

CHUGACH ELECTRIC ASSOCIATION, INC.
ANCHORAGE, ALASKA

October 31, 2008

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

kWh Sales

	<u>2008 Actual</u>	<u>2008 Budget</u>
Retail kWh Sales	875,024,498	887,252,360
Wholesale kWh Sales	<u>960,541,423</u>	<u>938,327,340</u>
Total Firm kWh Sales	1,835,565,921	1,825,579,700
Economy Energy kWh Sales	<u>191,662,340</u>	<u>164,392,000</u>
Total kWh Sales	2,027,228,261	1,989,971,700

September 2008 year to date firm kWh sales totaled 1,835,565,921 which were 0.6% over budget. While there was not an overall variance, lower than anticipated retail sales was offset by higher than anticipated sales to Homer Electric Association (HEA). September 2008 year-to-date economy energy sales to Golden Valley Electric Association (GVEA) totaled 191,662,340 which were 16.6% over budget.

Retail kWh sales were under budget by 1.4% and wholesale kWh sales were 2.4% 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	\$ 112.7	\$ 112.2
Wholesale Revenue	<u>76.4</u>	<u>72.0</u>
Total Firm Revenue	189.1	184.2
Economy Energy Revenue	<u>13.4</u>	<u>10.6</u>
Total Revenue	\$ 202.5	\$ 194.8

Revenue from firm sales totaled \$189.1 million year to date in 2008 compared to \$184.2 million in the budget. Retail revenue from sales was lower than budget due to lower retail kWh sales, however, that variance was offset by higher fuel recovered through the fuel and purchased power surcharge mechanism which is included in revenue. Wholesale revenue was higher than budget primarily due to higher than anticipated sales to HEA and higher fuel recovered through the fuel and purchased power surcharge mechanism. Economy energy revenue was higher than budget by \$2.8 million primarily caused by more than anticipated sales to GVEA through September.

Other Operating Revenue (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Other Operating Revenue	\$ 2.2	\$ 2.2

Other operating revenue includes late fees, pole rental, wheeling, microwave and miscellaneous service and other electric revenue. Other operating revenue for 2008 totaled \$2.2 million compared to \$2.2 million in the budget, with no significant variance.

Power Production (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Operating & Maintenance	\$ 12.5	\$ 12.8
Fuel	<u>94.7</u>	<u>86.5</u>
Total	\$ 107.2	\$ 99.3

Actual power production operating and maintenance expense year to date for 2008 was \$12.5 million compared to \$12.8 million in the budget. The variance was due in part to the deferral of materials for the Beluga Unit 3 inspection, which is now projected for 2009. Professional services caused by an unexpected expense associated with the Beluga Unit 7 outage is being offset by the timing of professional services associated with SCADA, environmental engineering and plant security. 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 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 \$94.7 million compared to \$86.5 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 22,128,154 MCF at an average price of \$4.85 per MCF compared to 21,454,853 MCF in the budget at an average price of \$4.72 per MCF.

Purchased Power (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Purchased Power	\$ 23.1	\$ 23.4

Purchased power expense year to date for 2008 totaled \$23.1 million compared to \$23.4 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 373,844 MWh of energy at an average effective price of 5.91 cents per MWh compared to 412,901 MWh of energy at an average effective price of 5.46 cents per MWh in the budget.

Transmission Operations and Maintenance (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Transmission	\$ 4.6	\$ 4.9

Transmission operations and maintenance expense for 2008 totaled \$4.6 million compared to \$4.9 million in the budget. The variance was primarily due to lower substation labor expense. The substation department performed more distribution maintenance than anticipated, which was recorded to that financial statement category. 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	\$ 9.4	\$ 8.9

Distribution operations and maintenance expenses for 2008 totaled \$9.4 million compared to \$8.9 million in the budget. This variance was primarily due to higher substation labor. As mentioned above, the substation department performed more distribution maintenance than anticipated. The variance was also due to additional labor associated with outages, costs associated with workers compensation claims and higher warehouse and garage expenses.

Consumer Accounts (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Consumer Accounts	\$ 3.6	\$ 3.8

Consumer accounts expense for 2008 totaled \$3.6 million compared to \$3.8 million in the budget. This variance was primarily due to lower labor and software and labor expense allocated from information services.

Customer Information (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Customer Information	\$ 0.5	\$ 0.5

Customer information expense for 2008 totaled \$0.5 million compared to \$0.5 million in the budget, with no significant variance.

Administrative & General (in million)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Administrative and General	\$ 14.3	\$ 13.5

Administrative and general expenses for 2008 totaled \$14.3 million compared to \$13.5 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 and office supplies 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 \$162.7 million compared to \$154.4 million in the 2008 budget.

Depreciation expense totaled \$22.8 million compared to \$22.6 in the budget, with no significant variance.

Tax expense totaled \$0.6 million compared to \$0.7 million in the budget, with no significant variance.

Long-term interest expense year to date totaled \$16.1 million compared to \$17.4 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 \$0.8 million in the budget. This variance was primarily due to a lower than anticipated average Construction Work In Progress, (CWIP) balance caused by less construction activity than anticipated and lower than anticipated interest rates.

Other interest expense year to date totaled \$0.9 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 \$29.6 million 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 \$7.5 million at the end of September 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 \$202.8 million compared to \$194.5 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 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 \$3.2 million in the budget. Per the attached comparative financial report on page 8, the current 9 months actual/3 months forecast projects year end margins of \$7.0 million and an MFI/I of 1.31.

CHUGACH ELECTRIC ASSOCIATION, INC.
COMPARATIVE FINANCIAL REPORT
STATEMENT OF OPERATIONS
SEPTEMBER 2008
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CATEGORY	2008 SEPTEMBER ACTUALS	2008 SEPTEMBER BUDGET	2008 SEPTEMBER VARIANCE
REVENUES:			
1. TOTAL REVENUE	\$23,225,086	\$20,612,936	\$2,612,150
EXPENSES:			
2. FUEL EXPENSE	10,830,207	8,556,462	2,273,745
3. POWER PRODUCTION EXPENSE	1,253,810	1,842,836	(589,026)
4. COST OF PURCHASED POWER	2,895,028	2,642,412	252,616
5. TRANSMISSION EXPENSE	473,030	539,642	(66,612)
6. DISTRIBUTION EXPENSE-OPERATIONS	492,716	382,678	110,038
7. DISTRIBUTION EXPENSE-MAINTENANCE	591,217	587,335	3,882
8. CONSUMER ACCOUNTS EXPENSE	393,691	391,821	1,870
9. CUSTOMER SERVICE/INFO EXPENSE	44,004	48,273	(4,269)
10. SALES EXPENSE	0	0	0
11. ADMINISTRATIVE/GENERAL EXPENSE	1,655,616	1,341,284	314,332
12. TOTAL OPERATIONS/MAINTENANCE EXP.	\$18,629,319	\$16,332,743	\$2,296,576
13. DEPRECIATION/AMORTIZATION EXPENSE	2,662,129	2,566,731	95,398
14. TAX EXPENSE-OTHER	64,871	64,009	862
15. INTEREST-LONG TERM DEBT	1,737,053	1,920,004	(182,951)
16. INTEREST ON CONSTRUCTION-CREDIT	(34,943)	(80,979)	46,036
17. INTEREST EXPENSE-OTHER	328,635	64,167	264,468
18. OTHER DEDUCTIONS	18,196	20,834	(2,638)
19. TOTAL COST OF ELECTRIC SERVICE	\$23,405,260	\$20,887,509	\$2,517,751
20. PATRONAGE CAPITAL/OPERATING MARGINS	(\$180,174)	(\$274,573)	\$94,399
21. NON-OPERATING MARGINS-INTEREST	30,967	25,830	5,137
22. ALLOWANCE FUNDS USED DURING CONST.	8,099	35,003	(26,904)
23. NON-OPERATING MARGINS-OTHER	1,001	0	1,001
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	(\$140,107)	(\$213,740)	\$73,633

MFI/I

0.93

0.89

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
REVENUES:			
1. TOTAL REVENUE	\$204,651,479	\$197,075,158	\$7,576,321
EXPENSES:			
2. FUEL EXPENSE	94,663,415	86,523,885	8,139,530
3. POWER PRODUCTION EXPENSE	12,523,044	12,764,773	(241,729)
4. COST OF PURCHASED POWER	23,133,146	23,404,589	(271,443)
5. TRANSMISSION EXPENSE	4,601,905	4,934,182	(332,277)
6. DISTRIBUTION EXPENSE-OPERATIONS	3,669,131	3,542,499	126,632
7. DISTRIBUTION EXPENSE-MAINTENANCE	5,759,005	5,342,757	416,248
8. CONSUMER ACCOUNTS EXPENSE	3,553,578	3,822,381	(268,803)
9. CUSTOMER SERVICE/INFO EXPENSE	464,191	529,799	(65,608)
10. SALES EXPENSE	0	0	0
11. ADMINISTRATIVE/GENERAL EXPENSE	14,303,413	13,488,834	814,579
12. TOTAL OPERATIONS/MAINTENANCE EXP.	\$162,670,828	\$154,353,699	\$8,317,129
13. DEPRECIATION/AMORTIZATION EXPENSE	22,825,522	22,597,383	228,139
14. TAX EXPENSE-OTHER	610,734	666,109	(55,375)
15. INTEREST-LONG TERM DEBT	16,074,579	17,366,628	(1,292,049)
16. INTEREST ON CONSTRUCTION-CREDIT	(313,066)	(769,355)	456,289
17. INTEREST EXPENSE-OTHER	859,318	123,750	735,568
18. OTHER DEDUCTIONS	83,893	187,498	(103,605)
19. TOTAL COST OF ELECTRIC SERVICE	\$202,811,808	\$194,525,712	\$8,286,096
20. PATRONAGE CAPITAL/OPERATING MARGINS	\$1,839,671	\$2,549,446	(\$709,775)
21. NON-OPERATING MARGINS-INTEREST	309,002	292,789	16,213
22. ALLOWANCE FUNDS USED DURING CONST.	89,068	332,556	(243,488)
23. NON-OPERATING MARGINS-OTHER	27,500	0	27,500
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	\$2,265,082	\$3,174,791	(\$909,709)

CHUGACH ELECTRIC ASSOCIATION, INC.
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2008 FORECAST
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CATEGORY	2008 ACTUALS YTD	2008 AMENDED BUDGET YTD	2008 AMENDED BUDGET	2008 REVISED FORECAST
REVENUES:				
1. TOTAL REVENUE	\$204,651,479	\$197,075,158	\$272,069,723	279,271,044 ^{1 & 2}
EXPENSES:				
2. FUEL EXPENSE	94,663,415	86,523,885	121,218,046	129,207,576 ^{1 & 2}
3. POWER PRODUCTION EXPENSE	12,523,044	12,764,773	16,445,185	16,195,185 ²
4. COST OF PURCHASED POWER	23,133,146	23,404,589	31,119,383	30,847,940 ¹
5. TRANSMISSION EXPENSE	4,601,905	4,934,182	6,483,569	6,183,569 ²
6. DISTRIBUTION EXPENSE-OPERATIONS	3,669,131	3,542,499	4,696,382	4,696,382
7. DISTRIBUTION EXPENSE-MAINTENANCE	5,759,005	5,342,757	7,029,742	7,729,742 ²
8. CONSUMER ACCOUNTS EXPENSE	3,553,578	3,822,381	5,041,115	5,041,115
9. CUSTOMER SERVICE/INFO EXPENSE	464,191	529,799	699,429	699,429
10. SALES EXPENSE	0	0	0	0
11. ADMINISTRATIVE/GENERAL EXPENSE	14,303,413	13,488,834	17,690,176	18,719,730 ²
12. TOTAL OPERATIONS/MAINTENANCE EXP.	\$162,670,828	\$154,353,699	\$210,423,027	\$219,320,668
13. DEPRECIATION/AMORTIZATION EXPENSE	22,825,522	22,597,383	30,354,147	30,822,409 ^{1 & 2}
14. TAX EXPENSE-OTHER	610,734	666,109	884,862	829,487 ¹
15. INTEREST-LONG TERM DEBT	16,074,579	17,366,628	23,119,883	21,285,738 ^{1 & 2}
16. INTEREST ON CONSTRUCTION-CREDIT	(313,066)	(769,355)	(998,921)	(433,066) ^{1 & 2}
17. INTEREST EXPENSE-OTHER	859,318	123,750	325,417	1,374,118 ^{1 & 2}
18. OTHER DEDUCTIONS	83,893	187,498	250,000	146,395 ¹
19. TOTAL COST OF ELECTRIC SERVICE	\$202,811,808	\$194,525,712	\$264,358,415	\$273,345,749
20. PATRONAGE CAPITAL/OPERATING MARGINS	\$1,839,671	\$2,549,446	\$7,711,308	\$5,925,295
21. NON-OPERATING MARGINS-INTEREST	309,002	292,789	392,263	408,476 ¹
22. ALLOWANCE FUNDS USED DURING CONST.	89,068	332,556	431,788	134,068 ^{1 & 2}
23. NON-OPERATING MARGINS-OTHER	27,500	0	0	27,500 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	2,265,082	3,174,791	9,060,359	7,020,180

MFI/I

1.13

1.18

1.39

1.31

¹ Forecast based on 9 months actual and 3 months budget

² Forecast has been adjusted to reflect current assumption changes