

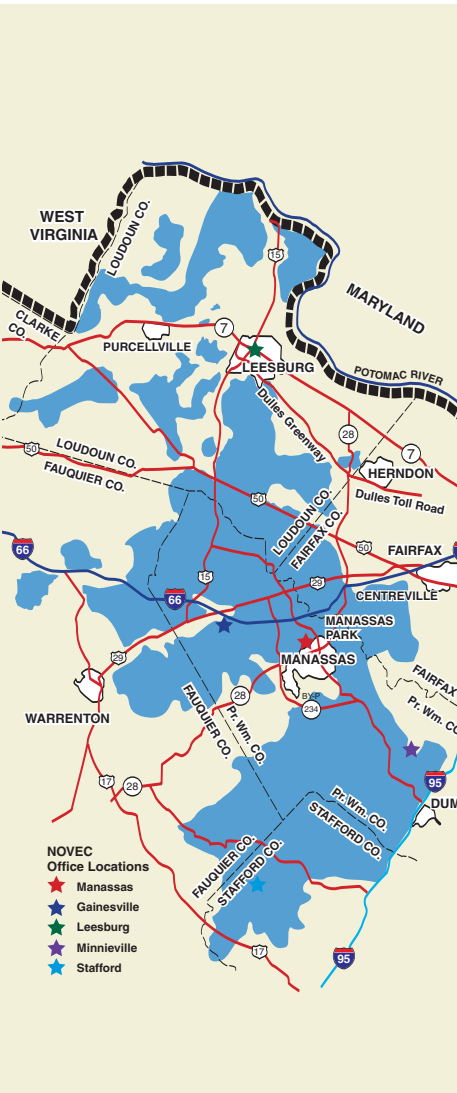


Distributing Power Generating Energy



2005 ANNUAL REPORT

2005 NOVEC ANNUAL REPORT



CONTENTS

Territory Map	1
NOVEC at a Glance	2
Executive Summary	3
Board of Directors	7
Leadership Team	8
Providing Value	9
Reliability	15
Technology	17
Financial Statements	19
Faces of NOVEC	25
Employees	26

2004 ACCOMPLISHMENTS:

- Returned more than \$30.4 million in capital credits - current customers on their NOVEC bill and former customers by check
- Connected more than 6,300 new customers, bringing total services to 123,528
- Achieved the best service reliability performance in the metropolitan Washington, D.C. area, with a reliability rate of greater than 99.987 percent
- Decreased our long-term debt to \$1,151 per meter in 2004 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

NOVEC AT A GLANCE

(as of December 31, 2004)

	2004	2003
Assets (\$million)	\$530.78	\$504.9
Operating revenue (\$million)	\$270.05	\$244.6
Net operating margins (\$million)	\$49.24	\$44.0
Long-term debt (\$million)	\$141.86	\$149.03
Average debt per meter	\$1,151	\$1,272
Cost of power (\$million)	\$160.2	\$140.7
Wholesale average cost per kilowatt-hour	\$0.0550	\$0.0521
Annual peak demand (August)	652,432 kw	615,410 kw
Kilowatt-hours sold	2.818 billion	2.603 billion
Residential average cost per 1,000 kilowatt-hours	\$103.33	\$101.37
Average outage minutes per service	67 minutes	70 minutes

NOTE: These figures are for NOVEC only and exclude NOVEC's affiliates.

DISTRIBUTING POWER...

NOVEC has been distributing electrical power in Northern Virginia communities for more than 60 years. Our investment in modern technology and the efficient management of our distribution system enables delivery of that power with 99.987 percent reliability throughout the year.

GENERATING ENERGY...

But power alone doesn't run a community. So we generate energy that brings added value to the communities we serve through support of the arts, education, non-profit programs for families and college scholarships for graduating high school seniors.

Cost for distributing power - unchanged for 12 years
 Cost for generating energy to run a community - no charge!



Line technician, first class Dennis Windle demonstrates the equipment he uses on the job to a local school group.

A MESSAGE TO OUR CUSTOMERS



Each year at this time we have the opportunity, through our annual report, to communicate directly with our customers, partners, peers and regulators to share the highlights of the past twelve months. It is something of a challenge to communicate in an interesting fashion the new business processes or technologies we've deployed to make our world class service even better. We believe our success story continues to be a compelling one!

Quite frankly, our business lacks the splash and pizzazz of the auto industry with its new car models and shows, the information technology industry with new computers and software or even retail with fashion lines that change every season. However, these other industries are dependent on our service reliability and unflagging commitment to our mission. Without reliable electricity, business (and life in general) would be vastly different. We may yearn for the good old days, but few among us really want to live in a world without the comforts and conveniences electricity has made possible.

Classic business fundamentals have provided the basic framework for our success. For example, we set annual goals for the

entire corporation and for each and every employee, and we hold ourselves personally accountable for achieving the desired results. We adhere to cooperative principles for our business model. NOVEC is customer-owned and customer-focused with local control and local accountability. We are proud of our solid reputation earned by more than 60 years of outstanding service.

NOVEC's Board of Directors is elected by our customers who are also our owners and, as the governing body, the Board makes policy for the company. The President/CEO leads the employee team responsible for implementing policy and the daily operations of the Cooperative. It is a simple, yet effective corporate structure that places a proper emphasis on our customer-owners.

We recognize that our continued success depends on earning the respect, trust and confidence of our employees, customers and regulators who expect the business to be operated ethically - and we demand it of ourselves. Honesty and integrity are absolutes never to be compromised and are just as essential to our success as reliable service. No matter what others in the business world may do, we believe it is always right to do the right thing.

Charting Our Course

Good corporate strategy balances strategic thinking and planning with action. We recognized the need for a formalized strategic plan ten years ago as we headed into the uncharted waters of deregulation in the electric utility industry. While anticipation of retail competition was undeniably a driving force for our strategic plan, we quickly realized that whether competition happened or not, development and implementation of a well

crafted plan had the potential to significantly improve our overall corporate performance.

NOVEC's 1996 Strategic Plan was developed with input from all levels of the employee team. It outlined more than 100 specific goals in five major categories. We revisited the plan annually to measure results and ensure our goals remained relevant as our business environment evolved. As we look back, it is truly amazing to see the accomplishments and business improvements that have been made.

Here are just a few examples: In 1996, we did not have a website; today thousands of customers pay their NOVEC bill online and even more use www.novec.com as a resource for the latest customer information on a variety of subjects. Our state-of-the-art outage map is a valuable real-time resource for employees, the media and customers. Residential customers can also take advantage of online assistance to evaluate and improve home energy efficiency and children learn while having fun on our Kids' pages.

Operating for more than 50 years in a regulated (i.e. protected) environment, we realized that we needed to develop an understanding of what it takes to prosper in the competitive business world. Under the provisions of the 1999 Electric Utility Restructuring Act adopted by the Virginia General Assembly, we have gained first-hand knowledge through the creation of two affiliates, NOVEC Solutions and NOVEC Energy Solutions. Operated as for-profit businesses, they have provided additional products for our customers as well as others in Virginia, Maryland and the District of Columbia. Products our affiliates currently offer include: surge protection, generators, electric and gas water heaters and natural gas supply.

With regard to service reliability, NOVEC's performance record has been the unqualified best in the metropolitan Washington, D.C. area for the past six years. This did not occur by accident, but was the result of careful planning, process improvement and the efficient use of computer technology by employees in all areas of our company.

We achieved this and much, much more through the 1996 Strategic Plan, which will receive a major update in 2005. In addition to Board and employee input, we will also incorporate customer feedback to make the new strategic plan an even stronger and more relevant document. It will guide us through the transition into full retail competition scheduled to begin in 2010.

Managing Growth With Technology

Our geographic location presents us with significant challenges, as our service area continues to experience phenomenal growth. While we are constantly dealing with the frantic pace of development, we welcome the opportunities growth brings. We use innovation, modern technology and efficient resource management to meet the growing demands of our thriving economy.



J. Manley Garber

Stan Feuerberg

Commercial, as well as residential development, is booming throughout our service area. NOVEC collaborates with county officials and economic development professionals to attract a blend of businesses that will bring jobs and added value to our service area. Without fail, we have met every service delivery requirement for businesses locating in our territory on or ahead of schedule.

Our goal is to keep the road to reliability running smoothly. A well-maintained electric distribution system that keeps pace with growth is essential. Updating and upgrading the various components of our business is an on-going necessity to meet the service expectations of our customers. They expect the best and we expect to deliver nothing less.

Financial Success

We manage our core business by taking a disciplined approach to controlling costs, while never losing sight of quality or customer service. Our financial condition remains strong thanks to a strict adherence to standards of financial discipline. NOVEC's distribution rates have not increased in nearly 14 years. In 2004, we returned more than \$30.4 million in equity to our customers through capital credits. We also completed nearly \$30 million in new construction. All of this was done without borrowing a dime. A remarkable achievement to be sure and a clear demonstration of our commitment to prepare responsibly for the new competitive environment in Virginia.

Customer Service

Serving our customers is a privilege we don't take for granted. It is our top priority, a major component of our overall business strategy and a factor in every decision we make. We are not easily satisfied with our performance and are always looking for new and better ways to serve our customers.

**For NOVEC
and its
employees,
the concept
of service goes
far beyond
delivering
energy with
unsurpassed
reliability.**

Every department at NOVEC is focused on customer service as a primary indicator of present and future success. We survey our customers to gain insight into their service expectations and to measure our performance against other service providers. Customer feedback and input are always welcome and guide us in establishing performance goals and measures. Our customers demand a reliable and robust distribution system and value for their electric energy dollar spent. They expect NOVEC to have knowledgeable employees who listen and respond quickly and effectively to resolve problems. Though our customers consistently rank us near the top in

customer satisfaction surveys, we know there's always room for improvement. Just being better is not enough - we want to be the best!

A key to providing the outstanding service our customers expect is maintaining a qualified, well-trained and highly productive work force. While individual performance is always important, teamwork remains the only pathway to corporate success in a competitive marketplace. Working together from the boardroom to the locker room makes NOVEC a stronger company and will enable us to meet the challenges that lie ahead and prevail.

Commitment to Community

NOVEC has few peers in regional businesses when commitment to community is measured. Northern Virginia is our home. Our customers are our neighbors, our friends and our families. For NOVEC and its employees, the concept of service goes far beyond delivering energy with unsurpassed reliability. We welcome opportunities to give back to the communities where we live and work.

Once again, in 2004, our employees demonstrated the meaning of commitment - both on the job and through their many volunteer activities. Donations of time, talent and money measured in the thousands of hours and dollars. NOVEC's cause-based marketing campaigns also added value and enriched the lives of our children and families by raising the profiles of various service and non-profit agencies in our communities.

Focused on Future

Leadership is not always about blazing a new trail. Sometimes it is just having the tenacity and fortitude to make correct business decisions, even when they are difficult and unpopular. While we have invested considerable time and resources in successfully controlling the operating costs of our business, the fact remains that our wholesale power costs have continued to climb and now represent seventy-six cents of every dollar we spend. This is not acceptable and continues to hinder our efforts to deliver competitively priced electricity to all of our customers.

NOVEC's Board of Directors authorized actions this past year intended to gain wholesale power supply options we currently do not have. While we will honor each and every financial obligation to our long-time wholesale power supplier Old Dominion Electric Cooperative (ODEC), it is only fair to our customers to pursue cost savings that may be available from other wholesale power suppliers. Your board and staff are in full agreement and united in this effort. More competitively priced wholesale power will help to ensure our customers consider NOVEC their supplier of choice in the future.

Change is now a fact of life for the once humdrum electric utility industry. We expect to face many formidable challenges, but a sound business strategy, combined with the oversight of a customer-elected board and the exceptional performance of our employees, gives us every reason to be optimistic about the future. Whatever else may change in the years ahead, NOVEC's commitment to our customers and to the communities we serve will not waver. We are ever mindful of our responsibility to manage your business well and sincerely appreciate the confidence you have placed in our team to do so.

**Honesty and
integrity are
absolute
never to be
compromised
and are just
as essential
to our success
as reliable
service.**


Stan Feuerberg
President/CEO


J. Manley Garber
Chairman of the Board

BOARD OF DIRECTORS



- 1 **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**
Vice Chairman
District 2 - Loudoun County -
except South Riding
- 7 **Wade House**
Secretary, District 5 -
Haymarket/Nokesville/
Bull Run Mountain
- 8 **Michael Ragan**
District 6 - Lake Jackson/Buckhall/
Bristow/Manassas Park- east of
Route 28
- 9 **Ann Wheeler**
District 4 - Manassas/
Gainesville/Manassas Park-
west of Route 28

LEADERSHIP TEAM



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



“Keeping the lights on for customers is an important job. I'm proud that I have the skills to accomplish that; it gives me a real sense of personal satisfaction.”
 — Jeff Penner
 Line Technician, First Class

PROVIDING VALUE



Kirkpatrick Farms in Loudoun County is just one of the many residential developments under construction across NOVEC's service territory.



Maintaining the appropriate inventory level is key to meeting the demands of rapid construction.



Quality assurance inspector Kevin Bowling (left) reviews site plans with a contractor to ensure NOVEC specifications are met.

NOVEC's main product - electricity - is an everyday necessity, one that is generally taken for granted. When you flip the switch, it's almost always there - as much as you want, 24 hours a day, everyday. You typically never give it a thought until the NOVEC bill arrives or when there's a service interruption. But in today's world of rapidly escalating fuel prices, there is no better value for your energy dollar than electricity. In fact, from 1994 to 2004 the average annual increase for the price of electricity was only 0.3 percent, well below the 2.4 percent rate of inflation for the same time period.

2004 Value Highlights

🔧 NOVEC has not increased retail delivery rates in nearly 14 years. Few, if any, other utilities can make a similar claim.

👥 As members of a cooperative, NOVEC customers have the unique distinction of sharing in any profits (margins) generated. These profits are allocated annually in the form of capital credits. When NOVEC's financial position permits, the NOVEC Board of Directors approves the distribution of allocated capital credits. In 2004 customers received capital credits distributions totaling \$30.4 million and another substantial return is projected for 2005. Over the past 11

years, a total of \$104.9 million in capital credits has been returned to NOVEC customers. Capital credits are an added value that only Cooperative customers receive. They represent your ownership interest in NOVEC.

🔧 NOVEC has the challenge of providing electric service to one of the fastest growing regions in the country. During 2004, we spent approximately \$45 million to support the addition of 6,309 new customers, as well as to operate and maintain a distribution system that includes 5,254 miles of transmission and distribution line and 45 substations.

👥 Providing the safe and reliable delivery of electricity is of paramount importance to NOVEC. To this end, our safety policies, procedures and performance are evaluated by the Rural Electric Safety Accreditation Program every three years. In 2004, NOVEC received its best ever score - 96 percent -

one of the highest scores in the country, and significantly higher than the national average of 88 percent.

🔧 To keep pace with new growth and reliability improvement projects, we had a record materials expense in 2004 of more than \$27 million, as compared to \$16.6 million in 2003. Our warehouse issued more than 3,785,000 feet of conductors and cables, which is equal to the distance from Manassas to Jacksonville, Florida! Our inventory is efficiently managed through the use of automated systems, bar-coding and consignment purchasing agreements with suppliers.

🔧 To meet the increased demand for power, we constructed two new substations, upgraded our electric distribution system and installed more than 70 miles of new power lines, bringing NOVEC's total assets to nearly \$531 million.

NOVEC has not increased retail delivery rates in nearly 14 years. Few, if any, other utilities can make a similar claim.



Cashier/receptionist Maria Dominguez accepts bill payments and provides translation service to Spanish-speaking customers.

Exceeding Customer Service Expectations

In an industry not usually recognized for placing a high priority on customer service, NOVEC seeks to excel. Our mission statement reads, "NOVEC's mission is to exceed the expectations of our customers and to be the energy provider of choice in the markets we serve." As a locally owned and operated company, we are committed to providing outstanding customer service.

For the second consecutive year, NOVEC participated in a J.D. Power residential customer satisfaction survey and achieved an overall score of 107 points, well above the industry average of 98. NOVEC uses other survey instruments to measure residential customer satisfaction on a monthly basis. We monitor satisfaction levels of our business customers as well. These studies help identify areas where we have the most room for improvement.

2004 Service Initiatives

A redesign of the electric system planning and design process was initiated in 2004, with the goal of reducing expenses and improving the turnaround time for new service installations. Phase II, a 12-month software implementation, began in May 2005.



Lead line technician Rick Garza (right) explains NOVEC's distribution system to Annual Meeting attendees.

NOVEC's outage management system was upgraded to keep pace with new technology designed to improve service restoration. The system is integrated with our online outage map, enabling us to provide real time data to customers.

Our interactive voice response (IVR) phone system was improved to provide customers with faster and more effective outage reporting options. The new IVR system allows us to post messages specific to an individual outage, enabling customers to monitor service restoration progress.



Our affiliates offer additional services that NOVEC is not, by law, allowed to offer. NOVEC Energy Solutions and NOVEC Solutions have grown their businesses in natural gas marketing, telecommunications and sales of water heaters, standby generators and related products. In 2004, natural gas sales increased by 10 percent over 2003, a solid testament to the affiliates' success.



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

The e-billing payment option continues to gain popularity, with 9,000 customers now receiving and paying their bills via the Internet. The program reduces expenses for NOVEC by eliminating the printing, mailing and processing of a paper bill. An additional 10,000 customers pay their bills electronically through various bill payment services.

Our key account program was expanded to include major commercial and residential developers within NOVEC service territory. We are also working to build relationships with some of our larger developers. Our collaborative efforts with these customers enables us to more effectively plan for their future service needs. Our key account representatives also offer advice on energy products and services available through NOVEC or one of its affiliates.

Our website at www.novec.com is frequently updated and provides customers with information and resources to help them manage their electricity usage. A new feature is a free energy audit program from ENERGY STAR. This tool can analyze your home energy consumption and provide a list of suggested energy improvements as well as the estimated savings.

R.W. MURRAY C...
Tradition of Quality
General Contractors
Site 100

“Being aware of the needs of our diverse customers allows me to design a project that benefits the customer and our company.”
 — Carol Cancelmi
 Utility Designer

Stephen Daves **Tom Koerner**



Customer service representatives Ginger Hamlin and Tekeia Watson (right) review the latest edition of NOVEC's customer bill insert, *What's Current*.



Operation Round Up board members Joe Scott (left) and Donna Pullin discuss the program with NOVEC's Wilbur Rollins at Annual Meeting.



Board Chairman Manley Garber cuts the ribbon to start Prince William County's WalkAmerica.

Competent & Knowledgeable Employees

NOVEC's ability to provide quality service and the reliable delivery of electricity depends on our nearly 300 employees. Whether constructing new power lines, balancing the books or testing meters, our well-trained and highly productive workforce makes a real difference. Our employees are the reason we consistently receive high marks on customer satisfaction surveys.

NOVEC's apprenticeship programs in line work, quality assurance, utility design, system operations and substations afford employees an opportunity to excel in their chosen fields as well as help us retain the best and brightest. NOVEC partners with the Virginia Department of Labor and Industry (VDLI) to prepare and implement training curriculums. Calon Burrus, apprenticeship representative from VDLI, commented, "NOVEC's program deserves high marks. The company sponsors the program, but the program is really driven by the employees who are the nuts and bolts of the company."

Committed to Our Communities

As NOVEC continues to grow, we remain firm in our commitment to support the communities where we do business. We are involved not because we have to be, but because we believe

NOVEC ANNUAL REPORT 2005

it is the right way to do business. Additionally, our employees live in the same neighborhoods as our customers and demonstrate their leadership through service as youth sports coaches, scouting leaders and other similar activities.

2004 Community Service Highlights

The Prince William Regional Chamber of Commerce awarded NOVEC the 2004 Community Outreach Business of the Year Award in recognition of our exceptional support of local charitable organizations.

NOVEC contributed more than \$100,000 to a variety of causes during 2004, supporting educational programs, civic groups, health causes, the performing arts, youth sports, and charitable organizations across our service territory.

Equally important to the money we donate is the time and talent that our employees contribute to the numerous causes the Cooperative supports.

NOVEC ANNUAL REPORT 2005

For the tenth successive year, NOVEC Board of Directors Chairman Manley Garber was the top-fundraiser in Prince William County's Walk America. NOVEC's Prince William team ranked eighth for fundraising in the metropolitan Washington, D.C. area, raising a total of nearly \$10,000.

Since 1999, NOVEC's scholarship program has awarded a total of \$45,000 to outstanding high school seniors in our service territory. In 2004, a total of \$10,000 in scholarship funds was awarded.

Thanks to the generosity of our customers, NOVEC's community service assistance program, Operation Round Up (ORU), was able to distribute a total of



\$6,000 in grants last year. Working through accredited service agencies, ORU also distributed \$46,000 in heating assistance funds to qualified applicants in NOVEC's territory.

Providing Value

RELIABILITY



Testing of vehicles and equipment by NOVEC line crews each morning ensures efficient and safe operation on the job.

Again in 2004, we delivered the most reliable electric service in the metropolitan Washington, D.C. area, with a reliability rate of greater than 99.987 percent. NOVEC's ability to consistently provide customers with unsurpassed reliability is multi-faceted, with numerous programs and processes contributing to our superior service record. Not only must we have a well designed and constructed distribution system to deliver electricity, we also must maintain our rights of way with vigilance to be sure trees and other plants do not create problems. Additionally, our three-year short-range plan predicts growth trends and identifies system upgrades to our electric delivery system.

2004 Reliability-Related Projects

- \$30 million was spent on capital improvements and system upgrades to our electric distribution system.

- Our ability to remotely transfer load between circuits, which can significantly reduce the length of an outage, was increased.

- We targeted areas with reliability less than our sterling system average and implemented outage improvement solutions. These included line upgrades, right-of-way tree trimming, sectionalizing and improved line configuration to enhance reliability.



Right-of-way manager Junior Martin (standing) supervises tree-trimming activity in a NOVEC easement.

- Tree trimming and the application of environmentally friendly herbicide and tree-growth retardant were completed on 700 miles, or approximately one third, of NOVEC's overhead right-of-way easements. Our goal is to perform the maintenance required for service reliability, while at the same time create aesthetically pleasing and wildlife-friendly rights of way.

- Our fleet of 249 vehicles and other equipment was routinely serviced and always ready to respond for emergency outage situations as well as daily jobs. Our transportation technicians use computerized diagnostic equipment to keep our fleet and associated equipment in tip-top condition.

- Brambleton Substation was built to serve central and eastern Loudoun County, including the Brambleton subdivision, where at least 6,000 homes will be built in the next five to ten years. The substation also serves Mercure Business Park north of Dulles Airport and the Stoneridge development.

With the capacity to accommodate a total of four transformers, Brambleton is NOVEC's largest substation. The substation now features a 35kv supply link to Sycoline Substation near Leesburg, providing back-up power capabilities. It was designed to connect to future substations as well, to ensure the reliable delivery of electricity even as demand continues to grow.



Line technician, third class Preston Frahm installs new line in Brambleton Substation.

- In Fairfax County, the first phase of the Pleasant Valley Substation was constructed to supply electricity to the gas-compressor station on the site, which is owned by Dominion Cove Point (DCP), a subsidiary of Dominion Virginia Power. NOVEC and DCP co-located substations at Pleasant Valley to save money and pool resources, sharing the main supply source, substation pad, equipment and control building. The second phase will be energized in 2005 to support NOVEC load growth in western Fairfax County.

Future Reliability Projects

- In 2005, we expect to add more than 6,000 new customers and build 111 new miles of line. We plan to spend approximately \$30 million in system upgrades and improvements with the goal of either improving reliability or keeping pace with demand.

- Upgrades are planned for five existing substations in 2005 - Cub Run in Fairfax County, Evergreen in Prince William County, Mill Run in Fauquier County and Beamertown and Clarks Gap in Loudoun County.

- A distribution automation system will be installed on circuits at the Beamertown, Bloomfield, Clarks Gap, Clifton, Middleton and Sycolin substations, allowing NOVEC to remotely switch circuits at these sites. Automated switching improves service reliability for our customers.



"I really enjoy my job in the Operations Center because every day is a new challenge; there is never a dull or boring moment. Everyone here works together as a team to keep the power flowing to our customers."
 — Machesha White
 System Operator



Modern technology allows customers 24-7 access to our website.

TECHNOLOGY



NOVEC's fiber optic technology enhances our internal communications and provides new business opportunities.



Substation engineer Arnel Majillo collects real-time diagnostic information from a NOVEC substation.



Our fiber optic capabilities provide City of Manassas employees with remote access to their water treatment plant.

Changing technology plays an important role in the lives of our customers and the way we conduct business. Staying abreast of changing technology in the electric industry is one of the major reasons we remain the premier electric utility in Northern Virginia.

Technology Achievements

NOVEC evaluates new technologies to determine if there are cost-effective services to be offered to customers or benefits that will help us improve service.

NOVEC has approximately 115 miles of fiber optic lines installed across our territory. These lines are currently used for our own communication needs, but have potential for new service offerings in the future.

Brambleton is the first NOVEC substation where our high-speed fiber network has been fully deployed, enabling us to make remote adjustments and providing real-time diagnostic information to analyze substation performance. New operational and security-monitoring technologies such as Intelligent Electronic Devices (IEDs) are also being employed at Brambleton to improve the level of our service. We expect to extend our fiber optic network to 12 more substations in 2005.

In 2004, NOVEC Solutions, a NOVEC affiliate, utilized NOVEC's expanding fiber optic network to deploy a high-speed data network and wholesale Internet service to one of NOVEC's key business customers.

Additionally, we expanded the reach of our fiber optic network by interconnecting with the fiber network of the City of Manassas. A long-term fiber lease contract with NOVEC Solutions will provide City employees with remote control access to their Lake Manassas water treatment plant in Gainesville.

NOVEC's need to provide more immediate and accurate outage information for employees, customers and the media prompted the creation of our new online outage map, which displays the location of all outages in real-time, along with the number of customers affected.

NOVEC has been watching and supporting the developments in power line carrier technology, sometimes referred to as broadband over the power lines or BPL.

This technology, if it proves itself, has the ability to allow electric lines to become not only the "last mile" solution for broadband to the home and community, but it will also begin the creation of a "smart-grid," an intelligent electric system. For example, such a "smart-grid" may be able to tell NOVEC about power outages before customers are even aware they are out of power.



LED fault indicators use improved technology to reduce outage time.

An improved technology is being installed on the NOVEC system. High-intensity LED fault indicators are being strategically placed on our distribution lines. The LED will flash when the unit detects a fault, easily alerting Cooperative staff to the location. This technology will improve our outage response.

CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2003 (in thousands)	2004	2003
Assets		
Utility plant, net of accumulated depreciation and amortization	\$342,882	317,062
Investments		
Associated organizations	83,336	80,649
Other	1,015	903
Total investments	84,351	81,552
Current assets:		
Cash and cash equivalents	26,356	29,480
Investment securities	32,996	34,298
Accounts receivable, less allowance for doubtful accounts of \$1,447 in 2003 and \$1,404 in 2002	17,318	20,589
Materials and supplies inventories	8,426	5,521
Other current assets	18,853	17,159
Total current assets	103,949	105,874
Deferred charges	7,520	5,621
Total assets	\$538,702	510,109
Liabilities and Equities		
Equities and margins:		
Membership fees	\$1,024	975
Patronage capital	333,919	308,179
Other equities	9,211	6,691
Accumulated other comprehensive income	1,133	1,045
Total equities and margins	345,287	316,890
Long-term debt, excluding current installments	135,094	143,266
Current liabilities:		
Current installments of long-term debt	6,770	5,771
Notes payable	6,411	4,333
Accounts payable	23,831	17,355
Consumer deposits	4,245	4,186
Accrued expenses and other current liabilities	2,770	2,573
Total current liabilities	44,027	34,218
Deferred credits	7,512	9,255
Accrued post retirement benefit costs	6,782	6,480
Total liabilities and equities	\$538,702	510,109

CONSOLIDATED STATEMENTS OF OPERATIONS & PATRONAGE CAPITAL

December 31, 2004 and 2003 (in thousands)	2004	2003
Operating revenues	\$281,484	252,816
Operating expenses:		
Cost of power	171,360	149,042
Distribution expense — operations	6,145	6,399
Distribution expense — maintenance	10,739	10,167
Consumer accounts	3,894	3,607
Customer service and information expense	1,910	2,423
Sales expense	498	443
Administrative and general	17,028	15,769
Depreciation and amortization	12,948	12,328
Other	371	354
Total operating expenses	224,893	200,532
Net operating margins before interest expense	56,591	52,284
Interest expense	7,397	7,837
Net operating margins after interest expense	49,194	44,447
Non-operating margins:		
Patronage capital assigned from associated organizations	3,939	3,555
Dividends and interest income	2,528	2,524
Other non-operating income	509	611
Total non-operating margins	6,976	6,690
Net margins	56,170	51,137
Patronage capital — beginning of year	308,179	278,562
Net margins	56,170	51,137
Retirement of patronage capital	(30,430)	(21,520)
Patronage capital — end of year	\$333,919	308,179

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Net margins	\$56,170	51,137
Other comprehensive income:		
Unrealized gains (losses) on marketable securities	39	(116)
Reclassification adjustment for (gains) losses realized in net margins	49	(54)
Other comprehensive income	88	(170)
Comprehensive income	\$56,258	50,967

CONSOLIDATED STATEMENTS OF CASH FLOWS

December 31, 2004 and 2003 (in thousands)	2004	2003
Cash flows from operating activities:		
Cash received from consumers	\$283,596	251,979
Cash paid to suppliers and employees	(209,509)	(183,500)
Dividends, interest and other non-operating income	3,037	3,134
Interest paid	(7,397)	(7,837)
Net cash provided by operating activities	69,727	63,776
Cash flows from investing activities:		
Extension and replacement of utility plant	(45,469)	(33,723)
Utility plant removal costs	(495)	(145)
Contributions in aid of construction of utility plant	6,860	6,835
Proceeds from sale of utility plant	601	194
Extension and replacement of non-utility plant	(265)	(282)
Purchases of investment securities available-for-sale	(31,269)	(18,340)
Proceeds from sale or maturity of investment securities available-for-sale	32,255	14,699
Retirements of patronage capital by associated organizations	407	216
Net cash used in investing activities	(37,375)	(30,546)
Cash flows from financing activities:		
Principal payments on long-term debt	(7,173)	(7,340)
Proceeds from notes payable	2,475	2,975
Principal payments on notes payable	(397)	(5,403)
Membership fee receipts	49	45
Retirement of patronage capital	(30,430)	(21,520)
Net cash used in financing activities	(35,476)	(31,243)
Net increase (decrease) in cash and cash equivalents	(3,124)	1,987
Cash and cash equivalents at beginning of year	29,480	27,493
Cash and cash equivalents at end of year	\$26,356	29,480

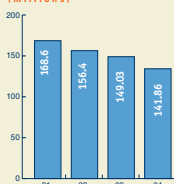
CONSOLIDATING SCHEDULE BALANCE SHEET

December 31, 2004 (in thousands)	NOVEC	NOVEC Solutions Inc.	NOVEC Energy Solutions Inc.	Eliminating entries	Consolidated totals
Assets					
Utility plant, net of accumulated depreciation and amortization	\$341,677	—	—	—	341,677
Non-utility plant, net of accumulated depreciation and amortization	1,194	—	11	—	1,205
Total plant	342,871	—	11	—	342,882
Investments:					
Associated organizations	83,336	—	—	—	83,336
Other	(1,846)	1	—	2,860	1,015
Total investments	81,490	1	—	2,860	84,351
Notes receivable	200	105	—	(305)	—
Current assets:					
Cash and cash equivalents	25,858	82	416	—	26,356
Investment securities	32,996	—	—	—	32,996
Accounts receivable, less allowance for doubtful accounts	15,944	2	1,605	(233)	17,318
Materials and supplies inventories	6,676	16	1,734	—	8,426
Other current assets	17,230	—	1,623	—	18,853
Total current assets	98,704	100	5,378	(233)	103,949
Deferred charges	7,520	—	—	—	7,520
Total assets	\$530,785	206	5,389	2,322	538,702
Liabilities and Equities					
Equities and margins:					
Membership fees	\$1,024	—	—	—	1,024
Patronage capital and accumulated earnings (deficit)	333,925	—	(3,612)	3,606	333,919
Other equities	9,210	100	647	(746)	9,211
Accumulated other comprehensive income (loss)	1,133	—	—	—	1,133
Total equities and margins	345,292	100	(2,965)	2,860	345,287
Long-term debt, excluding current installments	135,094	105	200	(305)	135,094
Current liabilities:					
Current installments of long-term debt	6,770	—	—	—	6,770
Notes payable	—	—	6,411	—	6,411
Accounts payable	22,346	1	1,717	(233)	23,831
Consumer deposits	4,245	—	—	—	4,245
Accrued expenses and other current liabilities	2,744	—	26	—	2,770
Total current liabilities	36,105	1	8,154	(233)	44,027
Deferred credits	7,512	—	—	—	7,512
Accrued post retirement benefit costs	6,782	—	—	—	6,782
Total liabilities and equities	\$530,785	206	5,389	2,322	538,702

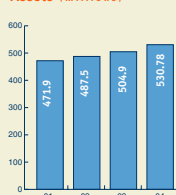
FINANCIALS AT A GLANCE

Note: Excluding subsidiary activities

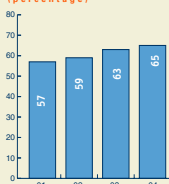
Long-Term Debt (millions)



Assets (millions)



Equity-To-Assets (percentage)



CONSOLIDATING SCHEDULE OPERATIONS & PATRONAGE CAPITAL

December 31, 2004 (in thousands)	NOVEC	NOVEC Solutions Inc.	NOVEC Energy Solutions Inc.	Eliminating entries	Consolidated totals
Operating revenues	\$270,058	70	11,356	—	281,484
Operating expenses:					
Cost of power	160,451	55	10,854	—	171,360
Distribution expense — operations	6,145	—	—	—	6,145
Distribution expense — maintenance	10,739	—	—	—	10,739
Consumer accounts	3,884	—	—	—	3,884
Customer service and information expense	1,910	—	—	—	1,910
Sales expense	90	1	407	—	498
Administrative and general	15,535	7	1,486	—	17,028
Depreciation and amortization	12,936	—	12	—	12,948
Other	1,832	2	74	(1,537)	371
Total operating expenses	213,532	65	12,833	(1,537)	224,893
Net operating margins before interest expense	56,526	5	(1,477)	1,537	56,591
Interest expense	7,279	—	135	(17)	7,397
Net operating margins after interest expense	49,247	5	(1,612)	1,554	49,194
Non-operating margins:					
Patronage capital assigned from associated organizations	3,939	—	—	—	3,939
Dividends and interest income	2,545	—	—	(17)	2,528
Other non-operating income	436	—	73	—	509
Total non-operating margins	6,920	—	73	(17)	6,996
Net margins:	56,167	5	(1,539)	1,537	56,170
Patronage capital — beginning of year	308,188	(5)	(2,073)	2,069	308,179
Retirements of patronage capital	(30,430)	—	—	—	(30,430)
Patronage capital — end of year	\$333,925	—	(3,612)	3,606	333,919

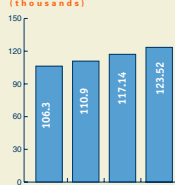
CONSOLIDATING SCHEDULE CASH FLOWS

December 31, 2004 (in thousands)	NOVEC	NOVEC Solutions Inc.	NOVEC Energy Solutions Inc.	Eliminating entries	Consolidated totals
Cash flows from operating activities:					
Cash received from consumers	\$272,474	107	11,015	—	283,596
Cash paid to suppliers and employees	(196,092)	(120)	(13,297)	—	(209,509)
Dividends, interest and other non-operating income	2,981	—	73	(17)	3,037
Interest paid	(7,279)	—	(135)	17	(7,397)
Net cash provided by (used in) operating activities	72,084	(13)	(2,344)	—	69,727
Cash flows from investing activities:					
Extension and replacement of utility plant	(45,469)	—	—	—	(45,469)
Utility plant removal costs	(495)	—	—	—	(495)
Contributions in aid of construction of utility plant	6,860	—	—	—	6,860
Proceeds from sale of utility plant	601	—	—	—	601
Extension and replacement of non-utility plant	(263)	—	(2)	—	(265)
Purchases of investment securities available-for-sale	(31,269)	—	—	—	(31,269)
Proceeds from sale of investment securities available-for-sale	32,255	—	—	—	32,255
Retirements of patronage capital by associated organizations	407	—	—	—	407
Net cash used in investing activities	(37,373)	—	(2)	—	(37,375)
Cash flows from financing activities:					
Principal payments on long-term debt	(7,173)	—	—	—	(7,173)
Principal payments on notes payable	(397)	—	—	—	(397)
Proceeds from notes payable	—	—	2,475	—	2,475
Membership fee receipts	49	—	—	—	49
Retirement of patronage capital	(30,430)	—	—	—	(30,430)
Net cash provided by (used in) financing activities	(37,951)	—	2,475	—	(35,476)
Net increase (decrease) in cash and cash equivalents	(3,240)	(13)	129	—	(3,124)
Cash and cash equivalents at beginning of year	29,098	95	287	—	29,480
Cash and cash equivalents at end of year	\$25,858	82	416	—	26,356

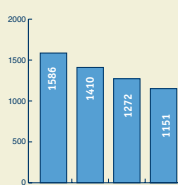
FINANCIALS AT A GLANCE

Note: Excluding subsidiary activities

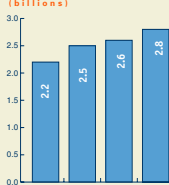
Total Meters (thousands)



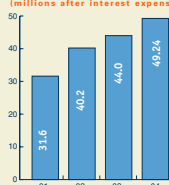
Average Debt Per Meter



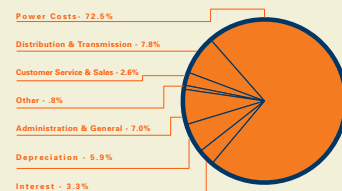
Kilowatt-Hours Sold (billions)



Net Operating Margins (millions after interest expense)



2004 Allocation of Cost Of Electric Service





THE FACES OF NOVEC

ROGER ABEL • TONY ADAMS • BRIGETTE ADKINS • TONY ANGEL • GWENDOLYN ANTHONY • STEVE ATKINSON
 PAUL AUGSBURGER • AMAL BABAR • TINA BAGGETTE • ALLEN BARBEE JR. • CLARE BARGERSTOCK
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 RICARDO BERRIOS JR. • RICHARD BIRD • ANDREW BIRDSALL • BOB BISSON • KEVIN BLACK SR. • RICHARD BLASER
 KENNY BLAYLOCK • WARREN BONNEKSEN • KRISTI BOTHE • KEVIN BOWLING • JAMES BRESCIA • ALBERT BRITTON
 JERMAINE BROOKS • ERNESTINE BROWN • RENEE BROWN • ROBERT BUNEK • LAURA BUSHROD • DEBBIE CAMPBELL
 CAROL CANCEMI • JOEL CARL • PAUL CAROTHERS • MELISSA CARTER • KENT CASSELL • DARLA CASTNER
 RON CEBULA • EVELYN CHA • AL CHANDLER JR • DANITA CHANEY • TAJINDER CHAWLA • ALISA CHERRY
 JOEY CHILDRESS • DOYLE CHRISTIAN • RADU CIOCEANU • TOM CISLER • BERNIE CLEVELAND • HOWARD CLOPTON JR.
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 VINCENT CULLEN JR • MIKE CURTIS • MIKE DAILEY • BOBBY DANIELS • PATRICK DAUGHERTY • JUDY DAVALLE
 ANNE DAVINSON • RHONDA DAVIS • RITA DAVIS • MARK DECHRISTOPHER • KAREN D'ELIA • WILLIAM DELSIGNORE
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 RICK GARZA • TRACY GIBSON • DAVE GILLIN • GUS GLIKAS • CHRIS GOISSE • LIBBY GOODEN • BOOZIE GRAY
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 KATHI HALL • GINGER HAMLIN • BILL HAMLIN • CATHY HARKLESS • TINA HARTSELLE • STEVE HASH • DOUG HAWKINS
 LEE HAWLEY JR • KELLY HAWN • GREGORY HEMPHILL • GEORGE HERR • STEVEN HILL • HAROLD HINES JR
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 MILDRED HOEE
 LEON HOWELL
 ROBERT JACKSON
 LEE JACOBS
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 SANDRA HOWELL
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 SUE MARTIN • BARNEY MARTIN • WAYNE MARTIN • RUTH MARTZ • TERRI MASSIE • MATT MAYES • MAX MAYNOR JR
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 HARVEY PEARSON JR. • MIMI PENARANDA • JEFFREY PENNER • CHRISTOPHER PEREZ • LESLIE PERRY • JAMES PICKETT
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 BRUCE RICHARDSON • JAMES RICKARD JR • ROY ROBINSON • TOM ROLLINS JR • WILBUR ROLLINS • CAROLYN ROOF
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“... the exceptional performance of our employees gives us every reason to be optimistic about the future.”

— Stan Feuerberg
 President/CEO

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.

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 Road
Gainesville, VA 20155-1616

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

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