

CHUGACH ELECTRIC ASSOCIATION, INC.
ANCHORAGE, ALASKA

June 19, 2009

To: Mike Cunningham, Chief Financial Officer
From: Sherri McKay-Highers, Manager, Budget and Financial Reporting
Subject: May 2009 Year to Date Financial Results

kWh Sales

	<u>2009 Actual</u>	<u>2009 Budget</u>
Retail kWh Sales	506,792,719	516,503,568
Wholesale kWh Sales	<u>544,194,710</u>	<u>587,863,766</u>
Total Firm kWh Sales	1,050,987,429	1,104,367,334
Economy Energy kWh Sales	<u>13,744,300</u>	<u>73,000,000</u>
Total kWh Sales	1,064,731,729	1,177,367,334

May 2009 year to date firm kWh sales totaled 1,050,987,429 which were 4.8% under budget. Retail kWh sales were under budget by 1.9% and wholesale kWh sales were 7.4% under budget. A significant factor in the retail sales variance was lower than anticipated sales to small and large commercial customers. Our commercial customers went to great lengths to protect their systems from Mt. Redoubt and continue to show a change in consumption patterns. Warmer than anticipated weather in the second quarter also contributed to the variance. Factors in the wholesale sales variance include lower than anticipated sales to Homer Electric Association due to the impact of the shutdown of their industrial load in April that continued into May to accommodate transmission line maintenance, coupled with protective measures associated with Mt. Redoubt, warmer than anticipated weather in the second quarter and a change in consumption patterns. The fact that we have not finalized a firm contract with Golden Valley Electric Association (GVEA) as anticipated also contributed to the wholesale sales variance. Year-to-date economy energy sales to Golden Valley Electric Association (GVEA) totaled 13,744,300 which were 81.2% under budget. Our economy energy sales contract with GVEA expired in March of 2009 so this year-to-date sales variance will carry forward to year end.

Energy Revenue (in millions)

	<u>2009 Actual</u>	<u>2009 Budget</u>
Retail Revenue	\$ 72.6	\$ 75.5
Wholesale Revenue	<u>54.3</u>	<u>59.5</u>
Total Firm Revenue	126.9	135.0
Economy Energy Revenue	<u>1.2</u>	<u>6.2</u>
Total Revenue	\$ 128.1	\$ 141.2

Revenue from firm sales totaled \$126.9 million year to date in 2009 compared to \$135.0 million in the budget. Retail revenue was lower primarily caused by lower than anticipated sales, as well as less fuel expense included in revenue and recovered through the fuel and purchased power process due to lower

fuel costs. Wholesale revenue was lower caused by lower than anticipated sales to Homer Electric Association, less fuel expense included in revenue and recovered through the fuel and purchased power process due to lower fuel costs and the fact that we have not finalized a firm contract with GVEA as anticipated. Economy energy revenue was lower than budget by \$5.0 million caused by less than anticipated sales to GVEA. Our economy energy sales contract with GVEA expired in March of 2009 so this year-to-date revenue variance will carry forward to year end.

Other Operating Revenue (in millions)

	<u>2009 Actual</u>	<u>2009 Budget</u>
Other Operating Revenue	\$ 1.0	\$ 1.2

Other operating revenue includes late fees, pole rental, wheeling, microwave and miscellaneous service and other electric revenue. Other operating revenue for 2009 totaled \$1.0 million compared to \$1.2 million in the budget. The variance was due to less than expected wheeling and other electric revenue.

Power Production (in millions)

	<u>2009 Actual</u>	<u>2009 Budget</u>
Operating & Maintenance	\$ 6.5	\$ 6.8
Fuel	<u>61.7</u>	<u>74.2</u>
Total	\$ 68.2	\$ 81.0

Actual power production operating and maintenance expense year to date for 2009 was \$6.5 million compared to \$6.8 million in the budget. The variance was due to lower than anticipated labor caused by vacant positions and the timing of costs associated with Eklutna maintenance, which was somewhat offset by higher than anticipated costs associated with the full charges of the Beluga Unit #8 major inspection that was completed in 2008, additional expenses associated with Beluga Unit #8 repairs in 2009 and water injection costs at the Bernice Lake power plant. The costs associated with the repairs of Cooper Lake Unit #2 in the first quarter of 2009 have been reclassified from expense to deferred. Fuel expense year to date in 2009 was \$61.7 million compared to \$74.2 million projected in the budget. This variance was caused by less than anticipated MCF purchased due primarily to lower than anticipated sales. Actual fuel purchased year to date was 10,915,022 MCF at an average effective price of \$6.74 per MCF compared to 12,782,677 MCF in the budget at an average effective price of \$6.76 per MCF.

Purchased Power (in millions)

	<u>2009 Actual</u>	<u>2009 Budget</u>
Total Purchased Power	\$ 17.7	\$ 17.4

Purchased power expense year to date for 2009 totaled \$17.7 million compared to \$17.4 million in the budget, with no significant variance. We purchased 208,601 MWh of energy at an average effective price of 8.18 cents per kWh compared to 200,448 MWh of energy at an average effective price of 8.39 cents per kWh in the budget.

Transmission Operations and Maintenance (in millions)

	<u>2009 Actual</u>	<u>2009 Budget</u>
Total Transmission	\$ 2.3	\$ 2.7

Transmission operations and maintenance expense for 2009 totaled \$2.3 million compared to \$2.7 million in the budget. The variance was primarily due to the timing of professional services associated with right of way clearing and substation training and condition assessments. Labor also contributed to this variance due to vacancies. That variance was somewhat offset by higher lease expense.

Distribution Operations and Maintenance (in millions)

	<u>2009 Actual</u>	<u>2009 Budget</u>
Total Distribution	\$ 5.1	\$ 5.1

Distribution operations and maintenance expenses for 2009 totaled \$5.1 million compared to \$5.1 million in the budget. While no overall variance, labor was over budget due to weather related repairs which was offset by the timing of professional services associated with right of way clearing, locates and substation maintenance.

Consumer Accounts (in millions)

	<u>2009 Actual</u>	<u>2009 Budget</u>
Total Consumer Accounts	\$ 1.9	\$ 1.9

Consumer accounts expense for 2009 totaled \$1.9 million compared to \$1.9 million in the budget, with no significant variance.

Customer Information (in millions)

	<u>2009 Actual</u>	<u>2009 Budget</u>
Total Customer Information	\$ 0.3	\$ 0.4

Customer information expense for 2009 totaled \$0.3 million compared to \$0.4 million in the budget. This variance was primarily due to expenses associated with a corporate communications plan which is recorded as an administrative and general expense .

Administrative & General (in million)

	<u>2009 Actual</u>	<u>2009 Budget</u>
Total Administrative and General	\$ 8.0	\$ 8.9

Administrative and general expenses for 2009 totaled \$8.0 million compared to \$8.9 million in the budget. Overall this financial statement category was under budget. Expenses associated with process improvements as well as a corporate communications plan which was budgeted to the customer

information financial statement category were over budget, however, those variances were more than offset by less than anticipated labor, building maintenance and facility expenses and allocated costs from information services. Expenses associated with audit and financial advisory services, as well as the timing of professional services associated with regulatory, planning and strategic activities, human resource programs, recruiting and training, legal, rating agency fees, generation and gas supply technical support and board activities also contributed to the positive variance.

The summary of all the above year to date 2009 operations and maintenance expenses total \$103.3 million compared to \$117.3 million in the 2009 budget.

Depreciation expense totaled \$13.3 million compared to \$13.4 million in the budget, with no significant variance.

Tax expense totaled \$0.3 million compared to \$0.3 million in the budget, with no significant variance.

Long-term interest expense year to date totaled \$8.5 million compared to \$8.8 million in the budget. This variance was primarily due to lower than anticipated interest rates.

Interest during construction year to date totaled \$0.2 million compared to \$0.3 million in the budget. This variance was primarily due to less construction activity than anticipated and a lower than anticipated interest rate.

Other interest expense year to date totaled \$0.5 million compared to \$0.6 million in the budget. The variance was primarily due to a lower than anticipated line of credit balance and lower than anticipated interest rates on our commercial paper. We had no outstanding balance on our CoBank or NRUCFC lines of credit and had \$35.5 million of commercial paper outstanding at May 31, 2009.

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 \$223.6 thousand compared to \$104.2 thousand in the budget. This variance was primarily due to an inventory write-off.

All of the foregoing expenses resulted in total cost of electric service of \$125.9 million compared to \$140.2 million in the 2009 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 2009, non-operating margins totaled \$128.9 thousand compared to \$161.1 thousand in the budget. The variance was primarily due to lower than anticipated interest income caused by lower interest rates.

The net result of revenue and expenses year to date in 2009 was margins of \$3.3 million compared to year to date projected margins of \$2.4 million in the budget. We are evaluating the current year-to-date results as well as the remainder of the 2009 budget, to update the 2009 year end forecast. After incorporating additional feedback from management, we will publish a revised 2009 forecast.

CHUGACH ELECTRIC ASSOCIATION, INC.
COMPARATIVE FINANCIAL REPORT
STATEMENT OF OPERATIONS
MAY 2009
Page 5

CATEGORY	2009 APRIL ACTUALS	2009 APRIL BUDGET	2009 APRIL VARIANCE
REVENUES:			
1. TOTAL REVENUE	\$23,017,120	\$25,934,425	(\$2,917,305)
EXPENSES:			
2. FUEL EXPENSE	10,874,689	13,432,292	(2,557,603)
3. POWER PRODUCTION EXPENSE	1,296,120	1,640,516	(344,396)
4. COST OF PURCHASED POWER	3,413,907	3,417,835	(3,928)
5. TRANSMISSION EXPENSE	497,496	541,746	(44,250)
6. DISTRIBUTION EXPENSE-OPERATIONS	451,662	401,751	49,911
7. DISTRIBUTION EXPENSE-MAINTENANCE	653,407	676,526	(23,119)
8. CONSUMER ACCOUNTS EXPENSE	414,356	385,352	29,004
9. CUSTOMER SERVICE/INFO EXPENSE	87,219	100,632	(13,413)
10. SALES EXPENSE	0	0	0
11. ADMINISTRATIVE/GENERAL EXPENSE	1,844,421	1,950,412	(105,991)
12. TOTAL OPERATIONS/MAINTENANCE EXP.	\$19,533,277	\$22,547,062	(\$3,013,785)
13. DEPRECIATION/AMORTIZATION EXPENSE	2,675,882	2,689,704	(13,822)
14. TAX EXPENSE-OTHER	60,133	64,973	(4,840)
15. INTEREST-LONG TERM DEBT	1,643,698	1,751,890	(108,192)
16. INTEREST ON CONSTRUCTION-CREDIT	(46,252)	(85,629)	39,377
17. INTEREST EXPENSE-OTHER	161,163	121,659	39,504
18. OTHER DEDUCTIONS	479	20,833	(20,354)
19. TOTAL COST OF ELECTRIC SERVICE	\$24,028,380	\$27,110,492	(\$3,082,112)
20. PATRONAGE CAPITAL/OPERATING MARGINS	(\$1,011,260)	(\$1,176,067)	\$164,807
21. NON-OPERATING MARGINS-INTEREST	26,268	26,469	(201)
22. ALLOWANCE FUNDS USED DURING CONST.	16,333	7,164	9,169
23. NON-OPERATING MARGINS-OTHER	0	0	0
24. GENER./TRANS. CAPITAL CREDITS	0	0	0
25. OTHER CAPITAL CREDITS/DIVIDENDS	0	0	0
26. EXTRAORDINARY ITEMS	0	0	0
27. PATRONAGE CAPITAL OR MARGINS	(\$968,659)	(\$1,142,434)	\$173,775

MFI/I

0.46

0.39

CHUGACH ELECTRIC ASSOCIATION, INC.
COMPARATIVE FINANCIAL REPORT
STATEMENT OF OPERATIONS
YEAR TO DATE
Page 6

CATEGORY	2009 ACTUALS YTD	2009 APPROVED BUDGET YTD	2009 VARIANCE YTD
REVENUES:			
1. TOTAL REVENUE	\$129,118,406	\$142,448,754	(\$13,330,348)
EXPENSES:			
2. FUEL EXPENSE	61,666,100	74,180,750	(12,514,650)
3. POWER PRODUCTION EXPENSE	6,482,033	6,847,267	(365,234)
4. COST OF PURCHASED POWER	17,656,014	17,366,233	289,781
5. TRANSMISSION EXPENSE	2,274,343	2,653,481	(379,138)
6. DISTRIBUTION EXPENSE-OPERATIONS	1,982,557	2,046,084	(63,527)
7. DISTRIBUTION EXPENSE-MAINTENANCE	3,122,150	3,018,984	103,166
8. CONSUMER ACCOUNTS EXPENSE	1,856,319	1,903,717	(47,398)
9. CUSTOMER SERVICE/INFO EXPENSE	307,090	404,841	(97,751)
10. SALES EXPENSE	0	0	0
11. ADMINISTRATIVE/GENERAL EXPENSE	7,936,817	8,915,788	(978,971)
12. TOTAL OPERATIONS/MAINTENANCE EXP.	\$103,283,423	\$117,337,145	(\$14,053,722)
13. DEPRECIATION/AMORTIZATION EXPENSE	13,319,084	13,427,663	(108,579)
14. TAX EXPENSE-OTHER	335,534	354,758	(19,224)
15. INTEREST-LONG TERM DEBT	8,444,249	8,775,221	(330,972)
16. INTEREST ON CONSTRUCTION-CREDIT	(203,979)	(357,998)	154,019
17. INTEREST EXPENSE-OTHER	540,400	585,376	(44,976)
18. OTHER DEDUCTIONS	223,596	104,165	119,431
19. TOTAL COST OF ELECTRIC SERVICE	\$125,942,307	\$140,226,330	(\$14,284,023)
20. PATRONAGE CAPITAL/OPERATING MARGINS	\$3,176,099	\$2,222,424	\$953,675
21. NON-OPERATING MARGINS-INTEREST	67,744	131,111	(63,367)
22. ALLOWANCE FUNDS USED DURING CONST.	59,839	29,950	29,889
23. NON-OPERATING MARGINS-OTHER	1,275	0	1,275
24. GENER./TRANS. CAPITAL CREDITS	0	0	0
25. OTHER CAPITAL CREDITS/DIVIDENDS	0	0	0
26. EXTRAORDINARY ITEMS	0	0	0
27. PATRONAGE CAPITAL OR MARGINS	\$3,304,957	\$2,383,485	\$921,472