

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

August 24, 2005

BOARD OF DIRECTORS'
MEETING MINUTES

A regular meeting of the Board of Directors of Chugach Electric Association, Inc. was called to order at 4:05 p.m. in the boardroom of Chugach Electric Association, Inc., 5601 Electron Drive, Anchorage, Alaska.

The following board members were present:

Jeff Lipscomb – Chairman (appeared telephonically)
Alan Christopherson – Vice Chair (chaired the meeting)
Dave Cottrell – Secretary (arrived at 4:08 p.m.)
Liz Vazquez – Treasurer (arrived at 5:06 p.m.)
Bruce Davison – Director (departed at 6:07 p.m.)
Uwe Kalenka – Director
Ray Kreig - Director

Draft

The following employees, members, and guests attended:

Bill Stewart	Joe Griffith	Lee Thibert
Mary Tesch	Mike Cunningham	Brad Evans
Dianne Hillemeier	Connie Owens	Phil Steyer
Ed Jenkin	Carol Johnson	Rick Freymiller
Brian Hickey	Carol Heyman	Sherri McKay - Highers
Ron Vecera	Bill Bernier	Jody Wolfe
Katrina Storjohann	Kathy Harris	John Cooley
Paula Neas-Arnold	Burke Wick	Patti Bogan
Debra Brown	Diane Thatcher	Todd Glass
Jason Brune	Al Worfield	Sheila Worfield
Lewis Hal Johnston	Mike Pauley (MEA)	Parry Grover
Bill Mede		

Jennifer McDonald, Legal Secretary, recorded meeting proceedings.

Vice Chairman Christopherson led the Board and audience in the Pledge of Allegiance.

I. EXECUTIVE SESSION

None.

II. APPROVAL OF AGENDA

Director Kreig moved and Director Kalenka seconded the motion to approve the Agenda. Director Kreig moved and Director Kalenka seconded the motion to waive the seven-day rule and add an Agenda Item under New Business, IX.A., to discuss a personnel matter. The subject of the Agenda Item is the current Chairman of the Board, Mr. Jeff Lipscomb. Mr. Lipscomb requested the discussion be held in open

session. Hearing no objection, the motion to approve the Agenda, as amended, passed unanimously. (Vazquez absent at time of vote.)

III. APPROVAL OF CONSENT AGENDA

Director Kreig and Director Kalenka seconded the motion to approve the Consent Agenda.

A. Calendar of Events (August 2005 – July 2006)

B. Minutes (June 15, 2005, July 19, 2005, July 27, 2005)

The motion to approve the Consent Agenda passed unanimously. (Vazquez absent at time of vote.)

IV. PERSONS TO BE HEARD

A. Wholesale Customer Comments

None.

B. Member Comments

Al Worfield commented about the difficulties in obtaining his deceased brother-in-law's capital credits. Ron Vecera responded stating he has spoken to Mr. Worfield before and gave a brief explanation of Chugach's capital credit policy. Vice Chairman Christopherson referred Mr. Worfield back to staff to discuss the issue further.

Hal Johnston stated he has been a member of the co-op for 50 years and would like to see the co-op stay the way it is and not sell off parts of it or privatize it. Mr. Johnston said his concern is for the future of Chugach.

Jason Brune, Chairman of the Bylaws Committee (and also a member of the Election Committee), stated he and members of the Bylaws Committee have expressed their frustration and felt all the work and volunteer hours put in this past election were for naught. Mr. Brune requested guidance from the Board, before January 2006, as to what items the Bylaws Committee will be evaluating. In addition, Mr. Brune asked whether the MAC was going to be populated since the membership voted not to eliminate it.

Director Davison presented Joe Griffith, Chief Executive Officer, with an electric meter lamp and a gift certificate for a local avionics shop. The Board thanked Mr. Griffith for his 17 years of service, his leadership, and the knowledge that he brought to the organization.

V. CEO Report

John Cooley, Director, System Control, gave a presentation on System Control Monthly Statistics and responded to questions from the Board.

Draft

Bill Stewart, General Manager Corporate Services Division, reported that Planning and Zoning met to discuss Chugach's preferred route for the 138kV transmission line and approved it.

Phil Steyer, Manager, Government and External Affairs, took a group of people to Beluga, including Director Kalenka, Representatives Neuman and Gruenberg, Commissioner Steve Pratt from ML&P and a number of legislative staffers. Comments received indicate it was a successful trip.

On August 23, the Anchorage Assembly approved another \$100,000 of funding through the Fire Department to Chugach, for danger tree mitigation on the hillside. Chugach staff, Bill Bernier, Chris O'Brien, and Phil Steyer were successful in obtaining the funds for Chugach.

There is a report under Correspondence in the Board packets on yesterday's outages related to wind and what happened and what Chugach did in response.

Bill Bernier, Director, Line Operations & Maintenance Division, gave a presentation on the Alaska Electrical Training School.

D
r
e
a
f
t

VI. CORRESPONDENCE

Vice Chairman Christopherson stated the Board received correspondence, which was anonymous, and had no name attributed to it so it will not be discussed in the Board meeting today.

VII. DIRECTORS' REPORTS

A. Chairman's Report

Chairman Lipscomb reported on the August 10, 2005, Special Board meeting where Bill Stewart was appointed interim CEO effective September 3, 2005. The Board also acted to retain two law firms for legal counsel to the Board for labor negotiations. The Board approved a motion to a) move the Outlet publication to a monthly basis and b) Outlet content to be reviewed by the Chairman and Vice Chairman.

B. Committee Reports

Chairman Lipscomb reported the Operations Committee met on August 3, 2005. Russ Nogg, chair of Anchorage Municipal Light & Power Commission, addressed the committee on Alaska Utility Manager Success. Then the Board met in executive session.

Director Cottrell reported the Audit Committee met on August 10, 2005. The Committee reviewed the quarterly 10Q, approved the auditing firm of KPMG to conduct the annual audit, and went over the other SEC filings and the SEC's comment letters of which subsequent to the meeting, on August 16, 2005, the SEC sent a letter stating they have no further comments on our 10K filing.

Director Kreig (for Director Vazquez) reported the Finance Committee met on August 10, 2005. The Committee discussed CoBank pricing; the second quarter

review of capital and contracting, as presented by Katrina Storjohann; the 2006 Budget and CIP guidance and level of borrowing; the second quarter deferred debits; the G&T analysis group of CFO's Railbelt Utilities and an asset liability G&T separation issue, as presented by Mike Cunningham; and there was more discussion of the CEO goals and benchmarking.

C. Alaska Power Association (APA) Report

Director Cottrell reported on the APA Annual Meeting held in Kodiak. The APA is a statewide trade organization that has representation from all the cooperatives. Topics discussed included the APA Managers forum and the SNAP (sustainable natural alternative power) energy program at GVEA. There were training programs and Director Cottrell attended the statewide APA Board meeting.

Director Kalenka reported that he met a gentleman from Iceland who gave a presentation on geothermal energy. Iceland is building several new power plants and are putting in smelters and getting the ore from Australia, which is very expensive. Director Kalenka said we are a resource state, we have the resources here and we could develop cheap energy. It was mentioned at the presentation that they are going to charter an airplane, with approximately 150 seats, to fly people from Alaska to Reykjavik, Iceland, to get first hand knowledge of what they are doing there. Director Kalenka said, in addition, he spoke to the president of APA, Eric Yould, about hydropower.

Director Cottrell noted that the next APA annual meeting will be held in Girdwood and Jim Posey of ML&P would like Chugach to co-sponsor.

Vice Chairman Christopherson asked Director Cottrell whether he was going to prepare a recommendation on what Chugach's role is with APA. Director Kreig would like the Board to review our participation with APA, as we would need to give 12 months' notice if we were to decide to withdraw. Vice Chairman Christopherson requested the item be added to the Operations Committee Agenda.

D. Meeting Reports

Director Vazquez reported on August 12, 2005, several Board members and staff (Directors Lipscomb and Vazquez, Joe Griffith, Bill Stewart, and Mike Cunningham) went to San Francisco and made a presentation before Fitch. Directors Kreig and Christopherson attended telephonically. Chugach bonds are currently rated A-, with a stable outlook, with no indications the rating will change.

VIII. UNFINISHED BUSINESS

None.

IX. NEW BUSINESS

A. Personnel

Director Kreig stated he regrets having to bring this up while Director Lipscomb is out of state and on the telephone. "The matter has to do with leadership of the Board and the Board needs to consider whether we have confidence in the

Draft

leadership that we have in Chairman Lipscomb. There are several instances, the latest being getting out the next edition of the Outlet. The last Board meeting we did vote to change the message of the Outlet, or the approach, so that it is not a message from our Chairman but it is more a message from Chugach Electric or the Board as a whole. Under that motion, the Chairman and the Vice Chairman of the Board were to work with staff and bring out the Outlet. There was an edition of the Outlet that was put together that enunciated it was a message from the Board, rather than the Chairman, and it enunciated three key policy areas that the Board wanted to address and that was on its way to publication but Chairman Lipscomb felt that it should be a message from the Chairman as it was in the past and substituted articles. I think, to me, when I heard about this, and in light of things that have happened over the month that I've been on the Board, as well as that I'm aware of, happening before, it's going to be easier if we have a Chairman that is in-step with what the Board wants and I'm just noticing that the issue with the two different Outlets has come up. We also had a little of it with the wording of the ad for the CEO search with NRECA and there are some other issues that one of them has to do with labor negotiations and I have discussed this with Chairman Lipscomb but it is not appropriate to do in open session without a consultation with attorneys. I think that the Board needs to deal with – do we have confidence in the current Chairman of the Board or should a change be made." Director Kreig moved and Director Vazquez seconded the motion to appoint Alan Christopherson as Chairman of the Board of Chugach Electric.

Director Cottrell commented, "Director Christopherson has only been on the Board for four months and having a Board member who has been on the Board for six years does have merit. Not only does he have the history – he also has the ability to know what should be coming up next month, such as in the budgeting process, etc. I feel the Chairman would be handicapped to some extent having no experience – in four months I would classify as little to no experience on the actual operations of this cooperative. I would still support Chairman Lipscomb until such time as he said he wanted to resign and/or other items came up – in my opinion more detrimental to the handling of the Chairmanship role than the Outlet."

Director Davison expressed his complete confidence in Chairman Lipscomb having worked with numerous Chairs and, "having been Chairman myself for three years, he is the hardest working and most knowledgeable Chairman we've ever had. I sit here in amazement to think that an issue, in my view, so unimportant as the Outlet is going to form the basis for his impeachment – that's somewhat hard to take. As far as the Outlet goes I understand what Director Kreig is referring to but if Chairman Lipscomb somehow violated the vote that we had in the Special meeting, I consider that to be very minor and I'd like to hear Chairman Lipscomb speak to that. From what I know about the issue on the ad it was not Chairman Lipscomb but two other directors who modified the language in the ad so I don't know what that's about and I don't know what the issue is relating to the labor negotiations that has to be discussed in Executive session. Chairman Lipscomb has my complete confidence based on my seven years on the board. You're not going to find a harder working or more dedicated person."

Director Vazquez stated: "I know people are making a big issue about the length of time on the Board but to me is how you use your time on the Board – have you been effective and have you accomplished certain things and I would say that Director Christopherson has been attending many meetings before he even got elected. He is not entirely such a newcomer as people would like to believe and he certainly immerses himself. I'm constantly impressed at the level and depth he researches his issues. I sense that Chairman Lipscomb at times resists the will of the Board and this latest incident is an example of that resistance. When the Board clearly has a motion before them and clearly votes that from now on the message will be from the Board and not the Chairman – he proceeds to do what he wants to do. That is not the only instance that I've observed. I've observed other instances where it appears to me that there's been more of a personal agenda versus furthering the agenda of the entire Board of Directors which is very important. Our Chairperson needs to represent the will of the Board and not his own will or his own agenda. I've seen a pattern, I've been watching it over time and it's apparent to me that at times Chairman Lipscomb does not exactly go through with what the Board wishes to do."

Carol Johnson asked for a point of order. The Board should waive the seven-day rule and the motion should be to remove Director Lipscomb as Chair under Article VI, Section 3 of the Bylaws, that provides that "[a]ny officer or agent elected or appointed by the board of directors may be removed by the board of directors whenever in its judgment the best interests of the Association will be served thereby". Then there would be a second motion to appoint, in this case, Director Christopherson as Chair, and motion to waive the seven-day rule on both of those.

Director Kreig withdrew his previous motion with the permission of the second. Director Kreig moved and Director Vazquez seconded the motion to waive the seven-day rule and remove Mr. Lipscomb as Chairman of the Chugach Electric Association Board because it is in the best interests of the Association.

Chairman Lipscomb stated that with regards to following the motion that was adopted at the Special Board of Directors meeting, "I believe I was very careful to repeat the motion, and I asked Dianne Hillemeier to confirm this – which she did by listening to the tape. The motion was to move the Outlet up to a monthly publication and followed by (b) as part of the motion, the Vice Chairman of the Board to review. There was nothing in the motion relating to making a Board message or deleting a Chairman's message. Second, the Board policy 104 on correspondence states, "[c]orrespondence from the Board shall be approved by the Board or the Chairman of the Board. . . . [A]ll correspondence from the Board shall be over the Chairman of the Board's name." I prepared a Chairman's message for the September Outlet that was different from the draft that was prepared by – I'm not sure who. Director Christopherson was given a copy of my draft and I have not heard any feedback from him on either the first draft or my draft. The accusation that I have not been supportive of the reform Board agenda as Director Kreig had talked to me about earlier, I'm not aware that the Board has adopted any reform agenda. Specifically, Director Kreig points out the three

areas the Board wanted to focus on that are in the draft Outlet that was prepared by – I'm not sure who but I got a copy of it from Bill Stewart. I didn't know the Board had adopted those three areas. I'm not aware of any motions passed or any policies passed of those three areas where the Board wants to focus. I'm not sure that's the Board's desire. I'm not sure the entire Board is aware of all those areas. With regards to my meeting with the business manager of the IBEW recently and in the past, I have met with the business manager of the IBEW for approximately four years on a twice per year/once per year basis. We keep up relations, we talk about safety, we talk about how our organizations are working together. We have not discussed anything inappropriate, or anything regarding contracts or negotiations. I recently attended that meeting and was introduced to the new business manager Larry Baker [sic] and I encouraged Mr. Baker to go to the APA annual meeting in Kodiak just recently. That is the nature of my contacts with the IBEW. In all cases, the CEO and/or the Board Chairman and other Directors were aware of such lunches – they were always a lunch – and reports were made. I fail to see how I have failed to adopt or promote the will of the Board and I certainly don't feel that I have misrepresented the Board or misstated anything the Board has approved or desired. I will be voting against the motion."

Director Davison commented, "We have a new motion that includes the language "acting in the best interest of the Association" and for the record I would like specific documented allegations to be placed on the record so ultimately the membership can decide whether or not this vote was warranted."

Director Kreig commented, "This isn't an issue of was a specific direction of the Board not followed or not, this is a matter of leadership of this body and confidence in the leadership for the body and are we going in the direction that is in the best interest of the membership. I'm not bringing this thing up because of one or two or three particular instances that have been enumerated here. Each Director as they decide whether to vote yea or nay on this. Its really an issue of leadership, do we have confidence in Chairman Lipscomb and do we have confidence that he is articulating and leading us in the direction that we think is in the best interests of the Association and our membership."

Director Davison stated he'd still like to know what those things are.

Director Kreig commented, "The specific issues are we are wanting to move forward on the three different goals, the CEO goals which really are focusing on safety for the public, safety for our employees, finding the right reliability cost area that should be in our goals and targets and once you do that, especially most very important is cost no higher than necessary to satisfy the CEO goals that we've talked about. There are many ways that this Board is going to work on effectuating that – it's going to be how the Outlet is written, how it's prepared, what is the Board's message, what is Chugach Electric's message? When a call comes in from the media, what are the priorities that are going to be placed on our agenda that the Chairman has the role and responsibility to do?"

Director Cottrell stated, "I am with Director Davison and think we have other issues to discuss and the Chairman does have great leadership ability. But really, I think this Board acts pretty much independent and the Chairman is more of a figurehead than a person that actually leads this Board very far. I think we are all pretty much individuals. My question to you Director Christopherson is 1) do you want to be Chairman and 2) why do you think you'd do a better job than Chairman Lipscomb?"

Director Christopherson stated he would have to think about that for a minute as he'd just been hit with it himself.

Director Kreig stated, "The point of order here isn't there are two different issues. We have two motions – one is to remove the Chairman and, secondly, I assume we will be opening it up for nominations and maybe he should answer that question at that point."

Carol Johnson stated, "Point of order; you have four separate motions – you need to waive the seven-day rule on each main motion."

Director Kreig modified his motion with permission of the second. Director Kreig moved and Director Vazquez seconded the motion to waive the seven-day rule to take up the agenda item currently being discussed – the motion to remove Director Lipscomb as Chairman of the Board.

Director Davison stated he will vote against it as he feels it is inappropriate to spring this type of issue on the Board members at the last minute, unannounced with no prior warning of any dissatisfaction with the current Chairman.

Director Christopherson commented, "There are some things I have observed. The meetings with the IBEW, those meetings are solely with the Chairman and no other Board members, there are motions that were presented and were withheld and were not acted on and that is something I've heard in the past. There are issues related to trying to get the Board to focus more on the key issues affecting the co-op instead of getting into the management of the company. I think I've heard those comments being made. Does that go to kind of the center of some of the issues – maybe not so much whether the Outlet was one way or another but mainly to where the Board should be as far as high level type issues?"

Director Kreig stated, "It does to me. The Outlet was the last straw that indicated to me that we need to talk about this and we need to make a decision. I just felt that it was series number 10, 11, 12 whatever, that the time came with this to discuss and put the motion out there and if it fails fine, if it doesn't then move forward."

Director Davison asked Director Christopherson – "Did, in fact, Chairman Lipscomb send you the two columns to review or did he not?"

D
r
e
s
t
i
f

Director Christopherson responded, "Chairman Lipscomb did but I've been gone out of the office the last two days with my son and I told everybody that I would be gone. I have not reviewed them and he sent them one day before they were due to the printer."

Director Kalenka commented, "I have some concerns, and wasn't privy to before, was the contacts with the IBEW of our Chairman. That is very serious and concerns me greatly. Another thing was the letter to MEA. We are trying to reach out to our wholesale customers for better relations and from what I've seen that was misfired. The other thing was the delay of the GAINS motion where we were sitting on the motion for X number of months."

Director Davison moved to table the issue. Directors Lipscomb, Davison, Cottrell, Vazquez, and Christopherson voted for the motion to table. Directors Kreig and Kalenka voted against. The motion to table carried.

B. 2006 Budget Guidance

Director Davison moved and Director Vazquez seconded the motion to adopt the 2006 Budget Guidance as presented. The motion passed unanimously.

C. CoBank #2 Refinancing

Director Davison moved and Director Cottrell seconded the motion to approve the resolution issuing the \$10 million promissory note to CoBank at the best terms to be determined on August 31, 2005. The motion passed unanimously.

D. Cooper Lake Relicensing – Settlement Agreement

Director Davison moved and Director Kreig seconded the motion that the Chugach Electric Association Board of Directors authorize the Chief Executive Officer to sign the Cooper Lake Project (FERC No. 2170) Relicensing Settlement Agreement between Chugach Electric Association, Inc., and other parties, including state and federal government agencies and non-governmental organizations.

Director Kreig stated, "Chugach Electric was faced with constraints in the Cooper Lake Relicensing that forced Chugach to spend excessive and unreasonable amounts of money in past studies and future mitigation for this hydro project even though it has such a small environmental footprint. Because the US Department of Agriculture and the Forest Service has the authority to impose mandatory conditions on the Cooper Lake Project license, I believe that Chugach had no choice but to agree to the Forest Service's requirements to add stream flows back into Cooper Creek. The Chugach Electric team has negotiated the best possible outcome in facing a very bad situation. My recommendation is that the Board pass this settlement agreement because we really have no choice. I believe we are forced to do it given the other alternatives which require litigation not likely to change the outcome. I will vote yes even though I do not agree with Section 1.3.2 which states that "this agreement is fair and reasonable and in the public interest." It is not in the public interest and is not fair but it is the best we can do for our ratepayers."

Draft

The motion passed unanimously.

E. Directors' Expenses

Director expenses were discussed. Director Cottrell requested permission to attend a SOX update continuing education class in Scottsdale, Arizona, at the end of October. The request was granted with no opposition.

X. DIRECTORS' COMMENTS

Director Davison: Expressed his appreciation to Bill Bernier for the report that he gave on the Electrical Training School. About a year ago, the Board had the opportunity to tour the school and facility and it is very impressive. He encouraged all Board members to take the opportunity to tour again. It is very impressive the way these folks are being trained. .

Director Vazquez: No comment.

Director Kalenka: "I'm just reflecting off what Director Davison said. I would like to see that operation myself and also in the future, if there is a possibility, I would like to see Bradley Lake. The trip yesterday to Beluga once again was a good refresher."

Director Cottrell: "The apprenticeship program has always been one of my main items and I know we didn't ask a lot of questions but I think the apprenticeship program is the only way we are going to get a new generation of employees into the apprenticeship program and graduates out as soon as possible. I think that is a way for us to go into the future. I enjoyed going over to Kodiak even though it was a little hard and had a good time over there and I think you must look at our leadership, not only as our cooperative for our members but we also are somewhat of a leader in the electric co-ops in the state. I think that leadership is important and sometimes leaders have to help other people who are struggling."

Director Kreig: My comments on the items before us have already been made but I think we still do have this detail of the Outlet – the different versions of them. I think there is a deadline being faced by staff very soon. I think this Board needs to deal with the dilemma here of two different versions of the Outlet and how we do that. I've read both versions of the Outlet and I prefer the version myself that had been produced over what Chairman Lipscomb sent in. So to move it along I'll just put a motion out that the Outlet for September should be published according to the version that I saw in mock-up format. [Point of order (by Carol Johnson) the seven-day rule.] I move to waive the seven-day rule to deal with the issue of the Outlet. [Bill Stewart – perhaps we could revert to the original plan and let the Chairman and the Vice Chairman work it out during the break – as long as someone gives us guidance by the end of this meeting then we are good to go.] That is acceptable.

Director Lipscomb: Part of our Mission is "Superior Service" and it appears to me from operations, to customer service, to accounting, purchasing and on up to executive staff, this part of our Mission is indeed going very well. I see that customer satisfaction is up from last year. And also, in the past two months, I have been contacted directly by two members who needed help and their problems were addressed promptly and satisfactorily. They returned calls to me and said they were very pleased with the help they received. My compliments and appreciation to everyone here at the Association.

Draft

To Joe Griffith, thank you for all of your contributions to Chugach over the last 16 years. Your contributions and leadership over this time has been extremely valuable to Chugach and, in my opinion, Alaskans throughout the Railbelt. My hats off to you and thank you very much for your years of service.

Director Christopherson: No comment.

XI. EXECUTIVE SESSION

At 6:08 pm. Director Kreig moved and Director Kalenka seconded the motion that pursuant to Alaska Statute 10.25.175(c)(1)(3), the Board go into executive session to discuss 1) matters the immediate knowledge which would clearly have an adverse effect on the finances of the cooperative and 3) matters discussed with an attorney for the cooperative the immediate knowledge of which could have an adverse effect on the legal position of the cooperative. The topics to be discussed 1) City of Seward contract negotiations update and 2) labor negotiations update. The motion passed unanimously (Director Davison not present to vote).

The Board came out of executive session at 6:45 p.m. Director Kreig moved that Chugach proceed with the approach on the Seward contract according to the process and strategy that was discussed in executive session. The motion passed unanimously (Director Davison not present to vote).

At 6:55 p.m. Director Kreig moved and Director Kalenka seconded the motion that pursuant to A.S. 10.25.175(c)(1)(3), the Board go into executive session to discuss matters with an attorney for the cooperative the immediate knowledge of which could have an adverse effect on the legal position of the cooperative as well as matters the immediate knowledge of which would clearly have an adverse effect on the finances. The topic to be discussed is labor negotiations update. The motion passed unanimously (Director Davison not present to vote).

XII. ADJOURNMENT

The Board came out of executive session at 8:15 p.m. and adjourned.

Dave Cottrell, Secretary

Date Approved: September 21, 2005

D
r
e
a
f
t