

VERMONT ELECTRIC COOPERATIVE, INC.
UNAUDITED FINANCIAL STATEMENTS
FOR THE MONTH AND NINE MONTHS ENDED:
SEPTEMBER 2008

Financial Highlights – September

September 2008 Net Income	<u>Variance (K's)</u> ((\$266))	<u>YTD Variance (K's)</u> ((\$847))
---------------------------	------------------------------------	----------------------------------------

Analysis:

- Operating Revenue**
(\$271)
(\$2,584)

Overall operating revenues were 5% worse than budget in September and 5% YTD. Sold KWH ran 8% and \$435k below expectations in September and 5% and \$2,652k YTD. Overall heating and cooling degree days were 13% in September and 9% YTD below normal levels. Revenues per KWH were 2% and \$110k better than budget in September and are now essentially right on plan YTD. Transmission services were less than budget by \$11k in September but are \$40k better YTD. Unbilled revenues were \$71k better than budget in September and are also \$24k ahead of budget YTD.

- Purchased Power Costs**
\$103
\$2,730

Power costs were 3% lower than plan in September and are 9% lower YTD. Purchases were 4% and \$124k higher than expected in September but are 5% and \$1,513k YTD less as a result of lower sales. Additionally, our overall costs/KWH were 7% and \$228k lower than budget in September and is 4% and \$1,217k lower YTD.

- Transmission Costs**
(\$128)
(\$254)

Velco transmission (Intrastate costs) were \$75k over budget in September and \$179k over YTD. NEPOOL OATT services (New England costs) were over budget by \$60k in September and are \$141k over YTD. A CZN transmission line sold to VELCO but used by VEC has cost savings to budget of \$6k in September and \$64k YTD. Transmission trimming was \$14k higher than expected in September but is \$4k lower YTD.

- Distribution Operations/Mtce**
\$19
(\$618)

Overhead line maintenance was over budget by \$16k in September and is \$56k over budget YTD from increased line maintenance. Distribution trimming was \$46k under budget for September but is \$81k over YTD. Overall trimming budget (see transmission above) is \$77k YTD over budget. The March 8th, June 10th, & July 18th storms resulted in a negative variance of \$17k in September and \$927k YTD. On the positive side, mapping is under budget by \$9k in September and \$87k YTD from sale of mapping pole coordinates and mapping project ahead of schedule. Substation maintenance was \$14k over budget for September but is \$69k better than budget YTD. Underground mtce costs ran over budget by \$5k in September but are \$19k better than budget YTD. Fairpoint vegetative mtce billing has resulted in a positive variance to budget of \$221k YTD.

- Customer Accounts**
(\$49)
(\$140)

Delays related to the implementation of AMR substation rollout have resulted in higher contracting and labor costs for meter reading of \$6k in September and \$75k YTD. A/R write offs have been worse than budget by \$6k in September and \$99k YTD. Customer care was over budget in September by \$1k and also \$22k YTD. SQRP administration was over budget by \$48k in September and \$64k YTD from service guarantee payouts and a timing difference with budget for MIP (MIP budgeted for in October). Labor

savings have been recognized on member support related to commercial accounts of \$12k in September and \$119k YTD.

• **Administrative & General** \$6 (\$154)

Outside services and BPRA (legal) were over budget by \$20k in September and are over budget by \$83k YTD primarily from the Stowe project. A&G payroll for September was under budget by \$28k and is \$6k under YTD. Regulatory related expenses were \$6k under budget in September and are \$13k over budget YTD primarily related to the State of Vt (DPS) Automated Meter Information study and system assessment internal costs. Directors Fees & Expenses is \$10k over budget YTD resulting from legal, training & VEC staff support variances. The account for strategic planning costs resulted in a \$55k negative variance YTD. The annual meeting was less expensive than expected resulting in YTD positive variance of \$17k. COOP Life was over budget in September by \$10k and is also over budget YTD by \$14k.

• **Capital Spending Plan** (\$145) \$822

September capital (infrastructure investment) was higher than budget but remains under budget YTD. Several of the variances are a result of timing differences in projects beginning and endings. The delayed projects or reduced orders include the Rebuild and Relocation of Rte 2 in North Hero, North Hero City Beach, Williston Substation, Meters & Transformers, Maple Ridge Rebuild, New Regulator Installations, Underground Rebuild and Fault Protection, Misc Reconductoring Projects, Rte 14 Rebuild, Enosburg Tap and Steel Tower Line. Collectively these projects were under budget by \$271k in September and \$2,316k YTD. Some projects are running over budget because of changes in priorities or scope such as West Charleston, Eden Substation Project, Fairfax & Irasburg Substations, Cutout Replacements, Misc New Construction, Pole Replacements, and Misc Ordinary Replacements. Collectively these projects were over budget by \$336k in September and \$1,662k YTD. Small generation projects (adjusted for contributions) were on budget in September but are \$140k over budget YTD as the Boucher project was stopped & the contribution received in 2007 was refunded in 2008. Line extension work (new services adjusted for contributions) resulting in higher costs of \$54k in September but is under budget \$122k YTD.

TIER and Debt Service Coverage

We are projecting a preliminary TIER performance of 1.40 if we performed to budgeted levels for the balance of the year which would be below our 2008 budget expectation of 1.7. However, we are expecting to receive nearly \$300k from FEMA for the 7/18 storm and we have a \$500k operating subsidy available to us if we were to miss TIER. Our Debt Service Coverage for 2008 is expected to be approximately \$5,164,904 (Principal of ~ \$2,422,049 & Interest of ~ \$2,742,855)

Cash Flow and Line of Credit

In September, we used up to \$5.1mm on our line of credit. For October, we are expecting to use up to \$5.5mm. We will be pursuing a bond for terming out our short term line of credit debt targeted for December, 2008 @ \$4.5mm.

Balance Sheet

Our equity ratio increased slightly in September to 38% from 37% (mostly rounding). Our current ratio, a measure of liquidity, declined to .89 from last months .93. The proposed December financing mentioned above will improve this ratio significantly.

	September 2008 Actual	August 2008 Actual	Variance Fav/(Unfav) \$	Variance Fav/(Unfav) %	September 2007 Actual	Variance Fav/(Unfav) \$	Variance Fav/(Unfav) %
Electric plant, at cost:							
Electric plant in service	91,480,765	91,166,114	314,651	0.35%	85,159,756	6,321,009	7.42%
Less accumulated depreciation	(26,362,112)	(26,221,062)	141,050	0.54%	(24,557,914)	1,804,198	7.35%
Net electric plant in service	65,118,653	64,945,052	173,601	0.27%	60,601,842	4,516,811	7.45%
Construction work in progress	3,988,045	3,593,162	394,884	10.99%	3,574,750	413,295	11.56%
Net electric plant	69,106,698	68,538,214	568,485	0.83%	64,176,592	4,930,106	7.68%
Other assets:							
Non-utility property	65,697	65,697	-	0.00%	65,697	-	0.00%
Other investments	9,456,503	9,448,645	7,858	0.08%	8,827,072	629,431	7.13%
Deferred charges	(267,572)	(263,570)	(4,002)	1.52%	(83,044)	(184,528)	222.20%
Total other assets	9,254,628	9,250,771	3,857	0.04%	8,809,725	444,904	5.05%
Current assets:							
Cash	1,544,492	1,478,630	65,863	4.45%	1,962,369	(417,877)	-21.29%
Notes receivable (net)	9,128	10,235	(1,107)	-10.82%	29,658	(20,530)	-69.22%
Accounts receivable (net)	8,622,885	9,190,833	(567,948)	-6.18%	8,501,856	121,029	1.42%
Other receivables (net)	142,724	266,150	(123,425)	-46.37%	346,899	(204,174)	-58.86%
Inventories	2,125,602	2,231,179	(105,577)	-4.73%	1,845,693	279,909	15.17%
Prepaid expenses	239,695	216,689	23,006	10.62%	414,751	(175,056)	-42.21%
Total current assets	12,684,527	13,393,716	(709,189)	-5.29%	13,101,226	(416,698)	-3.18%
Total assets	\$ 91,045,854	\$ 91,182,701	\$ (136,848)	-0.15%	\$ 86,087,542	\$ 4,958,312	5.76%

	September 2008 Actual	August 2008 Actual	Variance Fav/(Unfav) \$	%	September 2007 Actual	Variance Fav/(Unfav) \$	%
Equities:							
Memberships issued & subscribed	-	-	-	#DIV/0!	-	-	#DIV/0!
Patronage capital assignable	15,149,492	15,149,492	-	0.00%	12,605,038	2,544,454	16.80%
Other earnings	3,105,708	2,880,515	225,193	7.25%	4,709,034	(1,603,326)	-51.63%
Contributions in aid of construction	15,928,467	15,882,394	46,074	0.29%	15,073,209	855,258	5.37%
Net equity	34,183,667	33,912,401	271,267	0.79%	32,367,281	1,796,386	5.26%
Long-term debt	41,242,864	41,480,236	(237,371)	-0.58%	42,638,894	(1,396,029)	-3.38%
Capital leases - non current	332,161	334,650	(2,489)	-0.75%	362,076	(29,916)	-9.01%
Current liabilities:							
Current portion of long-term debt	1,713,468	1,713,468	-	0.00%	2,078,768	(365,300)	-21.32%
Line of Credit	5,085,123	4,600,000	485,123	9.54%	-	5,085,123	100.00%
Accounts payable	5,782,917	6,116,945	(334,029)	-5.78%	5,044,664	738,253	12.77%
Customer deposits	104,493	102,971	1,522	1.46%	104,136	357	0.34%
Other accrued expenses	1,555,289	1,854,778	(299,488)	-19.26%	2,150,782	(595,492)	-38.29%
Total current liabilities	14,241,290	14,388,162	(146,872)	-1.03%	9,378,349	4,862,941	34.15%
Deferred credits	1,045,872	1,067,254	(21,382)	-2.04%	1,320,942	(275,070)	-26.30%
Total liabilities and equity	\$ 91,045,854	\$ 91,182,701	(136,848)	-0.15%	\$ 86,087,542	\$ 4,958,312	5.76%

MONTHLY

STATEMENT OF OPERATIONS

VEC

	September 2008 Actual	September 2008 Budget	September 2008 Actual- Budget Variance Fav (Unfav) %	September 2007 Actual	September 2008 Actual - September 2007 Variance Fav (Unfav) %
Revenue					
Operating Revenue	5,004,566	5,275,338	-5.1%	5,016,259	(11,693)
Sales for Resale	161,284	174,663	-7.7%	121,470	39,814
Total revenues	\$ 5,165,850	\$ 5,450,001	-5.2%	\$ 5,137,729	\$ 28,121
Power supply cost					
Power Production Expense	(4,814)	(3,147)	-53.0%	(3,670)	(1,144)
Purchased power cost	(2,877,293)	(2,982,457)	3.5%	(2,706,745)	(170,548)
Sales for Resale	(161,284)	(174,663)	7.7%	(121,470)	(39,814)
Transmission	(462,479)	(334,973)	-38.1%	(319,940)	(142,539)
Total Power supply cost	(3,505,869)	(3,495,240)	-0.3%	(3,151,825)	(354,045)
Gross Margin	\$ 1,659,980	\$ 1,954,762	-15.1%	\$ 1,985,904	\$ (325,924)
Operating expenses					
Distribution: Operations & Mitea	(619,387)	(639,100)	3.1%	(380,509)	(238,877)
Customer accounts	(254,743)	(205,372)	-24.0%	(203,590)	(51,154)
Administrative & general	(235,081)	(241,388)	2.6%	(201,804)	(33,277)
Total operating expenses	(1,109,211)	(1,085,859)	-2.2%	(785,903)	(323,308)
Depreciation & amortization	(309,505)	(307,370)	-0.7%	(292,070)	(17,435)
Gross revenue & receipts taxes	(50,997)	(54,374)	6.2%	(51,956)	959
Interest on long-term debt	(205,866)	(229,186)	10.2%	(238,765)	32,899
Other interest expenses	(16,003)	(13,632)	-17.4%	(2,542)	(13,461)
Other Deductions	-	(3,500)	100.0%	(1,704)	1,704
Total depreciation & other expenses	(582,371)	(608,064)	4.2%	(587,037)	4,666
Income from operations	(31,602)	260,838	-112.1%	612,964	(644,566)
Interest Income	215,632	198,719	8.5%	217,736	(2,104)
Other Income (expenses)	(384)	(6,677)	-94.2%	(3,700)	3,316
Other capital credits & dividends	41,547	40,000	3.9%	43,028	(1,481)
Total non-operating margins	256,795	232,043	10.7%	257,064	(269)
Net income (loss)	225,193	492,880	-54.3%	870,028	(644,836)
Extraordinary expenses	-	-	N/A	-	-
Total net income (loss)	\$ 225,193	\$ 492,880	-54.3%	\$ 870,028	\$ (644,836)

QUARTERLY

STATEMENT OF OPERATIONS

	3Q 2008 Actual	3Q 2008 Budget	3Q 2008 Actual- Budget Variance Fav (Unfav) \$	%	2Q 2008 Actual	3Q 2008 Actual - 2Q 2008 Variance Fav (Unfav) \$	%
Revenue							
Operating Revenue	15,757,998	16,866,328	(1,108,329)	-6.6%	14,727,325	1,030,673	7.0%
Sales for Resale	1,361,874	631,591	730,283	115.6%	1,536,889	(175,015)	-11.4%
Total revenues	\$ 17,119,872	\$ 17,497,919	(378,046)	-2.2%	\$ 16,264,214	\$ 855,658	5.3%
Power supply cost							
Power Production Expense	(11,500)	(9,441)	(2,059)	-21.8%	(20,871)	9,371	44.9%
Purchased power cost	(8,896,140)	(9,917,222)	1,021,082	10.3%	(8,252,753)	(643,367)	-7.8%
Sales for Resale	(1,361,874)	(631,591)	(730,283)	-115.6%	(1,536,889)	175,015	11.4%
Transmission:	(1,189,777)	(972,058)	(217,719)	-22.4%	(1,743,479)	553,702	31.8%
Total Power supply cost	(11,459,291)	(11,530,312)	71,021	0.6%	(11,553,992)	94,701	0.8%
Gross Margin	\$ 5,660,581	\$ 5,967,607	(307,026)	-5.1%	\$ 4,710,222	\$ 950,359	-20.2%
Operating expenses							
Distribution: Operations & Mtce	(2,071,469)	(1,988,124)	(83,345)	-4.2%	(1,888,965)	(182,504)	-9.7%
Customer accounts	(646,859)	(604,041)	(42,818)	-7.1%	(664,880)	18,021	2.7%
Administrative & general	(627,426)	(654,067)	26,641	4.1%	(698,600)	71,174	10.2%
Total operating expenses	(3,345,754)	(3,246,232)	(99,522)	-3.1%	(3,252,444)	(93,310)	-2.9%
Depreciation & amortization	(925,276)	(919,110)	(6,166)	-0.7%	(1,339,740)	414,465	30.9%
Gross revenue & receipts taxes	(155,782)	(166,484)	10,702	6.4%	(148,680)	(7,102)	-4.8%
Interest on long-term debt	(645,849)	(687,564)	41,715	6.1%	(715,111)	69,262	9.7%
Other interest expenses	(48,641)	(40,920)	(7,721)	-18.9%	(34,048)	(14,593)	-42.9%
Other deductions	227	(10,500)	10,727	102.2%	(503)	731	145.2%
Total depreciation & other expenses	(1,775,320)	(1,824,578)	49,258	2.7%	(2,238,082)	462,762	20.7%
Income from operations	539,507	896,797	(357,290)	-39.8%	(780,304)	1,319,811	169.1%
Interest income	226,938	205,389	21,549	10.5%	219,347	7,591	3.5%
Other income (expenses)	(878)	(11,029)	10,151	-92.0%	(43)	(835)	1926.0%
Other capital credits & dividends	41,547	40,000	1,547	3.9%	-	41,547	N/A
Total non-operating margins	267,607	234,361	33,246	14.2%	219,303	48,304	22.0%
Net income (loss)	807,114	1,131,157	(324,044)	-28.6%	(561,001)	1,368,115	-243.9%
Extraordinary expenses	(1,093)	-	(1,093)	N/A	-	(1,093)	N/A
Total net income (loss)	\$ 806,020	\$ 1,131,157	(325,137)	-28.7%	(561,001)	\$ 1,367,021	-243.7%

YEAR-TO-DATE

STATEMENT OF OPERATIONS

VEC

	September 2008 Actual	September 2008 Budget	September 2008 Actual- Budget Variance Fav (Unfav)	September 2007 Actual	September 2008 Actual - September 2007 Variance Fav (Unfav)	%
Revenue						
Operating Revenue	48,066,151	50,650,533	(2,584,382)	48,209,178	(143,027)	-0.3%
Sales for Resale	3,786,973	1,794,997	1,991,976	1,976,446	1,810,527	-91.6%
Total revenues	\$ 51,853,124	\$ 52,445,530	(592,406)	\$ 50,185,624	\$ 1,667,500	3.3%
Power supply cost						
Power Production Expense	(41,196)	(28,323)	(12,873)	(10,190)	(31,007)	-304.3%
Purchased power cost	(27,517,574)	(30,260,035)	2,742,461	(28,263,372)	745,797	2.6%
Sales for Resale	(3,786,973)	(1,794,997)	(1,991,976)	(1,976,446)	(1,810,527)	-91.6%
Transmission:	(4,811,532)	(4,557,476)	(254,056)	(3,402,309)	(1,409,223)	-41.4%
Total Power supply cost	(36,157,276)	(36,640,831)	483,555	(33,652,317)	(2,504,959)	-7.4%
Gross Margin	\$ 15,695,849	\$ 15,804,699	(108,850)	\$ 16,533,308	\$ (837,459)	5.1%
Operating expenses						
Distribution: Operations & Mice	(6,087,526)	(5,469,031)	(618,495)	(5,805,096)	(282,430)	-4.9%
Customer accounts	(1,908,817)	(1,768,496)	(140,321)	(1,857,379)	(51,438)	-2.6%
Administrative & general	(2,104,897)	(1,950,816)	(154,081)	(1,961,290)	(143,607)	-7.3%
Total operating expenses	(10,101,239)	(9,188,343)	(912,896)	(9,623,765)	(477,474)	-5.0%
Depreciation & amortization	(3,173,031)	(3,169,083)	(3,948)	(2,826,875)	(346,156)	-12.2%
Gross revenue & receipts taxes	(477,403)	(503,660)	26,256	(479,248)	1,844	0.4%
Interest on long-term debt	(2,096,803)	(2,141,273)	44,470	(2,219,632)	122,830	5.5%
Other interest expenses	(100,804)	(77,976)	(22,828)	(23,072)	(77,732)	-336.9%
Other deductions	(307)	(32,000)	31,693	(1,770)	1,462	82.6%
Total depreciation & other expenses	(5,848,348)	(5,923,992)	75,644	(5,550,596)	(297,752)	-5.4%
Income from operations	(253,739)	692,364	(946,103)	1,358,947	(1,612,686)	118.7%
Interest income	686,104	629,367	56,737	715,214	(29,109)	-4.1%
Other income (expenses)	(443)	(17,509)	17,065	28,686	(30,129)	-101.5%
Other capital credits & dividends	101,555	75,500	26,055	105,822	(4,267)	-4.0%
Total non-operating margins	787,217	687,369	99,848	850,721	(63,505)	-7.5%
Net income (loss)	533,478	1,379,723	(846,245)	2,209,668	(1,676,190)	-75.9%
Extraordinary expenses	(1,093)	-	(1,093)	-	(1,093)	N/A
Total net income (loss)	\$ 532,385	\$ 1,379,723	\$ (847,338)	\$ 2,209,668	\$ (1,677,283)	-75.9%

STATEMENT OF CASH FLOWS

	Month		Year-to-date		Variance Fav (Unfav)	%
	September 2008	September 2007	September 2008	September 2007		
	Actual	Actual	Actual	Actual	\$	%
Cash flows from operating activities:						
Net income	\$ 225,193	\$ 870,028	\$ 532,385	\$ 2,209,668	(1,677,283)	-75.91%
Noncash expenses (income) Included in earnings:						
Depreciation & amortization	394,185	1,081,664	4,292,230	4,281,797	10,433	0.24%
(Gain) loss on sale of investments	(530)	(530)	(6,430)	(26,449)	20,019	N/A
Changes in assets and liabilities:						
Decrease (increase) in notes receivable	1,107	3,370	11,150	42,624	(31,474)	-73.84%
Decrease (increase) in accounts receivable	567,948	(686,496)	1,068,206	(166,997)	1,235,203	-739.66%
Decrease (increase) in other receivable	123,425	(24,725)	84,266	273,085	(188,820)	69.14%
Decrease (increase) in inventories	105,577	21,564	(423,313)	(96,247)	(327,065)	339.82%
Decrease (increase) in prepayments	(23,006)	(10,506)	68,781	(251,096)	320,876	127.79%
Decrease (increase) in deferred charges	(59,306)	(13,650)	(1,090,420)	(702,946)	(367,474)	-55.12%
Increase (decrease) in accounts payable	(334,029)	(129,368)	776,514	(59,643)	836,157	-1401.93%
Increase (decrease) in customer deposits	1,522	1,260	288	(13,065)	13,353	102.21%
Increase (decrease) in accrued expenses	(299,488)	(211,867)	(836,458)	21,809	(858,266)	-3935.41%
Increase (decrease) in deferred credits	(21,382)	(133,552)	(255,374)	(296,266)	40,892	-13.80%
Net cash provided (used) by operating activities	682,216	767,193	4,222,824	5,216,274	(893,450)	-19.05%
Cash flows from investing activities:						
Additions to electric plant in service and construction work in progress	(857,074)	(887,790)	(7,667,619)	(6,108,512)	(1,559,107)	-25.52%
Proceeds from retirements of electric plant in service	(42,757)	96,889	655,766	123,740	532,027	429.96%
Return on capital investments	(7,858)	(29,450)	(104,150)	(121,612)	17,462	-14.36%
Proceeds (payments) from sale (purchase) of investments			27,596	17,527	10,070	57.45%
Net cash provided (used) in Investing activities	(907,690)	(820,351)	(7,088,406)	(6,088,857)	(999,549)	-16.42%
Cash flows from financing activities:						
Proceeds from borrowings LOC						N/A
Proceeds from borrowings Long-Term						N/A
Payments to creditors Long-Term	485,123	(300,000)	3,685,290	(1,894,766)	3,685,290	#VALUE!
Payments to creditors LOC	(239,861)	(226,858)	(1,657,548)	715,093	237,218	12.52%
Increase in contributions in aid of construction	46,074	122,922	515,195		(199,899)	-27.95%
Memberships issued, net of refunds				23		N/A
Additions to donated capital, net			4		(19)	-83.34%
Net cash provided (used) by financing activities	291,336	(403,935)	2,542,940	(1,179,650)	3,722,590	315.57%
Net increase (decrease) in cash and equivalents	65,863	(457,093)	(322,642)	(2,052,233)	1,729,591	-84.28%
Cash & cash equivalents at beginning of period	1,478,630	2,419,462	1,867,135	4,014,602	(2,147,468)	-53.49%
Cash & cash equivalents at end of period	\$ 1,544,492	\$ 1,962,369	\$ 1,544,492	\$ 1,962,369	\$ (417,877)	-21.29%
Supplemental cash flow information:						
Cash paid during the period for interest	\$ (463,435)	\$ (455,199)	\$ (76,063)	\$ (82,636)	6,573	7.95%