

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

BOARD MEETING
AGENDA ITEM SUMMARY

September 15, 2004

ACTION REQUIRED

AGENDA ITEM NO. IX.B.

- Information Only
- Motion
- Resolution
- Executive Session
- Other

TOPIC:

Resolution Instructing the CEO to Undertake Planning to Create a Single-Member G&T Cooperative

DISCUSSION:

The organizational concept of a Generation and Transmission (G&T) cooperative serving distribution cooperatives that actually deliver the electrical power to members is a time-honored tradition in the United States. The purpose of the G&T cooperative is to generate and deliver power to the participating distribution cooperatives that generally have long-term all-requirements contracts with the G&T cooperative. Governance of the G&T cooperative is usually provided by means of a board of directors made up of the GM/CEO and the Chairman of the board of the participating distribution utilities. One member, one vote typically characterizes the voting method on the board of directors. Normally, no consideration is given for the size of sales to member utilities when it comes to voting on the board, but some proposals to allow weighted voting are being considered. Traditionally, G&T cooperatives earn a reduced TIER and exhibit lower equity levels since the credit support for G&T cooperative debt is the long-term contracts with the distribution utilities rather than financial strength of the G&T alone. These G&T cooperatives are generally tax-exempt under the same rules in which Chugach currently operates. This business arrangement makes it easier to clearly separate G&T costs and revenues from the retail and distribution costs of the member distribution cooperative. Most G&T cooperatives own and operate the assets to the high side of the transformers in distribution substations.

In Alaska, two cooperatives have created single-member G&T cooperatives as a means of conducting their business. All indications are that these cooperatives are successful in their use and control of these single-member G&T cooperatives. There are two compelling reasons for Chugach to reorganize the association into a single-member G&T cooperative and a distribution cooperative. First, this organizational arrangement will more clearly indicate the costs and revenues of the G&T side of the business as separate from the distribution costs and revenue though there will still be issues that relate to allocation of common costs and, at least initially, to allocation of existing debt.

We would expect that for additional G&T financing, the credit support for the single-member G&T would be supplied by the remaining terms of the existing contracts with our wholesale customers and by a long-term contract with the Chugach retail cooperative member. This change alone would justify the creation of such a G&T cooperative as it will help to more clearly delineate the now-blurred financial lines between the various sectors of the Association that have been difficult to clear up in recent rate cases. Secondly, creating this entity may serve as a model for a possible future multiple-member G&T organization in the Railbelt.

There are many hurdles that need to be identified and overcome in creating this new business entity. This effort will identify those issues and the mitigating factors. Staff believes that such can be identified and an implementation schedule developed by December 15, 2004.

CEO's RECOMMENDATION

Motion: Approve the attached resolution authorizing:

1. That the CEO is directed to undertake all necessary steps to craft a plan to create a single-member G&T cooperative that would hold all Chugach G&T assets, contractual arrangements, and associated debt.
2. That this plan be available and presented to the Board of Directors by December 15, 2004.

RESOLUTION
ON
CREATION OF A SINGLE-MEMBER GENERATION & TRANSMISSION (G&T)
COOPERATIVE

WHEREAS, the G&T cooperative example has seen many years of success in the Lower-48; and

WHEREAS, two Railbelt cooperatives have created single-member G&T entities; and

WHEREAS, these two G&T cooperatives seem to have met the objectives of their founders; and

WHEREAS, for ratemaking and other purposes there is a strong need to better separate G&T costs, revenues and margins for Chugach; and

WHEREAS, creation of a single-member G&T cooperative may serve as a model for any possible future multiple-member G&T organization.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of Chugach Electric Association, Inc.:

1. That the CEO is directed to undertake all necessary steps to craft a plan to create a single-member G&T cooperative that would hold all Chugach G&T assets, contractual arrangements, and associated debt.
2. That this plan be available and presented to the Board of Directors by December 15, 2004.