

CHUGACH ELECTRIC ASSOCIATION, INC.
ANCHORAGE, ALASKA

September 30, 2008

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

kWh Sales

	<u>2008 Actual</u>	<u>2008 Budget</u>
Retail kWh Sales	782,901,393	794,130,550
Wholesale kWh Sales	<u>857,133,829</u>	<u>841,116,090</u>
Total Firm kWh Sales	1,640,035,222	1,635,246,640
Economy Energy kWh Sales	<u>173,828,590</u>	<u>144,785,000</u>
Total kWh Sales	1,813,863,812	1,780,031,640

August 2008 year to date firm kWh sales totaled 1,640,035,222 which were 0.3% 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). August 2008 year-to-date economy energy sales totaled 173,828,590 which were 20.1% 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 1.4% and wholesale kWh sales were 1.9% 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	\$ 100.1	\$ 101.0
Wholesale Revenue	<u>67.3</u>	<u>64.2</u>
Total Firm Revenue	167.4	165.2
Economy Energy Revenue	<u>12.1</u>	<u>9.3</u>
Total Revenue	\$ 179.5	\$ 174.5

Revenue from firm sales totaled \$167.4 million year to date in 2008 compared to \$165.2 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 \$2.8 million primarily caused by more than anticipated sales to GVEA through August.

Other Operating Revenue (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Other Operating Revenue	\$ 1.9	\$ 2.0

Other operating revenue includes late fees, pole rental, wheeling, microwave and miscellaneous service and other electric revenue. Other operating revenue for 2008 totaled \$1.9 million compared to \$2.0 million in the budget, primarily due to lower than anticipated Bradley Lake wheeling revenue caused by less energy available at Bradley Lake due to lower in-flows than anticipated.

Power Production (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Operating & Maintenance	\$ 11.3	\$ 10.9
Fuel	<u>83.8</u>	<u>78.0</u>
Total	\$ 95.1	\$ 88.9

Actual power production operating and maintenance expense year to date for 2008 was \$11.3 million compared to \$10.9 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. The variance was also due to higher warehouse and garage depreciation expense caused by the difference between rates and implementation date of the 2005 depreciation study rates 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, 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. Fuel expense year to date in 2008 was \$83.8 million compared to \$78.0 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, system maintenance and a higher than anticipated price. Actual fuel purchased year to date was 19,971,476 MCF at an average price of \$4.82 per MCF compared to 19,389,975 MCF in the budget at an average price of \$4.70 per MCF.

Purchased Power (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Purchased Power	\$ 20.2	\$ 20.8

Purchased power expense year to date for 2008 totaled \$20.2 million compared to \$20.8 million in the budget. The variance was due to lower than anticipated purchases which was offset somewhat by a higher price per MWh. We purchased 336,662 MWh of energy at an average effective price of 5.75 cents per MWh compared to 363,921 MWh of energy at an average effective price of 5.49 cents per MWh in the budget.

Transmission Operations and Maintenance (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Transmission	\$ 4.1	\$ 4.4

Transmission operations and maintenance expense for 2008 totaled \$4.1 million compared to \$4.4 million in the budget. The variance was primarily due to lower labor expense associated with substation vacancies. This 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	\$ 8.3	\$ 7.9

Distribution operations and maintenance expenses for 2008 totaled \$8.3 million compared to \$7.9 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	\$ 3.2	\$ 3.4

Consumer accounts expense for 2008 totaled \$3.2 million compared to \$3.4 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	\$ 0.5

Customer information expense for 2008 totaled \$0.4 million compared to \$0.5 million in the budget. While there was not a significant 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	\$ 12.6	\$ 12.1

Administrative and general expenses for 2008 totaled \$12.6 million compared to \$12.1 million in the budget. This financial statement category was over budget due to professional services from 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 expense, lower labor costs allocated by information services, lower than anticipated professional services associated with regulatory matters and an adjustment to a settlement accrual. 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 \$144.0 million compared to \$138.0 million in the 2008 budget.

Depreciation expense totaled \$20.2 million compared to \$20.0 in the budget, with no significant variance.

Tax expense totaled \$0.5 million compared to \$0.6 million in the budget, with no significant variance.

Long-term interest expense year to date totaled \$14.3 million compared to \$15.4 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 \$0.3 million compared to \$0.7 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 \$0.5 million compared to \$0.1 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. We had an outstanding balance of \$3.5 million at the end of August on this line of credit.

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 \$179.4 million compared to \$173.6 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 \$0.4 million compared to \$0.6 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 \$2.4 million compared to year to date projected margins of \$3.4 million in the budget. Per the attached comparative financial report on page 8, the current 8 months actual/4 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
AUGUST 2008
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CATEGORY	2008 AUGUST ACTUALS	2008 AUGUST BUDGET	2008 AUGUST VARIANCE
REVENUES:			
1. TOTAL REVENUE	\$24,612,117	\$22,761,172	\$1,850,945
EXPENSES:			
2. FUEL EXPENSE	12,940,314	11,002,278	1,938,036
3. POWER PRODUCTION EXPENSE	1,088,589	1,080,746	7,843
4. COST OF PURCHASED POWER	2,592,207	2,709,943	(117,736)
5. TRANSMISSION EXPENSE	656,671	465,228	191,443
6. DISTRIBUTION EXPENSE-OPERATIONS	319,559	386,809	(67,250)
7. DISTRIBUTION EXPENSE-MAINTENANCE	665,252	591,378	73,874
8. CONSUMER ACCOUNTS EXPENSE	356,381	392,583	(36,202)
9. CUSTOMER SERVICE/INFO EXPENSE	50,660	47,732	2,928
10. SALES EXPENSE	0	0	0
11. ADMINISTRATIVE/GENERAL EXPENSE	1,394,385	1,355,660	38,725
12. TOTAL OPERATIONS/MAINTENANCE EXP.	\$20,064,019	\$18,032,357	\$2,031,661
13. DEPRECIATION/AMORTIZATION EXPENSE	2,658,946	2,559,926	99,020
14. TAX EXPENSE-OTHER	61,863	71,682	(9,819)
15. INTEREST-LONG TERM DEBT	1,727,629	1,921,125	(193,496)
16. INTEREST ON CONSTRUCTION-CREDIT	(32,391)	(76,978)	44,587
17. INTEREST EXPENSE-OTHER	94,744	36,667	58,077
18. OTHER DEDUCTIONS	9,893	20,833	(10,940)
19. TOTAL COST OF ELECTRIC SERVICE	\$24,584,704	\$22,565,612	\$2,019,090
20. PATRONAGE CAPITAL/OPERATING MARGINS	\$27,413	\$195,560	(\$168,145)
21. NON-OPERATING MARGINS-INTEREST	32,664	25,152	7,512
22. ALLOWANCE FUNDS USED DURING CONST.	9,237	33,274	(24,037)
23. NON-OPERATING MARGINS-OTHER	15,352	0	15,352
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	\$84,666	\$253,986	(\$169,318)

MFI/I

1.05

1.13

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
REVENUES:			
1. TOTAL REVENUE	\$181,426,393	\$176,462,222	\$4,964,171
EXPENSES:			
2. FUEL EXPENSE	83,833,209	77,967,423	5,865,786
3. POWER PRODUCTION EXPENSE	11,269,234	10,921,937	347,297
4. COST OF PURCHASED POWER	20,238,118	20,762,177	(524,059)
5. TRANSMISSION EXPENSE	4,128,875	4,394,540	(265,665)
6. DISTRIBUTION EXPENSE-OPERATIONS	3,176,415	3,159,821	16,594
7. DISTRIBUTION EXPENSE-MAINTENANCE	5,167,788	4,755,422	412,366
8. CONSUMER ACCOUNTS EXPENSE	3,159,887	3,430,560	(270,673)
9. CUSTOMER SERVICE/INFO EXPENSE	420,186	481,526	(61,340)
10. SALES EXPENSE	0	0	0
11. ADMINISTRATIVE/GENERAL EXPENSE	12,647,797	12,147,550	500,247
12. TOTAL OPERATIONS/MAINTENANCE EXP.	\$144,041,509	\$138,020,956	\$6,020,553
13. DEPRECIATION/AMORTIZATION EXPENSE	20,163,394	20,030,652	132,742
14. TAX EXPENSE-OTHER	545,862	602,100	(56,238)
15. INTEREST-LONG TERM DEBT	14,337,526	15,446,624	(1,109,098)
16. INTEREST ON CONSTRUCTION-CREDIT	(278,124)	(688,376)	410,252
17. INTEREST EXPENSE-OTHER	530,683	59,583	471,100
18. OTHER DEDUCTIONS	65,697	166,664	(100,967)
19. TOTAL COST OF ELECTRIC SERVICE	\$179,406,547	\$173,638,203	\$5,768,344
20. PATRONAGE CAPITAL/OPERATING MARGINS	\$2,019,846	\$2,824,019	(\$804,173)
21. NON-OPERATING MARGINS-INTEREST	278,035	266,959	11,076
22. ALLOWANCE FUNDS USED DURING CONST.	80,969	297,553	(216,584)
23. NON-OPERATING MARGINS-OTHER	26,498	0	26,498
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	\$2,405,189	\$3,388,531	(\$983,342)

MFI/I

1.16

1.22

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
REVENUES:				
1. TOTAL REVENUE	\$181,426,393	\$176,462,222	\$272,069,723	276,533,894 ^{1 & 2}
EXPENSES:				
2. FUEL EXPENSE	83,833,209	77,967,423	121,218,046	126,883,832 ^{1 & 2}
3. POWER PRODUCTION EXPENSE	11,269,234	10,921,937	16,445,185	16,695,185 ²
4. COST OF PURCHASED POWER	20,238,118	20,762,177	31,119,383	30,595,324 ¹
5. TRANSMISSION EXPENSE	4,128,875	4,394,540	6,483,569	6,483,569
6. DISTRIBUTION EXPENSE-OPERATIONS	3,176,415	3,159,821	4,696,382	4,696,382
7. DISTRIBUTION EXPENSE-MAINTENANCE	5,167,788	4,755,422	7,029,742	7,029,742
8. CONSUMER ACCOUNTS EXPENSE	3,159,887	3,430,560	5,041,115	5,041,115
9. CUSTOMER SERVICE/INFO EXPENSE	420,186	481,526	699,429	699,429
10. SALES EXPENSE	0	0	0	0
11. ADMINISTRATIVE/GENERAL EXPENSE	12,647,797	12,147,550	17,690,176	18,747,730 ²
12. TOTAL OPERATIONS/MAINTENANCE EXP.	\$144,041,509	\$138,020,956	\$210,423,027	\$216,872,308
13. DEPRECIATION/AMORTIZATION EXPENSE	20,163,394	20,030,652	30,354,147	30,807,053 ^{1 & 2}
14. TAX EXPENSE-OTHER	545,862	602,100	884,862	828,624 ¹
15. INTEREST-LONG TERM DEBT	14,337,526	15,446,624	23,119,883	21,248,042 ^{1 & 2}
16. INTEREST ON CONSTRUCTION-CREDIT	(278,124)	(688,376)	(998,921)	(458,124) ^{1 & 2}
17. INTEREST EXPENSE-OTHER	530,683	59,583	325,417	1,059,659 ^{1 & 2}
18. OTHER DEDUCTIONS	65,697	166,664	250,000	149,033 ¹
19. TOTAL COST OF ELECTRIC SERVICE	\$179,406,547	\$173,638,203	\$264,358,415	\$270,506,595
20. PATRONAGE CAPITAL/OPERATING MARGINS	\$2,019,846	\$2,824,019	\$7,711,308	\$6,027,299
21. NON-OPERATING MARGINS-INTEREST	278,035	266,959	392,263	403,339 ¹
22. ALLOWANCE FUNDS USED DURING CONST.	80,969	297,553	431,788	140,969 ^{1 & 2}
23. NON-OPERATING MARGINS-OTHER	26,498	0	0	26,498 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	2,405,189	3,388,531	9,060,359	7,122,946
 MFI/I	 1.16	 1.22	 1.39	 1.32

¹ Forecast based on 8 months actual and 4 months budget

² Forecast has been adjusted to reflect current assumption changes