

VERMONT ELECTRIC COOPERATIVE, INC.
UNAUDITED FINANCIAL REPORTING
FOR THE MONTH AND NINE MONTHS ENDED:
SEPTEMBER, 2011

Financial Highlights – September, 2011

	<u>Variance (K's)</u>	<u>YTD Variance (K's)</u>
September Net Income	\$(343)	\$250

Analysis:

- Operating Revenue**
\$(100)
\$856

Sold KWH in September was 3% lower than budget for a negative variance of \$155k with YTD 1% higher and \$612k better than budget. Degree days for the first 9 months were 7% lower than normal and 14% better than 2010. The average price/KWH sold was \$8k lower than budget in September but \$26k better than budget YTD. Non-energy services, pole attachments, and wheeling revenues contributed more revenue than expected for a positive variance of \$11k in September and \$102k YTD. Unbilled revenues were \$51k better than budget in September and \$116k YTD.

- Purchased Power Costs**
\$(16)
\$87

Purchases were 4% and \$113k higher than expected in September and 2% and \$610k higher YTD. Our overall costs/KWH was 4% and \$93k lower than budget in September and 3% and \$682k lower YTD.

- Transmission Costs**
\$53
\$91

Transmission by other costs was under budget by \$90k in September and \$221k YTD. Control center costs for transmission support resulted in a negative variance to budget of \$5k in September and \$9k YTD. Transmission vegetative maintenance was \$36k over budget in September and \$122k over budget YTD.

- Distribution Operations/Mtce**
(\$441)
(\$1,172)

Overhead and underground line maintenance costs were \$97k over budget in September and are \$570k over budget YTD. Substation maintenance cost was \$10k over budget in September and are \$169k over YTD. As a result of Tropical Storm Irene, Major storm expenses exceeded budget by \$332k in September and \$624k YTD. This is a temporary variance, as we expect to receive reimbursement from FEMA to offset approximately \$830k of expense. Miscellaneous Distribution expenses were under budget by \$20K in September and \$123k YTD. Distribution vegetative maintenance program spending was over budget by \$16k in September but is under budget \$121k YTD. Vegetative maintenance program (transmission + distribution) is \$51k over budget for September but is on budget YTD.

- Customer Accounts**
\$12
\$69

Meter reading & meter disconnects are \$14k better than budget in September and \$140k better YTD. Member services is over budget by \$9k in September but had a positive variance to budget of \$24k YTD. Communications is under budget in September by \$7k and \$6k YTD. The payment of the SQRP incentive created a temporary timing variance of \$95k YTD.

- Administrative & General**
\$70
(\$14)

A&G Payroll & Benefits exceeded budget by \$8k in September and \$105k YTD. Timing associated with NRECA dues and Annual Meeting expenses contributed negative variances of \$2k in September and \$51k YTD. Regulatory related costs were \$70k under budget in September and \$105k YTD primarily due to timing of the consumer behavior

study, lower rate case costs and timing of the audit of our easement process and records. A partial offset to the negative variances are reductions in outside services of \$7k in September and \$41k YTD.

• **Total Depreciation & Other Exp** **\$34** **\$126**

Depreciation expense is \$2k under budget in September but is \$47k over budget YTD largely related to greater than expected general plant assets closed to plant in service. Interest expense was better than budget by \$31k in September and \$166k YTD largely resulting from very low rates on our variable debt.

• **Total Non-Operating Margins** **\$45** **\$207**

Contract work and storm assistance for other utilities has resulted in a positive variance of \$39k in September and \$43k YTD. Dividend income is on budget in September and YTD is better than budget by \$146k. NISC & CoBank patronage dividends created large positive variances of \$146k YTD (however only the cash portion of patronage dividends counts towards TIER). After adjusting for non-cash dividends the positive impact on the budget for cash patronage dividends is really \$42k YTD.

• **Capital Spending Plan** **(\$74)** **\$4,213**

Facility related project work was over budget in September by \$9k but is under budget by \$736k YTD due to temporary timing differences associated with the construction of the new Grand Isle facility and the Johnson parking lot. The parking lot will be completed in October. Construction has started on the Grand Isle facility and is expected to be completed by end of year. The NEK project has a positive variance of \$291k in September and \$2,513k YTD. The delay in reimbursement of Phase 1 costs resulted in postponing the remaining project until 2012. DOE Smart Grid Projects are over budget in September by \$12k and \$65k YTD. The Jay Tap project was over budget in September by \$31k but under budget by \$700k YTD. This is a temporary variance due to the timing of construction for KCW. New Services is over budget by \$46k in September and over \$162k YTD. Pole replacement work is on budget in September but is over budget by \$183k YTD. However, reconductoring, regulator replacements, transformers, and the retirement of the Newport C50 switching station are under budget by \$31k in September and \$992k YTD.

TIER and Debt Service Coverage

We are projecting that VEC will be on track with our approved budget of a 2.18 TIER. Our Debt Service payments for 2011 are expected to be \$5.23 million.

Cash Flow and Line of Credit

In September, we used up to a peak of \$4.8M on our line of credit on September 23rd. It is expected the October high for the line of credit will be ~ \$5.5M on October 26th.

Balance Sheet

Our equity ratio in September is 40.78% a slight increase from August at 39.86%. Our current ratio, a measure of liquidity, is 1.12, a slight decrease from August at 1.14. VEC's FFO ratio for 2011 YTD ("Funds from Operations/Capital Expenditures Ratio"; Target of 80% desirable) is 1.66 down from August at 1.8. As we work towards resolution on the NEK project, this number is anticipated to be more in-line with the expected .80.

MONTHLY

STATEMENT OF OPERATIONS

VEC

	September 2011 Actual	September 2011 Budget	September 2011 Actual- Budget Variance Fav (Unfav) %	September 2010 Actual	September 2010 Actual- Budget Variance Fav (Unfav) %	September 2011 Actual - September 2010 Variance Fav (Unfav) %
Revenue						
Operating Revenue	5,738,429	5,838,743	-1.7%	5,793,898	(100,314)	(55,470)
Sales for Resale	29,807	104,343	-71.4%	49,638	(74,536)	(19,831)
Total revenues	\$ 5,768,236	\$ 5,943,086	-2.9%	\$ 5,843,536	\$ (174,850)	\$ (75,301)
Power supply cost						
Purchased power cost	(2,625,934)	(2,610,284)	-0.6%	(2,708,143)	(15,650)	82,209
Sales for Resale	(29,807)	(104,343)	71.4%	(49,638)	74,536	19,831
Transmission	(665,923)	(719,417)	7.4%	(697,798)	53,494	31,875
Total Power supply cost	(3,321,664)	(3,434,044)	3.3%	(3,455,579)	112,380	133,915
Gross Margin	\$ 2,446,572	\$ 2,509,042	-2.5%	\$ 2,387,958	\$ (62,470)	\$ 58,614
Operating expenses						
Distribution: Operations & Mtce	(1,281,926)	(840,760)	-52.5%	(838,730)	(441,165)	(443,196)
Customer accounts	(186,554)	(198,223)	5.9%	(194,851)	11,670	8,298
Administrative & general	(206,617)	(276,395)	25.2%	(260,258)	69,778	53,641
Total operating expenses	(1,675,096)	(1,315,378)	-27.3%	(1,293,839)	(359,718)	(381,257)
Depreciation & amortization	(311,572)	(313,677)	0.7%	(300,266)	2,105	(11,306)
Gross revenue & receipts taxes	(57,820)	(58,516)	1.2%	(58,607)	696	787
Interest on long-term debt	(235,280)	(263,431)	10.7%	(231,073)	(28,151)	(4,208)
Other interest expenses	(10,843)	(13,555)	20.0%	(17,229)	2,712	6,386
Other Deductions	(2,671)	(3,100)	13.8%	(100,340)	429	97,669
Total depreciation & other expenses	(618,186)	(652,279)	5.2%	(707,515)	34,092	89,329
Income from operations	153,289	541,385	-71.7%	386,603	(388,096)	(233,314)
Interest income	342,579	338,133	1.3%	214,216	4,446	128,364
Other income (expenses)	40,549	460	8717.0%	(1,515)	40,089	42,064
Other capital credits & dividends	23,675	23,371	1.3%	25,206	304	(1,532)
Total non-operating margins	406,803	361,964	12.4%	237,907	44,839	168,896
Net income (loss)	560,092	903,349	-38.0%	624,510	(343,257)	(64,419)
Extraordinary expenses	-	-	N/A	-	-	-
Total net income (loss)	\$ 560,092	\$ 903,349	-38.0%	\$ 624,510	\$ (343,257)	\$ (64,419)
						10.3%

YEAR-TO-DATE

STATEMENT OF OPERATIONS

VEC

	September 2011 Actual	September 2011 Budget	September 2011 Actual- Budget Variance Fav (Unfav)	%	September 2010 Actual	September 2010 Actual	September 2010 Actual	September 2010 Actual	September 2010 Actual - September 2010 Variance Fav (Unfav)	%
Revenue										
Operating Revenue	54,566,638	53,700,219	856,419	1.6%	52,769,961	52,769,961	1,786,677	3.4%		
Sales for Resale	783,591	791,244	(7,653)	-1.0%	945,309	945,309	(161,718)	17.1%		
Total revenues	\$ 55,340,229	\$ 54,491,463	\$ 848,766	1.6%	\$ 53,715,270	\$ 53,715,270	\$ 1,624,959	3.0%		
Power supply cost										
Purchased power cost	(26,605,013)	(26,691,679)	86,666	0.3%	(26,804,844)	(26,804,844)	199,831	0.7%		
Sales for Resale	(783,591)	(791,244)	7,653	1.0%	(945,309)	(945,309)	161,718	17.1%		
Transmission:	(6,433,255)	(6,523,882)	90,627	1.4%	(5,697,875)	(5,697,875)	(735,380)	-12.9%		
Total Power supply cost	(33,821,859)	(34,006,805)	184,946	0.5%	(33,448,028)	(33,448,028)	(373,831)	-1.1%		
Gross Margin	\$ 21,518,370	\$ 20,484,658	\$ 1,033,712	5.0%	\$ 20,267,242	\$ 20,267,242	\$ 1,251,129	-6.2%		
Operating expenses										
Distribution: Operations & Mice	(8,868,978)	(7,696,919)	(1,172,058)	-15.2%	(7,666,696)	(7,666,696)	(1,202,282)	-15.7%		
Customer accounts	(1,782,103)	(1,851,293)	69,189	3.7%	(1,800,297)	(1,800,297)	18,193	1.0%		
Administrative & general	(2,579,847)	(2,565,977)	(13,870)	-0.5%	(2,185,433)	(2,185,433)	(394,414)	-18.0%		
Total operating expenses	(13,230,928)	(12,114,189)	(1,116,739)	-9.2%	(11,652,425)	(11,652,425)	(1,578,503)	-13.5%		
Depreciation & amortization	(2,793,458)	(2,746,737)	(46,721)	-1.7%	(2,682,111)	(2,682,111)	(111,348)	-4.2%		
Gross revenue & receipts taxes	(537,928)	(530,681)	(7,247)	-1.4%	(522,464)	(522,464)	(15,464)	-3.0%		
Interest on long-term debt	(2,249,498)	(2,410,077)	160,579	6.7%	(2,173,861)	(2,173,861)	(75,638)	-3.5%		
Other interest expenses	(82,425)	(88,077)	5,652	6.4%	(121,246)	(121,246)	38,821	32.0%		
Other deductions	(14,076)	(28,076)	13,999	49.9%	(230,245)	(230,245)	216,169	93.9%		
Total depreciation & other expenses	(5,677,366)	(5,803,647)	126,281	2.2%	(5,729,927)	(5,729,927)	52,541	0.9%		
Income from operations	2,610,057	2,566,822	43,235	1.7%	2,884,890	2,884,890	(274,833)	9.5%		
Interest income	1,216,522	1,205,611	10,911	0.9%	834,496	834,496	382,027	45.8%		
Other income (expenses)	54,319	4,139	50,180	1212.4%	18,564	18,564	35,755	192.6%		
Other capital credits & dividends	305,238	159,266	145,972	91.7%	249,997	249,997	55,241	22.1%		
Total non-operating margins	1,576,079	1,369,016	207,063	15.1%	1,103,057	1,103,057	473,022	42.9%		
Net income (loss)	4,186,136	3,935,838	250,298	6.4%	3,987,947	3,987,947	198,189	5.0%		
Extraordinary expenses	-	-	-	N/A	-	-	-	N/A		
Total net income (loss)	\$ 4,186,136	\$ 3,935,838	\$ 250,298	6.4%	\$ 3,987,947	\$ 3,987,947	\$ 198,189	5.0%		

	September 2011 Actual	August 2011 Actual	Variance Fav/(Unfav) \$	%	September 2010 Actual	Variance Fav/(Unfav) \$	%
Electric plant, at cost:							
Electric plant in service	111,729,591	111,512,669	216,921	0.19%	105,862,732	5,866,859	5.54%
Less accumulated depreciation	(30,065,627)	(29,832,188)	233,439	0.78%	(27,552,720)	2,512,907	9.12%
Net electric plant in service	81,663,964	81,680,481	(16,517)	-0.02%	78,310,012	3,353,952	4.28%
Construction work in progress	5,861,665	4,965,258	896,407	18.05%	6,882,257	(1,020,592)	-14.83%
Net electric plant	87,525,628	86,645,739	879,890	1.02%	85,192,268	2,333,360	2.74%
Other assets:							
Non-utility property	65,697	65,697	-	0.00%	65,697	-	0.00%
Other investments	13,842,603	13,851,724	(9,121)	-0.07%	9,835,813	4,006,790	40.74%
Deferred charges	(138,643)	(123,934)	(14,708)	11.87%	49,556	(188,199)	-379.77%
Total other assets	13,769,657	13,793,487	(23,829)	-0.17%	9,951,066	3,818,592	38.37%
Current assets:							
Cash	635,795	883,815	(248,020)	-28.06%	600,933	34,862	5.80%
Notes receivable (net)	(8)	(8)	-	0.00%	500	(508)	-101.63%
Accounts receivable (net)	9,363,260	9,904,998	(541,738)	-5.47%	9,066,749	296,511	3.27%
Other receivables (net)	3,673,037	4,788,072	(1,115,035)	-23.29%	1,196,557	2,476,480	206.97%
Inventories	2,805,784	2,965,188	(159,404)	-5.38%	2,703,431	102,353	3.79%
Prepaid expenses	491,952	606,620	(114,668)	-18.90%	292,078	199,874	68.43%
Total current assets	16,969,819	19,148,685	(2,178,866)	-11.38%	13,860,248	3,109,572	22.44%
Total assets	\$ 118,265,105	\$ 119,587,910	\$ (1,322,805)	-1.11%	\$ 109,003,582	\$ 9,261,523	8.50%

BALANCE SHEETS (LIABILITIES/EQUITY)

	September 2011 Actual	August 2011 Actual	Variance Fav/(Unfav) \$	%	September 2010 Actual	Variance Fav/(Unfav) \$	%
Equities:							
Memberships issued & subscribed	-	-	-	#DIV/0!	-	-	#DIV/0!
Patronage capital assignable	41,472,857	41,472,857	-	0.00%	20,251,163	21,221,695	51.17%
Other earnings	6,759,555	6,199,455	560,100	8.29%	6,561,331	198,224	2.93%
Contributions in aid of construction	-	-	-	#DIV/0!	16,979,755	(16,979,755)	#DIV/0!
Net equity	48,232,412	47,672,313	560,100	1.16%	43,792,249	4,440,164	9.21%
Long-term debt	54,300,618	54,485,140	(184,522)	-0.34%	47,482,080	6,818,539	12.56%
Capital leases - non current	285,852	286,957	(1,105)	-0.39%	299,512	(13,660)	-4.78%
Current liabilities:							
Current portion of long-term debt	1,955,067	2,051,592	(96,525)	-4.94%	2,080,491	(125,424)	-6.42%
Line of Credit	4,300,000	4,200,000	100,000	2.33%	6,100,000	(1,800,000)	-41.86%
Accounts payable	6,258,219	7,740,291	(1,482,072)	-23.68%	6,022,348	235,871	3.77%
Customer deposits	484,378	476,250	8,127	1.68%	352,439	131,938	27.24%
Other accrued expenses	2,157,192	2,337,641	(180,450)	-8.37%	2,548,649	(391,457)	-18.15%
Total current liabilities	15,154,856	16,805,775	(1,650,919)	-10.89%	17,103,927	(1,949,072)	-12.86%
Deferred credits	291,366	337,725	(46,359)	-15.91%	325,814	(34,448)	-11.82%
Total liabilities and equity	\$ 118,265,105	\$ 119,587,910	\$ (1,322,805)	-1.11%	\$ 109,003,582	\$ 9,261,523	8.50%

	Month		September 2010		September 2011		Year-to-date		Variance Fav (Unfav)	
	September 2011	September 2010	Actual	Actual	Actual	Actual	Actual	Actual	\$	%
Cash flows from operating activities:										
Net income	\$ 560,092	\$ 624,510	\$ 4,186,136	\$ 3,987,947	198,189	5%				
Noncash expenses (income) included in earnings:										
Depreciation & amortization	354,555	366,092	3,407,262	3,604,644	(197,382)	-5%				
(Gain) loss on sale of investments	-	-	(11,558)	(4,389)	(7,169)	-163%				
(Gain) loss on sale of fixed assets	(1,885)	(149)								
Changes in assets and liabilities:										
Decrease (increase) in notes receivable	-	64	316	1,415	(1,098)	-76%				
Decrease (increase) in accounts receivable	541,738	238,120	539,821	258,888	280,933	109%				
Decrease (increase) in other receivable	1,115,035	(20,530)	(282,396)	(602,455)	320,058	53%				
Decrease (increase) in inventories	159,404	284,266	106,848	(104,199)	211,047	-203%				
Decrease (increase) in prepayments	114,668	(14,109)	(226,980)	48,096	(275,076)	572%				
Decrease (increase) in deferred charges	11,849	17,196	(200,783)	(539,187)	338,404	63%				
Increase (decrease) in accounts payable	(1,482,072)	(1,068,763)	(1,163,409)	414,399	(1,577,808)	-381%				
Increase (decrease) in customer deposits	8,127	14,161	101,446	112,979	(11,533)	10%				
Increase (decrease) in accrued expenses	(180,450)	(94,433)	(719,023)	644,161	(1,363,184)	-212%				
Increase (decrease) in deferred credits	(46,359)	(36,310)	44,470	6,004	38,466	641%				
Net cash provided (used) by operating activities	1,154,702	330,117	5,782,149	7,828,304	(2,046,155)	-26%				
Cash flows from investing activities:										
Additions to electric plant in service and construction work in progress	(1,288,469)	(971,200)	(6,772,362)	(8,979,239)	2,206,878	25%				
Proceeds from retirements of electric plant in service	58,768	(37,846)	986,990	(248,424)	1,235,414	-497%				
Return on capital investments	-	-	(96,589)	(71,039)	(19,550)	25%				
Proceeds (payments) from sale (purchase) of investments	9,121	19,031	35,491	46,853	(11,363)	-24%				
Net cash provided (used) in investing activities	(1,220,579)	(990,014)	(5,846,469)	(9,257,849)	3,411,380	37%				
Cash flows from financing activities:										
Proceeds from borrowings LOC	-	-	-	-	-	N/A				
Proceeds from borrowings Long-Term	-	-	-	-	-	N/A				
Payments to creditors LOC	100,000	300,000	2,300,000	2,700,000	(400,000)	15%				
Payments to creditors Long-Term	(282,151)	(266,535)	(1,814,372)	(1,577,428)	(236,944)	-15%				
Increase in contributions in aid of construction	-	87,807	-	622,314	(622,314)	-100%				
Memberships issued, net of refunds	-	-	-	-	-	N/A				
Additions to donated capital, net	8	7	31	20	11	53%				
Net cash provided (used) by financing activities	(182,143)	121,279	485,659	1,744,907	(1,259,248)	72%				
Net increase (decrease) in cash and equivalents	(248,020)	(538,619)	421,339	315,362	106,977	34%				
Cash & cash equivalents at beginning of period	883,815	1,139,552	214,456	285,571	(71,115)	-25%				
Cash & cash equivalents at end of period	\$ 635,795	\$ 600,933	\$ 635,795	\$ 600,933	\$ 34,882	6%				
Supplemental cash flow information:										
Cash paid during the period for interest	\$ (400,917)	\$ (406,268)	\$ (446,912)	\$ (287,750)	(159,161)	-55%				