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CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

FINANCE COMMITTEE MEETING MINUTES

May 30, 2007

Committee Members in Attendance: Elizabeth Vazquez (acting Chair)
PJ Hill, Chair
Alex Gimarc
Jeff Lipscomb

Other Directors Present: Uwe Kalenka
Alan Christopherson (arrived at 5:07 p.m.)
Jim Nordlund

Guests in Attendance: Tuckerman Babcock (MEA)
Loralie Carter (MEA)
Wayne Carmony (MEA)
Judith Carmony
Jim Patras (HEA)
Karyn Huffman (SOX)
Robert Stewart (Davis Wright Tremaine)
Don Edwards (Dorsey & Whitney)
Gary Zipkin (Guess & Rudd)
Jamie Linxwiler (Guess & Rudd)

Staff in Attendance:

Bill Stewart	Lee Thibert	Mike Cunningham	Connie Owens
Dianne Hillemeier	Carol Johnson	Arthur Miller	Dave Smith
Jody Wolfe	Dan Knecht	Paul Risse	Amber Van Treeck
Dustin Highers	Ed Jenkin	Ron Vecera	Burke Wick
Phil Steyer	Suzanne Gibson	Mary Tesch	Carol Heyman
Bill Bernier	Kevin Dunham	Anita Gomez	Jean Sauget
Margaret Hansell			

Recording Secretary: Jennifer McDonald, Legal Secretary

I. Call to Order

Acting Chair Vazquez called the Finance Committee to order at 4:10 p.m. in the boardroom of Chugach Electric Association, Inc., 5601 Electron Drive, Anchorage, Alaska.

II. Approval of Agenda

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

III. Approval of Minutes

a. April 25, 2007

Director Hill moved and Director Kalenka seconded the motion to approve the minutes of April 25, 2007.

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Director Lipscomb commented that the Association policies state that the Treasurer of the Board is to chair the Finance Committee. Acting Chair Vazquez stated that because of Director Hill's present intense schedule he has requested Director Vazquez chair the meeting for him and he will be chairing the meetings in the future.

Director Lipscomb noted a spelling error that "Luz" should be "Liz". The correction was accepted. *It was later discovered that the spelling of the name "Luz" was correct as it referred to Chair Vazquez' mother who had been in attendance, therefore, there is no change to the minutes.* The motion passed unanimously.

IV. Customer Comments

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

V. April Unbundled Financial Statements

Jody Wolfe, Controller, gave a presentation on the April Unbundled Financial Statements and answered questions from the Committee.

VI. 2007-2008 Finance Committee Goals

Acting Chair Vazquez stated that this item will continue to be added to the Finance Committee agenda each month until the Finance Committee decides what to do and vote on it.

Director Lipscomb asked why this item could not be approved tonight.

Acting Chair Vazquez stated that the two new Board members needed time to review and add items if needed. Acting Chair Vazquez asked that this item be sent to all the Board members electronically.

Acting Chair Vazquez stated she would like the following items added to the July Finance Committee agenda 1) Credit Card payments and 2) Adopt the 2007-2008 Finance Committee Goals.

VII. CoBank #5 Refinancing

Mike Cunningham, Senior Vice President Finance and Chief Financial Officer, gave a brief overview of CoBank #5 Refinancing and answered questions from the Committee.

VIII. Expenses Not in Rates

Mike Cunningham, Senior Vice President Finance and Chief Financial Officer, gave a brief overview of Expenses Not in Rates. Mr. Cunningham and staff answered questions from the Committee.

Acting Chair Vazquez requested a copy of the "RAPA Report" (Attorney General's Petition for Partial Reconsideration of Order U-06-134(1)) be distributed to the Board.

IX. Fixed-Wing Service Contract

Dan Knecht, Manger, Administrative Services, gave a presentation on the Fixed Sing Service Contract and answered questions from the Committee.

Director Lipscomb moved and Director Kalenka seconded the motion that the Finance Committee recommend approval to the full board the 31 month contract for Fixed Wing Air Services with Security Aviation, Inc. in an amount not to exceed \$1,663,975.40. The motion passed unanimously.

X. Benchmarking/Outside Performance Measures (CEO Goals for 2007)

Director Kalenka read from a prepared statement, entitled CEO GOALS FOR 2007, a copy of which was distributed to the Board, as follows:

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On May 16 the board returned CEO Goals for 2007 to the Operations Committee for revision. They are on the agendas for both committee meetings today because the topic is one of the most important things that boards do. In Chugach Electric's case the subject of using outside measures to gauge organizational and management performance is not a new one.

To some extent measures have been used to assess reliability and safety but none have really been implemented in the cost area.

We need to start a discussion here about revising the CEO goals into something more measurable in terms of what our ratepayers actually see and can understand. Broadly, they understand safety, they understand reliability and they certainly understand cost.

Chair Vazquez and I have planned for the Ops Committee to discuss goals format and design. Normally this would be done first and then the Finance Committee would work on the more specific measurement methodologies and approaches. But because of the ordering of our committee meetings this afternoon Finance is first so before we delve into measurement issues let me say a few words about goals format and design.

The CEO goals can't be considered in isolation from the overall CEA Mission. Goals for the CEO should of course implement the Cooperative's Mission, which presently is: Corporate Mission – Through superior service, safely provide reliable and competitively priced energy. I'm having a little trouble understanding the concept of providing "competitively priced energy" when there is no competition and our customers are in a monopoly service territory and have no choice but to buy only from us. I would think a more appropriate Mission for us, as a cooperative might be something along the lines of: Provide energy priced at a cost no higher than necessary while maintaining national standards of safety and reliability. Therefore it's desirable for the Ops Committee in its meeting later to start by discussing the current Mission statement and whether it should be changed to emphasize the concept of a "cost no higher than necessary". If the answer is yes then measuring what a "necessary" cost level is requires outside indicators to have any real meaning.

I suggest that the Finance work now on the details of those indicators. I'd like to open up the discussion by asking the CEO and board members for comment on some points:

1. Why have outside measures not been used?
2. What information can be provided to the board on how we are doing compared to other utilities, not just in the Railbelt but nationally?
3. This needs to be provided in a way to compare apples to apples, not lumped so that every company is unique and can't be analyzed. This means that data needs to be from utilities unbundled into Generation, Transmission, Distribution, etc.
4. Taking one widely discussed indicator, it's said that Chugach Electric Association distribution cost is 4.5 cents per kWh while comparable utilities nationally charge 2 cents. Is this true? If so, then what causes the disparity?
5. What are the comparable indicators for generation and transmission?

I heard Director Lipscomb say at the last meeting that the benchmarking Chugach Electric has done shows that Chugach is competitive and we are reviewed by three rating agencies and that we have independent audits and that everything is OK. He said we spent \$120,000 on benchmarking in 2006.

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The benchmarking evidence provided to this board is not persuasive. It has the appearance of being biased, intended to support a preconceived objective. This is most evident by the continued comparison to groups limited to the other Railbelt electric utilities that have the same problems that Chugach has. Of course we are going to look like we are right in the middle of that particular pack. I need better unbiased and independent information. I am tired of our members and this board being misled.

Director Kalenka recommended that this item be added to the next regular Board meeting for discussion and possible action.

Chair Vazquez stated that the CEO Goals for 2007 will be added to the June 20 Board meeting and the June 27 Operations Committee meeting agendas and added the Mission Statement to the June 27 Operations Committee agenda.

Bill Stewart, Chief Executive Officer, stated that a response would be prepared for the Board before the June 20 meeting.

Director Christopherson arrived at 5:07 p.m.

XI. Correspondence

a. April Unbundled Financial Statements

b. April Variance Report

XII. Directors' Comments

Director Hill: None.

Director Lipscomb: Stated he is looking forward to Director Hill getting up to speed and jumping in with both feet on the Finances of the Association.

Director Christopherson: None.

Director Nordlund: None.

Director Gimarc: None.

Director Kalenka: None.

Acting Chair Vazquez: Thanked Ms. McDonald for taking the notes and Connie Owens and Dianne Hillemeier for putting the packets together. Thanked Carol Johnson for her assistance in getting the packets together. Stated the Board is going to get more organized in the future and will provide more lead time. Thanked Mr. Stewart for making staff available and for cooperating in getting the packets together. Stated that Ms. Owens was working really hard and expressed her appreciation.

XIII. Executive Session

None.

XIV. Adjourn

Director Kalenka moved and Director Lipscomb seconded the motion to adjourn. The meeting adjourned at 5:12 p.m.