CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

REGULAR BOARD OF DIRECTORS' MEETING
AGENDA ITEM SUMMARY

June 25, 2008

ACTION REQUIRED **AGENDA ITEM NO. XI.B.**

____ **Information Only**
_X_ **Motion**
____ **Resolution**
____ **Executive Session**
____ **Other**

TOPIC

Approve 2005-2007 Proposed Capital Credit Allocation Resolution

DISCUSSION

Background

Chugach needs to allocate Retail and Wholesale capital credits for 2005, 2006 and 2007. The streamlined cost of service approach is the methodology that has been used to allocate capital credits since the late 1980s.

That approach reflects the relationships between revenue and ratemaking margins established by the Regulatory Commission of Alaska (RCA) in Chugach's last rate case(s). The rates in effect from 2005 through 2007 reflect the 2000 Test Year results. From the approved rate case results, we know the total system revenue, as well as the individual revenue and resultant margins for each wholesale customer and the retail class. The streamlined cost of service approach assumes each class makes that proportional contribution to whatever level of system margins is actually achieved.

Preliminary Estimate of Capital Credit Allocations Based on Streamlined ACOS Approach

As shown in Table 1, $22.6 million of margins were earned in the 2005 through 2007 period. Chugach's preliminary estimate of capital credit allocations is that $21.1 million would be allocated to retail members and $1.5 million would be allocated to wholesale members.

Finance Committee Review

The Finance Committee reviewed this proposal at its June 11, 208 meeting. Additional materials used in that discussion are provided as Exhibit 1.

MOTION

Move that the Board of Directors approve utilizing the streamlined cost of service approach, using 2000 Test Year results for the proposed capital credit allocation for 2005-2007

Table 1

Chugach Electric Association, Inc.
Preliminary Estimate of Capital Credit Allocations
Streamlined Cost of Service Approach
for Years 2005 through 2007

	2005	2006	2007	Total
Retail - G&T	$0.8	$0.3	$0.3	$1.4
Retail - Distribution	$8.1	$9.4	$2.2	$19.7
Wholesale - HEA	$0.3	$0.1	$0.1	$0.5
Wholesale - MEA	$0.5	$0.2	$0.2	$0.9
Wholesale - SES	$0.1	$0.0	$0.0	$0.1
Total Capital Credit Allocations	$9.8	$10.0	$2.8	$22.6
Total Retail Capital Credit Allocation	$8.9	$9.7	$2.5	$21.1
Total Wholesale Capital Credit Allocation	$0.9	$0.3	$0.3	$1.5

Exhibit 1: Material Provided to Finance Committee for its Discussion at its June 11, 2008 Meeting

2005 Test Year Results – Restructured Rates to Reflect Current Costs

To address the discrepancy in margin performance, Chugach filed a 2005 Test Year rate case to restructure rates to properly allocate long-term debt and interest expense which would allow both functions to achieve authorized ratemaking margin levels. The RCA issued its final order in this docket authorizing Chugach to implement revised rates effective June 1, 2008. Through that docket revenue requirements, including allocations of long-term debt and interest expense, have been updated.

Estimates of Margins and Capital Credit Allocations

Chugach staff has prepared an initial estimate of capital credits for the years 2005-2007 under the streamlined cost of service methodology. This initial estimate shows that $2.9 million would be allocated to G&T over the three year period. In contrast, unbundled results for this same period, using the interest allocator ordered by the RCA, would indicate the G&T had negative margins of about $3.1 million. Attachment 1 presents these results.

The difference between the two calculations means that about $6.0 million more in capital credits would be allocated to the G&T function. Retail members' share of the increased G&T capital credits would be about $3.0 million. At the same time, about $6.0 million fewer capital credits would be allocated to the Distribution function, all of which is assigned to retail members. The net result is that wholesale customers would receive about $3.0 million more, and retail customers $3.0 million less, under the streamlined cost of service approach.

Possible Alternative

Chugach could propose a new methodology for allocation of capital credits. That would logically be a more detailed cost of service approach – a process very similar to the unbundled financials Chugach prepares. However, there has been no discussion of the alternative with wholesale customers. The unbundled results calculated by Chugach for these years have not been accepted by the wholesale customers, nor has their use for capital credit allocation purposes. Without discussion and agreement, it would likely be a "mini rate case", and similarly contested.

Attachment 1 to Exhibit 1

Chugach Electric Association, Inc.
Capital Credit Allocation
Comparison of Streamlined ACOS Methodology with Adjusted Unbundled Results
for Years 2005 through 2007

	2005			2006			2007			Total: 2005 - 2007		
	Total	G&T	Distribution	Total	G&T	Distribution	Total	G&T	Distribution	Total	G&T	Distribution
Streamlined ACOS Methdology	$9.8	$1.7	$8.1	$10.0	$0.6	$9.4	$2.9	$0.6	$2.3	$22.7	$2.9	$19.8
Unbundled Income Statement*	$9.8	-$0.6	$10.4	$10.0	-$0.2	$10.2	$2.9	-$2.3	$5.2	$22.7	-$3.1	$25.8
Difference	$0.0	$2.3	-$2.3	$0.0	$0.8	-$0.8	$0.0	$2.9	-$2.9	$0.0	$6.0	-$6.0

*2006/7 Include Estimate of Use of Net Plant Allocator