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.
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.

SCHOLARSHIPS

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.
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.

<table>
<thead>
<tr>
<th>Village</th>
<th>Consumers Served</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alakanuk</td>
<td>179</td>
</tr>
<tr>
<td>Ambler</td>
<td>112</td>
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<tr>
<td>Anvik</td>
<td>71</td>
</tr>
<tr>
<td>Brevig Mission</td>
<td>117</td>
</tr>
<tr>
<td>Chevak</td>
<td>230</td>
</tr>
<tr>
<td>Eek</td>
<td>124</td>
</tr>
<tr>
<td>Elim</td>
<td>129</td>
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<tr>
<td>Emmonak</td>
<td>277</td>
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<tr>
<td>Gambell</td>
<td>210</td>
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<tr>
<td>Goodnews Bay</td>
<td>104</td>
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<tr>
<td>Grayling</td>
<td>82</td>
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<tr>
<td>Holy Cross</td>
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<table>
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<tr>
<th>Village</th>
<th>Consumers Served</th>
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<tbody>
<tr>
<td>Hooper Bay</td>
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<td>Mountain Village</td>
<td>239</td>
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<tr>
<td>New Stuyahok</td>
<td>158</td>
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<tr>
<td>Nightmute</td>
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<tr>
<td>Noatak</td>
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<td>Noorvik</td>
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<td>Nulato</td>
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<tr>
<td>Nunapitchuk</td>
<td>164</td>
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<tr>
<td>Old Harbor</td>
<td>129</td>
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<tr>
<td>Pilot Station</td>
<td>163</td>
</tr>
<tr>
<td>Quinhagak</td>
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<table>
<thead>
<tr>
<th>Village</th>
<th>Consumers Served</th>
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</thead>
<tbody>
<tr>
<td>Mountain Village</td>
<td>239</td>
</tr>
<tr>
<td>St. Mary’s/Andreatfsky</td>
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<tr>
<td>St. Michael</td>
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<tr>
<td>Savoonga</td>
<td>214</td>
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<tr>
<td>Scammon Bay</td>
<td>142</td>
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<td>Selawik</td>
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<tr>
<td>Shageluk</td>
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<tr>
<td>Shaktoolik</td>
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<td>Shishmaref</td>
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<td>Shungnak</td>
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<td>Stebbins</td>
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<td>Teller</td>
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<td>Togiak</td>
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<td>Toksook Bay</td>
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<tr>
<td>Tununak</td>
<td>177</td>
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<tr>
<td>Upper Kalskag</td>
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<tr>
<td>Wales</td>
<td>73</td>
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</tbody>
</table>

Norman Miller took this reflection shot of Teller.
### Source of Electric Revenue

- **Total Utility Plant**: $114,234,105
- **Accumulated Provision for Depreciation**: $67,855,564
- **Net Utility Plant**: $46,378,541
- **Other Property & Investments**: $4,983,549
- **Current & Accrued Assets**: $30,109,503
- **Deferred Debits**: $41,878

### Total Assets

- **12/31/09**: $81,513,471
- **12/31/08**: $81,067,813

### Liabilities

- **Equities**: $37,521,135
- **Long Term Debt**: $28,300,019
- **Current & Accrued Liabilities**: $15,304,717
- **Deferred Credits**: 387,600

### Total Liabilities

- **12/31/09**: $81,513,471
- **12/31/08**: $81,067,813

### Statement of Operations

- **12/31/09**:
  - Operating Revenue: $41,314,001
  - Cost of Power: 28,549,504
  - Distribution Expense: 957,801
  - Consumer Expense: 1,182,994
  - Administrative & General Expense: 2,562,007
  - Depreciation & Amortization Expense: 1,924,546
  - Interest Expense: 1,515,140
  - Taxes & Other Deductions: 366,227

- **12/31/08**:
  - Operating Revenue: $37,514,923
  - Cost of Power: 26,201,947
  - Distribution Expense: 1,258,298
  - Consumer Expense: 1,324,291
  - Administrative & General Expense: 2,094,147
  - Depreciation & Amortization Expense: 3,295,617
  - Interest Expense: 1,910,781
  - Taxes & Other Deductions: 44,250

### Total Cost of Service by Item

- **2009**
  - Administrative & General Expense: 5.61%
  - Depreciation & Amortization Expense: 15.87%
  - Interest Expense: 4.99%
  - Taxes & Other Deductions: 0.99%

- **2008**
  - Administrative & General Expense: 3.19%
  - Distribution Expense: 2.58%
  - Cost of Power: 77.04%

### Total Cost of Electric Service

- **12/31/09**: $37,058,219
- **12/31/08**: $36,129,331

### Total Margin

- **12/31/09**: $4,560,985
- **12/31/08**: $573,777
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

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**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 Kaluskag. Code Red fire stations were connected in Kasiglua, 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,
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

Fred Sagoonick
Member
Shaktoolik

Walter Sampson
Vice-Chairman
Noorvik

Phyllis Clough
Secretary
Old Harbor

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