

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

## Financial Highlights – December, 2010

	<u>Variance (K's)</u>	<u>YTD Variance (K's)</u>
<b>December Net Income</b>	<b>(\$625)</b>	<b>\$373</b>

### Analysis:

- Operating Revenue**
**\$92**
**\$1,486**

Sold KWH in December was 2% higher than budget for a positive variance of \$124k and YTD is 2% better than budget for a positive variance of \$1,024k. The average price/KWH sold was 1% lower than budget for a negative variance of \$59k in December and is .3% and \$203k less than budget YTD. Non-energy services, pole attachments, and wheeling revenues contributed additional revenue more than expected for a positive variance of \$26k in December and \$529k YTD. Unbilled revenues were \$2k less than budget in December but are ahead of budget by \$139k YTD.

- Purchased Power Costs**
**(\$195)**
**(\$487)**

Purchases were 2% and \$57k higher than expected in December and are 2% and \$627k higher YTD. Our overall costs/KWH was 4% and \$135k higher than budget in December but are .4% and \$137k lower YTD.

- Transmission Costs**
**\$146**
**\$300**

Transmission labor costs were \$9k under budget in December and are \$15k better than budget YTD. Transmission costs were under budget by \$113k in December and are \$474k under YTD largely related to better than expected Velco transmission costs. Overhead line maintenance for transmission was under budget by \$4k in December but is \$79k YTD over budget mostly related to pole numbering. Transmission vegetative maintenance was under budget by \$16k in December but is \$90k over budget YTD.

- Distribution Operations/Mtce**
**(\$339)**
**(\$407)**

Overhead line maintenance costs were \$60k under budget in December and are under budget by \$252k YTD. Substation mtce cost was \$14k over budget in December and are \$134k over budget YTD. Major storm expenses were over budget by \$529k in December and YTD exceeded budget by \$802k. Net pole attachment costs were \$11k under budget in December and are under budget by \$132k YTD. Distribution vegetative maintenance program spending was under budget by \$135k in December and is \$64k under budget YTD. Vegetative mtce program overall is \$151k under budget for December and is \$26k over budget YTD.

- Customer Accounts**
**\$25**
**\$238**

Meter reading and collection activities have been less than expected for a positive variance of \$20k in December and \$182k YTD. The SQRP expenses were \$4k better than budget in December and YTD is \$15k better than budget YTD. Bad debt is running \$14k better than budget in December and \$62k better YTD as bill payments have been better than expected.

- Administrative & General**
**(\$372)**
**(\$451)**

Regulatory related costs were \$5k under budget in December and are \$34k under YTD. A&G salaries were \$97k over budget in December but are \$27k under budget YTD. Safety program related costs were \$7k over budget in December and \$75k over YTD. Office expenses (bank & bond fees), COOP Life, & Annual Meeting costs exceeded

budget by \$23k in December and \$90k YTD. Sales tax audit resulted in a projected variance to budget of \$56k in December and YTD. Impact of post retirement benefits audit contributed a negative variance of \$161k in December and \$286k YTD.

• **Total Depreciation & Other Exp**      **(\$116)**                      **(\$606)**

Depreciation expense is \$6k higher than budget in December and \$68k over YTD. Higher revenues resulted in higher taxes of \$2k in December and \$13k YTD. Ethan Allen generator contributed a negative variance of \$100k in December & \$514k YTD.

• **Non-Operating Margins**                      **\$134**                      **\$300**

CoBank and CFC's patronage distributions included \$150k in December and \$225k 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 were \$16k below budget in December and \$27k YTD. TRANSCO stock dividends from VPPSA have resulted in a positive variance of \$42k YTD. Lastly, our billable assistance was \$21k ahead of budget YTD.

• **Capital Spending Plan**                      **(\$719)**                      **\$53**

December capital spending exceeded budget but our final year end numbers finished under the approved budget. A few projects were delayed or reduced in scope resulting in positive YTD variances for the following: Jay Tap Substation (\$627k), Johnson Substation (\$297k), Rte 5 GSA Upgrade (\$500k), Grand Isle Service Center Upgrade (\$250k), and Transformer Replacements (\$494k). A number of projects were pulled forward or exceeded budget: DOE Smart Grid Projects (\$703k), Steel Tower Line Project (\$250k), Pole Replacements + Miscellaneous New Construction + Misc Ordinary Replacements (\$1,091).

**TIER and Debt Service Coverage**

We finished the year with a TIER of 2.24 just slightly ahead of our approved 2.18 budget. The eligibility of our 12/1 wind storm for a FEMA grant was a key factor in our meeting the approved budget level. Our Debt Service payments for 2010 were \$4.955 million.

**Cash Flow and Line of Credit**

In December, we used up to a peak of \$6.9M on our line of credit the morning of 12/1. The 2010 \$9M bond was executed on 12/1 paying down our line of credit to \$0 plus temporarily investing \$3M until the TRANSCO stock purchase of \$3.8M was made on 12/29. We finished the year with a line of credit balance of \$1.2M.

**Balance Sheet**

Our equity ratio declined in December from 40.3% to 38.2% (December, 2009 equity ratio was 38.4%) largely related to the negative December earnings, utility infrastructure investments and an investment in TRANSCO stock. Our current ratio, a measure of liquidity, improved to 1.04 from last months .83 largely related to the execution of the 2010 bond. VEC's FFO ratio for 2010 YTD ("Funds from Operations/Capital Expenditures Ratio"; Target of 80% desirable) finished the year at .80 declining from the previous month of .89.

**MONTHLY**

**STATEMENT OF OPERATIONS**

VEC

	December 2010 Actual	December 2010 Budget	December 2010 Actual- Budget Variance Fav (Unfav)	December 2010 Actual- Budget %	December 2009 Actual	December 2010 Actual - December 2009 Variance Fav (Unfav)	December 2009 %
<b>Revenue</b>							
Operating Revenue	6,289,832	6,197,706	92,126	1.5%	5,939,718	350,115	5.9%
Sales for Resale	67,283	333,821	(266,538)	-79.8%	211,976	(144,693)	68.3%
<b>Total revenues</b>	<b>\$ 6,357,115</b>	<b>\$ 6,531,527</b>	<b>\$ (174,412)</b>	<b>-2.7%</b>	<b>\$ 6,151,694</b>	<b>\$ 205,422</b>	<b>3.3%</b>
<b>Power supply cost</b>							
Purchased power cost	(3,637,021)	(3,442,130)	(194,892)	-5.7%	(3,237,432)	(399,590)	-12.3%
Sales for Resale	(67,283)	(333,821)	266,538	79.8%	(211,976)	144,693	68.3%
Transmission	(574,266)	(719,882)	145,615	20.2%	(741,966)	167,699	22.6%
<b>Total Power supply cost</b>	<b>(4,278,571)</b>	<b>(4,495,833)</b>	<b>217,262</b>	<b>4.8%</b>	<b>(4,191,373)</b>	<b>(87,198)</b>	<b>-2.1%</b>
<b>Gross Margin</b>	<b>\$ 2,078,544</b>	<b>\$ 2,035,694</b>	<b>\$ 42,850</b>	<b>2.1%</b>	<b>\$ 1,960,320</b>	<b>\$ 118,224</b>	<b>-6.0%</b>
<b>Operating expenses</b>							
Distribution: Operations & Mfice	(1,140,141)	(801,038)	(339,103)	-42.3%	(779,707)	(360,434)	-46.2%
Customer accounts	(178,518)	(203,196)	24,678	12.1%	(188,821)	10,303	5.5%
Administrative & general	(606,672)	(234,993)	(371,678)	-158.2%	(328,021)	(278,650)	-84.9%
<b>Total operating expenses</b>	<b>(1,925,330)</b>	<b>(1,239,227)</b>	<b>(686,103)</b>	<b>-55.4%</b>	<b>(1,296,549)</b>	<b>(628,781)</b>	<b>-48.5%</b>
Depreciation & amortization	(310,832)	(304,401)	(6,431)	-2.1%	(284,943)	(25,889)	-9.1%
Gross revenue & receipts taxes	(60,677)	(58,714)	(1,963)	-3.3%	(54,921)	(5,756)	-10.5%
Interest on long-term debt	(253,056)	(242,000)	(11,057)	-4.6%	(242,064)	(10,992)	-4.5%
Other interest expenses	(4,758)	(18,347)	13,589	74.1%	(8,898)	4,141	46.5%
Other Deductions	(110,974)	(1,212)	(109,762)	-9054.9%	(7,275)	(103,699)	-1425.4%
<b>Total depreciation &amp; other expenses</b>	<b>(740,297)</b>	<b>(624,674)</b>	<b>(115,623)</b>	<b>-18.5%</b>	<b>(598,102)</b>	<b>(142,196)</b>	<b>-23.8%</b>
<b>Income from operations</b>	<b>(587,083)</b>	<b>171,793</b>	<b>(758,876)</b>	<b>-441.7%</b>	<b>65,669</b>	<b>(652,753)</b>	<b>994.0%</b>
Interest income	217,693	233,601	(15,908)	-6.8%	229,744	(12,051)	-5.2%
Other income (expenses)	(697)	(286)	(411)	143.6%	(129,564)	128,868	-99.5%
Other capital credits & dividends	150,195	-	150,195	N/A	130,958	19,237	14.7%
<b>Total non-operating margins</b>	<b>367,191</b>	<b>233,315</b>	<b>133,876</b>	<b>57.4%</b>	<b>231,137</b>	<b>136,054</b>	<b>58.9%</b>
<b>Net income (loss)</b>	<b>(219,892)</b>	<b>405,108</b>	<b>(625,000)</b>	<b>-154.3%</b>	<b>296,807</b>	<b>(516,699)</b>	<b>174.1%</b>
Extraordinary expenses	-	-	-	N/A	-	-	N/A
<b>Total net income (loss)</b>	<b>\$ (219,892)</b>	<b>\$ 405,108</b>	<b>(625,000)</b>	<b>-154.3%</b>	<b>\$ 296,807</b>	<b>\$ (516,699)</b>	<b>174.1%</b>

YEAR-TO-DATE

STATEMENT OF OPERATIONS

VEC

	December 2010 Actual	December 2010 Budget	December 2010 Actual- Budget Variance Fav (Unfav)	December 2009 Actual	December 2010 Actual - December 2009 Variance Fav (Unfav)
			%		%
<b>Revenue</b>					
Operating Revenue	70,052,721	68,566,093	2.2%	67,681,908	2,370,812
Sales for Resale	1,112,062	1,825,324	-39.1%	2,356,266	(1,244,204)
<b>Total revenues</b>	<b>\$ 71,164,783</b>	<b>\$ 70,391,417</b>	<b>1.1%</b>	<b>\$ 70,038,174</b>	<b>\$ 1,126,608</b>
<b>Power supply cost</b>					
Purchased power cost	(36,104,636)	(35,617,572)	-1.4%	(36,969,741)	865,104
Sales for Resale	(1,112,062)	(1,825,324)	39.1%	(2,356,266)	1,244,204
Transmission:	(7,341,663)	(7,641,605)	3.9%	(7,640,973)	299,310
<b>Total Power supply cost</b>	<b>(44,558,361)</b>	<b>(45,084,501)</b>	<b>1.2%</b>	<b>(46,966,980)</b>	<b>2,408,619</b>
<b>Gross Margin</b>	<b>\$ 26,606,421</b>	<b>\$ 25,306,916</b>	<b>5.1%</b>	<b>\$ 23,071,194</b>	<b>\$ 3,535,227</b>
<b>Operating expenses</b>					
Distribution: Operations & Mitce	(10,485,467)	(10,078,406)	-4.0%	(8,296,520)	(2,188,946)
Customer accounts	(2,326,044)	(2,564,319)	9.3%	(2,279,795)	(46,249)
Administrative & general	(3,387,360)	(2,935,967)	-15.4%	(2,783,122)	(604,239)
<b>Total operating expenses</b>	<b>(16,198,871)</b>	<b>(15,578,692)</b>	<b>-4.0%</b>	<b>(13,359,437)</b>	<b>(2,839,433)</b>
Depreciation & amortization	(3,601,338)	(3,533,682)	-1.9%	(3,544,607)	(56,731)
Gross revenue & receipts taxes	(690,623)	(677,913)	-1.9%	(666,857)	(23,766)
Interest on long-term debt	(2,908,213)	(2,928,148)	0.7%	(2,792,052)	(116,161)
Other interest expenses	(164,157)	(145,248)	-13.0%	(158,277)	(5,880)
Other deductions	(541,651)	(14,796)	-3560.8%	(25,331)	(516,320)
<b>Total depreciation &amp; other expenses</b>	<b>(7,905,982)</b>	<b>(7,299,788)</b>	<b>-8.3%</b>	<b>(7,187,124)</b>	<b>(718,857)</b>
<b>Income from operations</b>	<b>2,501,569</b>	<b>2,428,437</b>	<b>3.0%</b>	<b>2,524,632</b>	<b>(23,064)</b>
Interest income	1,113,961	1,099,352	1.3%	1,001,905	112,056
Other income (expenses)	19,611	(3,383)	-679.8%	(105,412)	125,023
Other capital credits & dividends	400,191	138,017	190.0%	268,786	131,406
<b>Total non-operating margins</b>	<b>1,533,763</b>	<b>1,233,986</b>	<b>24.3%</b>	<b>1,165,278</b>	<b>368,485</b>
<b>Net income (loss)</b>	<b>4,035,331</b>	<b>3,662,423</b>	<b>10.2%</b>	<b>3,689,910</b>	<b>345,421</b>
Extraordinary expenses	-	-	N/A	-	-
<b>Total net income (loss)</b>	<b>\$ 4,035,331</b>	<b>\$ 3,662,423</b>	<b>10.2%</b>	<b>\$ 3,689,910</b>	<b>\$ 345,421</b>

	December 2010 Actual	November 2010 Actual	Variance Fav/(Unfav) \$	%	December 2009 Actual	Variance Fav/(Unfav) \$	%
Electric plant, at cost:							
Electric plant in service	107,760,881	106,175,129	1,585,752	1.49%	102,390,237	5,370,644	5.25%
Less accumulated depreciation	(28,066,001)	(27,954,102)	111,899	0.40%	(26,135,936)	1,930,065	7.38%
<b>Net electric plant in service</b>	<b>79,694,880</b>	<b>78,221,027</b>	<b>1,473,853</b>	<b>1.88%</b>	<b>76,254,301</b>	<b>3,440,579</b>	<b>4.51%</b>
<b>Construction work in progress</b>	<b>6,598,564</b>	<b>7,029,046</b>	<b>(430,482)</b>	<b>-6.12%</b>	<b>3,172,549</b>	<b>3,426,015</b>	<b>107.99%</b>
<b>Net electric plant</b>	<b>86,293,445</b>	<b>85,250,074</b>	<b>1,043,371</b>	<b>1.22%</b>	<b>79,426,850</b>	<b>6,866,594</b>	<b>8.65%</b>
Other assets:							
Non-utility property	65,697	65,697	-	0.00%	65,697	-	0.00%
Other investments	13,781,505	9,835,813	3,945,692	40.12%	9,805,627	3,975,878	40.55%
Deferred charges	(313,695)	(125,805)	(187,890)	149.35%	(351,621)	37,927	-10.79%
<b>Total other assets</b>	<b>13,533,507</b>	<b>9,775,705</b>	<b>3,757,802</b>	<b>38.44%</b>	<b>9,519,703</b>	<b>4,013,804</b>	<b>42.16%</b>
Current assets:							
Cash	214,456	656,222	(441,766)	-67.32%	285,571	(71,115)	-24.90%
Notes receivable (net)	308	372	(64)	-17.22%	1,915	(1,607)	-83.92%
Accounts receivable (net)	9,903,081	9,225,478	677,603	7.34%	9,325,637	577,444	6.19%
Other receivables (net)	2,207,426	1,550,188	657,237	42.40%	594,102	1,613,323	271.56%
Inventories	2,912,631	3,003,156	(90,524)	-3.01%	2,599,232	313,400	12.06%
Prepaid expenses	264,973	188,349	76,623	40.68%	340,175	(75,202)	-22.11%
<b>Total current assets</b>	<b>15,502,874</b>	<b>14,623,765</b>	<b>879,109</b>	<b>6.01%</b>	<b>13,146,631</b>	<b>2,356,243</b>	<b>17.92%</b>
<b>Total assets</b>	<b>\$ 115,329,826</b>	<b>\$ 109,649,544</b>	<b>\$ 5,680,282</b>	<b>5.18%</b>	<b>\$ 102,093,184</b>	<b>\$ 13,236,642</b>	<b>12.97%</b>

	December 2010 Actual	November 2010 Actual	Variance Fav/(Unfav) \$	%	December 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	6,608,720	6,828,608	(219,888)	-3.33%	6,263,274	345,446	5.23%
Contributions in aid of construction	17,186,363	17,139,570	46,793	0.27%	16,357,441	828,922	4.82%
<b>Net equity</b>	<b>44,046,246</b>	<b>44,219,341</b>	<b>(173,096)</b>	<b>-0.39%</b>	<b>39,181,967</b>	<b>4,864,279</b>	<b>11.04%</b>
<b>Long-term debt</b>	<b>55,820,961</b>	<b>47,248,841</b>	<b>8,572,119</b>	<b>15.36%</b>	<b>49,047,218</b>	<b>6,773,743</b>	<b>12.13%</b>
<b>Capital leases - non current</b>	<b>295,599</b>	<b>297,416</b>	<b>(1,817)</b>	<b>-0.61%</b>	<b>308,693</b>	<b>(13,094)</b>	<b>-4.43%</b>
Current liabilities:							
Current portion of long-term debt	2,239,351	2,080,491	158,860	7.09%	2,083,601	155,750	6.96%
Line of Credit	2,000,000	6,900,000	(4,900,000)	-245.00%	3,400,000	(1,400,000)	-70.00%
Accounts payable	7,421,628	6,003,273	1,418,355	19.11%	5,607,949	1,813,679	24.44%
Customer deposits	382,932	382,273	659	0.17%	239,460	143,472	37.47%
Other accrued expenses	2,876,215	2,233,513	642,701	22.35%	1,904,488	971,727	33.78%
<b>Total current liabilities</b>	<b>14,920,125</b>	<b>17,599,550</b>	<b>(2,679,425)</b>	<b>-17.96%</b>	<b>13,235,497</b>	<b>1,684,628</b>	<b>11.29%</b>
<b>Deferred credits</b>	<b>246,896</b>	<b>284,396</b>	<b>(37,499)</b>	<b>-15.19%</b>	<b>319,810</b>	<b>(72,914)</b>	<b>-29.53%</b>
<b>Total liabilities and equity</b>	<b>\$ 115,329,826</b>	<b>\$ 109,649,544</b>	<b>\$ 5,680,282</b>	<b>5.18%</b>	<b>\$ 102,093,184</b>	<b>\$ 13,236,642</b>	<b>12.97%</b>

STATEMENT OF CASH FLOWS

	Month		December 2009	December 2010	Year-to-date		Variance Fav (Unfav)	
	December 2010	December 2009			Actual	Actual	\$	%
<b>Cash flows from operating activities:</b>								
Net income	\$ (219,892)	\$ 296,807	\$ 4,035,331	\$ 3,689,910	\$ 345,421	9.36%		
Noncash expenses (income) included in earnings:								
Depreciation & amortization	443,566	615,200	4,873,737	4,757,600	116,137	2.44%		
(Gain) loss on sale of investments	-	128,999	(5,051)	91,519	(96,570)	105.52%		
Changes in assets and liabilities:								
Decrease (increase) in notes receivable	64	257	1,607	4,473	(2,866)	-64.08%		
Decrease (increase) in accounts receivable	(677,603)	(931,315)	(577,444)	(458,365)	(119,080)	25.96%		
Decrease (increase) in other receivable	(657,237)	(273,593)	(1,813,323)	248,834	(1,862,157)	748.35%		
Decrease (increase) in inventories	90,524	97,124	(313,400)	(255,958)	(57,442)	22.44%		
Decrease (increase) in prepayments	(76,823)	67,157	75,202	(136,635)	211,837	155.04%		
Decrease (increase) in deferred charges	172,856	(28,378)	(221,940)	(331,982)	110,042	33.15%		
Increase (decrease) in accounts payable	1,418,355	275,345	1,813,679	183,849	1,629,830	886.50%		
Increase (decrease) in customer deposits	659	23,541	143,472	186,101	7,371	-6.42%		
Increase (decrease) in accrued expenses	642,701	(45,753)	971,727	(433,254)	1,404,982	-324.29%		
Increase (decrease) in deferred credits	(37,499)	(43,084)	(72,914)	(221,232)	148,319	-67.04%		
<b>Net cash provided (used) by operating activities</b>	<b>1,099,967</b>	<b>182,307</b>	<b>9,110,683</b>	<b>7,274,860</b>	<b>1,835,823</b>	<b>25.24%</b>		
<b>Cash flows from investing activities:</b>								
Additions to electric plant in service and construction work in progress	(1,662,972)	(1,240,265)	(11,663,778)	(14,850,243)	3,186,466	21.46%		
Proceeds from retirements of electric plant in service	190,972	182,470	112,511	1,235,410	(1,112,899)	-90.82%		
Return on capital investments	(150,195)	(138,473)	(227,233)	(198,932)	(28,302)	14.23%		
Proceeds (payments) from sale (purchase) of investments	(3,795,498)	-	(3,748,644)	33,118	(3,781,762)	-114.19.12%		
<b>Net cash provided (used) in investing activities</b>	<b>(5,417,692)</b>	<b>(1,196,268)</b>	<b>(15,527,144)</b>	<b>(13,790,647)</b>	<b>(1,736,497)</b>	<b>-12.59%</b>		
<b>Cash flows from financing activities:</b>								
Proceeds from borrowings LOC	-	-	-	-	-	N/A		
Proceeds from borrowings Long-Term	-	-	-	-	-	N/A		
Payments to creditors LOC	(4,900,000)	100,000	(1,400,000)	850,058	(2,250,058)	264.59%		
Payments to creditors Long-Term	8,729,162	(259,189)	6,916,399	4,067,847	2,848,552	-70.03%		
Increase in contributions in aid of construction	46,793	41,480	828,922	693,169	135,753	19.58%		
Memberships issued, net of refunds	-	-	-	-	-	N/A		
Additions to donated capital, net	4	-	25	30	(6)	-19.06%		
<b>Net cash provided (used) by financing activities</b>	<b>3,875,959</b>	<b>(117,709)</b>	<b>6,345,346</b>	<b>5,611,105</b>	<b>734,241</b>	<b>-13.09%</b>		
<b>Net increase (decrease) in cash and equivalents</b>	<b>(441,766)</b>	<b>(1,131,670)</b>	<b>(71,115)</b>	<b>(904,682)</b>	<b>833,567</b>	<b>-92.14%</b>		
Cash & cash equivalents at beginning of period	656,222	1,417,241	285,571	1,190,253	(904,682)	-76.01%		
<b>Cash &amp; cash equivalents at end of period</b>	<b>\$ 214,456</b>	<b>\$ 285,571</b>	<b>\$ 214,456</b>	<b>\$ 285,571</b>	<b>\$ (71,115)</b>	<b>-24.90%</b>		
<b>Supplemental cash flow information:</b>								
Cash paid during the period for interest	\$ (411,281)	\$ (408,938)	\$ (543,893)	\$ (430,989)	(112,904)	-26.20%		