

2004 CEO Goals
Fourth quarter update - December, 2004

I. Maintain System Reliability:

CAIDI less than 60 minutes per outage – **44.7 minutes**

SAIDI less than 150 minutes per consumer – **130 minutes**

Beluga Plant reliability greater than 95% - **98.1%**

Met requirements.

A. Prepare a system maintenance plan to insure continuous and highly reliable system performance

Achieved

- Completed substation Reliability Centered Maintenance program on critical substation equipment. New system monitors key metrics taken from inspections and alerts management of alarming trends. Maintenance emphasis moves from break down to scheduled to avoid equipment damage and unscheduled outages.
- Instituted new program to identify worst performing Distribution line circuits and improve overall performance (System Average Interruption Frequency Index "SAIFI" went from 8.9 to 6.8 for worst six circuits.)
- All generation planned maintenance was completed as scheduled. The Unit 7 overhaul was substantially under budget because of innovative changes to the way business is done. Detailed planning has reduced the number of unplanned outage activities. Key hot gas path parts have had their lives extended. A Strategic Alliance with Alstom started to pay dividends in the form of discounts for parts and service. Changes to the combustion process have substantially improved the stability of the unit.
- Energy Supply has also contracted with outside professional services to add an additional layer of annual inspections for Beluga Unit 8 turbine, boilers, and steam plant. These services are complementary to our internal annual inspections, but also reflect aging issues of the equipment. Additionally in 2004, a steam pipe integrity survey was completed to determine any hidden safety risks due to steam and feedwater pipe wall thinning. These efforts are aimed at maintaining current levels of safety, anticipating aging related maintenance activities, maintaining or increasing unit availability and minimizing forced outages.

B. Ensure that we are able to respond to and fix problems

Achieved

- Annual inspections completed on all Distribution and transmission facilities
- Completed all Distribution Line class 1 deficiencies within five days
- Completed all Type 5 and Type 6 Substation maintenance work orders
- Limited equipment failures well below previous 5-year average (1 vs. 6)
- A great challenge on Beluga Unit 8 was resolved after cracks in the low pressure deaerator tank could not be weld repaired because of aging of the tank wall. As a consequence, the tank could not pass the State of Alaska safety inspection for pressurized vessels. Staff worked together to engineer a fix to put the unit back in service without a lengthy three to six month delay associated with wholesale tank replacement. The low pressure deaerator was valved out of service and the systems utilizing steam from the low pressure side were fed from the high pressure deaerator. We are currently evaluating a long-term solution to the affected systems.
- The Beluga Unit 5 Controls Upgrade was completed within the planned outage time and under budget. The increased information provided by the new controls has already greatly reduced the length of a forced outage. It has also notably improved starting reliability. Long term, the upgrade will be providing additional benefits in maintenance planning and forecasts of hot gas path parts lives.

II. Ensure the Financial Health of the Association

Met requirements

A. Ensure operations within the approved 2004 budget

Achieved

<i>\$ Millions</i>	<i>Budget</i>	<i>Actual</i>	<i>Variance</i>
<i>Revenue</i>	<i>\$197</i>	<i>\$201</i>	<i>\$4.6</i>
<i>Costs</i>	<i>\$192</i>	<i>\$195</i>	<i>\$3</i>

B. Meet the financial goals of the Association as specified in the Business Plan

Achieved

	<i>MFI/I</i>	<i>Equity Ratio</i>
<i>Actual</i>	<i>1.35</i>	<i>27.7</i>
<i>Goal</i>	<i>1.20</i>	<i>25.30</i>

C. Maintain MFI at 1.20 level and Equity Ratio at a range of 25-30%

Achieved

MFI/I - 1.35 Equity Ratio: 27.7 (see above)

D. Return Capital Credits to members

Achieved

- A \$3.1 million retirement was authorized and payments to 33,175 current and former Chugach members were made in December. As part of this process, \$151,790 of bad debts were recovered.

In addition to the normal retirement, discounted payments of capital credits totaling \$55,746 were made to 79 former members to retire \$122,171 of capital credits. The \$66,415 differenced is considered "donated capital" and becomes permanent equity for Chugach.

E. Continue efforts to secure follow-on gas supplies

Achieved

- Chugach issued a Request for Proposal to interested parties for future gas supplies in early October. Proposals are due the end of January, 2005.
- Participated in South-Central Natural Gas Supply Study with DOE
- Met with Suppliers/Consultants – market based rates likely in future
- Options include N. Slope gas, LNG Import and exploration of Cook Inlet

F. Finalize and implement a Debt Management Plan

Not completed in 2004

G. Split the Association books between G&T and D; develop business-planning software to do separate forecasting of G&T, D, and Services functions

Achieved

- A three-step Single Member G&T plan was introduced to the board on December 15, 2004. Steps have been identified to a) functionally unbundle the organization without a change in corporate structure, b) evaluate feasibility and necessity of proceeding with separate corporate structure, and c) prepare a plan and undertake corporate separation.
- A rate model, in conjunction with the financial forecast model, has been developed to generate forecasted rate changes and financial results by function.

H. Complete investigation/certification of Internal Controls to comply with Sarbanes Oxley

Not achieved in 2004

- The compliance requirement date for Chugach is fiscal year ending December 31, 2005. Analysis of the impacts of the Act began in late 2003. A SOX 404 Project Committee has been established and consultant retained - Crowe Chizek, the 8th largest CPS firm in the US. Full compliance is expected by 3rd quarter 2005.

I. Institute cost control measures where feasible and appropriate

Achieved

- Due to implementation of various software applications such as budget to actual reporting, improved cost estimating software and improved interfaces with GIS and planning applications, Engineering was able to reduce staff by 2 FTE's for the 2005 budget.
- Rebuilt failed transmission reactor with in-house personnel that saved purchase of new reactor – Savings of \$100K or greater
- The membership/capital credits bad debt matching project was completed. Debts on 818 memberships were fully or partially offset against capital credits on other memberships. Current and future savings total \$57,342.

J. Institute new methods and procedures to improve efficiencies

Achieved

- Implemented RCM/PDM computerized maintenance system that has reduced equipment failures
- Concept of shared secretarial pool has reduced staff in the Distribution Division
- New construction cost estimating system incorporates CAD/GIS and will eliminate redundant data entry and drawing updates.
- Other efficiency gains implemented include:
 - Labor data collection system
 - Automated billing process for damages
 - Automated online credit card reconciliation process
 - Implementation of new online budget-to-actual application
 - Automation of wholesale billing process
 - Expansion of LaserFiche
 - Website review of pending RCA tariff advice filings

III. Provide a High Level of Service to our Members, Now and in the Future

Met requirement

- A. Ensure members are treated appropriately; conduct surveys and report periodically on member satisfaction

Achieved

- Member surveys completed in November 2004. Report to Board planned for February 2005 as part of CEO report.

- B. Strive to offer new and innovative customer and member services

Achieved

- Regulatory Affairs and Pricing now provides wholesale customers with direct internet access to monthly wholesale billing and G&T line loss factor data for review, analysis, and data verification on an ongoing basis.

- C. Craft a plan to insure more effective and efficient ratemaking for the Association

Achieved

- In response to an RCA request to utilities, Chugach supported an increase to the regulatory cost charge to fund technology enhancements that will streamline filing and document retrieval. Chugach will also participate on an advisory committee to share our expertise and ensure that the Chugach approach to electronic documents is consistent with the RCA.

- D. Take steps to keep the membership informed of benefits of membership

Achieved

- Memorandum was sent to Large General Service customers letting them know that base rates would not be changing in 2005 but that fuel surcharge pass-through will result in a 4-6% increase to their electric bills.
- Increased emphasis has been placed on safety and education for members through expanded TV spots featuring safety, keeping rights-of-way clear, and calling for locates.
- Developed and conducted a Chugach/Electricity 101 class so that employees would be better informed to answer questions from members and have an understanding of how Chugach works.

IV. Maintain our Leadership Amongst Electric Utilities in the State

Met requirement

A. Develop and execute the "Legislative Plan"

Achieved

- Developed and presented to the board both a 2004 and 2005 agenda addressing Local, State and Federal legislative issues; working each on an ongoing basis.

B. Complete a Chugach Integrated Resource Plan (IRP)

Achieved

- The plan was completed June 30, 2004 and presented to the Board of Directors.

C. Achieve joint Railbelt dispatching of generation

Not accomplished in 2004

- Anchorage ML&P has expressed interest but will not commit pending outcome of their IRS rulings

Chugach is working diligently with other Railbelt utilities on the Joint Action Agency/G&T issue. We are making substantial progress on working together.

Chugach also submitted a response to the RFP for Elmendorf distribution services and the power supply RFP for the Pebble Gold-Copper mine project.

V. Provide our Employees a Safe, Challenging, and Rewarding Place To Work

Met requirement

A. Maintain an aggressive safety program to achieve a Lost Work Time Incident Rate of less than 3.5 for the calendar year 2004

Not achieved

- The actual lost time incident rate for 2004 was 3.67

B. Finalize the NRECA Safety Accreditation process

Accomplished

- As reported earlier, Chugach passed the NRECA safety accreditation process on March 30 with flying colors. We are one of only 11 G&T cooperatives to have this national accreditation. We plan to continue to renew the accreditation on a three-year basis.

C. Provide opportunities for employees to progress to higher responsibilities

Accomplished

- Initiated two mentoring programs in 2004 to prepare for higher level management positions.

D. Ensure a competitive wage and salary program

Accomplished

- Annual update completed in November

E. Finalize the plan for labor negotiations

Accomplished

- An initial presentation was made to the Operations Committee in May. Research has been conducted on trends in collective bargaining in the state of Alaska and with similar G&T's in the "lower 48" with updates provided monthly to the Operations Committee. A presentation and recommendation was made to the Operations Committee in January and will be given again at this meeting.

VI. **Bring Stability to the Relationship with our Wholesale Customers**

Did not meet this requirement

A. Continue meeting with Wholesale customers on plans for renewal, extension, or modification of current agreements

Accomplished

- Met for bi-annual planning in separate meetings with HEA & MEA
- Met with MEA on October 27, 2004 – MEA stated they do not wish to renew, extend or modify existing agreement. They do not wish firm requirements beyond 2014.
- Met with HEA – they desire G&T formation rather than present contract, but were also interested in partnering in new generation.

B. Further develop and explore options to address the 2014 end of wholesale contracts

Accomplished

- Presented Retail-only case to BOD in December. Have base-line data on Pool and G&T for presentation during first quarter of 2005. Will be developed further as part of 2005 goals.

C. Develop a plan to involve wholesale customers and other potential partners in the Chugach planning process

Accomplished

- Wholesale customers were invited to participate in the economic forecasting and IRP process.

D. Work with Railbelt utilities to present a comprehensive Railbelt electric package to the legislature

Not achieved as yet

- Coordinating efforts with prospective JAA partners

VII. **Continue pursuit of innovative ways, means, methods, and procedures in achieving Goals I-VI above.** Report quarterly to Board of Directors on progress

Met requirement