

**CHUGACH ELECTRIC ASSOCIATION, INC.**  
**Anchorage, Alaska**

**BOARD OF DIRECTORS' MEETING**  
**AGENDA ITEM SUMMARY**

**February 18, 2008**

**ACTION REQUIRED**

**AGENDA ITEM NO. V. D.**

Information Only  
 Motion  
 Resolution  
 Executive Session  
 Other

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**TOPIC**

2008 Operating Budget Revision

**DISCUSSION**

On February 4, 2008, the Finance Committee met and reviewed a proposed 2008 Operating Budget revision to implement the Blue Ribbon Panel Report Summary Recommendations. The Finance Committee recommended to the Board of Directors approval of the 2008 Amended Operating Budget.

The 2008 Amended Operating Budget is expected to produce margins of \$9.1 million, an increase of \$2.4 million over the original 2008 Operating Budget, a Margins for Interest/Interest (MFI/I) ratio of 1.39 and an Equity to Total Capitalization Ratio of 31.6%. These results are based on a Total Cost of Service of \$264.4 million, Total Revenue of \$272.1 million and Non-Operating Margins of \$1.3 million.

The 2008 Amended Unbundled Operating Budget is expected to produce Distribution margins of \$7.8 million and a Distribution MFI/I of 2.05 with Generation & Transmission margins of \$1.3 million and a Generation & Transmission MFI/I of 1.08.

Details of the 2008 budget revision, by Statement of Operations line item, are attached as Exhibit 1.

**MOTION**

Move that the Board of Directors' vote to approve the 2008 Amended Operating Budget which is expected to produce margins of \$9.1 million, a Margin for Interest/Interest (MFI/I) ratio of 1.39 and an Equity to Total Capitalization ratio of 31.6%. These results are based on a Total Cost of Service of \$264.4 million, total Revenue of \$272.1 million and Non-Operating Margins of \$1.3 million.

The 2008 Capital Improvement Program is \$45.3 million consisting of the following functional categories and amounts:

Telecommunications/SCADA	\$3.9 million
Distribution	\$12.6 million
Transmission	\$7.1 million
Generation	<u>\$21.7 million</u>
Total	\$45.3 million

The unbundled 2008 Amended Operating Budget is expected to produce Distribution margins of \$7.8 million and a Distribution MFI/I of 2.05 with Generation & Transmission margins of \$1.3 million and a Generation & Transmission MFI/I of 1.08.

The 2008 Amended Operating Budget results meet or exceed the approved 2008 Budget Planning Criteria. The criteria and budgeted results are as follows:

	<u>Criteria</u>	<u>2008 Amended Budget</u>
<b>Margins for Interest/Interest</b>	<b>&gt; 1.25</b>	<b>1.39</b>
<b>Equity Ratio</b>	<b>30% or greater</b>	<b>31.6%</b>
<b>Rotate Capital Credits at 50% of prior year's margins</b>	<b>50%</b>	<b>&gt;50%<sup>1</sup></b>

<sup>1</sup> Pursuant to a prior settlement agreement, capital credit rotations to HEA, MEA and Seward will equal \$1,478,779 in 2008. The 2008 Amended Budget proposes an equal distribution of \$1,478,779 to Chugach's retail customers. This distribution is greater than 50% of prior year's margins, however, Chugach remains in compliance with the Amended and Restated Indenture of Trust because Chugach's equity ratio remains above 30% which reduces the restrictions surrounding our distribution of member equity.

**EXHIBIT 1**  
**CHUGACH ELECTRIC ASSOCIATION, INC.**  
**COMPARATIVE FINANCIAL REPORT**  
**STATEMENT OF OPERATIONS**

CATEGORY	2008 ORIGINAL BUDGET	2008 AMENDED BUDGET	\$ CHANGE
<b>REVENUES:</b>			
<b>1. TOTAL REVENUE</b>	<b>\$271,778,729</b>	<b>\$272,069,723</b>	<b>290,994</b>
<b>EXPENSES:</b>			
2. FUEL EXPENSE	121,218,046	121,218,046	0
3. POWER PRODUCTION EXPENSE	16,880,191	16,445,185	(435,006)
4. COST OF PURCHASED POWER	31,122,494	31,119,383	(3,111)
5. TRANSMISSION EXPENSE	6,681,109	6,483,569	(197,540)
6. DISTRIBUTION EXPENSE-OPERATIONS	4,891,018	4,696,382	(194,636)
7. DISTRIBUTION EXPENSE-MAINTENANCE	7,234,088	7,029,742	(204,346)
8. CONSUMER ACCOUNTS EXPENSE	5,195,843	5,041,115	(154,728)
9. CUSTOMER SERVICE/INFO EXPENSE	711,976	699,429	(12,547)
11. ADMINISTRATIVE/GENERAL EXPENSE	18,368,138	17,690,176	(677,962)
<b>12. TOTAL OPERATIONS/MAINTENANCE EXP.</b>	<b>\$212,302,903</b>	<b>\$210,423,027</b>	<b>(\$1,879,876)</b>
13. DEPRECIATION/AMORTIZATION EXPENSE	30,415,370	30,354,147	(61,223)
14. TAX EXPENSE-OTHER	884,862	884,862	0
15. INTEREST-LONG TERM DEBT	23,119,883	23,119,883	0
16. INTEREST ON CONSTRUCTION-CREDIT	(998,921)	(998,921)	0
17. INTEREST EXPENSE-OTHER	453,333	325,417	(127,916)
18. OTHER DEDUCTIONS	250,000	250,000	0
<b>19. TOTAL COST OF ELECTRIC SERVICE</b>	<b>\$266,427,430</b>	<b>\$264,358,415</b>	<b>(\$2,069,015)</b>
<b>20. PATRONAGE CAPITAL/OPERATING MARGINS</b>	<b>5,351,299</b>	<b>\$7,711,308</b>	<b>\$2,360,009</b>
21. NON-OPERATING MARGINS-INTEREST	364,119	392,263	28,144
22. ALLOWANCE FUNDS USED DURING CONST.	431,788	431,788	0
23. NON-OPERATING MARGINS-OTHER	0	0	0
24. GENER./TRANS. CAPITAL CREDITS	0	0	0
25. OTHER CAPITAL CREDITS/DIVIDENDS	525,000	525,000	0
26. EXTRAORDINARY ITEMS	0	0	0
<b>27. PATRONAGE CAPITAL OR MARGINS</b>	<b>\$6,672,206</b>	<b>\$9,060,359</b>	<b>\$2,388,153</b>