

VERMONT ELECTRIC COOPERATIVE, INC.
UNAUDITED FINANCIAL REPORTING
FOR THE MONTH AND TWELVE MONTHS ENDED:
DECEMBER, 2010

Financial Highlights – December, 2010

	<u>Variance (K's)</u>	<u>YTD Variance (K's)</u>
December Net Income	(\$625)	\$373

Analysis:

- Operating Revenue**
\$92
\$1,486

Sold KWH in December was 2% higher than budget for a positive variance of \$124k and YTD is 2% better than budget for a positive variance of \$1,024k. The average price/KWH sold was 1% lower than budget for a negative variance of \$59k in December and is .3% and \$203k less than budget YTD. Non-energy services, pole attachments, and wheeling revenues contributed additional revenue more than expected for a positive variance of \$26k in December and \$529k YTD. Unbilled revenues were \$2k less than budget in December but are ahead of budget by \$139k YTD.

- Purchased Power Costs**
(\$195)
(\$487)

Purchases were 2% and \$57k higher than expected in December and are 2% and \$627k higher YTD. Our overall costs/KWH was 4% and \$135k higher than budget in December but are .4% and \$137k lower YTD.

- Transmission Costs**
\$146
\$300

Transmission labor costs were \$9k under budget in December and are \$15k better than budget YTD. Transmission costs were under budget by \$113k in December and are \$474k under YTD largely related to better than expected Velco transmission costs. Overhead line maintenance for transmission was under budget by \$4k in December but is \$79k YTD over budget mostly related to pole numbering. Transmission vegetative maintenance was under budget by \$16k in December but is \$90k over budget YTD.

- Distribution Operations/Mtce**
(\$339)
(\$407)

Overhead line maintenance costs were \$60k under budget in December and are under budget by \$252k YTD. Substation mtce cost was \$14k over budget in December and are \$134k over budget YTD. Major storm expenses were over budget by \$529k in December and YTD exceeded budget by \$802k. Net pole attachment costs were \$11k under budget in December and are under budget by \$132k YTD. Distribution vegetative maintenance program spending was under budget by \$135k in December and is \$64k under budget YTD. Vegetative mtce program overall is \$151k under budget for December and is \$26k over budget YTD.

- Customer Accounts**
\$25
\$238

Meter reading and collection activities have been less than expected for a positive variance of \$20k in December and \$182k YTD. The SQRP expenses were \$4k better than budget in December and YTD is \$15k better than budget YTD. Bad debt is running \$14k better than budget in December and \$62k better YTD as bill payments have been better than expected.

- Administrative & General**
(\$372)
(\$451)

Regulatory related costs were \$5k under budget in December and are \$34k under YTD. A&G salaries were \$97k over budget in December but are \$27k under budget YTD. Safety program related costs were \$7k over budget in December and \$75k over YTD. Office expenses (bank & bond fees), COOP Life, & Annual Meeting costs exceeded

budget by \$23k in December and \$90k YTD. Sales tax audit resulted in a projected variance to budget of \$56k in December and YTD. Impact of post retirement benefits audit contributed a negative variance of \$161k in December and \$286k YTD.

• **Total Depreciation & Other Exp** **(\$116)** **(\$606)**

Depreciation expense is \$6k higher than budget in December and \$68k over YTD. Higher revenues resulted in higher taxes of \$2k in December and \$13k YTD. Ethan Allen generator contributed a negative variance of \$100k in December & \$514k YTD.

• **Non-Operating Margins** **\$134** **\$300**

CoBank and CFC's patronage distributions included \$150k in December and \$225k YTD of non-cash distributions that does not impact TIER. An additional positive variance of \$32k YTD was the result of CoBank increasing cash patronage distributions from 50% to 65%. New England Hydro dividends were \$16k below budget in December and \$27k YTD. TRANSCO stock dividends from VPPSA have resulted in a positive variance of \$42k YTD. Lastly, our billable assistance was \$21k ahead of budget YTD.

• **Capital Spending Plan** **(\$719)** **\$53**

December capital spending exceeded budget but our final year end numbers finished under the approved budget. A few projects were delayed or reduced in scope resulting in positive YTD variances for the following: Jay Tap Substation (\$627k), Johnson Substation (\$297k), Rte 5 GSA Upgrade (\$500k), Grand Isle Service Center Upgrade (\$250k), and Transformer Replacements (\$494k). A number of projects were pulled forward or exceeded budget: DOE Smart Grid Projects (\$703k), Steel Tower Line Project (\$250k), Pole Replacements + Miscellaneous New Construction + Misc Ordinary Replacements (\$1,091).

TIER and Debt Service Coverage

We finished the year with a TIER of 2.24 just slightly ahead of our approved 2.18 budget. The eligibility of our 12/1 wind storm for a FEMA grant was a key factor in our meeting the approved budget level. Our Debt Service payments for 2010 were \$4.955 million.

Cash Flow and Line of Credit

In December, we used up to a peak of \$6.9M on our line of credit the morning of 12/1. The 2010 \$9M bond was executed on 12/1 paying down our line of credit to \$0 plus temporarily investing \$3M until the TRANSCO stock purchase of \$3.8M was made on 12/29. We finished the year with a line of credit balance of \$1.2M.

Balance Sheet

Our equity ratio declined in December from 40.3% to 38.2% (December, 2009 equity ratio was 38.4%) largely related to the negative December earnings, utility infrastructure investments and an investment in TRANSCO stock. Our current ratio, a measure of liquidity, improved to 1.04 from last months .83 largely related to the execution of the 2010 bond. VEC's FFO ratio for 2010 YTD ("Funds from Operations/Capital Expenditures Ratio"; Target of 80% desirable) finished the year at .80 declining from the previous month of .89.

MONTHLY

STATEMENT OF OPERATIONS

VEC

	December 2010 Actual	December 2010 Budget	December 2010 Actual- Budget Variance Fav (Unfav) \$	December 2010 Actual- Budget Variance Fav (Unfav) %	December 2009 Actual	December 2010 Actual - December 2009 Variance Fav (Unfav) \$	December 2010 Actual - December 2009 Variance Fav (Unfav) %
Revenue							
Operating Revenue	6,289,832	6,197,706	92,126	1.5%	5,939,718	350,115	5.9%
Sales for Resale	67,283	333,821	(266,538)	-79.8%	211,976	(144,693)	68.3%
Total revenues	\$ 6,357,115	\$ 6,531,527	\$ (174,412)	-2.7%	\$ 6,151,694	\$ 205,422	3.3%
Power supply cost							
Purchased power cost	(3,637,021)	(3,442,130)	(194,892)	-5.7%	(3,237,432)	(399,590)	-12.3%
Sales for Resale	(67,283)	(333,821)	266,538	79.8%	(211,976)	144,693	68.3%
Transmission	(574,266)	(719,882)	145,615	20.2%	(741,965)	167,699	22.6%
Total Power supply cost	(4,278,571)	(4,495,833)	217,262	4.8%	(4,191,373)	(87,198)	-2.1%
Gross Margin	\$ 2,078,544	\$ 2,035,694	\$ 42,850	2.1%	\$ 1,960,320	\$ 118,224	-6.0%
Operating expenses							
Distribution: Operations & Mfice	(1,140,141)	(801,038)	(339,103)	-42.3%	(779,707)	(360,434)	-46.2%
Customer accounts	(178,518)	(203,196)	24,678	12.1%	(188,821)	10,303	5.5%
Administrative & general	(606,672)	(234,993)	(371,678)	-158.2%	(328,021)	(278,650)	-84.9%
Total operating expenses	(1,925,330)	(1,239,227)	(686,103)	-55.4%	(1,296,549)	(628,781)	-48.5%
Depreciation & amortization	(310,832)	(304,401)	(6,431)	-2.1%	(284,943)	(25,889)	-9.1%
Gross revenue & receipts taxes	(60,677)	(58,714)	(1,963)	-3.3%	(54,921)	(5,756)	-10.5%
Interest on long-term debt	(253,056)	(242,000)	(11,057)	-4.6%	(242,064)	(10,992)	-4.5%
Other interest expenses	(4,758)	(18,347)	13,589	74.1%	(8,898)	4,141	46.5%
Other Deductions	(110,974)	(1,212)	(109,762)	-9054.9%	(7,275)	(103,699)	-1425.4%
Total depreciation & other expenses	(740,297)	(624,674)	(115,623)	-18.5%	(598,102)	(142,196)	-23.8%
Income from operations	(587,083)	171,793	(758,876)	-441.7%	65,669	(652,753)	994.0%
Interest income	217,693	233,601	(15,908)	-6.8%	229,744	(12,051)	-5.2%
Other income (expenses)	(697)	(286)	(411)	143.6%	(129,564)	128,868	-99.5%
Other capital credits & dividends	150,195	-	150,195	N/A	130,958	19,237	14.7%
Total non-operating margins	367,191	233,315	133,876	57.4%	231,137	136,054	58.9%
Net income (loss)	(219,892)	405,108	(625,000)	-154.3%	296,807	(516,699)	174.1%
Extraordinary expenses	-	-	-	N/A	-	-	N/A
Total net income (loss)	\$ (219,892)	\$ 405,108	(625,000)	-154.3%	\$ 296,807	\$ (516,699)	174.1%

YEAR-TO-DATE

STATEMENT OF OPERATIONS

VEC

	December 2010 Actual	December 2010 Budget	December 2010 Actual- Budget Variance Fav (Unfav)	December 2009 Actual	December 2010 Actual - December 2009 Variance Fav (Unfav)	%
Revenue						
Operating Revenue	70,052,721	68,566,093	1,486,627	67,681,908	2,370,812	3.5%
Sales for Resale	1,112,062	1,825,324	(713,262)	2,356,266	(1,244,204)	52.8%
Total revenues	\$ 71,164,783	\$ 70,391,417	\$ 773,366	\$ 70,038,174	\$ 1,126,608	1.6%
Power supply cost						
Purchased power cost	(36,104,636)	(35,617,572)	(487,064)	(36,969,741)	865,104	2.3%
Sales for Resale	(1,112,062)	(1,825,324)	713,262	(2,356,266)	1,244,204	52.8%
Transmission:	(7,341,663)	(7,641,605)	299,942	(7,640,973)	299,310	3.9%
Total Power supply cost	(44,558,361)	(45,084,501)	526,139	(46,966,980)	2,408,619	5.1%
Gross Margin	\$ 26,606,421	\$ 25,306,916	\$ 1,299,505	\$ 23,071,194	\$ 3,535,227	-15.3%
Operating expenses						
Distribution: Operations & Mitce	(10,485,467)	(10,078,406)	(407,060)	(8,296,520)	(2,188,946)	-26.4%
Customer accounts	(2,326,044)	(2,564,319)	238,275	(2,279,795)	(46,249)	-2.0%
Administrative & general	(3,387,360)	(2,935,967)	(451,394)	(2,783,122)	(604,239)	-21.7%
Total operating expenses	(16,198,871)	(15,578,692)	(620,178)	(13,359,437)	(2,839,433)	-21.3%
Depreciation & amortization	(3,601,338)	(3,533,682)	(67,656)	(3,544,607)	(56,731)	-1.6%
Gross revenue & receipts taxes	(690,623)	(677,913)	(12,710)	(666,857)	(23,766)	-3.6%
Interest on long-term debt	(2,908,213)	(2,928,148)	19,936	(2,792,052)	(116,161)	-4.2%
Other interest expenses	(164,157)	(145,248)	(18,909)	(158,277)	(5,880)	-3.7%
Other deductions	(541,651)	(14,796)	(526,855)	(25,331)	(516,320)	-2038.3%
Total depreciation & other expenses	(7,905,982)	(7,299,788)	(606,194)	(7,187,124)	(718,857)	-10.0%
Income from operations	2,501,569	2,428,437	73,132	2,524,632	(23,064)	0.9%
Interest income	1,113,961	1,099,352	14,609	1,001,905	112,056	11.2%
Other income (expenses)	19,611	(3,383)	22,993	(105,412)	125,023	-118.6%
Other capital credits & dividends	400,191	138,017	262,174	268,786	131,406	48.9%
Total non-operating margins	1,533,763	1,233,986	299,776	1,165,278	368,485	31.6%
Net income (loss)	4,035,331	3,662,423	372,908	3,689,910	345,421	9.4%
Extraordinary expenses	-	-	-	-	-	N/A
Total net income (loss)	\$ 4,035,331	\$ 3,662,423	\$ 372,908	\$ 3,689,910	\$ 345,421	9.4%

	December 2010 Actual	November 2010 Actual	Variance Fav/(Unfav) \$	%	December 2009 Actual	Variance Fav/(Unfav) \$	%
Electric plant, at cost:							
Electric plant in service	107,760,881	106,175,129	1,585,752	1.49%	102,390,237	5,370,644	5.25%
Less accumulated depreciation	(28,066,001)	(27,954,102)	111,899	0.40%	(26,135,936)	1,930,065	7.38%
Net electric plant in service	79,694,880	78,221,027	1,473,853	1.88%	76,254,301	3,440,579	4.51%
Construction work in progress	6,598,564	7,029,046	(430,482)	-6.12%	3,172,549	3,426,015	107.99%
Net electric plant	86,293,445	85,250,074	1,043,371	1.22%	79,426,850	6,866,594	8.65%
Other assets:							
Non-utility property	65,697	65,697	-	0.00%	65,697	-	0.00%
Other investments	13,781,505	9,835,813	3,945,692	40.12%	9,805,627	3,975,878	40.55%
Deferred charges	(313,695)	(125,805)	(187,890)	149.35%	(351,621)	37,927	-10.79%
Total other assets	13,533,507	9,775,705	3,757,802	38.44%	9,519,703	4,013,804	42.16%
Current assets:							
Cash	214,456	656,222	(441,766)	-67.32%	285,571	(71,115)	-24.90%
Notes receivable (net)	308	372	(64)	-17.22%	1,915	(1,607)	-83.92%
Accounts receivable (net)	9,903,081	9,225,478	677,603	7.34%	9,325,637	577,444	6.19%
Other receivables (net)	2,207,426	1,550,188	657,237	42.40%	594,102	1,613,323	271.56%
Inventories	2,912,631	3,003,156	(90,524)	-3.01%	2,599,232	313,400	12.06%
Prepaid expenses	264,973	188,349	76,623	40.68%	340,175	(75,202)	-22.11%
Total current assets	15,502,874	14,623,765	879,109	6.01%	13,146,631	2,356,243	17.92%
Total assets	\$ 115,329,826	\$ 109,649,544	\$ 5,680,282	5.18%	\$ 102,093,184	\$ 13,236,642	12.97%

	December 2010 Actual	November 2010 Actual	Variance Fav/(Unfav) \$	%	December 2009 Actual	Variance Fav/(Unfav) \$	%
Equities:							
Memberships issued & subscribed	-	-	-	#DIV/0!	-	-	#DIV/0!
Patronage capital assignable	20,251,163	20,251,163	-	0.00%	16,561,252	3,689,910	18.22%
Other earnings	6,608,720	6,828,608	(219,888)	-3.33%	6,263,274	345,446	5.23%
Contributions in aid of construction	17,186,363	17,139,570	46,793	0.27%	16,357,441	828,922	4.82%
Net equity	44,046,246	44,219,341	(173,096)	-0.39%	39,181,967	4,864,279	11.04%
Long-term debt	55,820,961	47,248,841	8,572,119	15.36%	49,047,218	6,773,743	12.13%
Capital leases - non current	295,599	297,416	(1,817)	-0.61%	308,693	(13,094)	-4.43%
Current liabilities:							
Current portion of long-term debt	2,239,351	2,080,491	158,860	7.09%	2,083,601	155,750	6.96%
Line of Credit	2,000,000	6,900,000	(4,900,000)	-245.00%	3,400,000	(1,400,000)	-70.00%
Accounts payable	7,421,628	6,003,273	1,418,355	19.11%	5,607,949	1,813,679	24.44%
Customer deposits	382,932	382,273	659	0.17%	239,460	143,472	37.47%
Other accrued expenses	2,876,215	2,233,513	642,701	22.35%	1,904,488	971,727	33.78%
Total current liabilities	14,920,125	17,599,550	(2,679,425)	-17.96%	13,235,497	1,684,628	11.29%
Deferred credits	246,896	284,396	(37,499)	-15.19%	319,810	(72,914)	-29.53%
Total liabilities and equity	\$ 115,329,826	\$ 109,649,544	\$ 5,680,282	5.18%	\$ 102,093,184	\$ 13,236,642	12.97%

STATEMENT OF CASH FLOWS

	Month		December 2009	December 2010	Year-to-date		Variance Fav (Unfav)	%
	December 2010	December 2009			December 2009	December 2010		
	Actual	Actual	Actual	Actual	Actual	Actual		
Cash flows from operating activities:								
Net income	\$ (219,892)	\$ 296,807	\$ 4,035,331	\$ 3,689,910	\$ 345,421	9.36%		
Noncash expenses (income) included in earnings:								
Depreciation & amortization	443,566	615,200	4,873,737	4,757,600	116,137	2.44%		
(Gain) loss on sale of investments	-	128,999	(5,051)	91,519	(96,570)	105.52%	N/A	
Changes in assets and liabilities:								
Decrease (increase) in notes receivable	64	257	1,607	4,473	(2,866)	-64.08%		
Decrease (increase) in accounts receivable	(677,603)	(931,315)	(577,444)	(458,365)	(119,080)	25.96%		
Decrease (increase) in other receivable	(657,237)	(273,593)	(1,813,323)	248,834	(1,862,157)	748.35%		
Decrease (increase) in inventories	90,524	97,124	(313,400)	(255,958)	(57,442)	22.44%		
Decrease (increase) in prepayments	(76,823)	67,157	75,202	(136,635)	211,837	155.04%		
Decrease (increase) in deferred charges	172,856	(28,378)	(221,940)	(331,982)	110,042	33.15%		
Increase (decrease) in accounts payable	1,418,355	275,345	1,813,679	183,849	1,629,830	886.50%		
Increase (decrease) in customer deposits	659	23,541	143,472	186,101	7,371	-6.42%		
Increase (decrease) in accrued expenses	642,701	(45,753)	971,727	(433,254)	1,404,982	-324.29%		
Increase (decrease) in deferred credits	(37,499)	(43,084)	(72,914)	(221,232)	148,319	-67.04%		
Net cash provided (used) by operating activities	1,099,967	182,307	9,110,683	7,274,860	1,835,823	25.24%		
Cash flows from investing activities:								
Additions to electric plant in service and construction work in progress	(1,662,972)	(1,240,265)	(11,663,778)	(14,850,243)	3,186,466	21.46%		
Proceeds from retirements of electric plant in service	190,972	182,470	112,511	1,235,410	(1,112,899)	-90.82%		
Return on capital investments	(150,195)	(138,473)	(227,233)	(198,932)	(28,302)	14.23%		
Proceeds (payments) from sale (purchase) of investments	(3,795,498)	-	(3,748,644)	33,118	(3,781,762)	-114.19.12%		
Net cash provided (used) in investing activities	(5,417,692)	(1,196,268)	(15,527,144)	(13,790,647)	(1,736,467)	-12.59%		
Cash flows from financing activities:								
Proceeds from borrowings LOC	-	-	-	-	-	N/A		
Proceeds from borrowings Long-Term	-	-	-	-	-	N/A		
Payments to creditors LOC	(4,900,000)	100,000	(1,400,000)	850,058	(2,250,058)	264.59%		
Payments to creditors Long-Term	8,729,162	(259,189)	6,916,399	4,067,847	2,848,552	-70.03%		
Increase in contributions in aid of construction	46,793	41,480	828,922	693,169	135,753	19.58%		
Memberships issued, net of refunds	-	-	-	-	-	N/A		
Additions to donated capital, net	4	-	25	30	(6)	-19.06%		
Net cash provided (used) by financing activities	3,875,959	(117,709)	6,345,346	5,611,105	734,241	-13.09%		
Net increase (decrease) in cash and equivalents	(441,766)	(1,131,670)	(71,115)	(904,682)	833,567	-92.14%		
Cash & cash equivalents at beginning of period	656,222	1,417,241	285,571	1,190,253	(904,682)	-76.01%		
Cash & cash equivalents at end of period	\$ 214,456	\$ 285,571	\$ 214,456	\$ 285,571	\$ (71,115)	-24.90%		
Supplemental cash flow information:								
Cash paid during the period for interest	\$ (411,281)	\$ (408,938)	\$ (543,893)	\$ (430,989)	(112,904)	-26.20%		