

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

BOARD OPERATIONS COMMITTEE MEETING

March 7, 2007

ACTION REQUIRED

AGENDA ITEM NO. VI.

Information Only
 Motion
 Resolution
 Executive Session
 Other

TOPIC

Draft Chairman's Report for the 2006 Annual Report

DISCUSSION

Attached is the draft chairman's report which is being printed in our 2006 annual report this week. The annual reports and election materials will be mailed to the members by March 19.

MOTION

not required

Draft Chairman's report
2006 Annual Report

Let me begin by saying, you can be proud of your electric cooperative! The Board of Directors, management staff and employees all take pride in the open and transparent operation of your cooperative. We received another unqualified audit from our independent auditor in 2006. When you consider the assets of Chugach, our revenues, generation and number of employees, Chugach's operations continue to be the lowest cost and most efficient in the Railbelt. In fact, last summer Chugach filed a rate case with the Regulatory Commission of Alaska to better recover the cost of generation and transmission of energy. If the RCA concurs, you will see a reduction in your base rates.

Labor is less than 17% of the cost of energy while fuel is currently XX% of our cost and the single biggest issue facing Chugach. It is the primary reason for the difference in retail rates between Anchorage Municipal Light & Power and Chugach.

Ninety percent of the power Chugach sold in 2006 was made by burning natural gas in our turbine-generators. The other 10 percent of our kilowatt-hours came from hydroelectric resources. In 2006, we filed for an extension of our FERC license to continue operation of our Cooper Lake Hydroelectric Project for another 50 years. While that makes Chugach an extremely clean generating utility, it also means we are subject to factors that – especially in recent years – have pushed up the price of natural gas.

In 2006, Chugach paid a fuel bill that was more than \$XX million higher than in 2005. Our annual fuel bill rose to more than \$1XX million, and easily is the largest single expense of the cooperative.

The average unit price of natural gas paid by Chugach has doubled in the last three years, from approximately \$2.50 per Mcf (thousand cubic feet) in 2003 to around \$5.00 by the end of 2006. We are well aware of that the rising price of fuel has affected our members.

Despite the increases, natural gas will remain our primary fuel for the foreseeable future, and we are working to secure new long-term supplies. Fuel for the future could come from different sources, including a pipeline from the North Slope or imports of LNG, but probably the best options for natural gas in the near term will come from suppliers right here in the Cook Inlet Basin.

Chugach buys gas from four separate suppliers under four different contracts. Each was signed in the late 1980s and each is for a volume of gas and not a finite period of time. Therefore, the duration of a contract depends upon the rate of consumption. Our contracts provide for an additional 120 billion cubic feet of gas from the Beluga Producers (40 Bcf each from ConocoPhillips, Chevron and Anchorage Municipal Light & Power) – and we are negotiating on the price. Our fourth contract is with Marathon Oil, from which we are also seeking additional gas.

Throughout 2006 we met with gas suppliers and worked on negotiating new fuel contracts. That work will continue in 2007. We anticipate agreements that would provide gas for at least another 10 years.

We have not been ignoring other generation options. We took a hard look at the idea of constructing a coal-fired plant but the capital cost and mercury emissions limitations make it costly and unattractive. Renewable energy projects are viewed favorably and we continued to move forward our investigation of the possibility of a wind farm on Fire Island. Just recently we were in Juneau presenting a list of projects, including the Fire Island Project, for funding support from the previously appropriated Railbelt Energy Fund.

Our mission is “through superior service, safely provide reliable and competitively priced energy” to our members and customers. You can remain assured of our commitment to that mission and I encourage your participation in your cooperative. Check out our website for more information and please contact me with any concerns, comments or questions.

Jeff