

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

FINANCE COMMITTEE MEETING
AGENDA ITEM SUMMARY

February 4, 2008

ACTION REQUIRED

AGENDA ITEM NO. VII.

Information Only
 Motion
 Resolution
 Executive Session
 Other

TOPIC

2008 Operating Budget Revisions

DISCUSSION

The Finance/Budget Committee met and reviewed the proposed 2008 Operating and Capital Budget on November 1 and 2, and December 5, 2007.

On December 19, 2007, the Board of Directors' approved the 2008 Operating and Capital Budget but directed the CEO to within 60 days propose budget adjustments for the 2008 Operating and Capital Budget to implement the Blue Ribbon Panel Report Summary Recommendations.

The 2008 Operating Budget is being amended to include budget adjustments to implement the Blue Ribbon Panel Report Summary Recommendations.

The 2008 Amended Operating Budget is expected to produce margins of \$9.1 million, an increase of \$2.4 million over the original 2008 Operating Budget, a Margins for Interest/Interest (MFI/I) ratio of 1.39 and an Equity to Total Capitalization Ratio of 31.6%. These results are based on a Total Cost of Service of \$264.4 million, Total Revenue of \$272.1 million and Non-Operating Margins of \$1.3 million.

The 2008 Amended Unbundled Operating Budget is expected to produce Distribution margins of \$7.8 million and a Distribution MFI/I of 2.05 with Generation & Transmission margins of \$1.3 million and a Generation & Transmission MFI/I of 1.08.

Details of the 2008 budget amendment, by Statement of Operations line item, are attached as Exhibit 1.

MOTION

Move that the Finance Committee recommends the Board of Directors approve the 2008 Amended Operating and Capital Budget which is expected to produce margins of \$9.1 million, a Margin for Interest/Interest (MFI/I) ratio of 1.39 and an Equity to Total Capitalization ratio of 31.6%. These results are based on a Total Cost of Service of \$264.4 million, total Revenue of \$272.1 million and Non-Operating Margins of \$1.3 million.

The 2008 Capital Improvement Program is \$45.3 million consisting of the following functional categories and amounts:

Telecommunications/SCADA	\$3.9 million
Distribution	\$12.6 million
Transmission	\$7.1 million
Generation	<u>\$21.7 million</u>
Total	\$45.3 million

The unbundled 2008 Amended Operating Budget is expected to produce Distribution margins of \$7.8 million and a Distribution MFI/I of 2.05 with Generation & Transmission margins of \$1.3 million and a Generation & Transmission MFI/I of 1.08.

The 2008 Amended Operating Budget results meet or exceed the 2008 Budget Planning Criteria as approved by the Finance Committee. The criteria and budgeted results are as follows:

	<u>Criteria</u>	<u>2008 Amended Budget</u>
Margins for Interest/Interest	> 1.25	1.39
Equity Ratio	30% or greater	31.6%
Rotate Capital Credits at 50% of prior year's margins	50%	>50%¹

¹ Pursuant to a prior settlement agreement, capital credit rotations to HEA, MEA and Seward will equal \$1,478,779 in 2008. The 2008 Amended Budget proposes an equal distribution of \$1,478,779 to Chugach's retail customers. This distribution is greater than 50% of prior year's margins, however, Chugach remains in compliance with the Amended and Restated Indenture of Trust because Chugach's equity ratio remains above 30% which reduces the restrictions surrounding our distribution of member equity.

EXHIBIT 1
CHUGACH ELECTRIC ASSOCIATION, INC.
COMPARATIVE FINANCIAL REPORT
STATEMENT OF OPERATIONS

CATEGORY	2008 ORIGINAL BUDGET	2008 AMENDED BUDGET	\$ CHANGE
REVENUES:			
1. TOTAL REVENUE	\$271,778,729	\$272,069,723	290,994
EXPENSES:			
2. FUEL EXPENSE	121,218,046	121,218,046	0
3. POWER PRODUCTION EXPENSE	16,880,191	16,445,185	(435,006)
4. COST OF PURCHASED POWER	31,122,494	31,119,383	(3,111)
5. TRANSMISSION EXPENSE	6,681,109	6,483,569	(197,540)
6. DISTRIBUTION EXPENSE-OPERATIONS	4,891,018	4,696,382	(194,636)
7. DISTRIBUTION EXPENSE-MAINTENANCE	7,234,088	7,029,742	(204,346)
8. CONSUMER ACCOUNTS EXPENSE	5,195,843	5,041,115	(154,728)
9. CUSTOMER SERVICE/INFO EXPENSE	711,976	699,429	(12,547)
11. ADMINISTRATIVE/GENERAL EXPENSE	18,368,138	17,690,176	(677,962)
12. TOTAL OPERATIONS/MAINTENANCE EXP.	\$212,302,903	\$210,423,027	(\$1,879,876)
13. DEPRECIATION/AMORTIZATION EXPENSE	30,415,370	30,354,147	(61,223)
14. TAX EXPENSE-OTHER	884,862	884,862	0
15. INTEREST-LONG TERM DEBT	23,119,883	23,119,883	0
16. INTEREST ON CONSTRUCTION-CREDIT	(998,921)	(998,921)	0
17. INTEREST EXPENSE-OTHER	453,333	325,417	(127,916)
18. OTHER DEDUCTIONS	250,000	250,000	0
19. TOTAL COST OF ELECTRIC SERVICE	\$266,427,430	\$264,358,415	(\$2,069,015)
20. PATRONAGE CAPITAL/OPERATING MARGINS	5,351,299	\$7,711,308	\$2,360,009
21. NON-OPERATING MARGINS-INTEREST	364,119	392,263	28,144
22. ALLOWANCE FUNDS USED DURING CONST.	431,788	431,788	0
23. NON-OPERATING MARGINS-OTHER	0	0	0
24. GENER./TRANS. CAPITAL CREDITS	0	0	0
25. OTHER CAPITAL CREDITS/DIVIDENDS	525,000	525,000	0
26. EXTRAORDINARY ITEMS	0	0	0
27. PATRONAGE CAPITAL OR MARGINS	\$6,672,206	\$9,060,359	\$2,388,153