

CHUGACH ELECTRIC ASSOCIATION, INC.
ANCHORAGE, ALASKA

November 24, 2008

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

kWh Sales

	<u>2008 Actual</u>	<u>2008 Budget</u>
Retail kWh Sales	978,316,188	991,742,360
Wholesale kWh Sales	<u>1,074,767,267</u>	<u>1,048,727,220</u>
Total Firm kWh Sales	2,053,083,455	2,040,469,580
Economy Energy kWh Sales	<u>221,990,800</u>	<u>184,861,000</u>
Total kWh Sales	2,275,074,255	2,225,330,580

October 2008 year to date firm kWh sales totaled 2,053,083,455 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). October 2008 year-to-date economy energy sales to Golden Valley Electric Association (GVEA) totaled 221,990,800 which were 20.1% over budget.

Retail kWh sales were under budget by 1.4% and wholesale kWh sales were 2.5% 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	\$ 126.7	\$ 125.0
Wholesale Revenue	<u>86.5</u>	<u>80.3</u>
Total Firm Revenue	213.2	205.3
Economy Energy Revenue	<u>15.9</u>	<u>12.0</u>
Total Revenue	\$ 229.1	\$ 217.3

Revenue from firm sales totaled \$213.2 million year to date in 2008 compared to \$205.3 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 \$3.9 million primarily caused by more than anticipated sales to GVEA through October.

Other Operating Revenue (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Other Operating Revenue	\$ 2.4	\$ 2.5

Other operating revenue includes late fees, pole rental, wheeling, microwave and miscellaneous service and other electric revenue. Other operating revenue for 2008 totaled \$2.4 million compared to \$2.5 million in the budget, with no significant variance.

Power Production (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Operating & Maintenance	\$ 13.6	\$ 14.1
Fuel	<u>108.3</u>	<u>96.9</u>
Total	\$ 121.9	\$ 111.0

Actual power production operating and maintenance expense year to date for 2008 was \$13.6 million compared to \$14.1 million in the budget. The variance was due in part to the deferral of materials for the Beluga Unit 3 inspection, now projected for 2009, as well as lower labor expense. This financial statement category was over budget in professional services associated with the Beluga Unit 7 outage and 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, this financial statement category was over budget due to unexpected water purchases required for the new water injection system at the Bernice Lake power plant. The aforementioned increases were offset by the timing of professional services associated with SCADA, environmental engineering and plant security, as well as lower training expense. Fuel expense year to date in 2008 was \$108.3 million compared to \$96.9 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 25,074,207 MCF at an average price of \$4.96 per MCF compared to 23,760,822 MCF in the budget at an average price of \$4.76 per MCF.

Purchased Power (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Purchased Power	\$ 26.1	\$ 25.6

Purchased power expense year to date for 2008 totaled \$26.1 million compared to \$25.6 million in the budget. Although we experienced lower than anticipated purchases, that was offset by a higher price per kWh. We purchased 408,831 MWh of energy at an average effective price of 6.11 cents per kWh compared to 451,580 MWh of energy at an average effective price of 5.47 cents per kWh in the budget.

Transmission Operations and Maintenance (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Transmission	\$ 5.0	\$ 5.5

Transmission operations and maintenance expense for 2008 totaled \$5.0 million compared to \$5.5 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	\$ 10.8	\$ 10.0

Distribution operations and maintenance expenses for 2008 totaled \$10.8 million compared to \$10.0 million in the budget. This variance was due to higher substation labor due to more distribution maintenance being performed than anticipated as described above, as well as more labor and materials charged to expense which decreased the amount charged to capital. Additionally, the variance was due to labor associated with overhead line and transformer maintenance due to a weather related outage. The variance was also due to costs associated with workers compensation claims and higher warehouse and garage expense caused by an increase in depreciation expense due to the difference between rates and implementation date of the 2005 depreciation study included in the final 2005 Test Year rate case, as well as higher fuel costs.

Consumer Accounts (in millions)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Consumer Accounts	\$ 4.0	\$ 4.2

Consumer accounts expense for 2008 totaled \$4.0 million compared to \$4.2 million in the budget. This variance was primarily due to lower labor as well as 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	\$ 0.6

Customer information expense for 2008 totaled \$0.5 million compared to \$0.6 million in the budget, with no significant variance.

Administrative & General (in million)

	<u>2008 Actual</u>	<u>2008 Budget</u>
Total Administrative and General	\$ 16.1	\$ 15.2

Administrative and general expenses for 2008 totaled \$16.1 million compared to \$15.2 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 \$184.4 million compared to \$172.2 million in the 2008 budget.

Depreciation expense totaled \$25.5 million compared to \$25.2 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 \$17.8 million compared to \$19.3 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 \$0.4 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 \$1.0 million compared to \$0.2 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 and NRUCFC lines of credit due to the timing of expenditures, receipt of payment for services and the under-recovery of the prior quarter's fuel and purchased power costs. We had an outstanding balance of \$7.5 million on our CoBank line of credit and utilized an additional \$4.0 million on our NRUCFC line of credit through October.

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 \$229.1 million compared to \$217.0 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 \$0.5 million compared to \$0.7 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 \$2.8 million compared to year to date projected margins of \$3.6 million in the budget. Per the attached comparative financial report on page 8, the current 10 months actual/2 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
OCTOBER 2008
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CATEGORY	2008 OCTOBER ACTUALS	2008 OCTOBER BUDGET	2008 OCTOBER VARIANCE
REVENUES:			
1. TOTAL REVENUE	\$26,785,662	\$22,760,115	\$4,025,547
EXPENSES:			
2. FUEL EXPENSE	13,608,158	10,404,786	3,203,372
3. POWER PRODUCTION EXPENSE	1,095,073	1,360,241	(265,168)
4. COST OF PURCHASED POWER	2,971,560	2,237,864	733,696
5. TRANSMISSION EXPENSE	443,599	579,449	(135,850)
6. DISTRIBUTION EXPENSE-OPERATIONS	482,308	435,832	46,476
7. DISTRIBUTION EXPENSE-MAINTENANCE	869,887	676,091	193,796
8. CONSUMER ACCOUNTS EXPENSE	402,614	421,437	(18,823)
9. CUSTOMER SERVICE/INFO EXPENSE	64,480	67,016	(2,536)
10. SALES EXPENSE	0	0	0
11. ADMINISTRATIVE/GENERAL EXPENSE	1,765,230	1,689,936	75,294
12. TOTAL OPERATIONS/MAINTENANCE EXP.	\$21,702,909	\$17,872,652	\$3,830,257
13. DEPRECIATION/AMORTIZATION EXPENSE	2,666,594	2,575,715	90,879
14. TAX EXPENSE-OTHER	68,171	71,023	(2,852)
15. INTEREST-LONG TERM DEBT	1,761,615	1,918,879	(157,264)
16. INTEREST ON CONSTRUCTION-CREDIT	(40,369)	(79,175)	38,806
17. INTEREST EXPENSE-OTHER	150,845	64,167	86,678
18. OTHER DEDUCTIONS	19,344	20,834	(1,490)
19. TOTAL COST OF ELECTRIC SERVICE	\$26,329,109	\$22,444,095	\$3,885,014
20. PATRONAGE CAPITAL/OPERATING MARGINS	\$456,553	\$316,020	\$140,533
21. NON-OPERATING MARGINS-INTEREST	43,195	32,649	10,546
22. ALLOWANCE FUNDS USED DURING CONST.	9,386	34,224	(24,838)
23. NON-OPERATING MARGINS-OTHER	912	0	912
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	\$510,046	\$382,893	\$127,153

MF/I

1.27

1.19

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	\$231,437,141	\$219,835,273	\$11,601,868
EXPENSES:			
2. FUEL EXPENSE	108,271,573	96,928,671	11,342,902
3. POWER PRODUCTION EXPENSE	13,618,117	14,125,014	(506,897)
4. COST OF PURCHASED POWER	26,104,706	25,642,453	462,253
5. TRANSMISSION EXPENSE	5,045,504	5,513,631	(468,127)
6. DISTRIBUTION EXPENSE-OPERATIONS	4,151,439	3,978,331	173,108
7. DISTRIBUTION EXPENSE-MAINTENANCE	6,628,892	6,018,848	610,044
8. CONSUMER ACCOUNTS EXPENSE	3,956,192	4,243,818	(287,626)
9. CUSTOMER SERVICE/INFO EXPENSE	528,671	596,815	(68,144)
10. SALES EXPENSE	0	0	0
11. ADMINISTRATIVE/GENERAL EXPENSE	16,068,643	15,178,770	889,873
12. TOTAL OPERATIONS/MAINTENANCE EXP.	\$184,373,737	\$172,226,351	\$12,147,386
13. DEPRECIATION/AMORTIZATION EXPENSE	25,492,116	25,173,098	319,018
14. TAX EXPENSE-OTHER	678,904	737,132	(58,228)
15. INTEREST-LONG TERM DEBT	17,836,194	19,285,507	(1,449,313)
16. INTEREST ON CONSTRUCTION-CREDIT	(353,435)	(848,530)	495,095
17. INTEREST EXPENSE-OTHER	1,010,163	187,917	822,246
18. OTHER DEDUCTIONS	103,238	208,332	(105,094)
19. TOTAL COST OF ELECTRIC SERVICE	\$229,140,917	\$216,969,807	\$12,171,110
20. PATRONAGE CAPITAL/OPERATING MARGINS	\$2,296,224	\$2,865,466	(\$569,242)
21. NON-OPERATING MARGINS-INTEREST	352,197	325,438	26,759
22. ALLOWANCE FUNDS USED DURING CONST.	98,454	366,780	(268,326)
23. NON-OPERATING MARGINS-OTHER	27,500	0	27,500
24. GENER./TRANS. CAPITAL CREDITS	0	0	0
25. OTHER CAPITAL CREDITS/DIVIDENDS	753	0	753
26. EXTRAORDINARY ITEMS	0	0	0
27. PATRONAGE CAPITAL OR MARGINS	\$2,775,128	\$3,557,684	(\$782,556)

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	\$231,437,141	\$219,835,273	\$272,069,723	283,421,591 ^{1 & 2}
EXPENSES:				
2. FUEL EXPENSE	108,271,573	96,928,671	121,218,046	132,460,948 ^{1 & 2}
3. POWER PRODUCTION EXPENSE	13,618,117	14,125,014	16,445,185	16,100,288 ^{1 & 2}
4. COST OF PURCHASED POWER	26,104,706	25,642,453	31,119,383	31,581,636 ¹
5. TRANSMISSION EXPENSE	5,045,504	5,513,631	6,483,569	6,183,569 ²
6. DISTRIBUTION EXPENSE-OPERATIONS	4,151,439	3,978,331	4,696,382	4,696,382
7. DISTRIBUTION EXPENSE-MAINTENANCE	6,628,892	6,018,848	7,029,742	7,729,742 ²
8. CONSUMER ACCOUNTS EXPENSE	3,956,192	4,243,818	5,041,115	5,041,115
9. CUSTOMER SERVICE/INFO EXPENSE	528,671	596,815	699,429	699,429
10. SALES EXPENSE	0	0	0	0
11. ADMINISTRATIVE/GENERAL EXPENSE	16,068,643	15,178,770	17,690,176	18,968,643 ^{1 & 2}
12. TOTAL OPERATIONS/MAINTENANCE EXP.	\$184,373,737	\$172,226,351	\$210,423,027	\$223,461,752
13. DEPRECIATION/AMORTIZATION EXPENSE	25,492,116	25,173,098	30,354,147	30,833,247 ^{1 & 2}
14. TAX EXPENSE-OTHER	678,904	737,132	884,862	826,634 ¹
15. INTEREST-LONG TERM DEBT	17,836,194	19,285,507	23,119,883	21,291,452 ^{1 & 2}
16. INTEREST ON CONSTRUCTION-CREDIT	(353,435)	(848,530)	(998,921)	(433,435) ^{1 & 2}
17. INTEREST EXPENSE-OTHER	1,010,163	187,917	325,417	1,388,663 ^{1 & 2}
18. OTHER DEDUCTIONS	103,238	208,332	250,000	144,906 ¹
19. TOTAL COST OF ELECTRIC SERVICE	\$229,140,917	\$216,969,807	\$264,358,415	\$277,513,219
20. PATRONAGE CAPITAL/OPERATING MARGINS	\$2,296,224	\$2,865,466	\$7,711,308	\$5,908,372
21. NON-OPERATING MARGINS-INTEREST	352,197	325,438	392,263	419,022 ¹
22. ALLOWANCE FUNDS USED DURING CONST.	98,454	366,780	431,788	128,454 ^{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	753	0	525,000	525,753 ¹
26. EXTRAORDINARY ITEMS	0	0	0	0
27. PATRONAGE CAPITAL OR MARGINS	2,775,128	3,557,684	9,060,359	7,009,101

MFI/I

1.15

1.18

1.39

1.31

¹ Forecast based on 10 months actual and 2 months budget

² Forecast has been adjusted to reflect current assumption changes