

CHUGACH ELECTRIC ASSOCIATION, INC.  
ANCHORAGE, ALASKA

November 23, 2009

To: Mike Cunningham, Chief Financial Officer  
From: Sherri McKay-Highers, Manager, Budget and Financial Reporting  
Subject: October 2009 Year to Date Financial Results

kWh Sales

	<u>2009 Actual</u>	<u>2009 Budget</u>
Retail kWh Sales	957,446,005	976,598,469
Wholesale kWh Sales	<u>1,035,329,766</u>	<u>1,167,625,968</u>
Total Firm kWh Sales	1,992,775,771	2,144,224,437
Economy Energy kWh Sales	<u>40,790,300</u>	<u>73,000,000</u>
Total kWh Sales	2,033,566,071	2,217,224,437

October 2009 year to date firm kWh sales totaled 1,992,775,771 which were 7.1% under budget. Retail kWh sales were under budget by 2.0% and wholesale kWh sales were 11.3% under budget. Significant factors contributing to the retail sales variance included lower than anticipated residential and commercial sales due primarily to warmer than anticipated weather, as well as observed patterns of conservation in response to increasing utility rates, and implementation of protective measures in response to the threat of ash fall from Mt. Redoubt that have continued as additional conservation measures. A firm wholesale contract with Golden Valley Electric Association (GVEA) did not occur as anticipated and consequently represented approximately 75% of the overall wholesale sales variance. Additional factors contributing to the wholesale sales variance included lower than anticipated sales to Homer Electric Association due to the impact of the shutdown of their industrial load in the second quarter to accommodate transmission line maintenance, power failures shutting down a large industrial consumer in the second quarter, impact from residential and commercial consumers implementing protective measures associated with the ash fall threat from Mt. Redoubt, warmer than anticipated weather and conservation in response to rising utility rates. Year-to-date economy energy sales to Golden Valley Electric Association (GVEA) totaled 40,790,300 which were 44.1% under budget.

Energy Revenue (in millions)

	<u>2009 Actual</u>	<u>2009 Budget</u>
Retail Revenue	\$ 133.7	\$ 142.7
Wholesale Revenue	<u>98.8</u>	<u>116.8</u>
Total Firm Revenue	232.5	259.5
Economy Energy Revenue	<u>3.7</u>	<u>6.2</u>
Total Revenue	\$ 236.2	\$ 265.7

Revenue from firm sales totaled \$232.5 million year to date in 2009 compared to \$259.5 million in the budget. Retail revenue was lower primarily caused by lower than anticipated sales, as well as less fuel expense included in revenue and recovered through the fuel and purchased power process due to lower fuel costs. Wholesale revenue was lower caused by lower than anticipated sales to Homer Electric Association, less fuel expense included in revenue and recovered through the fuel and purchased power process due to lower fuel costs and the fact that we have not finalized a firm contract with GVEA as anticipated. Economy energy revenue was lower than budget by \$2.5 million caused by less than anticipated sales to GVEA.

Other Operating Revenue (in millions)

	<u>2009 Actual</u>	<u>2009 Budget</u>
Other Operating Revenue	\$ 2.2	\$ 2.4

Other operating revenue includes late fees, pole rental, wheeling, microwave and miscellaneous service and other electric revenue. Other operating revenue for 2009 totaled \$2.2 million compared to \$2.4 million in the budget. The variance was due to less than expected wheeling and other electric revenue.

Power Production (in millions)

	<u>2009 Actual</u>	<u>2009 Budget</u>
Operating & Maintenance	\$ 13.9	\$ 14.2
Fuel	<u>110.5</u>	<u>136.6</u>
Total	\$ 124.4	\$ 150.8

Actual power production operating and maintenance expense year to date for 2009 was \$13.9 million compared to \$14.2 million in the budget. Higher than anticipated costs associated with the full charges of the Beluga Unit #8 major inspection completed in 2008, additional expenses associated with the Beluga Unit #8 repairs in 2009, water injection costs at the Bernice Lake power plant and higher than anticipated costs allocated from Information Services were more than offset by the timing of Eklutna maintenance, the postponement of the Bernice Unit #3 major inspection, lower transportation and training expenses, lower labor expense due to vacancies and more than anticipated capitalized labor and lower than anticipated expenses associated with consulting, operations and maintenance assessments. The costs associated with the repairs of Cooper Lake Unit #2 in the first quarter of 2009 have been reclassified from expense to deferred. Fuel expense year to date in 2009 was \$110.5 million compared to \$136.6 million projected in the budget. This variance was caused by less than anticipated MCF purchased due primarily to lower than anticipated sales and the fact that we have not finalized a firm contract with GVEA as anticipated. Actual fuel purchased year to date was 20,440,579 MCF at an average effective price of \$6.49 per MCF compared to 23,748,908 MCF in the budget at an average effective price of \$6.69 per MCF.

Purchased Power (in millions)

	<u>2009 Actual</u>	<u>2009 Budget</u>
Total Purchased Power	\$ 32.4	\$ 32.4

Purchased power expense year to date for 2009 totaled \$32.4 million compared to \$32.4 million in the budget. While not an overall variance, we purchased more energy than anticipated which was offset by a lower effective price caused primarily by lower than anticipated fuel costs. We purchased 443,029 MWh

of energy at an average effective price of 7.06 cents per kWh compared to 398,947 MWh of energy at an average effective price of 7.84 cents per kWh in the budget.

Transmission Operations and Maintenance (in millions)

	<u>2009 Actual</u>	<u>2009 Budget</u>
Total Transmission	\$ 4.8	\$ 5.4

Transmission operations and maintenance expense for 2009 totaled \$4.8 million compared to \$5.4 million in the budget. This variance was primarily due to lower labor as a result of vacancies and a higher concentration of distribution and deferred reimbursable work being performed at this time. Professional services also contributed to this variance due primarily to lower costs associated with substation training and condition assessments. That variance was somewhat offset by higher than anticipated lease expense.

Distribution Operations and Maintenance (in millions)

	<u>2009 Actual</u>	<u>2009 Budget</u>
Total Distribution	\$ 10.5	\$ 10.5

Distribution operations and maintenance expenses for 2009 totaled \$10.5 million compared to \$10.5 million in the budget. While not an overall variance, labor was over budget due to weather related repairs and a higher concentration of distribution rather than transmission work being performed. Costs allocated from Information Services were also higher than anticipated. These expenses were offset by lower materials due to the postponement of several substation maintenance projects.

Consumer Accounts (in millions)

	<u>2009 Actual</u>	<u>2009 Budget</u>
Total Consumer Accounts	\$ 3.8	\$ 3.9

Consumer accounts expense for 2009 totaled \$3.8 million compared to \$3.9 million in the budget. Though not a significant overall variance, labor was under budget due to vacancies and this category was under budget in costs allocated from Information Services.

Customer Information (in millions)

	<u>2009 Actual</u>	<u>2009 Budget</u>
Total Customer Information	\$ 0.6	\$ 0.7

Customer information expense for 2009 totaled \$0.6 million compared to \$0.7 million in the budget. This variance was due primarily to expenses associated with a corporate communications plan which was recorded as an administrative and general expense as well as the timing of expenses associated with the Smart Power Incentive program.

Administrative & General (in million)

	<u>2009 Actual</u>	<u>2009 Budget</u>
Total Administrative and General	\$ 15.3	\$ 17.2

Administrative and general expenses for 2009 totaled \$15.3 million compared to \$17.2 million in the budget. This category was under budget in allocated costs from Information Services, financial advisory and audit expenses, building maintenance and utilities, planning and strategic activities, human resource programs, regulatory and legal costs, rating agency fees, training and Board of Directors expenses. Those items under budget were slightly offset by process improvement expenses and a corporate communications plan, which was budgeted to the customer information financial statement category.

The summary of all the above year to date 2009 operations and maintenance expenses total \$191.9 million compared to \$221.0 million in the 2009 budget.

Depreciation expense totaled \$26.7 million compared to \$26.9 million in the budget, with no significant variance.

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

Long-term interest expense year to date totaled \$16.8 million compared to \$17.5 million in the budget. The variance was primarily due to lower than anticipated interest rates.

Interest during construction year to date totaled \$0.5 million compared to \$1.0 million in the budget. The variance was primarily due to less construction activity than anticipated and lower than anticipated interest rates.

Other interest expense year to date totaled \$0.9 million compared to \$1.5 million in the budget. The variance was primarily due to a lower than anticipated line of credit balance and lower than anticipated interest rates on our commercial paper. We had no outstanding balance on our CoBank or NRUCFC lines of credit and had \$50.0 million of commercial paper outstanding at October 31, 2009.

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 \$309.6 thousand compared to \$208.3 thousand in the budget. The variance was primarily due to an inventory write-off.

All of the foregoing expenses resulted in total cost of electric service of \$236.8 million compared to \$266.7 million in the 2009 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 2009, non-operating margins totaled \$355.8 thousand compared to \$347.5 thousand in the budget. Lower than anticipated interest income caused by lower interest rates was offset by the gain associated with a relinquished easement interest on permitted property and higher than anticipated AFUDC.

The net result of revenue and expenses year to date in 2009 was margins of \$1.9 million compared to year to date projected margins of \$1.8 million in the budget. Per the attached comparative financial report on page 7, the current 10 months actual/2 months forecast projects year end margins of \$5.7 million and an MFI/I of 1.27.

**CHUGACH ELECTRIC ASSOCIATION, INC.**  
**COMPARATIVE FINANCIAL REPORT**  
**STATEMENT OF OPERATIONS**  
**OCTOBER 2009**  
Page 5

CATEGORY	2009 OCTOBER ACTUALS	2009 OCTOBER APPROVED BUDGET	2009 OCTOBER VARIANCE
<b>REVENUES:</b>			
<b>1. TOTAL REVENUE</b>	<b>\$22,144,883</b>	<b>\$25,679,493</b>	<b>(\$3,534,610)</b>
<b>EXPENSES:</b>			
2. FUEL EXPENSE	9,319,546	13,166,390	(3,846,844)
3. POWER PRODUCTION EXPENSE	1,172,377	1,332,136	(159,759)
4. COST OF PURCHASED POWER	2,678,373	1,931,397	746,976
5. TRANSMISSION EXPENSE	450,948	562,035	(111,087)
6. DISTRIBUTION EXPENSE-OPERATIONS	421,351	446,894	(25,543)
7. DISTRIBUTION EXPENSE-MAINTENANCE	558,040	674,312	(116,272)
8. CONSUMER ACCOUNTS EXPENSE	397,403	397,260	143
9. CUSTOMER SERVICE/INFO EXPENSE	61,755	75,228	(13,473)
10. SALES EXPENSE	0	0	0
11. ADMINISTRATIVE/GENERAL EXPENSE	1,615,717	1,886,657	(270,940)
<b>12. TOTAL OPERATIONS/MAINTENANCE EXP.</b>	<b>\$16,675,510</b>	<b>\$20,472,309</b>	<b>(\$3,796,799)</b>
13. DEPRECIATION/AMORTIZATION EXPENSE	2,690,319	2,702,264	(11,945)
14. TAX EXPENSE-OTHER	50,370	62,296	(11,926)
15. INTEREST-LONG TERM DEBT	1,677,035	1,743,719	(66,684)
16. INTEREST ON CONSTRUCTION-CREDIT	(61,152)	(173,846)	112,694
17. INTEREST EXPENSE-OTHER	64,294	222,449	(158,155)
18. OTHER DEDUCTIONS	16,273	20,834	(4,561)
<b>19. TOTAL COST OF ELECTRIC SERVICE</b>	<b>\$21,112,649</b>	<b>\$25,050,025</b>	<b>(\$3,937,376)</b>
<b>20. PATRONAGE CAPITAL/OPERATING MARGINS</b>	<b>\$1,032,234</b>	<b>\$629,468</b>	<b>\$402,766</b>
21. NON-OPERATING MARGINS-INTEREST	26,044	25,902	142
22. ALLOWANCE FUNDS USED DURING CONST.	15,636	14,544	1,092
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>\$1,073,914</b>	<b>\$669,914</b>	<b>\$404,000</b>

MF/I

1.62

1.34

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

CATEGORY	2009 ACTUALS YTD	2009 APPROVED BUDGET YTD	2009 VARIANCE YTD
<b>REVENUES:</b>			
<b>1. TOTAL REVENUE</b>	<b>\$238,366,498</b>	<b>\$268,164,555</b>	<b>(\$29,798,057)</b>
<b>EXPENSES:</b>			
2. FUEL EXPENSE	110,534,325	136,607,481	(26,073,156)
3. POWER PRODUCTION EXPENSE	13,911,479	14,247,480	(336,001)
4. COST OF PURCHASED POWER	32,444,906	32,437,460	7,446
5. TRANSMISSION EXPENSE	4,815,574	5,353,035	(537,461)
6. DISTRIBUTION EXPENSE-OPERATIONS	4,099,731	4,059,980	39,751
7. DISTRIBUTION EXPENSE-MAINTENANCE	6,424,609	6,398,645	25,964
8. CONSUMER ACCOUNTS EXPENSE	3,754,605	3,921,205	(166,600)
9. CUSTOMER SERVICE/INFO EXPENSE	567,677	745,811	(178,134)
10. SALES EXPENSE	0	0	0
11. ADMINISTRATIVE/GENERAL EXPENSE	15,298,981	17,196,696	(1,897,715)
<b>12. TOTAL OPERATIONS/MAINTENANCE EXP.</b>	<b>\$191,851,887</b>	<b>\$220,967,793</b>	<b>(\$29,115,906)</b>
13. DEPRECIATION/AMORTIZATION EXPENSE	26,745,740	26,907,639	(161,899)
14. TAX EXPENSE-OTHER	660,795	665,927	(5,132)
15. INTEREST-LONG TERM DEBT	16,812,859	17,504,447	(691,588)
16. INTEREST ON CONSTRUCTION-CREDIT	(458,299)	(1,021,924)	563,625
17. INTEREST EXPENSE-OTHER	918,545	1,475,844	(557,299)
18. OTHER DEDUCTIONS	309,619	208,332	101,287
<b>19. TOTAL COST OF ELECTRIC SERVICE</b>	<b>\$236,841,146</b>	<b>\$266,708,058</b>	<b>(\$29,866,912)</b>
<b>20. PATRONAGE CAPITAL/OPERATING MARGINS</b>	<b>\$1,525,352</b>	<b>\$1,456,497</b>	<b>\$68,855</b>
21. NON-OPERATING MARGINS-INTEREST	200,241	262,023	(61,782)
22. ALLOWANCE FUNDS USED DURING CONST.	112,867	85,493	27,374
23. NON-OPERATING MARGINS-OTHER	42,331	0	42,331
24. GENER./TRANS. CAPITAL CREDITS	0	0	0
25. OTHER CAPITAL CREDITS/DIVIDENDS	319	0	319
26. EXTRAORDINARY ITEMS	0	0	0
<b>27. PATRONAGE CAPITAL OR MARGINS</b>	<b>\$1,881,110</b>	<b>\$1,804,013</b>	<b>\$77,097</b>

**CHUGACH ELECTRIC ASSOCIATION, INC.**  
**COMPARATIVE FINANCIAL REPORT**  
**STATEMENT OF OPERATIONS**  
**2009 FORECAST**  
Page 7

CATEGORY	2009 APPROVED BUDGET	2009 REVISED FORECAST
<b>REVENUES:</b>		
<b>1. TOTAL REVENUE</b>	<b>\$326,475,392</b>	<b>\$293,281,615</b> <sup>1,2,3</sup>
<b>EXPENSES:</b>		
2. FUEL EXPENSE	164,937,777	136,837,257 <sup>1,2</sup>
3. POWER PRODUCTION EXPENSE	17,856,505	16,570,478 <sup>3</sup>
4. COST OF PURCHASED POWER	39,048,608	39,044,263 <sup>1,3</sup>
5. TRANSMISSION EXPENSE	6,332,987	5,828,126 <sup>3</sup>
6. DISTRIBUTION EXPENSE-OPERATIONS	4,927,891	4,803,063 <sup>3</sup>
7. DISTRIBUTION EXPENSE-MAINTENANCE	7,578,207	7,250,105 <sup>3</sup>
8. CONSUMER ACCOUNTS EXPENSE	4,659,328	4,475,195 <sup>3</sup>
9. CUSTOMER SERVICE/INFO EXPENSE	864,394	832,322 <sup>3</sup>
10. SALES EXPENSE	0	0
11. ADMINISTRATIVE/GENERAL EXPENSE	20,439,427	18,870,343 <sup>3</sup>
<b>12. TOTAL OPERATIONS/MAINTENANCE EXP.</b>	<b>\$266,645,124</b>	<b>\$234,511,152</b>
13. DEPRECIATION/AMORTIZATION EXPENSE	32,355,300	32,255,300 <sup>3</sup>
14. TAX EXPENSE-OTHER	801,501	796,369 <sup>1</sup>
15. INTEREST-LONG TERM DEBT	20,988,686	20,166,929 <sup>1,3</sup>
16. INTEREST ON CONSTRUCTION-CREDIT	(1,362,016)	(603,682) <sup>3</sup>
17. INTEREST EXPENSE-OTHER	1,925,947	1,047,133 <sup>1,3</sup>
18. OTHER DEDUCTIONS	250,000	351,287 <sup>1</sup>
<b>19. TOTAL COST OF ELECTRIC SERVICE</b>	<b>\$321,604,542</b>	<b>\$288,524,488</b>
<b>20. PATRONAGE CAPITAL/OPERATING MARGINS</b>	<b>\$4,870,850</b>	<b>\$4,757,127</b>
21. NON-OPERATING MARGINS-INTEREST	314,513	252,731 <sup>1</sup>
22. ALLOWANCE FUNDS USED DURING CONST.	113,944	144,944 <sup>1,3</sup>
23. NON-OPERATING MARGINS-OTHER	0	42,331 <sup>1</sup>
24. GENER./TRANS. CAPITAL CREDITS	0	0
25. OTHER CAPITAL CREDITS/DIVIDENDS	500,000	500,319 <sup>1</sup>
26. EXTRAORDINARY ITEMS	0	0
<b>27. PATRONAGE CAPITAL OR MARGINS</b>	<b>\$5,799,307</b>	<b>\$5,697,452</b>
MFI/I	1.25	1.27

<sup>1</sup> Forecast based on 10 months actual and 2 months forecast

<sup>2</sup> Forecast has been adjusted to reflect three months of non-firm sales to GVEA

<sup>3</sup> Forecast has been adjusted to reflect current assumption changes