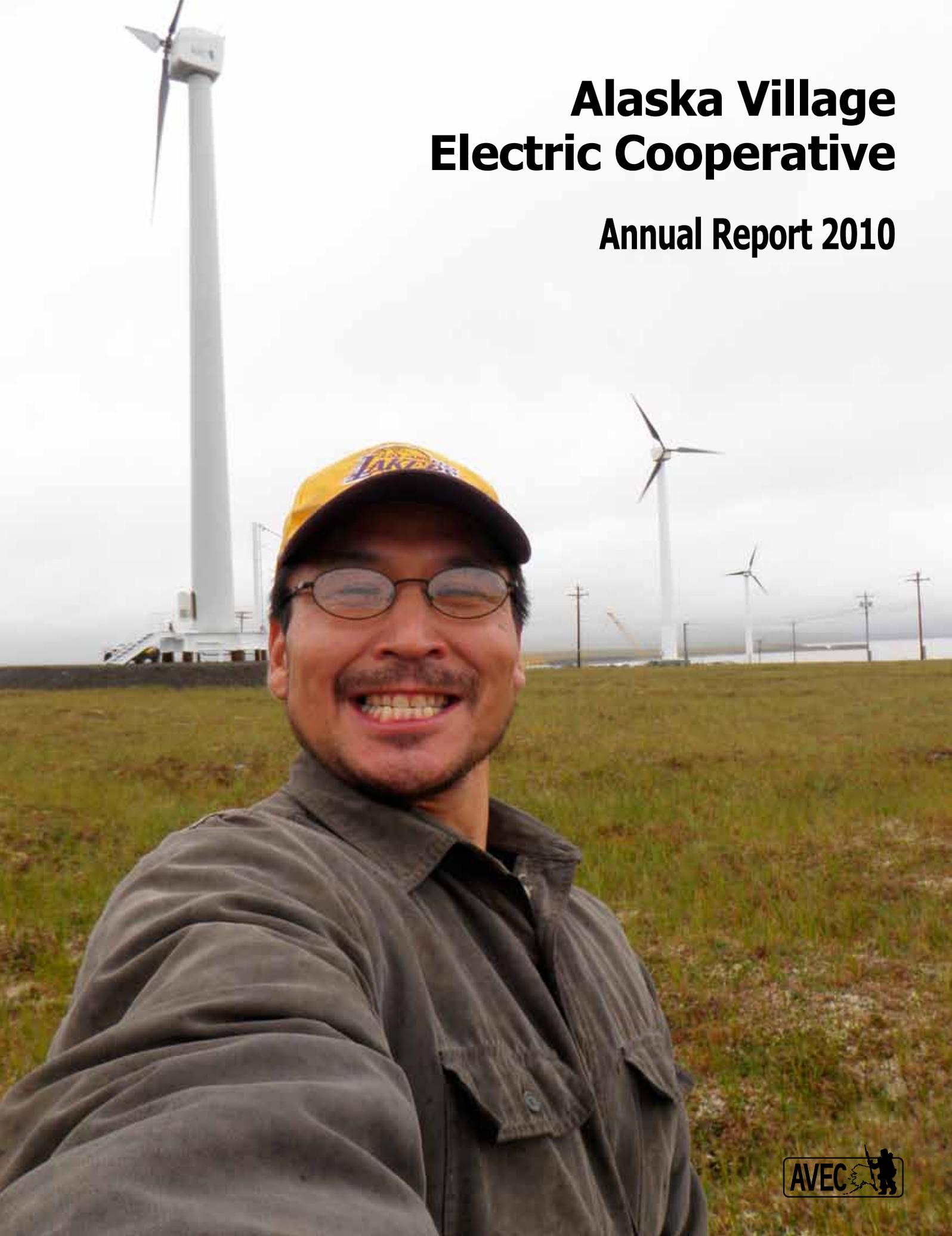


Alaska Village Electric Cooperative

Annual Report 2010



LETTER TO THE MEMBERSHIP

March 22, 2011

To our AVEC membership:

In 2010, we continued to lower our operating expenses as we brought new, mostly grant-funded plant online and replaced older, fully depreciated plant. As a result, our operating costs decreased and the Board of Directors implemented a rate decrease of \$0.02 per kWh to return the savings to the membership. This resulted in a revenue reduction of \$1.4 million in 2010 and significantly lower operating margins. In 2010, our operating revenue was \$35,303,709 and total costs were \$34,805,578, resulting in operating margins of \$498,131. Improved performance of the stock market last year resulted in non-operating margins of about \$728,200. The operating margins will be allocated to all active AVEC members later in 2010.

The AVEC Board authorized the construction of two tug and barge sets to lower the delivered cost of fuel to the AVEC communities. Since the rate reduction resulted in a direct and immediate reduction in the cost of electricity to every consumer-member of the cooperative in an amount equal to or greater than a general capital credit retirement, the board did not approve the retirement of capital credits in 2010.

We sold 70 million kWh in 2010, an increase of 1.2% over 2009. Fuel costs increased \$0.34 per gallon from the 2009 average cost but still lower than the historic highs set in 2008, settling at an average of \$3.36 per gallon. 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.

PCE is fully funded for the current fiscal year and the Governor's budget includes \$35.3 million for FY12, which represents full funding. We anticipate no challenges to the PCE program this year, but expect it to be a significant topic of discussion as efforts are made to build a major hydro project to serve the Railbelt.

Our total utility plant investment at the end of the year was \$125.5 million – up 9.9% from the year before. We added \$11.7 million of new plant and retired \$350,000 of old plant from service, leaving a net change of \$11.3 million.

AVEC continued to aggressively pursue grant funding to improve efficiency, add renewable energy, and to modernize fuel and power plant facilities. In 2010, AVEC received \$23.8 million in grant funds from the Denali Commission, AEA, and other grantors for energy projects. This brings the total awarded to us by the Denali Commission and others to \$186.2 million. Combined with more than \$17.4 million of AVEC member equity, we have received more than \$203 million in the last ten years to improve energy infrastructure in our AVEC communities. We have also borrowed about \$1.7 million of Clean Renewable Energy Bond money toward these projects.

AVEC ordered materials for major tank farm upgrade projects at New Stuyahok and Stebbins (a future power plant there could also serve St. Michael) and for wind and control systems at Shaktoolik. We also began construction of an intertie between Emmonak and Alakanuk that will bring renewable energy from four wind turbines located in Emmonak. We completed power plant and tank farm projects in Brevig Mission that could also serve Teller, completed new wind projects in Mekoryuk, Quinhagak and Toksook Bay and completed major power plant, wind and tank farm projects in Chevak one year ahead of schedule.

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: Charles Green of Tununak, self portrait.

REPORT TO THE MEMBERSHIP

SCHOLARSHIPS

AVEC's Board of Directors awarded twelve \$1,000 scholarships to students from eight communities. The following students received financial assistance to pursue their dreams of a higher education: Andrea Adams, Ezra Adams and Alvin Ashby, Jr. of Noatak; Shannon Alexie of Mt. Village; Roderick Beans of St. Mary's; Sky-Michael Chayalkun and Nayamin Kelly of Chevak; Charlene Church and Lynn Church of Quinhagak; Ruth Jackson of Noorvik; Francis Prince of Kotlik; and Brian Stephanoff of Russian Mission.

CAPITAL CREDITS

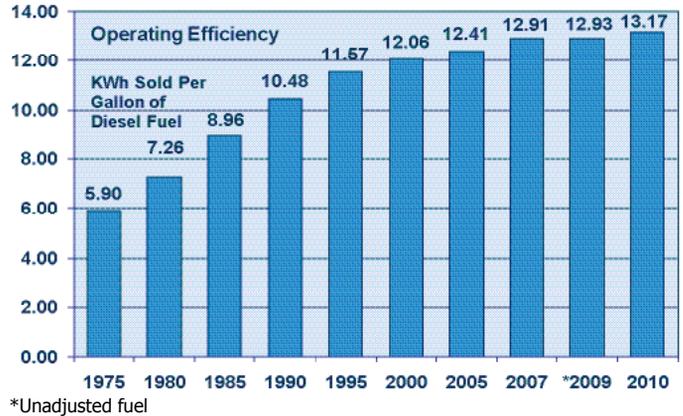
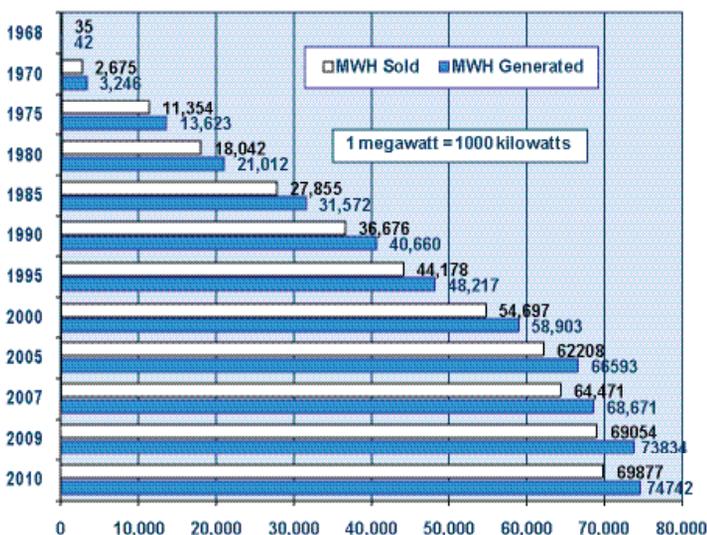
The AVEC Board authorized a rate decrease in January 2010 of \$0.02 per kWh. As this resulted in a decrease in revenues but provided a direct reduction in the cost of electricity to every consumer-member of the cooperative in an amount equal to or greater than a general capital credit retirement, the board did not approve capital credits in 2010.

ELECTRONIC METERS

Electronic meters with automated reading capabilities and remote disconnect features have been installed in every community, with some minor cleanup required. The meters helped streamline the billing process and make remote disconnects and reconnects more quick, easy and cost effective to take care of. This saved consumers over \$100,000 by no longer sending traveling collectors out.

TOTAL MEGAWATT HOURS GENERATED AND SOLD

In 2010 AVEC generated a total of 74,742 MWH. AVEC wind projects showed a slight increase in generation of 1.2% over 2009. AVEC sold 69,877 MWH, a slight increase over 2009.



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 from the Denali Commission, Rural Utilities Service and the State of Alaska, AVEC has installed wind turbines in nine communities with interties to three other communities. In 2010, wind turbines generated 2,598,818 kWh (net) and displaced an estimated 213,079 gallons of diesel fuel, saving more than \$710,000 dollars in diesel generating costs. Combined with fuel savings realized in 2009, AVEC's consumers saved over \$1,000,000 in fuel costs the past two years.

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 2010 Top 10 Plant Operators of the Year are: Lewis Wesley, Kivalina; David Peterson, Mt Village; Charles Green, Tununak; Frank Brown, Eek; Richard Felix, Toksook Bay; Jason Jones and William Koko, Anvik; Chris Hunt, Kotlik; Clifford Charlie, Minto; and James Bright Jr., Goodnews Bay. Honorary Recognition of Lost Plant Operators 2010: Bruce Beans of Pilot Station and Thomas Moses of Chevak.

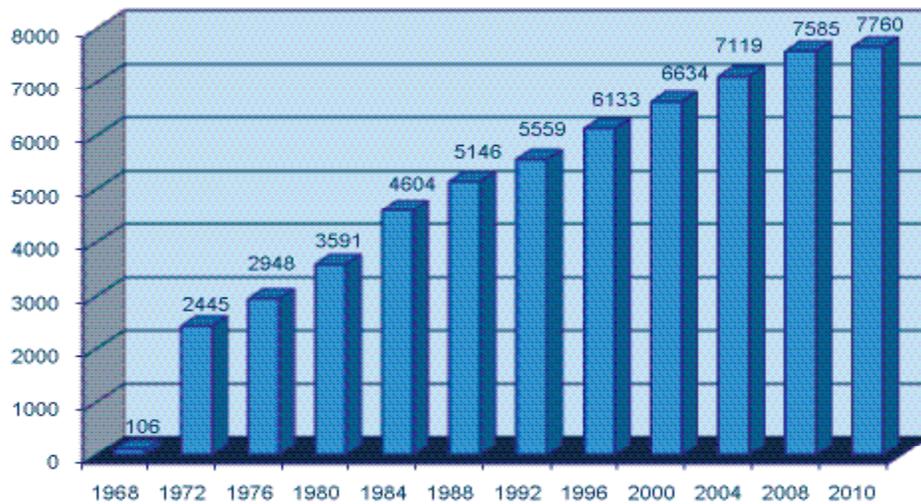
CONSUMERS

As of December 31, 2010

The system overall showed an increase of 94 new consumers for the year. Twenty-eight villages showed an increase in consumers, 24 villages had slight decreases in consumers and 1 village remained the same. The total number of meters connected is a record high at 7,760.

Alakanuk	196	Hooper Bay	324	Mountain Village	238
Ambler	111	Huslia	129	New Stuyahok	156
Anvik	69	Kaltag	109	Nightmute	80
Brevig Mission	124	Kasigluk	153	Noatak	149
Chevak	247	Kiana	151	Noorvik	183
Eek	125	Kivalina	110	Nulato	149
Elim	126	Kotlik	160	Nunapitchuk	171
Emmonak	287	Koyuk	129	Old Harbor	125
Gambell	204	Lower Kalskag	97	Pilot Station	165
Goodnews Bay	102	Marshall	150	Pitkas Point	42
Grayling	84	Mekoryuk	131	Quinhagak	222
Holy Cross	100	Minto	103	Russian Mission	92
				St. Mary's/Andreafsky	239
				St. Michael	133
				Savoonga	210
				Scammon Bay	156
				Selawik	248
				Shageluk	50
				Shaktoolik	90
				Shishmaref	185
				Shungnak	86
				Stebbins	172
				Teller	112
				Togiak	316
				Toksook Bay	169
				Tununak	121
				Upper Kalskag	99
				Wales	72

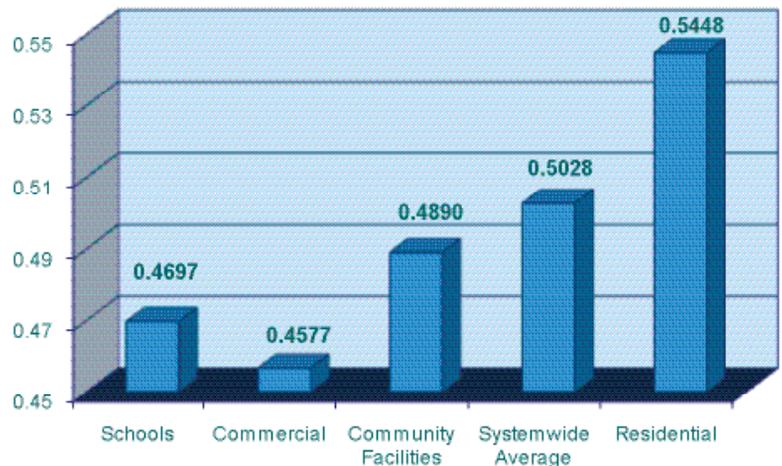
CONSUMERS SERVED AT YEAR'S END



Sam Lindquist and Matt Kruger give a "thumbs up" after restoring Savoonga's power during a severe storm.

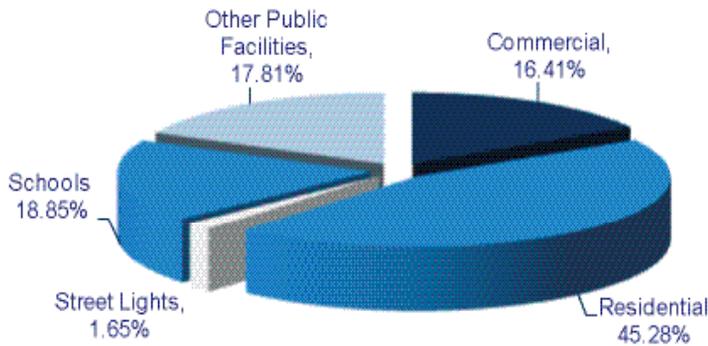


AVERAGE REVENUE PER KWH BY CONSUMER CLASS



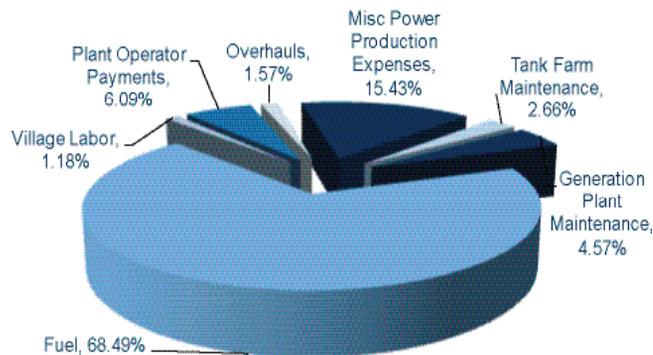
BALANCE SHEET

SOURCE OF ELECTRIC REVENUE

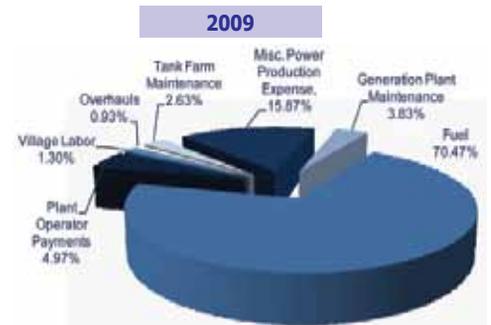
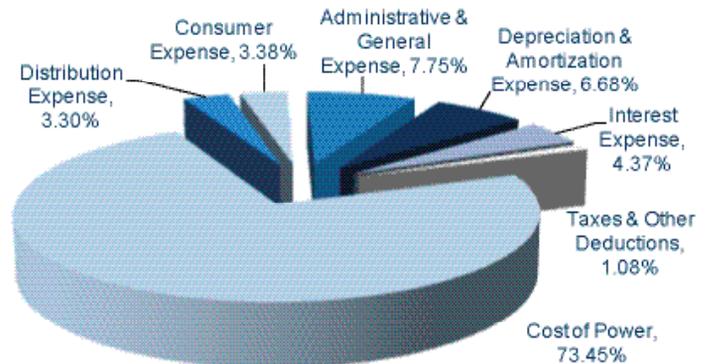


POWER PRODUCTION EXPENSES

2010
vs 2009



TOTAL COST OF SERVICE BY ITEM



ASSETS

	12/31/10	12/31/09
Total Utility Plant	\$125,587,796	\$114,234,105
Accumulated Provision for Depreciation	69,681,251	67,855,564
Net Utility Plant	\$55,906,545	\$46,378,541
Other Property & Investments	5,500,309	4,983,549
Current & Accrued Assets	29,016,051	30,109,503
Deferred Debits	2,595	41,878
TOTAL ASSETS	\$90,425,500	\$81,513,471

LIABILITIES

Equities	\$38,730,334	\$37,521,135
Long Term Debt	37,788,423	28,300,0192
Current & Accrued Liabilities	13,508,844	15,304,717
Deferred Credits	397,899	387,600
TOTAL LIABILITIES	\$90,425,500	\$81,513,471

Equities As Percent
Of Assets

42.83%

STATEMENT OF OPERATIONS

	12/31/10	12/31/09
Operating Revenue	\$35,303,709	\$41,314,001
Cost of Power	25,562,974	28,549,504
Distribution Expense	1,147,880	957,801
Consumer Expense	1,175,231	1,182,994
Administrative & General Expense	2,696,518	2,562,007
Depreciation & Amortization Expense	2,325,422	1,924,546
Interest Expense	1,521,954	1,515,140
Taxes & Other Deductions	375,600	366,227

TOTAL COST OF

ELECTRIC SERVICE **\$34,805,579** **\$37,058,219**

Operating Margin	\$498,131	4,255,781
Interest Income	434,636	589,550
Other Non-Operating Income	293,565	-284,346

TOTAL MARGIN

\$1,226,332

\$4,560,985

PROJECTS/FACILITY UPGRADES



The new Brevig Mission power plant sits on a tridetic foundation.

Distribution Projects

Linemen travelled all over trying to meet consumers' wishes to have power as soon as possible when projects were ready. In 2010 crews installed service to housing projects in Emmonak, Alakanuk, Toksook Bay, Nightmute, Quinhagak, Scammon Bay and Mt. Village; teacher housing in Koyuk, Anvik, and Noatak; new schools in Kalskag and Marshall; retail stores in Nunapitchuk and Hooper Bay; airport facilities in Noorvik and Brevig Mission, new health clinics in Nunapitchuk, Kasigluk, Mt. Village, Noorvik, and New Stuyahok; water and sewer projects in Ambler, Nunapitchuk, Pitkas Point, and Andreadfsky; telecommunication sites in St. Mary's, Teller, Selawik, Noorvik, Savoonga, and Nunapitchuk; and extended three-phase distribution to new wind turbines and modified the distribution for a new control module in Quinhagak.

Electronic Meters

All 53 communities have electronic meters installed (except for Gambell, to be completed soon).

Denali Commission

Funding from the Denali Commission has substantially decreased, resulting in scaling back our list of planned construction programs. Crews continued working on the following projects:

Hooper Bay - completing operational systems for the control module and SLC (secondary load control) design system;



Some meters buried by snow had to be shoveled out.

Mekoryuk - finalizing the AVEC, community and LKSD bulk fuel tank farm upgrades;

Brevig Mission - finalized and commissioned the new AVEC power plant and bulk fuel tank farm facilities;

Chevak - finalized and commissioned the new AVEC power plant and bulk fuel tank farm, four 100-kW wind turbines and community bulk fuel facilities.

Alaska Energy Authority

AVEC received funding from the Alaska Renewable Energy Grant Fund to help fund these projects: the installation of wind turbines in Mekoryuk, Quinhagak and one new wind turbine in Toksook Bay; and the installation of four stream gaging sites for the Cosmos Hills hydrology project.

Generation Projects

New Diesel Power Plants Completed

- Quinhagak control module (built up in Anchorage, installed in the field)
- Mekoryuk control module (built up in Anchorage, installed in the field)
- Brevig Mission diesel power plant (commissioned/in service)

New Engine Startups

- New Stuyahok - Detroit Diesel Series 60
- Russian Mission - Detroit Diesel Series 60
- Marshall - Cat 3456



New Stuyahok Series 60

Bulk Fuel Tank Farm Upgrades

Brevig Mission and Emmonak

Heat Recovery

Kotlik system back in service to water plant and community building.

New Wind Turbines (online and in service)

- Quinhagak, three 100 kW turbines
- Toksook Bay, one 100 kW turbine
- Mekoryuk, two 100 kW turbines

Wind Monitoring Stations

- Ongoing: Emmonak, Shaktoolik, Mountain Village and Teller
- New: St. Michael



Quinhagak's three new Northwind 100 kW wind turbines.

AVEC MEMBERS AND EVENTS

Plant Operator Training



Erick Mountain of Nulato.



Norm Miller presents a Top 10 PPO of the Year award to Brian Ekada of Nulato.

Community Events



Nulato residents celebrated Memorial Day with various events.



Kaltag: Greg Nicolai, Norm Miller and Brad McGinty.



Scammon Bay: Daniel Tunutmoak Jr, Dave Kasayuli and Jeff Ryan.



These kids enjoyed 4th of July activities in Shaktoolik.



Shishmaref: Thomas Obruk and Frank Ongtawasruk.



St. Mary's: Anthony Cowboy, Moses Paukan Sr. and Jezreel Lamont.



Transporting equipment near Teller and Teller's Cultural Festival.



L to R: Anna Sattler met with Alaska's Senator Begich and Senator Stabenow of Michigan in Toksook Bay. Photo by Alex DeMarban.



Residents of Kaltag cheer for the Iditarod competitors as they come through their village. Winner Lance Mackey is shown below.

Most photos by Norman Miller.



