

CHUGACH ELECTRIC ASSOCIATION, INC.  
ANCHORAGE, ALASKA

July 19, 2006

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

kWh Sales

	<u>2006 Actual</u>	<u>2006 Budget</u>
Retail kWh Sales	608,953,639	621,644,916
Wholesale kWh Sales	619,068,438	629,697,488
Economy Energy kWh Sales	<u>145,910,070</u>	<u>185,707,000</u>
Total	1,373,932,147	1,437,049,404

June 2006 year to date kWh sales total 1,373,932,147, which are 4.4% 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 2.0%, while wholesale kWh sales are 1.7% lower than budgeted. 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. Economy energy sales are under budget by 18.6%. An unscheduled outage of Beluga Unit 5 that occurred in April and continued through the end of May contributed to our inability to make sales to GVEA.

Energy Revenue (in millions)

	<u>2006 Actual</u>	<u>2006 Budget</u>
Retail Revenue	\$ 73.3	\$ 75.4
Wholesale Revenue	44.3	44.0
Economy Energy Revenue	<u>8.2</u>	<u>11.1</u>
Total	\$ 125.8	\$ 130.5

Revenue from sales total \$125.8 million year to date in 2006 compared to \$130.5 in the budget.

Other Operating Revenue (in millions)

	<u>2006 Actual</u>	<u>2006 Budget</u>
Other Operating Revenue	\$ 1.3	\$ 1.3

Other operating revenue for 2006 totals \$1.3 million compared to \$1.3 million in the budget, with no significant variance.

Power Production (in millions)

	<u>2006 Actual</u>	<u>2006 Budget</u>
Operating & Maintenance	\$ 6.7	\$ 7.5
Fuel	<u>55.1</u>	<u>57.9</u>
Total	\$ 61.8	\$ 65.4

Actual power production operating and maintenance expense year to date for 2006 is \$6.7 million compared to a budget of \$7.5 million. This variance is primarily due to higher than anticipated labor charged to capital projects and lower labor expense as a result of vacancies related to retirements and unfilled positions.

Fuel expense year to date in 2006 is \$55.1 million compared to \$57.9 million projected in the budget. This variance is due to lower sales discussed above, as well as the timing of a Nikiski maintenance project. The Nikiski project was anticipated in the first quarter of 2006, however, it has been deferred until October. This resulted in lower fuel expense.

Purchased Power (in millions)

	<u>2006 Actual</u>	<u>2006 Budget</u>
Total Purchased Power	\$ 13.5	\$ 13.8

Purchased power cost year to date for 2006 totals \$13.5 million compared to \$13.8 million in the budget. This variance is due in part to lower Bradley Lake operating expenses, which is offset by the timing of the Nikiski maintenance project discussed above, which resulted in higher purchased power costs.

Transmission Operations and Maintenance (in millions)

	<u>2006 Actual</u>	<u>2006 Budget</u>
Total Transmission	\$ 2.5	\$ 3.1

Transmission operations and maintenance expense totals \$2.5 million in 2006 compared to \$3.1 million in the budget. The variance is due in part to lower than anticipated travel and education expenses, as well as the timing of professional services associated with SCADA maintenance and system support and SCADA cyber security training. The variance is also due to lower than anticipated professional services associated with transmission line inspections and line clearing.

Distribution Operations and Maintenance (in millions)

	<u>2006 Actual</u>	<u>2006 Budget</u>
Total Distribution	\$ 5.7	\$ 5.7

Distribution operations and maintenance expenses totals \$5.7 million compared to \$5.7 million in the budget, with no significant variances.

Consumer Accounts (in millions)

	<u>2006 Actual</u>	<u>2006 Budget</u>
Total Consumer Accounts	\$ 2.2	\$ 2.3

Consumer accounts expense totals \$2.2 million compared to \$2.3 million in the budget, with no significant variances.

Customer Information (in millions)

	<u>2006 Actual</u>	<u>2006 Budget</u>
Total Customer Information	\$ 0.3	\$ 0.3

Customer information expense year to date 2006 totals \$0.3 million compared to \$0.3 million in the budget, with no significant variances.

Administrative & General (in million)

	<u>2006 Actual</u>	<u>2006 Budget</u>
Total Administrative and General	\$ 8.9	\$9.1

Administrative and general expenses total \$8.9 million for 2006 compared to \$9.1 million in the budget. This financial statement category experienced lower professional services due to the timing of expenditures.

The summary of all the above 2006 operations and maintenance expenses total \$94.9 million compared to \$99.7 million in the revised 2006 budget.

Depreciation expense totals \$14.2 million for 2006 compared to \$14.2 in the budget, with no significant variance.

Tax expense for 2006 totals \$0.4 million compared to \$0.4 million in the budget, with no significant variance.

Long-term interest expense totals \$12.1 million compared to \$11.7 million in the budget. The variance is due to higher than anticipated variable interest rates.

Interest during construction totals \$0.2 million compared to \$0.2 million in the budget, with no significant variance.

Other interest expense totaled \$0.0 million compared to \$0.0 million in the budget, with no significant variance.

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 \$0.1 million in the budget. This variance is primarily due to the write off of expenditures associated with the wind power generation study.

All of the foregoing expenses result in total cost of electric service of \$121.7 million compared to \$125.9 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 \$0.5 million compared to \$0.3 million in the budget. This variance is primarily due to higher than anticipated interest rates, as well as a higher cash balance, which resulted in an increase to interest income.

The net result of revenue and expenses year to date in 2006 is margins of \$5.9 million compared to year to date projected margins of \$6.1 million in the 2006 revised budget. Per the attached comparative financial report, the current 6 month actual/6 month budget forecast, including approved budget revisions, projects year end margins of \$10.5 million and an MFI/I of 1.44.

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

CATEGORY	2006 ACTUALS YTD	2006 APPROVED BUDGET	2006 REVISED BUDGET	2006 REVISED FORECAST*
<b>REVENUES:</b>				
<b>1. TOTAL REVENUE</b>	<b>\$127,134,140</b>	<b>\$269,620,829</b>	<b>\$269,748,557</b>	<b>\$265,138,039</b>
<b>EXPENSES:</b>				
2. FUEL EXPENSE	55,148,493	120,390,043	120,517,771	117,761,211
3. POWER PRODUCTION EXPENSE	6,671,084	14,776,719	14,826,719	14,826,719
4. COST OF PURCHASED POWER	13,456,084	30,329,556	30,329,556	29,989,834
5. TRANSMISSION EXPENSE	2,533,682	6,122,921	6,044,571	6,044,571
6. DISTRIBUTION EXPENSE-OPERATIONS	2,466,924	4,383,361	4,428,361	4,428,361
7. DISTRIBUTION EXPENSE-MAINTENANCE	3,257,741	6,833,040	6,784,390	6,784,390
8. CONSUMER ACCOUNTS EXPENSE	2,241,643	4,561,126	4,520,975	4,520,975
9. CUSTOMER SERVICE/INFO EXPENSE	293,357	809,984	785,648	785,648
11. ADMINISTRATIVE/GENERAL EXPENSE	8,858,684	17,227,027	17,906,389	17,906,389
<b>12. TOTAL OPERATIONS/MAINTENANCE EXP.</b>	<b>\$94,927,692</b>	<b>\$205,433,777</b>	<b>\$206,144,380</b>	<b>\$203,048,098</b>
13. DEPRECIATION/AMORTIZATION EXPENSE	14,209,768	29,358,247	28,584,332	28,584,332
14. TAX EXPENSE-OTHER	429,021	856,735	856,735	866,042
15. INTEREST-LONG TERM DEBT	12,130,422	23,448,911	23,448,911	23,869,903
16. INTEREST ON CONSTRUCTION-CREDIT	(198,984)	(929,825)	(900,861)	(851,585)
17. INTEREST EXPENSE-OTHER	0	126,666	126,666	126,666
18. OTHER DEDUCTIONS	206,981	300,000	300,000	356,981
<b>19. TOTAL COST OF ELECTRIC SERVICE</b>	<b>\$121,704,901</b>	<b>\$258,594,511</b>	<b>\$258,560,163</b>	<b>\$256,000,437</b>
<b>20. PATRONAGE CAPITAL/OPERATING MARGINS</b>	<b>\$5,429,239</b>	<b>\$11,026,318</b>	<b>\$11,188,394</b>	<b>\$9,137,602</b>
21. NON-OPERATING MARGINS-INTEREST	412,234	388,093	388,093	585,392
22. ALLOWANCE FUNDS USED DURING CONST.	74,439	164,087	158,977	189,604
23. NON-OPERATING MARGINS-OTHER	(12,756)	0	0	(12,756)
24. GENER./TRANS. CAPITAL CREDITS	0	0	0	0
25. OTHER CAPITAL CREDITS/DIVIDENDS	(57)	575,000	575,000	574,943
26. EXTRAORDINARY ITEMS	0	0	0	0
<b>27. PATRONAGE CAPITAL OR MARGINS</b>	<b>\$5,903,100</b>	<b>\$12,153,498</b>	<b>\$12,310,464</b>	<b>\$10,474,785</b>
 MFI/I	 1.49	 1.52	 1.52	 1.44

\* Forecast based on 6 months actual and 6 months forecast