

Annual Report For 2006

Attached in this edition of your Ruralite magazine is a copy of AVEC's annual report to the membership. You will see a recap in this report of most of our activity in 2006. I would like to point out a few important items.

First, you will see AVEC made a modest profit, or margin, in 2006. This is an improvement over 2005, when we had a small operating loss, but it is lower than what our lenders, primarily the federal government, would like it to be. We will continue to make stringent efforts to lower our operating costs to raise that margin, but it is a difficult task as we continue to experience spiraling cost increases.

Of course, the largest increase we have seen in recent years is the extraordinary rise in the cost of fuel. You have seen that increase in the more than doubling of the cost of your heating fuel and gasoline in the last few years. Compared with what the cost of heating fuel has done, AVEC has been fortunate to see an increase of only about 60 percent in our cost of fuel, which has translated into electric price increases of less than 20 percent in most communities.

If fuel prices this year reflect those in 2006, that is going to change in 2007. We have come to the end of a favorable three-year fuel contract and are likely looking at a significant increase in our cost of fuel this year. We are, of course, looking for ways we can minimize the cost increase, but ultimately we are affected by the world marketplace just as all other fuel users are, and we will have to pay whatever the market demands for fuel.

On the bright side, it appears there will not be a major battle over PCE funding in Juneau this year. We hope the program will be fully funded to the tune of about \$26.6 million. Unfortunately, PCE does not benefit our commercial electric consumers and they continue to suffer with paying the full retail rate for electricity. You can be assured we at AVEC continue to do everything possible to keep your rates as low as possible.

Also on the bright side, we have been pleased with the performance of our new wind turbines in Toksook Bay and Kasigluk. As these machines displace diesel fuel during the coming year, the communities of Tununak and Nunapitchuk, as well as Toksook Bay and Kasigluk, can expect to see a meaningful reduction in the fuel charge component of their electric bills.

Connecting communities to spread the cost savings has been challenging. Recently, the new tieline connecting Tununak to Toksook Bay was unexpectedly damaged during a windstorm. The resulting outage was of a short duration, since the standby generator immediately started up and took over the load, but repairs to the line took a week to complete. The entire line was re-secured to prevent a future recurrence, and we believe the problem has been cured.

We will continue our efforts to interconnect communities, as this is one of the few ways we can reduce the cost of operations and put off the need to raise the end cost of electricity to our consumers. We ask for your support and patience.

Until next time,



Meera Kohler
President & CEO



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