

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

Financial Highlights – December

	<u>Variance (K's)</u>	<u>YTD Variance (K's)</u>
December 2008 Net Income	\$611	(\$219)

Analysis:

- Operating Revenue**
(\$274)
(\$3,168)

Operating revenues finished 5% below budget for December and YTD. Sold KWH ran 4% and \$200k below expectations in December and 5% and \$3,327k YTD. Overall heating and cooling degree days were normal in December but were 6% YTD below normal levels. The average price/KWH realized in December negatively impacted revenues by \$67k but has positively impacted revenues YTD by \$47k. Transmission services were lower than plan by \$10k in December but are better by \$38k YTD. Unbilled revenues finished better than budget by \$75k YTD.

- Purchased Power Costs**
\$410
\$3,388

Power costs were 11% lower than plan in December and are 8% lower YTD. Purchases were 2% and \$82k lower than expected in December and are 5% and \$2,127k YTD less as a result of lower sales. Additionally, our overall costs/KWH was 9% and \$328k better than budget in December and was 3% and \$1,261k lower YTD.

- Transmission Costs**
(\$372)
(\$1,047)

Velco transmission (Intrastate costs) were \$193k over budget in December and \$652k over YTD. NEPOOL OATT services (New England costs) were over budget by \$94k in December and are \$359k over YTD. A CZN transmission line sold to VELCO but used by VEC was over budget by \$19k in December but is \$86k better YTD. Transmission trimming was \$30k higher than expected in December and is \$72k higher YTD. SCADA service charges from Velco were charged in December causing a timing variance of \$35k and the charges were also \$15k higher than our budgeted expectations for the year.

- Distribution Operations/Mtce**
\$46
(\$137)

Overhead line maintenance was over budget by \$26k in December but finished \$22k under budget YTD. Distribution trimming was \$49k under budget for December and \$46k under YTD. Overall trimming budget (see transmission above) finished \$26k over budget. The March 8th, June 10th, & July 18th major storms resulted in a negative performance to budget of \$698k inclusive of a partial FEMA reimbursement of the July 18th storm. Mapping is under budget by \$12k in December and \$107k YTD from sale of mapping pole coordinates and mapping project ahead of schedule. Delays related to AMI resulted in positive variances to budget of \$14k in December and \$72k YTD. A timing variance on field survey work not yet performed created a one-time negative variance in December of \$42k. However, field surveys completed have resulted in a positive variance of \$23k YTD. Fairpoint vegetative mtce billing has resulted in a positive variance to budget of \$50k in December and \$294k YTD.

- Customer Accounts**
(\$19)
(\$137)

Delays related to the implementation of AMI substation rollout plan have resulted in higher contracting and labor costs for meter reading of \$18k in December and \$117k YTD. A/R write offs have been worse than budget by \$22k in December and \$123k

YTD. SQRP administration was over budget by \$1k in December and \$45k over YTD from service guarantee payouts & MIP. Labor savings have been recognized on member support related to commercial accounts of \$17k in December and \$160k YTD.

• **Administrative & General** (\$4) (\$137)

Outside services are over budget by \$6k in December and \$78k YTD primarily from the Stowe project & Vermont Yankee relicensing. The account for strategic planning costs resulted in a \$55k negative variance YTD. The employee communications plan, that included the October retreat, resulted in a negative variance in December of \$2k and \$58k YTD. On the positive side, our annual meeting was \$17k under budget YTD. Facility maintenance costs were \$34k under budget YTD.

• **Non-Operating Margins** \$819 \$916

In December, VEC used a \$500k operating subsidy reserve from the CZN acquisition to improve earnings. The reserve was to be used to maintain TIER requirements and was necessary creating a positive variance of \$500k in December & YTD. Investments in Transco LLC resulted in positive variances of \$23k in December & \$94k YTD. VEC's storm assistance to other utilities improved earnings by \$106k in December & YTD. Lastly \$175k in non-cash patronage was recorded for CFC but does not impact TIER.

• **Capital Spending Plan** (\$647) (\$474)

December capital (infrastructure investment) was higher than budget resulting in an over spend to budget for YTD. The most significant items that negatively impacted capital performance included failed cutouts that resulted in a negative variance of \$379k YTD. Replacement work for solely owned and joint owned poles adjusted for contributions created negative variances of \$742k YTD. Substation rebuild projects were more significant than planned and resulted in negative variances of \$526k YTD. The cancellation of the Boucher project in 2008 resulted in a refund of contributions received in 2007 for a 2008 YTD variance of \$141k. On the positive side of variances that were under spent, several projects came in below budget expectations including North Hero Rte 2 Rebuild by \$245k YTD, Misc Reconductoring projects by \$302k YTD, the Enosburg Tap reconductoring by \$408k, the Tafts Corner Williston Project by \$188k YTD, and the North Hero City Beach Project by \$154k.

TIER and Debt Service Coverage

VEC finished 2008 with a TIER of 1.56. In 2008 we used a \$500k operating subsidy created from the CZN acquisition to improve earnings. Without the subsidy our TIER would have been 1.39. Our Debt Service Coverage for 2008 was \$5,175,699.

Cash Flow and Line of Credit

In December, we used over \$6.5mm on our line of credit. On December 12th, we completed a \$4.5 million bond that termed out our short term line of credit balance to \$0.

Balance Sheet

Our equity ratio held in December at 37%. Our current ratio, a measure of liquidity, improved to 1.1 from last months .83

	December 2008 Actual	November 2008 Actual	Variance Fav/(Unfav) \$	%	December 2007 Actual	Variance Fav/(Unfav) \$	%
Electric plant, at cost:							
Electric plant in service	92,836,258	92,349,123	487,135	0.53%	88,623,735	4,212,523	4.75%
Less accumulated depreciation	(25,033,192)	(26,502,756)	(1,469,563)	-5.54%	(24,848,639)	184,553	0.74%
Net electric plant in service	67,803,066	65,846,368	1,956,698	2.97%	63,775,096	4,027,970	6.32%
Construction work in progress	2,426,157	3,918,831	(1,492,674)	-38.09%	1,606,572	819,585	51.01%
Net electric plant	70,229,223	69,765,198	464,025	0.67%	65,381,668	4,847,555	7.41%
Other assets:							
Non-utility property	65,697	65,697	-	0.00%	65,697	-	0.00%
Other investments	9,639,813	9,456,503	183,310	1.94%	9,379,949	259,864	2.77%
Deferred charges	(261,690)	(262,294)	604	-0.23%	(359,014)	97,324	-27.11%
Total other assets	9,443,820	9,259,906	183,914	1.99%	9,086,632	357,188	3.93%
Current assets:							
Cash	1,190,253	1,589,314	(399,061)	-25.11%	1,867,135	(676,882)	-36.25%
Notes receivable (net)	6,388	7,907	(1,520)	-19.22%	20,278	(13,890)	-68.50%
Accounts receivable (net)	8,867,272	8,683,222	184,050	2.12%	9,691,091	(823,819)	-8.50%
Other receivables (net)	842,936	306,988	535,948	174.58%	226,990	615,946	271.35%
Inventories	2,343,274	2,272,173	71,102	3.13%	1,702,289	640,985	37.65%
Prepaid expenses	203,539	228,314	(24,774)	-10.85%	309,476	(105,937)	-34.23%
Total current assets	13,453,663	13,087,917	365,745	2.79%	13,817,259	(363,596)	-2.63%
Total assets	\$ 93,126,706	\$ 92,113,022	\$ 1,013,684	1.10%	\$ 88,285,559	\$ 4,841,147	5.48%

	December 2008 Actual	November 2008 Actual	Variance Fav/(Unfav) \$	%	#DIV/0!	December 2007 Actual	Variance Fav/(Unfav) \$	%	#DIV/0!
Equities:									
Memberships issued & subscribed	-	-	-			-	-		
Patronage capital assignable	15,149,492	15,149,492	-	0.00%		12,605,038	2,544,454	16.80%	
Other earnings	3,985,094	3,001,416	983,678	24.68%		5,117,774	(1,132,680)	-28.42%	
Contributions in aid of construction	15,664,271	15,652,926	11,345	0.07%		15,413,272	250,999	1.60%	
Net equity	34,798,857	33,803,834	995,023	2.86%		33,136,084	1,662,773	4.78%	
Long-term debt	45,210,450	41,073,552	4,136,898	9.15%		42,481,107	2,729,343	6.04%	
Capital leases - non current	324,135	327,146	(3,011)	-0.93%		353,716	(29,581)	-9.13%	
Current liabilities:									
Current portion of long-term debt	1,837,079	1,713,468	123,611	6.73%		2,111,218	(274,139)	-14.92%	
Line of Credit	2,549,942	6,523,355	(3,973,414)	-155.82%		1,399,834	1,150,108	45.10%	
Accounts payable	5,424,099	5,415,163	8,936	0.16%		5,006,403	417,697	7.70%	
Customer deposits	103,359	103,300	60	0.06%		104,204	(845)	-0.82%	
Other accrued expenses	2,337,742	2,103,987	233,755	10.00%		2,391,747	(54,005)	-2.31%	
Total current liabilities	12,252,221	15,859,273	(3,607,051)	-29.44%		11,013,406	1,238,816	10.11%	
Deferred credits	541,042	1,049,217	(508,175)	-93.93%		1,301,246	(760,204)	-140.51%	
Total liabilities and equity	\$ 93,126,706	\$ 92,113,022	\$ 1,013,684	1.10%		\$ 88,285,559	\$ 4,841,147	5.48%	

MONTHLY

STATEMENT OF OPERATIONS

VEC

	December 2008 Actual	December 2008 Budget	December 2008 Actual- Budget Variance Fav (Unfav) %	December 2007 Actual	December 2008 Actual - December 2007 Variance Fav (Unfav) %
Revenue					
Operating Revenue	5,884,314	5,858,315	(274,001)	6,019,063	(434,749)
Sales for Resale	264,200	315,252	(51,052)	282,050	(17,850)
Total revenues	\$ 5,848,514	\$ 6,173,567	\$(325,053)	\$ 6,301,113	\$(452,599)
Power supply cost					
Power Production Expense	(21,538)	(3,147)	(18,391)	(3,604)	(17,934)
Purchased power cost	(3,274,168)	(3,702,620)	428,452	(3,699,301)	425,133
Sales for Resale	(264,200)	(315,252)	51,052	(282,050)	17,850
Transmission	(644,721)	(272,917)	(371,804)	(585,139)	(59,582)
Total Power supply cost	(4,204,627)	(4,293,936)	89,308	(4,570,094)	365,467
Gross Margin	\$ 1,643,887	\$ 1,879,632	\$(235,745)	\$ 1,731,019	\$(87,132)
Operating expenses					
Distribution: Operations & Mtce	(627,350)	(673,429)	46,079	(553,044)	(74,306)
Customer accounts	(216,155)	(197,106)	(19,050)	(291,156)	75,000
Administrative & general	(220,572)	(216,725)	(3,847)	(557,159)	336,587
Total operating expenses	(1,064,077)	(1,087,259)	23,182	(1,401,358)	337,281
Depreciation & amortization	(312,857)	(310,470)	(2,387)	(309,571)	(3,286)
Gross revenue & receipts taxes	(53,581)	(56,252)	2,670	(58,006)	4,425
Interest on long-term debt	(221,118)	(227,124)	6,006	(239,792)	18,674
Other interest expenses	(13,266)	(19,608)	6,342	(3,645)	(9,621)
Other Deductions	(11,413)	(3,500)	(7,913)	(41,436)	30,023
Total depreciation & other expenses	(612,235)	(616,954)	4,719	(652,449)	40,214
Income from operations	(32,425)	175,418	(207,844)	(322,789)	290,364
Interest income	734,040	198,719	535,321	194,680	539,360
Other income (expenses)	106,612	(1,208)	107,819	(1,347)	107,959
Other capital credits & dividends	175,452	-	175,452	128,831	46,621
Total non-operating margins	1,016,103	197,512	818,592	322,164	693,940
Net income (loss)	983,678	372,930	610,748	(625)	984,303
Extraordinary expenses	-	-	-	-	-
Total net income (loss)	\$ 983,678	\$ 372,930	\$ 610,748	\$(625)	\$ 984,303

QUARTERLY

STATEMENT OF OPERATIONS

	4Q 2008 Actual	4Q 2008 Budget	4Q 2008 Actual- Budget Variance Fav (Unfav) \$	4Q 2008 Actual- Budget Variance Fav (Unfav) %	3Q 2008 Actual	4Q 2008 Actual - 3Q 2008 Variance Fav (Unfav) \$	4Q 2008 Actual - 3Q 2008 Variance Fav (Unfav) %
Revenue							
Operating Revenue	15,422,107	16,005,462	(583,355)	-3.6%	15,757,998	(335,892)	-2.1%
Sales for Resale	617,422	863,846	(246,424)	-28.5%	1,361,874	(744,452)	-54.7%
Total revenues	\$ 16,039,529	\$ 16,869,308	(829,779)	-4.9%	\$ 17,119,872	\$ (1,080,344)	-6.3%
Power supply cost							
Power Production Expense	(32,245)	(9,441)	(22,804)	-241.5%	(11,500)	(20,744)	-180.4%
Purchased power cost	(9,122,331)	(9,803,471)	681,140	6.9%	(8,896,140)	(226,191)	-2.5%
Sales for Resale	(617,422)	(863,846)	246,424	28.5%	(1,361,874)	744,452	54.7%
Transmission:	(1,664,603)	(871,317)	(793,286)	-91.0%	(1,189,777)	(474,826)	-39.9%
Total Power supply cost	(11,436,601)	(11,548,075)	111,474	1.0%	(11,459,291)	22,690	0.2%
Gross Margin	\$ 4,602,928	\$ 5,321,233	(718,305)	-13.5%	\$ 5,660,581	\$ (1,057,653)	18.7%
Operating expenses							
Distribution: Operations & Mice	(1,636,775)	(2,118,409)	481,634	22.7%	(2,071,469)	434,694	21.0%
Customer accounts	(619,824)	(623,347)	3,523	0.6%	(646,859)	27,035	4.2%
Administrative & general	(677,896)	(694,773)	16,877	2.4%	(627,426)	(50,470)	-8.0%
Total operating expenses	(2,934,495)	(3,436,529)	502,034	14.6%	(3,345,754)	411,259	12.3%
Depreciation & amortization	(934,251)	(928,410)	(5,841)	-0.6%	(925,276)	(8,975)	-1.0%
Gross revenue & receipts taxes	(151,077)	(157,448)	6,371	4.0%	(155,782)	4,705	3.0%
Interest on long-term debt	(652,912)	(681,372)	28,460	4.2%	(645,849)	(7,063)	-1.1%
Other interest expenses	(58,408)	(58,848)	440	0.7%	(48,641)	(9,767)	-20.1%
Other deductions	(11,992)	(10,500)	(1,492)	-14.2%	227	(12,220)	5372.1%
Total depreciation & other expenses	(1,808,640)	(1,836,578)	27,939	1.5%	(1,775,320)	(33,319)	-1.9%
Income from operations	(140,207)	48,126	(188,333)	-391.3%	539,507	(679,714)	126.0%
Interest income	737,659	205,389	532,270	259.2%	226,938	510,722	225.0%
Other income (expenses)	106,471	(2,362)	108,833	-4608.6%	(878)	107,349	-12228.5%
Other capital credits & dividends	175,452	-	175,452	N/A	41,547	133,905	322.3%
Total non-operating margins	1,019,583	203,028	816,555	402.2%	267,607	751,976	281.0%
Net Income (loss)	879,376	251,153	628,222	250.1%	807,114	72,262	9.0%
Extraordinary expenses	-	-	-	N/A	(1,093)	1,093	100.0%
Total net income (loss)	\$ 879,376	\$ 251,153	\$ 628,222	250.1%	\$ 806,020	\$ 73,356	9.1%

YEAR-TO-DATE

STATEMENT OF OPERATIONS

VEC

	December 2008 Actual	December 2008 Budget	December 2008 Actual- Budget Variance Fav (Unfav)	%	December 2007 Actual	December 2008 Actual - December 2007 Variance Fav (Unfav)	%
	\$	\$	\$	%	\$	\$	%
Revenue							
Operating Revenue	63,488,258	66,655,995	(3,167,737)	-4.8%	64,256,838	(768,580)	-1.2%
Sales for Resale	4,404,395	2,658,843	1,745,552	65.7%	2,581,396	1,822,999	-70.6%
Total revenues	\$ 67,892,653	\$ 69,314,838	(1,422,185)	-2.1%	\$ 66,838,234	\$ 1,054,419	1.6%
Power supply cost							
Power Production Expense	(73,441)	(37,764)	(35,677)	-94.5%	(21,936)	(51,505)	-234.8%
Purchased power cost	(36,639,905)	(40,063,506)	3,423,601	8.5%	(37,924,095)	1,284,189	3.4%
Sales for Resale	(4,404,395)	(2,658,843)	(1,745,552)	-65.7%	(2,581,396)	(1,822,999)	-70.6%
Transmission:	(6,476,135)	(5,428,793)	(1,047,342)	-19.3%	(4,809,406)	(1,666,729)	-34.7%
Total Power supply cost	(47,593,877)	(48,188,906)	595,030	1.2%	(45,336,833)	(2,257,044)	-5.0%
Gross Margin	\$ 20,298,776	\$ 21,125,932	(827,156)	-3.9%	\$ 21,501,402	\$ (1,202,625)	5.6%
Operating expenses							
Distribution: Operations & Mice	(7,724,301)	(7,587,440)	(136,861)	-1.8%	(7,229,619)	(494,682)	-6.8%
Customer accounts	(2,528,640)	(2,391,843)	(136,797)	-5.7%	(2,572,384)	43,744	1.7%
Administrative & general	(2,782,793)	(2,645,589)	(137,204)	-5.2%	(2,944,759)	161,966	5.5%
Total operating expenses	(13,035,734)	(12,624,872)	(410,862)	-3.3%	(12,746,762)	(288,972)	-2.3%
Depreciation & amortization	(4,107,282)	(4,097,493)	(9,789)	-0.2%	(3,719,540)	(387,742)	-10.4%
Gross revenue & receipts taxes	(628,480)	(661,108)	32,628	4.9%	(636,687)	8,207	1.3%
Interest on long-term debt	(2,749,715)	(2,822,645)	72,930	2.6%	(2,960,259)	210,544	7.1%
Other interest expenses	(159,211)	(136,824)	(22,387)	-16.4%	(34,277)	(124,934)	-364.5%
Other deductions	(12,300)	(42,500)	30,200	71.1%	(43,205)	30,906	71.5%
Total depreciation & other expenses	(7,656,988)	(7,760,570)	103,582	1.3%	(7,393,968)	(263,020)	-3.6%
Income from operations	(393,945)	740,490	(1,134,436)	-153.2%	1,360,672	(1,754,617)	129.0%
Interest income	1,423,764	834,756	589,008	70.6%	923,215	500,549	54.2%
Other income (expenses)	106,028	(19,870)	125,898	-633.6%	25,915	80,113	309.1%
Other capital credits & dividends	277,007	75,500	201,507	266.9%	234,653	42,354	18.0%
Total non-operating margins	1,806,799	890,386	916,413	102.9%	1,183,783	623,016	52.6%
Net income (loss)	1,412,854	1,630,876	(218,023)	-13.4%	2,544,454	(1,131,601)	-44.5%
Extraordinary expenses	(1,093)	-	(1,093)	N/A	-	(1,093)	N/A
Total net income (loss)	\$ 1,411,760	\$ 1,630,876	(219,116)	-13.4%	\$ 2,544,454	\$ (1,132,694)	-44.5%

	Month		December 2007		December 2008		Year-to-date		December 2007		December 2008		Year-to-date	
	December 2008		Actual		Actual		Actual		Actual		Actual		Actual	
	Actual		Actual		Actual		Actual		Actual		Actual		Actual	
Cash flows from operating activities:														
Net income	\$ 983,678		\$ (625)		\$ 1,411,760		\$ 2,544,454		\$ (1,132,694)					
Noncash expenses (income) included in earnings:														
Depreciation & amortization	538,759		508,816		5,608,085		5,585,674		22,411					0.40%
(Gain) loss on sale of fixed assets	(530)		(530)		(8,020)		(28,039)		20,019					N/A
Changes in assets and liabilities:														71.40%
Decrease (increase) in notes receivable	1,520		2,955		13,890		52,004		(38,114)					-73.29%
Decrease (increase) in accounts receivable	(184,050)		(1,502,825)		823,819		(1,356,232)		2,180,051					-160.74%
Decrease (increase) in other receivable	(535,948)		102,472		(615,946)		392,994		(1,008,940)					256.73%
Decrease (increase) in inventories	(71,102)		(40,159)		(640,985)		47,156		(688,141)					-1459.29%
Decrease (increase) in prepayments	24,774		38,883		105,937		(145,821)		251,757					172.65%
Decrease (increase) in deferred charges	(52,938)		307,739		(1,283,278)		(617,064)		(566,213)					-107.96%
Increase (decrease) in accounts payable	8,936		1,005,267		417,687		(97,905)		515,601					-526.64%
Increase (decrease) in customer deposits	60		(596)		(845)		(12,996)		12,151					93.50%
Increase (decrease) in accrued expenses	233,755		(52,143)		(54,005)		262,774		(316,778)					-120.55%
Increase (decrease) in deferred credits	(508,175)		(17,896)		(760,204)		(315,862)		(444,242)					140.60%
Net cash provided (used) by operating activities	428,739		349,356		5,017,904		6,311,039		(1,293,134)					-20.49%
Cash flows from investing activities:														
Additions to electric plant in service and construction work in progress	(1,011,146)		(474,608)		(9,287,088)		(8,227,847)		(1,059,251)					-12.87%
Proceeds from retirements of electric plant in service	71,227		(111,728)		25,431		(74,200)		99,632					-134.27%
Return on capital investments	(183,310)		(158,281)		(287,481)		55,198		(342,656)					-620.78%
Proceeds (payments) from sale (purchase) of investments	-		(729,687)		27,598		(712,180)		739,757					-103.88%
Net cash provided (used) in investing activities	(1,123,230)		(1,474,304)		(9,521,530)		(8,969,010)		(562,520)					-6.28%
Cash flows from financing activities:														
Proceeds from borrowings LOC	-		-		-		-		-					N/A
Proceeds from borrowings Long-Term	-		-		-		-		-					N/A
Payments to creditors LOC	(3,973,414)		1,399,834		1,150,108		1,399,834		(249,728)					17.84%
Payments to creditors Long-Term	4,257,499		(129,268)		2,425,623		(2,028,463)		4,454,086					219.89%
Increase in contributions in aid of construction	11,345		16,002		250,989		1,055,156		(804,157)					-78.21%
Memberships issued, net of refunds	-		-		-		-		-					N/A
Additions to donated capital, net	-		73,854		14		73,976		(73,963)					-99.98%
Net cash provided (used) by financing activities	295,430		1,360,521		3,826,744		500,504		3,328,241					-664.56%
Net increase (decrease) in cash and equivalents	(599,061)		236,573		(676,881)		(2,147,468)		1,470,586					-68.48%
Cash & cash equivalents at beginning of period	1,589,314		1,631,562		1,867,135		4,014,602		(2,147,468)					-53.49%
Cash & cash equivalents at end of period	\$ 1,190,253		\$ 1,867,135		\$ 1,190,253		\$ 1,867,135		\$ (676,881)					-36.25%
Supplemental cash flow information:														
Cash paid during the period for interest	\$ (466,951)		\$ (370,134)		\$ (76,063)		\$ (82,636)		\$ 6,573					7.95%