

Chugach Electric
Association, Inc
2005 Operating Budget

October 26, 2004

Direction Statements

VISION

Powering Alaska's Future.

MISSION

Through superior service, safely provide reliable and competitively priced energy.

2005 Budget Planning Criteria

- ❖ Ensure operations within the approved 2005 budget
- ❖ Meet the financial goals of the Association
- ❖ Achieve an Equity Ratio of 25%-30%
- ❖ Achieve an MFI/I greater than 1.15
- ❖ Implement the 2014 transition plan
- ❖ Maintain cost control measures across the entire budget
- ❖ Continue to investigate new methods and procedures to improve efficiencies

Operational/Strategic Challenges

- ❖ Increased SEC and FASB regulations/reporting requirements
 - Sarbanes Oxley Section 404 compliance
- ❖ 2014 Transition Plan
- ❖ Financial Management Plan
 - Debt Management Plan
 - Equity Management Plan
 - 2005 – 2009 Business Plan

Operational/Strategic Challenges (continued)

- ❖ Maintain high level of safety for the public and for our employees
- ❖ Cost effective use of technology to improve business processes
- ❖ Provide a high level of service to our members
- ❖ Maintain our positive image in the community and in our industry

Operational/Strategic Challenges (continued)

- ❖ Meet demands of growing system
- ❖ Plan for an aging workforce
- ❖ Maximize use of limited resources
- ❖ Meet increasing demand from membership
 - Desire to underground overhead power lines
 - Input in routing new facilities
 - Continued emphasis on high reliability
 - Superior service

Operational/Strategic Challenges (continued)

- ❖ Remote plant security improvements and safety performance
- ❖ Long range planning for optimal generation configurations
- ❖ Long range maintenance planning for aging units
- ❖ Long range maintenance planning for cycling Beluga Unit 8
- ❖ Extending maintenance intervals and lives of hot gas parts

Major Assumptions for 2005 Budget

- ❖ Sales forecast
 - Assumes average 2.0% growth in sales from 2004
- ❖ Revenue forecast
 - Uses rates established in last rate case
- ❖ Depreciation rates
 - Assumes 2002 Updated Depreciation Study rates in effect for full year
- ❖ Capital Credit Rotation
 - Assumes retirement of 50% of prior year's margins

2005 Operating Budget Financial Results

- ❖ Margins of \$7.8 million
 - Consistent with the TIER level allowed by the RCA in the last rate case
- ❖ MFI/I of 1.34
 - Exceeds the targeted MFI/I of 1.25
- ❖ Equity ratio of 27.9%
 - Within the targeted range of 25%-30%

Comparative Statement of Operations

	2004 Projection	2005 Budget
Total Revenue	<u>\$200,962,827</u>	<u>\$217,538,640</u>
Total O&M	144,642,558	158,299,339
Total Cost of Electric Service	<u>\$195,138,590</u>	<u>\$210,860,610</u>
Patronage Capital/Margins	5,824,237	6,678,030
Non-Operating Margins-Interest	397,600	360,170
Allow Funds Used During Const	71,451	80,178
Non-Operating Margins-Other	0	0
Other Capital Credits/Dividends	<u>810,489</u>	<u>650,000</u>
Patronage Capital/Margins	<u>\$7,103,777</u>	<u>\$7,768,378</u>
MFI/I	1.32	1.34

kWh Sales Comparison

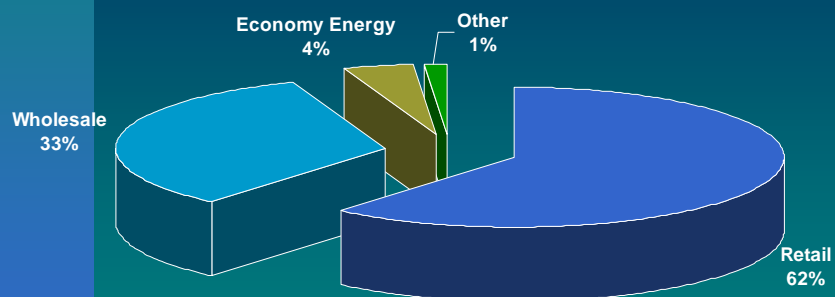
	2004 Projection	2005 Budget
Retail	1,210,456,066	1,237,661,000
Wholesale	<u>1,197,305,645</u>	<u>1,219,048,000</u>
Total Firm Sales	2,407,761,711	2,456,709,000
Economy Energy	<u>185,649,850</u>	<u>188,756,000</u>
Total kWh Sales	2,593,411,561	2,645,465,000

Revenue Comparison

	2004 Projection	2005 Budget
Retail	124,535,615	133,052,470
Wholesale	65,802,026	72,278,231
Economy	7,972,258	9,455,080
Total Sales Revenue	\$198,309,899	\$214,785,781
Other ⁽¹⁾	2,652,928	2,752,859
Total Revenue	\$200,962,827	\$217,538,640

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

Total Operating Revenue Breakdown



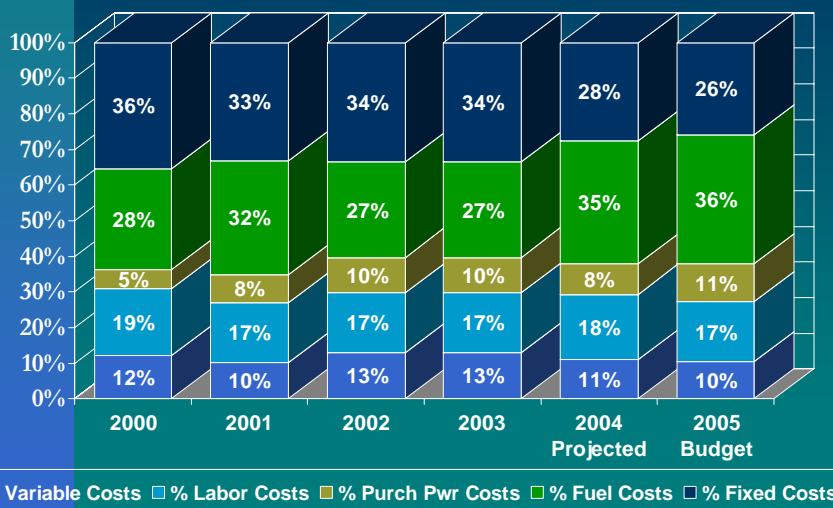
Expense Budget Comparison

Category	2004 Projection	2005 Budget	Variance	% Variance
Fuel	66,569,357	76,282,516	9,713,159	15%
Other Power Production	14,797,651	15,761,827	964,176	7%
Purchased Power	19,907,119	23,602,428	3,695,309	19%
Transmission	6,171,570	6,221,818	50,248	1%
Distribution	11,817,457	11,852,629	35,172	0%
Customer	5,569,737	5,623,572	53,835	1%
General & Administrative	19,809,667	18,954,549	(855,118)	-4%
Total	\$144,642,558	\$158,299,339	\$13,656,781	9%

Major Expense Category Variances

- ❖ Higher fuel prices
 - Fuel expense
 - Purchased power expense
- ❖ Increased labor costs
 - Wage increases
 - Benefit costs
 - Shift from capital to expense

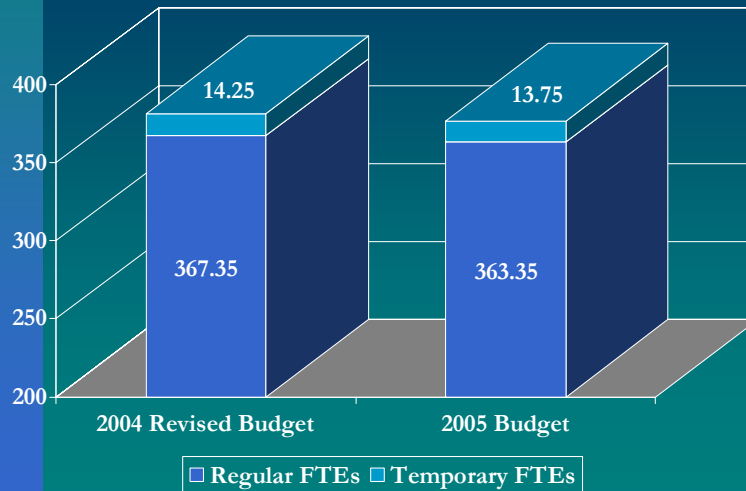
Total Cost of Electric Service



Budgeted 2005 Equity Ratio

Projected Ending Equity (2004):		Projected Ending Equity (2005):	
Total Equity (December 2003)	134,216,122	Total Equity (December 2004)	138,319,899
Plus: 2004 Projected Margins:	7,103,777	Plus: 2005 Budgeted Margins:	7,768,378
Less: 2004 Capital Credits Rotation	(3,000,000)	Less: 2005 Capital Credits Rotation	(3,500,000)
2004 Ending Equity	138,319,899	2005 Ending Equity	142,588,277
2004 Ending Long Term Debt	368,357,786	2005 Ending Long Term Debt	368,357,786
		2005 Change in Long Term Debt	0
2004 Projected Equity Ratio:	27.3%	2005 Ending Long Term Debt	<u>368,357,786</u>
		2005 Budgeted Equity Ratio:	27.9%

Position Budget Comparison



Total Labor by Financial Category 2005 Budget

Category	2004 Projection	2005 Budget	Variance	% Variance
Power Production	7,763,378	8,655,246	891,868	11%
Purchased Power	884,605	862,457	(22,148)	-3%
Transmission	3,316,682	3,014,122	(302,560)	-9%
Distribution	6,607,502	6,993,603	386,101	6%
Customer	3,501,360	3,618,972	117,612	3%
General & Administrative	8,762,357	8,021,481	(740,876)	-8%
Information Services	2,819,531	2,813,417	(6,114)	0%
Garage	664,203	569,113	(95,090)	-14%
Warehouse	937,101	1,113,787	176,686	19%
Capitalized Projects	6,829,599	7,483,925	654,326	10%
Total	\$42,086,318	\$43,146,123	\$1,059,805	3%

Sensitivity Analysis on 2005 Operating Budget

❖ Revenues

- Change in kWh sales between -5% and +5%
 - Margins between \$4.5 million and \$10.5 million
 - MFI/I between 1.20 and 1.46
 - Equity ratio between 27.7% and 28.5%

❖ Economy Energy Sales*

- Change in kWh sales of -10% and +10%
 - Impact to consumer's bill of \$0.83 per year

* Based on average usage of 8,400 kWh per year

Sensitivity Analysis on 2005 Operating Budget continued

❖ Controllable Expenses

- Change in controllable expenses between -10% and +10%
 - Margins between \$3.5 million and \$11.5 million
 - MFI/I between 1.15 and 1.40
 - Equity ratio between 27.5% and 28.7%

Sensitivity Analysis on 2005 Operating Budget continued

❖ Capital Credit Rotation

- 0% of prior year's margins (\$0)
 - Rotation period remains 19 years
 - Equity ratio – 28.4%
- 20% of prior year's margins (\$1.4 million)
 - Rotation period remains 19 years
 - Equity ratio – 28.2%
- 35% of prior year's margins (\$2.5 million)
 - Rotation period remains 19 years
 - Equity ratio – 28.0%

2005 Operating Budget Summary

- ❖ Margins of \$7.8 million
- ❖ MFI/I of 1.34
- ❖ Equity ratio of 27.9%



**CHUGACH ELECTRIC ASSOCIATION, INC.
COMPARATIVE FINANCIAL REPORT
STATEMENT OF OPERATIONS**

CATEGORY	2004 REVISED BUDGET	2004 REVISED FORECAST	2005 PROPOSED BUDGET
REVENUES:			
1. TOTAL REVENUE	196,598,339	200,962,827	217,538,640
EXPENSES:			
2. FUEL EXPENSE	62,684,280	66,569,357	76,282,516
3. POWER PRODUCTION EXPENSE	14,797,651	14,797,651	15,761,827
4. COST OF PURCHASED POWER	20,109,378	19,907,119	23,602,428
5. TRANSMISSION EXPENSE	6,171,570	6,171,570	6,221,818
6. DISTRIBUTION EXPENSE-OPERATIONS	5,077,723	5,077,723	5,260,967
7. DISTRIBUTION EXPENSE-MAINTENANCE	6,739,734	6,739,734	6,591,661
8. CONSUMER ACCOUNTS EXPENSE	4,851,620	4,851,620	4,767,714
9. CUSTOMER SERVICE/INFO EXPENSE	718,117	718,117	855,859
10. SALES EXPENSE	0	0	0
11. ADMINISTRATIVE/GENERAL EXPENSE	19,809,667	19,809,667	18,954,549
12. TOTAL OPERATIONS/MAINTENANCE EXP.	140,959,740	144,642,558	158,299,339
13. DEPRECIATION/AMORTIZATION EXPENSE	28,059,979	27,790,169	28,741,803
14. TAX EXPENSE-OTHER	804,000	759,056	833,700
15. INTEREST-LONG TERM DEBT	22,263,219	21,919,142	22,768,233
16. INTEREST ON CONSTRUCTION-CREDIT	(414,360)	(387,972)	(454,340)
17. INTEREST EXPENSE-OTHER	182,813	(17,554)	96,875
18. OTHER DEDUCTIONS	175,000	433,191	575,000
19. TOTAL COST OF ELECTRIC SERVICE	192,030,391	195,138,590	210,860,610
20. PATRONAGE CAPITAL/OPERATING MARGINS	4,567,948	5,824,237	6,678,030
21. NON-OPERATING MARGINS-INTEREST	315,944	397,600	360,170
22. ALLOWANCE FUNDS USED DURING CONST.	73,122	71,451	80,178
23. NON-OPERATING MARGINS-OTHER	0	0	0
24. GENER./TRANS. CAPITAL CREDITS	0	0	0
25. OTHER CAPITAL CREDITS/DIVIDENDS	800,000	810,489	650,000
26. EXTRAORDINARY ITEMS	0	0	0
27. PATRONAGE CAPITAL OR MARGINS	5,757,014	7,103,777	7,768,378
MFI/I	1.26	1.32	1.34