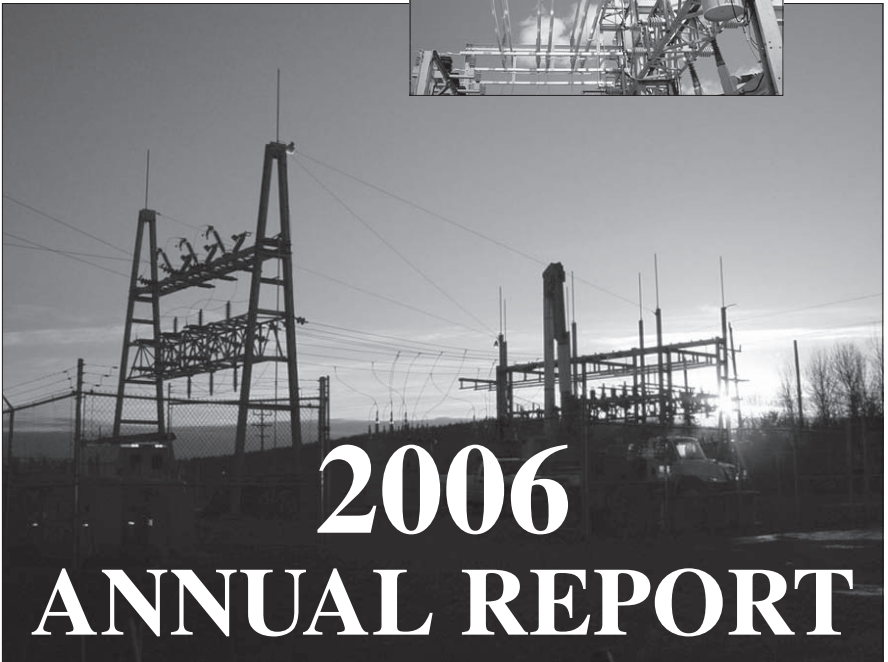




Eastern Maine Electric Cooperative



A Touchstone Energy® Cooperative 



2006 ANNUAL REPORT

P O Box 425 Calais, ME 04619
(207) 454-7555 (800) 696-7444
www.emec.com

Proudly Serving Eastern Maine since 1940

Eastern Maine Electric Cooperative, Inc.

P.O. Box 425 Calais, ME 04619

(800) 696-7444 (207) 454-7555

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www.emec.com

DIRECTORS

R. SCOTT SKINNER - PRESIDENT	Zone 11
Albert W. Hartford, Vice President	Zone 3
Wallace H. Lindahl, Secretary	Zone 8
Ralph E. Staples, Treasurer	Zone 9
Ralph S. Ray	Zone 1
Robert S. Olsson	Zone 2
Earl C. Hill, Jr.	Zone 4
John W. Larkin	Zone 5
Vernon M. Wentworth	Zone 6
James W. Bala	Zone 7
Virgil L. Farrar	Zone 10

CHIEF EXECUTIVE OFFICER

Scott M. Hallowell

ATTORNEY

Daniel L. Lacasse

AUDITOR

Berry, Dunn, McNeil & Parker, CPAs

2006 REPORT TO THE MEMBERS

EMEC Operational Developments

System maintenance and new line construction continued throughout the system, but the lion's share of system improvement efforts were focused on the Cooperative's two new substations.

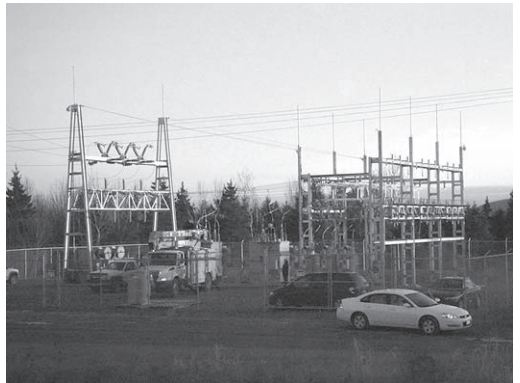
New Ludlow Substation

In preparation for the construction of the New Ludlow substation, the Ludlow-to-Smyrna feeder was upgraded to three phases in late 2005 and early 2006, including a change to insulated "tree wire" for one mile of that line. The ground work, concrete, and fencing for the 5000 kVA (or 5 MVA) substation was also completed in October 2005. Work on the station itself began early in 2006.

Eastern Maine Electric line crews connected Co-op members in the Houlton area to the New Ludlow Substation on Saturday morning, January 27, 2007. Completion of the new station doubled EMEC's electric load capacity in the area. Work will continue in the area as crews and contractors upgrade power lines further out from the substation, further improving voltage stability and power reliability for members as far away as Monticello.

The Co-op's 20-year long-term plan calls for the substation to provide new options for serving Co-op members in the Danforth area. When the plan is completed, it will be possible during emergencies to serve Danforth from either the Ludlow or Topsfield substations.

The new Ludlow substation will officially be known as the "Hugh S. Libby" substation, named after the lifelong Cary resident and co-op supporter who has been actively involved in either Farm-Home Electric Cooperative or Eastern Maine Electric Cooperative for over sixty years. Libby was the first director at EMEC from Zone 10. He served in that capacity until well into the 1990s, and he continues to serve on nominating committees.



“Woodland B” Substation



In 2005, work crews expanded the fenced-in area of the Woodland substation and completed construction of a concrete pad for a new “Woodland B” substation. In doing so, the crews also laid the foundation for much of the system improvements in the Cooperative’s southern area for the next few years. Woodland B will provide more stable voltage to some of the most rural areas, while isolating the service center

communities from service disruptions in the more rural areas. In the long term, the dual substation system will also provide some infrastructure redundancy, giving the Co-op more flexibility to provide power in Woodland and parts of the surrounding towns in the event of an emergency or planned maintenance.

In May of 2006, the substation transformer for Woodland B was delivered and installed. A three-phase 14.4 kV feeder was built from the substation to Route 191, but material supplier delays forestalled activation of the new substation until 2007.

The substation was activated in May, and on May 15, 2007, the Route 191 circuit was disconnected from the Milltown Circuit of the Salmon Falls (Calais) substation and reconnected to the Woodland B station. Members along Route 191 are now served with 14.4kV voltage up to the Route 214 intersection.

Members in Ayers Junction will also soon be fed from Woodland B, including members on the Mount Tom Road.

Office Building Given New Look

Beginning in May, 2006, contractors began work on the outside of the EMEC Building on Union Street in Calais. Although part of the building had been refurbished in 1996, decades had passed since the brick facing had last been repaired. Since then, the front of the building had deteriorated in both appearance and protection from weather.

Contractors pressure-washed the outside of the building, repaired and replaced the brickwork, and painted the brick a tan color. On the ground floor, front-facing clapboards were replaced with new panels and windows. Feedback from the community has been positive on this long-anticipated building improvement.



Financial Developments

The Cooperative established a new borrower relationship with CoBank, a national bank owned cooperatively by its customers: businesses serving rural America. CoBank extended a three million dollar line of credit to Eastern Maine Electric, expanding the Co-op's borrowing options.

Personnel Developments



Howard Duvall

EMEC Operations Manager Howard Duvall retired after 38 years of service on September 22nd, 2006. Hired as a lineman in 1968, Duvall held several positions at the Cooperative before taking over as Operations Manager, the person responsible for overseeing the linemen and the operation of the electrical system itself.

Larry Thomas, a veteran of other U.S. and international electric cooperatives, joined EMEC as its new Operations Manager.

Rising Delivery and Supply Costs

In 2006, EMEC members paid lower total cost (supply and delivery combined) for electricity than customers of any other large-area utility in the state (including Central Maine Power, Maine Public Service, and Bangor Hydro-Electric). Operating costs have continued to rise, however, while growth in population (and therefore in energy use) has been sluggish. As a result, a moderate increase in delivery rates will be necessary in the near future.

Rising energy costs also continued to be a concern in 2006. Electric supply prices continued to rise across the region, but EMEC had locked in a longer-term supply rate in 2002. EMEC members have therefore enjoyed a supply rate which is substantially below current market prices for the region. Unfortunately, the members' current supply contract with Integrys Energy Services (formerly WPS Energy Services) ends in March of 2008, and then EMEC members will see supply cost increases similar to those which have occurred in other parts of the state.

EASTERN MAINE ELECTRIC COOPERATIVE, INC.
BALANCE SHEET
FOR THE YEARS 2006 AND 2005

ASSETS

	<u>2006</u>	<u>2005</u>
Utility Plant:		
Electric plant in service - at cost	\$42,104,387	\$39,552,116
Construction work in progress	1,048,136	944,267
Total Utility Plant	43,152,523	40,496,383
Less: Accumulated provisions for depreciation	20,242,035	19,649,494
Net Utility Plant	22,910,488	20,846,889
Other Assets:		
Deferred charges	0	22,283
Non-utility property	351	701
Investments in associated organizations	760,150	752,209
Note receivable	240,625	328,125
Total Other Assets	1,001,126	1,103,318
Current Assets:		
Cash - general	415,190	170,542
Accounts receivable - net	1,107,567	1,102,972
Materials and supplies	476,677	583,852
Current portion of notes receivable	87,500	87,500
Other current assets	27,198	730
Total Current Assets	2,114,132	1,945,596
Deferred Debits:		
Regulatory asset, net of amortization of \$8,092,594 in 2006 and \$7,542,951 in 2005	6,885,984	7,135,627
Total Assets	\$32,911,730	\$31,031,430
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<u>LIABILITIES & EQUITY</u>		
Equities:		
Memberships	\$ 49,780	\$ 49,365
Patronage capital (members' ownership)	9,886,932	9,649,626
Total Margins & Equities	9,936,712	9,698,991
Long Term Debt, excluding current maturities:		
Rural Utilities Service (RUS)	10,159,972	10,002,782
Cooperative Finance Corp. (CFC)	3,940,048	2,159,487
Federal Financing Bank (FFB)	3,655,815	3,730,058
Rural Business - Cooperative Service	240,625	328,125
Total Long Term Debt	17,996,460	16,220,452
Other non-current liabilities	421,083	400,083
Current Liabilities:		
Notes payable - lines of credit	1,375,000	1,560,495
Current maturities of long-term debt	766,290	670,044
Accounts payable	1,018,490	1,094,900
Consumer deposits	61,512	68,388
Accrued interest	102,876	84,611
Accrued expenses and other current liabilities	362,370	378,007
Total Current Liabilities	3,686,538	3,856,445
Deferred Credits	870,937	855,459
Total Liabilities & Equities	\$32,911,730	\$31,031,430
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EASTERN MAINE ELECTRIC COOPERATIVE, INC.
STATEMENT OF OPERATIONS
FOR THE YEARS 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Operating Revenues:		
Residential	\$ 4,028,928	\$ 4,077,241
Seasonal	439,766	409,827
Commercial	2,070,393	2,036,601
Street Lighting and Public Auth.	189,332	196,329
Industrial & Other	234,764	335,662
Other Electric	355,857	350,962
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Total Operating Revenues	7,319,040	7,406,622
Operating Expenses:		
Purchased Power	334,299	436,887
Transmission	67,167	49,747
Distribution, operation	1,423,683	1,504,639
Distribution, maintenance	713,498	761,671
Consumer accounts	727,526	693,657
Customer service & informational exp.	154,488	123,767
Administrative & general	1,296,254	1,321,142
Depreciation	1,268,077	1,213,151
Amortization, regulatory asset	249,643	249,643
Interest - Long-term	881,667	766,011
Other interest and expenses	67,016	46,683
	<hr/>	<hr/>
Total Oper. Exp. without Purchased Power	6,849,019	6,730,021
Total Operating Expenses	7,183,318	7,166,908
Operating Margins	135,722	239,714
Patronage dividends	28,273	23,855
	<hr/>	<hr/>
Net Operating Margins	163,995	263,569
Nonoperating Margins:		
Interest income	25,039	19,826
Other	52,599	6,297
	<hr/>	<hr/>
Net Nonoperating Margins	77,638	26,123
Net Margins	\$ 241,633	\$ 289,692
	<hr/>	<hr/>
T.I.E.R.	1.27	1.38
Operating D.S.C.	1.61	1.78

AUDIT REPORT: The annual audit of records for the columns marked 2006 and 2005 were made by Berry, Dunn, McNeil & Parker, CPAs, 100 Middle Street, Portland, ME 04101. Copies of the audit report are on file with the Maine Public Utilities Commission, Augusta, Maine; the Rural Utilities Service, Washington, D.C.; and are available for inspection at the Cooperative's offices in Calais, Maine.

FIVE YEAR COMPARISONS

GENERAL STATISTICS	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Average Number of Active Accounts	12,410	12,282	12,171	12,075	11,990
Total Miles of Electric Lines	1,679	1,672	1,652	1,637	1,627
Amount Allocated for Bad Debts (% Retail Rev.)	\$59,707	\$71,159	\$70,597	\$60,049	\$58,162
Bad Debts Written Off (Actual for year)	\$60,590	\$63,780	\$81,590	\$75,033	\$74,800

REVENUE & EXPENSE STATISTICS	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Average Annual kWh/Member (Res.)*	6,448	6,545	6,498	6,419	6,194
Average Annual Rev. (cents/kWh) (Res.)*	7.641	7.604	7.489	7.387	7.372
Avg. # of Consumers per Employee	335	361	348	355	353
Operations & Maint./Mile of Line	\$1,273	\$1,355	\$1,119	\$1,107	\$946
Average Number of Employees	35	34	35	34	34
Consumer Accounts Exp. as % of Rev.	9.94%	9.36%	8.34%	9.39%	7.43%
A&G Expense as % of Rev.	17.71%	17.84%	15.17%	16.85%	12.99%
kWh losses	9.45%	9.12%	7.74%	9.78%	8.34%

*Does not include seasonal sales.

REVENUE CLASS SUMMARY

	KWH DELIVERED	PERCENTAGE OF TOTAL DEL.	% INCREASE (DECREASE) OVER 2005
Residential Sales	52,724,470	56.3%	-1.7%
Seasonal Sales	2,729,544	2.9%	10.9%
Commercial Sales	33,000,307	35.3%	1.3%
Street Lighting & Public Auth.	<u>2,525,082</u>	<u>2.7%</u>	<u>-5.4%</u>
Total Retail Delivery	90,979,403	97.2%	-0.4%
Industrial & Other Delivery	<u>2,642,000</u>	<u>2.8%</u>	<u>N/A</u>
Totals	93,621,403	100.0%	-0.8%

