

Chugach Electric Association, Inc

Operating & Strategic Planning Session

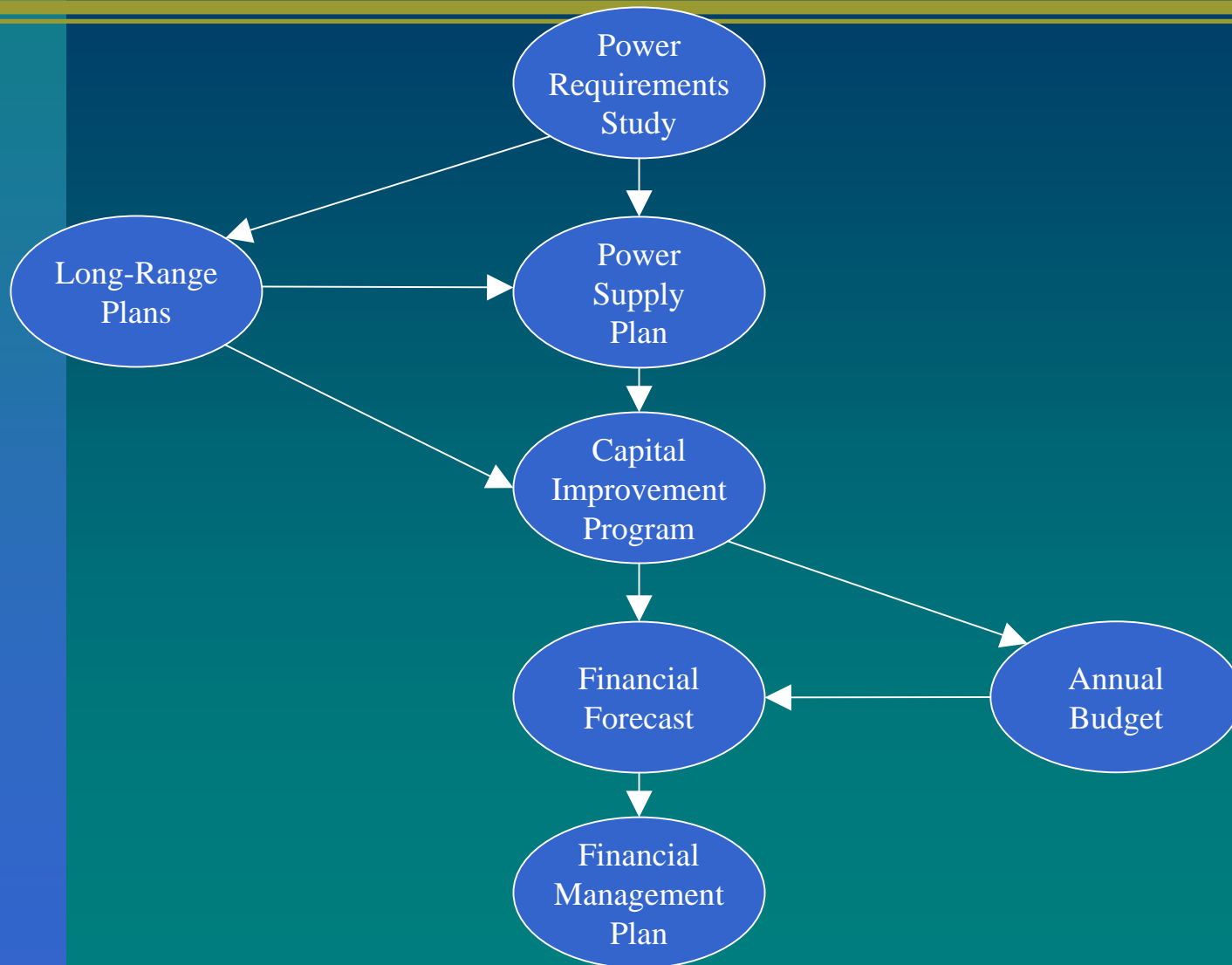
Finance Committee

June 8, 2005



Overall Planning Process

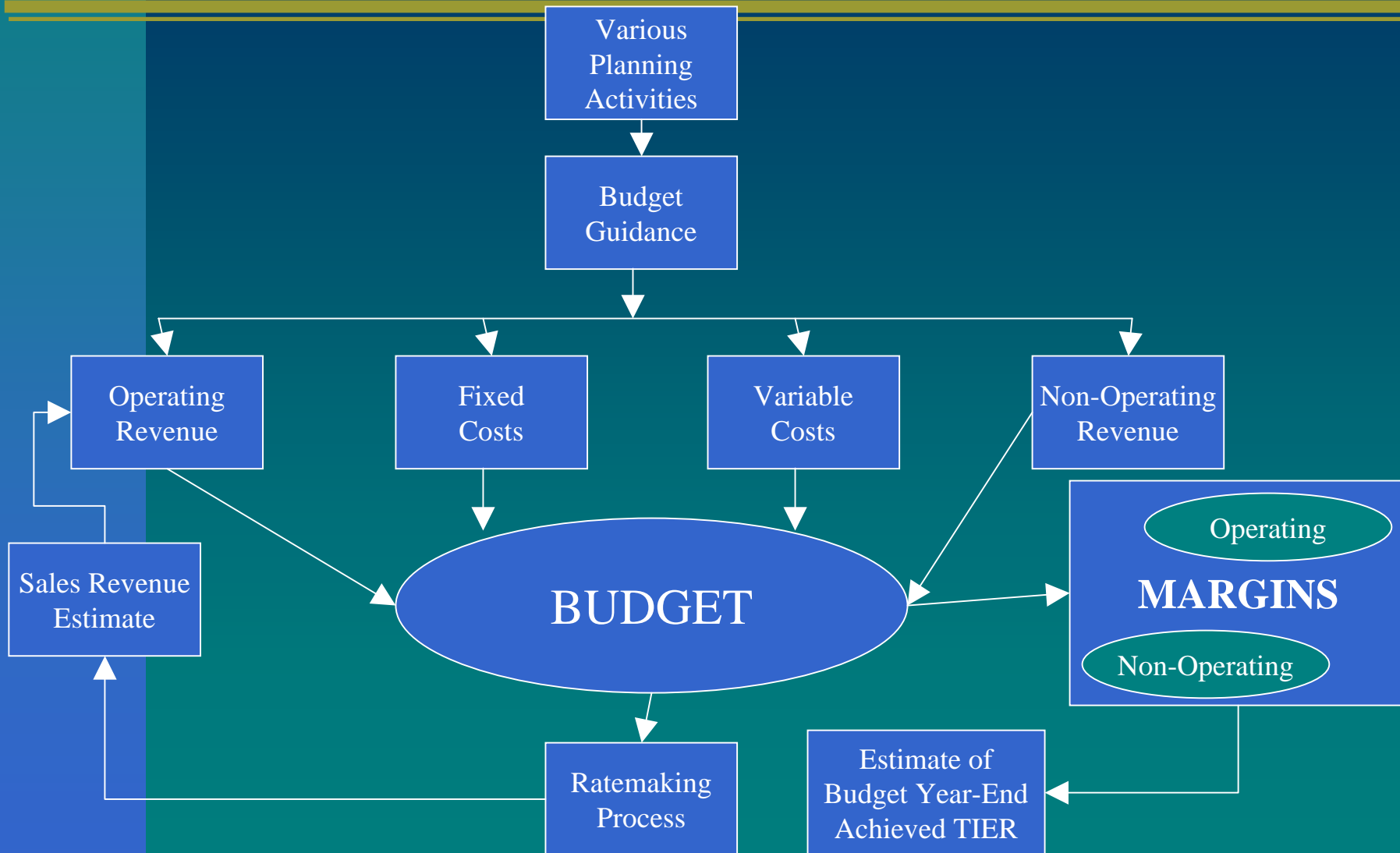
Overall Planning Process





Operating & Capital Budgets

The Budget Process



Capital Improvement Program (CIP) Process



CRITERIA CONSIDERED

1. Is the project consistent with long-range plans?
2. Is the project justified and how?
3. Is the cost estimate consistent with divisional cost estimating standards?
4. Is the budget reasonable?
5. Are the corporate business planning criteria met?

CIP Project Classifications

❖ Capitalized Maintenance

- Smaller retirement unit (SRU) maintenance

❖ Capital Improvements

- Safety
- Agency mandated
- Service to new customers
- Incremental load growth
- Reliability
- Operating efficiency

❖ Information Technology/Deferred Studies

- New software implementation
- New business offerings

CIP Projects Economic Justification

❖ Reliability Projects

- Outage reduction
 - Measured by the Value of Unserved Energy (VUE)
- Reduced maintenance costs

❖ Operating Efficiency

- Net present value of cashflows

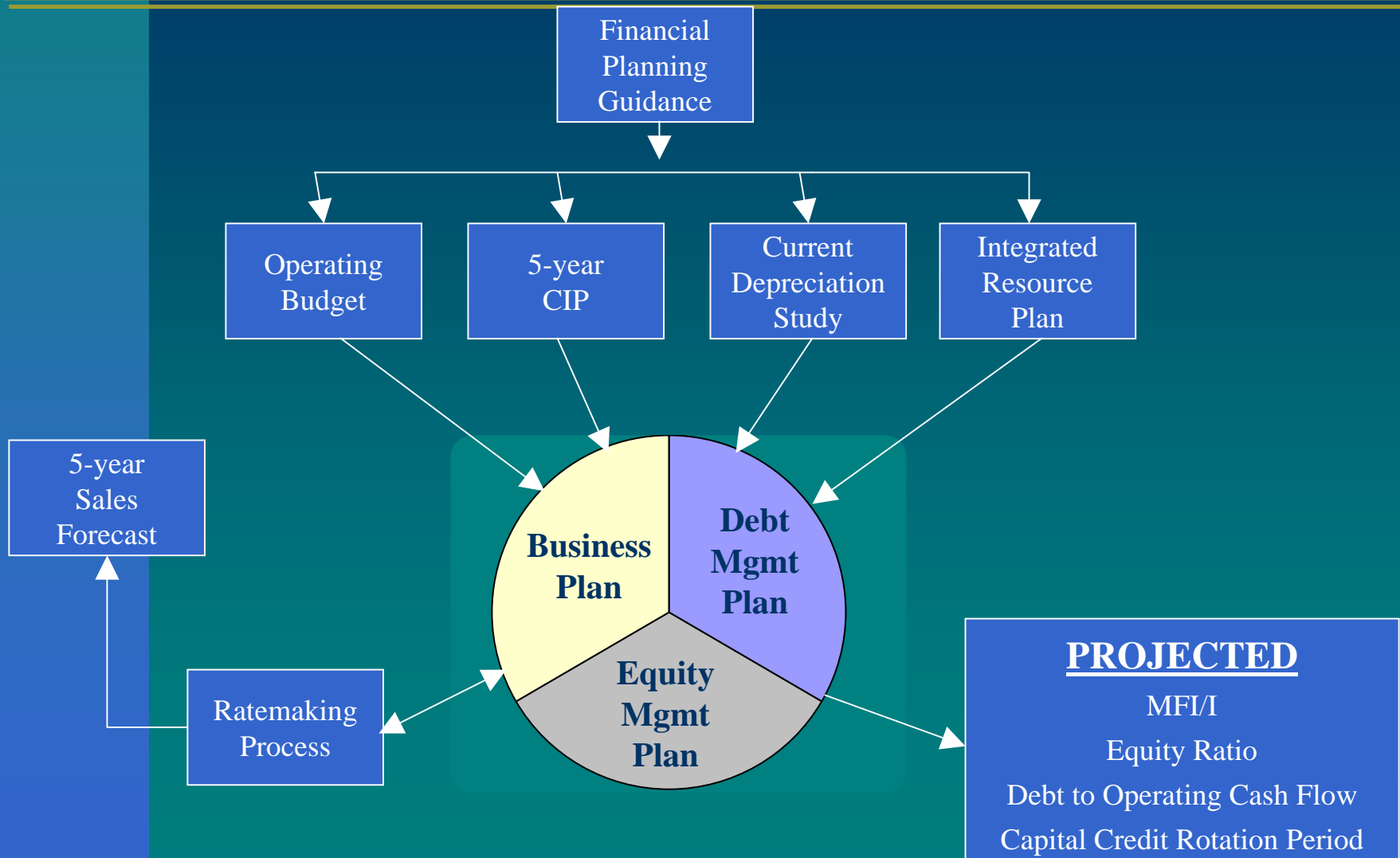
❖ New Business Offerings

- Financial or strategic criteria



Financial & Resource Planning

The Financial Management Plan



Principal Payment Cash Flows on Total Debt (In thousands)

Total Debt*	2005	2006	2007	2008	Thereafter	Total
Fixed rate debt	\$10,000	\$0	\$0	\$0	\$270,000	\$280,000
Average interest rate	7.76%	-	-	-	6.39%	6.44%
Variable rate debt	\$539	\$6,326	\$11,729	\$7,241	\$68,063	\$93,898
Average interest rate	4.51%	3.32%	3.83%	3.32%	3.88%	3.79%

* Includes current portion

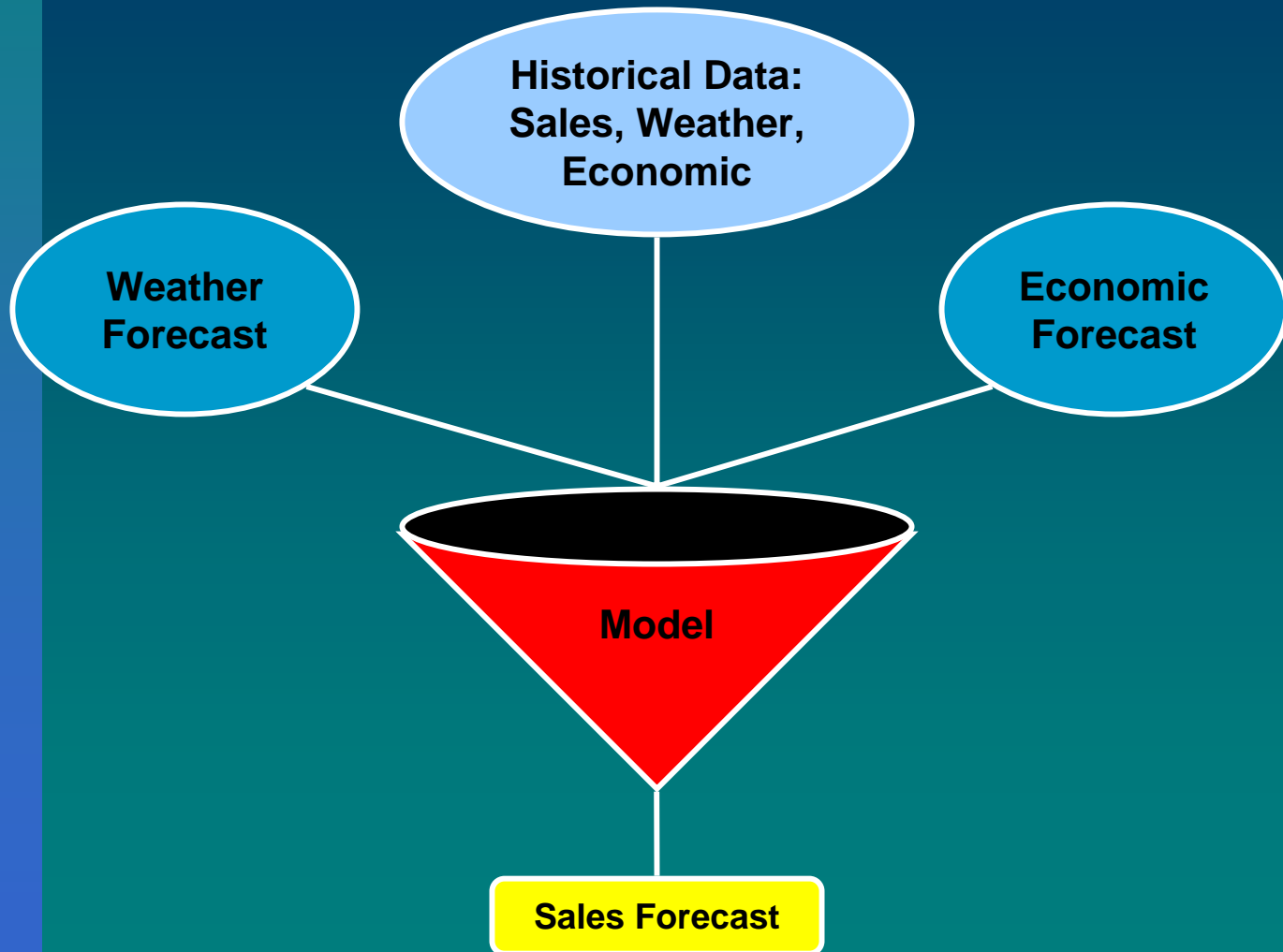
FMP Results (In Millions)

	2005	2006	2007	2008	2009
Margins	\$7.8	\$11.5	\$10.9	\$11.9	\$10.9
MFI/I	1.34	1.48	1.47	1.52	1.48
Equity Ratio	27.9%	29.8%	31.2%	32.8%	34.2%
Debt Service Coverage	1.87	1.67	1.92	1.95	1.90
Net Change in Debt	-\$5.9	-\$8.3	-\$13.7	-\$9.2	-\$9.8
Current Ratio	1.39:1	1.20:1	1.45:1	1.48:1	1.65:1
Capital Credit Rotations	\$3.0	\$3.5	\$5.5	\$5.0	\$5.5

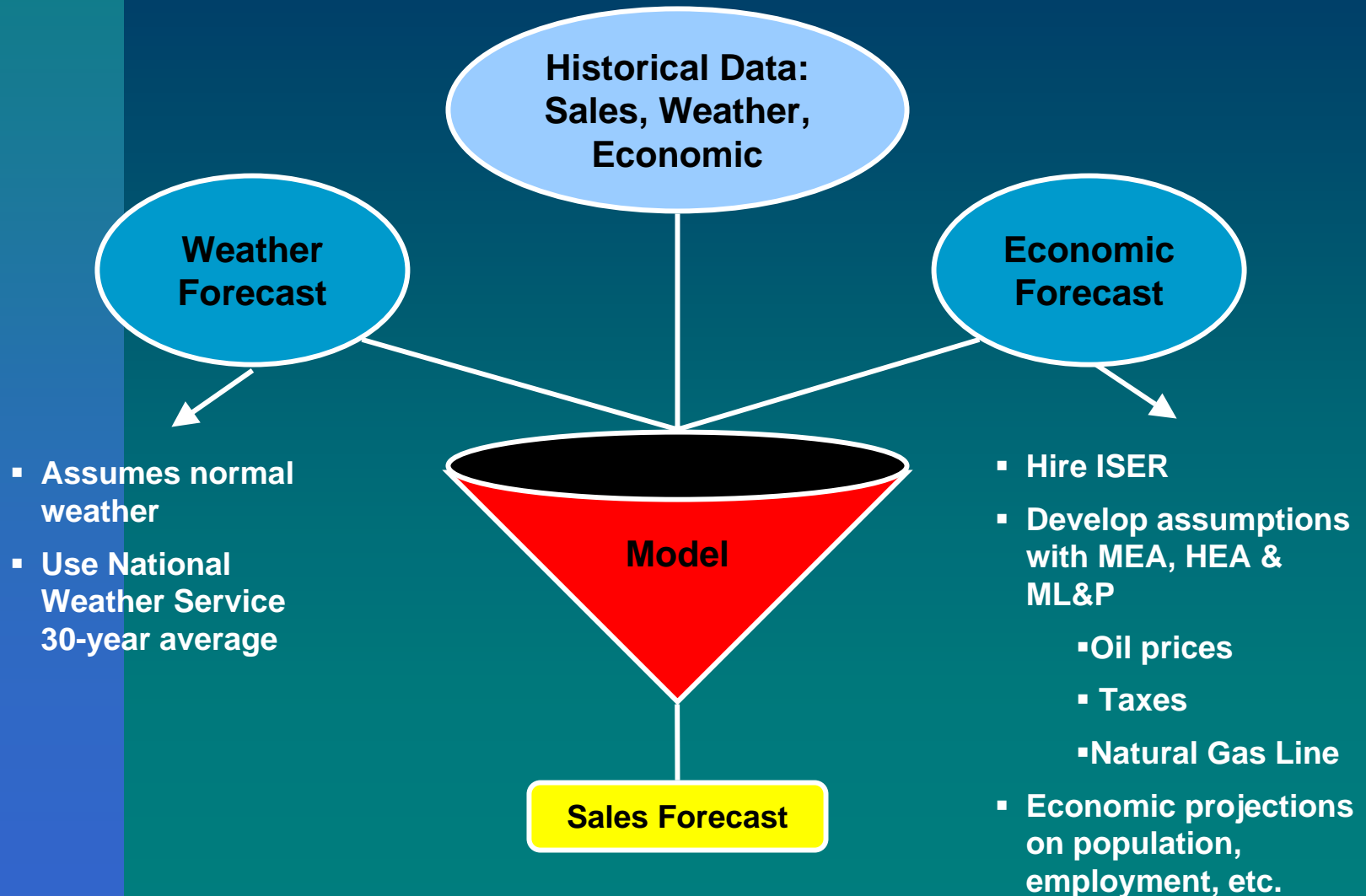


Sales Forecast

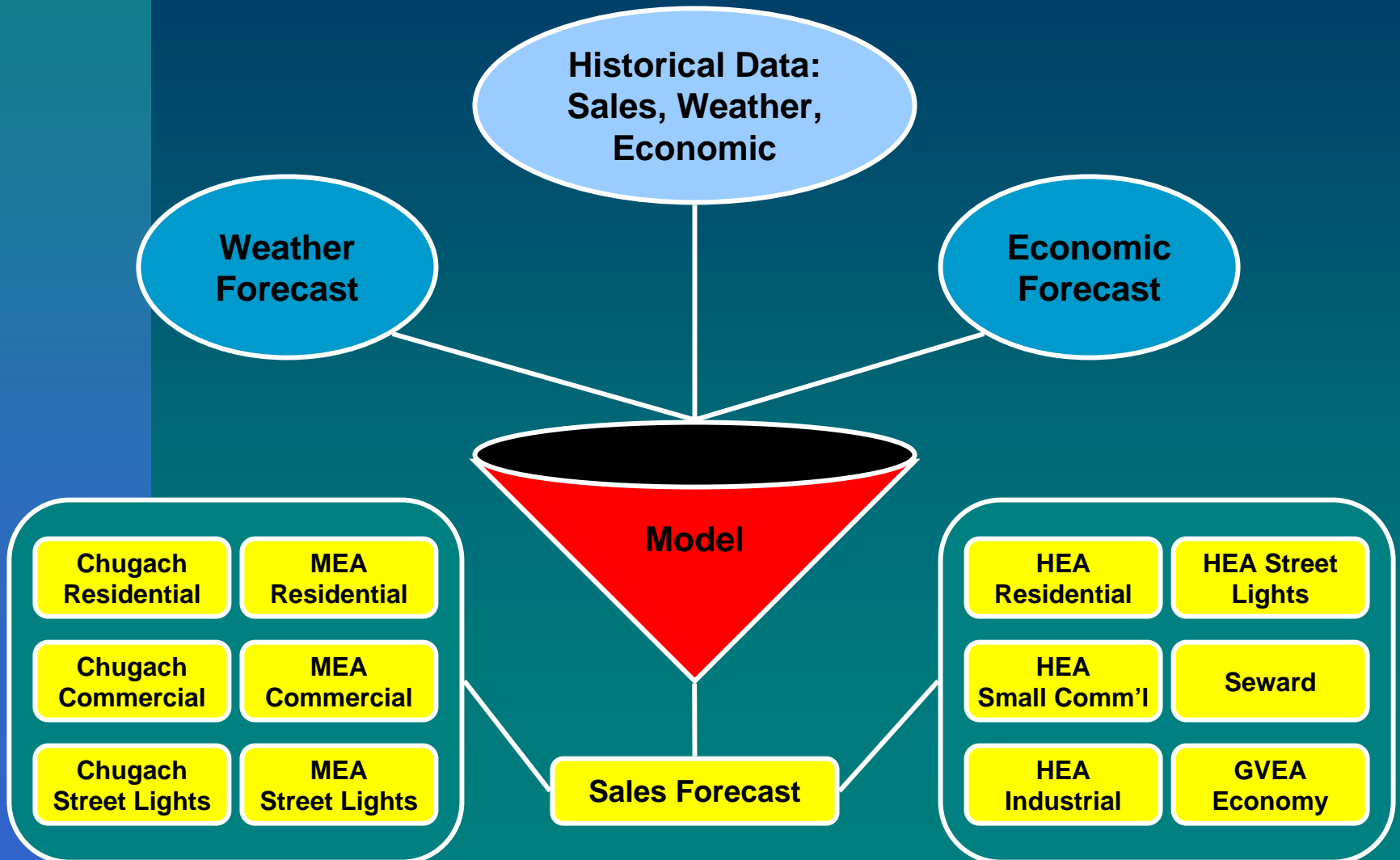
Load Forecast Process



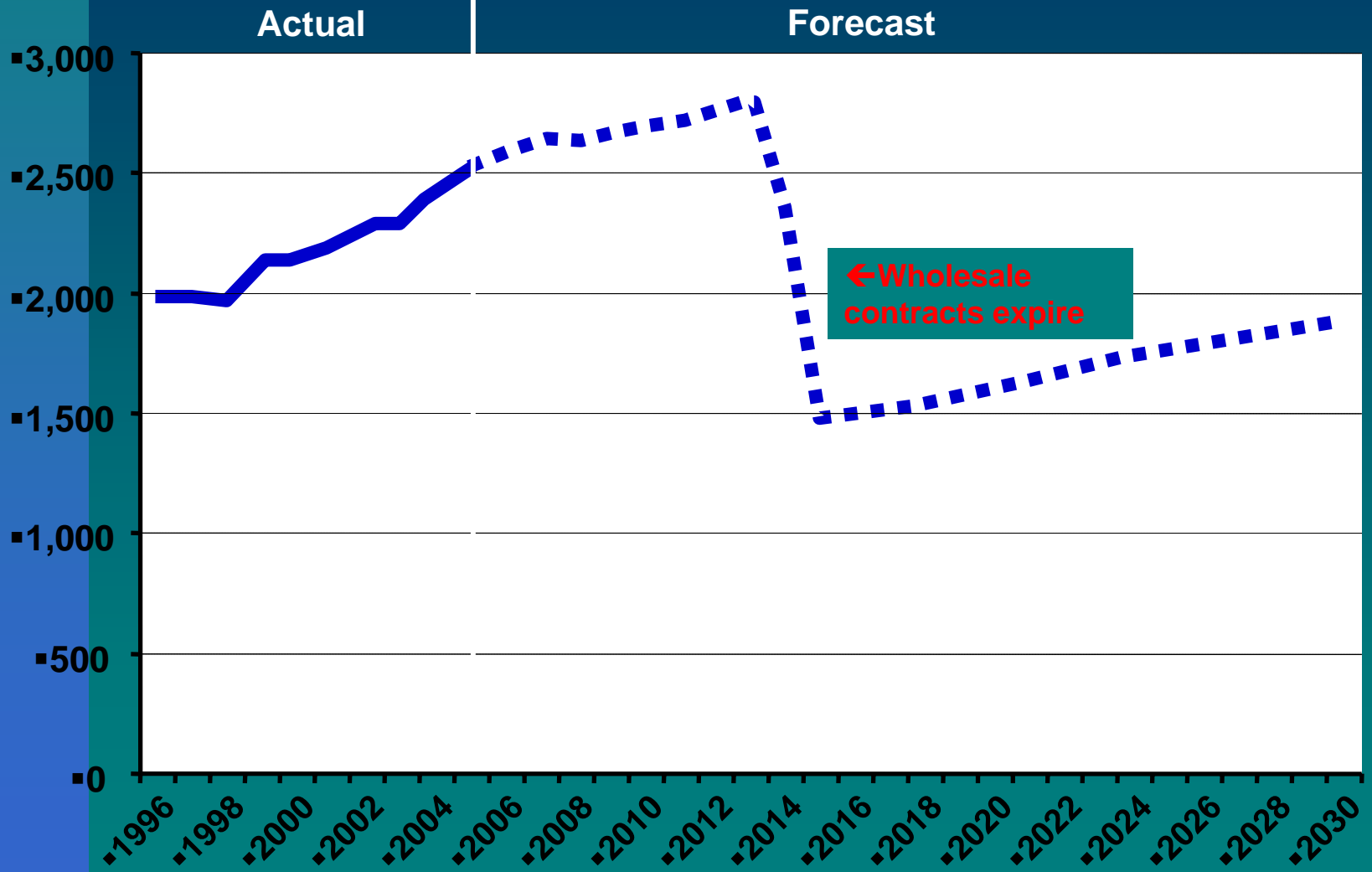
Load Forecast Process continued



Load Forecast Process continued



Energy Sales - GWh



Future Considerations

- ❖ Wholesale Contracts
- ❖ Oil Prices
- ❖ Interest Rates
- ❖ Federal Spending
- ❖ ANWR
- ❖ Gas Line



Integrated Resource Plan (IRP)

Integrated Resource Plan (IRP)

- ❖ What combination of existing generation and new generation serve the load at the lowest present value given some existing generation will be retired?

IRP Objectives

- ❖ Minimize the present value of power supply costs
- ❖ Maintain the existing level of power supply reliability

IRP Drivers

❖ Load Forecast

- Growing loads
- Potential loss of Wholesale customers after 2014

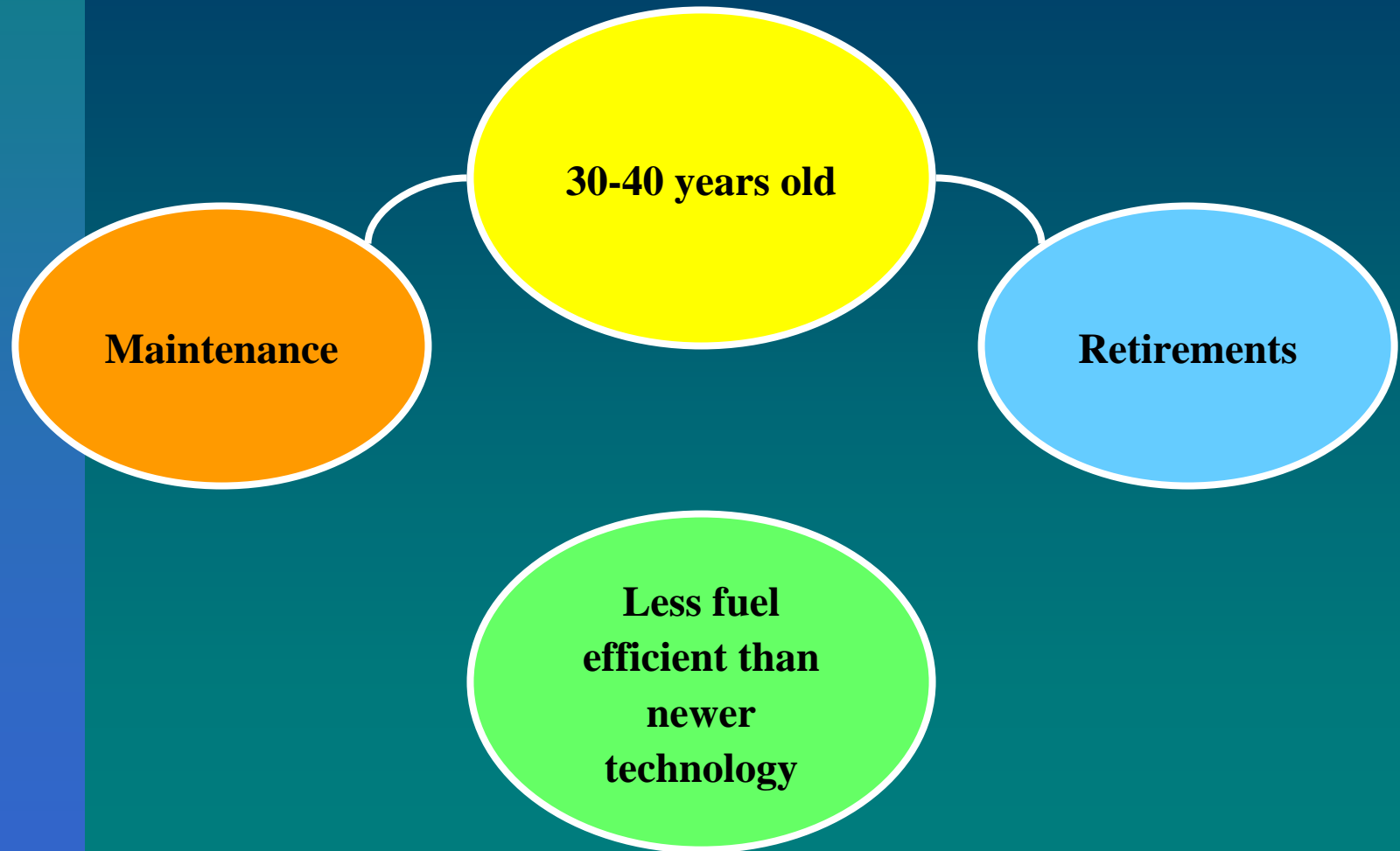
❖ Fuel Forecast

- Expiring fuel contracts
- Higher natural gas prices

❖ Generation Resources

- Aging equipment
- Maintenance
- Less efficient than newer technology

Existing Resources



Potential Resources

❖ Gas Turbines

- Simple Cycle
- Combined Cycle

❖ Coal

❖ Wind

IRP Analytical Approach

Economic Analysis

Lowest generation cost over life of project based on discounted cash flow analysis

- Capital
- O&M
- Fuel

Proposed
Generation
Plan

Rate Analysis

Financial Analysis





Other Financial Activities

Bond Rating Variables*

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

* Per Fitch Ratings

Bond Ratings – Capital Structure

❖ 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 - Regulation

- ❖ 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”

Bond Ratings

❖ Fitch

- A-
- Stable Outlook

❖ Moody's Investors Service

- A2
- Stable Outlook

❖ Standard & Poor's

- A-
- Negative Outlook

External Audits

- ❖ Chugach's public status requires an external audit and quarterly reviews
- ❖ The external audit is reviewed by an SEC reviewing partner of our external auditing firm, KPMG
- ❖ The external audit is required to be approved by the Audit Committee

SEC Reporting Review

- ❖ Pursuant to Section 311 of the Rural Electrification Act, in 1991 Chugach refinanced its REA debt by entering into the public bond market
- ❖ The 1991 bonds were secured by an Indenture of Trust between Chugach and Security Pacific Bank Washington, now US Bank
- ❖ The bonds are not registered, however, we agreed to be subject to the reporting requirements of Section 15(d) of the Securities Act of 1934

SEC Reporting Review continued

- ❖ The Indenture of Trust requires Chugach to continue reporting under the Exchange Act as long as any bonds are outstanding
- ❖ The reporting requirement consists of:
 - Form 10K (filed annually)
 - Form 10Q (filed quarterly)
 - Form 8K (filed as necessary)
- ❖ All filings are required to be reviewed by our external auditor, KPMG, and certified by the Chief Executive Officer and Chief Financial Officer

Indenture of Trust Review

- ❖ The 1991 Indenture of Trust was replaced by the Amended & Restated Indenture effective December 27, 2002
- ❖ The Amended & Restated Indenture is not an asset-backed mortgage. All obligations under this Indenture are unsecured
- ❖ Chugach is required to achieve Margins for Interest (MFI) for each fiscal year equal to at least 1.10 times Interest charges for such period
- ❖ Chugach is required to limit capital credit distributions to the lesser of 5% of total patronage capital or 50% of prior year assignable margins until its equity ratio reaches 30%

Indenture of Trust Review continued

- ❖ Chugach is required to provide to its trustee (U.S. Bank Trust National Association) the following:
 - SEC Form 10K and annual audited financials by May 30
 - Annually by April 30, a written statement by the General Manager and CFO stating that a review of Chugach's activities has been made under their supervision and that Chugach has fulfilled its obligations under the Indenture
 - Not less than sixty (60) days prior to each sinking fund principal payment date, an officers' certificate specifying the amount of each sinking fund installment on the 2002 Series B Bond

Indenture of Trust Review continued

- ❖ Chugach is also required to comply with the MBIA bond insurance covenants that remain in effect on the 2001 Series A and the 2002 Series A and B bonds. Chugach is required to provide to MBIA the following:
 - Annual audited financial statements
 - Annual compliance certification confirming the following:
 - MFI/I of at least a 1.10
 - Equity ratio greater than 22%
 - Net assets/debt ratio of at least 1.10 to 1.0

Indenture of Trust Review continued

- ❖ Chugach is also required to comply with the CoBank Master Loan Agreement covenants that remain in effect on the \$65 million outstanding promissory notes (debentures). Chugach is required to provide to CoBank the following:
 - ❖ Annual audited financial statements
 - A copy of all credit ratings issued by a rating agency
 - Annual compliance certification confirming the following:
 - MFI/I of at least a 1.10
 - Equity ratio greater than 22%
 - Funded debt to operating cash flow ratio of not greater than 8 to 1

Indenture of Trust Review continued

- ❖ Chugach is also required to comply with the Bradley Lake bond indenture. Chugach is required to provide to the trustee of that indenture (U.S. Bank) the following:
 - Annual audited financial statements and annual report

Sarbanes Oxley Act of 2002

❖ Sec. 203 – Audit Partner Rotation

- The Managing Partner responsible for Chugach's external audit must rotate every 5 years

❖ Sec. 204 – Auditor Reports to Audit Committee

- Chugach's external auditors are retained and hired by the Audit Committee
- External auditor reports to Audit Committee quarterly

Sarbanes Oxley Act of 2002 continued

- ❖ Sec. 301 – Public Company Audit Committee
 - Chugach established an Audit Committee of independent Board members November 2001
 - Whistleblower policy adopted December 2003
- ❖ Sec. 302 – Corporate Responsibility for Financial Reports
 - Chugach's CEO and CFO must certify the annual financial reports

Sarbanes Oxley Act of 2002 continued

- ❖ Sec. 404 – Management Assessment of Internal Controls
 - Efforts currently underway to ensure compliance with this section
 - Testing & correction to be completed in 3rd quarter 2006
- ❖ Sec. 406 – Code of Ethics for Senior Financial Officers
 - Code of Ethics adopted July 2004

Insurance Review

- ❖ General liability
- ❖ Property
- ❖ Automobile/watercraft liability
- ❖ Pollution liability
- ❖ Care, custody and control
- ❖ Medical malpractice
- ❖ Failure to supply

Insurance Review continued

- ❖ Workers' compensation and employers' liability
- ❖ Non-owned aviation liability
- ❖ Crime coverage
- ❖ Corporate kidnap and ransom
- ❖ Fiduciary liability
- ❖ Travel accident