2000 ANNUAL REPORT

Continental Cooperative Services:
A NEW FRONTIER

Allegheny Electric Cooperative, Inc.
Soyland Power Cooperative, Inc.

Allegheny Electric Cooperative, Inc.

Financial Statements for the Years Ended October 31, 2000 and 1999 and Independent Auditors' Report

ALLEGHENY ELECTRIC COOPERATIVE, INC.

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Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

Board of Directors
Allegheny Electric Cooperative, Inc.

We have audited the accompanying balance sheets of Allegheny Electric Cooperative, Inc. as of October 31, 2000 and 1999, and the related statements of operations, of equities (deficiencies), and of cash flows for the years then ended. These financial statements are the responsibility of Allegheny Electric Cooperative, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Allegheny Electric Cooperative, Inc. as of October 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 22, 2001 on our consideration of Allegheny Electric Cooperative, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte + Touche LLP

January 22, 2001

ALLEGHENY ELECTRIC COOPERATIVE, INC.

BALANCE SHEETS
OCTOBER 31, 2000 AND 1999
(In Thousands)

ASSETS	**2000**	**1999**
ELECTRIC UTILITY PLANT:		
In service	$ 725,533	$ 717,811
Construction work-in-process	2,507	3,702
Nuclear fuel in process	2,842	3,305
	730,882	724,818
Less accumulated depreciation and amortization	643,263	633,222
	87,619	91,596
OTHER ASSETS AND INVESTMENTS:		
Nonutility property, at cost (net of accumulated depreciation of $3,600 in 2000 and $3,355 in 1999)	4,507	4,680
Investments in associated organizations	996	971
Notes receivable from members, less current portion	136	153
Other investments	33,321	29,489
Other noncurrent assets	453	293
	39,413	35,586
CURRENT ASSETS:		
Cash and cash equivalents	16,073	13,945
Accounts receivable, including accounts receivable from members of $19,796 in 2000 and $19,171 in 1999 (net of allowance for doubtful accounts of $3,990 in 2000)	26,684	26,266
Inventories	3,491	3,761
Other current assets	698	1,262
	46,946	45,234
DEFERRED CHARGES:		
Capital retirement asset	243,331	280,532
Other	3,008	3,303
	246,339	283,835
TOTAL ASSETS	$ 420,317	$ 456,251
EQUITIES (DEFICIENCIES) AND LIABILITIES		
EQUITIES (DEFICIENCIES):		
Memberships	$ 3	$ 3
Donated capital	38	38
Patronage capital	34,122	34,122
Other margins and equities (deficiencies)	(41,900)	(42,073)
	(7,737)	(7,910)
LONG-TERM DEBT, Less current portion	340,142	377,635
CURRENT LIABILITIES:		
Current portion of long-term debt	37,530	38,070
Accounts payable and accrued expenses	14,385	14,329
Accounts payable to members	641	829
	52,556	53,228
OTHER LIABILITIES AND DEFERRED CREDITS:		
Accrued nuclear decommissioning	28,299	25,270
Accrued decontamination and decommissioning of nuclear fuel	1,873	1,873
Deferred income tax obligation from safe harbor lease	3,873	4,807
Other deferred credits	1,311	1,348
	35,356	33,298
TOTAL EQUITIES (DEFICIENCIES) AND LIABILITIES	$ 420,317	$ 456,251

See notes to financial statements.

ALLEGHENY ELECTRIC COOPERATIVE, INC.

STATEMENTS OF OPERATIONS
YEARS ENDED OCTOBER 31, 2000 AND 1999
(In Thousands)

	2000	1999
OPERATING REVENUE, Including sales to members of $147,988 in 2000 and $126,384 in 1999, net of discounts to members in 2000 of $0 and in 1999 of $2,354.	$ 152,857	$ 128,680
OPERATING EXPENSES:		
Purchased power	49,991	29,694
Transmission:		
Operation	17,366	15,411
Maintenance	40	16
Production:		
Operation	20,898	20,992
Maintenance	8,845	7,094
Fuel	8,867	9,397
Depreciation	3,698	3,503
Amortization of Capital Retirement Asset	37,200	30,467
Administrative and general	6,112	5,867
Taxes	(1,510)	3,625
	151,507	126,066
OPERATING MARGIN BEFORE INTEREST AND OTHER DEDUCTIONS	1,350	2,614
INTEREST AND OTHER DEDUCTIONS:		
Interest expense, net of allowance for funds used during construction of $0 in 2000 and $122 in 1999	1,512	6,047
Other deductions, net	649	979
	2,161	7,026
Operating loss	(811)	(4,412)
NONOPERATING MARGINS:		
Net nonoperating rental income	1,128	1,045
Interest income	2,890	2,343
Allowance for doubtful accounts - non-operating	(3,990)	
Other	956	993
	984	4,381
NET MARGIN (LOSS) BEFORE EXTRAORDINARY GAIN	173	(31)
EXTRAORDINARY GAIN		9,565
NET MARGIN	$ 173	$ 9,534

See notes to financial statements.

ALLEGHENY ELECTRIC COOPERATIVE, INC.

STATEMENTS OF EQUITIES (DEFICIENCIES)
YEARS ENDED OCTOBER 31, 2000 AND 1999
(In Thousands)

	Memberships	Donated Capital	Patronage Capital	Other Margins and Equities (Deficiencies)	Total
BALANCE, OCTOBER 31, 1998	$ 3	$ 38	$ 34,122	$ (51,607)	$ (17,444)
Net margin	—	—	—	9,534	9,534
BALANCE, OCTOBER 31, 1999	3	38	34,122	(42,073)	(7,910)
Net margin	—	—	—	173	173
BALANCE, OCTOBER 31, 2000	$ 3	$ 38	$ 34,122	$ (41,900)	$ (7,737)

See notes to financial statements.

ALLEGHENY ELECTRIC COOPERATIVE, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED OCTOBER 31, 2000 AND 1999
(In Thousands)

	2000	1999
OPERATING ACTIVITIES:		
Net margin (loss) before extraordinary gain	$ 173	$ (31)
Depreciation and fuel amortization	10,713	10,385
Amortization of deferred charges and deferred credits	37,496	30,838
Loss on sale of other investments	99	191
Changes in assets and liabilities which provided (used) cash:		
Accounts receivable	(418)	(4,796)
Inventories	270	321
Other current and noncurrent assets	404	(231)
Accounts payable and accrued expenses	(160)	(6,244)
Accounts payable to members	(188)	976
Other liabilities and deferred credits	1,134	1,554
Net cash provided by operating activities	49,523	32,963
INVESTING ACTIVITIES:		
Additions to electric utility plant and nonutility property	(9,243)	(12,456)
Redemption of investments in associated organizations		2,598
Decrease in notes receivable from members	17	632
Purchases of other investments	(35,894)	(15,255)
Proceeds from sale of other investments	35,795	15,064
Net cash used in investing activities	(9,325)	(9,417)
FINANCING ACTIVITIES -		
Payments on long-term debt	(38,070)	(26,017)
Net cash used in financing activities	(38,070)	(26,017)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,128	(2,471)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	13,945	16,416
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 16,073	$ 13,945

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Operations - Allegheny Electric Cooperative, Inc. ("Allegheny") is a rural electric cooperative utility established under the laws of the Commonwealth of Pennsylvania. Financing assistance has been provided by the U.S. Department of Agriculture, Rural Utilities Service (RUS) formerly known as the Rural Electrification Administration (REA) and, therefore, Allegheny is subject to certain rules and regulations promulgated for rural electric borrowers by RUS. Allegheny is a generation and transmission cooperative, providing power supply to 14 owner/members who are rural electric distribution cooperative utilities providing electric power to consumers in certain areas of Pennsylvania and New Jersey and a member which is a non-profit cooperative corporation which is a licensed electric generation supplier in Pennsylvania. Allegheny's primary operating asset is its 10% undivided interest in the Susquehanna Steam Electric Station (SSES), a 2,200 megawatt, two-unit nuclear power plant, co-owned by Pennsylvania Power and Light Company (PP&L) (See Note 3).

Allegheny maintains its accounting records in accordance with the Federal Energy Regulatory Commission's uniform system of accounts as modified and adopted by RUS.

Electric Utility Plant and Depreciation – The Electric utility plant is stated at cost, which includes an allowance for funds used during construction. The straight-line method of depreciation is used for all assets, except nuclear fuel. The cost of units of property retired or replaced is removed from utility plant accounts and charged to accumulated depreciation.

Nuclear Fuel - Nuclear fuel is charged to fuel expense based on the quantity of heat produced for electric generation. Under the Nuclear Waste Policy Act of 1982, the U.S. Department of Energy (DOE) is responsible for the permanent storage and disposal of spent nuclear fuel removed from nuclear reactors. Allegheny currently pays to Pennsylvania Power & Light Company (PP&L), co-owner of SSES, its portion of DOE fees for such future disposal services.

Cost of Decommissioning Nuclear Plant – Allegheny's portion of the estimated cost of decommissioning SSES is approximately $72.9 million and is being accrued over the estimated useful life of the plant. Decommissioning costs are included in rates.

Amounts funded to The Nuclear Decommissioning Trust Funds for the years ended October 31, 2000 and 1999 were $1.6 million and $9.4 million, respectively. As required by the Nuclear Regulatory Commission (NRC), Allegheny has maintained a Decommissioning Trust Fund (Trust Fund B) which is restricted for use to ultimately decommission SSES.

Accrued nuclear decommissioning as of October 31, 2000 and 1999 was $25.2 million and $23.0 million, respectively.

Allowance for Funds Used During Construction - Allowance for funds used during construction represents the cost of directly related borrowed funds used for construction of or additions to an electric utility plant. The allowance is capitalized as a component of the cost of electric utility plant while under construction.

Investments in Associated Organizations - Investments in associated organizations are carried at cost.

Preliminary Surveys - Costs of preliminary surveys for potential development projects are recorded as deferred charges. If construction of a project results from such surveys, the deferred charges are transferred to the cost of the facilities. If a preliminary survey is abandoned, the costs incurred are charged to operations when the project is determined to be abandoned.

Cash Equivalents - For purposes of the statements of cash flows, Allegheny considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents are carried at cost.

Inventories - Allegheny accounts for certain power plant spare parts using a deferred inventory method. Under this method, purchases of spare parts under inventory control are included in an inventory account and then charged to the appropriate capital or expense accounts when the parts are used or consumed. Inventories are carried at cost, cost being determined on the average cost method.

Other Investments - Allegheny accounts for debt and equity securities included in other investments under the provisions of SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*. Management determines the proper classification of debt and equity securities at the time of purchase. As of October 31, 2000 and 1999, all securities covered by SFAS 115 were designated as available for sale. Accordingly, these securities, which relate solely to the nuclear decommissioning trust funds, are stated at fair value.

Patronage Capital and Other Margins and Equities (Deficiencies) - Allegheny had established an unallocated equity account, Other Margins and Equities (Deficiencies), as a result of charges against income. These charges against income were recorded as deficiencies in an unallocated equity account since the amount is not allocable to Allegheny's members. Subsequent net margins recognized by Allegheny are required by RUS to be used to reduce the deficiencies.

Rates and Regulatory Assets and Liabilities – The Board of Directors of Allegheny, appointed by its owners/members, has full authority to establish electric rates subject to approval by RUS. Rates are established on a cost of service basis.

Allegheny records deferred charges and credits in accordance with SFAS 71, *Accounting for the Effects of Certain Types of Regulation,* for costs or credits that will be recovered in the future from its members or be held for the future benefit of its members. If Allegheny were to terminate application of SFAS 71, all such amounts deferred would be recognized in the statement of operations at that time.

On December 3, 1996, House Bill No. 1509, Pennsylvania's "Electricity Generation Customer Choice and Competition Act" was signed by the Governor of Pennsylvania, with an effective date of January 1,1998 as Act No. 138 of 1996. This Act enabled retail electric customers, including consumer-members of Pennsylvania's thirteen rural electric cooperatives, to choose the power supplier, or generator, from which they buy electricity.

The Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) has issued EITF Issue No. 97-4, *Deregulation of the Pricing of Electricity – Issues Related to the Application of FASB Statement No. 71, Accounting for the Effects of Certain Types of Regulation, and No. 101, Regulated Enterprises – Accounting for the Discontinuation of Application of FASB Statement No. 71.* EITF No. 97-4 provides guidance for determining when an entity should cease applying SFAS 71 and to what extent stranded costs and regulatory assets and liabilities should continue to be recognized. Allegheny reviewed the provisions set forth in EITF No. 97-4 and determined that regulatory assets and liabilities should continue to be accounted for under the provisions of SFAS 71 because management believes that it is reasonable to assume that Allegheny will continue to be able to charge and collect its cost of service-based rates.

Revenues - Revenues from the sale of electricity are recorded based on billings to members and on contracts and scheduled power usages, as appropriate.

Income Taxes - Allegheny complies with SFAS No. 109, *Accounting for Income Taxes,* which requires recognition of deferred tax assets and liabilities resulting from the deferred tax consequences of temporary differences in recognition of assets, liabilities, income and expense for financial reporting and income tax reporting. The resulting deferred tax assets and liabilities are established based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income.

Investment tax credits, other than those sold through the safe harbor lease arrangement, are accounted for under the flow-through method whereby credits are recognized as a reduction of income tax expense in the year in which the credit is utilized for tax purposes.

Utilization of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification – Certain prior year amounts have been reclassified to conform to the current year presentation.

New Accounting Pronouncements – In June 1998, the Financial Accounting Standards Board (FASB) issued Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and in June 2000 FASB issued Statement No. 138 *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, both of which are effective for our fiscal year ending October 31, 2001. These statements establish accounting and reporting standards for derivative instruments, including those embedded in other contracts, and for hedging activities. It requires recognizing derivatives as assets or liabilities at fair value on the balance sheet. While Allegheny has identified financial instruments that qualify as derivatives as of November 1, 2001, the related contracts qualify for the normal purchases and normal sales exception and therefore, no additional disclosure is required.

2. ELECTRIC UTILITY PLANT IN SERVICE

Electric utility plant in service consists of the following as of October 31, 2000 and 1999:

	Depreciation/ Amortization, Lives/Rates	2000	1999
		(In Thousands)	
Nuclear Utility Plant:			
Production	39 years	$ 540,288	$ 537,520
Transmission	2.75 %	41,570	41,554
General plant	3% - 12.5%	1,146	1,045
Nuclear fuel	Heat production	132,704	127,956
		715,708	708,075
Non-Nuclear Utility Plant	3% - 33%	9,825	9,736
Total		$ 725,533	$ 717,811

Under the provisions of SFAS 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of,* Allegheny performs impairment tests on its electric generation assets. Based on the future projected cash flows for the use of the asset, the fair value of Allegheny's ten percent undivided interest in SSES, including the carrying value of the plant, related inventories and liabilities was determined to be $55,645,000 as of October 31, 1998. As a result, Allegheny wrote-down its net book value of SSES by $332,040,207. A portion of the write-down, $311,000,000, is expected to be recovered in future rates and, therefore, was recorded as a regulatory asset referred to as the Capital Retirement Assets (see Note 7). The remaining portion of the write-down, $21,040,207, was recorded as an impairment loss in the statement of operations for the fiscal year ended October 31, 1998.

To maintain the details of the gross costs of its plant for regulatory purposes, Allegheny recorded the write-down adjustment to reduce the asset in the accumulated depreciation account.

3. SUSQUEHANNA STEAM ELECTRIC STATION

Allegheny owns a 10% undivided interest in SSES. PP&L owns the remaining 90%. Both participants provide their own financing. Allegheny's portion of SSES' gross assets, which includes electric utility plant in service, construction and nuclear fuel in progress, totaled $726 million and $718 million as of October 31, 2000 and 1999, respectively. Allegheny's share of anticipated costs for ongoing construction and nuclear fuel for SSES is estimated to be approximately $69.4 million over the next five years. Allegheny receives a portion of the total SSES output equal to its percentage ownership. SSES accounted for 66% and 64% of the total kilowatts sold by Allegheny during 2000 and 1999, respectively. The balance sheets and statements of operations reflect Allegheny's respective share of assets, liabilities and operations associated with SSES.

4. INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations, at cost, consists of the following as of October 31, 2000 and 1999:

	2000	1999
	(In Thousands)	
National Rural Utilities Cooperative Finance Corporation (CFC Subordinated Term Certificates, bearing interest from 0% to 5%, maturing January 1, 2014 through October 1, 2080	$ 600	$ 642
National Rural Utilities CFC Capital Term Certificates	9	9
Other	387	320
	$ 996	$ 971

Allegheny is required to maintain these investments pursuant to certain loan and guarantee agreements. As part of a debt restructuring completed on March 29, 1999, discussed in Note 8, Allegheny redeemed for $2,598,000 CFC term certificates with a carrying value of $3,098,401.

5. NOTES RECEIVABLE FROM MEMBERS

Notes receivable from members arise from the lease of load management equipment to the member cooperatives. Such notes bear interest at a variable rate (6.65% and 6.00% as of October 31, 2000 and 1999, respectively) and mature at various dates through March 31, 2009. Notes receivable from members were $.2 million and $.9 million as of October 31, 2000 and 1999, respectively.

6. OTHER INVESTMENTS

Other investments consist of the following as of October 31, 2000 and 1999:

	2000			
	(In Thousands)			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Decommissioning Trust Fund A:				
Cash	$ 107			$ 107
U.S. Government securities	7,223	$ 63		7,286
Corporate bonds	5,259	14		5,273
Other Obligations	263	7		270
Corporate stocks	2,162	233		2,395
	15,014	317		15,331
NRC mandated Decommissioning Trust Fund B:				
Cash	248			248
U.S. Government securities	2,551	29		2,580
Corporate bonds	6,680	3		6,683
Other obligations	647		$ (22)	625
Common stocks	3,280	2,774		6,054
	13,406	2,806	(22)	16,190
Debt Service Reserve Fund - U.S. Government securities	1,800			1,800
Total	$ 30,220	$ 3,123	$ (22)	$ 33,321

	1999			
	(in thousands)			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Decommissioning Trust Fund A:				
Cash	$ 47			$ 47
U.S. Government securities	10,602		$ (189)	10,413
Corporate bonds	2,334		(46)	2,288
Corporate stocks	2,055	$ 132		2,187
	15,038	132	(235)	14,935
NRC mandated Decommissioning Trust Fund B:				
Cash	197			197
U.S. Government securities	2,549		(33)	2,516
Corporate bonds	4,366		(67)	4,299
Other obligations	517		(21)	496
Common stocks	2,846	2,401		5,247
	10,475	2,401	(121)	12,755
Debt Service Reserve Fund - U.S. Government securities	1,799			1,799
Total	$ 27,312	$ 2,533	$ (356)	$ 29,489

7. DEFERRED CHARGES

Deferred charges consist of the following regulatory assets as of October 31, 2000 and 1999:

	2000	1999
	(In Thousands)	
Capital retirement asset	$ 243,331	$ 280,532
Accrued decontamination and decommissioning of nuclear fuel	2,232	2,652
Low level radiation waste facility costs	599	492
Safe harbor lease closing costs	146	159
Preliminary surveys	31	
	$ 246,339	$ 283,835

Based on a membership agreement signed by the fourteen member distribution cooperatives on March 29, 1999, with an effective date of January 1, 1999, a portion of the SSES impairment write-down (see Note 2) has been recognized as a regulatory asset, referred to as the Capital Retirement Asset. Under this new agreement, Allegheny will recover in rates certain financing costs related primarily to Allegheny's investment in SSES in the amount of $311,000,000 over a nine-year period.

8. LONG-TERM DEBT

Long-term debt consists principally of advances under mortgage notes payable for electric utility plant to RUS and to the United States of America acting through the Federal Financing Bank (FFB) and guaranteed by RUS. Substantially all of the assets of Allegheny are pledged as collateral. Long-term debt consists of the following as of October 31, 2000 and 1999:

	2000	1999
	(In Thousands)	
Debt settlement note payable to RUS at an interest rate varying from 0.0% to 7.18%, due in varying amounts through 2007	$ 343,794	$ 380,905
6.00% replacement notes payable to RUS due in varying amounts through 2007	3,000	3,000
Pollution Control Revenue Bonds, payable semiannually, including interest through 2014. Variable rates ranged from 3.90% to 4.40% in 2000 and 2.10% to 3.90% in 1999	22,100	22,800
5.00% mortgage notes payable to RUS due in varying amounts through 2019.	8,778	9,000
	377,672	415,705
Less current portion	37,530	38,070
	$ 340,142	$ 377,635

Pursuant to the provisions set forth in 7 CFR Part 1717, *Settlement of Debt Owed by Electric Borrowers,* Allegheny entered into a restructuring agreement with RUS on March 29, 1999, with an effective date of January 1, 1999. Under the restructuring, the original advances under the mortgage notes to FFB were replaced with a new note in the amount of $406,000,000. The new note is payable through the year 2009, with an option for two early termination payments in 2007 and 2008. Interest on the new note is 7.18%. Allegheny, however, can receive an interest credit up to the amount of total interest expense based on the number of participating members. As of March 29, 1999, all of Allegheny's members became participants, which effectively reduced the interest rate to 0.0%.

On March 29, 1999, the mortgage loan payable and notes payable to CFC were offset by term certificates that were cancelled by Allegheny in the amount of $2,598,000, with a face value of $3,098,401. The remaining obligation of $3,000,000 was acquired by RUS.

As part of this restructuring agreement with RUS, a portion of accrued interest on previous notes with FFB was reduced in the amount of $9,565,000 which resulted in an extraordinary gain that was recognized in fiscal year 1999, the year in which the restructuring was consummated.

Long-term Pollution Control Revenue Bonds (Bonds) were issued by an industrial development authority on Allegheny's behalf. The Bonds are subject to purchase on demand of the holder and remarketing on a "best efforts" basis until the Bonds are converted to a fixed interest rate at Allegheny's option. If a fixed interest rate is established for the Bonds, the Bonds will cease to be subject to purchase by the remarketing agent or the trustee. In fiscal 2000 and 1999, the Bonds were collateralized by irrevocable letters of credit from Rabobank Nederland which are backed by a five-year credit facility in the event the bondholders tender the Bonds prior to the conversion to a fixed interest rate and the Bonds cannot be remarketed. The stated amount of the letters of credit are equal to the amount of outstanding Bonds plus an amount equal to 65 days' interest accrued on the Bonds at 12%. The indenture agreement contains various redemption provisions with redemption prices ranging from 100% to 103%. Included in other investments, at both October 31, 2000 and 1999, are $1.8 million of investments which relate to a debt service reserve fund required under the Bond indenture.

Future maturities of all long-term debt are as follows (in thousands):

2001	$ 37,555
2002	35,902
2003	34,188
2004	38,409
2005	38,970
Thereafter	192,864

Allegheny is required by mortgage covenants to maintain certain levels of interest coverage and annual debt service coverage. During the year ended October 31, 1998, Allegheny anticipated that it would not be able to meet certain covenants requirements and obtained from RUS, on June 25, 1998, a letter of forbearance with respect to noncompliance. Contemporaneously with the forbearance letter, Allegheny and RUS signed a memorandum of understanding regarding a negotiated settlement of Allegheny's debt. Under the letter, the RUS agreed to forebear exercising its remedies under the various agreements until closing of the settlement which occurred on March 29, 1999. Allegheny was in compliance with the applicable mortgage covenants as of October 31, 2000

Certain of Allegheny's long-term debt is at variable interest rates and is therefore subject to various market and interest rate fluctuations.

During 2000 and 1999, Allegheny incurred interest costs of $1.5 million and $6.1 million, respectively, of which $0.1 million was capitalized in 1999 as part of the construction of the electric utility plant.

9. DEFERRED CREDITS

The balance of deferred credits related to the Raystown lease gain were $1.31 million and $1.35 million at October 31, 2000 and 1999, respectively.

10. INCOME TAXES

The federal income tax provision consists of the following (in thousands):

	2000	1999
	(In Thousands)	
Current	$ 92	$ 77
Deferred		
Total	$ 92	$ 77

Allegheny is not subject to state income taxes.

At October 31, 2000, Allegheny had available nonmember net operating loss carryforwards of approximately $100 million for tax reporting purposes expiring in 2002 through 2018, capital loss carryforwards of approximately $400,000 expiring 2002 through 2005, investment tax credit carryforwards of approximately $2 million expiring 2001 through 2005, and AMT credit carryforwards of approximately $174,000 which carryforward indefinitely.

The effect of the Company's restructuring has been considered in determining the deferred tax balances at October 31, 2000 and 1999. Specifically, the Company's nonmember net operating loss carryforwards have been reduced by approximately $111 million as a result of its March 29, 1999 restructuring agreement with RUS.

Temporary differences that give rise to deferred tax balances are principally attributable to fixed asset basis, safe harbor lease treatment, gain on installment sale, and financial statement accruals. Deferred tax assets also include the effect of net operating loss carryforwards. The temporary differences and the carryforward items produce a net deferred tax asset at year-end. Realization of the net deferred tax asset is contingent upon the Company's future earnings. A valuation allowance has been established against the asset since it has been determined, at present, that it is more likely than not that the net deferred tax asset will not be realized.

11. PENNSYLVANIA PUBLIC UTILITY REALTY TAXES

In December of 1998, the Pennsylvania Department of Revenue issued, pursuant to the Pennsylvania Public Utility Realty Tax Act, (PURTA), additional assessments to PURTA taxpayers in order to cover the shortfall between PURTA tax revenues and the distributions. Allegheny's additional assessment was for $1,868,000 which was appropriately recorded as of October 1998. Allegheny satisfied the 1997 reassessment by applying 1998 prepaid taxes against the assessment.

In 1999, approximately 20 utilities including Allegheny filed suits against the Commonwealth of Pennsylvania challenging provisions of PURTA. The state later amended the PURTA statute and the way in which the tax is calculated retroactive to 1998. Allegheny subsequently received and paid a 1998 PURTA tax bill of approximately $380,000.

In 2000, the Commonwealth of Pennsylvania made changes to PURTA, which allowed the tax to be determined by local jurisdictions, based on assessed real estate values. Allegheny's portion of the 2000 tax assessment was approximately $366,000 which was appropriately recorded as a liability as of October 31, 2000.

Although the final resolution of 1998 and 1999 PURTA issues remains unknown, Allegheny believes that it has recorded appropriate liabilities for any remaining PURTA taxes.

12. RELATED PARTY TRANSACTIONS

Allegheny has two agreements with American Cooperative Services, Inc. ("American"), an affiliated organization (See note 13). The first is a power purchase sale contract that covers American's capacity requirements. The second is a line of credit to be used by American to fund its day to day operations. As of October 31, 2000, Allegheny extended approximately $4 million to American through these arrangements that does not appear to be recoverable. As such, Allegheny has established an allowance against such receivable balances and recorded the impact in the Statement of Operations for the year ended October 31, 2000 under Nonoperating Margins – Allowance for Doubtful Accounts-Nonoperating.

Allegheny has an arrangement with an affiliated organization, Pennsylvania Rural Electric Association (PREA), under which PREA provides Allegheny with certain management, general, and administrative services on a cost reimbursement basis. Total costs for the services provided for the years ended October 31, 2000 and 1999 were approximately $6.0 million and $5.8 million, respectively. As of October 31, 2000 and 1999, the amounts due to PREA and recorded in accounts payable and accrued expenses were $856,719 and $829,089, respectively. These amounts include amounts payable for management, general and administrative services and for past service retirement costs.

Allegheny leases office space to PREA under a year-to-year lease. Rental income was $82,422 and $81,216 for the years ended October 31, 2000 and 1999, respectively.

Continental Cooperative Services (CCS) was incorporated in March 2000, the result of a strategic alliance between Allegheny, based in Harrisburg, Pennsylvania, and Soyland Power Cooperative, Inc. (Soyland), based in Decatur, Illinois. CCS is organized as a Nonprofit Electric Cooperative Corporation in the state of Pennsylvania.

CCS is governed by a 26 member board of directors, composed of one representative from each affiliated distribution cooperative in Pennsylvania, New Jersey, and Illinois. Included in Allegheny's investment in associated organizations is a $100,000 membership fee that was required for CCS from each organization.

13. COMMITMENTS AND CONTINGENCIES

Power Supply and Transmission Agreements

Allegheny has entered into power supply and transmission agreements with approximately 45 service providers. A significant amount of these agreements are umbrella type agreements and do not bind Allegheny to enter into any type of transaction. As of October 31, 2000, there were no ongoing transactions under these agreements.

Allegheny has a number of power supply agreements under which it currently purchases capacity and power. These agreements contain no minimum purchase or take-or-pay provisions. Power supply agreements are as follows:

New York Power Authority – This contract is scheduled to expire on June 30, 2001. This contract meets a portion of Allegheny's base load requirements and its delivered cost to Allegheny's members is below market.

Penelec and West Penn Agreements – These contracts have terms through December 31, 2003 and November 30, 2001, respectively. These contracts enable Allegheny to purchase capacity and energy to exactly meet Allegheny's needs.

PP&L – This contract expires on January 31, 2002. This contract enables Allegheny to purchase capacity and energy to exactly meet Allegheny's needs. Allegheny also has a separate contract with PP&L to reserve and purchase 21 mw of capacity. That contract is used to meet a portion of Allegheny's load in the West Penn area and is coterminous with the West Penn contract.

Power Purchase Sale Contract

On November 30, 1998, Allegheny entered into a Power Purchase Sale Contract with American (the "buyer"), an affiliated entity. Under the contract, Allegheny is required to deliver to the buyer certain amounts of capacity and associated energy, the amounts and prices of which are outlined in a "Transaction Confirmation." Under the Transaction Confirmation, Allegheny will deliver to the buyer 125 mw of capacity and associated energy at capacity rates varying from $55 to $98 per mw-day and energy varying between $22.60 and $60.20 per mwh. The confirmation letter for calendar year 2000 covers American's needs through and expires with the last meter reading date for the March 2001 billing cycle unless otherwise amended.

Line of Credit and Trade Credit Agreements

On March 29, 1999, Allegheny entered into a Line of Credit Agreement with American. Under the terms of the agreement, Allegheny agrees to make advances to American. The Line of Credit Agreement expires December 31, 2004. Additionally Allegheny advances trade credit to American.

Insurance

PPL Electric Utilities (PPL), as the 90% owner and sole operator of SSES, and Allegheny, as owner of a 10% undivided interest in SSES, are members of certain insurance programs which provide coverage for property damage to members' nuclear generation plants. Under these programs, the plant, as a whole, has property damage coverage for up to $2.75 billion. Additionally, there is coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions. Under the property and replacement power insurance programs, PPL and Allegheny could be assessed retrospective premiums in the event the insurers' losses exceed their reserves. At December 31, 1999, the maximum amount PPL and Allegheny could jointly be assessed under these programs was approximately $24 million.

PPL and Allegheny's public liability for claims resulting from a nuclear incident is currently limited to $9.7 billion under provisions of the Price-Anderson Amendment Act of 1988, which extended the Price-Anderson Act to August 1, 2002. PPL and Allegheny are protected against this potential liability by a combination of commercial insurance and an industry retrospective assessment program.

In the event of a nuclear incident at any of the facilities owned by others and covered by the Act, PPL and Allegheny could jointly be assessed up to $168 million per incident, but not more than $20 million per year, plus an additional 5% surcharge, if applicable.

Safe Harbor Lease

Allegheny previously sold certain investment and energy tax credits and depreciation deductions pursuant to a safe harbor lease. The proceeds from the sale, including interest earned thereon, have been deferred and are being recognized on the statements of operations over the 30-year term lease. The deferred income tax obligations were $3.9 and $4.8 million as of October 31, 2000 and 1999, respectively. The net proceeds and related interest were required by RUS to be used to retire outstanding FFB debt.

Under the term of the safe harbor lease, Allegheny is contingently liable in varying amounts in the event the lessor's tax benefits are disallowed and in the event of certain other occurrences. The maximum amount for which Allegheny was contingently liable as of October 31, 2000 was approximately $11.2 million. Payment of this contingent liability has been guaranteed by CFC.

Litigation

In the normal course of business, there are various claims and suits pending against Allegheny. In the opinion of Allegheny's management, the amount of such losses that might result from these claims and suits, if any, would not materially affect the financial position or results of operations of Allegheny.

14. SALE/LEASEBACK ARRANGEMENT

Allegheny previously completed a sale and leaseback of its hydroelectric generation facility at the Raystown Dam (the Facility). The Facility was sold to a trustee bank representing Ford Motor Credit Company (Ford) for $32.0 million in cash. During 1996, Ford transferred its interest in the Facility to a third-party. Under terms of the arrangement, Allegheny is leasing the Facility for an initial term of 30 years. Payments under the lease are due in semi-annual installments which commenced January 10, 1989. At the end of the 30-year term, Allegheny will have the option to purchase the Facility for an amount equal to the Facility's fair market value or for a certain amount fixed by the transaction documents (determined by 1988 appraisal of the then foreseeable residual value at the end of the lease term), whichever is less.

Allegheny also has the option to renew the lease for a five-year fixed rate renewal and three fair market renewal periods, each of which may not be for a term of less than two years. Payments during the fixed rate renewal period are 30% of the average semi-annual installments during the initial lease term. Allegheny will retain co-licensee status for the Facility throughout the term of the lease. The gain of $1.9 million related to the sale is being recognized over the lease term in the same proportion that the annual rental payments relate to total rental payments. The unrecognized gain is recorded in deferred credits and was $1.29 and $1.35 million as of October 31, 2000 and 1999, respectively.

The payments by Allegheny under this lease were determined in part on the assumption that Ford, or its successor, will be entitled to certain income tax benefits as a result of the sale and leaseback of the Facility. In the event that Ford, or its successor, were to lose all or any portion of such tax benefits, Allegheny would be required to indemnify Ford, or its successor, for the amount of the additional federal income tax payable by Ford, or its successor, as a result of any such loss.

The leaseback of the Facility is accounted for as an operating lease by Allegheny. As of October 31, 2000, future minimum lease payments under this lease, which can vary based on the interest paid on the debt used to finance the transaction, are estimated as follows (in thousands):

2001	$ 2,361
2002	1,990
2003	2,361
2004	2,281
2005	1,932
Thereafter	29,403
Total minimum lease payments	$ 40,328

The future minimum lease payments shown above are for the initial lease term and the five-year renewal period. These payments are based on an assumed interest rate of 8.8% and may fluctuate based on differences between the future interest rate and the assumed interest rate. Rental expense for this lease totaled $2.0 and $2.1 million in each of the years ended October 31, 2000 and 1999.

15. CONCENTRATIONS OF CREDIT RISK

Allegheny is comprised of member rural electric cooperatives, whose operations are located in Pennsylvania and New Jersey. The member cooperatives' primary service areas are small communities located throughout much of rural Pennsylvania and New Jersey.

Allegheny's investments are invested in a variety of financial instruments. The related values as presented in the financial statements are subject to various market fluctuations, which include changes in the equity markets, interest rate environment and the general economic conditions. Allegheny's credit losses have historically been minimal and within management's expectations.

16. GOVERNMENT REGULATIONS

The Energy Policy Act of 1992 established, among other things, a fund to pay for the decontamination and decommissioning of three nuclear enrichment facilities operated by DOE. A portion of the fund is to be collected from electric utilities that have purchased enrichment services from DOE and will be in the form of annual special assessments for a period not to exceed more than 15 years. The special assessments are based on a formula that takes into account the amount of enrichment services purchased by the utilities in past periods.

Allegheny has previously recorded its share of the liability in connection with PP&L's recognition of the liability in the accounts of SSES. Allegheny's share of the liability is $4.4 million which will be paid over a period of 15 years. Allegheny recorded its share of the liability as a deferred charge which will be amortized to expense over 15 years, consistent with the ratemaking treatment. The remaining liability to be amortized was $1.9 million as of October 31, 2000 and 1999.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents - The carrying amount reported approximates fair value because of the short maturity of these financial instruments.

Other Investments and Investments in Associated Organizations - The fair value of other investments are estimated based on quoted market prices. Fair values of investments in associated organizations approximate their carrying amount.

Notes Receivable from Members - The carrying amount of Allegheny's notes receivable from members, which primarily relate to sales-type leases, approximates fair value because the notes bear a variable rate of interest which is reset on a frequent basis.

Long-Term Debt - The fair value of Allegheny's fixed rate long-term debt is estimated using discounted cash flows based on current rates offered to Allegheny for similar debt of the same remaining maturities.

Summary of Fair Values - The estimated fair values of Allegheny's financial instruments at October 31, 2000 and 1999, are as follows (in thousands):

	2000		1999	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Cash and cash equivalents	$ 16,073	$ 16,073	$ 13,945	$ 13,945
Other investments	33,321	33,321	29,489	29,489
Investment in associated organizations	996	996	971	971
Notes receivable from members	136	136	945	945
Long-term debt	377,672	217,662	415,705	227,505

* * * * * *

CONTENTS

About Continental Cooperative Services

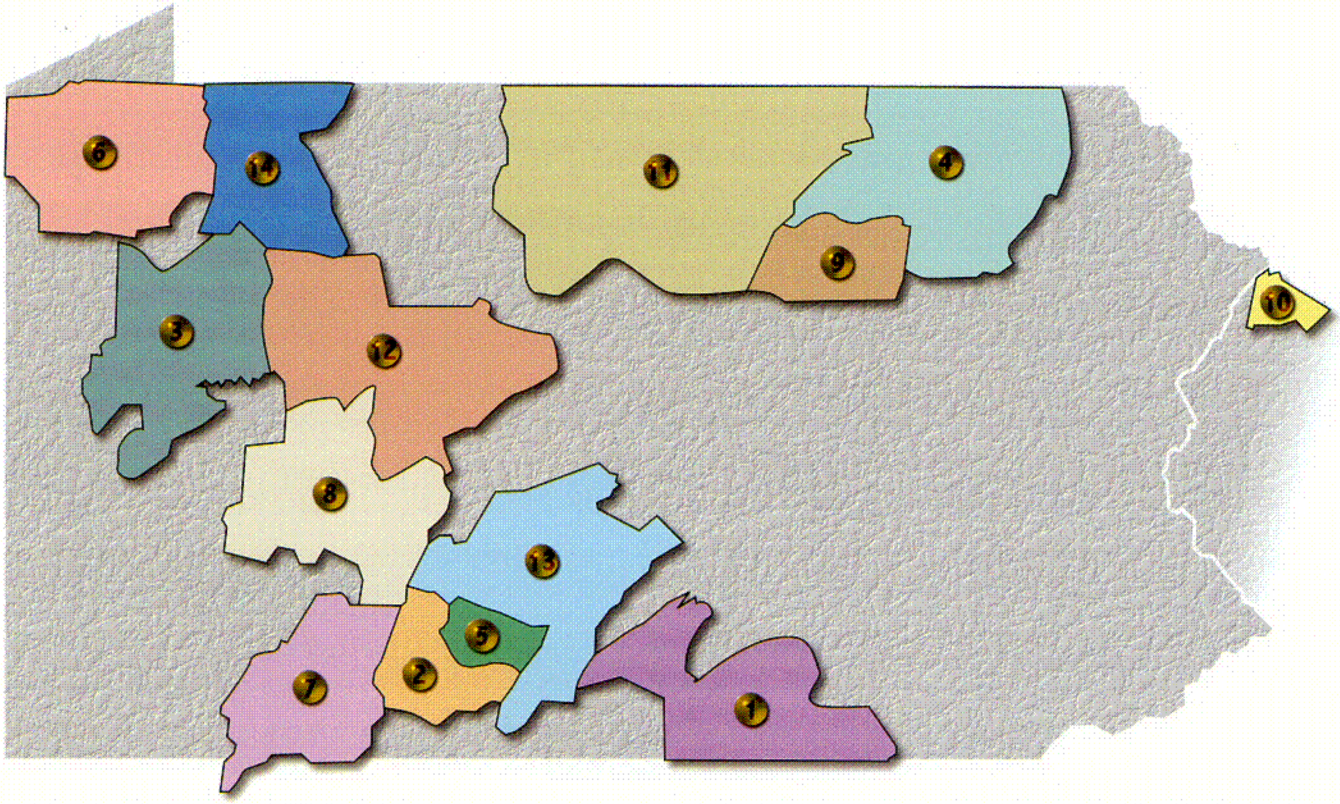
Continental Cooperative Services (CCS) provides wholesale power to 26 affiliated electric distribution cooperatives in Illinois, New Jersey and Pennsylvania. CCS-affiliated cooperatives, in turn, provide electric generation to nearly one million ultimate consumers.

CCS, based in Harrisburg, Pa., is controlled by the 26 distribution cooperatives. Because each affiliated cooperative has one seat on the CCS Board of Directors, CCS' mission remains focused on how to best serve consumers who depend on the cooperatives for electricity.

CCS was created in March 2000, the result of a strategic alliance between Allegheny Electric Cooperative, Inc. (Allegheny), the wholesale power supplier to electric cooperatives in Pennsylvania and New Jersey, and Illinois' Soyland Power Cooperative, Inc. (Soyland). CCS marks the first time two geographically non-contiguous generation and transmission cooperatives have joined forces in this fashion.

Cooperative electric systems comprising the CCS network are a critical part of local rural infrastructure, powering more than 300,000 homes, farms, businesses and industries. In Illinois, the 12 electric distribution cooperatives affiliated with CCS serve nearly one-third of the state's land area across 46 counties. The 13 CCS-affiliated cooperatives in Pennsylvania own approximately 12 percent of the state's electric distribution lines, spanning one-third of the Commonwealth in 41 counties. New Jersey's lone electric co-operative maintains roughly 1 percent of the Garden State's total miles of line.

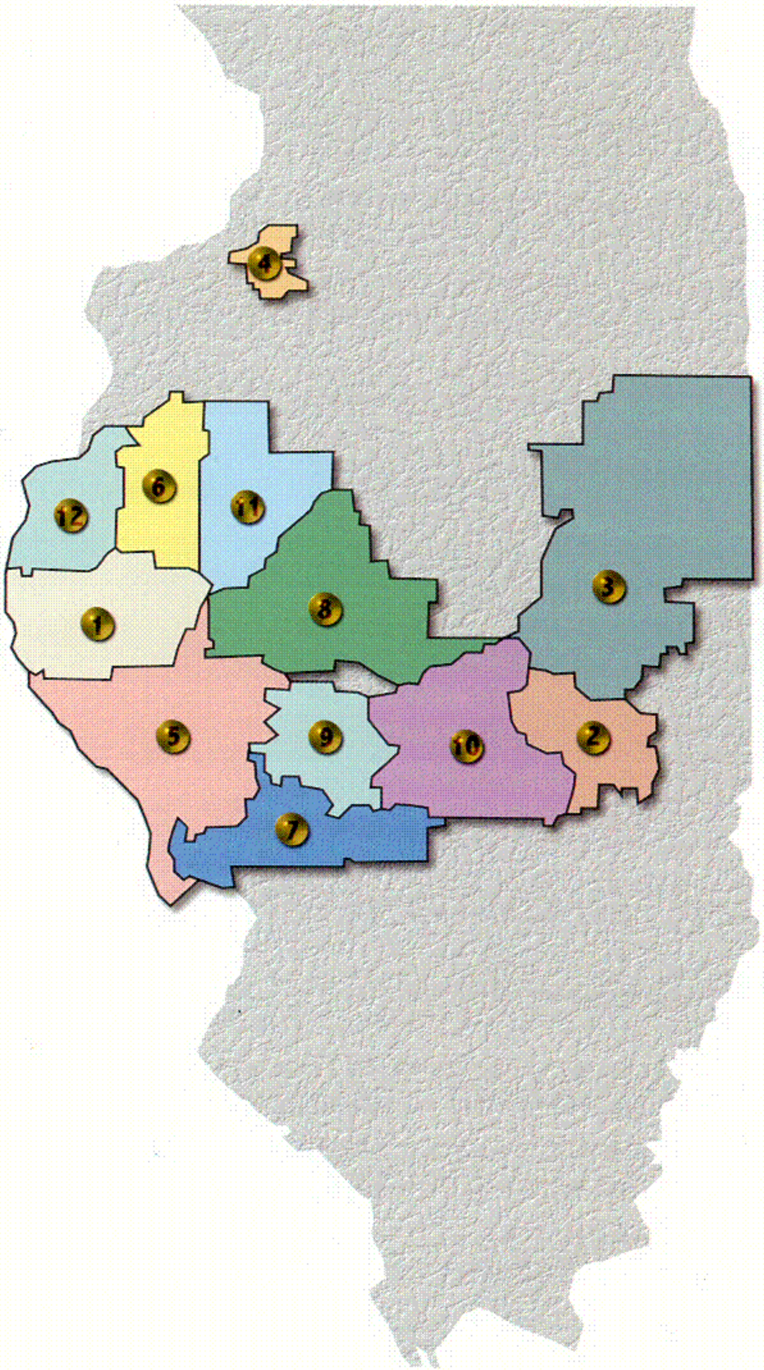
Allegheny Electric Cooperative Territory



1. Adams Electric Cooperative, Inc.
2. Bedford Rural Electric Cooperative, Inc.
3. Central Electric Cooperative, Inc.
4. Claverack Rural Electric Cooperative, Inc.
5. New Enterprise Rural Electric Cooperative, Inc.
6. Northwestern Rural Electric Cooperative Association, Inc.
7. Somerset Rural Electric Cooperative, Inc.
8. Southwest Central Rural Electric Cooperative Corporation
9. Sullivan County Rural Electric Cooperative, Inc.
10. Sussex Rural Electric Cooperative, Inc.
11. Tri-County Rural Electric Cooperative, Inc.
12. United Electric Cooperative, Inc.
13. Valley Rural Electric Cooperative, Inc.
14. Warren Electric Cooperative, Inc.

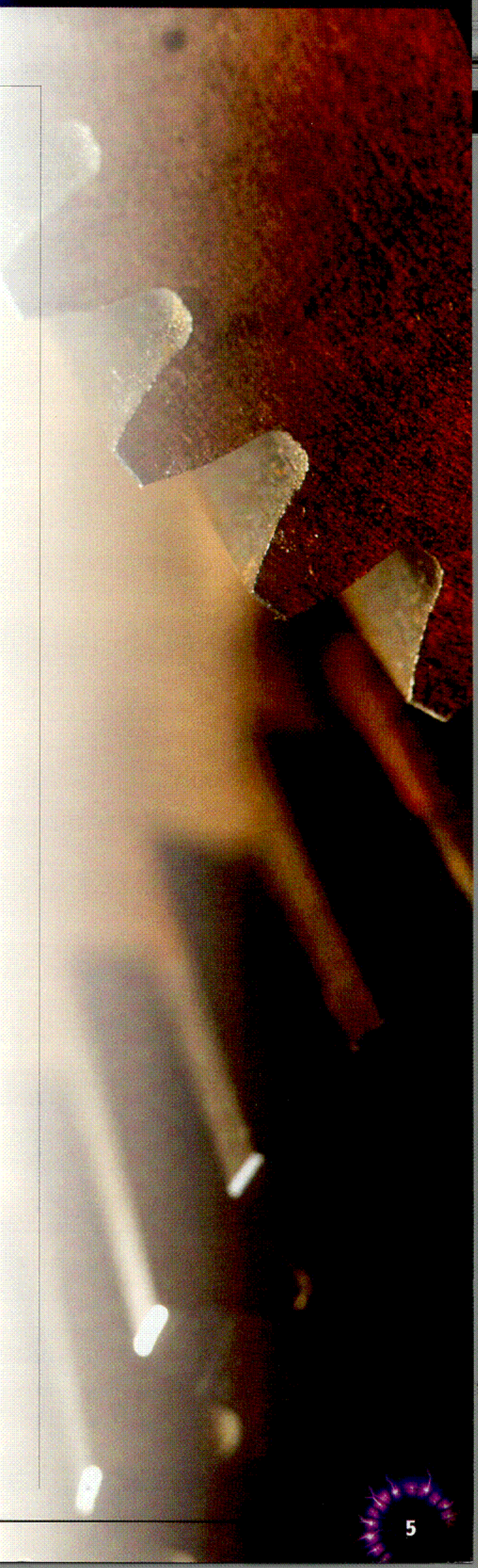
C01

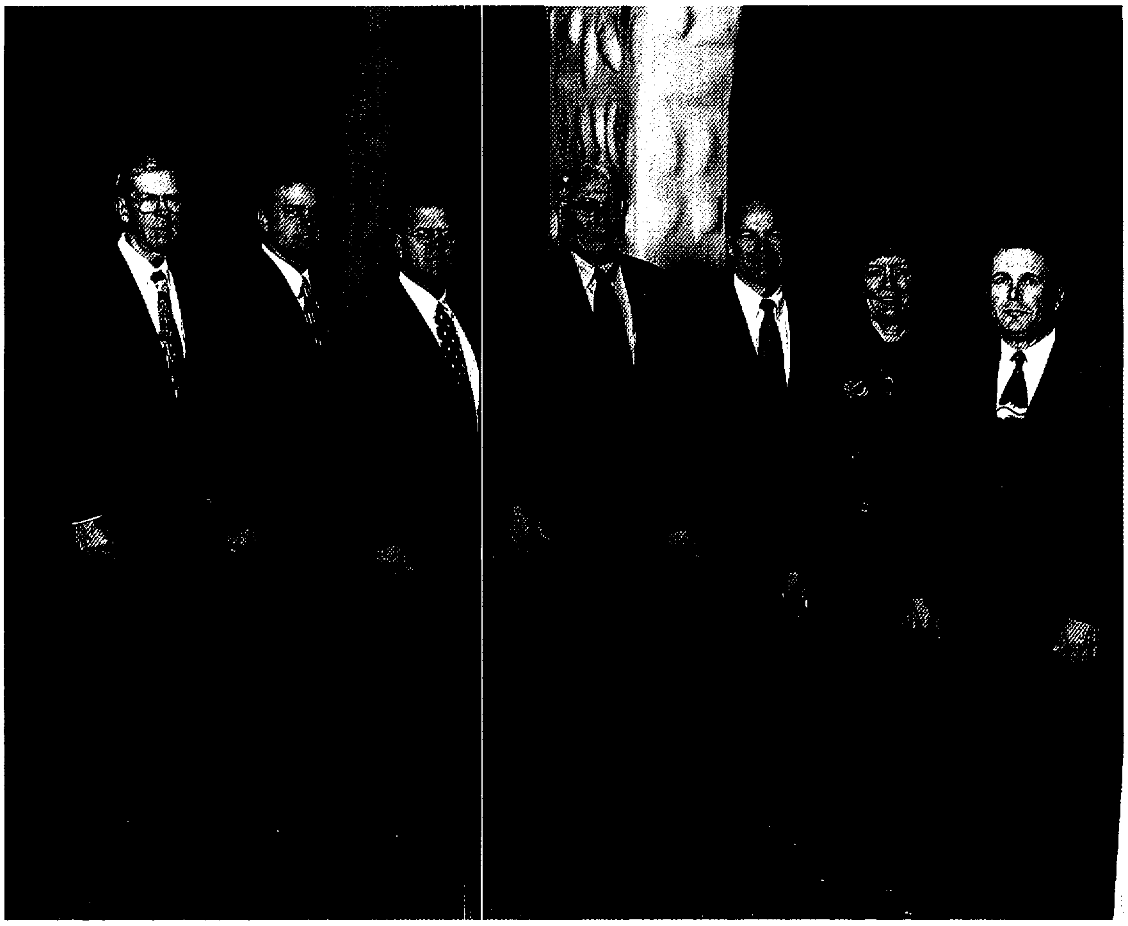
Soyland Power Cooperative Territory



1. Adams Electric Cooperative
2. Coles-Moultrie Electric Cooperative
3. Eastern Illini Electric Cooperative
4. Farmers Mutual Electric Cooperative
5. Illinois Rural Electric Cooperative
6. McDonough Power Cooperative
7. M.J.M. Electric Cooperative, Inc.
8. Menard Electric Cooperative
9. Rural Electric Convenience Cooperative Company
10. Shelby Electric Cooperative
11. Spoon River Electric Cooperative, Inc.
12. Western Illinois Electrical Cooperative

C02





The CCS Executive Committee, from left to right: *Alston Teeter, at-large member; David Bergland, vice chairman; James Coleman, secretary; David Cowan, chairman; Frank Betley, president & CEO; Kathryn Cooper-Winters, treasurer; and Bradley Ludwig, at-large member.*

A Message From The Executive Committee and President & CEO

March 2000 marked the launch of something unique in the annals of rural electrification. That's when the boards of directors of two generation and transmission (G&T) cooperatives that do not border each other — Harrisburg, Pa.-based Allegheny Electric Cooperative (Allegheny) and Decatur, Ill.-based Soyland Power Cooperative (Soyland) — officially approved creating a new, self-governing organization called Continental Cooperative Services (CCS).

The immediate question some may ask is why two G&Ts, roughly 1,000 miles and a time zone apart, would partner like this? The reason, however, is very simple and goes to the heart of cooperative business practice and the realities of a deregulated energy marketplace.

In the electric utility industry today, size and negotiating clout are critical to success. Since 1999, 52 private power companies have merged for this very reason.

Many market watchers have warned that unless G&Ts nationwide begin living a basic co-op operating principle — cooperation among cooperatives — they will not be able to survive in our vastly restructured industry. In fact, it has been estimated that power supply cooperatives could be as strong a market force as the largest private power marketers if we worked together to take advantage of geographic and product diversities. CCS — by operating in two time zones across three electric reliability regions, with Allegheny being a winter-peaking system and Soyland peaking in the summer — does just this.

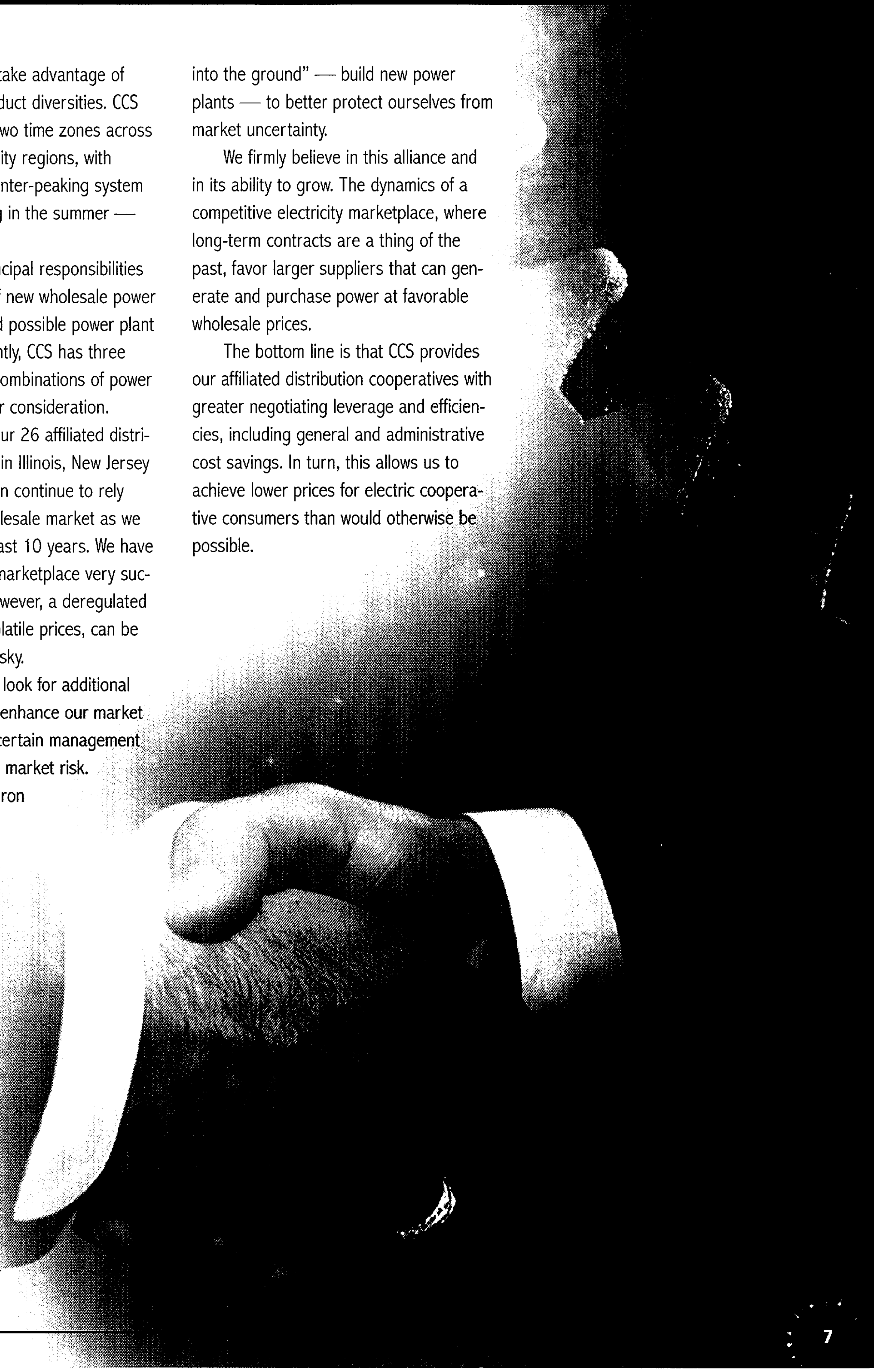
Two of CCS' principal responsibilities will be the pursuit of new wholesale power supply contracts and possible power plant development. Currently, CCS has three primary options or combinations of power supply options under consideration.

First, CCS and our 26 affiliated distribution cooperatives in Illinois, New Jersey and Pennsylvania can continue to rely primarily on the wholesale market as we have done for the past 10 years. We have participated in this marketplace very successfully to date. However, a deregulated marketplace, with volatile prices, can be substantially more risky.

Second, we can look for additional alliance partners to enhance our market position and utilize certain management tools to mitigate our market risk. Finally, we can put "iron into the ground" — build new power plants — to better protect ourselves from market uncertainty.

We firmly believe in this alliance and in its ability to grow. The dynamics of a competitive electricity marketplace, where long-term contracts are a thing of the past, favor larger suppliers that can generate and purchase power at favorable wholesale prices.

The bottom line is that CCS provides our affiliated distribution cooperatives with greater negotiating leverage and efficiencies, including general and administrative cost savings. In turn, this allows us to achieve lower prices for electric cooperative consumers than would otherwise be possible.



Electric Competition In Illinois, New Jersey and Pennsylvania

In the world of electric restructuring, Illinois, New Jersey and Pennsylvania have much in common. All three are among the 24 states that have adopted electric competition either through legislation or regulatory action. And unlike California, where a poorly thought-out deregulation plan has led to a full-blown energy crisis, the three also have adopted safeguards to protect consumers from potential market shock. Chief among them are:

* Extended and orderly transitions to a fully mature deregulated electric generation market — a "grace period" that gives regulators and the marketplace time to correct and adjust to any problems that crop up.
* Rate cuts or rate freezes that result in consumer savings even if no one ever shops for power.
* More power supply resources than are required and sufficient reserves to maintain reliability into the future.
* No requirement that utilities sell off generation assets (although some have) or prohibition against entering into long-term power contracts as a way to lock in low electric generation prices.

The shining beacon on the hill when it comes to electric deregulation is Pennsylvania. By every measure, the Commonwealth has become the nation's leader in creating a vibrant competitive retail electricity market. As 2000 came to a close, more than 568,000 of the Keystone State's 5.2 million private power company customers, comprising more than 6,100 megawatts of load (about 25 percent of the electricity used statewide), were purchasing kilowatt-hours from alternate electric generation suppliers (EGSs), according to data released by the state Office of Consumer Advocate.

As a result, more customers and more load have switched in Pennsylvania than in the rest of the U.S. combined. By way of a breakdown, approximately 474,000 residential, 91,500 commercial and 3,100 industrial consumers are participating in customer choice, achieving total savings of $2.84 billion to date.

In addition, a study by the Pennsylvania Department of Revenue conducted in 2000 found that electric competition in the state will create more than 36,700 new jobs by 2004 and boost the Gross State Product by $1.9 billion. The report also predicted that lower electricity prices will lead to a $1.4 billion increase in nominal personal income over the next four years and a decline of 0.47 percent in the state's consumer price index.

These numbers may explain why 70 percent of Pennsylvanians support electric choice, as reported by Power Perceptions, a Boulder, Colo.-based research firm.

All electric cooperative consumer-members in Pennsylvania — like their private power company counterparts — are eligible to shop for power. However, there has been only limited marketing by EGSs in cooperative service territories to date.

For those familiar with the history of rural electrification, this EGS reluctance does not come as a great shock. The same economies of scale that kept private power companies from running electric lines into the countryside more than 60 years ago (and led to the formation of electric cooperatives) are alive and well today.

Cooperative service areas, for the most part, remain heavily rural, sparsely populated and have a high percentage of residential consumers. Since EGSs are in business to make money, the lack of large commercial and industrial customers in rural areas means lower profit potential compared to other market opportunities.

The defining reason why EGSs are not marketing heavily in Pennsylvania's electric cooperative territories, though, remains the very competitive generation price delivered by CCS-member Allegheny — a price that makes it extremely difficult for EGSs to offer a better deal. Allegheny has achieved this price by meeting the competitive challenge head on and doing the things needed to gear up for customer choice — organizational restructuring, budget cutting, creating affiliates and forming alliances, all the while maintaining ownership of its generating assets.

Through this hard work, Allegheny and its 14 member cooperatives in Pennsylvania and New Jersey have proven that "competition" and "cooperation" are not mutually exclusive terms. Even in a deregulated environment, electric cooperatives are more than capable of accomplishing their primary mission: providing rural consumers with a reliable source of power at an attractive price.

CCS-member Soyland, like Allegheny, has also taken an aggressive approach to addressing the uncertainties of a competitive marketplace, notably adding the Alsey Generating Station, a five-unit, 125-megawatt natural gas-fired peaking complex located in Scott County, Ill. After being authorized by the Soyland Board of Directors in October 1998, efforts to get the Alsey facility up and running proceeded rapidly.

In just nine months, land and rights-of-way for Alsey were acquired, air emissions permits received, and four combustion turbines, transformers, an oil storage tank, underground cables, poles and wire were purchased and installed at the site. Peaking capacity from Alsey has allowed CCS-affiliated distribution cooperatives in Illinois to line up significantly lower bids for purchased power.

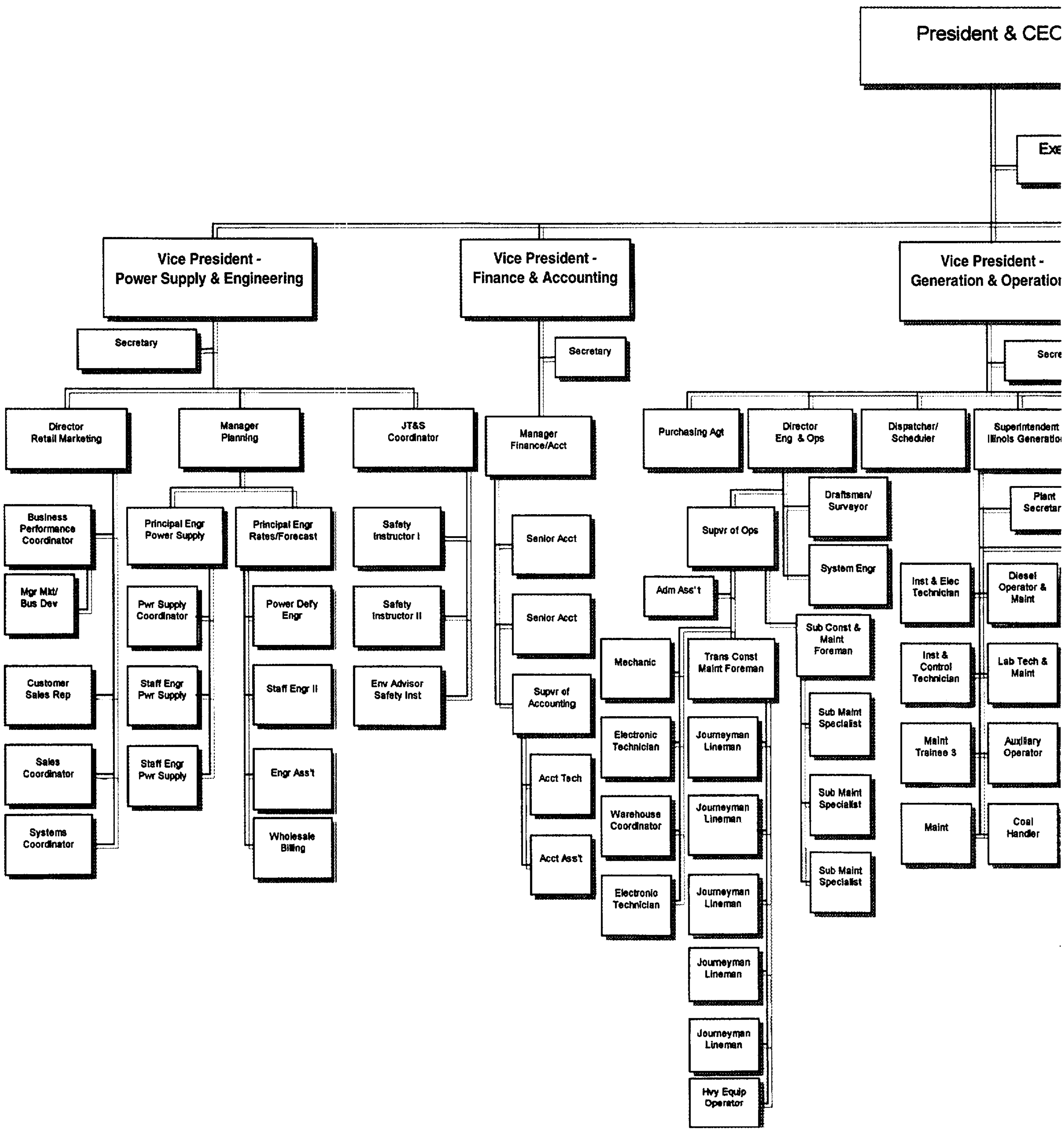
Businesses and industries served by private power companies in Illinois have already been phased in for retail choice; residential customers will get a chance to shop in 2002. But a report issued by the Illinois Commerce Commission in late 2000 found little "power shopping" outside of Commonwealth Edison's Chicago service area, with some analysts questioning if real competition existed there, either. In all, just under 10,000 commercial and industrial customers in the Prairie State (nearly 8,300 of them served by Commonwealth Edison) have switched suppliers since the retail electricity market first opened on October 1, 1999.

Illinois electric cooperatives can "opt out" of competition as long as they do not pursue customers of other utilities. None of the 12 electric distribution cooperatives served by CCS-member Soyland have elected to open up their systems so far.

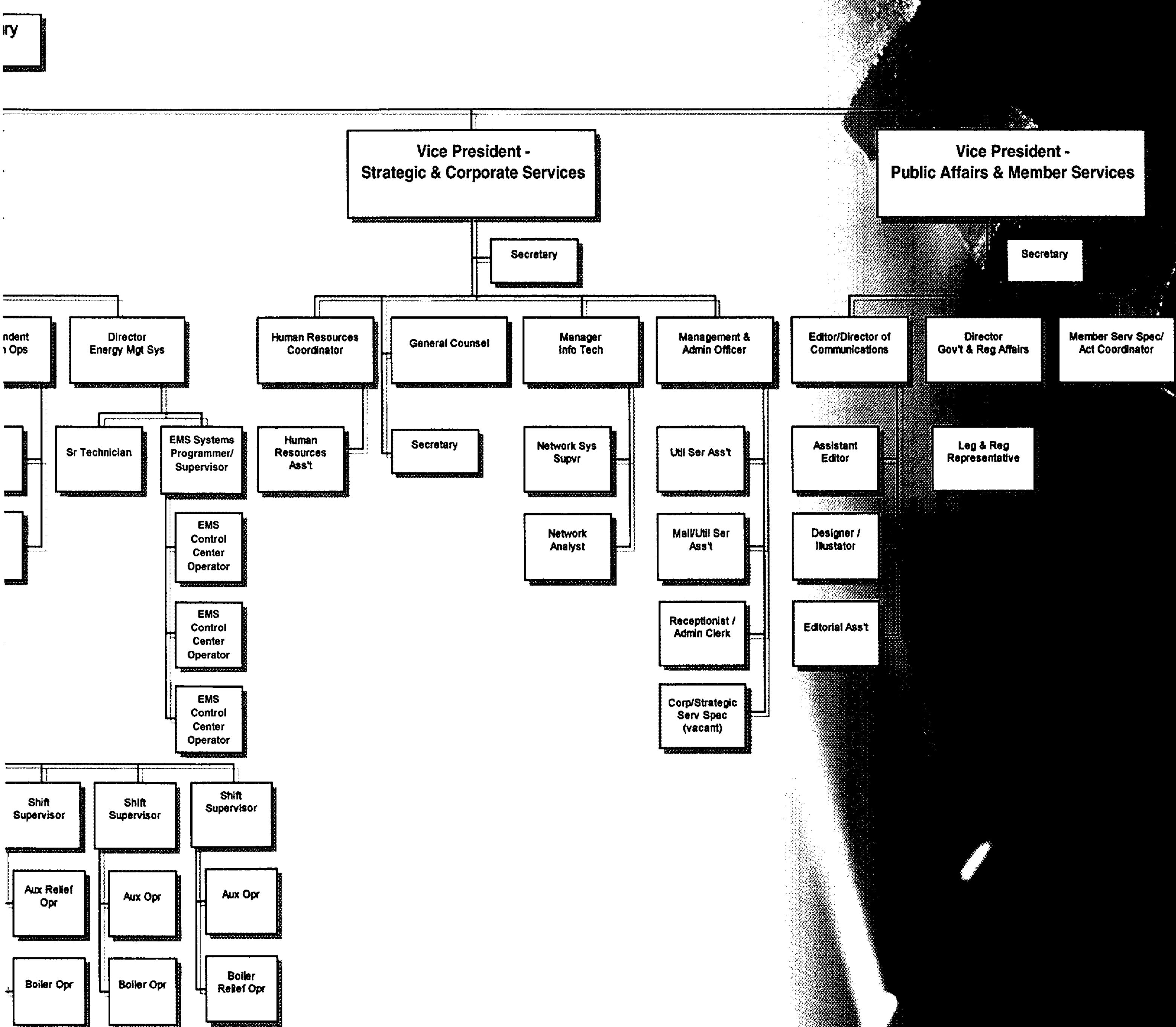
In New Jersey, all 3.5 million customers of the state's four private power companies were officially given the ability to choose an alternate electric generation supplier on November 14, 1999. At the end of 2000, 103,127 of them (two-thirds residential) had switched, accounting for approximately 10 percent of the state's total load.

Just as in Illinois, the Garden State's lone electric cooperative — Sussex REC — is exempt from competition unless it markets outside of its service territory.

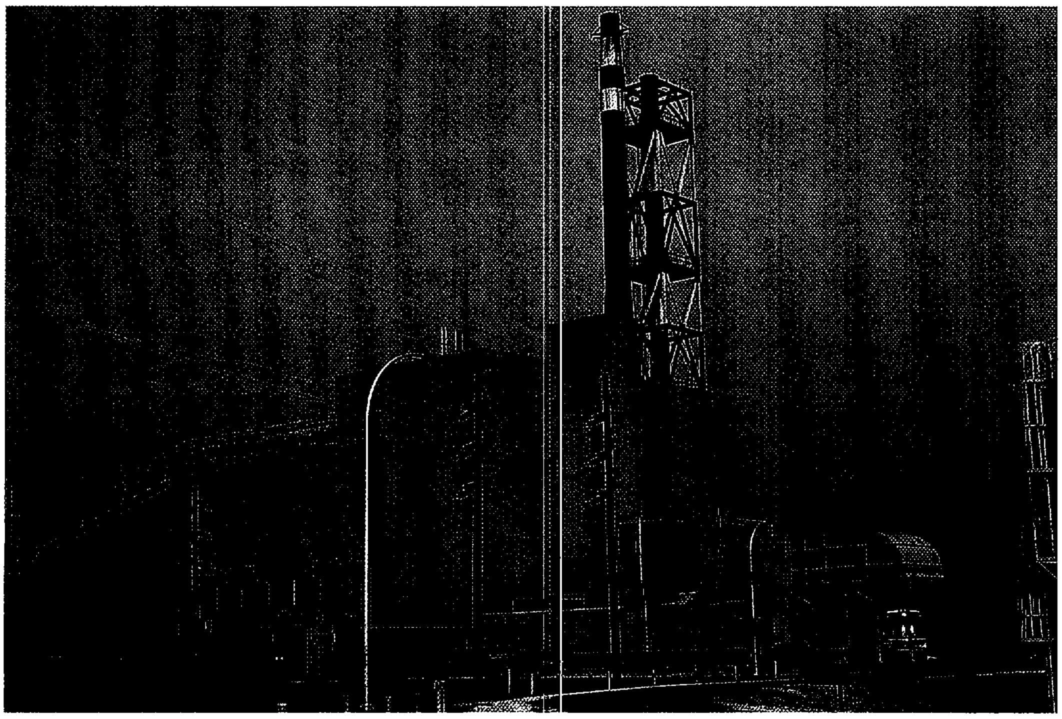
Continental Cooperative



vices Organization Chart



Pearl Station

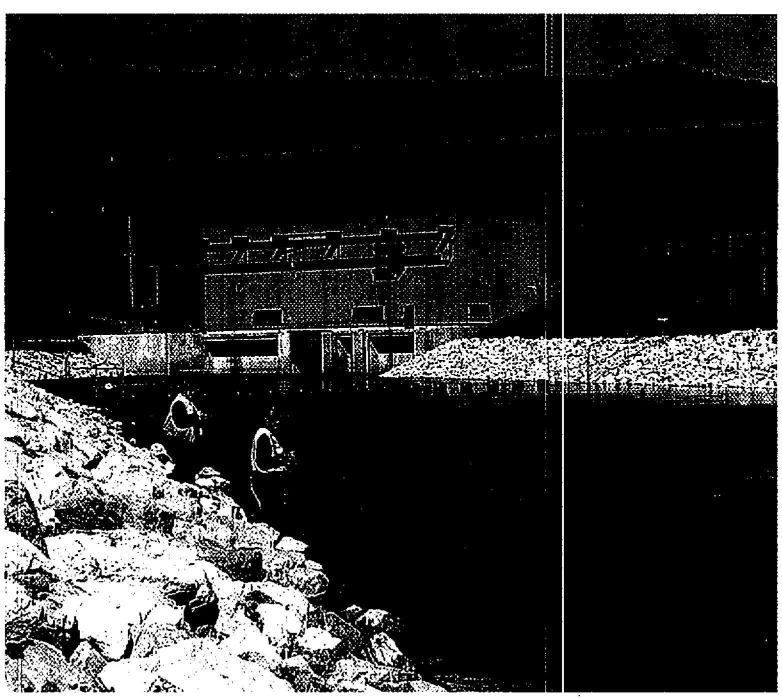


Pearl Station is a 22-megawatt, coal-fired baseload power plant located in Pike County, Ill., along the Illinois River near the town of Pearl. It first went on-line in 1967.

In fiscal 2000, Pearl produced 139 million kilowatt-hours of electricity, providing about 10 percent of the energy supplied by CCS-member Soyland to its 12 Illinois electric distribution cooperative members.

Also during the year, various components at the facility were dismantled for inspection, as required for insurance purposes following every seven-year operational cycle. During the six-week outage which took place in the fall, the steam turbine and generator were found to be in good condition, with some boiler tubing replaced.

Raystown Hydroelectric Project

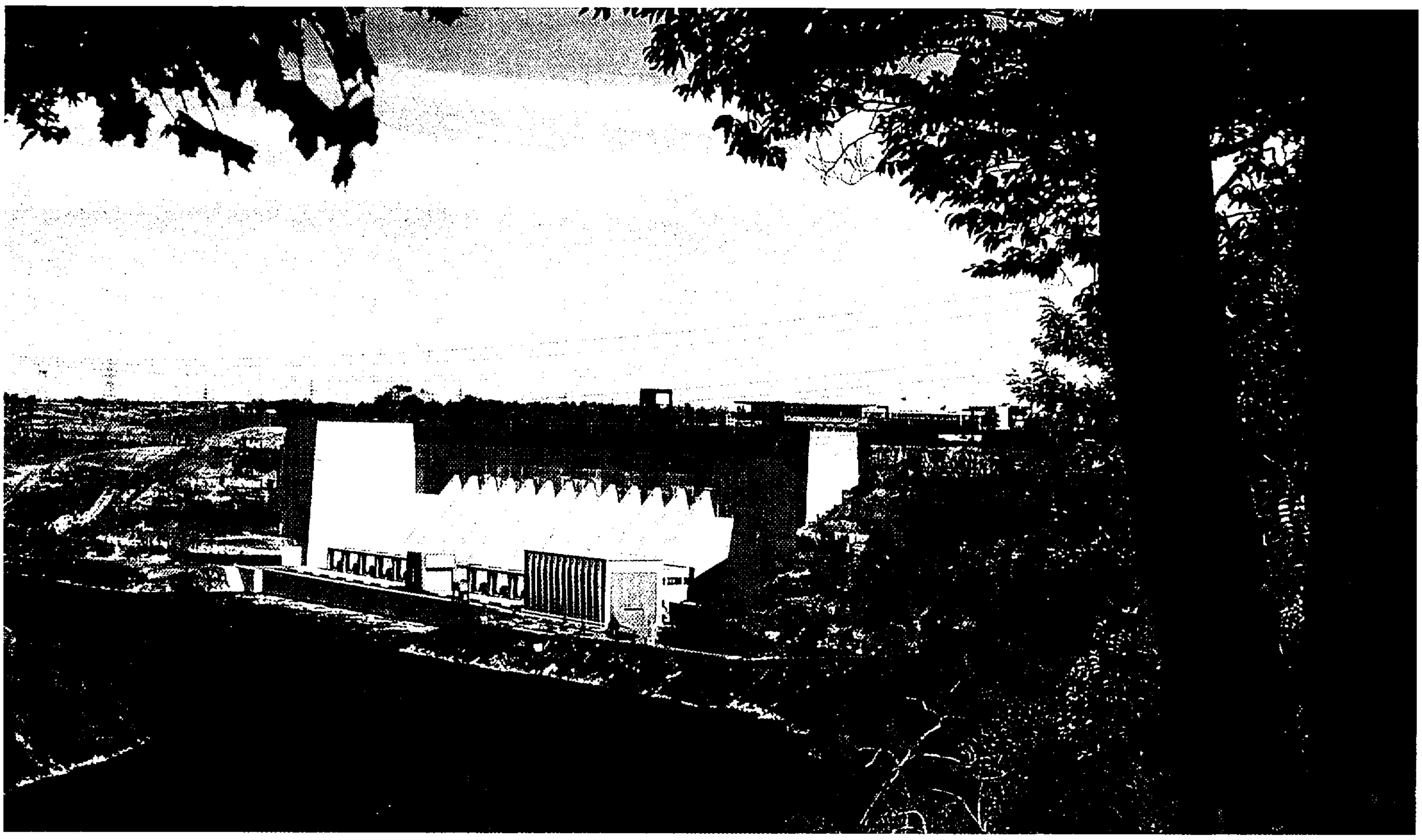


The Raystown Hydroelectric Project, William F. Matson Generating Station, is a two-unit, 21-megawatt, run-of-river hydropower facility located at Lake Raystown and Dam in Huntingdon County, Pa. On average, the plant generates approximately 3.2 percent of the energy CCS-member Allegheny supplies to its 14 electric distribution cooperative members in Pennsylvania and New Jersey.

Due to effects of record drought impacting the Mid-Atlantic region, Raystown in fiscal 2000 provided approximately 71.2 million kilowatt-hours at delivery, 12 percent below projections based on historic average water flow. Plant availability of 98.7 percent was recorded, significantly above the small hydro industry average.

CCS-member Allegheny operates Raystown in close cooperation with the Baltimore District of the U.S. Army Corps of Engineers. The Corps controls water releases from Lake Raystown, the largest man-made lake in Pennsylvania.

New York Power Authority



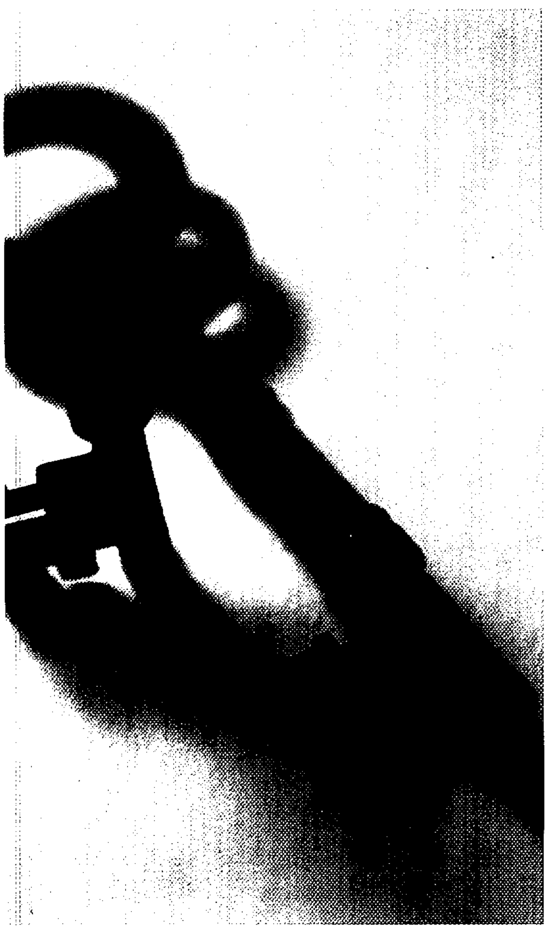
Not-for-profit electric cooperatives and legitimate municipal electric systems within economic transmission distance receive first right, or preference, to a portion of the electric power generated at the publicly owned Niagara Power Project operated by the New York Power Authority (NYPA). A 1990 contract gives CCS-member Allegheny rights to this low-cost hydropower through June 30, 2001. The NYPA Board of Trustees has extended the contract through June 2002.

Since CCS-member Allegheny began purchasing it in 1966, NYPA power has saved electric distribution cooperatives in Pennsylvania more than $270 million compared to the cost of buying the same power from other sources. NYPA accounts for approximately 9 percent of Allegheny's energy needs, but only 3 percent of its power costs.

Pennsylvania's allocation of NYPA power currently stands at 47.9 megawatts (MW) from the Niagara Power Project and 20.3 MW from the sister St. Lawrence Power Project. Out of this, Allegheny receives nearly 42 MW (41 MW from Niagara and 1 MW from St. Lawrence).

CCS-member Allegheny also acts as Bargaining Agent for the remaining NYPA power shipped to Pennsylvania. Keystone State utilities besides Allegheny that receive NYPA power include private power companies GPU Energy, PECO Energy and PPL Utilities, as well as 10 municipal electric systems — Berlin, Elwood City, Ephrata, Grove City, Hooversville, Kutztown, Lansdale, Lehighton, Schuylkill Haven and Weatherly.

Economic Outreach



Boosting business development and job creation in electric cooperative service areas is critical to the future of CCS and its affiliated electric cooperatives, especially with the advent of retail electric competition.

In April 2000, Baldwin Developers, LLC, a subsidiary of CCS-member Soyland, in partnership with Great River Economic Foundation of Quincy, Ill., and Agracel, broke ground on an all-electric, 40,000-square-foot aviation-related speculative industrial building in the Baldwin Field Business Park in Quincy. Work on the facility was completed in November and an aviation refurbishing company is looking to occupy the space in early 2001.

Also during the year, Soyland's economic development advertising and networking activities generated 25 projects and five community site visits for its member cooperatives in Illinois. Soyland business retention activities assisted U.S. Soy, a soybean processing firm, in expanding operations, a move that boosted electricity consumption by 20 percent.

Another innovative marketing effort conducted by CCS-member Soyland is sponsorship — in conjunction with its six member cooperatives that are also Touchstone Energy® partners — of the Touchstone Energy® hot air balloon at state fairs, farm shows and other festivals around the Prairie State. Touchstone Energy® is a nationwide alliance of more than 560 electric cooperatives in 38 states.

One way CCS-member Allegheny helps electric distribution cooperatives in Pennsylvania and New Jersey cement local relationships is through the Rural Economic Community Assistance (RECA) Fund. The self-sustaining RECA Fund, once fully capitalized, will make low-interest loans — ranging from $20,000 to $200,000 — to worthy infrastructure projects that cannot easily access other financing sources. The most likely candidates for funding are public safety, housing, business development and distance learning initiatives.

Thanks to a $330,000 grant awarded to Allegheny by the federal Rural Business-Cooperative Service (RBCS) in October 1998, the RECA Fund took the first step toward its capitalization goal of $900,000. Under RBCS regulations, the entire $330,000 was provided to the Bedford County (Pa.) Development Association as a zero-interest loan to help finance the initial creation of a $2.51 million, 143-acre multi-lot industrial park along Business Route 220 in Bedford Township. More than 650 new jobs are already tied to the project. Cannondale — a leading maker of state-of-the-art bicycles — has opened a plant at the site to manufacture a new line of off-road motorcycles.

The $330,000 RBCS grant, plus later grants, will be coupled with a required 20 percent match by Allegheny to fully fund RECA. As structured, payments over the next 10 years on the zero-interest loans stemming from the grants will flow back into the RECA Fund, allowing it to "revolve" and make new loans. Projects that could tap the RECA Fund are identified by local distribution cooperatives.

Load Management

Electric cooperatives have long recognized the importance of demand-side management as a component of integrated resource planning. In 1986, CCS-member Allegheny along with CCS-affiliated distribution cooperatives in Pennsylvania and New Jersey launched the Coordinated Load Management System (CLMS) to reduce demand peaks at cooperative substations.

By shifting electricity use of residential water heaters, electric thermal storage units, dual fuel home heating systems and other special appliances from peak demand periods to times of lesser demand, CLMS improves system efficiency, cuts costly demand charges cooperatives must pay for purchased power and reduces the need for new generating capacity. CLMS has also been used during summer peaks to reduce CCS capacity obligations under procedures established by the PJM Independent System Operator.

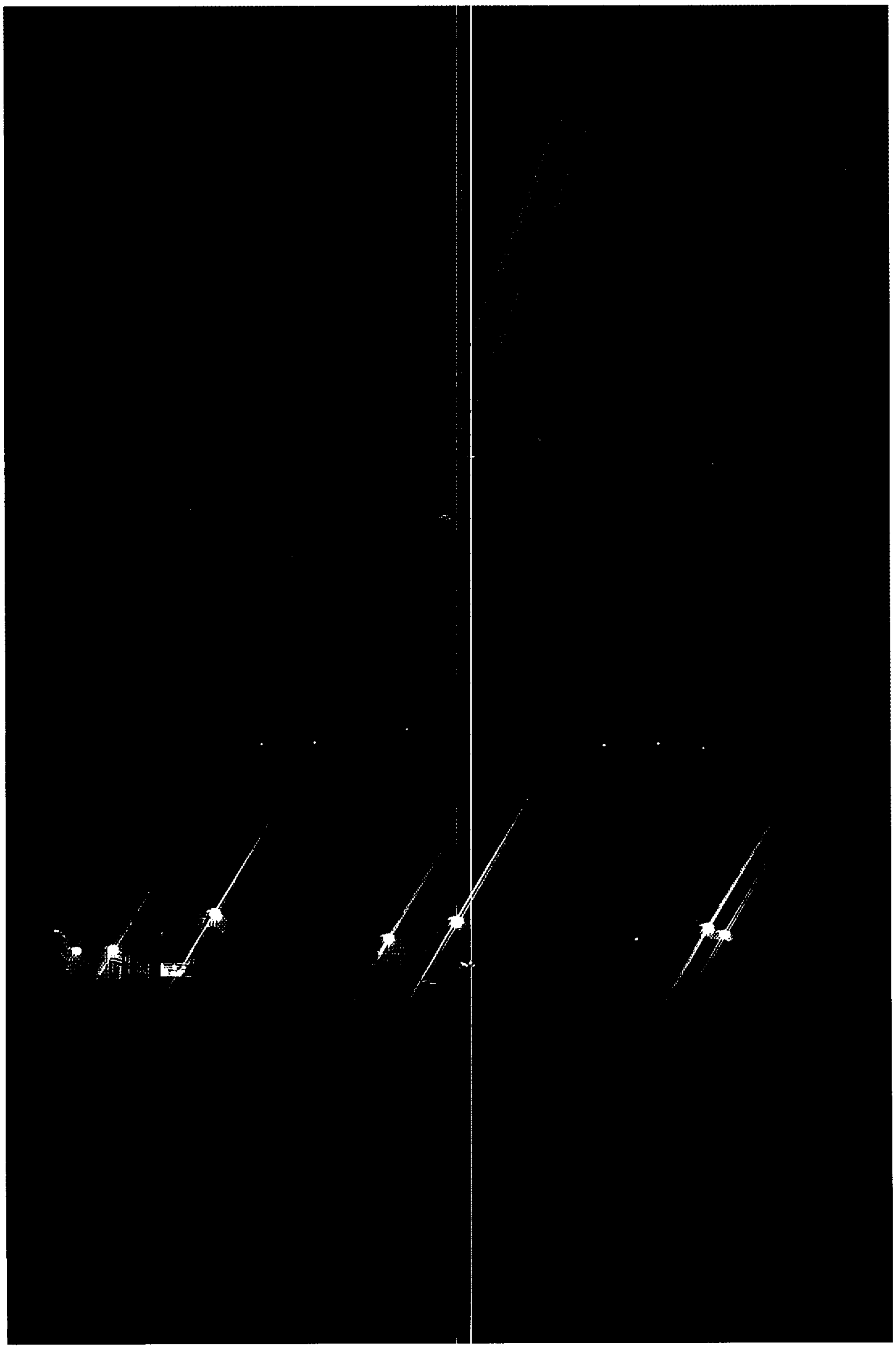
In 2000, CLMS reduced cooperative purchased power costs by $6.9 million, bringing total savings achieved since December 1986 to more than $50 million. Currently, 185 substations are equipped for CLMS and nearly 43,500 load control receivers have been installed on appliances, mostly water heaters, in the homes of volunteer cooperative consumers.

CCS-member Soyland uses System Control and Data Acquisition (SCADA) to monitor load levels, transmission facilities and generating plant performance. Through SCADA, real-time decisions about generation or purchased power requirements can be made based on forecasts, schedules and actual system performance. This decision-making capability is key in today's market-based electric utility industry.

During summer 2000, using information from forecasts and the SCADA system, Soyland called peak warnings on two days. This load management effort resulted in a savings of approximately $602,000.

As part of an energy supply agreement with private power company Ameren, remote terminal units were installed on all 50 of Soyland's interconnection points with Illinois Power, another private power company, in early 2000. These units, connected through the SCADA system, allow Soyland to furnish Ameren with real-time load signals from the Illinois Power control area as a way to help minimize energy imbalance costs incurred under Illinois Power transmission tariffs.

Susquehanna Steam Electric Station



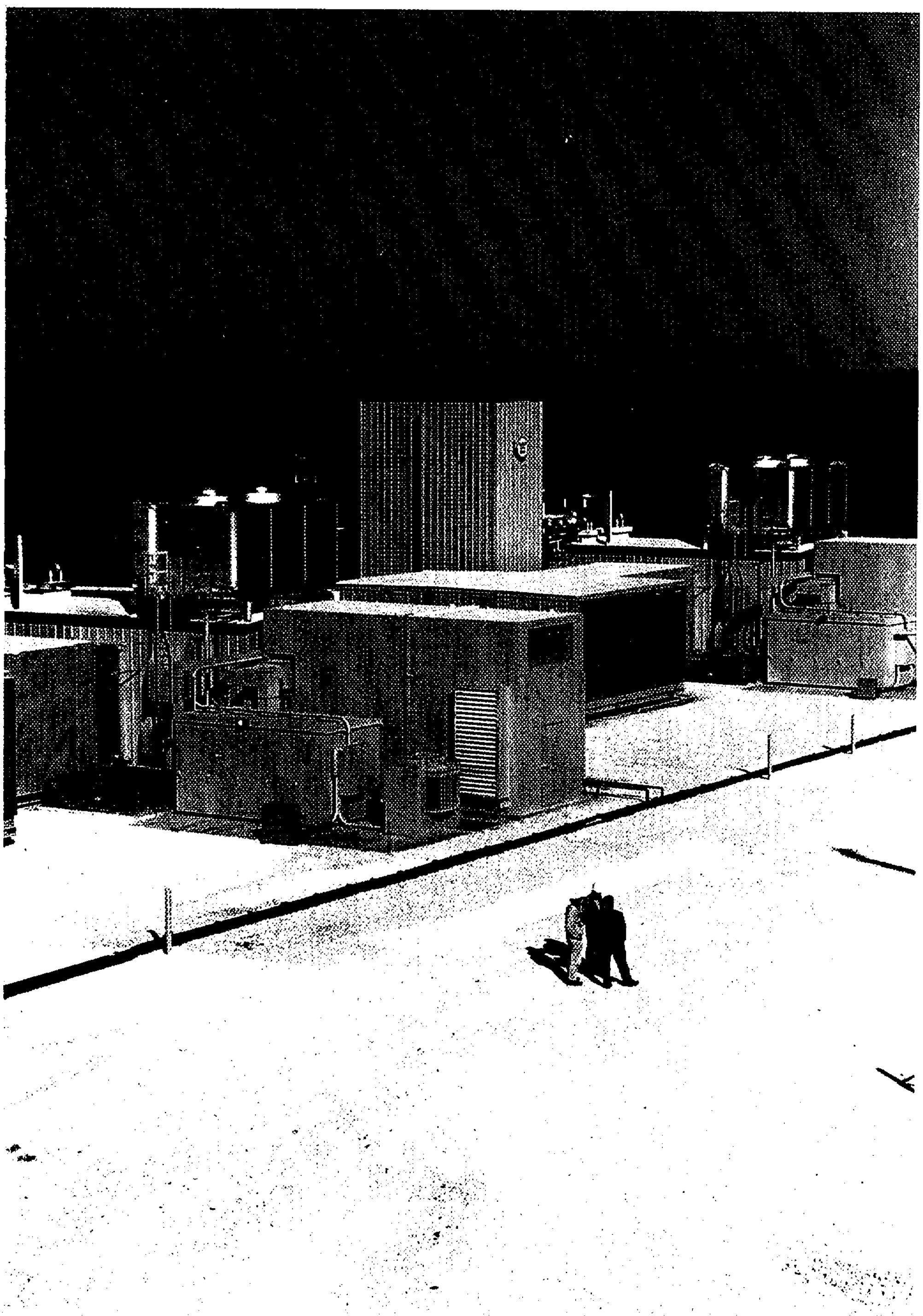
CCS-member Allegheny owns 10 percent of the Susquehanna Steam Electric Station (SSES), a 2,200-megawatt, two-unit nuclear power plant located in Luzerne County, Pa. PPL Susquehanna, a division of Allentown, Pa.-based PPL Corporation, owns the remaining 90 percent and operates the boiling water facility.

In 2000, SSES provided 1.64 billion kilowatt-hours of electricity at delivery to Allegheny, providing 66 percent of Pennsylvania and New Jersey electric cooperative power supply needs. The capacity factor of SSES Unit 1 was 84 percent; Unit 2 was 96 percent. This works out to an average annual composite capacity factor for the facility of 90 percent.

By experiencing only one unscheduled outage in 2000, SSES set a new generation record, producing more than 17.5 billion total kilowatt-hours of electricity. This topped the previous mark set in 1996 by 3.8 percent.

Also during the year, SSES Unit 1 returned to service following its 11th scheduled refueling and maintenance outage. During the 48-day outage, workers replaced about 35 percent of the unit's uranium fuel — 256 bundles — and completed about 2,300 separate maintenance jobs. Both Unit 1 and Unit 2 run on a 24-month refueling cycle.

Alsey Generating Station



The Alsey Generating Station is a five-unit, natural gas-fired peaking complex located in Scott County, Ill., near the village of Alsey. Owned and operated by CCS-member Soyland, it entered service on June 25, 1999 and has a nameplate peak rating capacity of 125 megawatts.

Alsey Station operates in conjunction with Ameren, a private power company, when it is more cost effective to run the combustion turbines than purchase power from other providers. It is designed to run during periods of peak electric use — roughly 600 "called upon" hours per year on average, but no more than 937 hours. The hour figures are based on U.S. Environmental Protection Agency limitations which state that no more than 250 tons of nitrous oxide can be emitted annually.

Continental Cooperative Services Fact Sheet

Incorporated: March 2000

Members: Allegheny Electric Cooperative, Inc. and Soyland Power Cooperative, Inc.

States Served: Illinois, New Jersey and Pennsylvania

Total Meters Served By Member Cooperatives: Nearly 300,000, representing approximately one million electric co-op consumers

Governance: 26-member board of directors (one director representing each affiliated distribution cooperative)

NERC Operating Regions: Mid-Atlantic Area Council (MAAC), Mid-America Interconnected Network (MAIN) and East Central Area Reliability Coordination Agreement (ECAR)

Total 2000 System Peak Load: 1,029 megawatts

Subsidiaries and Related Entities:

- American Cooperative Services, Inc. (retail electric generation supplier)
- Baldwin Developers, LLC (rural economic development)
- Cooperative Balloon Associates, LLC (Touchstone Energy® hot air balloon sponsorship)

Generation and Transmission Facilities

417 megawatts of generation

- 263 megawatts of nuclear, coal and hydro baseload generation
  - 220 megawatts nuclear baseload (Susquehanna Steam Electric Station, Luzerne County, Berwick, Pa.)
  - 22 megawatts coal-fired baseload (Pearl Station, Pike County, Pearl, Ill.)
  - 21 megawatts hydro baseload (Raystown Hydroelectric Project at Raystown Lake, Huntingdon County, Pa.)
- 154 megawatts of oil- and gas-fired peaking units
  - 125-megawatt Alsey Generating Station, a gas-fired peaking facility in Scott County, Alsey, Ill.
  - 20-megawatt oil-fired peaker at Pearl, Ill.
  - Nine-megawatt diesel peaker at Pittsfield, Ill.

682 miles of transmission lines

- 600 miles of transmission lines in Illinois
- 42 miles of high-voltage transmission lines in Pennsylvania
- 40 miles of other transmission lines in Pennsylvania operated at various voltages in conjunction with member cooperatives

Other facilities

- 100 substations in Illinois
- 197 power delivery points in Pennsylvania, one in New Jersey
- Load management system with maximum peak reduction capabilities of 90 megawatts

Affiliated Distribution Cooperatives

Illinois:

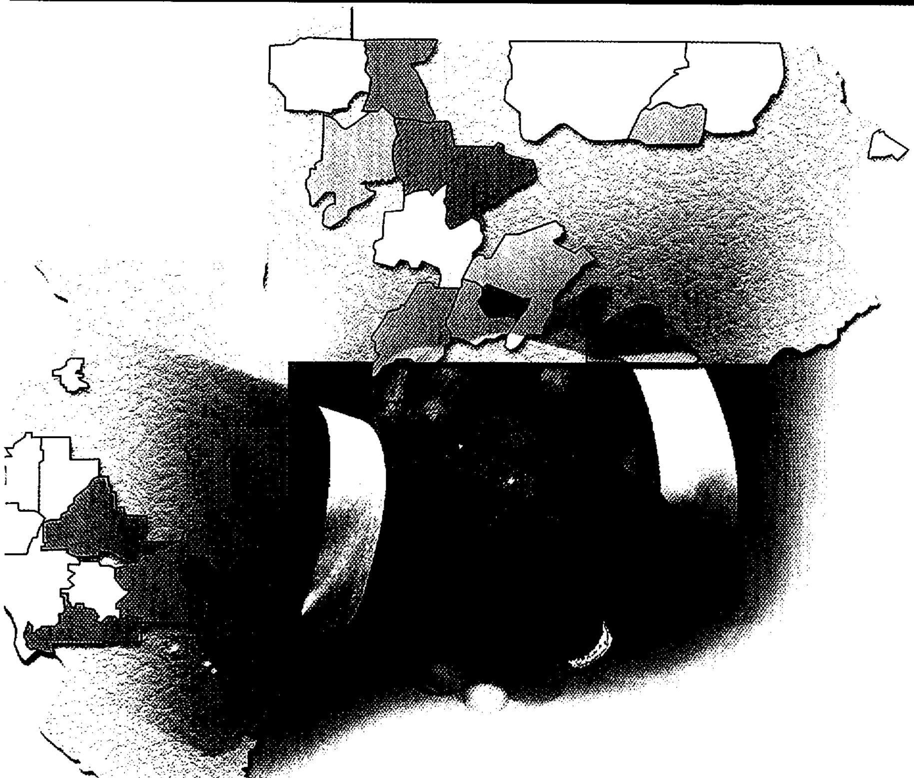
Adams Electric Cooperative, Camp Point, Ill.
Coles-Moultrie Electric Cooperative, Mattoon, Ill.
Eastern Illini Electric Cooperative, Paxton, Ill.
Farmers Mutual Electric Company, Geneseo, Ill.
Illinois Rural Electric Cooperative, Winchester, Ill.
McDonough Power Cooperative, Macomb, Ill.
M.J.M. Electric Cooperative, Inc., Carlinville, Ill.
Menard Electric Cooperative, Petersburg, Ill.
Rural Electric Convenience Cooperative Company, Auburn, Ill.
Shelby Electric Cooperative, Shelbyville, Ill.
Spoon River Electric Cooperative, Inc., Canton, Ill.
Western Illinois Electrical Cooperative, Carthage, Ill.

New Jersey:

Sussex Rural Electric Cooperative, Inc., Sussex, N.J.

Pennsylvania:

Adams Electric Cooperative, Inc., Gettysburg, Pa.
Bedford Rural Electric Cooperative, Inc., Bedford, Pa.
Central Electric Cooperative, Inc., Parker, Pa.
Claverack Rural Electric Cooperative, Inc., Wysox, Pa.
New Enterprise Rural Electric Cooperative, Inc., New Enterprise, Pa.
Northwestern Rural Electric Cooperative Association, Inc., Cambridge Springs, Pa.
Somerset Rural Electric Cooperative, Inc., Somerset, Pa.
Southwest Central Rural Electric Cooperative Corporation, Indiana, Pa.
Sullivan County Rural Electric Cooperative, Inc., Forksville, Pa.
Tri-County Rural Electric Cooperative, Inc., Mansfield, Pa.
United Electric Cooperative, Inc., DuBois, Pa.
Valley Rural Electric Cooperative, Inc., Huntingdon, Pa.
Warren Electric Cooperative, Inc., Youngsville, Pa.



CCS Board of Directors

David Cowan
Chairman
Adams Electric Cooperative, Inc.
Gettysburg, Pa.

David Bergland
Vice Chairman
Spoon River Electric Cooperative, Inc.
Canton, Ill.

James Coleman
Secretary
Shelby Electric Cooperative
Shelbyville, Ill.

Kathryn Cooper-Winters
Treasurer
Northwestern Rural Electric
Cooperative Association, Inc.
Cambridge Springs, Pa.

Bradley Ludwig
At-Large
Eastern Illini Electric Cooperative
Paxton, Ill.

Alston Teeter
At-Large
Tri-County Rural Electric Cooperative, Inc.
Mansfield, Pa.

Robert Willis
Adams Electric Cooperative
Camp Point, Ill.

Wayne Hillegass
Bedford Rural Electric Cooperative, Inc.
Bedford, Pa.

George (Bud) Francisco Jr.
Central Electric Cooperative, Inc.
Parker, Pa.

John McNamara
Claverack Rural Electric Cooperative, Inc.
Wysox, Pa.

Mark Degler
Coles-Moultrie Electric Cooperative
Mattoon, Ill.

Murray Madsen
Farmers Mutual Electric Company
Geneseo, Ill.

Merton Pond
Illinois Rural Electric Cooperative
Winchester, Ill.

William Pollock
McDonough Power Cooperative
Macomb, Ill.

Dennis Keiser
M.J.M. Electric Cooperative, Inc.
Carlinville, Ill.

Michael Carls
Menard Electric Cooperative
Petersburg, Ill.

John Ritchey
New Enterprise Rural Electric
Cooperative, Inc.
New Enterprise, Pa.

David White
Rural Electric Convenience
Cooperative Company
Auburn, Ill.

Lowell Friedline
Somerset Rural Electric Cooperative, Inc.
Somerset, Pa.

Roy (Sam) Eckenrod Jr.
Southwest Central Rural Electric
Cooperative Corporation
Indiana, Pa.

John Anstadt
Sullivan County Rural Electric
Cooperative, Inc.
Forksville, Pa.

James Henderson
Sussex Rural Electric Cooperative, Inc.
Sussex, N.J.

Stephen Marshall
United Electric Cooperative, Inc.
DuBois, Pa.

Earl Parsons
Valley Rural Electric Cooperative, Inc.
Huntingdon, Pa.

Dave Turner
Warren Electric Cooperative, Inc.
Youngsville, Pa.

Haven Vaughn
Western Illinois Electrical Cooperative
Carthage, Ill.

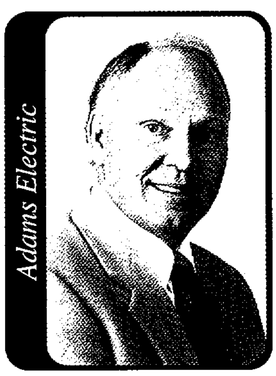
Soyland Board of Directors

James Coleman*
Chairman
Manager

David Bergland*
Vice Chairman
Director

Michael Carls*
Secretary-Treasurer
Director

Douglas Aeilts, P.E.
Assistant Secretary-Treasurer
Manager



Robert Willis*
Director

Mark Degler*
Director

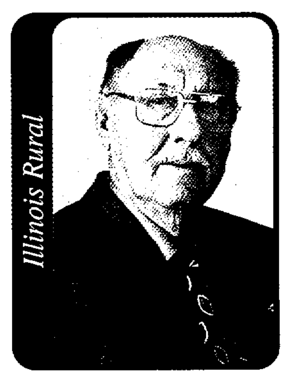
M. L. (Chris) Christman
Manager

Bradley Ludwig*
Director

Wm. David Champion
Manager

Murray Madsen*
Director

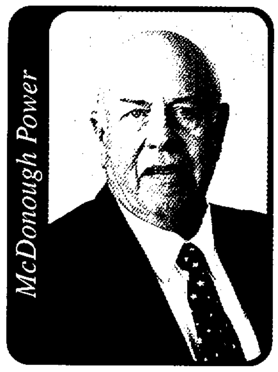
Robert Delp
Manager



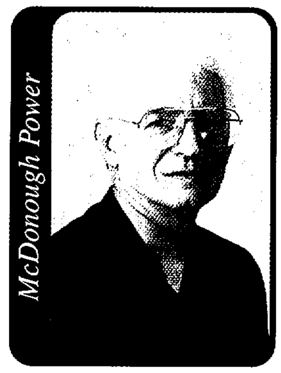
Merton Pond*
Director

Soyland Board of Directors

Bruce Giffin
Manager



William Pollock*
Director



Dickson Dunsworth
Manager

Robert Lehmann
Director

Dennis Keiser*
Manager

Lynn Frasco, P.E.
Manager

David White*
Director

David Stuva
Manager

Richard Boggs
Director

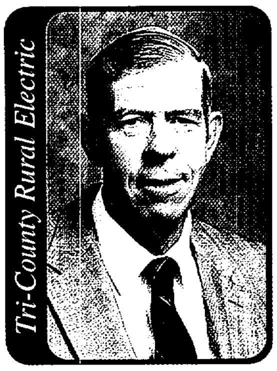
W. Edward Cox
Manager

Haven Vaughn*
Director

Paul Dion
Manager

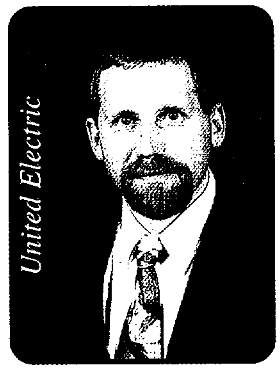
** Denotes CCS Director*

Allegheny Board of Directors

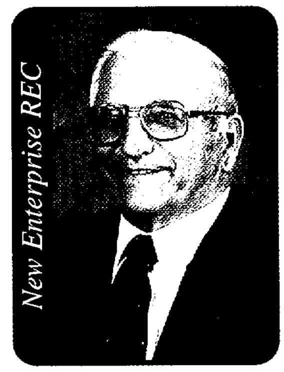


Alston Teeter
Chairman
Director

Lowell Friedline
Vice Chairman
Director



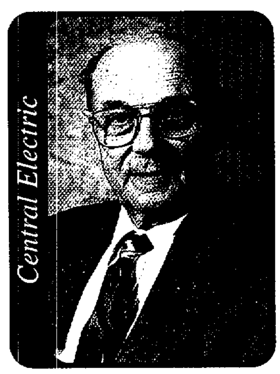
Stephen Marshall
Secretary
Director



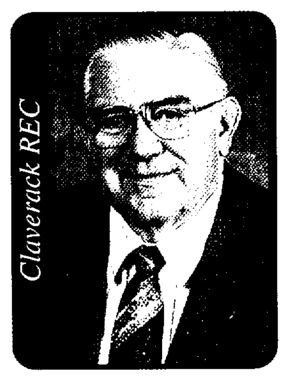
John Ritchey
Treasurer
Director

David Cowan
Director

Wayne Hillegass
Director

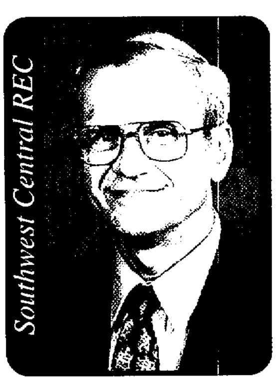


George (Bud) Francisco Jr.
Director

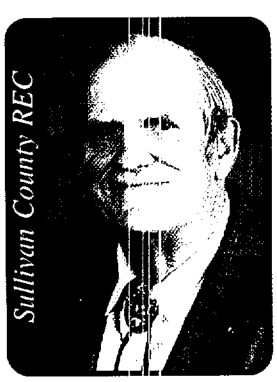


John McNamara
Director

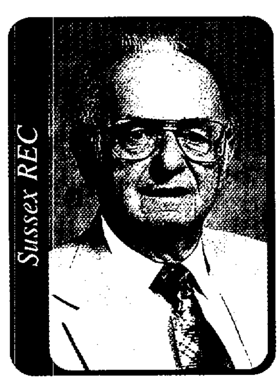
Kathryn Cooper-Winters
Director



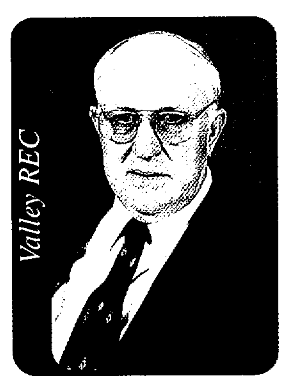
Roy (Sam) Eckenrod
Director



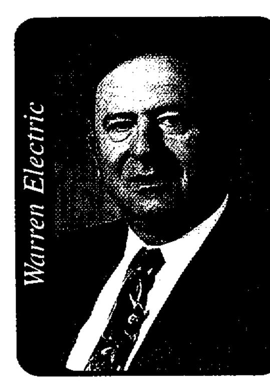
John Anstadt
Director



James Henderson
Director



Earl Parsons
Director



Dave Turner
Director

Note: All Allegheny Electric Cooperative, Inc. directors also serve as CCS directors.

CONTINENTAL
COOPERATIVE
SERVICES

212 Locust Street • P.O. Box 1266 • Harrisburg, PA 17108
717/920-1111 • FAX 717/234-1309