

CHUGACH ELECTRIC ASSOCIATION, INC.  
ANCHORAGE, ALASKA

July 25, 2008

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

kWh Sales

	<u>2008 Actual</u>	<u>2008 Budget</u>
Retail kWh Sales	603,632,487	611,076,050
Wholesale kWh Sales	<u>650,744,675</u>	<u>643,723,550</u>
Total Firm kWh Sales	1,254,377,162	1,254,799,600
Economy Energy kWh Sales	<u>134,859,080</u>	<u>116,172,000</u>
Total kWh Sales	1,389,236,242	1,370,971,600

June 2008 year to date firm kWh sales totaled 1,254,377,162 which were 0.03% under budget. While there was not an overall variance, lower than anticipated residential and small general service sales was offset by higher than anticipated sales to Homer Electric Association (HEA). June 2008 year-to-date economy energy sales totaled 134,859,080 which were 16.09% over budget. The budget variance was due to higher than anticipated sales to Golden Valley Electric Association (GVEA).

Retail kWh sales were under budget by 1.2% and wholesale kWh sales were 1.1% higher than budgeted. A significant factor in the wholesale sales variance was higher than anticipated sales to HEA due primarily to higher industrial sales. Economy energy sales were over budget due to GVEA purchasing more than anticipated.

Energy Revenue (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Retail Revenue	\$ 74.8	\$ 76.7
Wholesale Revenue	<u>48.9</u>	<u>47.1</u>
Total Firm Revenue	123.7	123.8
Economy Energy Revenue	<u>9.2</u>	<u>7.4</u>
Total Revenue	\$ 132.9	\$ 131.2

Revenue from firm sales totaled \$123.7 million year to date in 2008 compared to \$123.8 in the budget. Retail revenue was lower than budget due to lower retail kWh sales, whereas wholesale revenue was higher than budget primarily due to higher than anticipated sales to HEA. Economy energy revenue was higher than budget by \$1.8 million primarily caused by spot market sales to GVEA through June.

Other Operating Revenue (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Other Operating Revenue	\$ 1.4	\$ 1.5

Other operating revenue includes late fees, pole rental, wheeling, microwave and miscellaneous service and other electric revenue. Other operating revenue for 2008 totaled \$1.4 million compared to \$1.5 million in the budget, with no significant variance.

Power Production (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Operating & Maintenance	\$ 8.4	\$ 8.3
Fuel	<u>59.5</u>	<u>57.5</u>
Total	\$ 67.9	\$ 65.8

Actual power production operating and maintenance expense year to date for 2008 was \$8.4 million compared to \$8.3 million in the budget. While there was not an overall variance, labor expense was under budget due to earlier vacancies which have subsequently been filled. That variance was offset by higher than anticipated professional services, primarily caused by an unexpected expense associated with the current Beluga Unit 7 outage. Additionally, higher than anticipated garage fuel and vehicle parts and professional services allocated from information services was offset by lower materials and supplies primarily due to the timing of projects and lower training expense which isn't scheduled to take place until the fourth quarter. Fuel expense year to date in 2008 was \$59.5 million compared to \$57.5 million projected in the budget. This variance was primarily caused by more than anticipated MCF purchased due to higher than anticipated sales to GVEA, as well as a higher than anticipated price. Actual fuel purchased year to date was 14,678,809 MCF at an average price of \$4.71 per MCF compared to 14,562,493 MCF in the budget at an average price of \$4.61 per MCF.

Purchased Power (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Purchased Power	\$ 15.6	\$ 15.3

Purchased power cost year to date for 2008 totaled \$15.6 million compared to \$15.3 million in the budget, with no significant variance. We purchased 275,410 MWh of energy compared to 264,679 MWh of energy in the budget.

Transmission Operations and Maintenance (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Transmission	\$ 2.9	\$ 3.4

Transmission operations and maintenance expense for 2008 totaled \$2.9 million compared to \$3.4 million in the budget. The variance was primarily due to lower professional services caused by

the timing of substation and system maintenance. This variance was also due to lower substation labor expense due to the timing of projects and vacancies.

Distribution Operations and Maintenance (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Distribution	\$ 5.9	\$ 5.9

Distribution operations and maintenance expenses for 2008 totaled \$5.9 million compared to \$5.9 million in the budget. While there was not an overall variance, professional services was under budget due to the timing of right-of-way clearing while warehouse and garage expenses were over budget.

Consumer Accounts (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Consumer Accounts	\$ 2.4	\$ 2.5

Consumer accounts expense for 2008 totaled \$2.4 million compared to \$2.5 million in the budget. This variance was primarily due to lower labor and software expense allocated from information services.

Customer Information (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Customer Information	\$ 0.3	\$ 0.3

Customer information expense for 2008 totaled \$0.3 million compared to \$0.4 million in the budget. The variance was primarily due to lower professional services due to the timing of lighting and energy audits.

Administrative & General (in million)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Administrative and General	\$ 9.5	\$ 9.2

Administrative and general expenses for 2008 totaled \$9.5 million compared to \$9.2 million in the budget. This financial statement category was over budget due to credit card fees which will continue 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. In addition, professional services was over budget due primarily to legal and compliance matters, the preparation and distribution of the annual report and professional services related to board activities. These variances were offset to some extent by lower than anticipated employee assistance program expenses and costs associated with gas negotiations which are currently being deferred and not expensed. These variances were also offset by lower labor costs allocated by information services.

The summary of all the above year to date 2008 operations and maintenance expenses total \$104.7 million compared to \$102.6 million in the 2008 budget.

Depreciation expense totaled \$15.0 million compared to \$14.9 in the budget, with no significant variance.

Tax expense totaled \$0.4 million compared to \$0.5 million in the budget, with no significant variance.

Long-term interest expense year to date totaled \$10.9 million compared to \$11.6 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 and is now reflected as short-term interest expense.

Interest during construction year to date totaled \$0.2 million compared to \$0.5 million in the budget. This variance was primarily due to a lower than anticipated average Construction Work In Progress, (CWIP) balance caused by the timing of projects and lower than anticipated interest rates.

Other interest expense year to date totaled \$0.4 million compared to \$0.0 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 outstanding principal amount of the 2002 Series B Bonds. We also utilized our CoBank line of credit due to the timing of expenditures and receipt of payment for services, however, the balance was repaid by the end of June.

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 \$0.0 million compared to \$0.1 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 \$131.1 million compared to \$129.1 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 \$0.3 million compared to \$0.5 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 due to the timing of projects, as well as a lower average equity balance caused by a less than anticipated margin performance in 2007.

The net result of revenue and expenses year to date in 2008 was margins of \$3.5 million compared to year to date projected margins of \$4.0 million in the budget. Per the attached comparative financial report on page 7, the current 6 months actual/6 months forecast projects year end margins of \$7.2 million and an MFI/I of 1.32.

**CHUGACH ELECTRIC ASSOCIATION, INC.**  
**COMPARATIVE FINANCIAL REPORT**  
**STATEMENT OF OPERATIONS**  
**JUNE 2008**  
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CATEGORY	2008 JUNE ACTUALS	2008 JUNE BUDGET	2008 JUNE VARIANCE
<b>REVENUES:</b>			
<b>1. TOTAL REVENUE</b>	<b>\$20,335,305</b>	<b>\$19,781,641</b>	<b>\$553,664</b>
<b>EXPENSES:</b>			
2. FUEL EXPENSE	9,173,050	8,514,179	658,871
3. POWER PRODUCTION EXPENSE	1,911,025	1,101,168	809,857
4. COST OF PURCHASED POWER	2,594,910	2,576,567	18,343
5. TRANSMISSION EXPENSE	473,134	549,352	(76,218)
6. DISTRIBUTION EXPENSE-OPERATIONS	453,285	385,299	67,986
7. DISTRIBUTION EXPENSE-MAINTENANCE	667,098	600,730	66,368
8. CONSUMER ACCOUNTS EXPENSE	384,747	447,657	(62,910)
9. CUSTOMER SERVICE/INFO EXPENSE	95,748	64,627	31,121
10. SALES EXPENSE	0	0	0
11. ADMINISTRATIVE/GENERAL EXPENSE	1,451,944	1,454,655	(2,711)
<b>12. TOTAL OPERATIONS/MAINTENANCE EXP.</b>	<b>\$17,204,941</b>	<b>\$15,694,234</b>	<b>\$1,510,707</b>
13. DEPRECIATION/AMORTIZATION EXPENSE	2,656,745	2,504,855	151,890
14. TAX EXPENSE-OTHER	62,270	74,441	(12,171)
15. INTEREST-LONG TERM DEBT	1,727,623	1,923,361	(195,738)
16. INTEREST ON CONSTRUCTION-CREDIT	(43,510)	(117,204)	73,694
17. INTEREST EXPENSE-OTHER	81,591	4,583	77,008
18. OTHER DEDUCTIONS	1,387	20,833	(19,446)
<b>19. TOTAL COST OF ELECTRIC SERVICE</b>	<b>\$21,691,047</b>	<b>\$20,105,103</b>	<b>\$1,585,944</b>
<b>20. PATRONAGE CAPITAL/OPERATING MARGINS</b>	<b>(\$1,355,742)</b>	<b>(\$323,462)</b>	<b>(\$1,032,280)</b>
21. NON-OPERATING MARGINS-INTEREST	32,889	26,536	6,353
22. ALLOWANCE FUNDS USED DURING CONST.	14,759	50,662	(35,903)
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
<b>27. PATRONAGE CAPITAL OR MARGINS</b>	<b>(\$1,308,094)</b>	<b>(\$246,264)</b>	<b>(\$1,061,830)</b>

MFI/I

0.28

0.87

**CHUGACH ELECTRIC ASSOCIATION, INC.**  
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**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>\$134,354,311</b>	<b>\$132,727,009</b>	<b>\$1,627,302</b>
<b>EXPENSES:</b>			
2. FUEL EXPENSE	59,533,462	57,534,755	1,998,707
3. POWER PRODUCTION EXPENSE	8,446,566	8,289,940	156,626
4. COST OF PURCHASED POWER	15,617,983	15,325,449	292,534
5. TRANSMISSION EXPENSE	2,918,740	3,393,013	(474,273)
6. DISTRIBUTION EXPENSE-OPERATIONS	2,403,053	2,339,691	63,362
7. DISTRIBUTION EXPENSE-MAINTENANCE	3,536,679	3,535,915	764
8. CONSUMER ACCOUNTS EXPENSE	2,357,228	2,545,295	(188,067)
9. CUSTOMER SERVICE/INFO EXPENSE	333,962	369,123	(35,161)
10. SALES EXPENSE	0	0	0
11. ADMINISTRATIVE/GENERAL EXPENSE	9,540,884	9,243,390	297,494
<b>12. TOTAL OPERATIONS/MAINTENANCE EXP.</b>	<b>\$104,688,557</b>	<b>\$102,576,571</b>	<b>\$2,111,986</b>
13. DEPRECIATION/AMORTIZATION EXPENSE	14,974,135	14,914,237	59,898
14. TAX EXPENSE-OTHER	411,719	460,044	(48,325)
15. INTEREST-LONG TERM DEBT	10,880,750	11,603,256	(722,506)
16. INTEREST ON CONSTRUCTION-CREDIT	(217,832)	(539,106)	321,274
17. INTEREST EXPENSE-OTHER	352,344	4,583	347,761
18. OTHER DEDUCTIONS	50,113	124,998	(74,885)
<b>19. TOTAL COST OF ELECTRIC SERVICE</b>	<b>\$131,139,786</b>	<b>\$129,144,583</b>	<b>\$1,995,203</b>
<b>20. PATRONAGE CAPITAL/OPERATING MARGINS</b>	<b>\$3,214,525</b>	<b>\$3,582,426</b>	<b>(\$367,901)</b>
21. NON-OPERATING MARGINS-INTEREST	212,315	215,635	(3,320)
22. ALLOWANCE FUNDS USED DURING CONST.	61,127	233,031	(171,904)
23. NON-OPERATING MARGINS-OTHER	0	0	0
24. GENER./TRANS. CAPITAL CREDITS	0	0	0
25. OTHER CAPITAL CREDITS/DIVIDENDS	(159)	0	(159)
26. EXTRAORDINARY ITEMS	0	0	0
<b>27. PATRONAGE CAPITAL OR MARGINS</b>	<b>\$3,487,808</b>	<b>\$4,031,092</b>	<b>(\$543,284)</b>

**CHUGACH ELECTRIC ASSOCIATION, INC.**  
**COMPARATIVE FINANCIAL REPORT**  
**STATEMENT OF OPERATIONS**  
**2008 FORECAST**  
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CATEGORY	2008 ACTUALS YTD	2008 AMENDED BUDGET YTD	2008 AMENDED BUDGET	2008 REVISED FORECAST
<b>REVENUES:</b>				
<b>1. TOTAL REVENUE</b>	<b>\$134,354,311</b>	<b>\$132,727,009</b>	<b>\$272,069,723</b>	<b>272,822,025</b> <sup>1 &amp; 2</sup>
<b>EXPENSES:</b>				
2. FUEL EXPENSE	59,533,462	57,534,755	121,218,046	122,866,753 <sup>1 &amp; 2</sup>
3. POWER PRODUCTION EXPENSE	8,446,566	8,289,940	16,445,185	16,445,185
4. COST OF PURCHASED POWER	15,617,983	15,325,449	31,119,383	31,411,917 <sup>1</sup>
5. TRANSMISSION EXPENSE	2,918,740	3,393,013	6,483,569	6,483,569
6. DISTRIBUTION EXPENSE-OPERATIONS	2,403,053	2,339,691	4,696,382	4,696,382
7. DISTRIBUTION EXPENSE-MAINTENANCE	3,536,679	3,535,915	7,029,742	7,029,742
8. CONSUMER ACCOUNTS EXPENSE	2,357,228	2,545,295	5,041,115	5,041,115
9. CUSTOMER SERVICE/INFO EXPENSE	333,962	369,123	699,429	699,429
10. SALES EXPENSE	0	0	0	0
11. ADMINISTRATIVE/GENERAL EXPENSE	9,540,884	9,243,390	17,690,176	17,690,176
<b>12. TOTAL OPERATIONS/MAINTENANCE EXP.</b>	<b>\$104,688,557</b>	<b>\$102,576,571</b>	<b>\$210,423,027</b>	<b>\$212,364,268</b>
13. DEPRECIATION/AMORTIZATION EXPENSE	14,974,135	14,914,237	30,354,147	31,314,640 <sup>2</sup>
14. TAX EXPENSE-OTHER	411,719	460,044	884,862	836,537 <sup>1</sup>
15. INTEREST-LONG TERM DEBT	10,880,750	11,603,256	23,119,883	21,591,288 <sup>2</sup>
16. INTEREST ON CONSTRUCTION-CREDIT	(217,832)	(539,106)	(998,921)	(809,715) <sup>2</sup>
17. INTEREST EXPENSE-OTHER	352,344	4,583	325,417	1,246,636 <sup>1 &amp; 2</sup>
18. OTHER DEDUCTIONS	50,113	124,998	250,000	175,115 <sup>1</sup>
<b>19. TOTAL COST OF ELECTRIC SERVICE</b>	<b>\$131,139,786</b>	<b>\$129,144,583</b>	<b>\$264,358,415</b>	<b>\$266,718,769</b>
<b>20. PATRONAGE CAPITAL/OPERATING MARGINS</b>	<b>\$3,214,525</b>	<b>\$3,582,426</b>	<b>\$7,711,308</b>	<b>\$6,103,256</b>
21. NON-OPERATING MARGINS-INTEREST	212,315	215,635	392,263	388,943 <sup>1</sup>
22. ALLOWANCE FUNDS USED DURING CONST.	61,127	233,031	431,788	218,187 <sup>2</sup>
23. NON-OPERATING MARGINS-OTHER	0	0	0	0
24. GENER./TRANS. CAPITAL CREDITS	0	0	0	0
25. OTHER CAPITAL CREDITS/DIVIDENDS	(159)	0	525,000	524,841 <sup>1</sup>
26. EXTRAORDINARY ITEMS	0	0	0	0
27. PATRONAGE CAPITAL OR MARGINS	3,487,808	4,031,092	9,060,359	7,235,227
<b>MFI/I</b>	<b>1.31</b>	<b>1.35</b>	<b>1.39</b>	<b>1.32</b>

<sup>1</sup> Forecast based on 6 months actual and 6 months budget

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