

MEMO

TO: Chugach Board of Directors

FROM: Ray Kreig
PHONES: o 276-2025
H 243-8951
FAX: 258-9614

FAX: _____

Number of pages: 5
(Including cover sheet)

DRAFT

DATE: August 5, 2005

Copy: Joe Griffith-Chief Executive Officer (CEO); Brad Evans, Lee Thibert, and Bill Stewart-current General Managers

SUBJECT: **CHUGACH CEO GOALS [Draft 2]**

The current CEO goals were adopted on February 23, 2005 and are attached as Table A. While they cover a lot of topics unfortunately few of the goals are measurable and there are few high level summary goals or outside measures identified that Chugach Customers can easily relate to their own concerns.

Customers basically have stated in many past forums, they want Safety, Reliability, and Low Cost. I have prepared Table B to address these three consumer concerns at the highest level in a proposed revised and new approach to the CEO goals. I recommend that the BOD discuss and consider revising these goals at this time both to focus it's own thinking on what it expects of a new CEO as well as giving direction to our search consultant and the Interim CEO.

The goals are greatly simplified, at least at the highest level. Many of the non-measurable ones have been dropped and a number of new ones are added.

A previous Chugach mission statement said:

"Maximize the value customers receive by safely providing competitively priced, reliable energy and services through innovation, leadership and prudent management."

It has been said many times in many forums,

"If it isn't measured, it doesn't get done."

In order to monitor our progress in achieving these objectives the BOD, members, and staff need a reporting mechanism that is directly tied to the critical items in the mission statement. These items have been underlined above.

TABLE A -- 2005 CEO Goals (adopted 2/23/05)

- I) Maintain System Reliability:**
 - A) Maintain system reliability within the “reliability triangle” (number of outages and durations). Performance measures are:
 - SAIFI 1.7 or fewer outages per member per year CAIDI less than 90 minutes per outage
 - SAIDI less than 150 minutes per consumer per year
 - B) Maintain Beluga plant reliability > than 98% and forced outage rate < 2%
 - C) Ensure member satisfaction in service restoration and reliability by surveys where 90% of our members grade service reliability and restoration “B” or better
- II) Ensure the Financial Health of the Association**
 - A) Ensure operating costs within approved 2005 budget levels
 - B) Ensure capital expenditures within approved 2005 budget levels
 - C) Meet the financial goals of the Association
 - a) Maintain MFI at 1.20 level; Equity Ratio at a range of 25-30%; Capital Credit retirements at 50% of prior-year margins
 - D) Meet long-term fuel needs of the Association and limit price volatility
 - a) Begin discussions with respondents to the Fuel RFP
 - b) Negotiate to re-price period 3 gas
 - c) Investigate long-term fuel supply alternatives
 - E) Proceed with Single Member G&T Plan
 - a) Functionally unbundle organization, prepare a rate case based on a 2004 test-year
 - F) Complete assessment/obtain attestation internal controls effectiveness
- III) Cyber Security**
 - A) Implementation of a program to develop a culture of cyber security awareness
 - B) Conduct regular cyber security audits with internal and external resources
 - C) Report regularly the results of cyber security efforts
- IV) Provide a High Level of Service to our Members**
 - A) Ensure members are treated appropriately and conduct retail customer surveys
 - B) Offer new and innovative customer and member services
 - C) Keep the membership informed of benefits of membership
- V) Maintain our Leadership Amongst Electric Utilities in the State**
 - A) Lead efforts with Railbelt utilities to develop and execute a Railbelt-wide Legislative Plan
 - B) Integrate Chugach’s IRP with other Railbelt Utilities
- VI) Provide our Employees a Safe, Challenging, and Rewarding Place To Work**
 - A) Maintain an aggressive safety program. Achieve an improvement over 2004 safety statistics by reducing the lost time rate from 3.39 to 3.25 and a recordable incident rate of 5.5
 - B) Create a new safety awareness campaign to encourage safe work practices and reward success
 - C) Provide opportunities for employees to progress to higher responsibilities
 - D) Ensure a competitive wage and salary program
 - E) Develop a strategy for labor negotiations within the first quarter of 2005
 - F) Set appropriate targets under the Gains program
- VII) Relationship with our Wholesale Customers**
 - A) Continue meeting with Wholesale Customers on plans for renewal, extension, or modification of current agreements
 - B) Implement acceptable alternative wholesale customer relationships such as joint action agencies, power pools or G&T organizations
 - C) Involve Wholesale Customers and others in the Chugach planning process as appropriate
- VIII) Continue pursuit of innovative ways, means, methods, and procedures in achieving Goals I-VII above.** Report quarterly to Board of Directors on progress

TABLE B -- PROPOSED REVISION TO CEO GOALS [Draft 2] by Ray Kreig

	MEASURES:	OUTSIDE REPORTING		COMMENTS
	CHUGACH	ALASKA	OTHER REGIONS	

WHAT OUR CONSUMER-MEMBERS SEE AND CARE ABOUT:

FIRST, MAINTAIN SAFETY

#1 for the public How safely are we protecting the public?				Measure such as "Public Accidents per million MWh of retail sales"?? Differentiate serious accidents(fatalities) from minor ones?
#2 for employees How safe is our workplace for our employees?	LTAR= 3.25			Measure such as "Lost Time Accidents per million MWh of sales".

SECOND, RELIABILITY TARGET

Adding small improvements in reliability can get extremely expensive! Determine the cost effective sweet spot in the Reliability – Cost relationship. Then maintain that reliability.

COMPOSITE (all sources)	CEA: SAIFI = 1.7 CAIDI = 90 min SAIDI = 150 min	MEA: SAIFI = 2.5 CAIDI = 120 min SAIDI = 220 min	US Ave: SAIFI = 1.7 CAIDI = 90 min SAIDI = 150 min	Use "Reliability Triangle" to better illustrate.
<i>Distribution</i>	<i>CEA: SAIFI = 1.7 CAIDI = 90 min SAIDI = 150 min</i>	<i>CEA: SAIFI = 1.7 CAIDI = 90 min SAIDI = 150 min</i>	<i>CEA: SAIFI = 1.7 CAIDI = 90 min SAIDI = 150 min</i>	ditto
<i>G&T</i>	<i>CEA: SAIFI = 1.7 CAIDI = 90 min SAIDI = 150 min</i>	<i>CEA: SAIFI = 1.7 CAIDI = 90 min SAIDI = 150 min</i>	<i>CEA: SAIFI = 1.7 CAIDI = 90 min SAIDI = 150 min</i>	ditto

TABLE B -- PROPOSED REVISION TO CEO GOALS [Draft 2] by Ray Kreig				
	MEASURES:	OUTSIDE REPORTING		COMMENTS
	CHUGACH	ALASKA	OTHER REGIONS	
THIRD, DELIVER AT COST NO HIGHER THAN NECESSARY!				
Distribution Adder	CEA: 3.5¢ (45 customers/mi)	MEA: 3.2¢ (15 customers/mi)	IOU's: 1¢ (35 customers/mi) Co-ops: 2.4¢ (5.7 customers/mi) <i>SOURCE: Regional Meeting Mini Seminars, Fall 1996, NRECA, page 41.</i>	★ KEY ECONOMIC EFFICIENCY INDICATOR - "Markup" above the wholesale cost required to distribute electricity to retail customers. Show both as raw data and adjusted for density and percent residential load. Compare to all utilities as well as IOUs, co-ops, and municipals.
	[SAMPLE DATA]			
Transmission Adder	CEA: 1.0¢	MEA: 1.0¢		φ KEY ECONOMIC EFFICIENCY INDICATOR –
Generation Adder				★ KEY ECONOMIC EFFICIENCY INDICATOR – "Markup" above cost of fuel. Show both as raw data and adjusted for type of equipment and efficiency/heat rate differences.
COMPOSITE (all sources)	CEA: 3.5¢	CEA: 3.5¢ ML&P: 3.7¢	USA Ave: 2.2¢	
GAS PLANTS	CEA: 4.0¢	ML&P: 4.2¢	USA Ave: 1.5¢ Texas: 1.5¢ (232 plants)	
HYDRO PLANTS	CEA: 0.8¢ (Cooper Lake)	AIDEA: 0.7¢ (Bradley Lake) ML&P: 0.9¢ (Eklutna Lake)	USA Ave: 0.5¢ Bonneville: 0.6¢ SFPUC: 0.4¢ (Hetch Hetchy)	[NOT REAL DATA!]

TABLE B -- PROPOSED REVISION TO CEO GOALS [Draft 2] by Ray Kreig

	MEASURES:	OUTSIDE REPORTING		COMMENTS
	CHUGACH	ALASKA	OTHER REGIONS	

NOT SEEN BY PUBLIC – BOARD MUST MONITOR:

- IX) Ensure the Financial Health of the Association**
- A) Ensure operating costs within approved 2005 budget levels
 - B) Ensure capital expenditures within approved 2005 budget levels
 - C) Meet the financial goals of the Association ;
 - a) Maintain MFI at 1.20 level; Equity Ratio at a range of 25-30%; Capital Credit retirements at 50% of prior-year margins (these are most important)
 - D) Meet long-term fuel needs of the Association and limit price volatility
 - E) Bond financing costs (Composite Effective Interest Rate). Show also an index of long (and medium?) term borrowing and a municipal bond index. Will show where we are compared to national financial markets.
 - F) Standard financial reporting ratios and indicators, equity percentage etc.

Keep up Maintenance
 Develop measures to ensure that deferral of upkeep is not used to cut rate growth.

Other Measures

Distribution Employee Pay	CEA = 168%	ML&P = 170% MEA = 150% HEA = 165%	USA Ave = 100%	On hourly basis as percent of national average of electric utilities. Include all employees and benefits. Use hours worked (not paid) as basis. This will include the effects of differing vacation and sick leave allowances.
Generation Employee Pay				ditto
Customers per Employee	CEA = 200	MEA = 235 Enstar = 350	USA Ave = 400? ENEL (Italy) = 800* Spain = 2,000*	Do not mix D and G&T averages! *Data source is The Economist (4/2/05, p. 59). There may be confusion between meters and total people in a household.
[Many more can be added]				