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CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

FINANCE COMMITTEE MEETING MINUTES

November 29, 2006

Committee Members in Attendance: David Cottrell, Chair
Jim Nordlund
Elizabeth Vazquez (arrived at 3:44 p.m.)
Uwe Kalenka
Bruce Davison (via telephone)

Other Directors Present: Jeff Lipscomb

Guests in Attendance: Jim Walker (MEA)
Bill Mede (Turner & Mede)

Staff in Attendance:

Bill Stewart	Lee Thibert	Mike Cunningham	Brad Evans
Dianne Hillemeier	Connie Owens	Jody Wolfe	Sherri McKay-Highers
Carol Johnson	Amber Van Treeck	Dave Smith	Rick Freymiller
Ron Vecera	Ed Jenkin	John Cooley	Mary Tesch
Mark Fouts	Paula Neas-Arnold	Kathy Harris	Brian Hickey

Recording Secretary: Jennifer McDonald, Legal Secretary

I. Call to Order

Chair Cottrell called the Finance Committee to order at 3:37 p.m. in the training room of Chugach Electric Association, Inc., 5601 Electron Drive, Anchorage, Alaska.

II. Approval of Agenda

Director Nordlund moved and Director Kalenka seconded the motion to approve the agenda. The motion passed unanimously.

III. Approval of Minutes

- a. *October 30, 2006*
- b. *October 31, 2006*
- c. *November 1, 2006*

Director Kalenka moved and Director Nordlund seconded the motion to approve the October 30, October 31 and November 1, 2006 minutes. The motion passed unanimously.

IV. Customer Comments

- a. *Wholesale Customer Comments – None.*
- b. *Retail Customer Comments – None.*

V. October Unbundled Financial Statements

Jody Wolfe, Controller, gave a presentation on the October Unbundled Financial Statements and staff answered questions from the Committee. Chair Cottrell requested a summary to include the past five years, including 2006, of what was budgeted and what was spent for the capital budget.

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Director Vazquez arrived at 3:44 p.m.

VI. Review of 2006 Operations Budget

Sherri McKay-Highers, Manager, Corporate Budgeting, gave a presentation and review of the 2006 Operations Budget.

VII. 2007 Operating Budget & 2007 Capital Improvement Program Discussion

Chair Cottrell stated that the 2007 Operating Budget is reasonable and will need to be adjusted for any new labor or other contracts that Chugach enters into and should be adopted.

Chair Cottrell commented on the 2007 Capital Improvement Plan (CIP) and stated that the \$7 million budgeted for new generation should be reviewed carefully. Chair Cottrell stated he would like to review further what the \$7 million is for, how is Chugach going to fund it, where will the money come from and how does Chugach plan to repay the debt. Chair Cottrell requested the Finance Committee adopt the 2007 CIP with the amendment to take the new generation out of the budget and add it to the Finance Committee agendas for January and February so the Committee can get a clearer understanding of the long term effects this will have on the cooperative.

Director Lipscomb agreed with Chair Cottrell's comments. Director Lipscomb stated that Chugach needs to continue spending money on new generation to further define what the cost estimate is and what the scope of the program is. Director Lipscomb stated that his concern was a commitment in July to the program of \$210 million and doesn't feel Chugach is in a position to do that yet without further evaluation and understanding of the debt. Director Lipscomb stated that some money needs to be approved to continue the engineering and planning efforts but stated he is not sure \$7 million is the right number. Director Lipscomb pointed out that building new generation will cause the equity ration for the G&T to decrease.

Bill Stewart, Chief Executive Officer, stated that it has been discussed before whether it is the best option for Chugach to build it, borrow the money and further dilute the equity of the G&T. This is a huge decision and if it takes more discussion then that is what the Committee should do.

Director Nordlund stated it would be valuable to hear from the investment bankers in January as long as it doesn't delay the plans, otherwise, the Committee can vote on this in a couple of months.

Brad Evans, Senior Vice President Power Supply, stated that the difficulty with delaying this project is it puts him in a bind because if the Committee decides not to build new generation then work will need to begin on Unit No. 8 at Beluga and stated he can't get ready to do that amount of work in a short period of time. The Committee has been saying for years that a decision needs to be made on Unit No. 8 and we've come to the 11th hour and we're still trying to make a decision.

Director Lipscomb wanted to know how much it would cost to continue the preliminary engineering and planning for Unit No. 8. Brad Evans stated that he would have to get that information for him.

Director Vazquez agreed with Director Lipscomb and would like to know how much money is needed to start each project (new generation and Beluga Unit No. 8).

Chair Cottrell stated that the Committee had a presentation on new generation and would like it presented again. Chair Cottrell stated that the Finance Committee will have a decision in 120 days.

Director Vazquez would like to know what the impact would be on financial ratios if Chugach were to build new generation as the Committee has only received a summary discussion. Director Vazquez also requested projections on how this would impact our members, how much more would members have to pay and also best case/worst case scenarios if MEA & HEA were to decide to stay with Chugach or leave and Chugach loses 45% of our business.

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VIII. Discounting Capital Credits

Ron Vecera, Director, Member Services, gave an overview of the Discounting Capital Credits program and staff answered questions from the Committee.

IX. Correspondence

- a. October Unbundled Financial Statements
- b. October Variance Report
- c. 2005 G&T Equity Ratio Calculation
Sherri McKay-Highers, Manager, Corporate Budgeting, gave an overview of the 2005 G&T Equity Ratio Calculation and staff answered questions from the Committee. Chair Cottrell wants to see the long term projection on G&T equity ratio included in the packet for the re-presentation of new generation.
- d. 2007 Professional Services
Sherri McKay-Highers, Manager, Corporate Budgeting, gave a brief overview of Professional Services budgeted for 2007 and staff answered questions from the Committee.

Jim Walker of MEA arrived at 4:33 p.m. and passed out correspondence from Wayne Carmony relating to the Eklutna Transmission Line.

X. Director Comments

Director Davison: None.

Director Nordlund: None.

Director Kalenka: Stated he had some concerns but would state them after the executive session.

Director Vazquez: None.

Director Lipscomb: Commented that it's slippery outside - be careful this season.

Chair Cottrell: Asked Bill Stewart if Chugach was at peak capacity. Mr. Stewart stated that Chugach set a new peak of 457 MW. Brad Evans explained that peak is the demand on the system.

XI. Executive Session

At 4:37 p.m. Director Vazquez moved and Director Kalenka seconded the motion that pursuant to Alaska Statute 10.25.175(c) (1) and (3) the Committee go into executive session to discuss (1) matters the immediate knowledge of which would clearly have an adverse effect on the finances of the cooperative and (3) matters with its attorneys the immediate knowledge of which could have an adverse effect on the legal position of the cooperative. The topic to be discussed in this executive session is Professional Services. The motion to go into executive session passed unanimously.

The Committee reconvened from executive session at 5:12 p.m.

XII. 2007 Operating Budget & 2007 Capital Improvement Program Recommendation

Director Nordlund moved and Director Davison seconded the motion that the Finance Committee recommends to the Board of Directors approval of the 2007 Operating Budget.

Director Vazquez stated that she will vote against the Operating Budget at this point because it has not taken into account how the labor contracts are going to impact this budget and there are not any identifiable areas of cost savings. There is approximately \$305 million in debt presently and there is talk about building new generation which means incurring millions of dollars even if Chugach just repairs Unit No. 8.

Director Kalenka stated that he shares Director Vazquez's concern and will not be able to vote for the motion.

The motion to approve the 2007 Operating Budget passed with a vote of 3 in favor and 2 against the motion.

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Director Nordlund moved and Director Davison seconded the motion that the Finance Committee recommends to the Board of Directors approval of the 2007 Capital Budget.

Bill Stewart, Chief Executive Officer, restated the amendment as discussed in Agenda Item VIII. to amend the motion to add “as proposed with the removal of the funding for new generation”. The friendly amendment was accepted.

Director Vazquez stated that she was not going to vote in favor of this motion for the reasons previously stated on the Operating Budget. The Operating Budget will affect the Capital Budget and we are not taking into consideration substantial events that are going to happen in the near future.

Director Kalenka stated that the Committee knows what one of the labor contracts costs will be and it will be prudent to project those amounts in the budget therefore, he is unable to vote in favor of this motion.

Chair Cottrell stated that once the exact numbers are known then the exact numbers should be used so that the budget doesn't have to be changed or amended multiple times.

The motion to approve the 2007 Capital Budget, as amended, passed with a vote of 3 in favor and 2 against the motion.

XIII. Adjourn

Director Vazquez moved and Director Kalenka seconded the motion to adjourn. The meeting adjourned at 5:21 p.m.