

# Chugach Electric Association, Inc 2004 Operating Budget

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November 5, 2003

# Direction Statements

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## VISION

**Powering Alaska's Future.**

## MISSION

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

# Chief Executive Officer Goals - Operational

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## ❖ System reliability

- CAIDI less than 1 hour
- SAIDI less than 2.5 hours
- Beluga Plant reliability greater than 95%

## ❖ High level of service

- Offer new and innovative services
- Insure more effective and efficient ratemaking for the Association
- Keep the membership informed of the benefits of membership

# Chief Executive Officer Goals – Operational Continued

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- ❖ Maintain our leadership amongst electric utilities in the state
- ❖ Provide our employees a safe, challenging and rewarding place to work
- ❖ Bring stability to the relationship with our wholesale customers
- ❖ Continue pursuit of innovative ways, means, methods and procedures in achieving the goals of the Association

# Chief Executive Officer Goals - Financial

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- ❖ Ensure operations within the approved 2003 budget
- ❖ Maintain system costs at a level that will meet the financial goals of the Association
- ❖ Update the Equity Management Plan
- ❖ Achieve an Equity Ratio of 25%-30%
- ❖ Achieve an MFI/I greater than 1.15
- ❖ Develop a 2014 transition plan for the wholesale contracts
- ❖ Institute cost control measures where feasible and appropriate
- ❖ Institute new methods and procedures to improve efficiencies

# Major Assumptions for 2004 Budget

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## ❖ Sales forecast

- Assumes average 3.5% growth in sales from 2003

## ❖ Revenue forecast

- Uses rates established in last rate case
- Includes additional revenue from potential fee tariff update

## ❖ Depreciation rates

- 2002 Updated Depreciation Study pending
- Assumed new depreciation rates in effect for 6 months

## ❖ Interest expense

- Assumes total variable rate debt of \$110 million

## ❖ Labor expense

- No salary increases assumed for represented or non-represented employees

# 2004 Operating Budget Financial Results

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- ❖ Margins of \$6.0 million
  - Consistent with the TIER level allowed by the RCA in the last rate case
- ❖ MFI/I of 1.27
  - Exceeds the targeted MFI/I of 1.25
- ❖ Equity ratio of 26.9%
  - Within the targeted range of 25%-30%

# Comparative Statement of Operations

	2003 Projection	2004 Budget
Total Revenue	<u>\$181,249,775</u>	<u>\$196,598,339</u>
Total O&M	119,006,244	140,757,757
Total Cost of Electric Service	<u>\$174,556,634</u>	<u>\$191,828,408</u>
Patronage Capital/Margins	6,693,141	4,769,931
Non-Operating Margins-Interest	363,133	315,944
Allow Funds Used During Const	70,435	73,122
Non-Operating Margins-Other	101,614	0
Other Capital Credits/Dividends	803,132	800,000
Patronage Capital/Margins	<u><u>\$8,031,455</u></u>	<u><u>\$5,958,997</u></u>
	<b>MFI/I</b>	
	<b>1.34</b>	<b>1.27</b>

# kWh Sales Comparison

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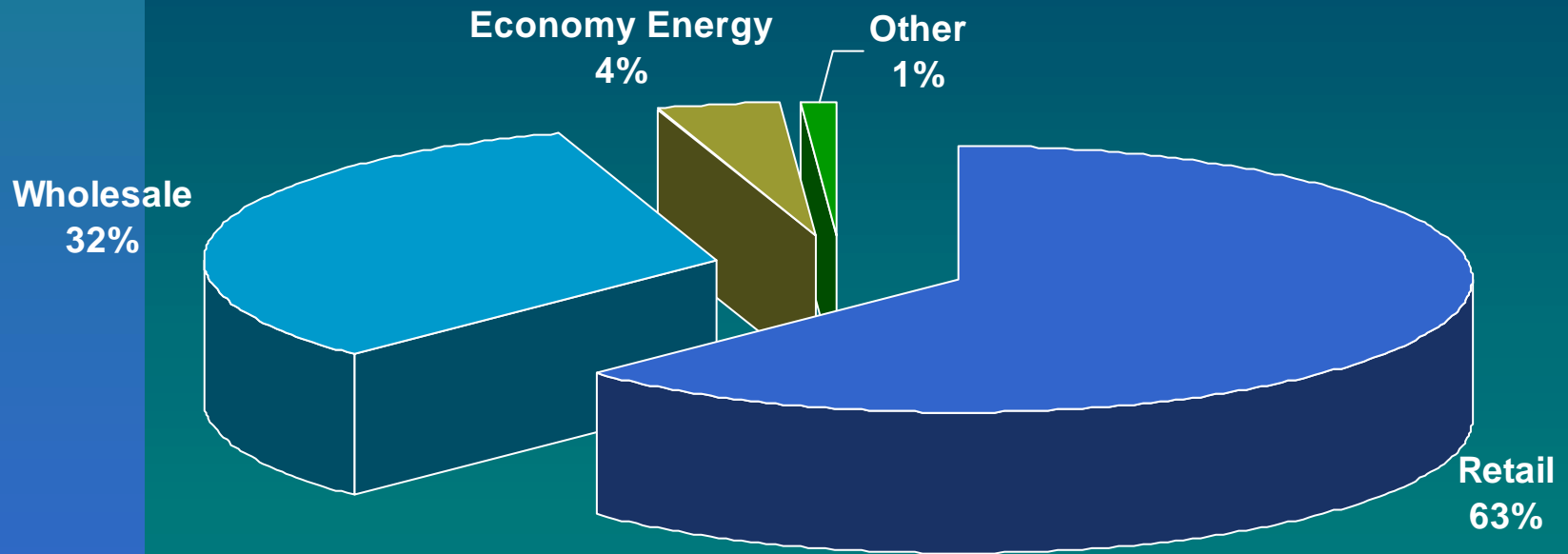
	2003 Projection	2004 Budget
Retail	1,156,636,664	1,192,661,667
Wholesale	1,142,367,030	1,177,816,383
<b>Total Firm Sales</b>	<b>2,299,003,694</b>	<b>2,370,478,050</b>
Economy Energy	222,340,860	172,617,000
<b>Total kWh Sales</b>	<b>2,521,344,554</b>	<b>2,543,095,050</b>

# Revenue Comparison

	2003 Projection	2004 Budget
Retail	110,758,854	123,025,861
Wholesale	59,682,637	63,553,584
Economy	8,158,334	7,463,811
<b>Total Sales Revenue</b>	<b>\$178,599,825</b>	<b>\$194,043,256</b>
Other <sup>(1)</sup>	2,649,950	2,555,083
<b>Total Revenue</b>	<b>\$181,249,775</b>	<b>\$196,598,339</b>

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

# Total Operating Revenue Breakdown



# Expense Budget Comparison

Category	2003 Projection	2004 Budget	Variance	% Variance
Fuel	48,346,963	62,684,280	14,337,317	30%
Other Power Production	12,742,311	14,780,417	2,038,106	16%
Purchased Power	16,821,384	20,109,378	3,287,994	20%
Transmission	4,183,360	6,111,570	1,928,210	46%
Distribution	10,801,569	11,703,707	902,138	8%
Customer	5,623,247	5,569,738	(53,509)	-1%
General & Administrative	20,487,410	19,798,667	(688,743)	-3%
<b>Total</b>	<b>\$119,006,244</b>	<b>\$140,757,757</b>	<b>\$21,751,513</b>	<b>18%</b>

# Major Expense Category Variances

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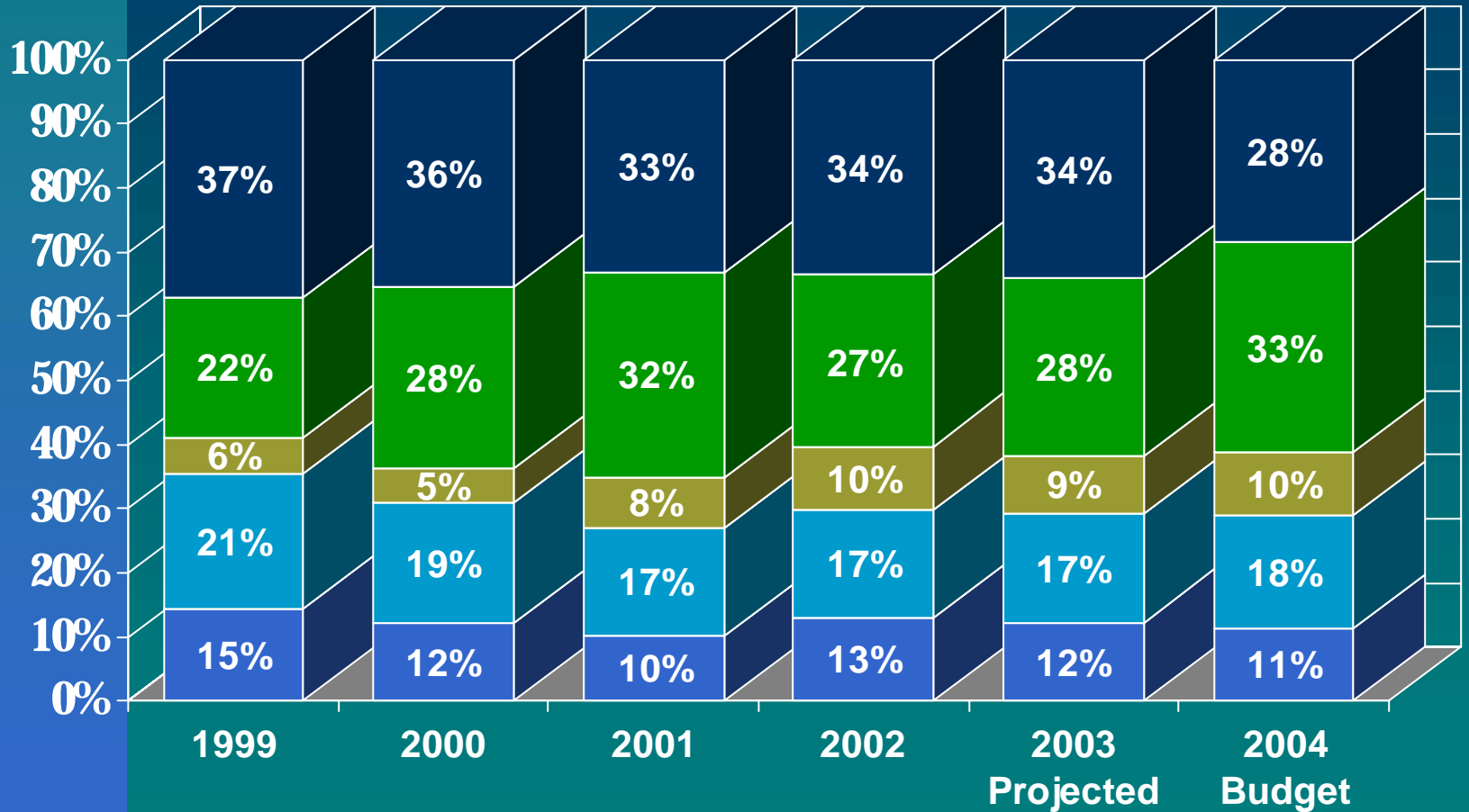
- ❖ Higher fuel prices
  - Fuel expense
  - Purchased power expense
- ❖ Increased professional services/contract services
  - Right of way clearing costs
  - Railbelt Integrated Resource Plan
  - Chugach Transmission Long Range Plan
  - Sarbanes Oxley internal controls assessment
  - Advertising/Media communications

# Major Expense Category Variances continued

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- ❖ Shift in SCADA, microwave, relay and telecommunications expense
  - From general & administrative
  - To actual functional areas (distribution, transmission, etc.)
- ❖ Increased labor costs
  - Benefit costs
  - Filled vacancies
  - Full year of labor rate increases for represented employees

# Total Cost of Electric Service



□ % Variable Costs □ % Labor Costs □ % Purch Pwr Costs □ % Fuel Costs □ % Fixed Costs

# Budgeted 2004 Equity Ratio

## Projected Ending Equity (2003):

Total Equity (December 2002)	127,477,895
Plus: 2003 Projected Margins:	8,031,455
Less: 2003 Capital Credits Rotation	0

2003 Ending Equity 135,509,350

2003 Ending Long Term Debt 389,834,179

**2003 Projected Equity Ratio: 25.8%**

## Projected Ending Equity (2004):

Total Equity (December 2003)	135,509,350
Plus: 2004 Budgeted Margins:	5,958,997
Less: 2004 Capital Credits Rotation	0

2004 Ending Equity 141,468,347

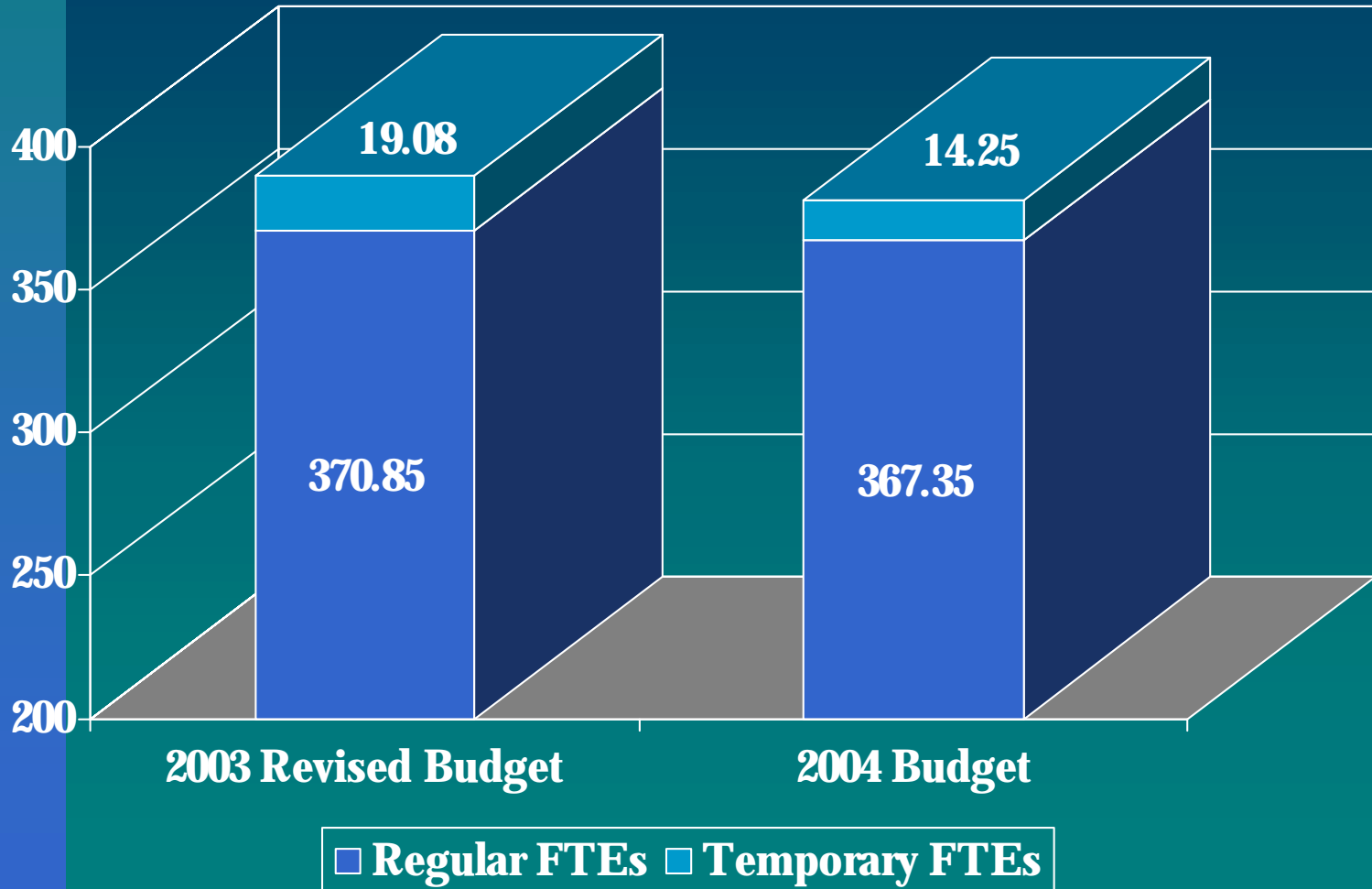
2003 Ending Long Term Debt 389,834,179

2004 Change in Long Term Debt (5,545,000)

2004 Ending Long Term Debt 384,289,179

**2004 Budgeted Equity Ratio: 26.9%**

# Position Budget Comparison

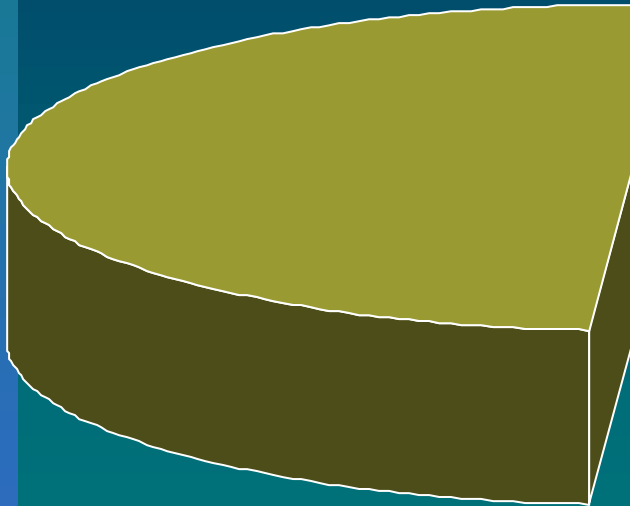


# Total Labor by Financial Category 2004 Budget

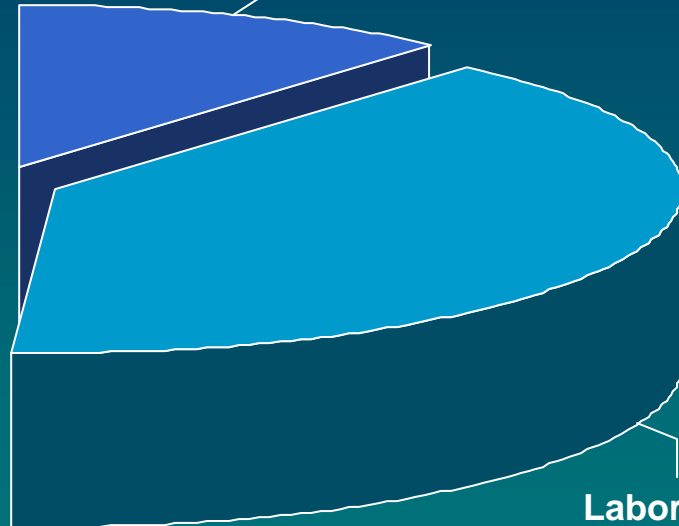
Category	2003 Projection	2004 Budget	Variance	% Variance
Power Production	6,640,129	7,423,487	783,358	12%
Purchased Power	760,544	749,135	(11,409)	-2%
Transmission	1,734,883	2,768,391	1,033,508	60%
Distribution	5,534,911	6,468,315	933,404	17%
Customer	3,042,466	3,460,014	417,548	14%
General & Administrative	7,541,721	8,284,502	742,781	10%
Information Services	2,748,923	2,862,742	113,819	4%
Garage	568,131	551,895	(16,236)	-3%
Warehouse	954,026	1,075,583	121,557	13%
Capitalized Projects	7,055,614	8,073,531	1,017,918	14%
<b>Total</b>	<b>\$36,581,348</b>	<b>\$41,717,595</b>	<b>\$5,136,247</b>	<b>14%</b>

# Components of Labor Variance

**Filled Vacancies\***  
**\$2.5 million**



**Benefit Cost  
Increases**  
**\$0.6 million**



**Labor Rate  
Increases\*\***  
**\$2.0 million**

\* Indicates return to “normal” operations and lifts hiring freeze instituted in June 2003

\*\* Indicates full year of represented employee rate increases compared to half year in 2003

# Operational/Strategic Challenges

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- ❖ Increased SEC and FASB regulations/reporting requirements
  - Sarbanes Oxley compliance
  - Proposed Property Plant and Equipment Statement of Position (SOP)
- ❖ 2014 Transition Plan
- ❖ Financial Management Plan
  - Debt Management Plan
  - Equity Management Plan

# Operational/Strategic Challenges (continued)

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- ❖ Maintain high level of safety
- ❖ Security
  - Physical security of the headquarters complex
  - Cyber security of our business systems
- ❖ Take advantage of opportunities for positive image enhancement and increased communication with our members
- ❖ Cost effective use of technology to improve business processes

# Operational/Strategic Challenges (continued)

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- ❖ Power delivery system is aging
- ❖ Workforce is aging
- ❖ Limited resources
- ❖ Increased demand from community
  - Desire to underground overhead power lines
  - Difficulty in acquiring easements
  - Continued emphasis on high reliability
  - Timely service

# Operational/Strategic Challenges (continued)

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- ❖ Evaluation of preventative and annual inspection practices to increase the availability of Beluga Units 6,7 & 8 and other plant systems
- ❖ Remote plant security improvements and safety performance
- ❖ Title V compliance for all Chugach Industrial Gas Turbines
- ❖ Evaluation of remote camp power plants
- ❖ Long range planning for optimal generation configurations for Chugach under various Integrated Resource Plan options
- ❖ Evaluation of true O&M costs of different types of turbines

# Sensitivity Analysis on 2004 Operating Budget

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## ❖ Revenues

- Change in kWh sales between -10% and +10%
  - Margins between \$4.1 million and \$7.9 million
  - MFI/I between 1.18 and 1.35
  - Equity ratio between 26.6% and 27.2%

## ❖ Controllable Expenses

- Change in controllable expenses between -10% and +10%
  - Margins between \$3.6 million and \$8.4 million
  - MFI/I between 1.16 and 1.37
  - Equity ratio between 26.6% and 27.2%

# Impacts on System of Reductions

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- ❖ Increases callout and outage overtime
- ❖ Increases customer inconvenience and lowers reliability
- ❖ Adds to outage restoration time
- ❖ Reduces system flexibility

# 2004 Operating Budget Summary

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- ❖ Margins of \$6.0 million
- ❖ MFI/I of 1.27
- ❖ Equity ratio of 26.9%



# DISCUSSION