

# DRAFT

**CHUGACH ELECTRIC ASSOCIATION, INC.  
Anchorage, Alaska**

**September 27, 2006**

**SPECIAL BOARD OF DIRECTORS'  
MEETING MINUTES**

The special meeting of the Board of Directors of Chugach Electric Association, Inc. was called to order at 5:45 p.m. in the boardroom of Chugach Electric Association, Inc., 5601 Electron Drive, Anchorage, Alaska.

The following board members were present:

Jeff Lipscomb – Chairman (participated telephonically)  
Jim Nordlund – Secretary  
David Cottrell – Treasurer (Chaired the meeting per Lipscomb’s request)  
Alan Christopherson – Director  
Uwe Kalenka – Director  
Elizabeth Vazquez – Director

Bruce Davison – Vice Chairman (excused)

The following employees, members, and guests attended:

|                    |                      |                  |
|--------------------|----------------------|------------------|
| Bill Stewart       | Lee Thibert          | Mike Cunningham  |
| Brad Evans         | Dianne Hillemeier    | Ed Jenkin        |
| Rick Freymiller    | Arthur Miller        | Phil Steyer      |
| Kathy Harris       | Connie Owens         | Jody Wolfe       |
| Tom Schulman       | John Cooley          | Carol Johnson    |
| Bill Bernier       | Jim Walker (MEA)     | Jim Patras (HEA) |
| Rick Miller (ML&P) | Don Edwards (Dorsey) |                  |

Jennifer McDonald, Legal Secretary, recorded meeting proceedings.

**I. 2005 RATE CASE**

Director Christopherson read the proposed resolution to approve the 2005 Test Year General Rate Case.

WHEREAS, Chugach Electric Association, Inc.’s (Chugach) current retail and wholesale base rates reflect the results of the 2000 test year rate case adjudicated under Docket U-01-108;

WHEREAS, the Regulatory Commission of Alaska (Commission) set an overall Times Interest Earned Ratio (TIER) at 1.30 and established Chugach’s rates in the 2000 test year at an

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authorized TIER of 1.10 for Generation and Transmission (G&T) resulting in a TIER of 1.64 for Distribution;

WHEREAS, Chugach has developed routine monthly analysis of financial results on an unbundled basis and the results continuously show that the G&T function is generating negative margins and the Distribution function is achieving significantly greater margins than authorized by the Commission;

WHEREAS, Chugach's unbundled financial results indicate that revisions to the allocator for long-term debt and interest expense as well as the allocators for Administrative and General expense would more appropriately allocate costs;

WHEREAS, it is in the best long term interests of Chugach's members that electric rates be set at levels for both the G&T and Distribution functions that allow prudent investment in plant as well as sufficient funding to maintain high levels of reliability and service;

WHEREAS, Chugach's Financial Management Plan demonstrates that increased G&T margins are required to meet the equity ratio target;

WHEREAS, Chugach will not progress toward achieving the G&T equity ratio target without an increase in the authorized G&T TIER;

WHEREAS, Chugach has recently obtained Commission approval of the 2002 depreciation study rates and has prepared a required 2005 depreciation study update;

WHEREAS, both the 2002 and 2005 depreciation studies significantly altered the depreciation rates on a functional basis but electric rates have not been revised to reflect those depreciation rates;

WHEREAS, Chugach has incurred costs associated with the compression of natural gas associated with the Beluga River Field and the Commission has declared that such costs should be included for recovery in a general rate case;

WHEREAS, these rate case calculations based on the 2005 test year indicate that Chugach system revenues should increase \$2 million, with G&T revenues increasing \$10 million and Distribution revenues decreasing \$8 million;

WHEREAS, Chugach's labor agreements with its represented employees expired on June 30, 2006 and negotiations on the terms and conditions of a new contract are underway;

WHEREAS, the Chief Executive Officer is directed to include the results of such labor negotiations in the determination of its base rates at the time new labor agreements are reached;

WHEREAS, the Chugach Board of Directors authorized the Chief Executive Officer to prepare a general rate case based on the 2005 test year and to communicate its intentions to revise base rates to its members in advance of submitting the filing to the Commission;

WHEREAS, Chugach has calculated a general rate case based on the 2005 test year and has undertaken a significant, several month-long communication effort with its members, including wholesale customers and the Regulatory Affairs and Public Advocacy Section of the

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Commission, which included overview presentations, discussions and provision of a draft filing electronically for review and comment; and,

WHEREAS, Homer Electric Association, Inc., the City of Seward, Matanuska Electric Association, Inc. and the Regulatory Affairs and Public Advocacy Section of the Commission were invited to meet with Chugach Joint Committee members and staff on September 25, 2006 to provide comments on the filing;

WHEREAS, after providing opportunity for comments at the September 25, 2006 meeting, the Joint Committee recommended that the Board approve the proposed rate filing in a form substantially similar to the draft;

NOW THEREFORE, BE IT RESOLVED that the Chief Executive Office or his designee is authorized to file a general rate case based on the 2005 Test Year and take any other actions consistent with this authorization.

Director Christopherson moved and Director Nordlund seconded the motion that the Board of Directors approves the filing of the 2005 Test Year General Rate Case, as recommended by the Chugach members of the Joint Rates Committee at their September 25, 2006, meeting.

Director Christopherson stated that the Joints Rates Committee had two meetings with staff to review draft testimony and other material. Chugach formally met on September 25, 2006 with the intervenors and had a special meeting with MEA scheduled in which MEA elected not to attend the meeting. Chugach went ahead with the presentations and heard comments from Homer Electric. The other intervenors said they would comment before the RCA. Chugach is recommending the following (all amounts are approximations): increase depreciation expense - \$4.3 million; increase allocation of interest for G&T - \$4 million; decrease allocation of interest for Distribution - \$4 million; increase G&T tier from 1.10 to 1.2 which is equivalent to \$1.7 million increase; increase G&T expense - \$3 million; and increase Distribution expense - \$4 million. Overall, it is approximately \$8 million decreased to Distribution and \$10 million increased to G&T.

Director Lipscomb offered a friendly amendment to add the words “resolution and” after the words “approves the” in the motion so that the motion would read “the Board of Directors approves the resolution and filing of the 2005 Test Year...”. Directors Christopherson and Nordlund accept Director Lipscomb’s friendly amendment.

Director Lipscomb stated that he supports fair cost recovery from all classes of G&T customers. Fair cost recovery through a rate case will result in a decreased cost of electricity at the meter for our 70,000+ Chugach members and he will be voting for the motion.

Chairman Cottrell stated that our retail customers are going to experience an increase in the cost of the G&T portion of their bill, but a decrease in the cost of the distribution portion of their bill. The unbundled financial statements show us that the distribution

side of the company is doing extremely well and potentially charging our customers too high of rates while the G&T side of our business is not charging enough. Chairman Cottrell stated he would be voting for the resolution.

Director Nordlund stated that he would be supporting the resolution and stated that the Board had an obligation to support this resolution so that the costs of providing services to wholesale customers versus retail customers were adequately balanced with the charges. Thanked Directors Cottrell and Christopherson for serving on the Joint Rates Committee.

Carol Johnson, General Counsel, proposed the following changes to the resolution - under the 12<sup>th</sup> paragraph change the words “of a new contract” to “of new contracts” and under the 15<sup>th</sup> and 16<sup>th</sup> paragraphs changing the words “of the Commission” to “of the Attorney General’s Office”. Director Nordlund accepted the proposed changes.

Chairman Cottrell called the motion. The motion passed unanimously.

## II. DIRECTOR’S COMMENTS

**Director Vazquez:** No comment.

**Director Christopherson:** Stated that meeting minutes from the Joint Rates Committee would be available soon.

**Director Lipscomb:** Thanked Directors Christopherson and Cottrell for serving on the Joint Rates Committee.

**Director Nordlund:** Stated that he would like his comment to include what he stated earlier (see above).

**Uwe Kalenka:** No comment.

**Chair Cottrell:** Stated he is looking forward to seeing the comparison between ML&P and Chugach.

## II. ADJOURN

Director Christopherson moved and Director Nordlund seconded the motion to adjourn. The meeting adjourned at 6:01 p.m.

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Approved: Jim Nordlund, Secretary  
Date approved: October 18, 2006