

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

BOARD MEETING
AGENDA ITEM SUMMARY

September 13, 2006

ACTION REQUIRED

AGENDA ITEM NO. IX.D.

Information Only
 Motion
 Resolution
 Executive Session
 Other

TOPIC

2006 NRECA Resolutions

DISCUSSION

Attached is a report of the NRECA Issues Committee which contains the resolutions that will be discussed at the NRECA Regional meetings (Region IX September 20-22 in Fairbanks) and voted on at the NRECA Annual Meeting next March. Also attached is staff's report and recommendations on the resolutions to be considered. These resolutions were reviewed at the September 6, 2006, Board Operations Committee meeting for recommendation to the Board. This review and recommendation will enable Chugach's delegate to the Region IX meeting to vote in an informed manner.

CEO's RECOMMENDATION

Move that the Board of Directors accept the attached recommendation on the proposed resolutions for NRECA's 2006 regional meeting to be held in Fairbanks September 20-22, 2006.

Suggested Chugach positions on proposed NRECA Resolutions

Proposed Resolution #1 – Cooperative Support for Renewable Energy

Suggested position: Support

Proposed Resolution #2 – Cooperative Efforts to Address Energy Conservation and Efficiency

Suggested position: Support

Proposed Resolution #3 – RUS Engineering and Technical Standards

Discussion: Since Chugach is no longer an RUS borrower, we are no longer required to use RUS standards. However we have chosen to keep them as our minimum engineering requirements for distribution, and use NESC as our guideline for transmission construction. We have gone beyond RUS standards for distribution in urban settings, particularly when undergrounding.

Suggested position: Abstain

Proposed Resolution #4 – Manufactured Housing

Suggested position: Support

Proposed Resolution #5 – National Transmission Grid

Discussion: We have some concerns about the ability of local utilities being able to afford to implement a program to “Expand access to the grid by eliminating constraints and congestion of the existing grid.” It is also not clear that this resolution would mean anything for Alaska given our geographic separation from the Lower 48 grid. It is also not clear who would own the transmission grid or how it would be paid for, controlled or managed. As a concept the nation – including Alaska – would benefit from a robust transmission grid allowing power to flow from economical generation to customers. Ultimately it would be important to know the cost of such a plan and the impact on customers’ bills or taxes.


Suggested position: Support if questions can be favorably answered about how it would work in Alaska, otherwise abstain.

Proposed Resolution #6 – Mandatory Electric Reliability Standards

Suggested position: Support



**National Rural Electric
Cooperative Association**

A Touchstone Energy* Cooperative 

Issues Committee Report

June 2006

The Issues and
Proposed Resolutions

Presented to the NRECA members and Board of Directors
and for the Consideration of the NRECA Membership
at the 2006 Regional Meetings

NRECA 2006 Issues Committee

Issues Committee

Jeff Quyle, Chairman

Community and Economic Development Committee
Chair Gary Stooksbury, CEO
Aiken Electric Cooperative
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Insurance and Employee Welfare Committee
Chair James Stuart, President
Harrison REA, Inc
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Legislative Committee
Chair Jeffrey Quyle
Economic Development Coordinator
Hoosier Energy REC
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Management Issues Committee
Chair Meera Kohler, President/CEO
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Marketing and Energy Services Committee
Vice Chair Charles Dalton, President/CEO
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Power and Generation Committee
Chair Don Kimball, CEO
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Power and Water Resources Committee
Chair Jeff Nelson, General Manager
East River Electric Power Co-op
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Telecommunications Committee
Chair Joseph L. Lackey, Sr., Supervisor
Telecommunications
Southside Electric Co-op
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joe.lackey@sec.coop

Consumer and Public Relations Committee
Chair Ordean "Lars" Nygren, General Manager
Capital Electric Co-op
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Resolutions Committee
Chair Fred R. Guyer, Trustee
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The Issues Committee was expanded to include other standing committee officers to represent NRECA regions not represented by the individuals elected to chair a national standing committee. Other standing committee members appointed to augment the Issues Committee this year (and the region each represents), are:

Power and Water Resources Committee / Region III Rep

Roy Palk, President & CEO
East Kentucky Power Co-op
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Winchester, KY 40391-9709
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Legislative Committee / Region V Rep

Marcia Scott, General Manager
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Legislative Committee / Region VII Rep

Paul Neil, President
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Telecommunications Committee / Region VIII Rep

Leon Philpot, President/CEO
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NRECA Staff Liaisons to the NRECA Issues Committee

Millie Joray, 703.907.5808 / millie.joray@nreca.coop
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Introduction: NRECA Member Resolutions Development Process Begins

The NRECA Issues Committee met June 23-24, 2006 at NRECA. The Committee reviews current resolutions that may require substantive update, identifies emerging issues and develops proposed resolutions to present to the NRECA membership for consideration during the NRECA Regional Meetings. These proposals provide NRECA members with a shared launch pad to generate discussion and to begin the dialogue in your state and region as to how these proposals – or others – can become policy guidelines for NRECA to meet members' ongoing needs.

We solicited your thoughts. This annual process allows the co-ops and public power districts that *are* NRECA to unite, in a collaborative way, to develop the policy agenda for the electric co-op sector of the industry. Broad participation in the resolutions process can only enhance the value of your ownership of this Association, and what this Association accomplishes on your behalf. This is democratic representation and cooperation at its best. It is through these collaborative efforts that the Issues Committee is able to develop these proposals for your further consideration.

Consideration was given to every issue. Our discussions ranged the gamut of concerns raised by NRECA members. However, an overarching theme threaded its way throughout our every discussion, be it on the need for adequate transmission; ongoing education and training programs; a proactive stance for renewable generation or the value of the NRECA health pension plans. The overarching theme that emerged called for a renewed focus on the fundamentals of who we are and the value of the cooperative business principles that made us so.

Some items were *not advanced* as new proposed resolutions because the Committee determined they already were adequately addressed in existing NRECA resolutions. Other items were best implemented directly by CEO Glenn English and his staff or by the NRECA Board; these were duly conveyed. Members who submitted items for consideration are invited to contact any Issues Committee representative for the disposition of the issues that came before this Committee. NRECA members are also invited to raise any issue again during the Regional Meetings.

More opportunities for input during Regional Meetings. The 2006 Regional Meetings provide you with opportunities for dialogue, discussion and comment or amendment on these or any other proposals. What is contained in this report should not be construed as limiting discussion or debate on any issue you wish to explore during the Regional Meetings. In fact, many of the proposed issues contained herein are intended to solicit your thinking.

Transparency of process; accessibility. The 2006 resolutions that are currently in effect and this Committee's Proposed Recommendations are available on www.cooperative.com [<https://www.cooperative.com/government/governance.htm>] Similarly, down the road, as each Region's resolutions are approved, these proposals will be available also on www.cooperative.com one business day following that Region's Business Session. Active member participation will only enable NRECA to serve you better, as the resolutions that are ultimately adopted express the majority views of our electric cooperative network. Again, please feel free to contact me or any Issues Committee member if you have questions about the issues that were considered or advanced. The ball is now in your court.



Jeff Quyle, Chairman
NRECA Issues Committee
jquyle@hepn.com

Executive Summary

Proposed Resolution #1: Cooperative Support for Renewable Energy. The Issues Committee recommends a re-write of the 2006 resolution (05-G-1), **Cooperative Support for Renewable Energy**. The Committee senses that economic factors, national security factors and membership concerns are rapidly changing renewable power's place in the marketplace. Cooperatives are being subjected to political, agricultural industry and media scrutiny regarding how we interact with renewable energy sources, and it is in the program's best interest that language in the resolution "stakes out the high ground" to tell our story as it relates to our willingness to support and work with renewable sources.

Proposed Resolution #2: Cooperative Efforts to Address Energy Conservation and Efficiency. The Issues Committee recommends a revision of the resolution on energy efficiency and effectiveness (06-F-2), adopted from the floor during the Business Meeting at the last annual meeting. This resolution should benefit from going through the regional process and gathering thoughtful analysis and input from the membership, especially with regard to similar language in existing resolutions.

Proposed Resolution #3: RUS Engineering and Technical Standards. The Committee recommends amendment of the 2006 resolution (05-E-5) to include language that seeks to safeguard the primacy of RUS construction standards for cooperative lines, so that storm-damage concerns do not lead states to adopt construction standards that supersede the RUS standards. The RUS standards provide consistent standards for construction and repair that allow cooperatives to operate and cooperate seamlessly across state lines.

Proposed Resolution #4: Manufactured Housing. The committee recommends that the existing resolution on Manufactured Housing (06-F-1) be amended to reference the Energy Star standards for manufactured housing, and the tax credits enacted with the Energy Policy Act '05 as incentives for manufacturers to promote retail sales of new, higher standard Energy Star manufactured homes.

Proposed Resolution #5: National Transmission Grid. The committee recommends a new resolution regarding a national transmission grid. This resolution is expected to initiate a dialogue among our members regarding the issues at stake in the transmission grid and present regulatory organizations. Differences of opinion among our members can be expressed in the regions and provide the standing committees with a chance to find a common ground that will serve our members.

Proposed Resolution #6: Mandatory Electric Reliability Standards. The committee recommends a new resolution regarding the new mandatory electric reliability standards and support for the process of developing and approving such standards that was included with enactment of the Energy Policy Act '05. These standards, once approved, will become mandatory for all users, owners and operators of the bulk power system, which is likely to include all asset-owning G&Ts and several dozen distribution cooperatives. Cooperatives will need to be cognizant of regulations, rules and enforcement penalties.

Proposed Resolution #1 – Cooperative Support for Renewable Energy

Power from Renewable Resources Create Value for Co-op Member-Owners

Electric cooperatives support power developed from renewable resources that naturally replenish, utilize residual materials or recycle waste. Renewable resources range the gamut, including hydro (both low head and high head), landfill methane, geothermal generation, manure digesters, wind, solar, biomass, wood and others – all of which protect the environment, utilize resources that can bolster the economies throughout much of rural America, create value for cooperative member-owners and put the Nation on a course towards achieving energy independence.

The electric cooperative utility sector of the industry will strive towards achieving, on a voluntary nationwide basis, the use of a broad menu of renewable fuels to generate green power that will continue to provide safe and reliable electric service to its member-owners, at a reasonable cost.

Establishing Policy Goals for Successful Implementation and Use of Renewables

The use of renewable resources is beneficial to the environment and can assist rural economies throughout much of the U.S. Locally-grown, locally-based electric cooperatives are acutely aware of the renewable resources available in their communities. The fact remains, however, that resources native to one territory or region of the country may not be available in others. A federally-mandated ‘one-size fits all’ policy will not translate into developing the most effective, thriving or dynamic use and application of the inherent resources that are available to different segments of this country.

The responsibility—and the decisions—on which renewable resources will best serve and benefit the majority of a cooperative’s consumer-owners, should reside with that cooperative, working in close coordination with its power supplier. Renewable resource development and use can best be implemented from the ground up, on the local level.

Further, NRECA should participate in the development of a national energy policy and pursue appropriate legislation that will:

- Provide appropriate funding for research, development and demonstration projects;
- Include incentives to fully utilize domestic resources that are available to all segments of the industry on an equitable basis. Investor-owned utilities receive federal tax credits for the production of electricity using renewable resources. Rural electric cooperatives

and municipals, being non-profit entities, cannot use these tax credits. In order to encourage increased use of clean and renewable fuels for cooperatives and municipals and to lower the price to consumers of electricity produced from such resources, legislation must extend and expand the Clean Renewable Energy Bonds program to provide incentives to cooperatives and municipal utilities to develop renewable energy resources; and,

- Classify demand-side management, waste-heat recovery and hydroelectric power from projects, both large and small, existing and future, as renewable resources for state and federal Renewable Portfolio Standards and with respect to credits towards the provision of “green power” to members.

Such policy and legislation should not impose mandates on electric utilities if they would undermine local board control of power supply decision-making, threaten system reliability, or unduly raise the cost of electricity for members.

NRECA should also encourage all cooperatives to support research and development to promote the economic utilization of clean and renewable fuels. Further, NRECA should make available to policymakers and the membership accurate information on the economic and technical viability of renewable energy generation and energy conservation.

In addition to federal policies on the use of renewable resources, many members are expressing an interest in renewable energy and many states and local entities are also passing laws requiring or encouraging the use of renewable resources. Such laws and regulations frequently include tax and cash incentives for renewable resources, funding for R&D, state renewable portfolio standards, net metering requirements, community benefits charges for renewable resources and many others.

While rural electric cooperatives support the responsible development and use of cost effective renewable resources, care must be taken in the design of these state and local laws in order to preserve the safety, reliability and affordability of power that cooperatives provide to their members. Thus, cooperatives should work with their wholesale power suppliers, State Association and State representatives to develop legislation that promotes the responsible and appropriate development and use of cost effective renewable energy in their states.

In addition, rural electric cooperatives are encouraged to develop appropriate policies on member-owned generation, including renewable energy. These policies should include procedures and contracts for the safe and reliable interconnection of member-owned generation, rates for retail service to members with their own generation, and a policy governing the rates the cooperative will pay for energy produced by member-owned generation.

Cooperatives are also encouraged to develop outreach programs to educate state policymakers, local communities and members about renewable energy and the policies

required to integrate renewable energy into the system consistent with each cooperative's obligation to provide safe, reliable, and affordable energy to members.

Proposed Resolution #2 – Cooperative Efforts to Address Energy Conservation and Efficiency

Electric cooperatives have invested significant resources in securing adequate, reliable supplies of power at reasonable costs for their member-owners. The self-governing, locally-owned nature of the cooperative form of business allows each electric cooperative to customize and respond directly to its member-owners' current and changing needs.

Much value can accrue to cooperatives and their member-owners from more efficient use of resources: financial benefits for member-owners who use less electricity or defer electricity use to lower-priced hours; system benefits directly for the cooperative and to their consumer-owners by avoiding or deferring additional capacity costs or infrastructure upgrades; and greater reliability by reducing risks from system overloads or forced outages.

Electric cooperatives are encouraged to manage growing customer expectations for more efficient use of resources and electricity by providing their members-owners with the tools and information readily available to assist them in making energy decisions that fit their specific needs and lifestyles.

Proposed Resolution #3 – RUS Engineering and Technical Standards

RUS-developed standards have provided for the safety of employees and the public, provided loan security to RUS and other lenders, provided uniformity in construction methods so that storm repairs can be effected by representatives of other systems, provided centralized expertise not otherwise available to borrowers for new material approval, provided input to safety code committees and provided enforcement that only a government agency can objectively provide.

Precedents exist for the development of performance or other standards by professional societies or organizations for consideration of and approval by government agencies without the professional staff capability to both promulgate and enforce such standards. While standards have been developed through collaboration of stakeholders, numerous standards are delayed for unreasonably long periods of time while under review by the Office of General Counsel.

We recognize that additional resources will not be available to restore the engineering standards functions to adequacy, and recommend that leaders of rural electric systems be encouraged to utilize and support construction and engineering standards approved by RUS.

The extensive damage to electric infrastructure wrought by hurricanes and other natural disasters in 2005 served as stark reminders of the durable value of maintaining uniformity in

engineering and construction methods, from electric cooperative to electric cooperative across the country. But these disasters are prompting some states to consider imposing, either administratively or legislatively, new construction/installation standards on all electric utilities, including electric cooperatives, within their respective borders. Such actions would deprive electric cooperatives of the ability to collaborate on a nationwide basis in times of emergency, add unreasonable delays and costs to service restoration while imposing additional hardships on entire communities and consumers. In fact, RUS standards, in many instances, are higher than those required by local jurisdictions. We reaffirm our support and strongly encourage that the states recognize and electric cooperative systems utilize, at a minimum, the construction and engineering standards approved by RUS.

We further recommend that NRECA staff continue to explore mechanisms that could be set up to propose and update standards and recommend such standards to RUS. Any proposals for changes in standards should be coordinated with the existing NRECA Cooperative Research Network, Transmission and Distribution Engineering Committee or others as necessary that are in a position to make major contributions in the area of standards, thereby ensuring a safe and uniform energy supply system.

We further recommend that NRECA staff work with RUS and the Office of General Counsel (OGC) to provide standards approval in a more timely manner.

Proposed Resolution #4 – Manufactured Housing

Manufactured homes represent the majority of new residential connections for many electric cooperatives.

Therefore, electric cooperatives have a very big stake in the energy source chosen by producers of manufactured homes.

NRECA supports efforts of the manufactured housing industry to produce energy efficient homes to Energy Star standards that incorporate the use of energy conserving electric heating and cooling technologies.

Proposed Resolution #5 – National Transmission Grid

The United States urgently needs additional high-voltage electric transmission facilities to create a wholesale electric power transportation network. The expanded capacity of a backbone national transmission grid would ensure reliable, unconstrained transportation of electricity from traditional and renewable generation sources.

NRECA strongly supports the development of a National Transmission Grid. The development of a national transmission grid through construction of new transmission lines will allow true wholesale competition leading to increased economic development.

The creation of a National Transmission Grid should advance the following principles:

- (1) Enhance the reliability and security of the grid;
- (2) Expand access to the grid by eliminating constraints and congestion of the existing grid;
- (3) Strengthen the United States National defense and homeland security through greater energy independence;
- (4) Increase power supply choices by enabling the construction of traditional and renewable energy supply in regions where inadequate transmission infrastructure is limiting development;
- (5) Reduce costs by lowering transmission losses;
- (6) Provide broad benefit to all consumers of energy across the nation through increased access to transmission and low cost power generation;
- (7) Mitigate market power through unconstrained nondiscriminatory access to transmission; and
- (8) Promote the continued use and development of domestic energy resources.

To accomplish these goals, we believe the National Transmission Grid would be implemented by an appropriate regional or national entity, or entities, charged with the responsibility to plan, design, construct, and manage the system.

We urge Congress to enact legislation requiring the study of a National Transmission Grid that adheres to the eight principles listed above and mandates its implementation.

Proposed Resolution #6 – Mandatory Electric Reliability Standards

With enactment of Section 215 of the Energy Policy Act of 2005 and consistent with NRECA Resolution, “Support for NERC’s Independent Self-Regulatory Organization” (00-G-5), electric reliability standards developed by the North American Electric Reliability Council (NERC) (as the designated Electric Reliability Organization), and approved by the Federal Energy Regulatory Commission (FERC) will become mandatory for all users, owners and operators of the bulk power system. Under Section 215, these mandatory reliability standards will be enforceable by NERC and subject to penalties of up to \$1 million per day for serious violations of approved standards.

It is currently estimated that all asset-owning G&Ts and several dozen distribution cooperatives may eventually be required to comply with such standards. NRECA staff should continue to work with NERC and FERC to ensure that the cooperative structure, size

and role in the bulk power system is well understood and appropriately taken into consideration in the development of such standards.

NRECA staff should encourage cooperative participation in the NERC standards development process through the establishment of a process to facilitate the review of and comment on proposed NERC standards by affected members, and encourage the voting on proposed NERC standards by all members.

Further, NRECA staff should work to ensure that reliability standards that impact cooperatives for the first time include appropriate transition times prior to enforcement penalties becoming effective.

Finally, NRECA staff should establish processes to inform, educate and coordinate efforts by affected members to fully carry out the transition to mandatory reliability standards in a manner that improves reliability without causing excessive cost or inappropriately impacting the operation of cooperatives.