

CHUGACH ELECTRIC ASSOCIATION, INC.  
ANCHORAGE, ALASKA

October 25, 2005

To: Mike Cunningham, Chief Financial Officer  
From: Katrina Storjohann, Manager, Corporate Budgeting  
Subject: September 2005 Year to Date Financial Results

kWh Sales

	<u>2005 Actual</u>	<u>2005 Budget</u>
Retail kWh Sales	882,411,034	897,570,029
Wholesale kWh Sales	909,893,201	886,471,200
Economy Energy kWh Sales	<u>226,125,700</u>	<u>154,353,000</u>
Total	2,018,429,935	1,938,394,229

September 2005 year to date kWh sales total 2,018,429,935 which are 4.2% over budget. The budget variance is due to a higher level of economy energy sales than was projected. The uncertainty of fuel oil prices makes it difficult to forecast sales to Golden Valley Electric Association (GVEA). The higher fuel oil prices thus far in 2005 have made it more economical for GVEA to purchase power from Chugach, rather than generate its own.

Retail kWh sales are under budget by 1.7%, while wholesale kWh sales are 2.6% higher than budgeted. A significant factor in the wholesale sales variance is sales to Homer Electric Association, Inc. in support of the Agrium plant in Kenai. The sales forecast for 2005 assumed that the plant would be closed early in 2005, while in actuality the plant is still open. Economy energy sales, including sales to GVEA and Anchorage Municipal Light & Power (AML&P) exceed the budget by 46.5%.

Energy Revenue (in millions)

	<u>2005 Actual</u>	<u>2005 Budget</u>
Retail Revenue	\$ 95.5	\$ 95.6
Wholesale Revenue	53.7	51.5
Economy Energy Revenue	<u>10.5</u>	<u>7.6</u>
Total	\$ 159.7	\$ 154.7

Revenue from sales total \$159.7 million year to date in 2005 compared to \$154.7 in the budget.

Other Operating Revenue (in millions)

	<u>2005 Actual</u>	<u>2005 Budget</u>
Other Operating Revenue	\$ 2.2	\$ 2.1

Other operating revenue for 2005 totals \$2.2 million compared to \$2.1 million in the 2005 budget, with no significant variance.

Power Production (in millions)

	<u>2005 Actual</u>	<u>2005 Budget</u>
Operating & Maintenance	\$ 10.2	\$ 12.7
Fuel	<u>59.0</u>	<u>53.9</u>
Total	\$ 69.2	\$ 66.6

Actual power production operating and maintenance expense year to date for 2005 is \$10.2 million compared to a budget of \$12.7 million. A significant contributor to this variance is the timing of generation maintenance projects. Several inspection and other maintenance projects including annual inspections on Beluga Units 1, 2, 6 and 8 and Cooper Lake Units 1 and 2 began later in the year than anticipated in the budget. In addition, the scope of several of these projects has changed and will result in cost savings of approximately \$0.7 million. As the year progresses, the remaining variance should diminish.

Fuel expense year to date in 2005 is \$59.0 million compared to \$53.9 million projected in the budget. This variance is due to higher fuel prices and higher volume purchases during the year than those anticipated in the budget.

Purchased Power (in millions)

	<u>2005 Actual</u>	<u>2005 Budget</u>
Total Purchased Power	\$ 17.8	\$ 17.2

Purchased power cost year to date for 2005 totals \$17.8 million compared to \$17.2 million in the 2005 budget. This variance is due to higher Bradley Lake purchased power payments than anticipated in the budget.

Transmission Operations and Maintenance (in millions)

	<u>2005 Actual</u>	<u>2005 Budget</u>
Total Transmission	\$ 4.4	\$ 4.8

Transmission operations and maintenance expense totals \$4.4 million in 2005 compared to \$4.8 million in the 2005 budget. This variance is due to the timing of substation maintenance and Eklutna wheeling invoicing. This should correct itself as the year progresses.

Distribution Operations and Maintenance (in millions)

	<u>2005 Actual</u>	<u>2005 Budget</u>
Total Distribution	\$ 8.8	\$ 8.9

Distribution operations and maintenance expenses totals \$8.8 million compared to \$8.9 million in the 2005 budget. This variance is a result of two software projects that were assumed to be complete and amortizing to this expense category in the budget. In fact, one of the projects is complete and began amortizing in June 2005 and the other project is not yet complete.

Consumer Accounts (in millions)

	<u>2005 Actual</u>	<u>2005 Budget</u>
Total Consumer Accounts	\$ 3.5	\$ 3.7

Consumer accounts expense totals \$3.5 million compared to \$3.7 million in the budget. This variance is due to lower labor expense in the Member Services department as a result of 4 unfilled positions in early 2005, as well as lower than anticipated allocated costs from Information Services as a result of timing of expenditures and lower lockbox and bill handling fees than anticipated. It is expected that the variance due to lower allocated costs will correct itself by year end. However, lower uncollectible accounts expense should contribute approximately \$0.1 million to the bottom line by year end.

Customer Information (in millions)

	<u>2005 Actual</u>	<u>2005 Budget</u>
Total Customer Information	\$ 0.5	\$ 0.8

Customer information expense year to date 2005 totals \$0.5 million compared to \$0.8 million in the 2005 budget. The most significant contributor to this variance is lower than anticipated advertising expense. This variance should contribute \$0.3 million to the bottom line by the end of the year.

Administrative & General (in million)

	<u>2005 Actual</u>	<u>2005 Budget</u>
Total Administrative and General	\$ 14.0	\$ 14.2

Administrative and general expenses total \$14.0 million for 2005 compared to \$14.2 million in the 2005 budget. This variance is due to the timing of professional service activities and invoicing in areas throughout the organization including Corporate Finance & Planning, Regulatory Affairs, Corporate Services, Transmission Technical Services, General Counsel and Human Resources. It is expected that this variance will contribute \$0.4 million to margins by the end of the year.

The summary of all the above 2005 operations and maintenance expenses total \$118.2 million compared to \$116.2 million in the revised 2005 budget.

Depreciation expense totals \$21.9 million for 2005 compared to \$21.5 in the revised 2005 budget. This variance is a result of the implementation of RCA Order #8 and the adjustment of depreciation rates for 2004 and 2005 to the approved 1999 study rates.

Tax expense for 2005 totals \$0.6 million compared to \$0.6 million in the 2005 budget, with no significant variance.

Long-term interest expense totals \$17.4 million compared to \$17.2 million in the 2005 budget, with no significant variance.

Interest during construction totals \$0.6 million compared to \$0.7 million in the budget, with no significant variance.

Other interest expense totaled \$0.1 million compared to \$0.1 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 2005, other deductions total \$0.3 million compared to \$0.4 million in the budget. This variance is a result of the delay in activities associated with the decommissioning of the USPS Fuel Cell. It was assumed in the budget that this work would begin in early 2005 and in actuality began in September.

All of the foregoing expenses result in total cost of electric service of \$157.9 million compared to \$155.3 million in the budget.

Non-operating margins include interest income, allowance for funds used during construction, capital credit and patronage capital allocations and extraordinary items. Year to date in 2005, non-operating margins total \$0.5 million compared to \$0.4 million in the budget. This variance is due to higher interest income earned than anticipated in the budget due to higher cash balances and higher interest rates on overnight fund accounts.

The net result of revenue and expenses year to date in 2005 is margins of \$4.5 million compared to year to date projected margins of \$1.9 million in the 2005 revised budget. Per the attached comparative financial report, the current 9 month actual/3 month budget forecast projects year end margins of \$8.0 million and an MFI/I of 1.34, slightly above the revised budgeted margins of \$7.5 million and budgeted MFI/I of 1.33.

**CHUGACH ELECTRIC ASSOCIATION, INC.**  
**COMPARATIVE FINANCIAL REPORT**  
**STATEMENT OF OPERATIONS**  
**SEPTEMBER 2005**

CATEGORY	2005 ACTUALS YTD	2005 REVISED BUDGET	2005 REVISED FORECAST*
<b>REVENUES:</b>			
<b>1. TOTAL REVENUE</b>	<b>\$161,850,226</b>	<b>\$217,351,373</b>	<b>\$222,404,428</b>
<b>EXPENSES:</b>			
2. FUEL EXPENSE	59,043,658	76,282,516	81,634,645
3. POWER PRODUCTION EXPENSE	10,213,754	16,143,811	15,448,826
4. COST OF PURCHASED POWER	17,778,235	23,611,088	23,981,284
5. TRANSMISSION EXPENSE	4,362,254	6,187,401	6,187,401
6. DISTRIBUTION EXPENSE-OPERATIONS	3,710,832	5,261,593	5,261,593
7. DISTRIBUTION EXPENSE-MAINTENANCE	5,119,953	6,599,827	6,599,827
8. CONSUMER ACCOUNTS EXPENSE	3,493,937	4,884,668	4,729,668
9. CUSTOMER SERVICE/INFO EXPENSE	541,034	1,343,835	1,058,835
11. ADMINISTRATIVE/GENERAL EXPENSE	13,982,200	18,631,953	18,074,899
<b>12. TOTAL OPERATIONS/MAINTENANCE EXP.</b>	<b>\$118,245,857</b>	<b>\$158,946,692</b>	<b>\$162,976,978</b>
13. DEPRECIATION/AMORTIZATION EXPENSE	21,907,024	28,741,803	29,274,187
14. TAX EXPENSE-OTHER	610,346	833,700	799,346
15. INTEREST-LONG TERM DEBT	17,391,282	22,768,233	23,010,777
16. INTEREST ON CONSTRUCTION-CREDIT	(605,708)	(934,339)	(838,186)
17. INTEREST EXPENSE-OTHER	46,649	96,875	102,899
18. OTHER DEDUCTIONS	287,404	575,000	431,154
<b>19. TOTAL COST OF ELECTRIC SERVICE</b>	<b>\$157,882,854</b>	<b>\$211,027,964</b>	<b>\$215,757,155</b>
<b>20. PATRONAGE CAPITAL/OPERATING MARGINS</b>	<b>\$3,967,372</b>	<b>\$6,323,409</b>	<b>\$6,647,273</b>
21. NON-OPERATING MARGINS-INTEREST	411,946	360,170	503,417
22. ALLOWANCE FUNDS USED DURING CONST.	107,493	176,178	151,342
23. NON-OPERATING MARGINS-OTHER	404	0	404
24. GENER./TRANS. CAPITAL CREDITS	0	0	0
25. OTHER CAPITAL CREDITS/DIVIDENDS	597	650,000	650,597
26. EXTRAORDINARY ITEMS	0	0	0
<b>27. PATRONAGE CAPITAL OR MARGINS</b>	<b>\$4,487,812</b>	<b>\$7,509,757</b>	<b>\$7,953,033</b>
 MFI/I	 1.26	 1.33	 1.34

\* Forecast based on 9 months actual and 3 months forecast