

VERMONT ELECTRIC COOPERATIVE, INC.
UNAUDITED FINANCIAL REPORTING
FOR THE MONTH AND NINE MONTHS ENDED:
SEPTEMBER, 2010

Financial Highlights – September, 2010

	<u>Variance (K's)</u>	<u>YTD Variance (K's)</u>
September Net Income	(\$18)	\$743

Analysis:

- Operating Revenue**
\$333
\$1,244

Sold KWH in September was 6% better than budget for a positive variance of \$312k and YTD is 2% better than budget for a positive variance of \$1,035k. The average price/KWH sold was 1% lower than budget resulting in a negative variance of \$75k in September and YTD is .5% less than budget and \$230k. Non-energy services, pole attachments, and wheeling revenues contributed additional revenue from the updates to our non-energy services more than expected for a positive variance of \$45k in September and \$348k YTD. Unbilled revenues were \$51k better than budget in September and are ahead of budget by \$96k YTD.

- Purchased Power Costs**
\$61
(\$441)

Purchases were .3% and \$9k lower than expected in September but are 2.2% and \$578k higher YTD. Our overall costs/KWH was 2% and \$52k lower than budget in September but are .5% and \$135k lower YTD.

- Transmission Costs**
(\$290)
\$13

Transmission labor costs were \$12k over budget in September but are \$10k better than budget YTD as we had vacancies at beginning of year. Transmission costs were over budget by \$192k in September but are \$156k YTD under budget largely related to better than expected Velco charges and ISO-NE OATT charges. Overhead line maintenance of transmission is running over budget by \$11k in September and \$83k YTD largely related to pole numbering budgeted within distribution OH mtce. Transmission vegetative maintenance was over budget by \$69k in September and is \$41k over budget YTD.

- Distribution Operations/Mtce**
\$1
(\$54)

Overhead line maintenance costs were under budget by \$19k in September and are \$251k under YTD. Major storm expenses were below budget by \$52k in September but YTD exceed budget by \$375k. Make ready work was better than budget by \$16k in September and \$136k YTD as survey work has been less than planned. Distribution vegetative maintenance program spending was over budget by \$43k in September and is \$101k over budget YTD. Vegetative mtce program overall is \$112k over budget for September and is \$142k over budget YTD.

- Customer Accounts**
\$13
\$85

Meter reading and collection activities have been less than expected largely from an open metering position and winter disconnect requirements for a positive variance of \$12k in September and \$129k YTD. The SQRP expenses were \$4k better than budget in September but the incentive resulted in a temporary timing variance from plan of \$58k YTD. Bad debt is running \$12k better than budget YTD as bill payments have been better than expected.

- Administrative & General**
(\$38)
\$20

Regulatory related costs were \$8k over budget in September but are \$64k under YTD largely as a result of the uncontested rate case. A&G salaries were \$5k under budget in

September and are \$114k under budget YTD. Both employee meetings and strategic planning contributed a combined positive variance of \$1k in September and \$47k YTD. There were a number of smaller individual items that had negative variances of \$35k in September and \$209k YTD that included safety, employee separation, COOP Life, annual meeting, Director's expenses, office expenses, outside services, NRECA dues and facility maintenance (some timing related only).

• **Total Depreciation & Other Exp** **(\$95)** **(\$280)**

Depreciation expense is \$1k higher than budget in September and \$56k YTD. Ethan Allen generator contributed a negative variance of \$100k in September & \$214k YTD.

• **Non-Operating Margins** **(\$3)** **\$156**

CoBank's 2009 patronage distribution included \$75k YTD of non-cash distributions that does not impact TIER. An additional positive variance of \$32k YTD was the result of CoBank increasing cash patronage distributions from 50% to 65%. New England Hydro dividends are \$11k below budget YTD. TRANSCO stock assignment with VPPSA has resulted in a positive variance of \$34k YTD. Lastly, outside assistance was \$2k below budget in September but is \$20k ahead of budget YTD.

• **Capital Spending Plan** **(\$282)** **\$120**

Billable project work is \$105k under budget in September and \$103k YTD. The Johnson substation automation & rebuild has been postponed with a savings to budget of \$298k YTD. Transformer purchases have been less than expected with a savings of \$60k in September and \$276k YTD. Jay Tap project exceeded budget by \$162k in September but is \$574k under budget YTD. The East Berkshire transformer project is behind schedule but was \$17k over budget in September but is \$286k under budget YTD. Lastly, the GSA 50% funded Rte 5 Upgrade will be postponed to 2011 for a savings of \$500k YTD. Pole replacement work was over budget in September by \$107k and is \$551k over YTD. Distribution & transmission ordinary replacements were over budget by \$18k in September and are \$470k over budget YTD. NEK Connector was \$287k over budget YTD. Line changes & misc construction were over budget by \$19k in September and \$326k YTD. DOE Sub Work & Scada Projects had a negative variance of \$31k in September and \$636k YTD as some work has been moved forward & is pending DOE billing.

TIER and Debt Service Coverage

We are on track to meet or exceed our TIER budget of 2.18. Our Debt Service payments for 2010 are projected to be \$5.0 million.

Cash Flow and Line of Credit

In September, we used up to a peak of \$6.8M on our line of credit. October is expected to reach a level of \$6.8M to on Monday 10/25.

Balance Sheet

Our equity ratio improved in September from 39.4% to 40.2%. Our current ratio, a measure of liquidity, declined to .81 from last months .83. VEC's FFO ratio for 2010 YTD ("Funds from Operations/Capital Expenditures Ratio"; Target of 80% desirable) was .83 improving from the previous month of .81.

MONTHLY

STATEMENT OF OPERATIONS

VEC

	September 2010 Actual	September 2010 Budget	September 2010 Actual- Budget Variance Fav (Unfav) \$	September 2010 Actual- Budget Variance Fav (Unfav) %	September 2009 Actual	September 2010 Actual - September 2009 Variance Fav (Unfav) \$	September 2009 Actual	September 2010 Actual - September 2009 Variance Fav (Unfav) %
Revenue								
Operating Revenue	5,793,898	5,461,315	332,583	6.1%	5,578,469	215,429	5,578,469	3.9%
Sales for Resale	49,638	273,147	(223,509)	-81.8%	108,174	(58,536)	108,174	54.1%
Total revenues	\$ 5,843,536	\$ 5,734,462	\$ 109,074	1.9%	\$ 5,686,643	\$ 156,893	\$ 5,686,643	2.8%
Power supply cost								
Purchased power cost	(2,708,143)	(2,768,684)	60,541	2.2%	(2,649,593)	(58,550)	(2,649,593)	-2.2%
Sales for Resale	(49,638)	(273,147)	223,509	81.8%	(108,174)	58,536	(108,174)	54.1%
Transmission	(697,798)	(408,142)	(289,655)	-71.0%	(517,332)	(180,466)	(517,332)	-34.9%
Total Power supply cost	(3,455,579)	(3,449,973)	(5,606)	-0.2%	(3,275,099)	(180,480)	(3,275,099)	-5.5%
Gross Margin	\$ 2,387,958	\$ 2,284,489	\$ 103,469	4.5%	\$ 2,411,544	(23,586)	\$ 2,411,544	1.0%
Operating expenses								
Distribution: Operations & Mtce	(838,730)	(840,197)	1,467	0.2%	(594,523)	(244,207)	(594,523)	-41.1%
Customer accounts	(194,851)	(207,992)	13,141	6.3%	(177,935)	(16,916)	(177,935)	-9.5%
Administrative & general	(260,298)	(222,671)	(37,627)	-16.9%	(205,626)	(54,633)	(205,626)	-26.6%
Total operating expenses	(1,293,839)	(1,270,860)	(22,979)	-1.8%	(978,084)	(315,755)	(978,084)	-32.3%
Depreciation & amortization	(300,266)	(298,986)	(1,280)	-0.4%	(278,764)	(21,502)	(278,764)	-7.7%
Gross revenue & receipts taxes	(58,607)	(55,915)	(2,692)	-4.8%	(56,546)	(2,061)	(56,546)	-3.6%
Interest on long-term debt	(231,073)	(241,225)	10,152	4.2%	(219,791)	(11,282)	(219,791)	-5.1%
Other interest expenses	(17,229)	(14,837)	(2,392)	-16.1%	(19,504)	2,275	(19,504)	11.7%
Other Deductions	(100,340)	(1,212)	(99,128)	-8177.7%	(649)	(99,692)	(649)	-15365.3%
Total depreciation & other expenses	(707,515)	(612,175)	(95,340)	-15.6%	(575,254)	(132,261)	(575,254)	-23.0%
Income from operations	386,603	401,454	(14,850)	-3.7%	858,206	(471,603)	858,206	55.0%
Interest income	214,216	213,736	480	0.2%	211,400	2,816	211,400	1.3%
Other income (expenses)	(1,515)	(289)	(1,226)	424.2%	(710)	(805)	(710)	113.4%
Other capital credits & dividends	25,206	27,235	(2,029)	-7.4%	27,236	(2,030)	27,236	-7.5%
Total non-operating margins	237,907	240,682	(2,775)	-1.2%	237,926	(19)	237,926	0.0%
Net income (loss)	624,510	642,136	(17,625)	-2.7%	1,096,132	(471,622)	1,096,132	43.0%
Extraordinary expenses	-	-	-	N/A	-	-	-	N/A
Total net income (loss)	\$ 624,510	\$ 642,136	(17,625)	-2.7%	\$ 1,096,132	(471,622)	\$ 1,096,132	43.0%

YEAR-TO-DATE

STATEMENT OF OPERATIONS

VEC

	September 2010 Actual	September 2010 Budget	September 2010 Actual- Budget Variance Fav (Unfav) \$ %	September 2009 Actual	September 2010 Actual - September 2009 Variance Fav (Unfav) \$ %
Revenue					
Operating Revenue	52,769,961	51,525,598	1,244,363	51,128,838	1,641,123
Sales for Resale	945,309	1,017,993	(72,684)	1,854,693	(909,384)
Total revenues	\$ 53,715,270	\$ 52,543,591	1,171,679	\$ 52,983,531	\$ 731,739
Power supply cost					
Purchased power cost	(26,804,844)	(26,363,953)	(440,891)	(28,046,694)	1,241,850
Sales for Resale	(945,309)	(1,017,993)	72,684	(1,854,693)	909,384
Transmission:	(5,697,875)	(5,710,884)	13,009	(5,566,562)	(131,313)
Total Power supply cost	(33,448,028)	(33,092,830)	(355,198)	(35,467,948)	2,019,921
Gross Margin	\$ 20,267,242	\$ 19,450,761	816,481	\$ 17,515,582	\$ 2,751,660
Operating expenses					
Distribution: Operations & Mtce	(7,666,696)	(7,612,428)	(54,268)	(6,184,151)	(1,482,545)
Customer accounts	(1,800,297)	(1,884,906)	84,609	(1,740,029)	(60,268)
Administrative & general	(2,185,433)	(2,205,579)	20,146	(2,076,346)	(109,086)
Total operating expenses	(11,652,425)	(11,702,912)	50,487	(10,000,527)	(1,651,899)
Depreciation & amortization	(2,682,111)	(2,625,894)	(56,217)	(2,695,249)	13,138
Gross revenue & receipts taxes	(522,464)	(512,257)	(10,207)	(508,164)	(14,300)
Interest on long-term debt	(2,173,861)	(2,204,938)	31,077	(2,069,168)	(104,693)
Other interest expenses	(121,246)	(95,318)	(25,928)	(117,152)	(4,094)
Other deductions	(230,245)	(11,160)	(219,086)	(4,488)	(225,758)
Total depreciation & other expenses	(5,729,927)	(5,449,566)	(280,360)	(5,394,221)	(335,706)
Income from operations	2,884,890	2,298,282	586,608	2,120,835	764,055
Interest income	834,496	811,592	22,904	743,305	91,190
Other income (expenses)	18,564	(2,525)	21,089	16,995	1,570
Other capital credits & dividends	249,997	138,017	111,980	137,828	112,169
Total non-operating margins	1,103,057	947,084	155,973	898,128	204,929
Net income (loss)	3,987,947	3,245,366	742,581	3,018,963	968,984
Extraordinary expenses	-	-	-	-	-
Total net income (loss)	\$ 3,987,947	\$ 3,245,366	\$ 742,581	\$ 3,018,963	\$ 968,984

	September 2010 Actual	August 2010 Actual	Variance Fav/(Unfav) \$	%	September 2009 Actual	Variance Fav/(Unfav) \$	%
Electric plant, at cost:							
Electric plant in service	105,862,732	104,778,726	1,084,005	1.03%	99,072,113	6,790,619	6.85%
Less accumulated depreciation	(27,552,720)	(27,434,822)	117,898	0.43%	(26,368,274)	1,184,446	4.49%
Net electric plant in service	78,310,012	77,343,905	966,107	1.25%	72,703,839	5,606,173	7.71%
Construction work in progress	6,882,257	7,209,927	(327,671)	-4.54%	4,738,077	2,144,180	45.25%
Net electric plant	85,192,268	84,553,832	638,437	0.76%	77,441,916	7,750,352	10.01%
Other assets:							
Non-utility property	65,697	65,697	-	0.00%	65,697	-	0.00%
Other investments	9,835,813	9,854,844	(19,031)	-0.19%	9,667,154	168,659	1.74%
Deferred charges	49,556	82,086	(32,530)	-39.63%	(433,763)	483,319	-111.42%
Total other assets	9,951,066	10,002,627	(51,561)	-0.52%	9,299,088	651,978	7.01%
Current assets:							
Cash	600,933	1,139,552	(538,619)	-47.27%	684,742	(83,809)	-12.24%
Notes receivable (net)	500	564	(64)	-11.36%	2,684	(2,184)	-81.37%
Accounts receivable (net)	9,066,749	9,304,869	(238,120)	-2.56%	8,779,920	286,829	3.27%
Other receivables (net)	1,196,807	1,176,277	20,530	1.75%	251,912	944,895	375.09%
Inventories	2,703,431	2,987,697	(284,266)	-9.51%	2,901,860	(198,429)	-6.84%
Prepaid expenses	292,078	277,969	14,109	5.08%	473,932	(181,853)	-38.37%
Total current assets	13,860,498	14,886,928	(1,026,431)	-6.89%	13,095,049	765,448	5.85%
Total assets	\$ 109,003,832	\$ 109,443,387	(439,555)	-0.40%	\$ 99,836,053	\$ 9,167,779	9.18%

	September 2010 Actual	August 2010 Actual	Variance Fav/(Unfav) \$	%	September 2009 Actual	Variance Fav/(Unfav) \$	%
Equities:							
Memberships issued & subscribed	-	-	-	#DIV/0!	-	-	#DIV/0!
Patronage capital assignable	20,251,163	20,251,163	-	0.00%	16,561,252	3,689,910	18.22%
Other earnings	6,561,331	5,936,813	624,517	9.52%	5,592,321	969,010	14.77%
Contributions in aid of construction	16,979,755	16,891,948	87,807	0.52%	16,142,130	837,625	4.93%
Net equity	43,792,249	43,079,924	712,325	1.63%	38,295,703	5,496,546	12.55%
Long-term debt	47,482,080	47,747,575	(265,495)	-0.56%	43,675,050	3,807,029	8.02%
Capital leases - non current	299,512	300,553	(1,040)	-0.35%	312,573	(13,061)	-4.36%
Current liabilities:							
Current portion of long-term debt	2,080,491	2,080,491	-	0.00%	1,921,703	158,788	7.63%
Line of Credit	6,100,000	5,800,000	300,000	4.92%	7,680,571	(1,580,571)	-25.91%
Accounts payable	6,022,348	7,091,111	(1,068,763)	-17.75%	5,851,599	170,750	2.84%
Customer deposits	352,439	338,278	14,161	4.02%	173,603	178,836	50.74%
Other accrued expenses	2,548,899	2,643,332	(94,433)	-3.70%	1,550,048	998,851	39.19%
Total current liabilities	17,104,177	17,953,211	(849,034)	-4.96%	17,177,524	(73,346)	-0.43%
Deferred credits	325,814	362,124	(36,310)	-11.14%	375,203	(49,389)	-15.16%
Total liabilities and equity	\$ 109,003,832	\$ 109,443,387	(439,555)	-0.40%	\$ 99,836,053	\$ 9,167,779	9.18%

	Month		Year-to-date		Variance Fav (Unfav)	
	September 2010	September 2009	September 2010	September 2009	\$	%
	Actual	Actual	Actual	Actual		
Cash flows from operating activities:						
Net income	\$ 624,510	\$ 1,096,132	\$ 3,987,947	\$ 3,018,963	968,984	32.10%
Noncash expenses (income) included in earnings:						
Depreciation & amortization	386,092	354,578	3,604,644	3,396,239	208,406	6.14%
(Gain) loss on sale of investments	(149)	(530)	(4,369)	(29,205)	24,817	84.97%
Changes in assets and liabilities:						
Decrease (increase) in notes receivable	64	305	1,415	3,704	(2,289)	-61.81%
Decrease (increase) in accounts receivable	238,120	123,711	258,888	87,353	171,536	196.37%
Decrease (increase) in other receivable	(20,530)	122,418	(602,705)	591,024	(1,193,729)	201.98%
Decrease (increase) in inventories	284,266	(172,823)	(104,199)	(558,586)	454,387	-81.35%
Decrease (increase) in prepayments	(14,109)	(10,012)	48,096	(270,392)	318,488	117.79%
Decrease (increase) in deferred charges	17,196	(22,372)	(539,187)	(203,837)	(335,350)	-164.52%
Increase (decrease) in accounts payable	(1,068,763)	(1,250,314)	414,369	427,499	(13,100)	-3.06%
Increase (decrease) in customer deposits	14,161	24,800	112,979	70,243	42,736	-60.84%
Increase (decrease) in accrued expenses	(94,433)	(323,181)	644,411	(787,694)	1,432,105	-181.81%
Increase (decrease) in deferred credits	(36,310)	(26,384)	6,004	(165,839)	171,843	-103.62%
Net cash provided (used) by operating activities	330,117	(83,673)	7,828,304	5,579,469	2,248,835	40.31%
Cash flows from investing activities:						
Additions to electric plant in service and construction work in progress	(971,200)	(2,410,654)	(8,979,239)	(11,178,065)	2,198,825	19.67%
Proceeds from retirements of electric plant in service	(37,846)	1,093,558	(248,424)	974,249	(1,222,673)	-125.50%
Return on capital investments	-	(7,517)	(77,039)	(60,459)	(16,580)	27.42%
Proceeds (payments) from sale (purchase) of investments	19,031	33,118	46,853	33,118	13,736	41.47%
Net cash provided (used) in investing activities	(990,014)	(1,291,495)	(9,257,849)	(10,231,156)	973,307	9.51%
Cash flows from financing activities:						
Proceeds from borrowings LOC	-	-	-	-	-	N/A
Proceeds from borrowings Long-Term	-	-	-	-	-	N/A
Payments to creditors LOC	300,000	1,180,571	2,700,000	5,130,630	(2,430,630)	47.37%
Payments to creditors Long-Term	(266,535)	(253,483)	(1,577,428)	(1,462,338)	(115,091)	-7.87%
Increase in contributions in aid of construction	87,807	55,945	622,314	477,858	144,456	30.23%
Memberships issued, net of refunds	-	-	-	-	-	N/A
Additions to donated capital, net	7	-	20	24	(4)	-16.75%
Net cash provided (used) by financing activities	121,279	983,033	1,744,907	4,146,175	(2,401,268)	57.92%
Net increase (decrease) in cash and equivalents	(538,619)	(392,134)	315,362	(505,512)	820,873	-162.38%
Cash & cash equivalents at beginning of period	1,139,552	1,076,876	285,571	1,190,253	(904,682)	-76.01%
Cash & cash equivalents at end of period	\$ 600,933	\$ 684,742	\$ 600,933	\$ 684,742	(83,809)	-12.24%
Supplemental cash flow information:						
Cash paid during the period for interest	\$ (406,268)	\$ (426,282)	\$ (543,893)	\$ (430,989)	(112,904)	-26.20%