

2006

FINANCIAL
COMMUNITY
TECHNOLOGY
RELIABILITY
VALUES

ANNUAL NOVEC VALUES REPORT



2005 Accomplishments

We value results. Key measures indicate that 2005 was a banner year for NOVEC, despite the challenges presented by a year of severe storm activity. Here are some achievements that have strengthened our value to our customers.

- Returned \$30 million in CASHBACK to current customers on their NOVEC bill and to former customers by check
- Connected 6,154 new customers, bringing total services to just over 130,000
- Achieved the best service reliability performance in the metropolitan Washington, D.C. area, with a reliability rate of greater than 99.98 percent
- Decreased our long-term debt to \$1,032 per meter in 2005 from a high of \$2,442 per meter in 1992
- Added new substations in the Brambleton area of Loudoun County and in western Fairfax County
- Maintained a strong financial position in 2005 - \$30 million in new plant construction completed
- Improved residential customer satisfaction scores in 2005. J.D. Power survey placed NOVEC well ahead of local competitors and only one point behind the Southern Region leader Duke Power
- Supported more than 100 civic, charitable and community organizations and events in 2005
- Distributed \$46,000 in heating assistance through Operation Round Up
- Implemented new computer technology to improve productivity and reduce administrative costs

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NOVEC Territory

Northern Virginia Electric Cooperative has a service territory that covers 651 square miles in the rapidly growing Northern Virginia area.

OFFICE LOCATIONS

- Manassas
- Gainesville
- Leesburg
- Minnieville
- Stafford



Board of Directors

- 1 **J. Manley Garber**
Chairman
District 7 - Woodbridge/
Dale City/Montclair
- 2 **Walter Grove**
Treasurer
District 8 -
Fauquier/Stafford counties
- 3 **Cynthia Gilbride**
District 9 - Fairfax County -
north of Route 66/Loudoun
County - South Riding
- 4 **James Chesley**
District 3 - Fairfax County -
south of Route 66
- 5 **Malcolm Ames**
At-Large Director

- 6 **Don Middleton**
District 2 - Loudoun County -
except South Riding
- 7 **Wade House**
Vice Chairman
District 5 -
Haymarket/Nokesville/
Bull Run Mountain
- 8 **Michael Ragan**
Secretary
District 6 -
Lake Jackson/Buchhall/
Bristow/Manassas Park - east
of Route 28
- 9 **Ann Wheeler**
District 4 - Manassas/
Gainesville/Manassas Park -
west of Route 28



NOVEC

Fact Sheet

NOVEC Electric System

- Northern Virginia Electric Cooperative (NOVEC) is a locally based and locally owned electric distribution system.

- Our power is purchased through Old Dominion Electric Cooperative (ODEC), a generation cooperative located in Glen Allen, VA. ODEC owns generation and also purchases power from Dominion Virginia Power and other utilities.

- NOVEC's service reliability is the best in the region, with a 99.98 percent average system reliability in 2005. This translates to an average outage time of just over one and one-half hours per customer per year.

NOVEC Service Territory

- NOVEC's service territory encompasses 651 square miles with 5,877 miles of power lines.

- NOVEC provides reliable electric service to more than 130,000 homes and businesses located in Clarke, Fairfax, Fauquier, Loudoun, Prince William and Stafford counties, the City of Manassas Park and the town of Clifton.

- NOVEC is headquartered in Manassas with offices strategically located throughout our service territory in Gainesville, Leesburg, Minnieville and Stafford.

NOVEC Customers

- NOVEC is a not-for-profit corporation, owned and controlled by its member-owners. The customers who purchase energy from NOVEC are the member-owners.

- NOVEC's member-owners (customers) elect a board of directors which sets policy for the Cooperative.

- The majority of NOVEC's customers are residential and small commercial; in addition we provide electric service to numerous large commercial customers such as AOL, Potomac Mills Outlet Mall, NOAA's Mount Weather Facility, Vulcan Materials Company, Verizon, AT&T, Doane Food Products, Treasure Chest Advertising and several Luck Stone Corporation quarry locations.

NOVEC History

- Electric cooperatives were originally formed in the mid-1930s to provide power to rural parts of the country that investor-owned utilities did not feel were profitable enough for them to install power lines.

- Formed on January 1, 1983, from a merger of two neighboring utilities – Prince William Electric Cooperative and Tri-County Electric Cooperative – NOVEC is today among the largest electric distribution cooperatives in the United States.

In Brief

Assets	\$575 million
Operating revenue	\$318 million
Net operating margins	\$.72 million
Equity-to-assets ratio69 percent
TIER (Times Interest Earned Ratio)	11.81
DSC (Debt Service Coverage)	7.22
Long-term debt	\$134 million
Average debt per meter	\$1,032
Cost of power	\$187 million
Purchased power cost (percent of cost of service)	76.2 percent
Wholesale average cost per kilowatt-hour	\$.0606
Average monthly load factor	62.43 percent
Annual peak demand (July).....	762,192 kilowatts
Kilowatt-hours purchased.....	3.2 billion
Kilowatt-hours sold3 billion
Residential average cost per 1,000 kilowatt-hours	\$113.50
Average outage hours per service	98.5 minutes
Average system reliability	99.98 percent
Total services.....	130,601
Full-time employees	279
Total service-to-employee ratio	468:1
Miles of line	5,844
Service density per line	22.34

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A Message To Our Customers

Personal values develop at an early age. Many are refined throughout the course of a lifetime. Our values define us as individuals, revealing the essence of our character and often form the basis of our relationships with others. They provide a sense of direction and purpose in our lives. For some, values guide day-to-day conduct; for goal-oriented people, values help them set and achieve goals.

Values also play a key role in building a small business into a larger, financially successful company. Scandals that rocked the corporate world in recent years served to remind us all that there are no substitutes for ethics and integrity. Standards of conduct that clearly define how customers and owners relate to one



Stan Feuerberg
President/CEO

another as a business matures lead to public confidence and trust, improving the likelihood of long-term success.

The not-for-profit cooperative business model can trace its history back for more than 150 years. Updated periodically to reflect changes in the business climate, it remains relevant and dynamic in the 21st century. This is evidenced by the viable operation of nearly 1,000 electric cooperatives throughout the United States, as well as large agricultural cooperatives such as Welch's, Sunkist, Ocean Spray and Southern States. The core values of our business model have withstood the test of time and we use them to chart our course for the future.

We value our customers.

We use customer input and feedback to develop corporate goals and measure our success. Professionally conducted surveys provide insight into what our customers consider important and how they feel about our performance. A residential customer satisfaction survey conducted by J.D. Power in 2005 compared us to other electric utilities nationwide. Our overall score placed us only 1 point behind the Southern Region leader, Duke Power, well ahead of the industry average and local utility companies Dominion Virginia Power and PEPCO. Like all good survey instruments, it also identified opportunities for improved performance and we are focused on making changes that will result in better customer service.

We value our employees. Recognizing that a high-performing workforce is essential to our corporate success, we invest in training

Personal values develop at an early age. Many are refined throughout the course of a lifetime. Our values define us as individuals, revealing the essence of our character and often form the basis of our relationships with others.

programs that develop and sharpen skills required in our business. The result has been a well-trained, motivated and results-focused team. Seeking to attract and retain the best and brightest, we provide a competitive compensation package that encourages and rewards stellar performance, effectively linking personal and corporate success.

Ethics and integrity are at the very core of NOVEC's business values. Honesty in every business transaction is an unwavering expectation. We take responsibility for our actions and are accountable to the customers who own us. In recent years, we have witnessed a number of high-profile companies become hopelessly entangled in a web of deceit that could only lead to catastrophic failure. We know that trust has to be earned. We will undertake no venture or tolerate any action that compromises the trust and confidence our customers have in NOVEC.

We value results. Key measures indicate that 2005 was a banner year for NOVEC. We connected more than 6,100 new meters and were ahead of that brisk pace through the first quarter of 2006. Both our

short-range (3-year) and long-range (15-year) work plans are adjusted to reflect the most current residential and commercial growth projections. We understand that our electric distribution infrastructure is vital to the economic health of our region and are committed to building and maintaining a robust distribution system, fully able to meet the requirements of our rapidly growing service area.

Despite the challenges presented by a year of severe storm activity, NOVEC customers again experienced the best service reliability in the metropolitan Washington, D.C. area in 2005. It was our seventh consecutive year at the top of the leader board and speaks well to the ability of the NOVEC team to plan, design, construct, operate and maintain our distribution system.

NOVEC's financial health remains strong. Our distribution rates have not changed since 1991, a claim that few, if any, other utilities in this area can make. In 2005, we completed \$30 million in new plant construction and returned an additional \$30 million to our customers through our Cash Back, formerly Capital Credits, program.

Despite the challenges presented by a year of severe storm activity, NOVEC customers again experienced the best service reliability in the metropolitan Washington, D.C. area.

We achieved both without additional borrowing, a testament to sound financial management practices. We continue to reduce our long-term debt and our debt per meter is the most favorable it has been in more than 15 years.

Top performance requires innovation. As the first electric cooperative in Virginia to serve more than 100,000 customers, we understand well the importance of being a leader in customer service. Accordingly, we frequently are among the first to refine business processes and increase productivity. Recent examples include:

- Adopting the use of sophisticated outage analysis software to more quickly and accurately identify the cause of an outage and facilitate repairs
- Improving service reliability through the use of computer technology to remotely monitor and control equipment in our substations and on our distribution system
- Increasing billing accuracy and productivity by implementing automated meter reading (AMR) technology
- Providing office and field workers with vital, up-to-date information through a computerized mapping system that saves time and money
- Achieving much greater efficiency and lowering administrative costs through the use of wireless computer technology to change the business process for underground line location requests
- Enhancing our internal communications and providing additional business opportunities through the building of our own fiber optic network
- Maintaining an expert workforce by creating apprentice programs for line technicians, electric utility designers, substation electricians, quality assurance inspectors and system operators. These highly successful programs have been certified by the Commonwealth of Virginia.
- Providing valuable products and services to NOVEC customers as well as the public at large through two successful (*i.e.*, profitable) affiliates
- Increasing customer awareness of the NOVEC brand through a coordinated print, radio and television advertising campaign.

Two of our TV commercials have been recognized for their excellence. "The Power to Move You" received a Telly award in 2001 and "Unsurpassed Reliability" was nominated for a local Emmy award in 2005.

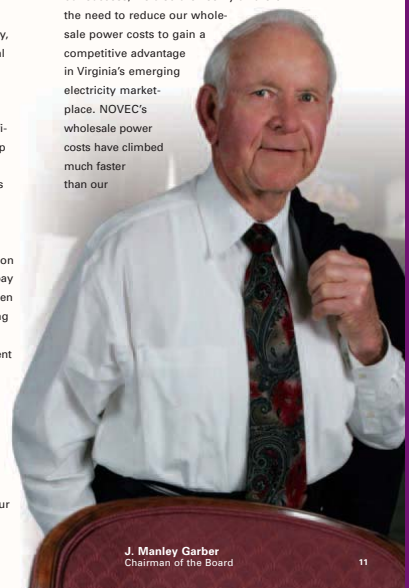
We upgraded our telephone system in the past year. A more concise menu guides callers through key business options. The automated system greatly reduces the time it takes to report a power outage and is capable of providing service restoration time estimates and progress updates. With our increased call processing capacity, it is rare for callers to receive a busy signal from our phone system, even during an outage event.

Visits to the NOVEC web site have significantly increased. Our real-time outage map won an APEX (Awards for Publication Excellence) Grand Award last year and has become a model for other utilities across the county. Customers, news media and employees use it to obtain specific outage information and projected service restoration times. Thousands of customers use Speedpay to make bill payments every month. Children learn about electricity in fun and interesting ways through Power Kids, a 2006 NRECA Spotlight on Excellence award winner. Current job opportunities at NOVEC are posted on the home page for easy reference. Information about our affiliates, NOVEC Solutions and NOVEC Energy Solutions, along with their product offerings can also be found at www.NOVEC.com.

Survey data has clearly shown us that our

customers are very computer savvy and want to transact more business with us via the internet. Improving our web site has been a major focus in 2006. The redesign will enable more business transactions through our web site and help users find information faster.

We have made great strides in managing our controllable operating costs and have used computer technology to its best advantage to improve productivity and overall efficiency. While we take pride in our success, we also are keenly aware of the need to reduce our wholesale power costs to gain a competitive advantage in Virginia's emerging electricity marketplace. NOVEC's wholesale power costs have climbed much faster than our



J. Manley Garber
Chairman of the Board

LEADERSHIP TEAM

controllable expenses. Ten years ago wholesale power cost comprised approximately 66 percent of NOVEC's operating expenses. During the first quarter of 2006, the cost of wholesale power rose to more than 76 cents of every dollar we spend. The price we presently pay for wholesale power continues to hamper our efforts to deliver competitively priced electricity to all of our customers.

We firmly believe that our primary obligation is to supply reliable electric power to NOVEC customers at a competitive price. We have attempted to negotiate with our power supplier Old Dominion Electric Cooperative (ODEC) to gain the flexibility we need to pursue less-expensive power that may be available from other wholesale suppliers, while pledging our commitment to pay for our share of ODEC's existing resources. In addition, we have petitioned the Federal Energy Regulatory Commission (FERC) to restructure our existing power supply contract with ODEC. To date, our efforts have not produced the desired results, but we continue to evaluate other options to lower the bills for our customers.

Even at today's prices, electricity remains a great value. For roughly the price of lunch, most customers power their home for a day. Our current advertising campaign focuses on the value of the electricity services you can purchase for only 10¢, 20¢ or a quarter. We have placed several of these ads in this annual report as a reminder of the terrific purchasing power of your electricity dollar.

Finally, after decades of "business as usual," our industry has changed considerably in recent years. With the passage of the Electric Utility

Restructuring Act in 1999, Virginia joined a trend to deregulate electric utilities. Deregulation in the Commonwealth continues to move forward, with current rate caps set to expire after 2010. The failure of competitive markets to develop and the magnitude of recent rate increases in other states give us cause for concern and raises legitimate questions about the future.

Our position with respect to deregulation has remained consistent and centered on fairness. Simply stated, we believe that no group or class of customers should benefit at the expense of another. We will continue to monitor the situation closely and provide feed-back to our legislators at every opportunity.

We recognize that constructive change is essential to maintaining a strong leadership position. A company that does not adapt quickly in the sophisticated Northern Virginia business climate will not be successful. We continue, through our strategic plan, to embrace the opportunities change provides. One thing, however, will not change. We will never abandon the values that have made NOVEC trusted and successful. That's our pledge and a promise you can count on.



Stan Feuerberg
President/CEO



J. Manley Garber
Chairman of the Board



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|--|---|---|---|
| 1 Stan Feuerberg
President/CEO | 4 Patrick Toulme
Vice President
and Corporate Counsel | 7 Albert Britton
Manager, Risk and Security | 10 Allen Barbee
Vice President,
Electric System Operations |
| 2 Jim Moxley
Senior Vice President,
Administration, Substations
and Telecommunications | 5 Elizabeth Gray
Executive Administrative
Assistant | 8 Marlane Parsons
Vice President,
Organizational Development | 11 Robert Bisson
Vice President,
Electric System Development |
| 3 Michael Dailey
Vice President,
Business Development | 6 Diane Johnson
Assistant Vice President,
Customer Service | 9 Wilbur Rollins
Senior Vice President,
Finance and Asset
Development | 12 Mike Curtis
Vice President, Public Relations |

Value



Providing outstanding customer service is a primary focus of NOVEC customer representatives like Melissa Carter, pictured here.

In today's energy marketplace, electricity is one of the best values around. While the prices of natural gas, heating oil and propane have skyrocketed, electricity prices have stayed relatively stable. In fact, NOVEC's retail delivery rates have not increased in 15 years. But, there's more to value than just the cost of our product. At NOVEC we also provide added value by delivering outstanding customer service, reliable and consistent delivery of power and even returning our profits to customers.

Customer Service

Exceeding customer expectations is the driving force behind all work at NOVEC. We strive to make doing business with us as easy and seamless as possible by providing multiple payment options and numerous ways to contact us with questions or concerns.

Introduced in 2005, our new levelized billing program is based on a rolling 12-month average

and helps prevent extreme fluctuations in bills. Our Speedpay program expanded this year and now accepts ATM cards for bill payment.

Customer service representatives are available Monday through Friday from 7 a.m. to 7 p.m. or e-mail can be sent to customerservice@novec.com. Many customer questions can also be answered by visiting www.novec.com.

Cash Back

CASHBACK is an added value of being a Cooperative customer. Formerly called Capital Credits, this program allows customers – NOVEC's owners – to share in the

Cooperative's profits. While margins of other companies go to stockholders who may or may not be customers, NOVEC's margins belong exclusively to our customers and are returned when financial conditions permit as approved by our board of directors.

Over the past four years, customers have received more than \$100 million in Cash Back returns

NOVEC Solutions
Technology for everyday life

NOVEC Energy Solutions
the neighborhood expert



In 2005, we returned approximately \$30 million in Cash Back to customers. This included the regular distribution in September of \$11.2 million, and special distributions totaling \$19 million in the months of January, June, July and December 2005. These special returns were possible because some components of our energy costs were lower than anticipated, creating higher than predicted margins. We expect Cash Back payments to exceed \$40 million in 2006.

NOVEC Affiliates Prosper

Our affiliate businesses offer products and services that NOVEC, by law, is not permitted to offer such as natural gas supply, telecommunications, sales of water heaters, generators, home surge protection plans and other products.

NOVEC Energy Solutions (NES) doubled its customer base in 2005, with nearly 18,000 households in Maryland, Virginia, and Washington, D.C. now purchasing their natural gas supply from NES.

NOVEC Solutions (NS) now offers commercial network data transport connectivity throughout Northern Virginia and the Washington Metropolitan region. Using NOVEC's fiber optic network, NS provides customers access to one of the premier carrier-neutral facilities in the world.



Reliability



In preparation for upgrades at Cub Run Substation, Electrician 1st class Mark DeChristopher begins the arduous task of dismantling the old circuit bus.



A crane is used to install a large, 30 MVA transformer at the Evergreen Substation.



A Hendrix spacer cable is installed along this heavily wooded stretch of Bull Run Post Office Road. The durable cable is engineered to fit in tight spaces and customers can expect more of it in coming years.



Materials management employee Jerry Morris uses a forklift to stack spools of cable which are tracked using a barcode system.

Again in 2005, NOVEC had the best service reliability record in the metropolitan Washington, D.C. area. In order to maintain our outstanding reliability record, many best practices must be in place: a well-designed and constructed electric distribution system, adequate materials in inventory, an aggressive right-of-way maintenance program and knowledgeable employees to operate the system. All of these factored into the result that when you flipped the switch, the power was on 99.98 percent of the time in 2005.

Substation Upgrades to Meet Demand

NOVEC's customer base continues to grow at a rapid pace. In 2005 we connected 6,153 new customers, bringing our total to 130,601 by year's end. To keep pace with this ever-growing demand, NOVEC has been adding or upgrading substations. The Pleasant Valley Substation is NOVEC's newest facility, built to serve the growing western Fairfax and eastern Loudoun county areas that are home to large residential developments such as South Riding, Donovan and South Village.

During early 2006, we upgraded Cub Run Substation with larger transformers to help meet

increased load demands in western Fairfax County. In addition, we installed a new communication technology, distributed network protocol (DNP3), that will improve reliability as well as reduce capital expenses.

Using NOVEC's fiber optic network, the DNP3 allows staff to remotely monitor substation equipment and download metering, load and other diagnostic information. The technology also pinpoints where a fault has occurred within the substation or on a power line, allowing staff to quickly diagnose the problem, dispatch a repair crew and reduce potential outage time for customers.

In addition, installing the DNP3 equipment is substantially less labor intensive than the equipment we previously used. Previous substation monitoring equipment could take up to three days to install; the DNP3 equipment takes only about three minutes. NOVEC plans to install the DNP3 technology at other substations as they are built or upgraded.

In Prince William County, we increased the capacity of Evergreen Substation in 2005 and

accomplished another major upgrade of the distribution circuits out of Evergreen in 2006 to meet the increased power demands from development along Route 15.

In fact, capacity upgrades are being performed at 39 of NOVEC's substations in 2006, including Sycolin (Loudoun County), Cub Run (Fairfax County) and Broad Run (Fauquier County) substations.

Two new substations currently under construction are scheduled for completion in 2007. The new Logmill Substation in Prince William County will pick up some load from Evergreen Substation to help serve the new developments along Route 15. Additionally, Cochran Mill Substation in Loudoun County is being built to serve the rapidly growing area around Leesburg.

Hendrix Spacer Cable System

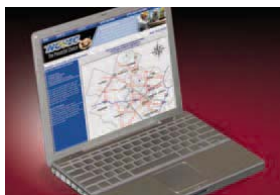
As NOVEC's territory continues to become more urbanized and space is at a premium, we've devised new ways to increase capacity within limited space constraints, such as by using the Hendrix Cable Spacing System. Encased in a protective shield, this cable allows power lines to be installed closer together and closer to the pole. Using Hendrix cable can often eliminate the need to install new, larger poles when adding circuits.

Materials Management

Our materials management department employs special techniques to keep costs down and inventory levels steady. Consigned stock, vendor stocking and joint purchases all help NOVEC save money, while still ensuring that the materials needed to build and maintain our electric system are on hand when needed.

In 2005 we connected 6,153 new customers, bringing our total to 130,601 by year's end.

Technology



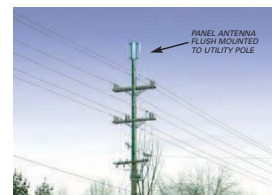
Customers now have access to real-time outage data on NOVEC's web site.



Satellite phones, like the mobile unit demonstrated by Larry Sheffield, system operations manager, can be used in emergencies when regular cell phones don't work.



Lead line technicians Joe Walker, Mark Winslow and Rodney Jackson concentrate on learning the new map viewing software.



At the top of this NOVEC pole is an example of a pole-top cell tower attachment, which may become a more common sight through NOVEC's partnership with Milestone Communications.

NOVEC places a high value on putting proven technology to work in our daily business. We endeavor to implement cost-effective technologies that improve productivity, reduce expenses, enhance reliability or in some other way benefit customers.

Fiber Optics

Since we first began installing fiber optic lines in 1995, NOVEC's fiber network has grown steadily, as we expand the system to serve both our internal communication needs as well as to provide a valuable service to local businesses and produce a revenue stream for NOVEC. Today, our 115-mile internal fiber optic network provides data and voice communications for all of our offices, as well as with 13 of our 52 substations. By year-end 2006, a total of 18 substations will be connected.

To increase the value of our internal fiber network, NOVEC has been leasing its excess fiber capacity since 2000. Last year, NOVEC Solutions (NS), a wholly owned subsidiary of NOVEC, began leasing our fiber network to offer optical services to large business and government customers in Northern Virginia and the District of Columbia. In one partnership, NS utilizes NOVEC's leased fiber to

cross connect its optical service network with hundreds of other carriers across the country at Equinix, an internet carrier-class data center in Ashburn, VA. Nearly 80 percent of the world's internet traffic passes through this hub.

Since preparing for Y2K, NOVEC has utilized satellite phone technology during natural and man-made emergencies when ground-based communication towers have been knocked out, or in remote locations where other communication tools are useless. Satellite phones use orbiting satellites instead of cell towers to connect with main phone lines and are not susceptible to earthly disasters. This year, NOVEC replaced its aging satellite phone with a state-of-the-art system and added a mobile unit to the fixed-station satellite phone.

NOVEC's interactive voice response (IVR) phone system continues to prove itself worthy, as it processed more than 16,000 calls during a major snow storm in February, enabling staff to more quickly process outage reports and dispatch crews. During that same storm, NOVEC's award-winning, online outage map allowed customers and the news media to view real-time outage status reports and estimated service restoration times.

Wireless Technology

As wireless technology has evolved, Notebook PCs are being used more frequently to improve

productivity, provide enhanced customer service and reduce expenses. Our field service technicians use Notebooks to track Miss Utility locate requests as well as other tasks. This has virtually eliminated paperwork, increased productivity and eliminated the need for desktop PCs, saving the Co-op money. During 2006, we will begin using wireless technology for connect, disconnect and collection work orders.

Information Technology

A major IT project culminated in 2006, with the implementation of our new geographical information (GIS), utility design (UD) and work management (WMIS) systems. These fully integrated systems provide complete automation for several formerly

manual processes in the distribution design and mapping areas. This multi-faceted system will provide improved information exchange,

enhanced customer service and more consistent design practices, with the potential to reduce by 80 percent the process time required for large design jobs along with a 25 percent reduction in labor hours.

Cell Tower Attachments

With the demand for cellular service continuing to grow, NOVEC seized an opportunity to partner with Milestone Communications to market the property surrounding our substations and poles to companies needing cell towers. Milestone builds and leases the tower, with

NOVEC sharing the revenue stream received from tenants.

We endeavor to implement cost-effective technology that can help improve productivity, reduce expenses, enhance reliability or in some other way benefit customers.

Community



At the luncheon, Nancy Garber of NOVEC's team has the honor to cut the ribbon for the start of the Prince William WalkAmerica on behalf of the March of Dimes in Manassas.



NOVEC received the 2005 Kathleen Seefeldt Award for Arts Excellence, presented to a business for continuing to advance the arts in our communities.



Executive Director Lindy Garnett (center) lights the candles to celebrate SERVE's 20 years of dedication to ensuring that no person in our community will have to be homeless.



Ryan Hale, a second grader at Dominion Trail Elementary, proudly displays his winning switch plate design at a Loudoun County School Board meeting while LCPS Board Chairman Robert F. Dupree looks on.

At NOVEC, we place a high priority on giving back to the communities we serve, providing another value to our customers. Our long tradition of community service has earned us a reputation in Northern Virginia as a model corporate citizen. In 2005, NOVEC donated to more than 100 local organizations and local chapters of national organizations, supporting a diverse range of educational programs, civic groups, health causes, the performing arts, youth sports and charitable organizations across the region.

As part of our community commitment, NOVEC sponsors a cause-based marketing campaign that adds value and enriches the lives of children and others in our community by raising the profiles of various service and non-profit agencies. NOVEC employees have also played a major role in demonstrating the meaning of commitment – both on the job and through their many volunteer activities.

In recognition of this commitment, NOVEC received The Prince William Regional Chamber Community Outreach Award in 2005, as well as the 2005 Seefeldt Business of the Year Award from the Prince William County-Greater Manassas Chamber of Commerce and Prince William County Park Authority.

In addition, Inova Fairfax Hospital for Children presented NOVEC with their Star Kid on the Go award for the Co-op's *Keeping Kids Connected* program. Through ads on WTOF and WGMS radio stations, and on the stations' web sites, this program educated the community about child health and safety issues.

A small sampling of our community service efforts:

NOVEC Supports Cancer Center

During the past year, NOVEC made substantial donations toward the construction of the Cancer Center being built in Gainesville as a joint partnership between Prince William Health System and Fauquier Hospital.

Hurricane Katrina

NOVEC released eight contract line crews to the devastated areas to assist in restoration efforts. Employees and the Cooperative also donated money to the Association of Louisiana Electric Cooperatives and the Electric Power Association of Mississippi to aid in recovery efforts.

Support for SERVE

NOVEC is a long-time supporter of SERVE, Inc., a non-profit organization working to help the

homeless and underprivileged. Last year, NOVEC employees and customers donated non-perishable food items and cash gifts for Operation Turkey, a local Thanksgiving food drive coordinated by SERVE. Community-wide, SERVE collected nearly 62,000 non-perishable food items and 16,800 pounds of turkey to help provide a Happy Thanksgiving meal to needy neighbors.

Youth Programs

NOVEC worked with Stonewall Middle School on an energy savings program that enlisted the help of students and staff in remembering to turn off the lights. NOVEC designed a special sticker for light switch plates to assist with this effort.

NOVEC was a co-sponsor of a contest in Loudoun County Public Schools that asked students to design a light switch plate sticker that encourages all facility users to turn off the lights in unoccupied areas. We provided partial funding for the prizes and our staff served as judges for the competition.

The homework room of the Prince William Boys & Girls Club in Manassas was named in honor of NOVEC in recognition of our sponsorship and long-time support of the program.

Operation Round Up

Operation Round Up (ORU) is NOVEC's customer-funded community service assistance program. Thousands of customers have authorized NOVEC to round up their monthly electric bill to the next highest dollar, with these funds being distributed by a customer advisory board.

Through local social service agencies, the advisory board distributes heating assistance that helps local families in need pay their winter heating bills. During November 2005 through March 2006, ORU distributed \$46,000 in heating assistance.



CONSOLIDATED BALANCE SHEETS

December 31, 2005 and 2004 (in thousands)	2005	2004
Assets		
Utility plant, net of accumulated depreciation and amortization	\$365,869	\$342,882
Investments		
Associated organizations	86,710	83,336
Other	1,111	1,015
Total investments	87,821	84,351
Current assets:		
Cash and cash equivalents	29,949	26,356
Investment securities	32,817	32,996
Accounts receivable, less allowance for doubtful accounts of \$1,533 in 2005 and \$1,578 in 2004	26,523	17,318
Materials and supplies inventories	9,190	8,426
Other current assets	22,216	15,884
Total current assets	120,695	100,980
Deferred charges	14,135	10,489
Total assets	\$588,520	\$538,702
Liabilities and Equities		
Equities and margins:		
Membership fees	\$1,107	\$1,024
Patronage capital	384,342	333,919
Other equities	10,878	9,211
Accumulated other comprehensive income	813	1,133
Total equities and margins	397,140	345,287
Long-term debt, excluding current installments	127,896	135,094
Current liabilities:		
Current installments of long-term debt	6,915	6,770
Notes payable	9,500	6,411
Accounts payable	25,121	23,831
Consumer deposits	4,136	4,245
Accrued expenses and other current liabilities	3,135	2,770
Total current liabilities	48,807	44,027
Deferred credits	7,554	7,512
Accrued post retirement benefit costs	7,123	6,782
Total liabilities and equities	\$588,520	\$538,702

CONSOLIDATED STATEMENTS OF OPERATIONS & PATRONAGE CAPITAL

December 31, 2005 and 2004 (in thousands)	2005	2004
Operating revenues	\$338,150	281,484
Operating expenses:		
Cost of power	204,283	171,360
Distribution expense — operations	5,928	6,145
Distribution expense — maintenance	11,154	10,739
Consumer accounts	3,681	3,894
Customer service and information expense	2,167	1,910
Sales expense	572	498
Administrative and general	16,456	17,028
Depreciation and amortization	13,779	12,948
Other	(444)	371
Total operating expenses	257,576	224,893
Net operating margins before interest expense	80,574	56,591
Interest expense	7,772	7,397
Net operating margins after interest expense	72,802	49,194
Non-operating margins:		
Patronage capital assigned from associated organizations	3,921	3,939
Dividends and interest income	3,110	2,528
Other non-operating income	417	509
Total non-operating margins	7,448	6,976
Net margins	\$80,250	56,170
Patronage capital — beginning of year	\$333,919	308,179
Net margins	80,250	56,170
Retirement of patronage capital	(29,827)	(30,430)
Patronage capital — end of year	\$384,342	333,919

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2005	2004
Net margins	\$80,250	56,170
Other comprehensive income:		
Unrealized gains (losses) on marketable securities	(333)	39
Reclassification adjustment for losses realized in net margins	13	49
Other comprehensive income (loss)	(320)	88
Comprehensive income	\$79,930	56,258

CONSOLIDATED STATEMENTS OF CASH FLOWS

December 31, 2005 and 2004 (in thousands)	2005	2004
Cash flows from operating activities:		
Cash received from consumers	\$329,175	283,596
Cash paid to suppliers and employees	(250,772)	(209,509)
Dividends, interest and other non-operating income	3,527	3,037
Interest paid	(7,772)	(7,397)
Net cash provided by operating activities	74,158	69,727
Cash flows from investing activities:		
Extension and replacement of utility plant	(43,319)	(45,469)
Utility plant removal costs	(319)	(495)
Contributions in aid of construction of utility plant	6,505	6,860
Proceeds from sale of utility plant	483	601
Extension and replacement of non-utility plant	(116)	(265)
Purchases of investment securities available-for-sale	(8,023)	(31,269)
Proceeds from sale or maturity of investment securities available-for-sale	7,587	32,255
Retirements of patronage capital by associated organizations	345	407
Net cash used in investing activities	(36,857)	(37,375)
Cash flows from financing activities:		
Principal payments on long-term debt	(7,053)	(7,173)
Proceeds from notes payable	3,089	2,475
Principal payments on notes payable	—	(397)
Membership fee receipts	83	49
Retirement of patronage capital	(29,827)	(30,430)
Net cash used in financing activities	(33,708)	(35,476)
Net increase (decrease) in cash and cash equivalents	3,593	3,124
Cash and cash equivalents at beginning of year	26,356	29,480
Cash and cash equivalents at end of year	\$29,949	26,356

CONSOLIDATING SCHEDULE BALANCE SHEET

December 31, 2005 (in thousands)	NOVEC	NOVEC Solutions Inc.	NOVEC Energy Solutions Inc.	Eliminating entries	Consolidated totals
Assets					
Utility plant, net of accumulated depreciation and amortization	\$364,560	—	—	—	364,560
Non-utility plant, net of accumulated depreciation and amortization	1,266	37	6	—	1,309
Total plant	365,826	37	6	—	365,869
Investments:					
Associated organizations	86,710	—	—	—	86,710
Other	(1,029)	1	—	2,139	1,111
Total investments	85,681	1	—	2,139	87,821
Notes receivable					
Notes receivable	—	—	—	—	—
Current assets:					
Cash and cash equivalents	29,912	37	—	—	29,949
Investment securities	32,817	—	—	—	32,817
Accounts receivable, less allowance for doubtful accounts	22,268	81	4,174	—	26,523
Materials and supplies inventories	6,464	13	2,713	—	9,190
Other current assets	17,957	1	4,258	—	22,216
Total current assets	109,418	132	11,145	—	120,695
Deferred charges	14,135	—	—	—	14,135
Total assets	\$575,060	170	11,151	2,139	588,520
Liabilities and Equities					
Equities and margins:					
Membership fees	\$1,107	—	—	—	1,107
Patronage capital & accumulated earnings (deficit)	384,305	42	(2,890)	2,885	384,342
Other equities	10,877	100	647	(746)	10,878
Accumulated other comprehensive income	813	—	—	—	813
Total equities and margins	397,102	142	(2,243)	2,139	397,140
Long-term debt, excluding current installments					
Long-term debt, excluding current installments	127,896	—	—	—	127,896
Current liabilities:					
Current installments of long-term debt	6,915	—	—	—	6,915
Notes payable	—	—	9,500	—	9,500
Accounts payable	22,058	28	3,035	—	25,121
Consumer deposits	4,136	—	—	—	4,136
Accrued expenses and other current liabilities	3,102	—	33	—	3,135
Total current liabilities	36,211	28	12,568	—	48,807
Deferred credits	6,728	—	826	—	7,554
Accrued post retirement benefit costs	7,123	—	—	—	7,123
Total liabilities and equities	\$575,060	170	11,151	2,139	588,520

CONSOLIDATING SCHEDULE OPERATIONS & PATRONAGE CAPITAL

December 31, 2005 (in thousands)	NOVEC	NOVEC Solutions Inc.	NOVEC Energy Solutions Inc.	Eliminating entries	Consolidated totals
Operating revenues	\$318,346	522	19,282	—	338,150
Operating expenses:					
Cost of power	187,221	133	16,929	—	204,283
Distribution expense — operations	5,928	—	—	—	5,928
Distribution expense — maintenance	11,154	—	—	—	11,154
Consumer accounts	3,681	—	—	—	3,681
Customer service and information expense	2,167	—	—	—	2,167
Sales expense	38	—	534	—	572
Administrative and general	15,351	338	767	—	16,456
Depreciation and amortization	13,767	7	5	—	13,779
Other	(1,244)	3	76	721	(444)
Total operating expenses	238,063	481	18,311	721	257,576
Net operating margins before interest expense	80,283	41	971	(721)	80,574
Interest expense	7,486	—	290	(4)	7,772
Net operating margins after interest expense	72,797	41	681	(717)	72,802
Non-operating margins:					
Patronage capital assigned from associated organizations	3,921	—	—	—	3,921
Dividends and interest income	3,114	—	—	(4)	3,110
Other non-operating income	375	1	41	—	417
Total non-operating margins	7,410	1	41	(4)	7,448
Net margins:	80,207	42	722	(721)	80,250
Patronage capital — beginning of year	333,925	—	(3,612)	3,606	333,919
Retirements of patronage capital	(29,827)	—	—	—	(29,827)
Patronage capital — end of year	\$384,305	42	(2,890)	2,885	384,342

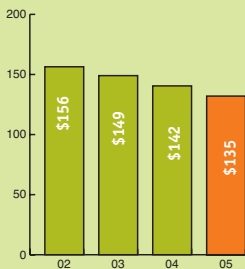
CONSOLIDATING SCHEDULE CASH FLOWS

December 31, 2005 (in thousands)	NOVEC	NOVEC Solutions Inc.	NOVEC Energy Solutions Inc.	Eliminating entries	Consolidated totals
Cash flows from operating activities:					
Cash received from consumers	\$312,020	442	16,713	—	329,175
Cash paid to suppliers and employees	(230,559)	(444)	(19,769)	—	(250,772)
Dividends, interest and other non-operating income	3,489	1	41	(4)	3,527
Interest paid	(7,486)	—	(290)	4	(7,772)
Net cash provided by (used in) operating activities	77,464	(1)	(3,305)	—	74,158
Cash flows from investing activities:					
Extension and replacement of utility plant	(43,319)	—	—	—	(43,319)
Utility plant removal costs	(319)	—	—	—	(319)
Contributions in aid of construction of utility plant	6,505	—	—	—	6,505
Proceeds from sale of utility plant	483	—	—	—	483
Extension and replacement of non-utility plant	(72)	(44)	—	—	(116)
Purchases of investment securities available-for-sale	(8,023)	—	—	—	(8,023)
Proceeds from sale of investment securities available-for-sale	7,587	—	—	—	7,587
Retirements of patronage capital by associated organizations	345	—	—	—	345
Net cash used in investing activities	(36,813)	(44)	—	—	(36,857)
Cash flows from financing activities:					
Principal payments on long-term debt	(7,053)	—	(200)	200	(7,053)
Principal payments on notes payable	200	—	—	(200)	—
Proceeds from notes payable	—	—	3,089	—	3,089
Membership fee receipts	83	—	—	—	83
Retirement of patronage capital	(29,827)	—	—	—	(29,827)
Net cash provided by (used in) financing activities	(36,597)	—	2,889	—	(33,708)
Net increase (decrease) in cash and cash equivalents	4,054	(45)	(416)	—	3,593
Cash and cash equivalents at beginning of year	25,858	82	416	—	26,356
Cash and cash equivalents at end of year	\$29,912	37	—	—	29,949

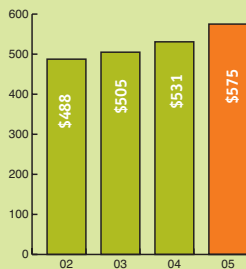
FINANCIALS AT A GLANCE

Note: Excluding subsidiary activities

Long-Term Debt (millions)



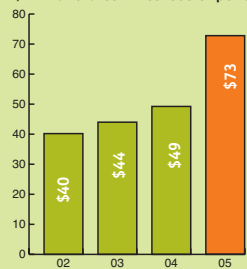
Assets (millions)



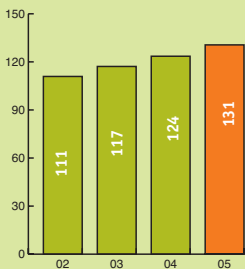
Equity-To-Assets (percentage)



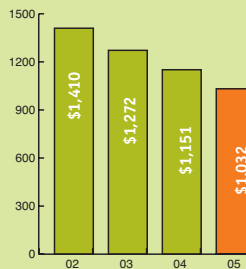
Net Operating Margins (millions after interest expense)



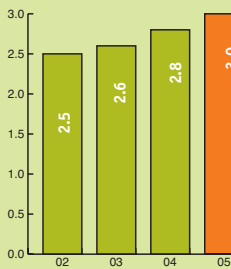
Total Meters (thousands)



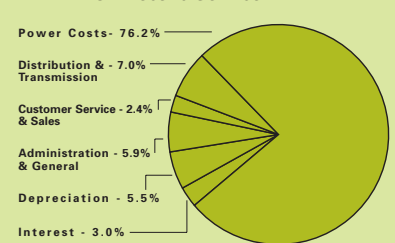
Average Debt Per Meter



Kilowatt-Hours Sold (billions)



2005 Allocation of Cost Of Electric Service



Measuring Up

Pepco, which serves the District and parts of Maryland, measures up well against other major mid-Atlantic utilities during normal operating conditions, according to two key standards of electric utility reliability: the average number of outages per customer each year and the total average duration of the customer's outage in a year.

Average number of outages and duration

Excluding major events, number of times on average a customer experienced a power outage and average length of outage, ranked by number of outages.

System	Number of customers	Average, 2000-2004	
		Number of outages (SAIFI)	Total duration (SAIDI)
PECO (Philadelphia region)	1,600,000	1.07	114 minutes
Allegheny Power (Md.)	240,000	1.08	298
Atlantic City Electric	5000,000	1.18*	120*
Jersey Central Power & Light	1,1000,000	1.25**	170**
Pepco (Md., the district)	720,000	1.34	1.06
Choptank Electric Cooperative (Eastern Shore)	45,000	1.37**	150**
Southern Md. Electric Cooperative	138,000	1.39	127
Dominion (entire Va. service area)	2,100,000	1.46	123
Baltimore Gas & Electric	1,200,000	1.49	233
Dominion (N.Va.)	546,000	1.52	118
Delmarva Power (Del.)	288,000	1.79*	237*
Delmarva Power (Md.)	194,000	2.15*	282*
Northern Virginia Electric Cooperative	120,000	1.14	77


* Three year average ** Four year average

SAIFI: System Average Interruption Frequency Index represents the average number of times a customer experiences an outage of more than five minutes during a year, excluding major events (weather related problems in which more than 10 percent or 1000,000 customers in the utility's service area experience sustained interruptions.)

SAIDI: System Average Interruption Duration Index represents the average number of minutes a customer experiences an outage of more than five minutes over the course of the year, excluding major events.

Washington Post - November 27, 2005

Providing safe and reliable delivery of electricity is NOVEC's paramount value. For the past seven years, NOVEC has been proud to have the best reliability record in the metropolitan Washington, D.C. area.



Reliability
Community
Technology
Values

Investing in Our Communities

NOVEC CONTACT INFORMATION

For routine questions concerning your energy account, to apply for electric service or for general information about the Cooperative, you may call the NOVEC customer service center, 703-335-0500 or Toll Free 888-335-0500, Monday through Friday, from 7 a.m. to 7 p.m., or visit www.novec.com.

OFFICE LOCATIONS

*** Corporate Office**

10323 Lomond Drive
P.O. Box 2710
Manassas, VA 20108-0875

Stafford Office

2430 Poplar Road
Fredericksburg, VA
22406-4045

*** Minnieville Office**

14500 Minnieville Road
Woodbridge, VA 22193-0459

Leesburg Office

349 East Market Street
Leesburg, VA
20176-4102

Gainesville

Technical Center

5399 Wellington Branch Drive
Gainesville, VA 20155-1616

*Bill payments are accepted at these offices. Payment drop boxes are located at all offices.

Northern Virginia Electric Cooperative provides for equal opportunity without regard to race, color, disability, religion, age, sex, marital status, or national origin and ensures that no person shall be excluded from participating in, admission or access to, denied the benefits of, or otherwise be subjected to discrimination under any of the organization's programs or activities.

