



**CHUGACH ELECTRIC ASSOCIATION, INC.**  
Financial Management Plan – Additional Scenarios

**Finance Committee**

**March 10, 2004**

# Overview

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- ❖ Business Plan Base Case
- ❖ 10% Return on Equity Scenario
- ❖ \$10 Million Annual Margin Scenario
- ❖ Rating Agency Overview
- ❖ Recommendation
- ❖ Next Steps

# Business Plan Results – Base Case

	2004	2005	2006	2007	2008
<b>Base Rate Increase*</b>			2.5%		
<b>Margins (In Millions)</b>	\$6.0	\$5.4	\$5.8	\$8.0	\$8.7
<b>TIER</b>	1.27	1.24	1.24	1.33	1.36
<b>Equity Ratio</b>	26.7%	27.4%	28.5%	29.7%	30.0%
<b>Rate of Return on Equity</b>	4.3%	3.9%	4.1%	5.4%	5.6%
<b>Capital Credit Retirements (In Millions)</b>	\$3.0	\$3.0	\$2.6	\$2.9	\$3.5

\* Implemented July 1

# Current Business Plan Proposal

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## ❖ Pros

- Provides for minimal rate increases
- Continue to pay down debt annually
- Sufficient cash level to meet operations and debt service
- Grows equity level slowly and minimizes large rate increases
- Provides for increasing level of return of patronage capital to members

# Current Business Plan Proposal

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## ❖ Cons

- Inherent risk in variable rate debt could require a rate case prior to current forecasted timeline of 2006

# 10% Rate of Return Scenario

	2004	2005	2006	2007	2008
<b>Base Rate Increase*</b>		8.0%			
<b>Margins (In Millions)</b>	\$6.0	\$17.5	\$16.6	\$17.0	\$18.0
<b>TIER</b>	1.27	1.77	1.70	1.72	1.78
<b>Equity Ratio</b>	27.2%	29.6%	31.4%	33.1%	34.8%
<b>Rate of Return on Equity</b>	4.3%	11.5%	10.3%	10.0%	10.0%
<b>Capital Credit Retirements (In Millions)</b>	\$3.0	\$3.0	\$8.5	\$8.3	\$8.5

\* Implemented January 1

# \$10 Million Annual Margin Scenario

	2004	2005	2006	2007	2008
<b>Base Rate Increase*</b>		4.0%			
<b>Margins (In Millions)</b>	\$6.0	\$11.5	\$10.3	\$10.4	\$11.0
<b>TIER</b>	1.27	1.50	1.43	1.44	1.48
<b>Equity Ratio</b>	27.2%	28.8%	30.2%	31.4%	31.8%
<b>Rate of Return on Equity</b>	4.3%	7.9%	6.8%	6.6%	6.8%
<b>Capital Credit Retirements (In Millions)</b>	\$3.0	\$3.0	\$5.0	\$5.0	\$5.0

\* Implemented January 1

# 10% Rate of Return/\$10 Million Margin Scenarios

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## ❖ Pros

- Supports sinking fund position by providing additional cash to be invested to pay off future debt at the rate of \$3.5 - \$4.0 million per year

# 10% Rate of Return/\$10 Million Margin Scenarios

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## ❖ Cons

- Requires an immediate 4%-8% rate increase request in 2005
- Today's environment mandates avoiding raising overall rates
- May not be able to persuade the RCA to allow the required TIER levels, given their action in U-01-108

# Bond Rating Variables\*

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- ❖ Financial Indicators
- ❖ Management & Business Strategy
- ❖ Rates
- ❖ Facilities
- ❖ Demographics
- ❖ Legal Provisions
- ❖ Regulation

# Bond Ratings – Capital Structure

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- ❖ Fitch Ratings expects
  - “Public power systems will continue to rely on long-term debt for most new capital projects and therefore, debt will continue to account for a relatively high percentage of their capital structure”

# Bond Ratings – Fitch Ratings

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## ❖ Downgraded from 'A' to 'A-'

- Reflected negative stance taken by the RCA toward Chugach and tighter financial margins as a result
- Noted Chugach's stable financial performance through 2001 including
  - Debt Service Coverage 1.50-1.85x
  - Times Interest Earned Ratio 1.35x or higher
  - Solid Equity Ratio 25%-29%

# Bond Ratings – Standard & Poor's

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- ❖ Downgraded from 'A' to 'A-'
  - Credit concerns
    - Reliance on regulatory approval of rates
    - Weak financial performance in 2002
    - Reliance on non-amortizing debt
  - Credit strengths
    - Solid equity capitalization of 25%

# Bond Ratings – Moody's

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- ❖ No change in A2 rating
  - Credit concerns
    - Recent pressure on the rating due to an unsupportive decision by the RCA
  - Credit strengths
    - Equity levels maintained at about 25%
    - Providing regular returns of capital to members

# Bond Ratings - Regulation

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- ❖ According to Standard & Poor's
  - “The regulation of public utilities is the defining element of the industry and is often the determining factor in the ratings of a utility”

# Recommendation

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- ❖ Approve Financial Management Plan as originally presented

# Next Steps

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- ❖ 25-year Financial Forecast
- ❖ Integrated Resource Plan (IRP)  
scenario analysis



# Discussion