

**CEO Goals for 2006**  
**Chugach Electric Association, Inc.**  
**May 3, 2006**

**DRAFT**

**Goal 1.0 - Rate Review**

Discussion: Restructure rates between G&T and Distribution functions to correct debt structure and properly allocate interest expense while updating depreciation schedules and cost of service.

2006 Tasks

- a. Preliminary rate case to Chugach Board by 7/20/06 for concurrence to discuss send to parties
- b. Preliminary rate case results to MEA Joint Committee process, as well as HEA, SES and RAPA by 8/1/06
- c. Board approval of rate case filing at 9/20/06 Board meeting
- d. File rate case with RCA by 9/30/06

**Goal 2.0 – Single-member G&T Update**

Discussion: The Chugach Board of Directors (BOD) passed a Resolution on September 15<sup>th</sup> 2004 that directed the CEO to undertake all necessary steps to craft a plan to create a single-owner G&T organization that would hold all Chugach assets, contractual arrangements, and associated debt. A three-part plan was developed and presented to the BOD on March 8, 2005. To date, Chugach Staff has completed all steps in part A that functionally unbundles the organizations finances without a change in corporate structure. The next step is to determine whether organizational restructuring and financial unbundling meets the needs of the Association or if we need to evaluate the feasibility and necessity of proceeding with a separate corporate structure.

2006 Tasks

- a. Evaluate feasibility and necessity of proceeding with separate corporate structure by June 30, 2006.
- b. Provide recommendation to BOD on whether Chugach should proceed with Steps B and C of the overall plan by the August BOD meeting.

**Goal 3.0 – Make decision on future generation**

Discussion: Aging generation and high fuel prices have significantly increased G&T rates to customers. Of the near-term options, coal has a significant hurdle due to high initial capital costs and gas turbines have the uncertain future of dwindling gas supply and volatility of market-based (Henry Hub) prices. Other options such as wind, geo-thermal and hydroelectric are under investigation, but likely will not meet near or mid-term needs (5 to 10 years).

2006 Tasks

- a. Complete coal plant and gas plant development options by September 1, 2006.

- b. Provide recommendations to Board of Directors by October 2007.

**Goal 4.0 – Secure favorable gas price and adequate volumes to meet Chugach needs through at least 2020**

Discussion: Current Chugach gas volumes will run out by approximately 2011. Period 3 volumes (120BCF) under contract from the Beluga producers are committed but not priced. Chugach will require gas in the foreseeable future regardless if Chugach moves towards coal. Understanding the market will assist Chugach in making generation choices.

2006 Tasks

- a. Establish team to undertake negotiations (legal, consultant, Chugach team)
- b. Meet with Marathon, Conoco Phillips, Chevron & AML&P
- c. Open dialogue with small producers (Aurora, Forest Oil, other...)
- d. Open dialogue with coal suppliers
- e. Keep current on Marathon/Enstar contract approval with RCA

**Goal 5.0 – Improve overall efficiencies through innovation, new technology and adoption of best practices.**

Discussion: Chugach should strive to provide what members want most: high reliability, reasonable prices and excellent customer service.

2006 Tasks:

- a. The CEO shall promote innovation, new technology and adoption of best practices by establishing an employee recognition system and report quarterly to the Board of Directors on success.
- b. The CEO shall require Division Balanced Scorecards to be complete within the first quarter and shall require quarterly updates on progress.

**Goal 6.0 – Establish high standards of Health, Safety and Environmental Stewardship (HSE)**

Discussion: Excellent HSE is the cornerstone of a highly effective organization – Chugach shall strive to be an industry leader.

2006 Tasks:

- a. Report HSE results monthly/quarterly to the Board of Directors
- b. Establish goals that improve upon prior-years efforts
- c. Establish Safety Incentive program by 2<sup>nd</sup> quarter 2006
- d. Establish financial reporting system for June BOD meeting

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**Goal 7.0 – Maintain high levels of reliability and customer service**

Discussion: Chugach members desire high levels of reliability. Chugach must operate, maintain, and inspect its system to meet this goal. Certain capital expenditures are required to meet this challenge.

2006 Tasks:

- a. Establish reliability target and report quarterly to the Board of Directors.
- b. Outage frequency and duration should not drop below prior five-year averages and remain within industry standards
- c. Generation unit reliability should meet or exceed industry standards
- d. Generation unit availability should meet or exceed industry standards adjusted by age, remoteness and operational aspects present in the Chugach system.
- e. Chugach shall inspect and maintain its system in accordance with prudent utility practices and shall report progress on a quarterly basis for a minimum of the following areas:
  - a. Vegetation control
  - b. System inspection
  - c. Completion of critical maintenance work
  - d. Identification of maintenance backlog
  - e. System failures (SCADA; substation etc...)
- f. Survey customers at least annually to determine service levels – Report survey results to Board of Directors - Strive to maintain or improve overall level of service as determined in multiple categories.

**Goal 8.0 - Ensure key financial measures within Financial Management Plan (FMP) are met**

Discussion: Maintaining a sound credit rating is key to managing Chugach's debt. Within 5 years (2011/2012) Chugach will have to refinance \$270 million in long-term debt.

2006 Tasks:

- a. Ensure operating costs are within the approved 2006 Budget
- b. Ensure capital expenditures are within the approved 2006 Budget
- c. Maintain a MFI/I at 1.20
- d. Achieve an Equity Ratio in the 25-30% range
- e. Retire Capital Credits at 50% of prior-years margins
- f. It is important that Chugach maintain or improve its current ratings with Fitch, Moody's and Standard & Poor's.

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**Goal 9.0 - Negotiate labor contracts with represented employees**

Discussion: All three IBEW contracts (office & engineering, outside plant, and generation plant) and the culinary union (HERE) terminate on June 30<sup>th</sup> of this year. A substantial effort will be required by both management and bargaining unit personnel to work towards a win/win result.

2006 Tasks:

- a. Establish goals and objectives for each agreement – Complete
- b. Identify negotiating teams for each agreement
- c. Set timelines for negotiating teams
- d. Provide monthly updates to the Board of Directors

**Goal 10.0 – Develop 2007 Legislative Agenda**

Discussion: Chugach must maintain leadership on Railbelt utility issues

2006 Tasks:

- a. Meet with wholesale customers on items of joint interest
- b. Meet with GVEA, AML&P and SES on items of joint interest
- c. Coordinate with APA, NWPPA and NRECA on legislative issues
- d. Develop legislative agenda by October 15, 2006
- e. Hold legislative Open House the 4<sup>th</sup> week of November, 2006

## 2005 CEO Goals

- I. **Maintain System Reliability:**
  - A. Maintain system reliability within the “reliability triangle” (number of outages and durations).  
Performance measures are:
    - SAIFI 1.7 or fewer outages per member per year
    - CAIDI less than 90 minutes per outage
    - SAIDI less than 150 minutes per consumer per year
  - B. Maintain Beluga plant reliability > than 98% and forced outage rate < 2%
  - C. Ensure member satisfaction in service restoration and reliability by surveys where 90% of our members grade service reliability and restoration “B” or better
- II. **Ensure the Financial Health of the Association**
  - A. Ensure operating costs within approved 2005 budget levels
  - B. Ensure capital expenditures within approved 2005 budget levels
  - C. Meet the financial goals of the Association
    - a. Maintain MFI at 1.20 level; Equity Ratio at a range of 25-30%; Capital Credit retirements at 50% of prior-year margins
  - D. Meet long-term fuel needs of the Association and limit price volatility
    - a. Begin discussions with respondents to the Fuel RFP
    - b. Negotiate to re-price period 3 gas
    - c. Investigate long-term fuel supply alternatives
  - E. Proceed with Single Member G&T Plan
    - a. Functionally unbundle organization
  - F. Complete assessment/obtain attestation internal controls effectiveness
- III. **Cyber Security**
  - A. Implementation of a program to develop a culture of cyber security awareness
  - B. Conduct regular cyber security audits with internal and external resources
  - C. Report regularly the results of cyber security efforts
- IV. **Provide a High Level of Service to our Members**
  - A. Ensure members are treated appropriately and conduct retail customer surveys
  - B. Offer new and innovative customer and member services
  - C. Keep the membership informed of benefits of membership
- V. **Maintain our Leadership Amongst Electric Utilities in the State**
  - A. Lead efforts with Railbelt utilities to develop and execute a Railbelt-wide Legislative Plan
  - B. Integrate Chugach’s IRP with other Railbelt Utilities
- VI. **Provide our Employees a Safe, Challenging, and Rewarding Place To Work**
  - A. Maintain an aggressive safety program. Achieve an improvement over 2004 safety statistics by reducing the lost time rate from 3.39 to 3.25 and a recordable incident rate of 5.5
  - B. Create a new safety awareness campaign to encourage safe work practices and reward success
  - C. Provide opportunities for employees to progress to higher responsibilities
  - D. Ensure a competitive wage and salary program
  - E. Develop a strategy for labor negotiations within the first quarter of 2005
  - F. Set appropriate targets under the Gains program
- VII. **Relationship with our Wholesale Customers**
  - A. Continue meeting with Wholesale Customers on plans for renewal, extension, or modification of current agreements
  - B. Implement acceptable alternative wholesale customer relationships such as joint action agencies, power pools or G&T organizations
  - C. Involve Wholesale Customers and others in the Chugach planning process as appropriate
- VIII. **Continue pursuit of innovative ways, means, methods, and procedures in achieving Goals I-VII above.** Report quarterly to Board of Directors on progress