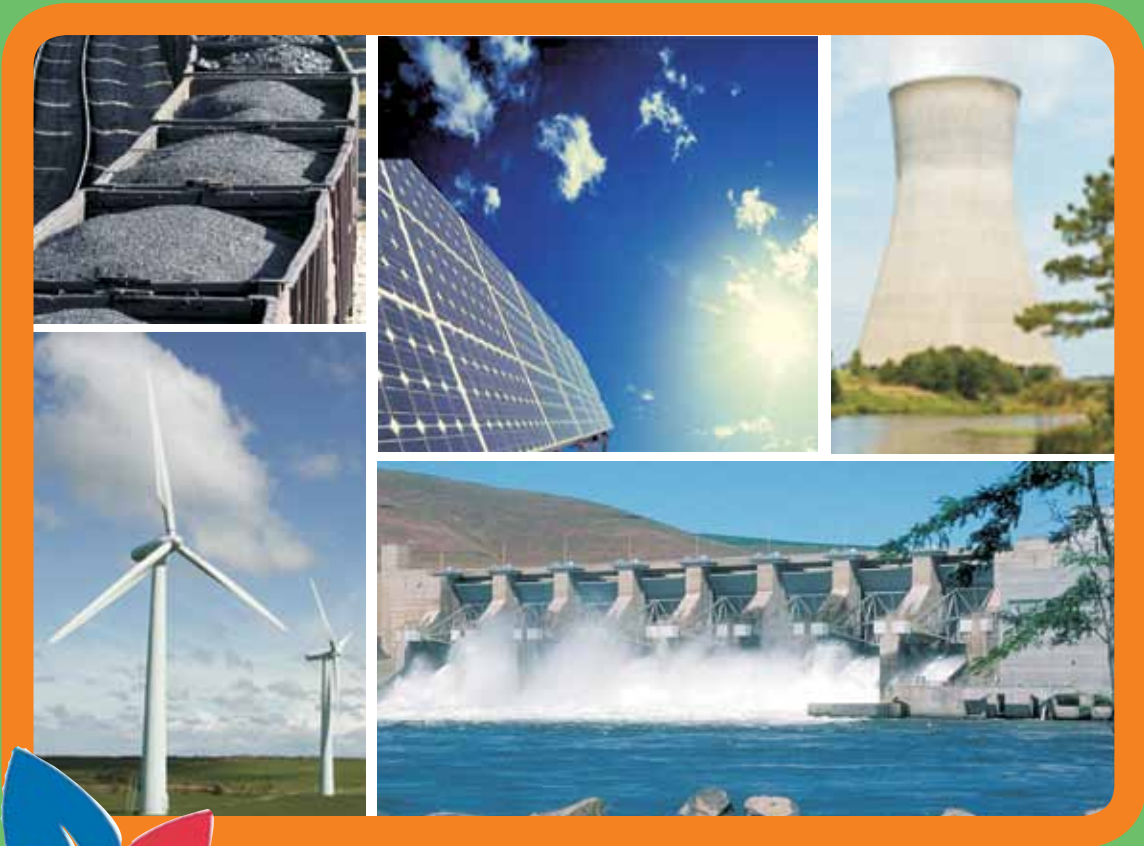


Meeting Tomorrow's Energy Challenge



Finding a Balanced Solution

2008 Annual Report

**Central Electric
Membership Corporation**

Your Local Touchstone Energy Cooperative



A supplement to Carolina Country

Tomorrow's Energy Challenge:

In recent years, renewable energy and energy efficiency have become dominant topics in our industry.

What used to be goals for using energy better are becoming government mandates and directives.

As we've seen these changes happening, we've educated you about our future power supply and about financial implications of new legislation.

While Central Electric remains committed to efficiency and renewable resources, we also remain committed to you, our members, and your need for affordable and reliable electric service.

Our commitment is what drives us to keep the pressure on our elected officials. However, now more than ever, we need member-consumers to understand the challenges and for you to express your concerns to your elected officials.

We believe the best solution for meeting tomorrow's energy challenge is a balanced solution. We can help Congress, but we need to work together.

Elected officials must take into account the impact on affordability when deciding energy policy.

North Carolina's electric cooperatives are committed to expanding renewable energy and helping consumers efficiently manage their energy use.

In 2008 we adopted a Renewable Energy Portfolio Standard (REPS).

We were the first state in the Southeast to join with other utilities and commit to meeting part of our energy needs through renewable energy and energy efficiency measures.

In 2008, Central Electric joined 23 North Carolina electric utilities in a newly created not-for-profit cooperative called GreenCo Solutions.

The new co-op focuses on coordinating existing energy-efficiency programs and developing new renewable-energy initiatives.

GreenCo Solutions is an example of cooperatives working together to help members achieve a balance. By working together, we can provide high quality programs at the lowest possible cost.

Central Electric also encourages members to participate in NC GreenPower. NC GreenPower is a nonprofit organization with a goal of supplementing the state's existing power supply with more green energy.

Contributions are voluntary and tax-deductible. Participants help build a cleaner energy supply, healthier environment and stronger economy for North Carolina now and in the years ahead.



CEO Morris McClellion and Rebecca G. Cogan, President, Board of Directors

For the first time since 1994, Central Electric was forced to put a wholesale power cost adjustment into effect. This type of adjustment happens when the cost of wholesale power changes abruptly and significantly.

Though the 2008 operational budget was cut as low as possible without affecting the quality of service, budget cuts could not offset the rising price of wholesale power due to the rapidly escalating prices of natural gas, oil and coal.

Almost 65% of each dollar is used to buy the power required to meet members' needs.

(Continued on next page)



The Best Solution is a Balanced Solution

(Continued from previous page)

Here's how the rest of your dollar was spent in 2008:

- The largest share of each dollar, 63%, was used to purchase wholesale power.
- Operating costs, such as maintaining power lines and paying for rising fuel cost to operate our vehicles, was 17% of every dollar.
- 3% of each dollar paid taxes including property, sales and use, and franchise taxes.
- 7% of every dollar went to depreciation, the decline in value of property or equipment over its life.
- 4% paid for interest, the cost of borrowing money to continually build lines.
- Total margins (the difference between revenue and cost of service) represented 6% of every dollar.

In 2008 operating margins were 3.1% compared to 6.1% in 2007.

Just as wholesale power costs affect your rates, so will new energy legislation. That's why it's so important for you to start your own conversation with our elected officials about balancing affordable electricity and climate change goals.

As representatives of the people, cooperatives can influence elected officials in a way that for-profit electric companies cannot.

While renewable energy and energy efficiency are important, the

approach must be reasonable. We believe there are some key factors to consider in energy legislation:

- The first factor is consumer protection. Price protections must be put in place to lessen the burden on consumers.
- Another consideration is careful timing. Any emission reduction targets must be achievable and timed with the new technologies.
- We also need regulatory certainty. Utilities need to know the rules of the road if they want to keep the lights on. And, changing those rules after a decision has been made can have a huge economic impact.

Finally, all sectors must be Included. Every entity that produces greenhouse gas emissions must be included in the legislation, not just electric generation.

There's only one way Congress will look out for consumers when creating a national energy policy. Consumers have to tell Congress that cost matters!

You can let your member of Congress know rates matter by going to: www.findabalancedsolution.org.

As a member, you have a voice in the decision making of your cooperative. A 10-member board of directors elected by you governs the Cooperative.

Every year, Central Electric meets for the purpose of reporting, discussing and celebrating the success of our cooperative's business.

You can be part of this most important aspect of our business. It is your opportunity to gain valuable information on the direction of this Cooperative and be a part of the business of providing your own electricity.

Since our co-op began in 1941, the mission has been simple, to keep electricity reliable and afford-

able for our members.

Keeping electricity affordable while we

meet government mandates is tomorrow's energy challenge. Working together, we can achieve this balance.

Central Electric will continue to do our part to represent you and make your voice heard. Your participation is crucial to finding a balanced solution.

Rebecca G. Cogan

Rebecca G. Cogan
President, Board of Directors

Morris McClellion

Morris McClellion
CEO, Central EMC



Financials

Balance Sheet as of December 31

2008

2007

Assets:

Electric Plant at Original Cost	\$76,698,227	\$71,570,423
Construction Work in Progress	559,107	1,583,174
Less Depreciation	(21,504,118)	(19,872,831)
Investments/Association Organizations	3,907,887	3,329,947
Cash	748,862	713,531
Temporary Investments	608,284	0
Notes Receivable	128,177	103,749
Accounts Receivable	2,743,029	2,876,091
Material and Supplies	797,273	529,856
Prepayments & Accrued Assets	96,807	111,210
Deferred Debits	141,872	279,780
Total	\$64,925,407	\$61,224,930

Liabilities:

Long Term Debt: RUS, FFB, CFC, NCEMC	\$27,448,959	\$28,863,042
Consumer Deposits	1,321,400	1,400,260
Notes Payable	2,000,000	230,953
Accounts Payable	4,276,677	4,055,440
Accumulated Operating Provisions	2,822,300	2,579,100
Current Maturities Long Term Debt	1,400,013	1,300,178
Other Liabilities	1,107,620	534,120
Membership Fees	83,908	81,803
Patronage Capital & Other Equities	24,464,530	22,180,034
Total	\$64,925,407	\$61,224,930

Statement of Operations

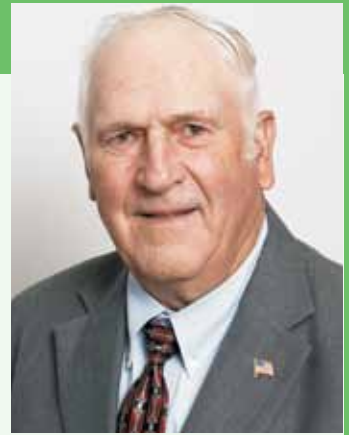
2008

2007

Operating Revenue	\$37,761,713	\$36,838,216
Expenses:		
Cost of Purchased Power	23,632,499	22,454,940
Transmission Expense	5,590	3,818
Distribution Expense-Operations	2,442,709	2,296,649
Distribution Expense-Maintenance	1,380,893	1,231,659
Consumer Accounts Expense	1,463,121	1,306,107
Consumer Service & Information Expense	223,353	238,022
Sales Expense	124,840	137,052
Administration & General Expense	2,013,791	1,792,948
Depreciation & Amortization	2,563,788	2,406,898
Taxes	1,205,926	1,252,918
Interest on Long Term Debt	1,579,431	1,600,953
Total Cost of Electric Service	\$36,635,941	\$34,721,964
Our Margins:		
Operating Margins	\$1,125,772	\$2,116,252
Non-Operating Margins	1,231,047	712,719
Total Margins	\$2,356,819	\$2,828,971



Treasurer's Report



James B. Brooks
Secretary-Treasurer

To assist your review of our financial condition we have published a simplified Balance Sheet and Statement of Operations in this report for the 2008 and 2007 calendar years.

The accounting firm of Goodman & Company completed its audit of the Cooperative in February 2009. Copies of the report will be available at the Annual Member Meeting, as well as the Central Electric business office. The report shows your Cooperative is financially sound.

On the Balance Sheet, you will note that total assets increased by more than \$3.7 million during 2008, raising the value of assets to more than \$64.9 million. Central Electric's membership fees, patronage capital and other equities total \$24,548,438.

This member-furnished capital represents 37.8% of Central Electric's assets. These funds are invested in Central Electric's utility plant (lines, transformers, poles, etc.).

The Statement of Operations shows operating

revenue increased 2.5% over 2007. The total cost of supplying electric service increased 5.5% over 2007. Wholesale power, our largest expense item, represented 65% of all expenses.

As a Cooperative, our operating margins (difference between revenue and cost of service) are posted to each member's patronage capital account. In 2008 operating margins were 3.1% compared to 6.1% in 2007. The average number of consumers served increased from January 1, 2008 to December 31, 2008 by 1.0% as compared with 3.6% in 2007. The 2008 monthly average residential kilowatt-hours (kWh) sold was 1,301 kWh.



How Your Co-op Dollar Was Spent in 2008

Cost of Purchased Power	\$0.63
Depreciation	\$0.07
Interest Expense	\$0.04
Total Margins	\$0.06
Taxes	\$0.03
Operations Expense	\$0.17

Comparative Operating Statistics

At Year Ending:	2008	2007	2006	2005
Miles of Line Energized	2,331	2,287	2,249	2,205
Number of Consumers Served	19,648	19,447	18,770	18,267
Average Residential kWh Used/Month	1,301	1,363	1,367	1,313



Pre-construction work on the Doc's Road Substation began in 2008. It is located on the southeast corner of Central Electric's system.

Engineering & Operations

GROWTH SPURS SYSTEM CONSTRUCTION, UPGRADES

Though the housing market in much of the country saw a decline during the past year, our part of North Carolina saw growth.

In 2008 we added 609 new members, bringing the total to 19,648 services. The billing peak demand for electricity in 2008 was 98.9 MW, which was set in January. It was not a record peak.

Nine of 10 new services are underground (URD) construction, and nearly 34.5 miles of URD lines were built in 2008.

This increased trend in using underground type construction has a positive effect in curbing outages during major storms.

An additional 10 miles of overhead distribution line was built during the past year.

One way we are upgrading our system is by continuing voltage conversions to tie

our system together better, which allows the Cooperative to respond better in emergency situations.

The conversion of voltage from 7200 volts to 14,400 volts at the Center Church Substation was completed in 2008. With one of the transformers already operating at 14,400 volts, converting the second unit to 14,400 allows one unit to back up the other.

Major feeder work was completed in both Spout Springs and Johnsonville substations for the year. The

This increased trend in using underground type construction has a positive effect in curbing outages during major storms.

system responded well to extreme cold conditions not seen since the 1980's.

Pre-construction work on the Doc's Road Substation began in 2008. The station is situated on

Progress Energy's 230 KV system on the southeast corner of Central Electric's system.

This station will provide major backfeed capability to the Manchester delivery which serves almost half of all the Cooperative's consumers.

It will have the capacity to pick up at least one-third of the load off the Manchester delivery site.

Groundwork on the distribution system to get the capacity of the new substation out into the system was started in 2008. It is scheduled



The trend in new service construction is for underground installation.

for completion before winter 2009.

The Cooperative has more than 19,400 automated metering devices in service.

All new services have the metering devices installed with the exception of the Sanford Metering Point.

Because Central Electric does not own property at this delivery point, the Cooperative is scrutinizing alternate ways to locate the necessary equipment required for the installation of the automated metering devices. About 500 accounts are served by this delivery.

At more than a \$500,000 in 2008, right-of-way maintenance typically represents one of the largest budget items for the Cooperative.

Because right-of-way for all overhead lines needs to be trimmed every three to six years, this maintenance will continue in the future.



Crews installed 34.5 miles of underground service in 2008.



Programs Designed to Aid Efficient Energy Use

As state and national legislators work to set new energy policies, the Cooperative focused on developing programs to help members prepare for the new guidelines.

One of the primary efforts in 2008 was to encourage members to join a grassroots effort to ask our elected officials to consider how legislation would affect electricity bills.

Two websites went on line to answer questions about proposed energy policy. They include www.findabalancedsolution.org and www.ourenergy.coop.

Services and tools focused on serving the energy needs of our members. Among these are:

■ **Ready-Pay**—Qualified member-consumers of Central Electric have an additional way to pay for their electricity through the Cooperative's "Ready-Pay" Plan.

This plan allows participating consumers to monitor their power use and buy electricity on an "as need" basis.

■ **"Wrap Up in Savings"**—In 2008, we offered a way for members to reduce water heating costs using an electric water heater blanket and pipe insulation. The members who took advantage of this offer also received a free showerhead and faucet aerators.

■ **Energy Audits and Conservation**—Central Electric offers energy audits for members with concerns about high bills and energy conservation workshops to educate members.

■ **Low Interest Loans**—We continued to help members finance energy-efficient heat pumps, insulation, and storm windows and doors.

■ **Rebates**—Central Electric encourages members to choose energy-efficient water heaters and heat pumps by offering rebates on units that meet efficiency ratings.

With our new program in 2009, Save Two Ways with CFLs, Central Electric continued to help members manage energy costs while committing to a cleaner environment.

This program offers credit on electric bills for all members who buy and install compact fluorescent lights.

The "Energy Info" section of the Cooperative's website continues to assist members with their energy use. In this section, you can find out about services we offer and access tools to help you determine your current energy use and how you can save on your monthly energy bills.

We encourage members to take advantage of any of these programs that meet your needs.

As a locally owned business with prominent community ties, Central Electric continues to be a leader in helping others through scholarship programs to our local community colleges, raising money for 4-H clubs and sponsoring the Small Business Expo.

Our "Members Care" program provides the Cooperative's members an opportunity to help less fortunate members during crisis situations.

Members can voluntarily contribute by allowing their monthly electric bills to be rounded up to the next dollar, or by making a one-time donation.

All money collected goes to help others with their heating bills. The individual county departments of Social Services oversee the program on behalf of Central Electric.

During 2008 the Cooperative reached out to young people in our service area through several educational programs.

Central Electric awarded eight grants totaling \$10,000 to area educators for innovative teaching projects in their classrooms through the Bright Ideas grant program. The grants enabled teachers to provide their students with unique projects not covered through traditional funding.

Four scholarships were awarded to students attending Central Carolina and Sandhills Community Colleges who live in homes served by the Cooperative.

Two middle school students had the opportunity to attend the Kay Yow and Roy Williams Basketball Camps in partnership with Touchstone Energy.



Victor Burns installs necessary meter equipment for a member to use the Pre-Pay Program.





Central Electric Membership Corporation

Your Local Touchstone Energy Cooperative



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