



Alaska Village Electric Cooperative

Annual Report 2009



LETTER TO THE MEMBERSHIP

March 30, 2010

To our AVEC membership:

In 2009, we continued to lower our operating expenses as we brought new, grant-funded plant online and replaced older, fully depreciated plant. As a result, our operating costs decreased and our operating margins increased. In 2009, our operating revenue was \$41,300,000 and total costs were \$37,000,000, resulting in operating margins of \$4,300,000. In addition, improved performance of the stock market last year resulted in non-operating margins of about \$600,000. The operating margins will be allocated to all active AVEC members later in 2010.

The high level of margins that we earned last year because of our reduced depreciation expense prompted your Board of Directors to retire capital credits of \$1.3 million, after a two-year moratorium due to our extremely poor margins. In addition, the Board reduced electric rates on all energy sales by two cents a kilowatt hours (kWh), effective January 1, 2010.

We sold 69 million kWh in 2009, an increase of 1.5% over 2008. Thankfully, fuel costs withdrew from the historic highs set in 2008, settling at an average of \$3.02 per gallon, very close to our cost in 2007. Although the world price of fuel was lower last year, expectations are that it will rebound to 2008's level or beyond once the economy recovers.


The 2009 legislature adopted permanent changes to the PCE statute, setting the ceiling for PCE eligible costs at \$1.00. We regard this as a major victory, as it recognizes that costs in our villages can (and do) exceed \$1.00 per kWh when the cost of fuel skyrockets as it has. PCE is fully funded for the current fiscal year and the Governor's budget includes \$36.3 million for FY11, which represents full funding. We anticipate no challenges to the PCE program this year.

Our total utility plant investment at the end of the year was \$114 million – even with the year before. We added \$3.3 million of new plant and retired the same value of old plant from service, leaving a net change of zero.

In 2009, AVEC received \$14 million in grant funds for Denali Commission energy projects. This brings the total awarded to us by the Denali Commission to \$145.6 million. We have matched this money with \$7.2 million from other grantors as well as with \$13.3 million of AVEC member equity. To date, we have spent \$150.7 million on Denali Commission energy projects. We also borrowed about \$4 million of Clean Renewable Energy Bond money toward these projects.

Between 2008 and 2009, we were approved for funding of \$20.4 million from the State of Alaska's Renewable Energy Fund. This money is matched by AVEC money of \$3.7 million. Projects funded include adding a wind turbine to our Toksook Bay project, building new wind projects in Quinhagak, Mekoryuk, Shaktoolik, Emmonak and Alakanuk (including a tieline to connect these two communities), building a demonstration photo-voltaic (solar) project in the Northwest Arctic and conducting feasibility studies in Old Harbor, Teller and the Upper Kobuk area.

As always, it has been a very busy year for us here at AVEC and we appreciate all the support that we have received from you, our members, as we continue in our mission to deliver reliable, affordable, cost-effective power to you.



Charlie Curtis, Chairman of the Board



Meera Kohler, President and CEO

Front cover photo: four new wind turbines at Chevak by Amy Murphy.

REPORT TO THE MEMBERSHIP

SCHOLARSHIPS

AVEC's Board of Directors awarded nine \$1,000 scholarships totaling \$9,000 to students from seven communities. The following students received financial assistance to pursue their dreams of a higher education: Trent Walker and Lexy Staheli of Kiana; Mikki Foster of Noorvik; Marita Kameroff of Emmonak; Ralph Sinnok of Shishmaref; Jeffrey Evan and Elizabeth Carmichael of Goodnews Bay; Kristy Moses of Emmonak and Joel Forbes of Togiak.

CAPITAL CREDITS

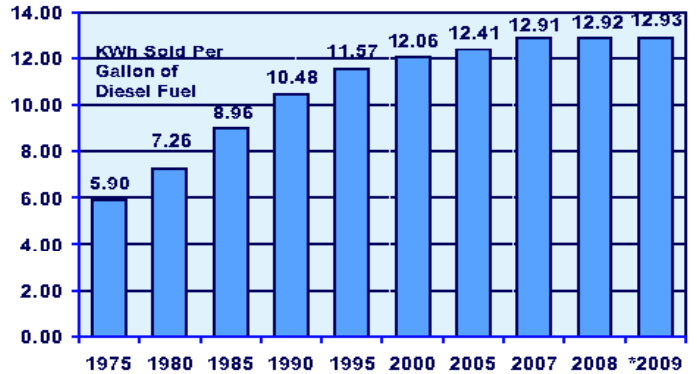
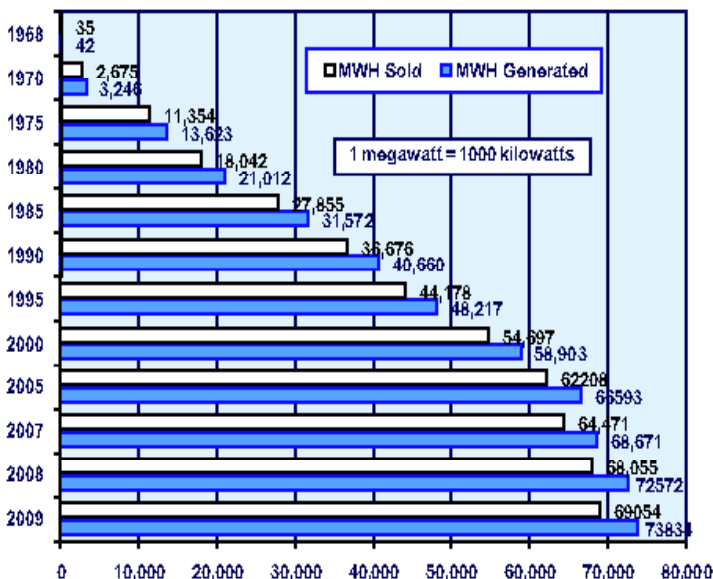
AVEC's Board of Directors approved the distribution of \$1.3 million worth of capital credits. Checks were mailed out in December.

ELECTRONIC METERS

Electronic meters with automated reading capabilities and remote disconnect features are being installed in every community. Deployment of meter infrastructure began in 2008 and 30 communities have meters to date. Installation of these cost-saving meters should be completed by year end 2010. The meters have helped streamline the billing process and make remote disconnects and reconnects more quick, easy and cost effective to take care of.

TOTAL MEGAWATT HOURS GENERATED AND SOLD

In 2009 AVEC generated a total of 73,834 MWH, including .7 MWH of net wind power generated by the Shaktoolik Native Corporation in Shaktoolik. AVEC wind projects in other communities showed an increased generation of 33% in 2009. AVEC sold 69,054 MWH, for an increase of 1.5% over 2008.



*Unadjusted fuel

SAVINGS FROM INCREASED FUEL EFFICIENCY AND POWER PLANT SHUTDOWN

AVEC has shown a steady increase in fuel efficiency over the years, resulting in substantial savings in fuel costs. Our fuel efficiency has more than doubled since 1975, which means we consume less than half the fuel to generate power today than we did in 1975. At today's extremely high cost of fuel, this saves our communities thousands of dollars annually. This is achieved by upgrading our engines and power plants and using the latest technology available. Using less fuel also reduces the amount of bulk fuel storage required to generate power.

SAVINGS FROM RENEWABLE ENERGY

Thanks to funding received mainly from the Denali Commission and other entities, AVEC has installed wind turbines in eight communities with interties to three other communities. In 2009, wind turbines in nine communities generated 1,926,649 kWh (net) and displaced an estimated 143,267 gallons of diesel fuel, saving more than \$433,000 dollars in diesel generating costs.

TOP 10 PLANT OPERATORS OF THE YEAR

Each year AVEC selects the Top 10 Plant Operators of the Year in order to reward the operators with the best performance for the past year based on a set list of criteria. The winners receive a 3-in-1 winter jacket along with a cash bonus. The 2009 Top 10 Plant Operators of the Year are: William Koso and Jason Jones from Anvik; Stanton Nakarak from Elim; Francis Nollner from Huslia; Clifford Charlie from Minto; David Peterson from Mt. Village; Brian Ekada and Jordan Michel from Nulato; Winfred Obruk from Shishmaref; and Richard Felix from Toksook Bay.

COMMUNICATION AWARDS

Once again, AVEC won numerous statewide and national communication awards.

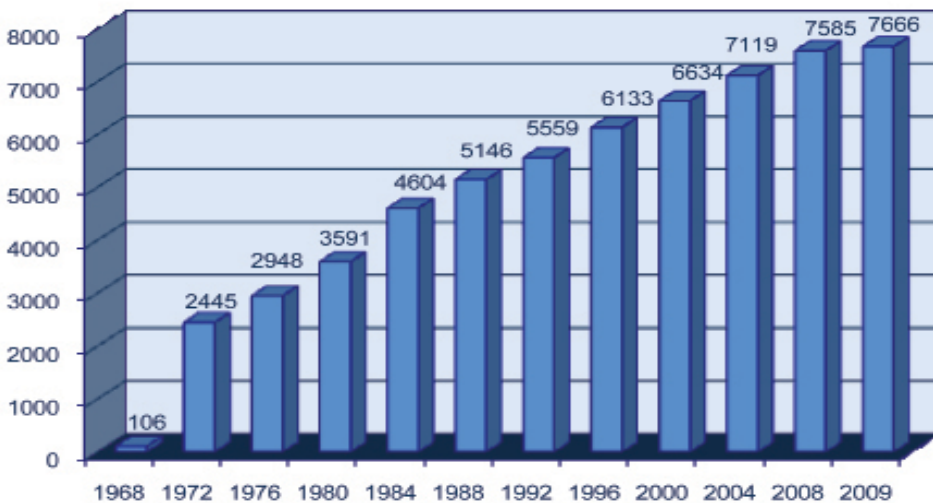
CONSUMERS

As of December 31, 2009

The system overall showed an increase of 81 new consumers for the year. 28 villages showed an increase in consumers, 8 villages remained the same and 16 villages had slight decreases in consumers. The total number of meters connected is a record high at 7,666.

Alakanuk	179	Hooper Bay	325	Mountain Village	239
Ambler	112	Huslia	133	New Stuyahok	158
Anvik	71	Kaltag	107	Nightmute	82
Brevig Mission	117	Kasigluk	154	Noatak	133
Chevak	230	Kiana	155	Noorvik	186
Eek	124	Kivalina	108	Nulato	147
Elim	129	Kotlik	163	Nunapitchuk	164
Emmonak	277	Koyuk	127	Old Harbor	129
Gambell	210	Lower Kalskag	98	Pilot Station	163
Goodnews Bay	104	Marshall	151	Pitkas Point	41
Grayling	82	Mekoryuk	129	Quinhagak	217
Holy Cross	99	Minto	100	Russian Mission	92
				St. Mary's/Andreafsky	237
				St. Michael	139
				Savoonga	214
				Scammon Bay	142
				Selawik	239
				Shageluk	60
				Shaktoolik	87
				Shishmaref	188
				Shungnak	87
				Stebbins	166
				Teller	109
				Togiak	308
				Toksook Bay	167
				Tununak	177
				Upper Kalskag	98
				Wales	73

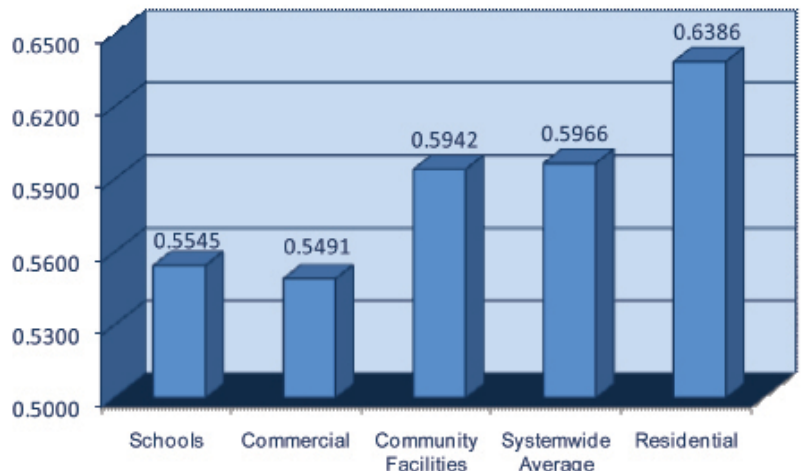
CONSUMERS SERVED AT YEAR'S END



Norman Miller took this reflection shot of Teller.

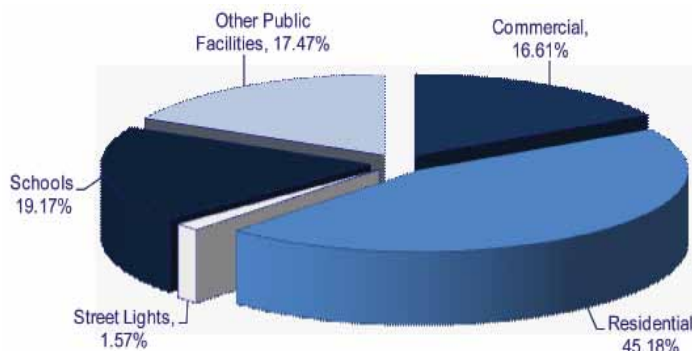


AVERAGE REVENUE PER KWH BY CONSUMER CLASS

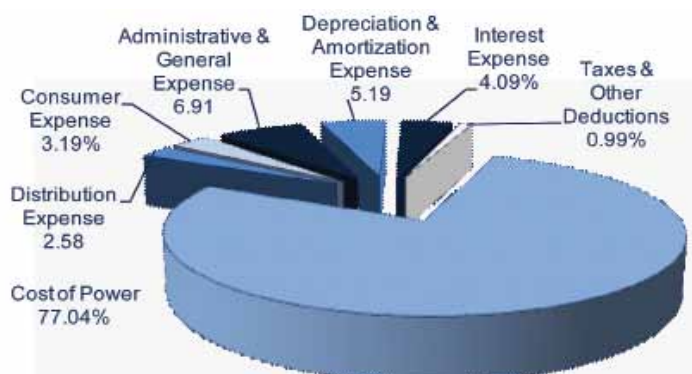


BALANCE SHEET

SOURCE OF ELECTRIC REVENUE

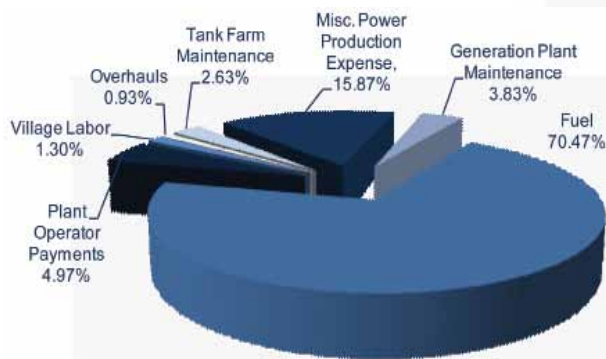


TOTAL COST OF SERVICE BY ITEM

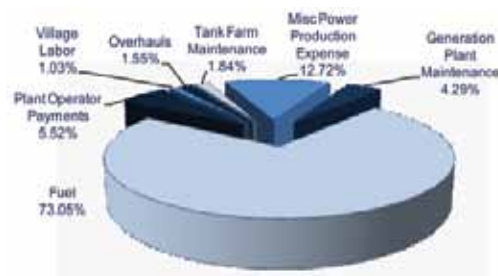


POWER PRODUCTION EXPENSES

2009
vs 2008



2008



ASSETS

	12/31/09	12/31/08
Total Utility Plant	114,234,105	\$114,024,578
Accumulated Provision for Depreciation	<u>67,855,564</u>	<u>69,525,874</u>
Net Utility Plant	\$46,378,541	\$44,498,704
Other Property & Investments	4,983,549	4,886,287
Current & Accrued Assets	30,109,503	31,652,616
Deferred Debits	<u>41,878</u>	<u>30,206</u>
TOTAL ASSETS	\$81,513,471	\$81,067,813

LIABILITIES

Equities	\$37,521,135	\$34,226,683
Long Term Debt	28,300,019	28,858,962
Current & Accrued Liabilities	15,304,717	17,712,223
Deferred Credits	<u>387,600</u>	<u>269,945</u>
TOTAL LIABILITIES	\$81,513,471	\$81,067,813

Equities As Percent Of Assets

46.03% **42.22%**

STATEMENT OF OPERATIONS

	12/31/09	12/31/08
Operating Revenue	\$41,314,001	\$37,514,923
Cost of Power	28,549,504	26,201,947
Distribution Expense	957,801	1,258,298
Consumer Expense	1,182,994	1,324,291
Administrative & General Expense	2,562,007	2,094,147
Depreciation & Amortization Expense	1,924,546	3,295,617
Interest Expense	1,515,140	1,910,781
Taxes & Other Deductions	<u>366,227</u>	<u>44,250</u>

TOTAL COST OF ELECTRIC SERVICE

TOTAL COST OF ELECTRIC SERVICE	\$37,058,219	\$36,129,331
Operating Margin	4,255,781	1,385,592
Interest Income	589,550	-1,012,882
Other Non-Operating Income	<u>-284,346</u>	<u>201,067</u>

TOTAL MARGIN

\$4,560,985 **\$573,777**

PROJECTS/FACILITY UPGRADES



Chevak's new power plant, bulk fuel tank farm and wind turbines.

Distribution Projects

Linemen travelled all over trying to meet consumers' wishes to have power as soon as possible when projects were ready. In 2009 they connected more than 68 new single family homes in at least 29 different villages, connected multi-family housing units in Hooper Bay and Alakanuk, and installed service to new teacher housing in Savoonga, Togiak, St. Michael and Shaktoolik. New clinic services were installed in Goodnews Bay, Gambell, and Teller. New line extensions and services were completed to airport facilities in Noorvik, Minto, Nunapitchuk, Nightmute, and Savoonga. City and Corporation buildings were connected in Brevig Mission, Toksook Bay, Huslia, Nightmute, and Shishmaref.

Services were upgraded to school buildings in Akula Heights and St. Mary's, and line extensions to new schools were begun in Marshall, Russian Mission and Upper Kalskag. Code Red fire stations were connected in Kasigluk, Shungnak, Savoonga, Scammon Bay, and Toksook Bay. Line extensions to telecommunication towers were installed in Shageluk, Grayling and Anvik.

Extensive distribution work was also completed to support Denali Commission Projects: modifications to the distribution systems for new generation facilities in Hooper Bay, Nightmute, Chevak, and Brevig Mission and line extensions to new wind turbines in Gambell, Chevak and Mekoryuk.

Combined with installing and repairing streetlights, disconnecting and reconnecting homes to allow consumers to renovate service equipment, replacing failed transformers, responding to storm damages,



Brent Lockwood of St. Michael endured blustery weather while disposing old meters in the landfill after replacing them with new electronic meters.

repairing line breaks, relocating facilities for new construction and installing and removing more than a dozen temporary construction services it has been another busy year.

Electronic Meters

30 communities have electronic meters.

Denali Commission/Tielines

Funding from the Denali Commission has substantially decreased, resulting in scaling back our list of planned construction programs. Crews worked on the following projects: the control module in Hooper Bay; erecting wind turbines in Mekoryuk, Chevak and Gambell; a bulk fuel tank farm in Mekoryuk; and tank farms and power plants in Chevak and Brevig Mission. The tieline between Toksook Bay and Nightmute was completed.

Generation Projects

New Diesel Power Plants Completed

Hooper Bay, control module
Chevak, new diesel power plant
Nightmute, standby module

New/Upgraded Power Plants Under Construction

Brevig Mission; Hooper Bay

New Engine Startups

Shaktoolik, Detroit Diesel Series 60
Huslia, Detroit Diesel Series 60
Minto, L-10

Bulk Fuel Tank Farm Upgrades

St. Mary's; Marshall; Emmonak;
Brevig Mission; Mekoryuk;
Nightmute

New Wind Turbines

Mekoryuk, two 100 kW turbines
Chevak, four 100 kW turbines

Wind Monitoring Stations

Ongoing: St. Mary's

Completed:
Marshall, Pitkas
Point, Chevak
and Hooper Bay

New: Emmonak,
Shaktoolik,
Mountain Village
and Teller



Brent Petrie in Savoonga.



Gambell's wind turbines.

AVEC MEMBERS AND EVENTS

Plant Operator Training and Local Hire



Bill Crisci in Wales.



The work crew in Wales (L to R): Greg Oxereok, Nathan Komonseak, Wesley Komonseak, Bill Crisci and Jason Oxereok.



Edward Bekoalok in Shaktoolik.



The Teller work crew (L to R): Reggie Ongtomaruk, Willy Foster, Kenneth Lee, Patrick Thomas, Erick Pushruk, Norman Miller and Chad Pushruk.



New employee Edgar Solomon, formerly Kaltag's PPO.



Brian Ekada from Nulato.



Patrick Hughes' helpers in Noorvik.



Dan Kasper of Teller received a posthumous Top 10 PPO award. Norman Miller (R) presented the award to Dan's children, Evelyn Komonseak and Reggie Ongtomaruk.

Community Events



Chevak spring cleanup



St. Mary's spring cleanup



Deep Snow and High Water



Above and below: many communities were blanketed with deep snows that covered homes, buildings, tank farms and power plants. Our members and field employees shoveled lots of snow.



The Yukon River flooded and high waters damaged AVEC's power plant in Emmonak. Residents rode through town in boats and canoes.

AVEC Board of Directors



Charlie Curtis
Chairman
Kiana



Walter Sampson
Vice-Chairman
Noorvik



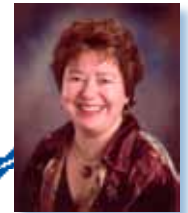
Helena Jones
Treasurer
Ambler



Fred Sagoonick
Member
Shaktoolik



Robert Beans
Member,
Mt. Village



Meera Kohler
President & CEO



Julia Walker
Member, Anvik



Phyllis Clough
Secretary
Old Harbor



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