

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

FINANCE COMMITTEE MEETING
AGENDA ITEM SUMMARY

November 11, 2009

ACTION REQUIRED

AGENDA ITEM NO. X.

Information Only
 Motion
 Resolution
 Executive Session
 Other

TOPIC

Wholesale Capital Credit Retirement

DISCUSSION

This resolution authorizes the retirement of wholesale capital credits to Homer Electric Association, Inc. (HEA), Matanuska Electric Association, Inc. (MEA) and Seward Electric System (SES) for 1998.

Through a settlement agreement reached in regulatory Docket U-96-37, Chugach and the wholesale customers agreed that wholesale equity accumulated in 1997, 1998 and 1999 would be returned on a ten year rotation. This is the final rotation of the three year agreement and represents a total of \$1,674,809.

This retirement completes Chugach's retirement obligation under the settlement agreement reached in Docket U-96-37.

The settlement agreement is attached as information.

MOTION

Move that the Finance Committee recommend the Board of Directors to approve the attached resolution retiring 1999 wholesale capital credits in the amount of \$1,674,809 to Homer Electric Association, Inc., Matanuska Electric Association, Inc. and Seward Electric System to the Board of Directors.

RESOLUTION

WHEREAS, Chugach Electric Association, Inc. (Chugach), Homer Electric Association, Inc. (Homer), Matanuska Electric Association, Inc. (Matanuska) and Alaska Electric Generation and Transmission Cooperative, Inc. (AEG&T) reached agreement on several disputed ratemaking issues in Docket U-96-37 in 1996;

AND WHEREAS, One of the items of agreement was that a “ten year rotation period for equity accumulated during the agreement will apply to equity accumulated in 1997, 1998 and 1999”;

AND WHEREAS, Seward Electric System (SES), although not a party to the settlement agreement, was similarly impacted by the terms and conditions of the settlement agreement;

AND WHEREAS, The agreement was accepted by the Alaska Public Utilities Commission (APUC), the predecessor to the Regulatory Commission of Alaska (RCA);

NOW THEREFORE BE IT RESOLVED, 1999 equity accumulated by Homer (through AEG&T), Matanuska (through AEG&T) and Seward Electric System be returned to these parties prior to the end of calendar year 2009;

BE IT FURTHER RESOLVED THAT THE AMOUNTS OF 1999 EQUITY TO BE RETURNED ARE:

Homer Electric Association, Inc. - \$656,410

Matanuska Electric Association, Inc. - \$962,271

Seward Electric System - \$56,128

I, Alex Gimarc, do hereby certify that I am the Secretary of Chugach Electric Association, Inc. an electric non-profit cooperative membership corporation organized and existing under the laws of the State of Alaska: that the foregoing is a complete and correct copy of a resolution adopted at a meeting of the Board of Directors of this corporation, duly and properly called and held on the 11th day of November, 2009; that a quorum was present at the meeting; that the resolution is set forth in the minutes of the meeting and has not been rescinded or modified.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of this corporation the 11th day of November, 2009.

RECEIVED

95 NOV 22 PM 1:41

STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners:

Sam Cotten, Chairman
Don Schröer
Alyce A. Hanley
Dwight D. Ornquist
Tim O. Cook

In the Matter of the Investigation)
Into the Rate Changes Implemented)
by Chugach Electric Association,)
Inc. Under TA 171-8)
_____)

U-96-37

SETTLEMENT AGREEMENT

By Orders in this proceeding, the Alaska Public Utilities Commission (Commission) instituted an investigation into the rate changes implemented by Chugach Electric Association, Inc. (CEA) under TA 171-8. The parties, CEA, Alaska Electric Generation and Transmission Cooperative, Inc. (AEG&T), Homer Electric Association, Inc. (HEA), and Matanuska Electric Association, Inc. (MEA) reached the Settlement Agreement and Confirmation letter attached hereto.

The Settlement Agreement and Confirmation letter will be reviewed with Commission staff. Commission approval of the Settlement Agreement and Confirmation letter will be promptly requested.

This Settlement Agreement and Confirmation letter may be executed in any number of counterparts. Each such counterpart shall be deemed to be an original instrument, but all such counterparts together shall constitute but one

agreement.

The Settlement Agreement and Confirmation letter shall be effective when all the parties listed below have executed them.

CHUGACH ELECTRIC ASSOCIATION,
INC.

By: _____
Title: _____
Dated: _____

ALASKA ELECTRIC GENERATION AND
TRANSMISSION COOPERATIVE, INC.

By: James Paton
Title: Mgr of Rdr
Dated: 11/21/96

HOMER ELECTRIC ASSOCIATION,
INC.

By: Worcester J. Boy
Title: Mgr
Dated: 11-21-96

MATANUSKA ELECTRIC ASSOCIATION,
INC.

By: Wayne D. Carmony
Title: GENERAL MANAGER
Dated: Nov. 20, 1996

agreement.

The Settlement Agreement and Confirmation letter shall be effective when all the parties listed below have executed them.

CHUGACH ELECTRIC ASSOCIATION, INC.

By: Eugene H. Burnett
Title: General Manager
Dated: November 19, 1976

ALASKA ELECTRIC GENERATION AND TRANSMISSION COOPERATIVE, INC.

By: _____
Title: _____
Dated: _____

ROMER ELECTRIC ASSOCIATION, INC.

By: _____
Title: _____
Dated: _____

MATANUSKA ELECTRIC ASSOCIATION, INC.

By: _____
Title: _____
Dated: _____

November 20, 1996

Alaska Public Utilities Commission
Department of Commerce and
Economic Development
State of Alaska
1016 West Sixth Avenue
Anchorage, Alaska 99501

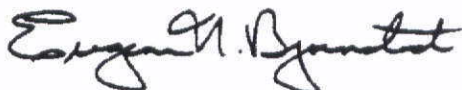
Dear Commissioners:

Subject: Confirmation Letter - Docket U-96-37 Settlement Agreement

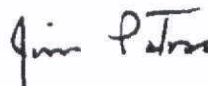
In connection with the above referenced Settlement Agreement, the undersigned confirm the following with respect to item 3 under "Other Matters":

1. Capital credit rotation payments to HEA, MEA, and AEG&T will occur in December, 1996 (1986 margins); December, 1997 (1987 margins); and December, 1998 (1988 margins.) The agreement does not obligate CEA to make a rotation in December, 1999.
2. The ten year rotation period for equity accumulated during the agreement will apply to equity accumulated in 1997, 1998 and 1999. The ten year rotation period does not apply to any equity accumulated during 1996.

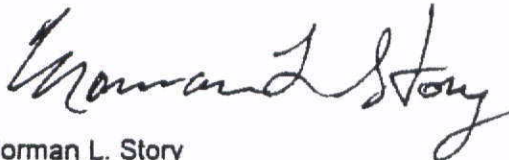
Sincerely,



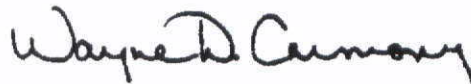
Eugene N. Bjornstad
General Manager
Chugach Electric Association, Inc.



for Robert L. Huffman
Executive Manager
Alaska Electric Generation and
Transmission Cooperative, Inc.



Norman L. Story
General Manager
Homer Electric Association, Inc.



Wayne D. Carmony
General Manager
Matanuska Electric Association, Inc.

Negotiated Terms of a Settlement Agreement

Issues in existing interim rates

1. The parties agree that this stipulation resolves the matters raised in this docket, without retracting the written testimony previously filed, about: 1) economic issues; and, 2) concerns whether the differential treatment of the wholesale and retail customers is discriminatory, as stated by the APUC in Order No. 1. The Commission should make CEA's interim rates permanent, subject to the terms of this agreement.
 - a. The parties reconfirm the long-standing principle that G&T and distribution TIERS should be established separately.
 - b. The parties agree that Chugach utilized the "split TIER methodology" consistent with the Commission order in Docket U-87-35.

2. Base rates are made permanent at the time the agreement is approved by the Commission using a G&T TIER of 1.15.
 - a. For the period during which interim refundable rates have been in effect, the G&T TIER for all customer classes shall be 1.12. The parties recognize that this level is based only on compromise for the sake of agreement and connotes no agreement on any party's part that this is an appropriate G&T TIER on any basis whatsoever. The parties agree that they will not use this agreement in any way as evidence for the basis of argument that a 1.12 TIER is appropriate.
 - b. Contested normalizations are resolved as follows:
 - i. Painting is expensed entirely in the test year.
 - ii. The other contested non-recurring costs will be amortized over 3 years beginning in the 1995 test year.
 - iii. The increased generation depreciation rate that has already been approved by the Commission in U-94-25 will not be included in the revenue requirement currently in dispute in this docket. It will, however, be normalized into the revenue requirement and cost-of-service that CEA is ordered to file by October 31, 1996.
 - iv. Refunds shall be made to the wholesale customers retroactively to June 15.

Revenue Requirement and Allocated Cost-of-Service Filing (U96-37)

1. These filings will use the same methodologies used in U-87-35, the annual updates to CEA's allocated cost-of-service, and in the simplified filings submitted to the Commission since that docket was closed. The following is a sample of the items that will not be changed in these filings:

- a. Costs will be classified the same as they had been previously.
 - b. Return will be calculated using the split TIERs discussed below.
 - c. The reserve capacity allocators will remain unchanged.
 - d. The normalizations included in this filing, apart from any mutually agreeable exceptions, will be based on the standard criteria the Commission uses when a utility files a revenue requirement.
 - e. CEA will not introduce the issues of rate base or rate-of-return.
2. The following items in these filings will be departures from the methodologies discussed in 1 above:
- a. Incremental long-term debt will be allocated based on incremental plant placed into service since CEA refinanced its debt.
 - b. Functionalization of costs will be modified using CEA's detailed chart of accounts and all joint costs allocators will be updated to reflect the 1995 test year data.
 - c. Increased generation depreciation expense being phased in during 1996 shall be normalized into the revenue requirement.
3. Rates will be set using TIER levels as follows:
- a. Rates will be set on the December 31, 1995, test year using a G&T TIER of 1.15. At the time the annual SRF information is provided to AEG&T as discussed below, if the achieved G&T TIER exceeds 1.17 for either MEA or HEA, CEA will file for a rate decrease using a G&T TIER of 1.15 for those customers due a special payment retroactive to January 1 as discussed more fully in the section below titled Wholesale Rate "Reset Mechanism."
 - b. The distribution TIER used in establishing the retail revenue requirement may be adjusted independent of this agreement.
4. CEA will work with AEG&T, HEA and MEA to develop this filing. The parties will meet to discuss the issues and will incorporate mutually agreeable solutions into the filing. Where disputes cannot be resolved, the parties will submit their positions to the APUC in the normal process of adjudicating the docket. At the mutual agreement of all parties, APUC staff may participate in the meetings where issues are discussed.
5. Wholesale customers will not introduce the issue of capitalized interest while this agreement is in effect.
6. Nothing in this agreement shall preclude any of the parties from raising any issues once this agreement has lapsed.

Provision of Information

1. CEA shall annually make and present to AEG&T an SRF calculation using December 31 as the end of the test period. AEG&T will receive the standard SRF information from CEA that it has been getting. This information will be sent by April 1 of the year following the test year.
2. During a sixty day period running from the date the wholesale customers are first provided access to the audit work papers, they and/or their agent may review under standard commission confidentiality agreement, all audit and waived audit adjustments with all working papers supporting the calculations pertaining to G&T equity, all G&T accounts and extraordinary losses affecting G&T accounts for that year. The wholesale customers will be allowed to copy any relevant audit work papers, however these copies will be retained under the Commission's confidentiality agreement. These documents shall be reviewed at the office of CEA's auditors. CEA and the wholesale customers shall meet to discuss the SRF information and the audit work papers by May 30.

The costs of making the audit work papers available to the wholesale customers is a legitimate G&T cost that will be allocated to that function rather than billed to the wholesale customers.

3. CEA will provide AEG&T with G&T budget information and budget revisions at a mutually agreeable level of detail and will make appropriate personnel available for discussion with AEG&T. It is expected that this review will mostly occur immediately after the budget is adopted by Chugach. It is further expected that specific documents which will achieve this goal will be identified.

Wholesale Rate "Reset Mechanism"

1. The achieved G&T TIER will be maintained at 1.17 or less. When the annual SRF information described above is provided to AEG&T, if the achieved G&T TIER for either HEA or MEA exceeds 1.17 CEA will file for a rate decrease for those customers by reestablishing the G&T TIER at 1.15.
2. In the event that a rate decrease to a customer is required by the "Reset Mechanism," Chugach shall make a special payment to that wholesale customer by the end of the year the rates were reset. The special payment will be the difference between the rates actually charged and rates which were established through the "Reset Mechanism" for the period commencing January 1 of the year the rates were reset.
3. The annual SRF information that CEA will provide AEG&T will have a revenue requirement that includes only the normalization adjustments found in a standard SRF.
 - a. Any change in depreciation rates will be incorporated into the revenue requirement as reflected in the accounting records and will not be normalized into the revenue requirement, provided no such changes will be

implemented prior to January 1998. For their part, MEA and HEA agree to work in good faith to ensure Chugach's opportunity to have regulatory review of revised depreciation rates completed by January 1998. MEA and HEA reserve the right to dispute any proposed revisions.

- b. The parties will meet to discuss the issues and will incorporate mutually agreeable solutions into the filing. Where disputes cannot be resolved, the parties will submit their positions to the APUC for adjudication. At the mutual agreement of all parties, APUC staff may participate in the meetings where issues are discussed.

Other Matters

1. The current margin allocation methodology will continue for the duration of this agreement. Extraordinary losses will continue to be directly assigned to appropriate functions.
2. The fuel surcharge shall remain in effect.
3. A ten year G&T capital credit rotation policy for MEA and HEA shall be used for the duration of this agreement, and for all equity accumulated during this agreement.
 - a. Chugach warrants that limitation on rotation of capital set forth in the indenture of trust will not bar the rotation of capital provided for in this agreement during the life of this agreement. In the event of unforeseen circumstances beyond the control of Chugach which cause these capital credit rotations to conflict with the indenture of trust, Chugach will consult with HEA and MEA on alternative rotation approaches. If no agreement is reached, the parties will take this dispute to the APUC for adjudication.

No such warranty is provided with respect to equity accumulated during this agreement.

4. This agreement will be effective upon execution and terminate on December 31, 1999. By mutual consent, this agreement may be extended for two (2) additional years at the end of the period.
5. HEA, MEA and AEG&T agree not to oppose CEA's withdrawal from the Simplified Rate Filing program.