

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

BOARD MEETING
AGENDA ITEM SUMMARY

September 15, 2004

ACTION REQUIRED

AGENDA ITEM NO. VIII.A.

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

TOPIC

2003 Capital Credit Allocation (This item was tabled from the August 25 board meeting)

DISCUSSION

The attached resolution allocates 2003 margins to Chugach retail and wholesale customers Homer Electric Association, Inc. (AEG&T/HEA), Matanuska Electric Association, Inc. (AEG&T/MEA) and Seward Electric System (SES). It also provides information on the assignment of 2003 non-operating margins against the 2002 loss and the resultant 2003 margins that will ultimately be available to members for rotation.

The 2003 preliminary margin allocations were provided to AEG&T/HEA, AEG&T/MEA and SES on May 10, 2004. Chugach requested that their review of the calculations be completed by May 31. No comments were received from HEA. SES informed Chugach on May 13 that they concurred with the calculations. MEA submitted numerous comments on July 7, with specific questions regarding write-offs that were directly assigned against G&T margins.

After review of MEA's comments, Chugach concurred with one item that MEA proposed: that a \$464,642 write-off associated with the Southern Intertie should be treated as a reduction against Chugach retail margins. Additionally, when incorporating this change and reviewing the result, Chugach also proposed two minor calculation adjustments. The allocations have been adjusted to reflect these changes.

SES, HEA and MEA have been provided an explanation of the changes and a copy of the final allocation for review and comment. The wholesale customers were advised that the

DISCUSSION (continued)

allocations will be provided to the Chugach Board for approval at the August 25, 2004 Board meeting. Chugach offered to meet with the wholesale customers to discuss and address any outstanding questions regarding the allocations. No wholesale customers requested that a meeting be held.

The margin allocation is based on Chugach's most recent Commission-approved revenue requirement and cost of service study, which was based on the 2000 test year adjudicated under Docket U-01-108. The allocation methodology is based on the 1988 Capital Credit Stipulation Agreement between Chugach, HEA, MEA and SES.

The allocation methodology provides that write-offs specifically associated with either Generation and Transmission (G&T) or Distribution/Customer functions be directly assigned to those functions. Write-offs in 2003 that were directly assigned totaled \$3.3 million, or approximately \$0.5 million associated with retail and wholesale G&T activities and \$2.8 million associated with retail G&T, Distribution and Customer activities.

In 2003, non-operating margins totaled \$1,084,563, or on an allocated basis \$972,022 to Chugach retail, \$41,303 to HEA, \$68,414 to MEA and \$2,824 to SES. As of December 31, 2003, the remaining 2002 loss to be assigned is \$931,587.

Incorporating the 2002 loss against 2003 non-operating margins, the final adjusted 2003 margin allocations are \$4,670,463 to Chugach retail; \$181,261 to HEA; \$300,239 to MEA; and \$16,593 to SES.

CEO'S RECOMMENDATIONS

Motion 1: Move that the Board of Directors adopt the resolution allocating adjusted 2003 margins to the retail and wholesale customers of the Association is as follows:

<u>System Total</u>	<u>Chugach Retail</u>	<u>HEA</u>	<u>MEA</u>	<u>SES</u>
\$5,168,557	\$4,670,463	\$181,261	\$300,239	\$16,593

WHEREAS, the Bylaws of Chugach Electric Association, Inc., provide that the patronage capital furnished by each patron shall be clearly reflected in an appropriate record to the capital account of each patron; and

WHEREAS, the Bylaws require that the Association notify each patron of the amount of capital so-credited;

WHEREAS, the Association incurred a loss of \$2,016,150 in 2002, and that consistent with standard cooperative principles, the 2002 loss shall be treated as a direct reduction against future year non-operating margins until the balance is eliminated;

WHEREAS, margins of \$6,253,120 have been achieved in 2003;

WHEREAS, 2003 non-operating margins of \$1,084,563 have been incorporated into the margin allocation totals;

WHEREAS, as of December 31, 2003, the remaining balance of the 2002 loss to be assigned against future year non-operating margins is \$931,587; and,

NOW THEREFORE BE IT RESOLVED, the final allocation of adjusted 2003 margins to the retail and wholesale customers of the Association is as follows:

<u>System Total</u>	<u>Chugach Retail</u>	<u>HEA</u>	<u>MEA</u>	<u>SES</u>
\$5,168,557	\$4,670,463	\$181,261	\$300,239	\$16,593