

# Chugach Electric Association, Inc 2003 Operating and Capital Budget

October 21, 2002



## Vision Statement

- **Be the customer-preferred provider of reliable utility services in regulated and competitive Alaskan markets.**

# Mission Statement

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

# General Manager Goals - Operational

- **Develop a process for producing a strategic plan**
  - Reorganization
  - Update of Strategic Plan currently underway
  - Purpose of the budget is to determine the level of resources required to achieve the goals of the organization
- **Achieve specific reliability and safety goals**
  - Projected and budgeted O&M and capital projects within acceptable expenditure levels to maintain reliability and safety levels
- **Establish an Emergency Response Plan**
  - Maintain cyber system security
- **Investigate new technologies**
- **Negotiate a new CoBank Loan Agreement**
- **Develop a plan for simplifying the annual budgeting process**

## General Manager Goals - Financial

- **Achieve margins greater than \$8.0 million in 2002**
  - Projected margins of \$8.9 million in 2002
  - Budgeted margins of \$7.4 million in 2003
- **Achieve a year-end MFI/I above 1.25**
  - Projected MFI/I of 1.33 in 2002
  - Budgeted MFI/I of 1.30 in 2003
- **Achieve a year-end equity ratio of 25-30%**
  - Projected equity ratio of 25.6% in 2002
  - Budgeted equity ratio of 25.7% in 2003

# Financial Challenges for 2003 Budget

- **Revenue forecast**

- 2000 Test Year Rate Case pending
- Assumed 3.97% interim rate increase in effect for 12 months

- **Depreciation rates**

- 1999 Depreciation Study pending
- Assumed new depreciation rates in effect for 12 months

- **Insurance expense**

- Property insurance premium increased 37%
- Worker's compensation premium increased 50%

# Comparative Statement of Operations

	2002 Projection	2003 Budget
Total Revenue	<b>\$178,540,813</b>	<b>\$181,033,601</b>
Total O&M	118,556,724	120,934,535
Total Cost of Electric Service	<b>\$171,038,612</b>	<b>\$174,730,767</b>
Patronage Capital/Margins	7,502,201	6,302,834
Non-Operating Margins-Interest	667,092	329,970
Allow Funds Used During Const	84,463	40,632
Non-Operating Margins-Other	(188,751)	0
Other Capital Credits/Dividends	793,942	750,000
Patronage Capital/Margins	<b>\$8,858,947</b>	<b>\$7,423,436</b>

MFI/I

1.33

1.30

# kWh Sales Comparison

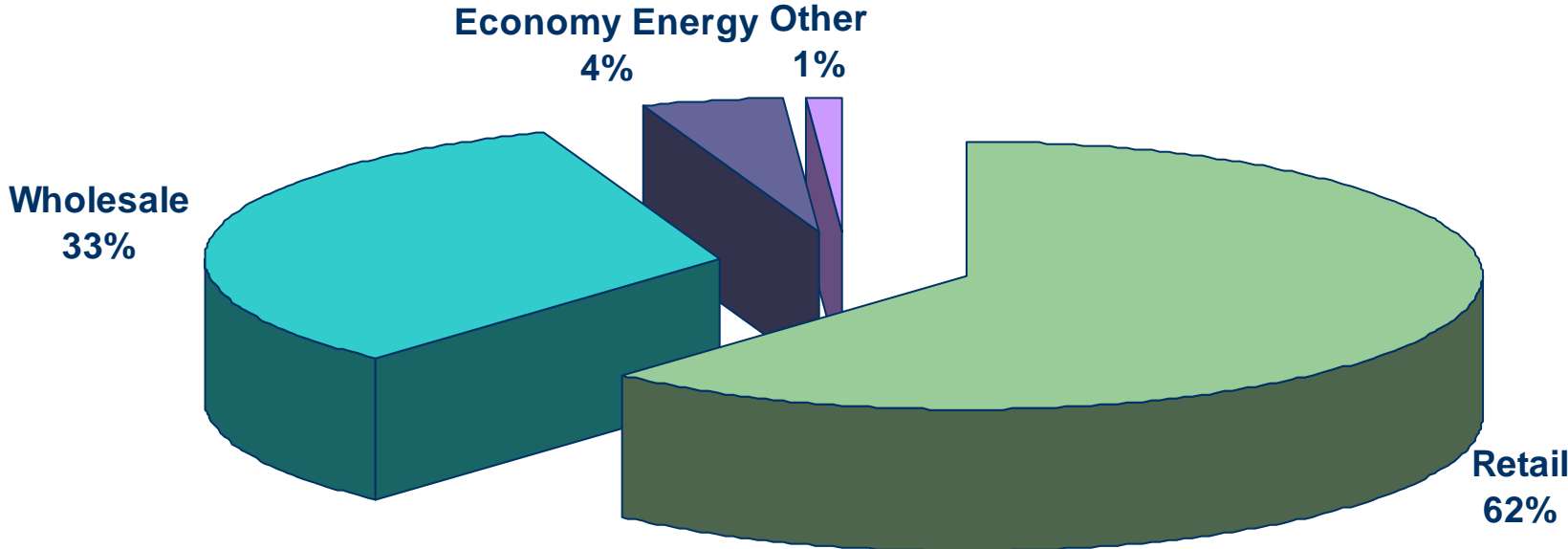
	2002 Projection	2003 Budget
Retail	1,134,656,780	1,153,620,162
Wholesale	<u>1,138,009,880</u>	<u>1,181,129,579</u>
Total	<u><u>2,272,666,660</u></u>	<u><u>2,334,749,741</u></u>

# Revenue Comparison

	2002 Projection	2003 Budget
Retail	\$111,262,435	\$111,493,602
Wholesale	60,672,728	59,457,658
Economy	<u>4,370,761</u>	<u>7,862,341</u>
	\$176,305,924	\$178,813,601
Other <sup>(1)</sup>	<u>2,234,889</u>	<u>2,220,000</u>
Total	<u><u>\$178,540,813</u></u>	<u><u>\$181,033,601</u></u>

(1) Includes wheeling, rental, late fee, damage claim, Microwave business venture and other miscellaneous revenue

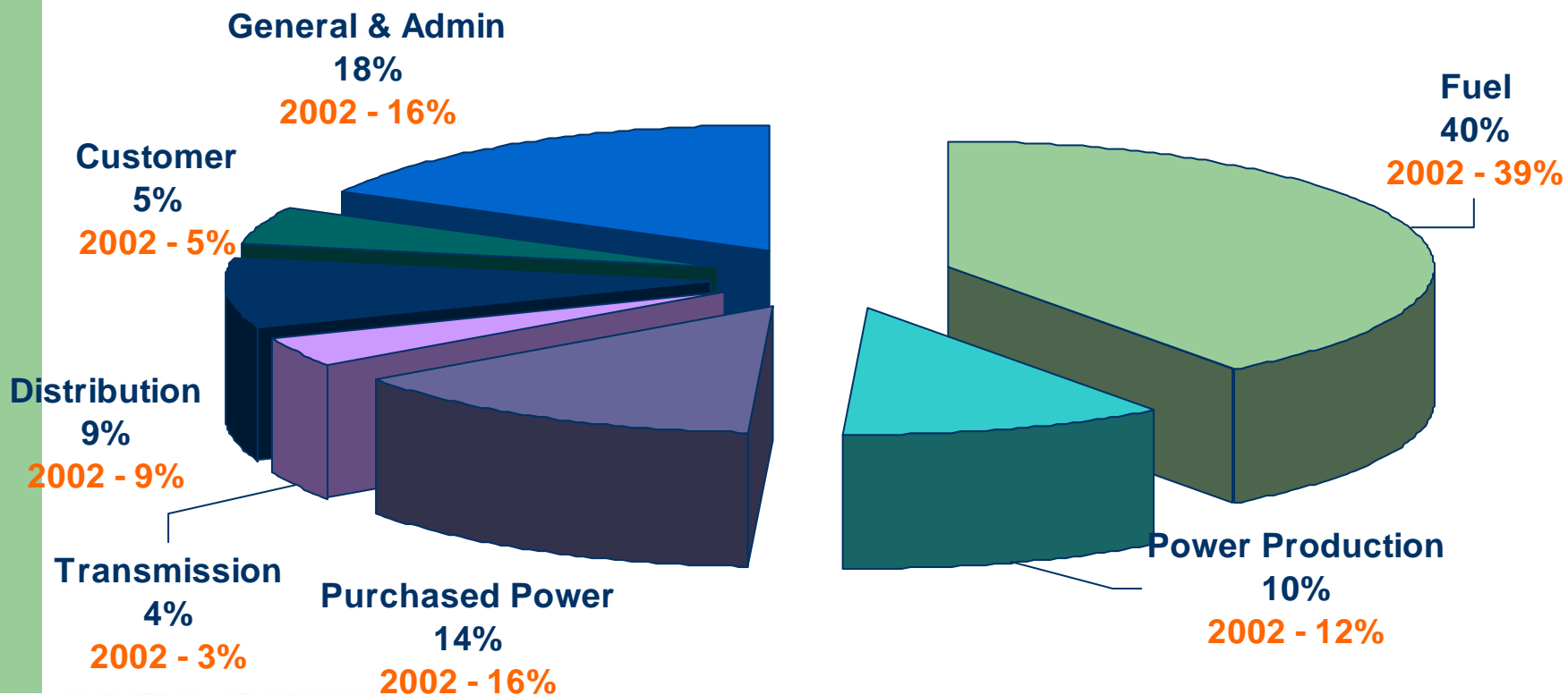
# Total Operating Revenue Breakdown



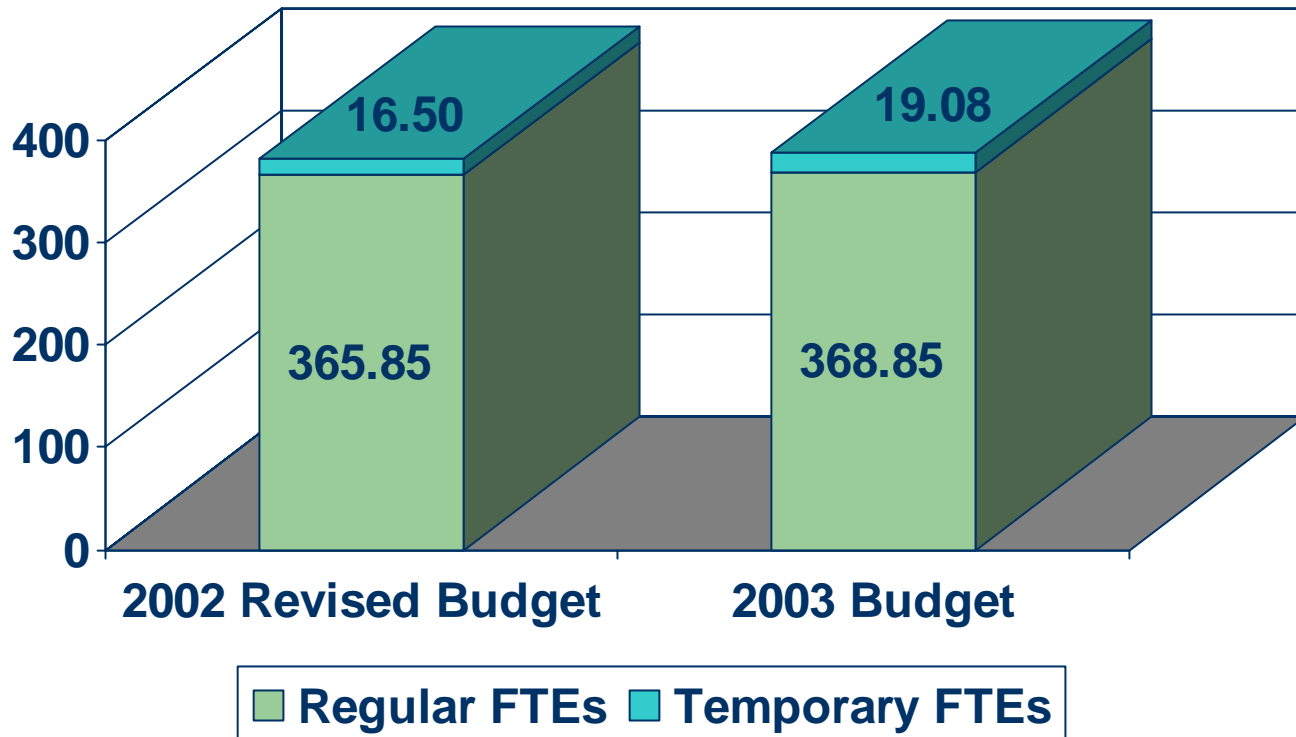
# Expense Budget Comparison

<b>Category</b>	<b>2002 Projection</b>	<b>2003 Budget</b>	<b>Variance</b>	<b>% Variance</b>
Fuel	46,357,487	48,142,919	1,785,432	3.9%
Power Production	13,919,053	13,266,449	(652,604)	-4.7%
Purchased Power	18,875,490	17,518,023	(1,357,467)	-7.2%
Transmission	4,127,262	4,608,577	481,315	11.7%
Distribution	10,372,364	10,698,207	325,843	3.1%
Customer	5,949,951	5,820,085	(129,866)	-2.2%
General & Administrative	18,955,117	20,880,275	1,925,158	10.2%
<b>Total</b>	<b>\$118,556,724</b>	<b>\$120,934,535</b>	<b>\$2,377,811</b>	<b>2.0%</b>

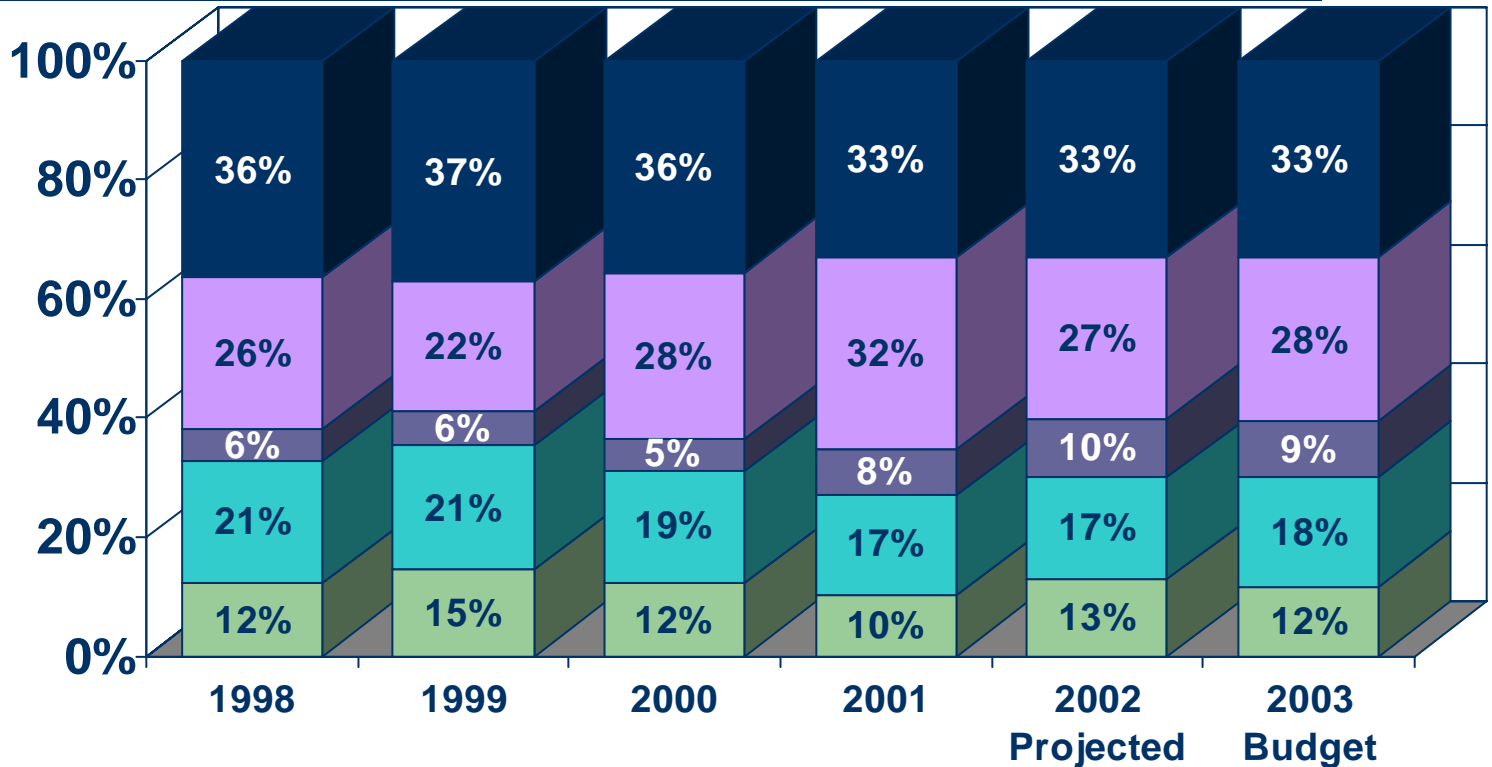
# Operations & Maintenance Expense Breakdown



# Position Budget Comparison



# Total Cost of Electric Service



■ % Variable Costs  
 ■ % Fuel Costs
 

 ■ % Labor Costs  
 ■ % Fixed Costs
 

 ■ % Purch Pwr Costs

# Operational/Strategic Challenges

- **Safety**
- **Reassessment of marketing opportunities**
  - Transfer of marketing resources to Major Accounts
- **Increased Regulatory Affairs workload**
  - Transfer of marketing resources to Regulatory Affairs
- **Security concerns post 9/11**
  - Physical security
  - Cyber security/Disaster recovery
- **Approval process for Information Technology projects**
  - Inclusion in the Capital Improvements Program

# Operational/Strategic Challenges (continued)

- **Planning for the next generation of Power Delivery personnel**
  - Aging workforce
    - Shift from temporary to regular
    - Increased use of Apprentices
    - Use of contract personnel
  - Technology shift
    - RCM – Reliability centered maintenance
    - PDM – Predictive maintenance
    - System automation

# Operational/Strategic Challenges (continued)

- **Planning for the next generation of Power Delivery personnel continued**
  - Maintenance backlog
    - CM to PM ratio of 52/47
    - Substation – 7,000 manhours
    - Line department – 4,000 manhours

## Operational/Strategic Challenges (continued)

- **Personnel demands increasing**

- Increase in new services averaging 16.5% in last 5 years
- 49 applicant built subdivisions
- Major state/muni relocations
- Line extension requests up 10%

## Operational/Strategic Challenges (continued)

- **Planning for the next generation of Power Plant Maintenance Technicians and Operators**
  - Development and implementation of a power plant apprenticeship program
  - Plant maintenance technicians and operators are technical positions with no developed training program
  - No trained workforce readily available to replace loss of employees
  - New employees need time to acquire plant specific knowledge

# Operational/Strategic Challenges (continued)

- **Operational Audit**

- Identify specific operational strengths and weaknesses
- Addresses procedures development
- Identifies staff expertise and training development needs

- **Aging Plant Equipment**

- Requires increased engineering to identify suitable replacements
- Many manufacturers no longer in business
- Control systems support is minimal

## Operational/Strategic Challenges (continued)

- **New Air Emissions Power Plant Operating Permits**
  - Require modification of our maintenance plans for Beluga and International Power Plants
  - New permits require a responsive air pollution maintenance plan
  - Records of maintenance must be made available
  - Poor or deferred maintenance can trigger source testing requirements by the ADEC

# Sensitivity Analysis on 2003 Operating Budget

- **Revenues**

- Change in base revenues between -10% and +10%
  - Margins between \$6.4 million and \$8.4 million
  - MFI/I between 1.26 and 1.34
  - Equity ratio between 25.5% and 25.8%

- **Controllable Expenses**

- Change in controllable expenses between -10% and +10%
  - Margins between \$5.8 million and \$9.0 million
  - MFI/I between 1.23 and 1.37
  - Equity ratio between 25.4% and 25.9%

# 2003 Operating Budget Summary

- Margins of \$7.4 million
- MFI/I of 1.30
- Equity ratio of 25.7%
- Firm sales increased 2.7%
- Revenue increased 1.4%
- Total cost of electric service increased 2.5%
  - Operations and maintenance expense increased 2.4%
  - Insurance premiums increased an average of 43.5%
  - Long term interest expense decreased 8.7%
  - Depreciation expense increased 15.6%

# DISCUSSION