April 9, 2015

To our AVEC membership:

2014 was a banner year for AVEC, with Bethel becoming a part of the membership in May. As a result, we sold almost 98 million kWh, 33% more than in 2013. The average monthly residential consumption dropped from 415 kWh to 405 kWh, reflecting continued conservation efforts in the home. The cost of fuel purchased in 2014 was almost exactly the same as 2013 at $4.20. Wind turbines again contributed six percent of overall generation and have saved $7,000,000 in fuel since 2006.

The addition of Bethel has resulted in significant changes to the financial statements that make it very difficult to compare 2014 to 2013. 2015 will be similarly complicated because it will include a full year of Bethel operations as compared with eight months in 2014.

Total revenue in 2014 was $53,815,854. Expenses totaled $50,720,863, resulting in an operating margin or profit of $3,094,991. An insurance claim settlement resulted in a reduction to fuel handling costs of about $550,000, which contributed to these higher margins. Operating margins will be allocated to the membership during 2015. Earnings on our cash investments as well as patronage capital from affiliated organizations resulted in total margins of $4,707,633 for the year. Our improved cash position resulted in the Board of Directors approving a refund of $500,000 of patronage capital to the membership, which was distributed in December 2014.

Our two tug and barge sets continue to perform admirably, delivering most of AVEC’s fuel to our non-Bethel communities. The operator, Vitus Marine, also delivered fuel to other buyers in AVEC and non-AVEC communities in addition to a large amount of equipment and other deck cargo. AVEC’s fuel was purchased and delivered before world oil prices started to plummet in September, so we will not see the benefit of those lower prices until after the 2015 delivery season. Using our own vessels and Vitus Marine for delivery of our fuel continues to result in cost savings of well over $500,000 each year. Those savings are reflected in lower fuel cost charges on the electric bill.

Approximately $18.4 million was added to total utility plant, while $4.4 million was retired from service. An additional $12.6 million was spent on grant-funded plant and we received about $10 million in new grant funds from the Denali Commission, Rural Utilities Service and the State of Alaska. $28 million in grant funds from these granting agencies remain available to be invested in approved energy projects.

PCE has been fully funded for the current fiscal year and is included in the operating budget for full funding in the next fiscal year. PCE funding is designated to come out of the PCE Endowment Fund, so it has not been subject to the widespread budget-cutting that is currently underway in Juneau.

Another milestone achieved in 2014 was receipt of acknowledgement in September that up to $8 million is available from FEMA disaster recovery funds to address the tieline between Brevig Mission and Teller that was destroyed in the 100-year storm that devastated western Alaska in 2011. We are researching options to develop lower cost electricity for Teller and hope to begin preliminary work on this important project during 2015.

A top priority for AVEC for the last few years has been the pursuit of feasibility funding for the All Alaska Energy Project, also known as the Alaska Grid. This project incorporates very large-scale gas-fired generation located at the North Slope, with a High Voltage Direct Current (HVDC) transmission system delivering that power across the state of Alaska. We continue to pursue this project.

We continue to seek funding from the Legislature for a comprehensive statewide contaminated site assessment and clean-up program, but the severe downturn in the Alaskan economy as a result of low oil prices has dampened our expectations for funding at any level.

Information on major projects underway is provided on Page 6 of this report and on page 7 we highlight our communities and member events.

Robert Beans, Chairman of the Board  Meera Kohler, President and CEO
SCHOLARSHIPS

AVEC’s Board of Directors awarded scholarships totaling $11,500. Colynn Isaacson received the Ted Stevens Memorial Scholarship in the amount of $5,000. Shanelle Afcan and Caroline Hoover received scholarships worth $1,000 and Ashley Brankovic, Charlie Robert, Dallas Chayalkun, Ellis Tomagan, Kaylena Charlie, Stefan Weingarth, Victoria Hooper, Zachary Lestenko-Andrew and Ivan Luther were each awarded $500.

CAPITAL CREDITS

During 2014, the Board of Directors approved disbursement of $500,000 to retire the oldest capital credits in the system. With this disbursement, AVEC has returned $18 million of a total of $40 million in allocated capital credits. As the cooperative’s financial condition permits, the AVEC Board will continue to authorize periodic disbursements of capital credits.

TUGS AND BARGES

AVEC’s tug-and-barge sets, chartered and operated by Vitus Marine, completed their third full season, delivering 4 million gallons of fuel to a majority of AVEC’s communities. Vitus Marine’s entry into the market has provided downward price pressure on fuel prices in Western Alaska, providing cost saving benefits to residents and businesses in this region.

TOTAL MEGAWATT HOURS GENERATED AND SOLD

In 2014 AVEC generated a total of 104,428 MWH and sold 97,873 MWH, a 33% increase over 2013 due to bringing in Bethel as a new member.

SAVINGS FROM HEAT RECOVERY

AVEC has been making an increased effort to partner with the Alaska Native Tribal Health Consortium and local authorities to make heat from our diesel engines available for water plants and public buildings. This makes better use of every gallon of diesel burned, benefitting the communities with lower-cost heat and providing additional revenue for the cooperative. AVEC has also been working with ANTHC to install “wind to heat” services in Chevak, Mekoryuk, Gambell and Shaktoolik.

SAVINGS FROM RENEWABLE ENERGY

Thanks to funding received from the Denali Commission, Rural Utilities Service and the State of Alaska, AVEC has installed 34 wind turbines in eleven communities with interties to three other communities. In 2014, wind turbines generated 4,268,565 kWh (net) and displaced an estimated 327,748 gallons of diesel fuel, saving $1,311,215 dollars in diesel generating costs. The average fuel cost was $4.00. Combined with fuel savings realized in 2007 through 2014, AVEC’s consumers saved $7,028,608 in fuel costs over the past seven 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. Allowing the daytank to run dry automatically removes the operator from the list. The winners receive a heavy-duty jacket along with a cash bonus. Congratulations to the 2014 Top 10 Plant Operators of the Year: Evan Newman of Holy Cross, Megan Esmailka of Kaltag, Abner Hawley of Kivalina, Mickey Ashby of Noatak, Tuck Cleveland of Noorvik, Eric Mountain of Nulato, Stuart Kingeekuk of Savoonga, Daniel Tunutmoak Jr. of Scammon Bay, Paul Bekoalok of Shaktoolik, Peter Lincoln of Toksook Bay.
As of December 31, 2014

The system overall showed an increase of 2,785 new consumers for the year. The big increase is due to adding Bethel as a member. Thirty-three villages showed an increase in consumers, 19 villages had slight decreases in consumers and four villages remained the same. The total number of meters connected is a record high at 10,829.

<table>
<thead>
<tr>
<th>Village</th>
<th>Consumers Served</th>
<th>Village</th>
<th>Consumers Served</th>
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<tbody>
<tr>
<td>Alakanuk</td>
<td>198</td>
<td>Grayling</td>
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<td>Ambler</td>
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<td>Holy Cross</td>
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<td>Anvik</td>
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<td>Hooper Bay</td>
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<td>2715</td>
<td>Huslia</td>
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<tr>
<td>Brevig Mission</td>
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<td>Kaltag</td>
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<tr>
<td>Chevak</td>
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<td>Kasigluk</td>
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<td>Wales</td>
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</table>

Every year a Lee’s Sea Air plane flies overhead and drops money during Kiana’s annual 4th of July celebrations.
**Balance Sheet**

**Source of Electric Revenue**

- Residential: 39.59%
- Commercial: 27.65%
- Other Public Facilities, 14.21%
- Overhauls, 1.58%
- Misc. Power Production Expenses, 12.07%
- Plant Operator Payments, 4.65%
- Village Labor, 0.75%
- Cost of Power, 79.56%
- Tank Farm Maintenance, 0.0%
- Generation Plant Maintenance, 2.25%
- Administrative & General Expense, 2.91%
- Distribution Expense, 2.30%
- Depreciation & Amortization Expense, 5.62%
- Long-term Debt Interest, 2.19%
- Taxes & Other Deductions, 0.93%

**Assets 12/31/14**
- Total Utility Plant: $144,527,035
- Accumulated Provision for Depreciation: 80,100,794
- Net Utility Plant: $64,426,241
- Other Property & Investments: 7,652,871
- Current & Accrued Assets: 54,375,598
- Deferred Debits: 363,108

**Total Assets 12/31/14:** $126,817,818

**Liabilities**
- Equities: $47,545,590
- Long Term Debt: 53,858,518
- Current & Accrued Liabilities: 24,034,600
- Deferred Credits: 1,379,110

**Total Liabilities 12/31/14:** $126,817,818

**Equities As percent of assets:** 37.49%

**Statement of Operations**

- Operating Revenue: $53,815,854
- Cost of Power: 40,354,492
- Distribution Expense: 1,164,608
- Consumer Expense: 1,690,780
- Administrative & General Expense: 3,078,979
- Depreciation & Amortization Expense: 2,852,349
- Interest Expense: 1,116,099
- Taxes & Other Deductions: 463,555

**Total Cost of Service by Item:**
- Total Cost of Electric Service: $50,720,863
- Operating Margin: $3,094,991
- Interest Income: 674,207
- Other Non-Operating Income: 938,436

**Total Margin:** $4,707,633

AVEC Annual Report 2014
New Member
AVEC took over the assets of the Bethel Utilities Corporation with full integration of the Bethel operations into AVEC’s operations on May 7, 2014.

Tugs and Barges
AVEC’s tugs and barges, chartered and operated by Vitus Marine, completed their third full season, delivering 4 million gallons of fuel to AVEC communities for an average price of $4.07 per gallon. In three short years, Vitus Marine’s entry into the market has provided downward price pressure on fuel prices in Western Alaska.

Denali Commission
AVEC has traditionally received capital project funding through the Denali Commission, Rural Utilities Service and the State’s Renewable Energy Fund. Capital projects may be new or refurbished tank farms, power plants, engines, wind turbines or electrical interties between villages. They may replace existing equipment or extend the useful life of equipment in place. Connecting villages with interties allows AVEC to reduce operating costs. Going forward, reduced funding compared with the previous decade is the new reality. AVEC is working closely with the funding agencies to assure the most is made of available funding. Where possible we will engage in life extension projects to stretch the useful life of existing equipment.

Interties
Brevig Mission – Teller: The intertie completed in 2011 was damaged by a fall storm in 2011 and again in 2013. The barrier land form that the tieline was buried in has been repeatedly eroded. AVEC has been working with FEMA to acquire disaster assistance funding to repair the line. Because of the repeated damage along the route and expense of re-routing the line AVEC is considering an alternative project that would improve the power plant and tank farm facilities in Teller and abandon the effort to rebuild the tieline. FEMA disaster assistance allows for the use of funds to build such an alternate project, but approval and funding have not yet been awarded.

Stebbins - St. Michael: AVEC and the community of Stebbins worked together to secure the final funding needed to construct the electrical intertie between St. Michaels and Stebbins. The intertie will allow AVEC to save operating costs by operating a single power plant to serve both communities. The intertie will also enable both communities to benefit from wind power in the future.

Ekwok to New Stuyahok: In the middle of 2014 AVEC was granted the environmental release required for funding this intertie. Similar to the Stebbins – St. Michael intertie project, AVEC has most of the needed funding. During 2015 we will search for a partner to complete the funding so the project can move ahead.

Generation Projects
New Engine Installations
Selawik: A replacement Cummins K38 generator was installed.
Togiak: A 12V2000 MTU module was completed and put in service.
St. Michael: A new standby module was commissioned to serve St. Michael when the intertie from Stebbins is completed and needs maintenance or is not operational. The intertie is currently under construction and will be completed this summer.

Stebbins: A new power plant was commissioned and is designed to also serve the St. Michael service area. The retired power plant and tank farm were demolished and work is being accomplished to turn the property over to DOT.

Heat Recovery Projects
AVEC worked with CE2 to assist in the installation of a heat recovery system to the water treatment plant in Hooper Bay.

Cooling system upgrades were completed in New Stuyahok and a marine manifold was installed on the CAT 3456 to provide recovery heat to the school. The heat recovery system should be completed in the 2015 season.

AVEC worked with ANTHC on installation of a heat recovery system in Savoonga.

AVEC has assisted ANTHC in design of future heat recovery projects in many communities.

Excess Wind Energy Projects
AVEC has been working with ANTHC to provide low cost electricity from excess wind energy to water plants in four communities.

• Mekoryuk is completed and operational.
• Shaktoolik is 95% complete.
• Chevak and Gambell are scheduled for mid-year completion.

Tank Farm Projects
Goodnews Bay’s tank farm was renovated, tanks were painted and new decking was installed in the tank farm and at the plant facilities. Emmonak received a new tank farm, which has capacity to also serve Alakanuk.

The Wales tank farm was painted.

Distribution
Schools: Ambler and St. Mary’s.

Schools – various living quarters: Seven projects.

Streetlights converted to LED: 249 streetlights in 11 communities were converted to LED. 48 new LED streetlights were installed in 9 communities including Minto, which hasn’t had any streetlights before. Two streetlights were relocated in Holy Cross.

Retired and replaced poles: Pilot Station and Toksook Bay.

Three-phase upgrades or new services: Selawik and Togiak.

Single-phase services: 96 permanent and temporary services installed in 32 communities.

Three-phase services: Selawik and Togiak.

Transformers: Alakanuk, Kiana, Marshall, St. Mary’s, St. Michael and Shishmaref.

Repeater meters installed: Mekoryuk, Chevak, Anvik.

Modify distribution for road raising - Emmonak; reroute distribution for house raising project – Kotlik.

Verify power line right-of-way for BIA: Emmonak.

Convert underground to overhead: Mekoryuk and Ambler schools.
AVEC MEMBERS AND EVENTS

Some of the plant operators who received training

L to R: Brothers Paul and Edward Bekoalok of Shaktoolik.

Ivan Lee and Leslie Sheldon of Shungnak.

Daniel Atoruk of Kiana.

Emil Henry of Kiana.

Darin Douglas of Koyuk.

Brian Douglas of Koyuk.

Stuart Kingeekuk of Savoonga.

Gilbert Tocktoo and Carl Rock of Brevig Mission.

Community Events

A Gambell whaling crew cuts up a minke whale they landed.

One of the decorated vehicles in Kiana’s 4th of July parade.

Residents of Emmonak helped build the new bulk fuel tank farm.

Grayling’s clean up crew.

Toksook Bay’s clean up crew.

Anvik’s clean up crew.

Kalskag’s clean up crew.

Every year AVEC’s linemen demonstrate pole work proficiency and pole top rescue skills.

Cody Cadman performs a pole top rescue.

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