

VERMONT ELECTRIC COOPERATIVE, INC.
UNAUDITED FINANCIAL REPORTING
FOR THE MONTH AND NINE MONTHS ENDED:
SEPTEMBER 2009

Financial Highlights – September

	<u>Variance (K's)</u>	<u>YTD Variance (K's)</u>
September 2009 Net Income	\$485	(\$230)

Analysis:

- Operating Revenue**
\$66
(\$1,423)

Overall operating revenues were better than budget in September by 1% but are 3% below budget YTD. Sold KWH in September was 1% below budget for a negative variance of \$38k and is 4% below YTD and \$1,899k. Degree days are running about 5% below normal levels through September. The average price/KWH was .4% and \$22k better than budget in September and is 1% and \$417k better YTD. Wheeling revenues are better than budget by \$3k in September and \$66k YTD as a result of updated rates. Unbilled revenues were \$76k higher in September but are \$19k lower YTD as there were fewer unbilled days than expected at this point of the year.

- Purchased Power Costs**
\$252
\$8

Power costs were 9% better than budget in September and are on budget YTD. Purchases were 7% and \$215k less than expected in September and are 3% and \$976k under budget YTD. Our overall costs/KWH was 1% and \$40k lower than budget in September but are 3% and \$968k higher YTD.

- Transmission Costs**
(\$60)
\$369

Velco operating costs were \$23k under budget in September but are \$101k over YTD. The shift in transmission from Canaan to HQ resulted in savings of \$10k in September and \$218k YTD. CVPS transmission costs are running \$6k over in September and \$95k over YTD. Transmission pole treatment program was delayed resulting in a September over spend of \$23k but is under budget by \$83k YTD. Transmission trimming was over budget by \$26k in September but is \$319k lower than budget YTD.

- Distribution Operations/Mtce**
\$154
\$98

Overhead line maintenance costs were lower than budget by \$84k in September and is \$264k better than budget YTD. Major storm expenses were \$74k better than budget in September and are better than budget by \$317k YTD. Make ready work has continued in Grand Isle resulting in a negative variance of \$31k in September and \$160k YTD. Substation maintenance work is \$121k higher YTD. Distribution vegetative maintenance program spending was under budget by \$19k in September and is \$240k over budget YTD. Vegetative mtce program overall is \$79k below budget YTD.

- Customer Accounts**
\$34
\$177

Collections activities have been higher than budget by \$6k in September and \$67k YTD. However, on the positive side collections has been more successful than expected resulting in positive variances in September of \$18k and \$96k YTD. Major account management, meter reading, SQRP administration and member service have performed better than expected to budget by \$22k and \$140k YTD.

- Administrative & General**
\$19
\$301

A&G salaries are running better than budget by \$11k in September and \$44k YTD. Regulatory related costs were \$15k in September and \$168k YTD lower than budget.

Annual meeting expenses were higher than expected by \$64k YTD as a result of greater VEC employee involvement and a more significant program. Director's fees & expenses are better than budget by \$3k in September and \$71k YTD. Office expenses have been running better than budget by \$24k YTD. Strategic planning expenses have been better than budget by \$4k in September and \$28k YTD. COOP communications was \$14k higher than budget in September but is \$7k better YTD.

• **Interest Income (Non-Op Margins) (\$20) \$40**

Dividends for New England Hydro were lower than expected, largely as a result of a repurchase of shares. Our assignment agreement with VPPSA enabled a purchase of Transco stock on 12/08 resulting in a distribution having positive impact on YTD results.

• **Capital Spending Plan (\$659) \$64**

Work in Highgate Springs is over budget YTD by \$117k. The Enosburg substation finished over budget by \$782k YTD as a larger portion of the substation work was carried into 2009 than planned. Ordinary replacements are running over budget by \$6k in September and \$198k YTD. Pole replacement work was over budget in September by \$282k and is \$1,155k over YTD largely related to the Comcast work in the Islands. Lastly, reconductoring, line changes, & sectionalizing also were over budget by \$60k in September and \$431k YTD. On the positive side for under spending to budget, the Rte 2 rebuild for North Hero City Beach was \$288k under budget YTD. The Steel Tower Line project is running behind schedule contributing positive variances to budget of \$69k and \$1,685k for September and YTD respectively. Substation transformer purchases are slightly behind schedule and show a positive variance of \$100k in September and \$423k YTD. The Taft Corners Velco substation project was over budget in September by \$294k but is under budget by \$199k YTD. The delayed Eden substation has begun resulting in a negative variance to budget for September of \$158k but is under budget by \$103k YTD. Facility and Equipment (including Colchester Service Center) is behind our original plans resulting in an \$8k positive variance in September and \$395k YTD. Beginning on Monday 10/16 we will be looking at reducing our capital spending plans for the balance of the year to end the year consistent with the 2009 budget.

TIER and Debt Service Coverage

Our 2009 budget assumes a Y/E TIER performance of 2.14 based on nine months of actuals + three months of budget. Our financial contingency planning is in full swing and many changes have been implemented. Our Debt Service Coverage for 2009 is expected to be approximately \$4.7 million.

Cash Flow and Line of Credit

In September, we used up to a peak of \$7.7mm on our line of credit. October is expected to reach a level of about \$8.5mm on Thursday 10/22. The 17th supplemental bond will be executed on 10/30/09 for \$6mm and will be used to write down the line of credit facility.

Balance Sheet

Our equity ratio improved in September to 38.4% from 37.4%. Our current ratio, a measure of liquidity, declined to 0.76 from last months 0.77. VEC's FFO ratio for 2009 YTD ("Funds from Operation/Capital Expenditures Ratio"; Target of 80% desirable) was .71 up from the previous month of .60.

	September 2009 Actual	August 2009 Actual	Variance Fav/(Unfav) \$	Variance Fav/(Unfav) %	September 2008 Actual	Variance Fav/(Unfav) \$	Variance Fav/(Unfav) %
Electric plant, at cost:							
Electric plant in service	99,072,113	98,191,790	880,323	0.90%	91,480,765	7,591,348	8.30%
Less accumulated depreciation	(26,368,274)	(26,221,890)	146,384	0.56%	(26,362,112)	6,162	0.02%
Net electric plant in service	72,703,839	71,969,900	733,939	1.02%	65,118,653	7,585,186	11.65%
Construction work in progress	4,738,077	4,493,634	244,443	5.44%	3,988,045	750,031	18.81%
Net electric plant	77,441,916	76,463,534	978,382	1.28%	69,106,698	8,335,218	12.06%
Other assets:							
Non-utility property	65,697	65,697	-	0.00%	65,697	-	0.00%
Other investments	9,667,154	9,692,755	(25,601)	-0.26%	9,456,503	210,651	2.23%
Deferred charges	(433,763)	(440,800)	7,038	-1.60%	(267,572)	(166,191)	62.11%
Total other assets	9,299,088	9,317,651	(18,564)	-0.20%	9,254,628	44,460	0.48%
Current assets:							
Cash	684,742	1,076,876	(392,134)	-36.41%	1,544,492	(859,751)	-55.67%
Notes receivable (net)	2,684	2,989	(305)	-10.20%	9,128	(6,444)	-70.59%
Accounts receivable (net)	8,779,920	8,903,630	(123,711)	-1.39%	8,622,885	157,034	1.82%
Other receivables (net)	251,912	374,330	(122,418)	-32.70%	142,724	109,188	76.50%
Inventories	2,901,860	2,729,037	172,823	6.33%	2,125,602	776,258	36.52%
Prepaid expenses	473,932	463,920	10,012	2.16%	239,695	234,236	97.72%
Total current assets	13,095,049	13,550,781	(455,732)	-3.36%	12,684,527	410,522	3.24%
Total assets	\$ 99,836,053	\$ 99,331,967	\$ 504,086	0.51%	\$ 91,045,854	\$ 8,790,199	9.65%

	September 2009 Actual	August 2009 Actual	Variance Fav/(Unfav) \$	%	September 2008 Actual	Variance Fav/(Unfav) \$	%
Equities:							
Memberships issued & subscribed	-	-	-	#DIV/0!	-	-	#DIV/0!
Patronage capital assignable	16,561,252	16,561,252	-	0.00%	15,149,492	1,411,760	8.52%
Other earnings	5,592,321	4,496,188	1,096,132	19.60%	3,105,708	2,486,613	44.46%
Contributions in aid of construction	16,142,130	16,086,185	55,945	0.35%	15,928,467	213,663	1.32%
Net equity	38,295,703	37,143,626	1,152,077	3.01%	34,183,667	4,112,036	10.74%
Long-term debt	43,675,050	43,926,037	(250,986)	-0.57%	41,242,864	2,432,186	5.57%
Capital leases - non current	312,573	313,553	(980)	-0.31%	332,161	(19,587)	-6.27%
Current liabilities:							
Current portion of long-term debt	1,921,703	1,923,220	(1,517)	-0.08%	1,713,468	208,235	10.84%
Line of Credit	7,680,571	6,500,000	1,180,571	15.37%	5,085,123	2,595,448	33.79%
Accounts payable	5,851,599	7,101,912	(1,250,314)	-21.37%	5,782,917	68,682	1.17%
Customer deposits	173,603	148,803	24,800	14.29%	104,493	69,110	39.81%
Other accrued expenses	1,550,048	1,873,229	(323,181)	-20.85%	1,555,289	(5,242)	-0.34%
Total current liabilities	17,177,524	17,547,164	(369,641)	-2.15%	14,241,290	2,936,234	17.09%
Deferred credits	375,203	401,587	(26,384)	-7.03%	1,045,872	(670,669)	-178.75%
Total liabilities and equity	\$ 99,836,053	\$ 99,331,967	\$ 504,086	0.51%	\$ 91,045,854	\$ 8,790,199	9.65%

MONTHLY

STATEMENT OF OPERATIONS

VEC

	September 2009 Actual	September 2009 Budget	September 2009 Actual- Budget Variance Fav (Unfav)	September 2009 Actual- Budget %	September 2008 Actual	September 2009 Actual - September 2008 Variance Fav (Unfav)	September 2008 %
Revenue							
Operating Revenue	5,578,469	5,512,855	65,614	1.2%	5,004,566	573,903	11.5%
Sales for Resale	108,174	291,626	(183,452)	-62.9%	161,284	(53,110)	32.9%
Total revenues	\$ 5,686,643	\$ 5,804,481	\$ (117,838)	-2.0%	\$ 5,165,850	\$ 520,793	10.1%
Power supply cost							
Purchased power cost	(2,649,593)	(2,901,792)	252,199	8.7%	(2,882,107)	232,514	8.1%
Sales for Resale	(108,174)	(291,626)	183,452	62.9%	(161,284)	53,110	32.9%
Transmission	(517,332)	(457,140)	(60,192)	-13.2%	(462,479)	(54,853)	-11.9%
Total Power supply cost	(3,275,099)	(3,650,558)	375,459	10.3%	(3,505,869)	230,771	6.6%
Gross Margin	\$ 2,411,544	\$ 2,153,923	\$ 257,621	12.0%	\$ 1,659,980	\$ 751,564	-45.3%
Operating expenses							
Distribution: Operations & Mtce	(594,523)	(748,223)	153,700	20.5%	(619,387)	24,864	4.0%
Customer accounts	(177,935)	(212,228)	34,293	16.2%	(254,743)	76,808	30.2%
Administrative & general	(205,626)	(224,131)	18,505	8.3%	(235,081)	29,455	12.5%
Total operating expenses	(978,084)	(1,184,582)	206,498	17.4%	(1,109,211)	131,127	11.8%
Depreciation & amortization	(278,764)	(277,437)	(1,327)	-0.5%	(309,505)	30,741	9.9%
Gross revenue & receipts taxes	(56,546)	(56,661)	115	0.2%	(50,997)	(5,549)	-10.9%
Interest on long-term debt	(219,791)	(234,411)	14,620	6.2%	(205,866)	(13,925)	-6.8%
Other interest expenses	(19,504)	(17,971)	(1,533)	-8.5%	(16,003)	(3,501)	-21.9%
Other Deductions	(649)	(3,500)	2,851	81.5%	-	(649)	N/A
Total depreciation & other expenses	(575,254)	(589,980)	14,726	2.5%	(582,371)	7,117	1.2%
Income from operations	858,206	379,361	478,846	126.2%	(31,602)	889,808	2815.7%
Interest income	211,400	231,335	(19,935)	-8.6%	215,632	(4,232)	-2.0%
Other income (expenses)	(710)	388	(1,098)	-282.9%	(384)	(325)	84.7%
Other capital credits & dividends	27,236	-	27,236	N/A	41,547	(14,311)	-34.4%
Total non-operating margins	237,926	231,723	6,203	2.7%	256,795	(18,869)	-7.3%
Net income (loss)	1,096,132	611,084	485,049	79.4%	225,193	870,939	-386.8%
Extraordinary expenses	-	-	-	N/A	-	-	N/A
Total net income (loss)	\$ 1,096,132	\$ 611,084	\$ 485,049	79.4%	\$ 225,193	\$ 870,939	-386.8%

YEAR-TO-DATE

STATEMENT OF OPERATIONS

VEC

	September 2009 Actual	September 2009 Budget	September 2009 Actual- Budget Variance Fav (Unfav) \$	September 2009 Actual- Budget % %	September 2008 Actual	September 2009 Actual - September 2008 Variance Fav (Unfav) \$	September 2009 Actual - September 2008 % %
Revenue							
Operating Revenue	51,128,838	52,551,723	(1,422,885)	-2.7%	48,066,151	3,062,686	6.4%
Sales for Resale	1,854,693	3,587,892	(1,733,199)	-48.3%	3,786,973	(1,932,280)	51.0%
Total revenues	\$ 52,983,531	\$ 56,139,615	(3,156,084)	-5.6%	\$ 51,853,124	\$ 1,130,406	2.2%
Power supply cost							
Purchased power cost	(28,046,694)	(28,055,153)	8,459	0.0%	(27,558,771)	(487,923)	-1.8%
Sales for Resale	(1,854,693)	(3,587,892)	1,733,199	48.3%	(3,786,973)	1,932,280	51.0%
Transmission:	(5,566,562)	(5,935,607)	369,045	6.2%	(4,811,532)	(755,030)	-15.7%
Total Power supply cost	(35,467,948)	(37,578,652)	2,110,704	5.6%	(36,157,276)	689,327	1.9%
Gross Margin	\$ 17,515,582	\$ 18,560,963	(1,045,381)	-5.6%	\$ 15,695,849	\$ 1,819,734	-11.6%
Operating expenses							
Distribution: Operations & Mtce	(6,184,151)	(6,281,958)	97,807	1.6%	(6,087,526)	(96,625)	-1.6%
Customer accounts	(1,740,029)	(1,917,159)	177,130	9.2%	(1,908,817)	168,788	8.8%
Administrative & general	(2,076,346)	(2,376,903)	300,557	12.6%	(2,104,897)	28,550	1.4%
Total operating expenses	(10,000,527)	(10,576,020)	575,493	5.4%	(10,101,239)	100,713	1.0%
Depreciation & amortization	(2,695,249)	(2,680,833)	(14,416)	-0.5%	(3,173,031)	477,782	15.1%
Gross revenue & receipts taxes	(508,164)	(519,305)	11,141	2.1%	(477,403)	(30,761)	-6.4%
Interest on long-term debt	(2,069,168)	(2,136,199)	67,031	3.1%	(2,096,803)	27,635	1.3%
Other interest expenses	(117,152)	(115,335)	(1,817)	-1.6%	(100,804)	(16,349)	-16.2%
Other deductions	(4,488)	(31,500)	27,012	85.8%	(307)	(4,181)	-1360.9%
Total depreciation & other expenses	(5,394,221)	(5,483,172)	88,951	1.6%	(5,848,348)	454,127	7.8%
Income from operations	2,120,835	2,501,771	(380,936)	-15.2%	(253,739)	2,374,573	935.8%
Interest income	743,305	702,105	41,200	5.9%	686,104	57,201	8.3%
Other income (expenses)	16,995	(3,848)	20,843	-541.6%	(443)	17,438	-3935.6%
Other capital credits & dividends	137,828	49,323	88,505	179.4%	101,555	36,273	35.7%
Total non-operating margins	898,128	747,580	150,548	20.1%	787,217	110,911	14.1%
Net income (loss)	3,018,963	3,249,351	(230,388)	-7.1%	533,478	2,485,485	465.9%
Extraordinary expenses	-	-	-	N/A	(1,093)	1,093	100.0%
Total net income (loss)	\$ 3,018,963	\$ 3,249,351	(230,388)	-7.1%	\$ 532,385	\$ 2,486,578	467.1%

STATEMENT OF CASH FLOWS

	Month		September 2008	September 2009	Year-to-date		Variance Fav. (Unfav)
	September 2009	September 2008			Actual	Actual	
Cash flows from operating activities:							
Net income	\$ 1,096,132	\$ 225,193	\$ 3,018,963	\$ 532,385	2,486,578	467.06%	
Noncash expenses (income) included in earnings:							
Depreciation & amortization	354,578	394,185	3,396,239	4,292,230	(895,992)	-20.87%	
(Gain) loss on sale of investments	(530)	(530)	(29,206)	(6,430)	(22,776)	-354.22%	
Changes in assets and liabilities:							
Decrease (increase) in notes receivable	305	1,107	3,704	11,150	(7,446)	-66.78%	
Decrease (increase) in accounts receivable	123,711	557,948	87,353	1,066,206	(880,853)	-91.82%	
Decrease (increase) in other receivable	122,418	123,425	591,024	84,266	506,759	-601.38%	
Decrease (increase) in inventories	(172,823)	105,577	(558,586)	(423,313)	(135,273)	31.96%	
Decrease (increase) in prepayments	(10,012)	(23,006)	(270,392)	69,781	(340,173)	487.49%	
Decrease (increase) in deferred charges	(22,372)	(58,306)	(203,837)	(1,090,420)	886,583	81.31%	
Increase (decrease) in accounts payable	(1,250,314)	(334,029)	427,499	776,514	(949,015)	-44.95%	
Increase (decrease) in customer deposits	24,800	1,522	70,243	288	69,955	-24257.09%	
Increase (decrease) in accrued expenses	(323,181)	(299,488)	(787,694)	(836,488)	48,764	-5.83%	
Increase (decrease) in deferred credits	(26,384)	(21,382)	(165,839)	(255,374)	89,535	-35.06%	
Net cash provided (used) by operating activities	(83,673)	682,216	5,579,469	4,222,824	1,356,645	32.13%	
Cash flows from investing activities:							
Additions to electric plant in service and construction work in progress	(2,410,654)	(857,074)	(11,178,065)	(6,994,747)	(4,183,317)	-59.81%	
Proceeds from retirements of electric plant in service	1,093,558	(42,757)	974,249	(17,105)	991,354	-5795.64%	
Return on capital investments	(7,517)	(7,858)	(60,458)	(104,150)	43,692	-41.95%	
Proceeds (payments) from sale (purchase) of investments	33,118	-	33,118	27,596	5,521	20.01%	
Net cash provided (used) in investing activities	(1,291,495)	(907,690)	(10,231,156)	(7,088,406)	(3,142,750)	-44.34%	
Cash flows from financing activities:							
Proceeds from borrowings LOC	-	-	-	-	-	N/A	
Proceeds from borrowings Long-Term	-	-	-	-	-	N/A	
Payments to creditors LOC	1,180,571	485,123	5,130,630	3,685,290	1,445,340	-39.22%	
Payments to creditors Long-Term	(253,483)	(239,861)	(1,462,338)	(1,657,548)	195,211	11.78%	
Increase in contributions in aid of construction	55,945	46,074	477,858	515,195	(37,336)	-7.25%	
Memberships issued, net of refunds	-	-	24	-	21	N/A	
Additions to donated capital, net	-	-	-	4	-	549.34%	
Net cash provided (used) by financing activities	983,033	291,336	4,146,175	2,542,940	1,603,235	-63.05%	
Net increase (decrease) in cash and equivalents	(392,134)	65,863	(505,512)	(322,642)	(182,869)	56.68%	
Cash & cash equivalents at beginning of period	1,076,876	1,478,630	1,190,253	1,867,135	(676,861)	-36.25%	
Cash & cash equivalents at end of period	\$ 684,742	\$ 1,544,492	\$ 684,742	\$ 1,544,492	\$ (859,751)	-55.67%	
Supplemental cash flow information:							
Cash paid during the period for interest	\$ (426,282)	\$ (468,455)	\$ (12,840)	\$ (76,063)	\$ 63,222	83.12%	