

CHUGACH ELECTRIC ASSOCIATION, INC.  
ANCHORAGE, ALASKA

November 21, 2006

To: Mike Cunningham, Chief Financial Officer  
From: Sherri McKay-Highers, Manager, Corporate Budgeting  
Subject: October 2006 Year to Date Financial Results

kWh Sales

	<u>2006 Actual</u>	<u>2006 Budget</u>
Retail kWh Sales	991,902,932	1,007,310,749
Wholesale kWh Sales	1,017,689,986	1,032,190,287
Economy Energy kWh Sales	<u>213,132,950</u>	<u>298,119,000</u>
Total	2,222,725,868	2,337,620,036

October 2006 year to date kWh sales total 2,222,725,868, which are 5.0% under budget. Significant factors to this variance include lower than anticipated economy energy sales to Golden Valley Electric Association (GVEA), lower retail sales and fewer sales to Homer Electric Association (HEA) and Seward Electric System (SES).

Retail kWh sales are under budget by 1.5%, while wholesale kWh sales are 1.4% lower than budgeted. The retail sales variance is primarily due to lower than expected consumer growth. A significant factor in the wholesale sales variance is lower than anticipated sales to Seward Electric System (SES), who experienced an avalanche on February 9, which cut the 69 kV line. Seward was on its own generation for the rest of February and the beginning of March. Another factor is lower sales to HEA due to higher Bradley Lake use, which may be offset by year end. Economy energy sales are under budget by 28.5%. GVEA has purchased more from Municipal Light & Power (ML&P) primarily due to the unavailability of our units.

Energy Revenue (in millions)

	<u>2006 Actual</u>	<u>2006 Budget</u>
Retail Revenue	\$ 122.1	\$ 123.1
Wholesale Revenue	75.3	74.7
Economy Energy Revenue	<u>12.8</u>	<u>18.6</u>
Total	\$ 210.2	\$ 216.4

Revenue from sales total \$210.2 million year to date in 2006 compared to \$216.4 in the budget. Retail revenue is under budget by \$1.0 million and economy energy revenue is under budget by \$5.8 million. Wholesale revenue exceeds the budget by \$0.7 million.

Other Operating Revenue (in millions)

	<u>2006 Actual</u>	<u>2006 Budget</u>
Other Operating Revenue	\$ 2.4	\$ 2.2

Other operating revenue for 2006 totals \$2.4 million compared to \$2.2 million in the budget. This variance is primarily due to higher than anticipated wheeling and commercial microwave revenue.

Power Production (in millions)

	<u>2006 Actual</u>	<u>2006 Budget</u>
Operating & Maintenance	\$ 12.2	\$ 12.6
Fuel	<u>93.6</u>	<u>96.7</u>
Total	\$ 105.8	\$ 109.3

Actual power production operating and maintenance expense year to date for 2006 is \$12.2 million compared to a budget of \$12.6 million. This variance is primarily due to higher than anticipated labor charged to capital projects which resulted in lower expense labor as well as lower labor expense as a result of vacancies related to retirements and unfilled positions. The variance is also due to lower than anticipated transportation expense due to the timing of expenditures.

Fuel expense year to date in 2006 is \$93.6 million compared to \$96.7 million projected in the budget. This variance is primarily due to lower economy energy sales discussed above.

Purchased Power (in millions)

	<u>2006 Actual</u>	<u>2006 Budget</u>
Total Purchased Power	\$ 23.0	\$ 24.8

Purchased power expense year to date for 2006 totals \$23.0 million compared to \$24.8 million in the budget. This variance is primarily due to lower Bradley Lake operating expenses.

Transmission Operations and Maintenance (in millions)

	<u>2006 Actual</u>	<u>2006 Budget</u>
Total Transmission	\$ 5.1	\$ 5.1

Transmission operations and maintenance expense totals \$5.1 million in 2006 compared to \$5.1 million in the budget. This financial statement category experienced lower than anticipated professional services associated with transmission line clearing which is being offset by costs associated with the Dynamite Slough repair project. Chugach is awaiting a determination from the Federal Emergency Management Agency, (FEMA) for reimbursement of those costs.

Distribution Operations and Maintenance (in millions)

	<u>2006 Actual</u>	<u>2006 Budget</u>
Total Distribution	\$ 9.1	\$ 9.3

Distribution operations and maintenance expenses totals \$9.0 million compared to \$9.3 million in the budget. The variance is primarily due to the timing of contributions in aid of construction for the completion of municipal undergrounding projects, which offsets costs associated with those projects.

Consumer Accounts (in millions)

	<u>2006 Actual</u>	<u>2006 Budget</u>
Total Consumer Accounts	\$ 3.7	\$ 3.8

Consumer accounts expense totals \$3.7 million compared to \$3.8 million in the budget, with no significant variances.

Customer Information (in millions)

	<u>2006 Actual</u>	<u>2006 Budget</u>
Total Customer Information	\$ 0.4	\$ 0.7

Customer information expense year to date 2006 totals \$0.4 million compared to \$0.7 million in the budget. This variance is primarily due to lower than anticipated professional services associated with television safety advertising.

Administrative & General (in million)

	<u>2006 Actual</u>	<u>2006 Budget</u>
Total Administrative and General	\$ 14.7	\$15.0

Administrative and general expenses total \$14.7 million for 2006 compared to \$15.0 million in the budget. This financial statement category experienced lower professional services primarily due to the timing of legal expenditures.

The summary of all the above 2006 operations and maintenance expenses total \$161.8 million compared to \$167.9 million in the revised 2006 budget.

Depreciation expense totals \$23.7 million for 2006 compared to \$23.8 in the budget, with no significant variance.

Tax expense for 2006 totals \$0.7 million compared to \$0.7 million in the budget, with no significant variance.

Long-term interest expense totals \$20.4 million compared to \$19.5 million in the budget. The variance is due to higher than anticipated variable interest rates. The variable interest rate was budgeted between 3.75% and 4.07% for the 2002 Series B bonds and between 5.20% and 5.52% for the CoBank debt. Actual rates are 5.31% and 6.66%, respectively.

Interest during construction totals \$0.4 million compared to \$0.8 million in the budget. The variance is primarily due to a lower than anticipated balance in Construction Work in Progress (CWIP), as well as the early completion of the Beluga Unit 6 C Inspection.

Other interest expense totaled \$0.0 million compared to \$0.1 million in the budget. This variance is due to lower than expected capital spending. This resulted in the line of credit not being utilized as anticipated.

Other deductions include donations, preliminary survey and investigation charges of abandoned projects and obsolete inventory write-offs, which are not properly attributable to operating or maintenance accounts. Year to date 2006, other deductions total \$0.2 million compared to \$0.2 million in the budget, with no significant variance.

All of the foregoing expenses result in total cost of electric service of \$206.4 million compared to \$211.4 million in the 2006 revised budget.

Non-operating margins include interest income, allowance for funds used during construction (AFUDC), capital credit and patronage capital allocations and extraordinary items. Year to date in 2006, non-operating margins total \$0.9 million compared to \$0.5 million in the budget. This variance is primarily due to higher than anticipated interest rates, as well as a higher cash balance throughout much of the year, which resulted in an increase to interest income.

The net result of revenue and expenses year to date in 2006 is margins of \$7.0 million compared to year to date projected margins of \$7.6 million in the 2006 revised budget. Per the attached comparative financial report, the current 10 month actual/2 month budget forecast, including approved budget revisions, projects year end margins of \$10.8 million and an MFI/I of 1.44.

**CHUGACH ELECTRIC ASSOCIATION, INC.**  
**COMPARATIVE FINANCIAL REPORT**  
**STATEMENT OF OPERATIONS**  
**OCTOBER 2006**

CATEGORY	2006 ACTUALS YTD	2006 APPROVED BUDGET	2006 REVISED BUDGET	2006 REVISED FORECAST*
<b>REVENUES:</b>				
<b>1. TOTAL REVENUE</b>	<b>\$212,634,133</b>	<b>\$269,620,829</b>	<b>\$269,620,829</b>	<b>\$258,244,757</b>
<b>EXPENSES:</b>				
2. FUEL EXPENSE	93,551,920	120,390,043	120,390,043	116,168,363
3. POWER PRODUCTION EXPENSE	12,225,020	14,776,719	14,819,807	14,596,105
4. COST OF PURCHASED POWER	23,036,892	30,329,556	30,329,038	24,239,528
5. TRANSMISSION EXPENSE	5,152,033	6,122,921	6,040,942	6,370,349
6. DISTRIBUTION EXPENSE-OPERATIONS	3,832,351	4,383,361	4,423,695	4,634,147
7. DISTRIBUTION EXPENSE-MAINTENANCE	5,212,630	6,833,040	6,780,243	6,359,547
8. CONSUMER ACCOUNTS EXPENSE	3,655,578	4,561,126	4,513,314	4,498,314
9. CUSTOMER SERVICE/INFO EXPENSE	446,939	809,984	785,245	714,953
11. ADMINISTRATIVE/GENERAL EXPENSE	14,680,773	17,227,027	17,934,325	17,634,336
<b>12. TOTAL OPERATIONS/MAINTENANCE EXP.</b>	<b>\$161,794,136</b>	<b>\$205,433,777</b>	<b>\$206,016,652</b>	<b>\$195,215,642</b>
13. DEPRECIATION/AMORTIZATION EXPENSE	23,696,104	29,358,247	28,584,332	28,584,332
14. TAX EXPENSE-OTHER	692,490	856,735	856,735	847,178
15. INTEREST-LONG TERM DEBT	20,408,852	23,448,911	23,448,911	24,494,113
16. INTEREST ON CONSTRUCTION-CREDIT	(372,450)	(929,825)	(900,861)	(447,165)
17. INTEREST EXPENSE-OTHER	0	126,666	126,666	0
18. OTHER DEDUCTIONS	227,605	300,000	300,000	277,605
<b>19. TOTAL COST OF ELECTRIC SERVICE</b>	<b>\$206,446,737</b>	<b>\$258,594,511</b>	<b>\$258,432,435</b>	<b>\$248,971,705</b>
<b>20. PATRONAGE CAPITAL/OPERATING MARGINS</b>	<b>\$6,187,396</b>	<b>\$11,026,318</b>	<b>\$11,188,394</b>	<b>\$9,273,052</b>
21. NON-OPERATING MARGINS-INTEREST	735,962	388,093	388,093	856,348
22. ALLOWANCE FUNDS USED DURING CONST.	136,060	164,087	158,977	149,245
23. NON-OPERATING MARGINS-OTHER	(17,419)	0	0	(17,419)
24. GENER./TRANS. CAPITAL CREDITS	0	0	0	0
25. OTHER CAPITAL CREDITS/DIVIDENDS	350	575,000	575,000	575,350
26. EXTRAORDINARY ITEMS	0	0	0	0
<b>27. PATRONAGE CAPITAL OR MARGINS</b>	<b>\$7,042,348</b>	<b>\$12,153,498</b>	<b>\$12,310,464</b>	<b>\$10,836,576</b>
 MFI/I	 1.35	 1.52	 1.52	 1.44

\* Forecast based on 10 months actual and 2 months forecast