

VERMONT ELECTRIC COOPERATIVE, INC.
UNAUDITED FINANCIAL STATEMENTS
FOR THE MONTH AND TWELVE MONTHS ENDED:
DECEMBER 2007

Financial Highlights – December

	Budget Variance (K's) (\$525)	Budget YTD Variance (K's) (\$379)
December 2007 Net Income		

Analysis:

- **Operating Revenue** (\$44) (\$2,830)

Overall operating revenues were 1% worse than budget in December and 4% YTD. A 7.15% increase was approved after the budget was completed (budget assumed 8.33%). This difference represents a shortfall of \$63k in December and \$696k YTD. Secondly, sold KWH ran 5% and \$259k above expectations in December but 2% and \$1,347k below expectations YTD. The mix of sales resulted in revenues/KWH of 3% and \$186k worse in December and 1% and \$614k worse YTD. Revenues were negatively impacted by unbilled revenues of \$43k and \$268k worse than budget in December and YTD respectively. Revenues for misc services and wheeling were below expectations by \$9k in December but are positively impacting budget by \$101k YTD.

- **Purchased Power Costs** \$65 \$2,149

Purchases for load requirements were .4% less in December for a positive variance of \$16k and 3% less YTD for a positive variance of \$1,084k YTD. Our overall costs/KWH in December was .5% and \$20k worse than budget with YTD at 2% and \$982k better.

- **Transmission Costs** (\$166) \$586

The costs for transmission by others was higher than budget by 4% and \$16k in December but were 14% and \$675k YTD better than budget YTD as a result of FERC reducing return on equity, VEC's peak now less costly, and because of delays in construction. Transmission vegetative maintenance was \$88k and 60% lower YTD. Swanton billed VEC for 47% of the costs for a rebuild of the line from the intersection of Cater Hill Road and Rte 78 to the Fortin Road in Highgate which VEC uses to provide service to our Highgate Springs customers. This line is owned by Swanton but may be billable to VEC based on the transmission services agreement from 1996 but was not included in our 2007 budget resulting in a variance in December of \$122k. Lastly, during 2007, VEC entered into an agreement with VELCO to provide SCADA master services to VEC for VEC owned equipment. The agreement was not included in the 2007 budget and resulted in a December variance of \$27k and \$34k YTD.

- **Distribution Operations/Mtce** (\$46) (\$656)

Distribution tree trimming was under budget by \$73k for December but is over budget by \$166k YTD. We have spent about \$1,502k YTD on all vegetative management. We have exceeded our target of \$1,424,000 for the 2007 budget largely to meet commitments that were previously made. As a result of the Richford incident, we conducted an investigation and the costs of \$134k YTD were not budgeted. The April 16th major storm was not budgeted and a partial FEMA reimbursement check reduced the YTD variance from the storm to \$122k. Finally, overhead and substation maintenance was more than anticipated in December by \$87k and is over budget YTD by \$295k.

• **Customer Accounts** **(\$95)** **(\$189)**

A/R collections resulted in a negative variance of \$42k for December & YTD of \$56k. Delays related to the implementation of AMR substation rollout have resulted in higher contracting and labor costs of \$5k in December and \$79k YTD. The outsourcing of payment deposits contributed to a negative one time variance in 2007 of \$26k YTD. The timing of the distribution of the reliability incentive resulted in a negative variance in December of \$50k with YTD finishing within 12k of budget.

• **Administrative & General** **(\$345)** **(\$8)**

Two deferred accounting orders (IRP of \$199k & BPRA of \$267k) were both written down in December as a result of VEC exceeding expectations on earnings for 2007. YTD the impact had a negative variance to budget of \$263k. Savings from the rate case settlement resulted in positive variances of \$3k in December and \$210k YTD. A&G salaries produced positive variances of \$19k in December and \$151k YTD as a result of changes in staff. The use of outside services has been greater than expected for a variance in December of \$1k and \$86k YTD. The annual meeting costs had a negative YTD variance of \$37k. Safety program spending was over budget by \$28k YTD from a greater emphasis in this area. Expenses related to employee separations was positively impacted by a decrease in wellness plan costs resulting in favorable variance in December of \$114k (with Y/E positive impact of \$28k overall).

• **Interest Expense** **\$28** **\$208**

VEC's realized a 25 basis point discount from CFC on fixed rates from CZN acquisition debt. The refinance to the Farmer Mac program positively impacted interest expense.

• **Other Deductions** **(\$41)** **(\$42)**

Implementation of lock box services at Chittenden Bank has displaced our use of payment processing equipment with proprietary software (abandoned equipment).

• **Non-operating Margins** **\$121** **\$234**

Interest & dividend income were lower than expected in December by \$15k largely related to a lower return on NE Hydro investment. However, income YTD has been better than expected by \$38k YTD from S/T investments. Utility contract work has resulted in an improvement to budget of \$7k in December and \$39k YTD. Rent & option payments for the School Street property have contributed positive variances of \$18k YTD. Asset dispositions have contributed positive income of \$28k YTD. In December, VEC recorded the non cash patronage earned in 2007 for CFC. This positive income of \$129k in December does not count towards TIER based on our indenture but does count towards equity. Patronage capital retirements YTD finished \$111k ahead of budget.

TIER and Debt Service Coverage

VEC received two regulatory accounting orders in 2007 to defer expenses associated with a Business Process Review Audit and an Integrated Resource Plan. The deferred orders allowed for deferral of these project costs for future rate recovery provided our earnings did not exceed the rate approved TIER level of 1.8. VEC finished our 2007 financial

performance with a TIER of 1.95. As a result, the amounts deferred from the two accounting orders totaling \$467k were written off in 2007 resulting in a final year end TIER of 1.8. Our Debt Service Coverage for 2007 finished at approximately \$4,941,150 (Principal of ~ \$2,002,347 & Interest of ~ \$2,938,803).

Cash Flow and Line of Credit

We used \$1.4 million from our line of credit in December (paid balance to \$0 on 1/7). In January, we used about \$1.7 million. We expect to use our line of credit now on a regular basis to meet short term cash flow needs until such time that the s/t debt is converted into a long term facility (expected in 1Q09).

Capital Spending Plan

The year end capital budget finished with a variance of \$173k or 3% over expectations. The variance was primarily attributed to an over spend related to the Ethan Allen cogeneration project that finished the year with an overage of \$656k. Offsetting some of the negative variances with Ethan Allen were lower than expected spending on 12 kv reclosers (\$265k) and SCADA substation equipment (\$193K). The transformer vendor management program contributed positive cash flow of an additional \$785k that was not adjusted to our year spending on capital to allow for normalization and comparison of prior years spending.

Balance Sheet

Our equity ratio held at 38% in December. Our current ratio, a measure of liquidity, declined to 1.25 from last months 1.41 partly as a result of a partial investment in TRANSCO LLC shares.

	December 2007 Actual	November 2007 Actual	Variance Fav/(Unfav) \$	%	December 2006 Actual	Variance Fav/(Unfav) \$	%
Electric plant, at cost:							
Electric plant in service	88,623,735	86,214,749	2,408,986	2.79%	82,021,553	6,602,183	8.05%
Less accumulated depreciation	(24,848,639)	(24,912,791)	(64,152)	-0.26%	(22,914,530)	1,934,110	8.44%
Net electric plant in service	63,775,096	61,301,959	2,473,138	4.03%	59,107,023	4,668,073	7.90%
Construction work in progress	1,606,572	3,936,297	(2,329,725)	-59.19%	2,546,967	(940,395)	-36.92%
Net electric plant	65,381,668	65,238,256	143,413	0.22%	61,653,990	3,727,678	6.05%
Other assets:							
Non-utility property	65,697	65,697	-	0.00%	65,697	-	0.00%
Other investments	9,379,949	8,491,981	887,968	10.46%	8,722,987	656,963	7.53%
Deferred charges	(359,014)	12,088	(371,102)	-3069.90%	7,188	(366,202)	-5094.46%
Total other assets	9,086,632	8,569,767	516,866	6.03%	8,795,872	290,761	3.31%
Current assets:							
Cash	1,867,135	1,631,562	235,573	14.44%	4,014,602	(2,147,468)	-53.49%
Notes receivable (net)	20,278	23,233	(2,955)	-12.72%	72,281	(52,004)	-71.95%
Accounts receivable (net)	9,691,091	8,188,262	1,502,829	18.35%	8,334,859	1,356,232	16.27%
Other receivables (net)	226,990	329,462	(102,472)	-31.10%	619,984	(392,994)	-63.39%
Inventories	1,702,289	1,662,130	40,159	2.42%	1,749,445	(47,156)	-2.70%
Prepaid expenses	309,476	348,359	(38,883)	-11.16%	163,655	145,821	89.10%
Total current assets	13,817,259	12,183,009	1,634,250	13.41%	14,954,828	(1,137,569)	-7.61%
Total assets	\$ 88,285,559	\$ 85,991,031	\$ 2,294,528	2.67%	\$ 85,404,689	\$ 2,880,870	3.37%

BALANCE SHEETS (LIABILITIES/EQUITY)

	December 2007 Actual	November 2007 Actual	Variance Fav/(Unfav) \$	%	December 2006 Actual	Variance Fav/(Unfav) \$	%
Equities:							
Memberships issued & subscribed	-	-	-	#DIV/0!	-	-	#DIV/0!
Patronage capital assignable	12,605,038	12,605,038	-	0.00%	8,706,083	3,898,955	30.93%
Other earnings	5,117,774	5,044,446	73,328	1.43%	6,398,298	(1,280,524)	-25.02%
Contributions in aid of construction	15,413,272	15,397,271	16,002	0.10%	14,358,116	1,055,156	6.85%
Net equity	33,136,084	33,046,754	89,330	0.27%	29,462,497	3,673,587	11.09%
Long-term debt	42,481,107	42,638,894	(157,786)	-0.37%	44,514,226	(2,033,118)	-4.79%
Capital leases - non current	353,716	357,647	(3,932)	-1.11%	381,510	(27,794)	-7.86%
Current liabilities:							
Current portion of long-term debt	2,111,218	2,078,768	32,450	1.54%	2,078,768	32,450	1.54%
Line of Credit	1,399,834	-	1,399,834	100.00%	-	1,399,834	100.00%
Accounts payable	5,006,403	4,001,136	1,005,267	20.08%	5,104,307	(97,905)	-1.96%
Customer deposits	104,204	104,800	(596)	-0.57%	117,200	(12,996)	-12.47%
Other accrued expenses	2,391,747	2,443,890	(52,143)	-2.18%	2,128,973	262,774	10.99%
Total current liabilities	11,013,406	8,628,594	2,384,812	21.65%	9,429,249	1,584,157	14.38%
Deferred credits	1,301,246	1,319,142	(17,896)	-1.38%	1,617,208	(315,962)	-24.28%
Total liabilities and equity	\$ 88,285,559	\$ 85,991,031	\$ 2,294,528	2.67%	\$ 85,404,689	\$ 2,880,870	3.37%

STATEMENT OF OPERATIONS

MONTHLY

	December 2007 Actual	December 2007 Budget	December 2007 Actual- Budget Variance Fav (Unfav) \$ %	December 2006 Actual	December 2007 Actual - December 2006 Variance Fav (Unfav) \$ %
Revenue					
Operating Revenue	6,019,063	6,063,205	(44,142)	4,775,330	1,243,734
Sales for Resale	282,050	212,693	69,357	411,490	(129,440)
Total revenues	\$ 6,301,113	\$ 6,275,898	\$ 25,215	\$ 5,186,820	\$ 1,114,294
Power supply cost					
Power Production Expense	(3,604)	-	(3,604)	-	(3,604)
Purchased power cost	(3,699,301)	(3,767,668)	68,367	(2,808,860)	(890,441)
Sales for Resale	(282,050)	(212,693)	(69,357)	(411,490)	129,440
Transmission	(585,139)	(419,367)	(165,772)	48,375	(633,514)
Total Power supply cost	(4,570,094)	(4,399,728)	(170,366)	(3,171,975)	(1,398,120)
Gross Margin	\$ 1,731,019	\$ 1,876,170	\$ (145,151)	\$ 2,014,845	\$ (283,826)
Operating expenses					
Distribution: Operations & Mlce	(553,044)	(506,640)	(46,404)	(469,701)	(83,342)
Customer accounts	(291,156)	(196,522)	(94,634)	(196,718)	(94,438)
Administrative & general	(557,159)	(212,176)	(344,983)	(295,689)	(261,470)
Total operating expenses	(1,401,358)	(915,338)	(486,021)	(962,108)	(439,251)
Depreciation & amortization	(309,571)	(309,006)	(565)	(337,151)	27,580
Gross revenue & receipts taxes	(58,006)	(57,621)	(385)	(52,175)	(5,831)
Interest on long-term debt	(239,792)	(256,797)	17,005	(247,319)	7,528
Other interest expenses	(3,645)	(14,945)	11,300	(3,767)	121
Other Deductions	(41,436)	(24)	(41,412)	(88,986)	47,551
Total depreciation & other expenses	(652,449)	(638,393)	(14,056)	(729,398)	76,949
Income from operations	(322,789)	322,439	(645,228)	323,339	(646,128)
Interest income	194,680	210,148	(15,468)	235,453	(40,773)
Other income (expenses)	(1,347)	(8,550)	7,203	(1,387,728)	1,386,381
Other capital credits & dividends	128,831	-	128,831	97,980	30,850
Total non-operating margins	322,164	201,598	120,566	(1,054,295)	1,376,458
Net income (loss)	(625)	524,037	(524,663)	(730,956)	730,331
Extraordinary expenses	-	-	-	-	-
Total net income (loss)	\$ (625)	\$ 524,037	\$ (524,663)	\$ (730,956)	\$ 730,331

QUARTERLY

STATEMENT OF OPERATIONS

	4Q 2007 Actual	4Q 2007 Budget	4Q 2007 Actual- Budget Variance Fav (Unfav) %	3Q 2007 Actual	4Q 2007 Actual - 3Q 2007 Variance Fav (Unfav) %
Revenue					
Operating Revenue	16,047,660	16,375,684	-2.0%	15,491,103	556,557
Sales for Resale	604,950	381,312	58.6%	690,202	(85,252)
Total revenues	\$ 16,652,610	\$ 16,756,996	-0.6%	\$ 16,181,305	\$ 471,305
Power supply cost					
Power Production Expense	(11,747)	-	N/A	(10,190)	(1,557)
Purchased power cost	(9,660,723)	(10,176,962)	5.1%	(9,053,576)	(607,148)
Sales for Resale	(604,950)	(381,312)	-58.6%	(690,202)	85,252
Transmission:	(1,407,097)	(1,281,057)	-9.8%	(949,147)	(457,949)
Total Power supply cost	(11,684,516)	(11,839,331)	1.3%	(10,703,115)	(981,402)
Gross Margin	\$ 4,968,094	\$ 4,917,665	1.0%	\$ 5,478,190	\$ (510,096)
Operating expenses					
Distribution: Operations & Mice	(1,424,523)	(1,781,787)	20.1%	(1,713,573)	289,050
Customer accounts	(715,005)	(587,474)	-21.7%	(634,472)	(80,534)
Administrative & general	(983,469)	(642,884)	-53.0%	(639,240)	(344,229)
Total operating expenses	(3,122,997)	(3,012,145)	-3.7%	(2,987,284)	(135,713)
Depreciation & amortization	(892,665)	(924,018)	3.4%	(906,847)	14,182
Gross revenue & receipts taxes	(157,439)	(155,974)	-0.9%	(154,561)	(2,879)
Interest on long-term debt	(740,627)	(770,391)	3.9%	(733,584)	(7,043)
Other interest expenses	(11,205)	(41,847)	73.2%	(9,141)	(2,064)
Other deductions	(41,436)	(492)	-8321.9%	(1,223)	(40,213)
Total depreciation & other expenses	(1,843,372)	(1,892,722)	2.6%	(1,805,356)	(38,016)
Income from operations	1,725	12,798	-86.5%	685,550	(683,826)
Interest income	208,001	219,514	-5.2%	237,044	(29,043)
Other income (expenses)	(3,770)	(26,428)	-85.7%	276	(4,046)
Other capital credits & dividends	128,831	-	N/A	43,028	85,802
Total non-operating margins	333,061	193,086	72.5%	280,349	52,713
Net income (loss)	334,786	205,884	62.6%	965,899	(631,113)
Extraordinary expenses	-	-	N/A	-	-
Total net income (loss)	\$ 334,786	\$ 205,884	62.6%	\$ 965,899	\$ (631,113)

STATEMENT OF OPERATIONS

YEAR-TO-DATE

	December 2007 Actual	December 2007 Budget	December 2007 Actual- Budget Variance Fav (Unfav) \$ %	December 2006 Actual	December 2007 Actual - December 2006 Variance Fav (Unfav) \$ %
Revenue					
Operating Revenue	64,256,838	67,086,732	(2,829,894)	62,218,836	2,038,003
Sales for Resale	2,581,395	2,497,262	84,134	3,888,615	(1,307,219)
Total revenues	\$ 66,838,234	\$ 69,583,994	\$(2,745,760)	\$ 66,107,451	\$ 730,784
Power supply cost					
Power Production Expense	(21,936)	-	(21,936)	-	(21,936)
Purchased power cost	(37,924,095)	(40,095,513)	2,171,418	(34,090,333)	(3,833,762)
Sales for Resale	(2,581,395)	(2,497,262)	(84,134)	(3,888,615)	1,307,219
Transmission:	(4,809,405)	(5,395,208)	585,802	(4,195,638)	(613,768)
Total Power supply cost	(45,336,833)	(47,987,983)	2,651,150	(42,174,586)	(3,162,247)
Gross Margin	\$ 21,501,402	\$ 21,596,011	\$(94,609)	\$ 23,932,865	\$ (2,431,464)
Operating expenses					
Distribution: Operations & Mice	(7,229,619)	(6,573,540)	(656,079)	(6,614,408)	(615,211)
Customer accounts	(2,572,384)	(2,383,343)	(189,041)	(2,438,429)	(133,955)
Administrative & general	(2,944,759)	(2,936,720)	(8,039)	(2,729,688)	(215,072)
Total operating expenses	(12,746,762)	(11,893,603)	(853,159)	(11,782,524)	(964,238)
Depreciation & amortization	(3,719,540)	(3,864,987)	145,447	(4,006,376)	286,836
Gross revenue & receipts taxes	(636,687)	(659,697)	23,010	(621,543)	(15,144)
Interest on long-term debt	(2,960,259)	(3,099,353)	139,094	(3,079,530)	119,271
Other interest expenses	(34,277)	(103,104)	68,827	(41,142)	6,865
Other deductions	(43,205)	(1,507)	(41,698)	(89,571)	46,366
Total depreciation & other expenses	(7,393,968)	(7,728,648)	334,680	(7,838,161)	444,193
Income from operations	1,360,672	1,973,760	\$(613,088)	4,312,180	\$(2,951,508)
Interest income	923,215	885,556	37,659	631,567	291,648
Other income (expenses)	25,915	(59,414)	85,329	(1,419,574)	1,445,489
Other capital credits & dividends	234,653	123,790	110,863	374,782	(140,129)
Total non-operating margins	1,183,783	949,932	233,851	(413,225)	1,597,008
Net income (loss)	2,544,454	2,923,692	\$(379,237)	3,898,955	\$(1,354,500)
Extraordinary expenses	-	-	-	-	-
Total net income (loss)	\$ 2,544,454	\$ 2,923,692	\$(379,237)	\$ 3,898,955	\$ (1,354,500)

STATEMENT OF CASH FLOWS

	Month		Year-to-date		Variance Fav (Unfav)	%
	December 2007	December 2006	December 2007	December 2006		
	Actual	Actual	Actual	Actual		
Cash flows from operating activities:						
Net income	\$ (625)	\$ (730,956)	\$ 2,544,454	\$ 3,898,955	(1,354,500)	-34.74%
Noncash expenses (income) included in earnings:						
Depreciation & amortization	506,816	5,694,788	5,585,674	10,814,245	(5,228,571)	-48.35%
(Gain) loss on sale of investments	(530)	1,392,997	(28,039)	1,432,070	(1,450,109)	101.96%
Changes in assets and liabilities:						
Decrease (increase) in notes receivable	2,955	7,282	52,004	124,401	(72,398)	-58.20%
Decrease (increase) in accounts receivable	(1,502,828)	175,939	(1,358,232)	1,536	(1,357,868)	-82989.62%
Decrease (increase) in other receivable	102,472	(85,086)	392,994	(180,014)	573,008	318.31%
Decrease (increase) in inventories	(40,159)	29,783	47,156	(257,448)	304,604	-118.32%
Decrease (increase) in prepayments	38,883	(43,890)	(145,821)	(21,162)	(124,658)	-589.05%
Decrease (increase) in deferred charges	307,739	(142,736)	(617,064)	(591,096)	(25,968)	-4.39%
Increase (decrease) in accounts payable	1,005,267	(1,655,476)	(97,905)	532,457	(630,362)	-118.39%
Increase (decrease) in customer deposits	(596)	(670)	(12,996)	1,453	(14,449)	994.22%
Increase (decrease) in accrued expenses	(52,143)	(147,665)	282,774	17,550	245,224	1397.30%
Increase (decrease) in deferred credits	(17,895)	(25,727)	(315,962)	(270,284)	(45,677)	16.90%
Net cash provided (used) by operating activities	349,356	4,468,685	6,311,039	15,502,764	(9,191,725)	-59.29%
Cash flows from investing activities:						
Additions to electric plant in services and construction work in progress	(474,608)	(402,388)	(8,227,847)	(8,287,313)	59,466	0.72%
Proceeds from retirements of electric plant in service	(111,728)	(1,284,981)	(74,200)	(1,067,477)	993,277	-93.05%
Return on capital investments	(158,281)	(129,139)	55,198	(373,964)	429,182	-114.75%
Proceeds (payments) from sale (purchase) of investments	(729,687)	-	(712,160)	(4,332,528)	3,620,367	-83.56%
Net cash provided (used) in investing activities	(1,474,304)	(1,816,508)	(8,959,010)	(14,051,282)	5,102,272	36.29%
Cash flows from financing activities:						
Proceeds from borrowings LOC	-	-	-	2,150,611	(2,150,611)	-100.00%
Payments to creditors Long-Term	1,399,834	(700,000)	1,399,834	(6,150,611)	(4,250,000)	-100.00%
Payments to creditors LOC	(129,288)	(144,227)	(2,028,463)	(2,015,960)	7,550,444	122.76%
Increase in contributions in aid of construction	16,002	232,498	1,055,156	1,503,107	(12,503)	-0.62%
Memberships issued, net of refunds	-	8	-	-	(447,951)	-29.80%
Additions to donated capital, net	73,954	8	73,976	39	73,938	191350.57%
Net cash provided (used) by financing activities	1,360,521	(611,721)	500,504	(262,814)	763,318	290.44%
Net increase (decrease) in cash and equivalents	235,573	2,040,456	(2,147,468)	1,178,668	(3,326,135)	-282.19%
Cash & cash equivalents at beginning of period	1,631,562	1,974,246	4,014,602	2,835,935	1,178,668	41.56%
Cash & cash equivalents at end of period	\$ 1,867,135	\$ 4,014,602	\$ 1,867,135	\$ 4,014,602	\$ (2,147,468)	-53.49%
Supplemental cash flow information:						
Cash paid during the period for interest	\$ (370,134)	\$ (441,331)	\$ (82,636)	\$ (12,448)	(70,188)	-563.84%