590,926</u>

Margins \$ 855,987 \$ 109,450



2006 FINANCIAL REPORT

The Cooperative continues to be a financially strong corporation and is in compliance with all loan covenants as required by our lender Cooperative Finance Corporation. The 2006 audit of our financial statements was recently completed and the result was another clean opinion expressed by our auditors KPMG.

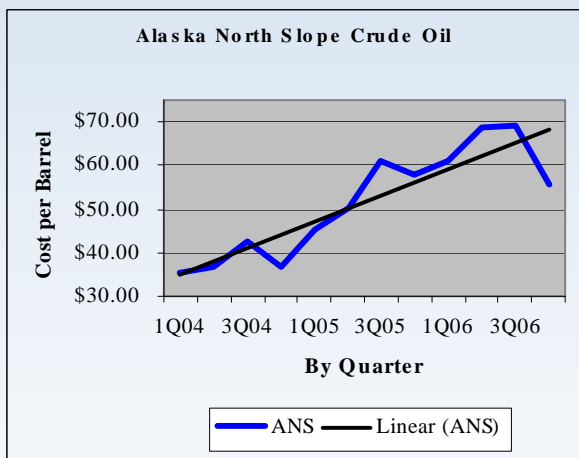
Although fuel costs have slightly decreased since 2005, CVEA continues to struggle with high fuel costs driven by the cost of oil (see graph #1 below).

Graph #2 depicts the various components that make up the FPPC charge that appears on your monthly bill. The trend on this graph is similar to the increases in the price of oil depicted on graph #1.

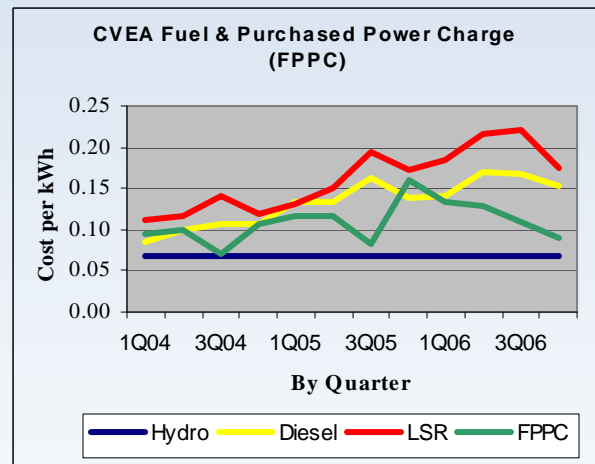
Graphs 3 and 4 depict the customer growth and energy sales growth in our system for the past 10 years. These graphs clearly illustrate the Cooperative has been in a very flat growth pattern over the past decade.

Increasingly high fuel prices have resulted in CVEA monitoring and updating the FPPC more frequently. As seen in graph #2, members have traditionally seen a reduction in the third quarter due to hydro power providing the majority of the system's energy requirements. In July the Board voted to levelize the FPPC over the remainder of the year. The goal is to help reduce the impact of the high FPPC on members' electric bills when CVEA transitions to winter generation and significantly more fuel is used.

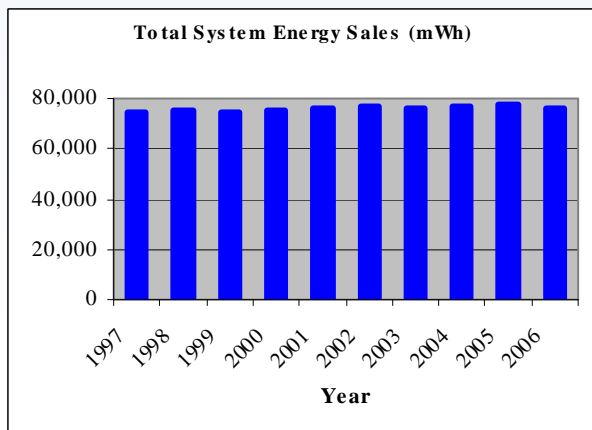
In November the Board voted to return 10% of patronage capital to the members. Approximately \$1.2 million was paid out, which is one of the benefits of belonging to a cooperative.



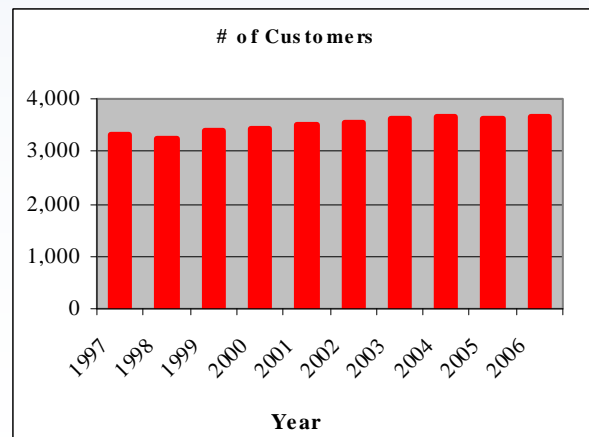
Graph 1



Graph 2



Graph 3



Graph 4



Annual Meeting Notice to Members

Copper Valley Electric Association, Inc., invites you to the 2007 Annual Meeting of Members. The Annual Meeting of Members will be held on Tuesday, April 17, in the Copper Basin District at the Alaska Bible College Murdock Campus Center and in the Valdez District on Thursday, April 19, at the Valdez Convention & Civic Center . Registration begins at 6:30 p.m. and the Business Meeting begins at 7 p.m.

The purpose of the meeting shall be to hear reports, ask questions about your electric cooperative, accept director election results, and to transact any other business that may come before the membership.

- Caused to be published by Secretary Kuckertz

2007 Annual Meeting Agenda

1. Call to Order	President Manning
2. Report of Quorum	Secretary Kuckertz
3. Notice of Meeting	Secretary Kuckertz
4. Reading and Approval of 2006 Minutes	Secretary Kuckertz
5. Recognition of Credentials and Election Committee	President Manning
6. Report of Voting	Credentials & Election Committee Chair
7. Treasurer's Report	Treasurer Stowe
8. President's Report	President Manning
9. Chief Executive Officer's Report	CEO Wilkinson
10. Acceptance of Reports	President Manning
11. Old Business	President Manning
12. New Business	President Manning
13. Scholarship Committee Report	Scholarship Selection Committee Chair
14. Service Awards	CEO Wilkinson
15. Drawing of Door Prizes	Director Saxe
16. Adjournment	President Manning

Copper Valley Electric Association, Inc.

www.cvea.org 822-3211 in Glennallen and 835-4301 in Valdez