

Copper Valley Electric Association 2009 Annual Report



Vision of the Cooperative:

To reduce or eliminate our dependence on fossil fuel for power generation

Mission of the Cooperative:

To provide exceptional customer service through safe, reliable, cost-effective electric service and programs





Message to the Membership

As we look back on our 50th year of doing business we note we started and ended the year with a bang. We began 2009 with a major fire at our largest customer and we ended the year with yet another avalanche knocking down a transmission tower on Thompson Pass. In addition a lot of things happened in between. This report will highlight some of those subjects which will be expanded upon at the upcoming annual meeting planned for late-April.

On December 28, 2008, a major fire shut down the Petro Star Valdez Refinery, CVEA's Cogeneration project, and with it temporarily ended the sales of turbine exhaust heat to Petro Star. Cogen heat revenue is an important component of CVEA's financial structure, and the loss of this revenue stream created an immediate negative impact to CVEA's bottom line. CVEA put in place a variety of measures to control expenditures, heat revenues resumed when the refinery returned to operations in November, and as a result the Cooperative weathered the economic storm successfully and ended the year with positive margins.

Transmission structure 46-3, across from the Worthington Glacier, was knocked down by an avalanche on December 2, 2009. This is the fourth destructive avalanche event on the transmission line since 2000 and the sixth since the line was constructed in the early 1980s. The obvious question is, why doesn't CVEA do something to address this recurring problem? The answer is, now that we are the owner of the project, we plan to.

In February 2009, CVEA acquired Solomon Gulch and the transmission line from the Four Dam Pool. The Four Dam Pool's position on addressing avalanche risk on Thompson Pass was to repair the line when it got knocked down. Now that the line belongs to CVEA we intend to seek a more permanent solution. When we acquired the project from the Four Dam Pool an important consideration was to evaluate and quantify the risk associated with the avalanche problem. As part of the transfer of ownership CVEA received \$5 million dollars to assume the avalanche risk. In 2003, the Four Dam Pool prepared a reconnaissance level avalanche analysis of the transmission line in the Thompson Pass/Ptarmigan Creek section of the line to identify alternatives to address the problem. As of this writing a request for proposal is on the street to update the 2003 analysis which will identify a preferred alternative. Within the next year, CVEA expects to begin the design and permitting of an economically viable solution to mitigate the unacceptable avalanche risk.



**Lyle Von Barga
President**

The acquisition of Solomon Gulch from the Four Dam Pool had many complex economic, regulatory and tax questions. In exchange for contractual rights owned under Four Dam Pool agreements and assumption of future ownership risks, CVEA received \$16 million as part of the transaction. The Internal Revenue Service considers the market value of the assets acquired from the Four Dam Pool to be income on our 2009 tax return. Under special Internal Revenue Code provisions CVEA can deduct, on our tax return, an amount equal to the market value of the assets received by treating the value as patronage sourced income. In order to comply with IRS regulations and avoid paying taxes on the receipt of the asset and cash, we will be making a non refundable patronage capital allocation to members. These notices will be sent to members mid year 2010.

Since late 2007 CVEA has been evaluating the Allison Lake Hydroelectric Project to lessen the Cooperative's dependence on fossil fuel for power generation. In 2009 we completed a second year of field studies (required by the Federal Energy Regulatory Commission (FERC)) that have been focused on a specific development alternative. The work is being funded by a grant from the renewable energy fund created two years ago by the Legislature. While the project would add a valuable increment of clean renewable energy to our system it is not without economic and engineering challenges. The Board of Directors is nearing a final feasibility determination and, if the project is judged feasible, a development license application will be filed with FERC early in 2011.

In 2009, CVEA invited members to participate in the CVEA Community Foundation. The Foundation is a 501(c)3 charitable organization created solely for the purpose of supporting charitable, educational and scientific programs which directly benefit our membership. The Foundation is funded with escheated capital credits and through tax deductible contributions. The vision of the Foundation is to support community activities that have broad member benefit, the costs of which are not born by electric rates. Members have several easy ways to contribute; by making a one-time donation, adding a monthly donation onto their electric bill, rounding their monthly bill to the next dollar, and even donating future capital credit disbursements. In 2010 the Foundation will fund \$14,500 in educational and leadership scholarships for graduating seniors and returning students. We thank those members that have contributed to this valuable program and we urge others to participate as well.



**Robert A. Wilkinson
Chief Executive Officer**

Many difficult issues face your electric cooperative in 2010. Indeed, it is an exciting and challenging time to be in the energy business. Threats and opportunities abound in today's economic climate and your Board and Staff remain committed to addressing those challenges. We hope you will make plans to attend the 51st Annual Meeting of the Membership to hear more about the activities of your electric cooperative on April 20 in Valdez or April 22 in Glennallen.



Copper Valley Electric Board of Directors

CVEA Community Foundation Supporting Our Communities



Lyle Von Bargen
President



Travis Million
Vice President



Carl Crosman
Secretary



Fred Williams
Treasurer



John Bradshaw
Director



Joe Freitag
Director



James Manning
Director



Jeff Saxe
Director

The CVEA Community Foundation awarded \$14,500 in Scholarships in 2009.



In 2009, we participated or sponsored many events and organizations system wide. Not only did we provide much needed support, but were able to promote CVEA, educate members, and promote electric conservation and safety.

Valdez City Schools
Basketball Regional Conference
Copper River School District
Valdez Science Fair
Copper River EMS
Valdez Consortium Library
Tours for schools and Cub Scouts
Kenny Lake Library Book Camp
PWSCC Scholarship Fundraiser
Tazlina & Gulkana Clean Up Days
Valdez Relay for Life
CRRHN & Valdez Health Fairs

Recycling Our Areas Resources
Holiday Food Baskets
Valdez Rotary Club
Co-op Month Food & Clothing Drive
Glennallen Basketball Boosters
AHTNA, Gulkana, Kluti-kaah, and
CVDA Annual Meetings
Copper Basin 300
Copper River Basin Child Advocacy
CVCC
Valdez May Day Fly-In
Marine Firefighters



Plug Into CVEA's Financials

2009 Financial Report



2009 Financial Report Unaudited

December 31

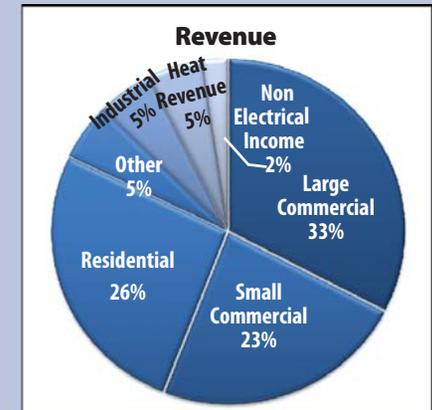
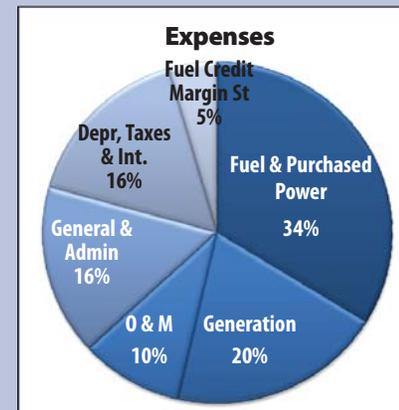
Balance Sheets

	2009	2008
Net Utility Plant	\$ 16,760,490	\$ 17,599,830
Investments	2,321,085	1,458,326
R&R Fund	17,097,726	0
Current Assets	8,828,683	9,127,659
Total Assets	<u>45,007,984</u>	<u>28,185,815</u>
Member Equity	12,612,097	12,454,654
Unallocated Patronage Capital	16,646,393	0
Long-term Debt	11,562,564	11,790,006
Current Liabilities	3,859,402	2,955,216
Other Liabilities	327,528	335,939
Operating Provisions	0	650,000
Total Liabilities & Equity	<u>\$ 45,007,984</u>	<u>\$ 28,185,815</u>

For the year ended

Statements of Income

	2009	2008
Energy Revenue	\$ 5,606,994	\$ 5,396,647
Cost of Power Revenue	8,104,621	11,217,871
Heat Revenue	741,516	3,022,014
Non-Operating Margins	351,246	642,096
Total Revenues	<u>14,804,377</u>	<u>20,278,628</u>
Fuel	4,740,471	8,153,205
Purchased Power	203,374	3,064,666
Other Generation	2,898,986	1,855,281
Operations & Maintenance	1,390,673	1,490,364
Administrative, General & Customer Service	2,370,178	2,039,872
Depreciation	1,669,405	1,628,436
Interest	661,597	673,071
Taxes	36,650	36,329
Fuel Credit Program (through May 2010)	1,308,876	672,723
Margin Stabilization	(650,000)	650,000
Total Expenses	<u>14,630,210</u>	<u>20,263,947</u>
Margins	<u>\$ 174,167</u>	<u>\$ 14,681</u>



Two major events impacted the financial statements in 2009; the Petro Star Valdez Refinery fire and the acquisition of the Solomon Gulch hydro facility.

As a result of the PSVR fire that occurred on December 28, 2008, heat sale revenues were reduced from \$3,022,014 in 2008 to just \$741,516 in 2009. To help offset lost revenue, CVEA deferred \$650,000 of 2008 margins which was recognized as income in 2009. CVEA held the line on expenses and ended 2009 with positive margins in the amount of \$174,167.

Acquiring the Solomon Gulch facility was a major transaction in 2009. In addition to acquiring the hydroelectric facility and transmission line CVEA was paid \$16 million for future maintenance of the project and assumption of risk of ownership. Those funds, including accumulated interest, are reflected on the balance sheet as the Renewal & Replacement Fund. See *Message to the Members* for further discussion of the Solomon Gulch acquisition.

As part of the State of Alaska Renewable Energy Grant Fund, CVEA was awarded \$2,288,000 with a 20% matching requirement to continue feasibility studies of a potential Allison Lake Hydroelectric Project.

CVEA ended 2009 with positive margins and was able to fund the Residential Fuel Cost Assistance Credit program through May 2010. The total cost of the program in 2009 was \$1,308,876 which includes \$674,456 to pay for the program through May 2010.



Annual Meeting Notice to Members

Copper Valley Electric Association, Inc., invites you to the 2010 Annual Meeting of Members. The Annual Meeting will be held on Tuesday, April 20, 2010, in the Valdez District at the Valdez Civic Center and on Thursday, April 22, 2010, in the Copper Basin District at the Alaska Bible College Murdock Campus Center. Registration and food service begins at 6:30 p.m. and the Business Meeting begins at 7 p.m.

The purpose of the meeting shall be to hear reports, ask questions about your electric cooperative, accept director election results, and to transact any other business that may come before the membership.

- Caused to be published by Secretary Crosman

2010 Annual Meeting Agenda

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| 1. Call to Order | President Von Bargaen |
| 2. Report of Quorum | Secretary Crosman |
| 3. Notice of Meeting | Secretary Crosman |
| 4. Reading and Approval of 2009 Minutes | Secretary Crosman |
| 5. Recognition of Credentials and
Election Committee | President Von Bargaen |
| 6. Report of Voting | Credentials & Election Committee Chair |
| 7. Treasurer's Report | Treasurer Williams |
| 8. President's Report | President Von Bargaen |
| 9. Chief Executive Officer's Report | CEO Wilkinson |
| 10. Acceptance of Reports | President Von Bargaen |
| 11. Old Business | President Von Bargaen |
| 12. New Business | President Von Bargaen |
| 13. Scholarship Committee Report | Scholarship Selection Committee |
| 14. Idaho Youth Rally Presentation | Sharon Crisp |
| 15. Service Awards | CEO Wilkinson |
| 16. Drawing of Door Prizes | |
| 17. Adjournment | President Von Bargaen |

Copper Valley Electric Association, Inc.
822-3211 in Glennallen and 835-4301 in Valdez
www.cvea.org