

CHUGACH ELECTRIC ASSOCIATION, INC.
ANCHORAGE, ALASKA

August 25, 2008

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

kWh Sales

	<u>2008 Actual</u>	<u>2008 Budget</u>
Retail kWh Sales	691,169,870	701,819,060
Wholesale kWh Sales	<u>754,398,982</u>	<u>742,707,130</u>
Total Firm kWh Sales	1,445,568,852	1,444,526,190
Economy Energy kWh Sales	<u>147,845,450</u>	<u>128,305,000</u>
Total kWh Sales	1,593,414,302	1,572,831,190

July 2008 year to date firm kWh sales totaled 1,445,568,852 which were 0.07% over 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). July 2008 year-to-date economy energy sales totaled 147,845,450 which were 15.23% 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 1.5% and wholesale kWh sales were 1.6% 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	\$ 87.2	\$ 88.5
Wholesale Revenue	<u>57.8</u>	<u>55.3</u>
Total Firm Revenue	145.0	143.8
Economy Energy Revenue	<u>10.1</u>	<u>8.2</u>
Total Revenue	\$ 155.1	\$ 152.0

Revenue from firm sales totaled \$145.0 million year to date in 2008 compared to \$143.8 million 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 \$1.9 million primarily caused by more than anticipated sales to GVEA through July.

Other Operating Revenue (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Other Operating Revenue	\$ 1.7	\$ 1.7

Other operating revenue includes late fees, pole rental, wheeling, microwave and miscellaneous service and other electric revenue. Other operating revenue for 2008 totaled \$1.7 million compared to \$1.7 million in the budget, with no significant variance.

Power Production (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Operating & Maintenance	\$ 10.2	\$ 9.8
Fuel	<u>70.9</u>	<u>67.0</u>
Total	\$ 81.1	\$ 76.8

Actual power production operating and maintenance expense year to date for 2008 was \$10.2 million compared to \$9.8 million in the budget. The variance was due to higher than anticipated professional services caused by an unexpected expense associated with the Beluga Unit 7 outage. Additionally, unexpected water purchases required for the new water injection system at the Bernice Lake power plant was offset by lower training expense which isn't scheduled to take place until the fourth quarter. Materials and supplies were lower than budgeted primarily caused by Beluga Unit 7 air filters which didn't require installation. That variance was offset by higher warehouse and garage expenses. Fuel expense year to date in 2008 was \$70.9 million compared to \$67.0 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 17,188,218 MCF at an average price of \$4.74 per MCF compared to 16,818,166 MCF in the budget at an average price of \$4.65 per MCF.

Purchased Power (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Purchased Power	\$ 17.6	\$ 18.1

Purchased power cost year to date for 2008 totaled \$17.6 million compared to \$18.1 million in the budget, with no significant variance. We purchased 301,898 MWh of energy compared to 313,843 MWh of energy in the budget.

Transmission Operations and Maintenance (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Transmission	\$ 3.5	\$ 3.9

Transmission operations and maintenance expense for 2008 totaled \$3.5 million compared to \$3.9 million in the budget. The variance was primarily due to lower professional services and labor associated with transmission substation maintenance. More distribution substation maintenance

has been performed year to date. The variance was also due to lower labor expense associated with substation vacancies. That variance was 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	\$ 7.4	\$ 6.9

Distribution operations and maintenance expenses for 2008 totaled \$7.4 million compared to \$6.9 million in the budget. This variance was primarily due to higher labor associated with distribution substation maintenance as well as higher warehouse and garage expenses.

Consumer Accounts (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Consumer Accounts	\$ 2.8	\$ 3.0

Consumer accounts expense for 2008 totaled \$2.8 million compared to \$3.0 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	\$ 0.4	\$ 0.4

Customer information expense for 2008 totaled \$0.4 million compared to \$0.4 million in the budget. While there was not an overall variance, professional services was under budget primarily due to the timing of safety and capital credit advertising.

Administrative & General (in million)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Administrative and General	\$ 11.3	\$ 10.8

Administrative and general expenses for 2008 totaled \$11.3 million compared to \$10.8 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 costs associated

with gas negotiations which are currently being deferred and not expensed and lower building maintenance expense. 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 \$124.0 million compared to \$120.0 million in the 2008 budget.

Depreciation expense totaled \$17.5 million compared to \$17.5 in the budget, with no significant variance.

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

Long-term interest expense year to date totaled \$12.6 million compared to \$13.5 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 \$0.2 million compared to \$0.6 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 July.

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 \$154.8 million compared to \$151.1 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 \$2.3 million compared to year to date projected margins of \$3.1 million in the budget. Per the attached comparative financial report on page 7, the current 7 months actual/5 months forecast projects year end margins of \$7.1 million and an MFI/I of 1.32.

CHUGACH ELECTRIC ASSOCIATION, INC.
COMPARATIVE FINANCIAL REPORT
STATEMENT OF OPERATIONS
JULY 2008
Page 5

CATEGORY	2008 JULY ACTUALS	2008 JULY BUDGET	2008 JULY VARIANCE
REVENUES:			
1. TOTAL REVENUE	\$22,459,965	\$20,974,041	\$1,485,924
EXPENSES:			
2. FUEL EXPENSE	11,359,432	9,430,390	1,929,042
3. POWER PRODUCTION EXPENSE	1,734,079	1,551,251	182,828
4. COST OF PURCHASED POWER	2,027,928	2,726,785	(698,857)
5. TRANSMISSION EXPENSE	553,464	536,299	17,165
6. DISTRIBUTION EXPENSE-OPERATIONS	453,803	433,321	20,482
7. DISTRIBUTION EXPENSE-MAINTENANCE	965,858	628,129	337,729
8. CONSUMER ACCOUNTS EXPENSE	446,277	492,682	(46,405)
9. CUSTOMER SERVICE/INFO EXPENSE	35,564	64,671	(29,107)
10. SALES EXPENSE	0	0	0
11. ADMINISTRATIVE/GENERAL EXPENSE	1,712,528	1,548,500	164,028
12. TOTAL OPERATIONS/MAINTENANCE EXP.	\$19,288,933	\$17,412,028	\$1,876,905
13. DEPRECIATION/AMORTIZATION EXPENSE	2,530,313	2,556,489	(26,176)
14. TAX EXPENSE-OTHER	72,280	70,374	1,906
15. INTEREST-LONG TERM DEBT	1,729,147	1,922,243	(193,096)
16. INTEREST ON CONSTRUCTION-CREDIT	(27,901)	(72,292)	44,391
17. INTEREST EXPENSE-OTHER	83,595	18,333	65,262
18. OTHER DEDUCTIONS	5,691	20,833	(15,142)
19. TOTAL COST OF ELECTRIC SERVICE	\$23,682,058	\$21,928,008	\$1,754,050
20. PATRONAGE CAPITAL/OPERATING MARGINS	(\$1,222,093)	(\$953,967)	(\$268,126)
21. NON-OPERATING MARGINS-INTEREST	33,057	26,172	6,885
22. ALLOWANCE FUNDS USED DURING CONST.	10,605	31,248	(20,643)
23. NON-OPERATING MARGINS-OTHER	11,146	0	11,146
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	(\$1,167,285)	(\$896,547)	(\$270,738)

MFI/I

0.36

0.54

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

CATEGORY	2008 ACTUALS YTD	2008 AMENDED BUDGET YTD	2008 VARIANCE YTD
REVENUES:			
1. TOTAL REVENUE	\$156,814,276	\$153,701,050	\$3,113,226
EXPENSES:			
2. FUEL EXPENSE	70,892,894	66,965,145	3,927,749
3. POWER PRODUCTION EXPENSE	10,180,645	9,841,191	339,454
4. COST OF PURCHASED POWER	17,645,911	18,052,234	(406,323)
5. TRANSMISSION EXPENSE	3,472,204	3,929,312	(457,108)
6. DISTRIBUTION EXPENSE-OPERATIONS	2,856,856	2,773,012	83,844
7. DISTRIBUTION EXPENSE-MAINTENANCE	4,502,536	4,164,044	338,492
8. CONSUMER ACCOUNTS EXPENSE	2,803,506	3,037,977	(234,471)
9. CUSTOMER SERVICE/INFO EXPENSE	369,526	433,794	(64,268)
10. SALES EXPENSE	0	0	0
11. ADMINISTRATIVE/GENERAL EXPENSE	11,253,411	10,791,890	461,521
12. TOTAL OPERATIONS/MAINTENANCE EXP.	\$123,977,489	\$119,988,599	\$3,988,890
13. DEPRECIATION/AMORTIZATION EXPENSE	17,504,448	17,470,726	33,722
14. TAX EXPENSE-OTHER	483,999	530,418	(46,419)
15. INTEREST-LONG TERM DEBT	12,609,897	13,525,499	(915,602)
16. INTEREST ON CONSTRUCTION-CREDIT	(245,732)	(611,398)	365,666
17. INTEREST EXPENSE-OTHER	435,939	22,916	413,023
18. OTHER DEDUCTIONS	55,803	145,831	(90,028)
19. TOTAL COST OF ELECTRIC SERVICE	\$154,821,843	\$151,072,591	\$3,749,252
20. PATRONAGE CAPITAL/OPERATING MARGINS	\$1,992,433	\$2,628,459	(\$636,026)
21. NON-OPERATING MARGINS-INTEREST	245,372	241,807	3,565
22. ALLOWANCE FUNDS USED DURING CONST.	71,731	264,279	(192,548)
23. NON-OPERATING MARGINS-OTHER	11,146	0	11,146
24. GENER./TRANS. CAPITAL CREDITS	0	0	0
25. OTHER CAPITAL CREDITS/DIVIDENDS	(159)	0	(159)
26. EXTRAORDINARY ITEMS	0	0	0
27. PATRONAGE CAPITAL OR MARGINS	\$2,320,523	\$3,134,545	(\$814,022)

CHUGACH ELECTRIC ASSOCIATION, INC.
COMPARATIVE FINANCIAL REPORT
STATEMENT OF OPERATIONS
2008 FORECAST
Page 7

CATEGORY	2008 ACTUALS YTD	2008 AMENDED BUDGET YTD	2008 AMENDED BUDGET	2008 REVISED FORECAST
REVENUES:				
1. TOTAL REVENUE	\$156,814,276	\$153,701,050	\$272,069,723	274,557,949 ^{1 & 2}
EXPENSES:				
2. FUEL EXPENSE	70,892,894	66,965,145	121,218,046	124,895,795 ^{1 & 2}
3. POWER PRODUCTION EXPENSE	10,180,645	9,841,191	16,445,185	16,695,185 ²
4. COST OF PURCHASED POWER	17,645,911	18,052,234	31,119,383	30,713,060 ¹
5. TRANSMISSION EXPENSE	3,472,204	3,929,312	6,483,569	6,483,569
6. DISTRIBUTION EXPENSE-OPERATIONS	2,856,856	2,773,012	4,696,382	4,696,382
7. DISTRIBUTION EXPENSE-MAINTENANCE	4,502,536	4,164,044	7,029,742	7,029,742
8. CONSUMER ACCOUNTS EXPENSE	2,803,506	3,037,977	5,041,115	5,041,115
9. CUSTOMER SERVICE/INFO EXPENSE	369,526	433,794	699,429	699,429
10. SALES EXPENSE	0	0	0	0
11. ADMINISTRATIVE/GENERAL EXPENSE	11,253,411	10,791,890	17,690,176	18,747,730 ²
12. TOTAL OPERATIONS/MAINTENANCE EXP.	\$123,977,489	\$119,988,599	\$210,423,027	\$215,002,007
13. DEPRECIATION/AMORTIZATION EXPENSE	17,504,448	17,470,726	30,354,147	30,788,074 ^{1 & 2}
14. TAX EXPENSE-OTHER	483,999	530,418	884,862	838,443 ¹
15. INTEREST-LONG TERM DEBT	12,609,897	13,525,499	23,119,883	21,255,632 ^{1 & 2}
16. INTEREST ON CONSTRUCTION-CREDIT	(245,732)	(611,398)	(998,921)	(470,732) ^{1 & 2}
17. INTEREST EXPENSE-OTHER	435,939	22,916	325,417	1,003,914 ^{1 & 2}
18. OTHER DEDUCTIONS	55,803	145,831	250,000	159,972 ¹
19. TOTAL COST OF ELECTRIC SERVICE	\$154,821,843	\$151,072,591	\$264,358,415	\$268,577,310
20. PATRONAGE CAPITAL/OPERATING MARGINS	\$1,992,433	\$2,628,459	\$7,711,308	\$5,980,639
21. NON-OPERATING MARGINS-INTEREST	245,372	241,807	392,263	395,828 ¹
22. ALLOWANCE FUNDS USED DURING CONST.	71,731	264,279	431,788	146,731 ^{1 & 2}
23. NON-OPERATING MARGINS-OTHER	11,146	0	0	11,146 ¹
24. GENER./TRANS. CAPITAL CREDITS	0	0	0	0
25. OTHER CAPITAL CREDITS/DIVIDENDS	(159)	0	525,000	524,841 ¹
26. EXTRAORDINARY ITEMS	0	0	0	0
27. PATRONAGE CAPITAL OR MARGINS	2,320,523	3,134,545	9,060,359	7,059,185
MFI/I	1.18	1.23	1.39	1.32

¹ Forecast based on 7 months actual and 5 months budget

² Forecast has been adjusted to reflect current assumption changes