

**2005**  
**annual report**  
*members first*



Homer  
Electric  
Association, Inc.

A Touchstone Energy® Cooperative





*message from president david carey  
& general manager brad janorschke*

Our member-owned electric cooperative began back in 1945 with the goal of providing affordable, reliable electric power to its members. Much has been accomplished since those early days, but the mission remains the same. In 2005, with our vision statement of "MEMBERS FIRST" serving as a guide, HEA implemented several projects that will benefit the cooperative for many years to come.

**STRAIGHT TALK ABOUT COSTS.** The Board of Directors is responsible for the financial well-being of the cooperative and we are pleased to report that Homer Electric is in sound financial shape. The annual audit of the cooperative resulted in an unqualified opinion from the auditor. HEA sold just over 500,000 megawatt hours of electricity which is a slight increase from 2004. New services were also on the rise in 2005, with 886 new services connected during the year. The growth of our cooperative reflects the steady, healthy growth that we see around the Kenai Peninsula.

In the fall of 2005, Homer Electric's Board of Directors approved an eight percent increase in electric rates. This increase, along with an upward trend in wholesale power cost adjustments, means higher electric bills for our members. This is not something that the Board of Directors wants to continue. While additional rate increases may be unavoidable in the near future due to escalating natural gas prices, Homer Electric is taking steps to reverse this trend. As a member-owned cooperative, we will pursue many promising options that have the potential to save our members money.

**AS A CO-OP, WE ARE IN THIS TOGETHER.** Homer Electric is not alone in the struggle to keep rates low. Nationwide, electric rates are on the rise due to huge increases in the cost of natural gas. In Alaska, the cost of natural gas for electric utility producers increased by 38 percent in 2005. Our goal is to lessen the dependence on natural gas as the fuel source for power generation.

We are exploring alternative fuel sources such as coal, coal gasification, and wind generation. These all have the potential to benefit Homer Electric in the future. In addition, we continue to reap the benefits of the Bradley Lake Hydroelectric Project. This renewable energy source provides Homer Electric with 20 percent of its energy needs.

**INNOVATION** is a cornerstone of electric cooperatives. Homer Electric continues to search for ways that we can improve our service and lower the cost to our members. In 2005, we carefully researched automated meter reading (AMR) products to find a better and more efficient way of reading meters. We selected a product that will eliminate estimated billing, improve accuracy in meter reads, allow for better outage management, and improve service reliability.

While technological advances such as AMR are exciting, the true spirit of the cooperative is found in its employees. Whether repairing a broken power line, answering a billing question, or helping a member set up a new electric service, HEA employees are accessible and responsive to the needs of the membership. The Board of Directors is extremely pleased with the on-going work being accomplished by the employees of Homer Electric.



**WE ARE MAKING A DIFFERENCE.** One of the electric cooperative principles is commitment to community. Homer Electric is an integral part of the fabric of our community on the Kenai Peninsula. Our employees and their families all live here, we attend church together, support local businesses, volunteer at schools and focus on local priorities. Homer Electric, as a member-owned cooperative, was created not to make a profit for an outside investor, but simply to deliver electric service and improve the quality of life for its members.

We are very proud of the community efforts of our employees at Homer Electric. You will see them volunteering at the Relay for Life, coaching a Little League team, raising money for United Way, hanging lights along a ski trail for the Arctic Winter Games, directing and acting in local theatre productions, serving on local non-profit boards, delivering food for the Food Bank, and countless other community endeavors. It's what being an electric cooperative is all about.

In closing, we would like to honor and thank all the men and women on the Kenai Peninsula who have served in our Armed Forces. Your commitment to protecting our freedom and way of life is so very much appreciated. We are proud of you and extend our deepest gratitude for your service.



*In 2005, several HEA members were part of a deployment of Alaska National Guard troops that served in Iraq. At the request of the soldiers, the Soldotna Rotary Club sent a care package of gifts and toys for the children of Baghdad. The package included HEA hats that the troops handed out around the city. Sgt. Will Schwenke (pictured) of Nikiski reported back that the hats were a big hit with the kids.*

## *In the aftermath of 2005's*

natural disaster to the Gulf Coast region, the entire nation experienced several negative impacts from Hurricane Katrina - one in the form of rising fuel costs. Alaska was no stranger to this consequence. Alaskans saw fuel cost increases not only at the gas pump, but also while paying their natural gas, fuel oil, propane and electric bills.

As always, but especially this past year, Homer Electric Association (HEA) continued to focus on projects that are financially beneficial to our members while exploring viable future sources of power generation. Some of the year's highlights include the Automated Meter Reading (AMR) Project, enhancement of the Line of Credit Program, continued research on the Fire Island Wind Power Project, a review of the Healy Clean Coal (HCCP) Project, and continued assessment of the Pebble Gold/Cooper Mine Project.

### **Automated Meter Reading Pilot Study**

To combat the frustration of estimated meter reads, inaccurate reads and estimated billing, Homer Electric launched an Automated Meter Reading (AMR) pilot study. AMR allows the Cooperative to read a meter remotely without having a person on site at the meter location. The sophisticated system uses HEA power lines to transmit meter readings and data directly from a residential electric meter to HEA's operation center.

For the pilot study, approximately 200 AMR meters were successfully installed to residential and commercial sites in Kenai and Kasilof. The results of the pilot studies proved favorable and HEA developed and implemented a five-year plan of upgrading all residential meters. HEA will upgrade 10,000

residential meters in 2006 and 5,000 meters a year thereafter, completing the upgrade in 2010.

### **Numerous customer service and cost saving benefits include:**

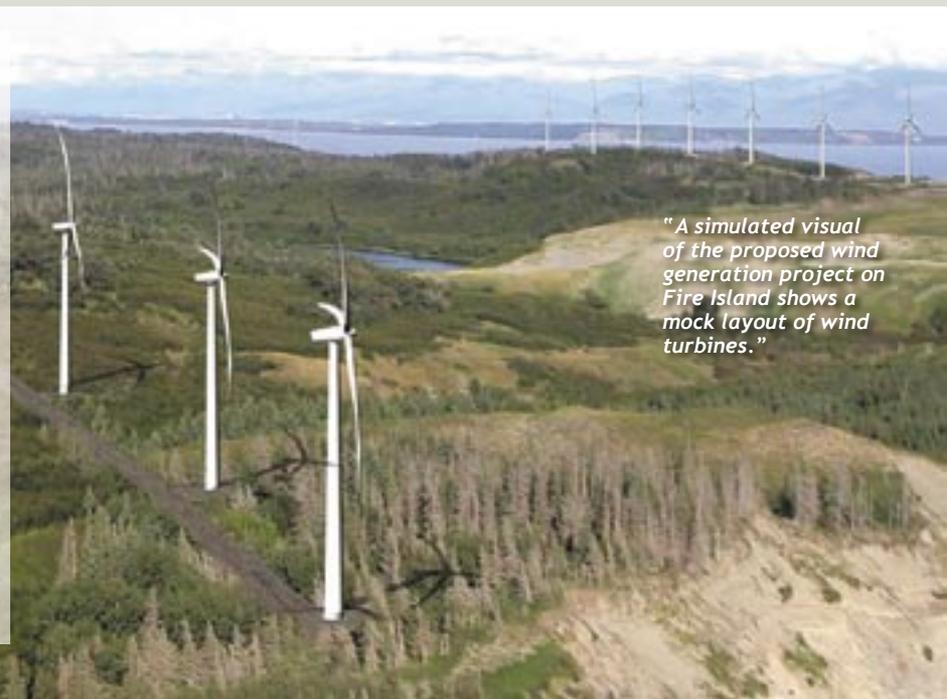
- Improved billing accuracy, enhanced customer service on billing and service issues
- Better outage management while providing usage data at locations
- Fully automated, daily meter readings on all meters
- Improved electric service reliability
- Eliminates the need for self-read meter readings
- Saves cooperative expenses such as meter reading and transportation costs
- Provides members with more detailed information such as power consumption patterns, outage and blink count history and voltage information



### **Fire Island Wind Power Project**

As the price of natural gas continues to escalate, the focus on alternative sources of power is increasing. Renewable energy sources are of interest to Homer Electric members and the cooperative has partnered with Chugach Electric Association, Anchorage Municipal Light & Power, and Golden Valley Electric Association to investigate the potential of a wind generation project on Fire Island, located in Cook Inlet near Anchorage.

As natural gas prices rise, the increased cost of fuel for Chugach Electric's power plants is passed to its wholesale customers like Homer Electric. A wind generation project, if expanded to its full scope of 100 megawatts of electricity, would reduce Chugach's requirements for natural gas by 14%. The renewable fuel source of wind power offsets high capital costs to potentially provide an economical source of energy to the Railbelt utilities. We are excited about the potential for this project and continue to work with other entities to evaluate the feasibility of the wind project that would benefit the entire Railbelt system.



*"A simulated visual of the proposed wind generation project on Fire Island shows a mock layout of wind turbines."*



### *Healy Clean Coal Project*

Homer Electric and Alaska Industrial Development & Export Authority (AIDEA) have entered into a Letter of Agreement to evaluate the feasibility of restarting the State-owned Healy Clean Coal Plant (HCCP). HCCP is a 50-megawatt coal fired electric generation facility located in Healy, 12 miles north of Denali National Park. HEA and AIDEA have undertaken preliminary development activities, including an engineering review and physical inspection to determine the current condition of HCCP. The results of the inspection will be used to develop the scope of work that will be required to make any necessary repairs and modifications to HCCP.

Homer Electric welcomes opportunities to diversify HEA's power supply options in the wake of rising fuel costs and the aging of existing facilities.

### ***Pebble Gold/Copper Mine Project***

One of the most significant projects discussed on the Kenai Peninsula over the past year has been the proposed Pebble Gold/Copper Mine Project on the west side of Cook Inlet.

Homer Electric is continuing discussions with Northern Dynasty Mines (NDM) regarding the Pebble Gold/Copper Project near Iliamna. Early in 2005, HEA and NDM agreed to jointly assess the technical and economic feasibility of connecting the proposed mine to HEA's transmission system.

While there is an agreement between HEA and NDM, much will still have to happen before any contracts are secured and HEA will only participate in this project if there is a benefit for the Cooperative's membership. Potential benefits include stabilizing system reliability and diversifying HEA's source of energy.

### ***Enhanced Line of Credit Program***

Homer Electric's Line of Credit program provides an affordable means for members to purchase approved energy-efficient electric appliances. In 2005, Homer Electric Association implemented an enhanced Line of Credit program which added more buying power for members and more finance options to the already existing program. The new program includes increased borrowing limits up to a \$5,000 loan amount and an increased repayment period up to three years. By purchasing merchandise from local vendors, the program participants will be supporting their community.

Homer Electric is committed to providing not only reliable, competitive electric service, but also services and programs like this to make it possible for families to afford energy-efficient products.

### ***Retirement & Employee Longevity Awards***

Homer Electric Association takes pride in who we are as a cooperative. Your local electric cooperative is made up of a team of familiar faces in the community who work to ensure you have safe, reliable electric service on a daily basis.

***In 2005, a handful of long-time employees retired from Homer Electric.***

***Join us in congratulating the following employees for their many years of commitment, hard work and professionalism:***

- Charlie MacDonald, Assistant Superintendent in Kenai, retired after 27 years with HEA;
  - Tony Gamboa, Serviceman in Homer, retired after 27 years;
- Lynn Whitmore, Engineering Specialist & Coordinator, retired after 25 years with HEA;
- Dave Bear, Land Management Officer based in Kenai, retired after 21 years with HEA;
  - Al Pyhala, Foreman in Homer, retired after 21 years at the co-op;
  - Carol Cordes, Meter Reader in Kenai, retired after 20 years at HEA; and
- Judy Erikson, Payroll Clerk based in Homer, retired after 14 years at the cooperative.

***Congratulations to several employees who celebrated their 20-year HEA employment anniversaries in 2005:***

- Brenda Bryant, Kenai Engineering Service Representative;
  - Tom Clyde, Kenai Foreman;
  - Carol Cordes, Kenai Meter Reader;
- Kelley Gabriel, Kenai Post-Construction Inspector;
  - Dean Glick, Kenai Foreman;
- Dan Irmen, Kenai Senior Apparatus/Meter Technician;
  - Leon Smith, Homer Foreman; and
  - Gary Wirz, Kenai Lineman.

***Congratulations to the following employees celebrating their 10-year anniversaries:***

- Sandra Ghormley, Kenai Manager of Member Services;
- Terie Loomis, Kenai Administrative Assistant; and
  - Melissa Trinidad, Homer Staff Journalist.

## treasurer's 2005 annual report



Homer Electric Association is committed to establishing electric rates that allow us to provide reliable, competitive utility services to our consumer-owners.

Homer Electric concluded the year 2005 with total consolidated revenues and non-operating income of \$60.9 million. That, combined with total consolidated costs of electric service of \$59.8 million resulted in a positive margin of \$1.1 million. The following is a financial summary for the year.

### **Retail Sales:**

Homer Electric sold 503.3 million kilowatt-hours of electricity in 2005, an increase of 4.5 percent from 2004. Large commercial sales accounted for most of the increased kWh sales.

### **Revenues:**

Revenue from energy sales was \$50.3 million, up from 2004. The increase in revenue was fairly even across all classes of energy sales..

### **Key Ratio:**

HEA's equity-to-total assets ratio (the accumulated ownership of the members in the assets of the utility) was 33 percent at year end, down 1.4 percent from 2004, but consistent with the Board's Equity goals. The equity-to-total assets ratio of Alaska Electric & Energy Cooperative's (AEEC), a single member cooperative which owns Homer Electric's generation and transmission assets, was 24%, comfortably above the recommended debt covenant of 20%.

### **Debt Cap:**

The Special Meeting of the Membership in December 2004 approved amendment of our debt cap to \$450 million from \$150 million. At December 31, 2005, our consolidated debt was \$154,040,851. The timely increase to the debt cap allowed the cooperative to operate in a normal manner.

### **Wholesale Power Cost Adjustment:**

This is the rate that reflects changes in the cost of purchased power. The wholesale power cost rate increased from \$(.01107) per kWh to \$.002750 throughout the year. January 1, 2005, the rate jumped to \$.0194 per kWh largely because of rising fuel costs.

### **Capital Credits:**

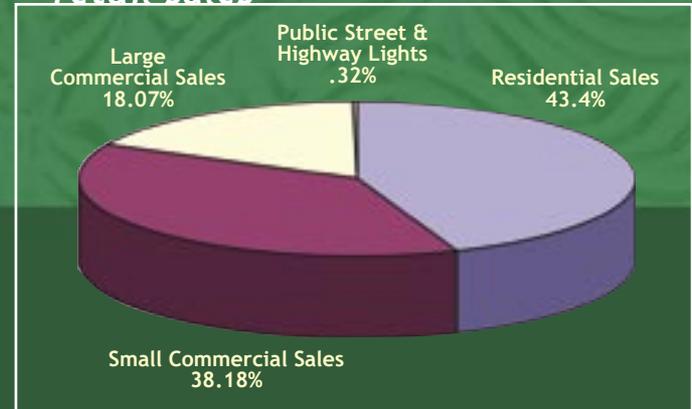
The 2005 budget approved by the board included \$250,000 for General Capital Credit retirements. The retirement checks were sent in August, 2005.

### **System:**

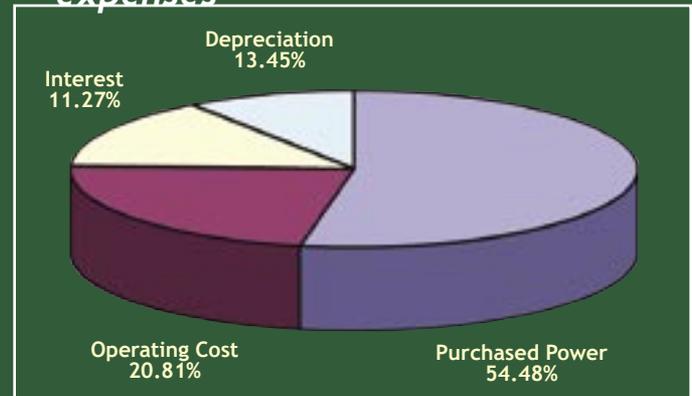
Services in place at year end totaled 29042, a 2.4 percent increase from 2004. There were 886 new services connected and 194 services retired, resulting in 692 additional services for the year.

In conclusion, Homer Electric had a financially productive year while keeping costs and rates down, providing greater value to its members.

### **retail sales**



### **expenses**



Homer Electric Association, Inc.  
Consolidated Balance Sheets  
December 31, 2005 and 2004

ASSETS	2005	2004	EQUITIES & LIABILITIES	2005	2004
<b>UTILITY PLANT (at cost) :</b>			<b>EQUITIES AND MARGINS:</b>		
Electric plant .....	\$240,698,759	\$234,028,418	Memberships .....	\$90,880	\$98,745
Electric plant held for future use .....	3,989,543	3,391,408	Patronage capital .....	48,201,035	47,549,719
Construction work in progress .....	8,187,034	9,442,968	Other equities - donated capital .....	1,589,514	1,540,076
<b>Total Utility Plant .....</b>	<b>252,875,336</b>	<b>246,862,794</b>	<b>Total equities and margins .....</b>	<b>50,281,429</b>	<b>49,588,540</b>
Less accumulated depreciation & amort. .....	(92,771,256)	(87,095,709)			
<b>Net utility plant .....</b>	<b>160,104,079</b>	<b>159,767,085</b>			
<b>OTHER ASSETS AND INVESTMENTS:</b>			<b>LONG-TERM DEBT:</b>		
Investment in assoc. organizations .....	16,339,078	15,815,759	NRUCFC mortgage notes .....	134,615,143	131,709,296
Other investment .....	4,592,479	1,950,065			
Notes receivable .....	1,778,630	1,561,869			
Non-utility property, net of accum. depreciation of \$121,113 in 2005 and \$84,643 in 2004 .....	684,895	698,255			
<b>Total other assets and investments .....</b>	<b>23,355,082</b>	<b>20,025,948</b>			
<b>CURRENT ASSETS:</b>			<b>CURRENT LIABILITIES:</b>		
Cash & cash equivalents .....	5,368,625	3,509,060	Line of Credit .....	2,500,000	-
Accounts receivable, less allowance for doubtful accounts of \$78,787 in 2005 and \$192,962 in 2004 .....	7,432,262	4,101,060	Current portion of long term debt .....	4,605,730	4,570,862
Unbilled revenue .....	3,200,000	2,800,000	Accounts payable .....	3,841,648	2,771,173
Materials, fuel and supplies .....	2,457,015	2,635,977	Wholesale power cost adjustment .....	305,487	571,824
Notes receivable, current portion .....	522,165	727,915	Consumer deposits .....	765,522	650,059
Other current and accrued assets .....	237,801	239,155	Accrued payroll and benefits .....	1,134,772	1,134,130
<b>Total current assets .....</b>	<b>19,217,868</b>	<b>14,013,167</b>	Accrued taxes and other current liabilities .....	732,537	839,652
			<b>Total current liabilities .....</b>	<b>13,586,096</b>	<b>10,537,700</b>
<b>DEFERRED CHARGES .....</b>	<b>1,645,680</b>	<b>2,390,538</b>			
	<b>\$204,322,680</b>	<b>\$196,196,738</b>	<b>DEFERRED CREDITS: .....</b>	<b>5,539,612</b>	<b>4,361,202</b>
				<b>\$204,322,680</b>	<b>\$196,196,738</b>

Consolidated Statements of Operations & Patronage Capital  
Years Ended 2005 and 2004

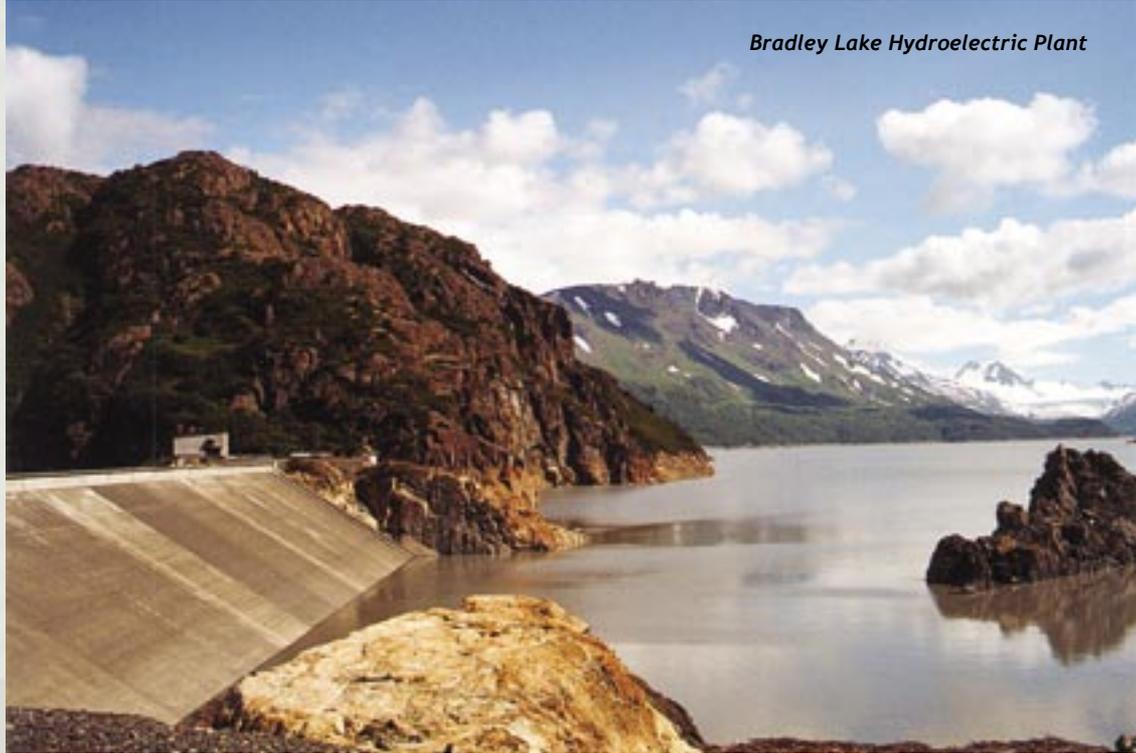
	2005	2004
<b>Operating Revenues</b>	<b>\$59,487,912</b>	<b>\$51,868,862</b>
<b>Operating Expenses:</b>		
Cost of power .....	32,583,779	27,413,208
Transmission expense .....	249,572	189,301
Distribution - operations .....	1,072,826	867,980
Distribution - maintenance .....	2,306,862	2,603,794
Production - maintenance .....	249,570	190,668
Consumer accounts .....	2,325,813	2,305,113
Customer service & information .....	344,697	354,522
Sales expense .....	174,438	143,900
Administrative and general .....	5,503,614	4,935,813
Depreciation and amortization .....	8,042,584	7,591,510
Taxes .....	291,818	246,428
Miscellaneous .....	218,020	97,143
<b>Total operating expenses .....</b>	<b>53,323,593</b>	<b>46,939,380</b>
<b>Operating margins before fixed charges .....</b>	<b>6,164,319</b>	<b>4,929,482</b>
<b>Fixed charges:</b>		
Interest on debt .....	6,522,012	4,795,051
Allowance for borrowed funds used during construction .....	(345,172)	(233,429)
<b>Total fixed charges .....</b>	<b>6,176,840</b>	<b>4,561,622</b>
<b>Operating margins (loss) after fixed charges .....</b>	<b>(12,521)</b>	<b>367,860</b>
Patronage capital allocation .....	737,756	481,816
<b>Net operating margins .....</b>	<b>725,235</b>	<b>849,676</b>
<b>Non-operating margins:</b>		
Interest income .....	366,636	261,767
Other income (expense) .....	32,243	(23,396)
<b>Total non-operating margins .....</b>	<b>398,879</b>	<b>238,371</b>
<b>Net margins .....</b>	<b>1,124,114</b>	<b>1,088,047</b>
Patronage capital - beginning of year .....	47,549,719	47,003,200
Less retirement of patronage capital credits .....	(472,798)	(541,528)
<b>Patronage capital - end of year .....</b>	<b>\$46,991,039</b>	<b>\$47,849,719</b>

balance sheets



## Board of Directors

David R. Carey, President  
Hugh Chumley, Vice President  
Mike Nugent,  
Secretary/Treasurer  
Debbie Debnam,  
Deputy Secretary  
Ruth Fitzpatrick, Director  
Roseleen (Snooks) Moore,  
Director  
Bruce Passe, Director  
J. Michael Pate, Director  
John Standefer, Director



Bradley Lake Hydroelectric Plant

### Power

Nikiski Cogeneration Project	39.0 MW
Seldovia Power Plant	2.5 MW
Bradley Lake Hydroelectric	14.0 MW*

\*Homer Electric's share of Bradley Lake's 120 megawatt capacity is 14 MW. The remainder of power needed is purchased through contract or on the economy energy market.

### Facts

- 18,010 member-owners
- 29,074 meter locations
- 2,229 total miles of energized line
- 8 members per mile of line
- 13 meters per mile of line
- 3,166 square-mile service area

### Members First

As a member of a nonprofit electric cooperative, you own part of the company. If Homer Electric's revenue exceeds the cost to provide electric service, the extra revenue is assigned to your capital credit account in proportion to the amount of electricity you used in a particular year. Capital credits represent your share of equity in the company and are refunded to you at a later date.



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