

CHUGACH ELECTRIC ASSOCIATION, INC.  
ANCHORAGE, ALASKA

January 7, 2009

To: Mike Cunningham, Chief Financial Officer  
From: Sherri McKay-Highers, Manager, Budget and Financial Reporting  
Subject: November 2008 Year to Date Financial Results

kWh Sales

	<u>2008 Actual</u>	<u>2008 Budget</u>
Retail kWh Sales	1,086,653,704	1,102,805,150
Wholesale kWh Sales	<u>1,194,598,620</u>	<u>1,164,459,610</u>
Total Firm kWh Sales	2,281,252,324	2,267,264,760
Economy Energy kWh Sales	<u>247,375,370</u>	<u>207,970,000</u>
Total kWh Sales	2,528,627,694	2,475,234,760

November 2008 year to date firm kWh sales totaled 2,281,252,324 which were 0.6% over budget. While there was not an overall variance, lower than anticipated retail sales was offset by higher than anticipated sales to Homer Electric Association (HEA). November 2008 year-to-date economy energy sales to Golden Valley Electric Association (GVEA) totaled 247,375,370 which were 19.0% over budget.

Retail kWh sales were under budget by 1.5% and wholesale kWh sales were 2.6% higher than budgeted. A significant factor in the wholesale sales variance was higher than anticipated sales to HEA due primarily to higher industrial sales.

Energy Revenue (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Retail Revenue	\$ 142.1	\$ 138.8
Wholesale Revenue	<u>97.7</u>	<u>89.3</u>
Total Firm Revenue	239.8	228.1
Economy Energy Revenue	<u>17.9</u>	<u>13.6</u>
Total Revenue	\$ 257.7	\$ 241.7

Revenue from firm sales totaled \$239.8 million year to date in 2008 compared to \$228.1 million in the budget. Retail revenue from sales was lower than budget due to lower retail kWh sales, however, that variance was offset by higher fuel recovered through the fuel and purchased power surcharge mechanism which is included in revenue. Wholesale revenue was higher than budget primarily due to higher than anticipated sales to HEA and higher fuel recovered through the fuel and purchased power surcharge mechanism. Economy energy revenue was higher than budget by \$4.4 million primarily caused by more than anticipated sales to GVEA through November.

Other Operating Revenue (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Other Operating Revenue	\$ 2.6	\$ 2.7

Other operating revenue includes late fees, pole rental, wheeling, microwave and miscellaneous service and other electric revenue. Other operating revenue for 2008 totaled \$2.6 million compared to \$2.7 million in the budget, with no significant variance.

Power Production (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Operating & Maintenance	\$ 15.2	\$ 15.3
Fuel	<u>123.9</u>	<u>107.9</u>
Total	\$ 139.1	\$ 123.2

Actual power production operating and maintenance expense year to date for 2008 was \$15.2 million compared to \$15.3 million in the budget. While there was not an overall variance, this financial statement category was over budget primarily due to professional services caused by outages associated with Beluga Units 7 and 8, as well as higher warehouse and garage expenses. Depreciation was also over budget due to the difference between rates and implementation date of the 2005 depreciation study included in the final 2005 Test Year rate case. The final order from the 2005 Test Year rate case also caused an increase in the amortization of the Beluga River Gas Compression project due to the difference in projected amount and amortization period. Additionally, this financial statement category was over budget due to an Environmental Protection Agency (EPA) settlement, as well as unexpected water purchases required for the new water injection system at the Bernice Lake power plant. The aforementioned increases were offset by the deferral of materials for the Beluga Unit 3 inspection, now projected for 2009, lower labor expense and professional services associated with SCADA, environmental engineering and plant security, as well as lower training expense. Fuel expense year to date in 2008 was \$123.9 million compared to \$107.9 million projected in the budget. This variance was primarily caused by more than anticipated MCF purchased due in part to higher than anticipated sales to GVEA and the November forced outage of Beluga Unit 8 and a higher than anticipated price. Actual fuel purchased year to date was 27,965,397 MCF at an average price of \$5.07 per MCF compared to 26,256,228 MCF in the budget at an average price of \$4.79 per MCF.

Purchased Power (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Purchased Power	\$ 28.7	\$ 28.3

Purchased power expense year to date for 2008 totaled \$28.7 million compared to \$28.3 million in the budget. Although we experienced lower than anticipated purchases, that was offset by a higher price per kWh. We purchased 439,619 MWh of energy at an average effective price of 6.25 cents per kWh compared to 496,944 MWh of energy at an average effective price of 5.49 cents per kWh in the budget.

Transmission Operations and Maintenance (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Transmission	\$ 5.4	\$ 6.0

Transmission operations and maintenance expense for 2008 totaled \$5.4 million compared to \$6.0 million in the budget. The variance was primarily due to lower substation labor due to the substation department performing more distribution maintenance than anticipated which was recorded to that financial statement category and professional services associated with overhead line clearing. The aforementioned variances were slightly offset by higher helicopter expense. Helicopter services are used to maintain our microwave system at Silvertip, Cooper Mountain and other locations around the system as well as any inaccessible facilities. The fixed costs associated with our helicopter lease was projected to be allocated based on usage, however, lower helicopter usage resulted in a higher percentage of the fixed costs charged to this financial statement category.

Distribution Operations and Maintenance (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Distribution	\$ 11.5	\$ 10.9

Distribution operations and maintenance expenses for 2008 totaled \$11.5 million compared to \$10.9 million in the budget. This variance was due to higher substation labor due to more distribution maintenance being performed than anticipated as described above, as well as more labor and materials charged to expense which decreased the amount charged to capital. Additionally, the variance was due to labor associated with overhead line and transformer maintenance due to a weather related outage. The variance was also due to costs associated with workers compensation claims and higher warehouse and garage expense caused by an increase in depreciation expense due to the difference between rates and implementation date of the 2005 depreciation study included in the final 2005 Test Year rate case, as well as higher fuel costs.

Consumer Accounts (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Consumer Accounts	\$ 4.3	\$ 4.6

Consumer accounts expense for 2008 totaled \$4.3 million compared to \$4.6 million in the budget. This variance was primarily due to lower labor as well as software and labor expense allocated from information services.

Customer Information (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Customer Information	\$ 0.6	\$ 0.6

Customer information expense for 2008 totaled \$0.6 million compared to \$0.6 million in the budget, with no significant variance.

Administrative & General (in million)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Administrative and General	\$ 17.4	\$ 16.5

Administrative and general expenses for 2008 totaled \$17.4 million compared to \$16.5 million in the budget. This financial statement category was over budget due to professional services for legal and compliance matters, the preparation and distribution of the annual report and professional services related to board activities. Credit card fees were also over budget due to a change in the cutoff date associated with our credit card program. Labor and indirect labor associated with vacation and cash in lieu also contributed to this variance. These variances were somewhat offset by lower building maintenance and office supplies expense, lower labor costs allocated by information services and lower than anticipated professional services associated with training and regulatory matters. These variances were also offset by lower than anticipated costs associated with gas negotiations which are currently being deferred and not expensed.

The summary of all the above year to date 2008 operations and maintenance expenses total \$206.9 million compared to \$190.2 million in the 2008 budget.

Depreciation expense totaled \$28.2 million compared to \$27.8 in the budget. This variance was due to the difference between rates and implementation date of the 2005 depreciation study included in the final 2005 Test Year rate case.

Tax expense totaled \$0.7 million compared to \$0.8 million in the budget, with no significant variance.

Long-term interest expense year to date totaled \$19.5 million compared to \$21.2 million in the budget. This variance was primarily due to lower than anticipated interest rates and the interest expense associated with the 2002 Series B Bonds which was redeemed using the NRUCFC line of credit.

Interest during construction year to date totaled \$0.4 million compared to \$0.9 million in the budget. This variance was primarily due to a lower than anticipated average Construction Work In Progress, (CWIP) balance caused by less construction activity than anticipated and lower than anticipated interest rates.

Other interest expense year to date totaled \$1.4 million compared to \$0.3 million in the budget. The variance was primarily due to the interest expense associated with the NRUCFC line of credit which was utilized to redeem the \$29.6 million outstanding principal amount of the 2002 Series B Bonds. We also utilized our CoBank and NRUCFC lines of credit due to the timing of expenditures, receipt of payment for services and the under-recovery of the prior quarter's fuel

and purchased power costs. We had an outstanding balance of \$7.5 million on our CoBank line of credit and utilized an additional \$11.8 million on our NRUCFC line of credit through November.

Other deductions include donations, preliminary survey and investigation charges of abandoned projects and obsolete inventory write-offs which are not attributable to operating or maintenance accounts. Other deductions year to date totaled \$0.1 million compared to \$0.2 million in the budget. The variance was primarily due to less than anticipated write-offs.

All of the foregoing expenses resulted in total cost of electric service of \$256.5 million compared to \$239.6 million in the 2008 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 2008, non-operating margins totaled \$0.6 million compared to \$0.8 million in the budget. This variance was primarily due to lower Allowance For Funds Used During Construction, (AFUDC) caused by a lower than anticipated CWIP balance, as well as a lower average equity balance caused by less than anticipated margin performance in 2007.

The net result of revenue and expenses year to date in 2008 was margins of \$4.5 million compared to year to date projected margins of \$5.6 million in the budget. Per the attached comparative financial report on page 8, the current 11 months actual/1 month forecast projects year end margins of \$6.8 million and an MFI/I of 1.30. The year end forecast is preliminary pending year end accruals and other adjustments.

CHUGACH ELECTRIC ASSOCIATION, INC.  
 COMPARATIVE FINANCIAL REPORT  
 STATEMENT OF OPERATIONS  
 NOVEMBER 2008  
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CATEGORY	2008 NOVEMBER ACTUALS	2008 NOVEMBER BUDGET	2008 NOVEMBER VARIANCE
<b>REVENUES:</b>			
<b>1. TOTAL REVENUE</b>	<b>\$28,868,600</b>	<b>\$24,553,375</b>	<b>\$4,315,225</b>
<b>EXPENSES:</b>			
2. FUEL EXPENSE	15,656,314	10,965,210	4,691,104
3. POWER PRODUCTION EXPENSE	1,593,093	1,160,824	432,269
4. COST OF PURCHASED POWER	2,556,124	2,696,565	(140,441)
5. TRANSMISSION EXPENSE	317,201	501,576	(184,375)
6. DISTRIBUTION EXPENSE-OPERATIONS	335,748	344,985	(9,237)
7. DISTRIBUTION EXPENSE-MAINTENANCE	389,662	525,041	(135,379)
8. CONSUMER ACCOUNTS EXPENSE	337,375	386,505	(49,130)
9. CUSTOMER SERVICE/INFO EXPENSE	32,355	52,105	(19,750)
10. SALES EXPENSE	0	0	0
11. ADMINISTRATIVE/GENERAL EXPENSE	1,283,425	1,351,748	(68,323)
<b>12. TOTAL OPERATIONS/MAINTENANCE EXP.</b>	<b>\$22,501,297</b>	<b>\$17,984,559</b>	<b>\$4,516,738</b>
13. DEPRECIATION/AMORTIZATION EXPENSE	2,660,830	2,587,676	73,154
14. TAX EXPENSE-OTHER	64,849	71,855	(7,006)
15. INTEREST-LONG TERM DEBT	1,688,632	1,917,752	(229,120)
16. INTEREST ON CONSTRUCTION-CREDIT	(44,817)	(64,665)	19,848
17. INTEREST EXPENSE-OTHER	406,370	64,167	342,203
18. OTHER DEDUCTIONS	39,717	20,834	18,883
<b>19. TOTAL COST OF ELECTRIC SERVICE</b>	<b>\$27,316,878</b>	<b>\$22,582,178</b>	<b>\$4,734,700</b>
<b>20. PATRONAGE CAPITAL/OPERATING MARGINS</b>	<b>\$1,551,722</b>	<b>\$1,971,197</b>	<b>(\$419,475)</b>
21. NON-OPERATING MARGINS-INTEREST	145,712	41,196	104,516
22. ALLOWANCE FUNDS USED DURING CONST.	1,794	27,952	(26,158)
23. NON-OPERATING MARGINS-OTHER	3,357	0	3,357
24. GENER./TRANS. CAPITAL CREDITS	0	0	0
25. OTHER CAPITAL CREDITS/DIVIDENDS	0	0	0
26. EXTRAORDINARY ITEMS	0	0	0
<b>27. PATRONAGE CAPITAL OR MARGINS</b>	<b>\$1,702,585</b>	<b>\$2,040,345</b>	<b>(\$337,760)</b>

MF/I

1.81

2.03

**CHUGACH ELECTRIC ASSOCIATION, INC.  
COMPARATIVE FINANCIAL REPORT  
STATEMENT OF OPERATIONS  
YEAR TO DATE**

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CATEGORY	2008 ACTUALS YTD	2008 AMENDED BUDGET YTD	2008 VARIANCE YTD
<b>REVENUES:</b>			
<b>1. TOTAL REVENUE</b>	<b>\$260,305,741</b>	<b>\$244,388,648</b>	<b>\$15,917,093</b>
<b>EXPENSES:</b>			
2. FUEL EXPENSE	123,927,887	107,893,881	16,034,006
3. POWER PRODUCTION EXPENSE	15,211,210	15,285,838	(74,628)
4. COST OF PURCHASED POWER	28,660,830	28,339,018	321,812
5. TRANSMISSION EXPENSE	5,362,706	6,015,207	(652,501)
6. DISTRIBUTION EXPENSE-OPERATIONS	4,487,187	4,323,316	163,871
7. DISTRIBUTION EXPENSE-MAINTENANCE	7,018,553	6,543,889	474,664
8. CONSUMER ACCOUNTS EXPENSE	4,293,567	4,630,323	(336,756)
9. CUSTOMER SERVICE/INFO EXPENSE	561,026	648,920	(87,894)
10. SALES EXPENSE	0	0	0
11. ADMINISTRATIVE/GENERAL EXPENSE	17,352,068	16,530,518	821,550
<b>12. TOTAL OPERATIONS/MAINTENANCE EXP.</b>	<b>\$206,875,034</b>	<b>\$190,210,910</b>	<b>\$16,664,124</b>
13. DEPRECIATION/AMORTIZATION EXPENSE	28,152,947	27,760,774	392,173
14. TAX EXPENSE-OTHER	743,754	808,987	(65,233)
15. INTEREST-LONG TERM DEBT	19,524,826	21,203,259	(1,678,433)
16. INTEREST ON CONSTRUCTION-CREDIT	(398,252)	(913,195)	514,943
17. INTEREST EXPENSE-OTHER	1,416,532	252,084	1,164,448
18. OTHER DEDUCTIONS	142,955	229,166	(86,211)
<b>19. TOTAL COST OF ELECTRIC SERVICE</b>	<b>\$256,457,796</b>	<b>\$239,551,985</b>	<b>\$16,905,811</b>
<b>20. PATRONAGE CAPITAL/OPERATING MARGINS</b>	<b>\$3,847,945</b>	<b>\$4,836,663</b>	<b>(\$988,718)</b>
21. NON-OPERATING MARGINS-INTEREST	497,909	366,634	131,275
22. ALLOWANCE FUNDS USED DURING CONST.	100,249	394,732	(294,483)
23. NON-OPERATING MARGINS-OTHER	30,857	0	30,857
24. GENER./TRANS. CAPITAL CREDITS	0	0	0
25. OTHER CAPITAL CREDITS/DIVIDENDS	753	0	753
26. EXTRAORDINARY ITEMS	0	0	0
<b>27. PATRONAGE CAPITAL OR MARGINS</b>	<b>\$4,477,713</b>	<b>\$5,598,029</b>	<b>(\$1,120,316)</b>

MF/I

1.21

1.26

**CHUGACHELECTRIC ASSOCIATION, INC.**  
**COMPARATIVE FINANCIAL REPORT**  
**STATEMENT OF OPERATIONS**  
**2008 FORECAST**  
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CATEGORY	2008		2008		2008	
	ACTUALS YTD	AMENDED BUDGET YTD	AMENDED BUDGET	REVISIED FORECAST	AMENDED BUDGET	REVISIED FORECAST
<b>REVENUES:</b>						
<b>1. TOTAL REVENUE</b>	<b>\$260,305,741</b>	<b>\$244,388,648</b>	<b>\$272,069,723</b>	<b>287,861,816</b>	<b>\$272,069,723</b>	<b>287,861,816</b>
<b>EXPENSES:</b>						
2. FUEL EXPENSE	123,927,887	107,893,881	121,218,046	137,202,052	121,218,046	137,202,052
3. POWER PRODUCTION EXPENSE	15,211,210	15,285,838	16,445,185	16,520,557	16,445,185	16,520,557
4. COST OF PURCHASED POWER	28,660,830	28,339,018	31,119,383	31,441,195	31,119,383	31,441,195
5. TRANSMISSION EXPENSE	5,362,706	6,015,207	6,483,569	5,983,569	6,483,569	5,983,569
6. DISTRIBUTION EXPENSE-OPERATIONS	4,487,187	4,323,316	4,696,382	4,896,382	4,696,382	4,896,382
7. DISTRIBUTION EXPENSE-MAINTENANCE	7,018,553	6,543,889	7,029,742	7,529,742	7,029,742	7,529,742
8. CONSUMER ACCOUNTS EXPENSE	4,293,567	4,630,323	5,041,115	4,991,115	5,041,115	4,991,115
9. CUSTOMER SERVICE/INFO EXPENSE	561,026	648,920	699,429	699,429	699,429	699,429
10. SALES EXPENSE	0	0	0	0	0	0
11. ADMINISTRATIVE/GENERAL EXPENSE	17,352,068	16,530,518	17,690,176	18,802,068	17,690,176	18,802,068
<b>12. TOTAL OPERATIONS/MAINTENANCE EXP.</b>	<b>\$206,875,034</b>	<b>\$190,210,910</b>	<b>\$210,423,027</b>	<b>\$228,066,109</b>	<b>\$210,423,027</b>	<b>\$228,066,109</b>
13. DEPRECIATION/AMORTIZATION EXPENSE	28,152,947	27,760,774	30,354,147	30,826,361	30,354,147	30,826,361
14. TAX EXPENSE-OTHER	743,754	808,987	884,862	819,629	884,862	819,629
15. INTEREST-LONG TERM DEBT	19,524,826	21,203,259	23,119,883	21,252,454	23,119,883	21,252,454
16. INTEREST ON CONSTRUCTION-CREDIT	(398,252)	(913,195)	(998,921)	(438,252)	(998,921)	(438,252)
17. INTEREST EXPENSE-OTHER	1,416,532	252,084	325,417	1,568,532	325,417	1,568,532
18. OTHER DEDUCTIONS	142,955	229,166	250,000	163,789	250,000	163,789
<b>19. TOTAL COST OF ELECTRIC SERVICE</b>	<b>\$256,457,796</b>	<b>\$239,551,985</b>	<b>\$264,358,415</b>	<b>\$282,258,622</b>	<b>\$264,358,415</b>	<b>\$282,258,622</b>
<b>20. PATRONAGE CAPITAL/OPERATING MARGINS</b>	<b>\$3,847,945</b>	<b>\$4,836,663</b>	<b>\$7,711,308</b>	<b>\$5,603,194</b>	<b>\$7,711,308</b>	<b>\$5,603,194</b>
21. NON-OPERATING MARGINS-INTEREST	497,909	366,634	392,263	523,538	392,263	523,538
22. ALLOWANCE FUNDS USED DURING CONST.	100,249	394,732	431,788	115,249	431,788	115,249
23. NON-OPERATING MARGINS-OTHER	30,857	0	0	30,857	0	30,857
24. GENER./TRANS. CAPITAL CREDITS	0	0	0	0	0	0
25. OTHER CAPITAL CREDITS/DIVIDENDS	753	0	525,000	525,753	525,000	525,753
26. EXTRAORDINARY ITEMS	0	0	0	0	0	0
<b>27. PATRONAGE CAPITAL OR MARGINS</b>	<b>4,477,713</b>	<b>5,598,029</b>	<b>9,060,359</b>	<b>6,798,591</b>	<b>9,060,359</b>	<b>6,798,591</b>
MF1/I	1.21	1.26	1.39	1.30	1.39	1.30

<sup>1</sup> Forecast based on 11 months actual and 1 month budget

<sup>2</sup> Forecast has been adjusted to reflect current assumption changes