

2005 CEO Goals

First Quarter Update

May 4, 2005

I. **Maintain System Reliability:**

A. Maintain system reliability within the "reliability triangle" (number of outages and durations).

Performance measures are:

SAIFI 1.7 or fewer outages per member per year

➤ First quarter: .65

CAIDI less than 90 minutes per outage

➤ First quarter: 46 minutes

SAIDI less than 150 minutes per consumer per year

A. First quarter: 30 minutes

B. Maintain Beluga plant reliability > than 98% and forced outage rate < 2%

➤ First quarter: 99.8% and .2%

C. Ensure member satisfaction in service restoration and reliability by surveys where 90% of our members grade service reliability and restoration "B" or better

➤ This survey will be done in fourth quarter.

II. **Ensure the Financial Health of the Association**

A. Ensure operating costs within approved 2005 budget levels

➤ Total cost of Electric Service is \$2,128,678 above budget. The largest contributor to this overrun is increased fuel usage in conjunction with higher fuel prices.

➤ Total Revenue is \$3,144,871 above budget.

➤ Year-to-date margins are \$1,035,663 above budget through the first quarter of 2005.

B. Ensure capital expenditures within approved 2005 budget levels

➤ Currently 97% of Budget

C. Meet the financial goals of the Association

a. Maintain MFI at 1.20 level; Equity Ratio at a range of 25-30%; Capital Credit retirements at 50% of prior-year margins

➤ Equity Ratio is 28.69%

➤ We expect to rotate capital credits per the 2005-2009 Business/Financial Management Plan in 2005.

➤ We have updated Chugach's fees and charges to reflect costs (TA 257). Revenue will increase \$80,000 and capital outlay will be reduced \$400,000. We produced the revised Cost Allocation Manual (CAM) for use with year-end 2004 unbundled financial statements. Sent the CAM to KPMG for local review as well as by their corporate expert. We have begun to present both monthly, quarterly, and annual unbundled financials to the finance committee.

D. Meet long-term fuel needs of the Association and limit price volatility

a. Begin discussions with respondents to the Fuel RFP

➤ Gas Supply - Initiated negotiations for Chugach's post-2011 gas requirements with Marathon, Conoco/Phillips, Forest Oil, and Aurora Gas. Marathon and Conoco/Phillips indicated they may have the capability to meet all Chugach's gas needs at market prices. Forest Oil and Aurora Gas could not commit to post-2011 deliveries at this time. Marathon and Conoco/Phillips agreed to provide annual gas volumes that they could commit to.

➤ Coal Supply - Initiated feasibility study to determine if coal-fired power would be competitive with gas-fired. Chugach is studying the feasibility of a coal plant to be located at a mine site (Chuitna Coal) about 12 miles west of Beluga Power Plant.

- b. Negotiate to re-price period 3 gas
 - Conoco/Phillips has yet to make a proposal on Period Three supplies. They would like 30-60 days to evaluate engineering data. They have asked Chugach to bring forward a concept that would be acceptable to us. The gas committee is currently reviewing data and investigating alternative energy sources.
- c. Investigate long-term fuel supply alternatives
 - We have initiated discussions with suppliers for Chugach's future fuel requirements.
- E. Proceed with Single Member G&T Plan
 - a. Functionally unbundle organization
 - Done - clean-up processes in work.
- F. Complete assessment/obtain attestation internal controls effectiveness
 - Crowe Chizek has been retained and is working on identifying the internal control processes that need documentation and "effectiveness" testing in preparation for the 12/31/2006 certification of internal controls by the CEO and CFO in accordance with Sarbanes-Oxley Act of 2002.
 - A Document Management Program is being developed for the efficient and systematic control of the creation, receipt, maintenance, and disposition of corporate records.

III. **Cyber Security**

- A. Implementation of a program to develop a culture of cyber security awareness
 - Initial discussions have taken place regarding plant network assessments.
- B. Conduct regular cyber security audits with internal and external resources
 - First quarter SCADA/EMS internal security assessment by SCADA/EMS Analyst Steve Edwards. There are no vulnerabilities to report.
 - A proposal was requested and received from Kema Consulting for performing an external security audit of Chugach Protective Relay Assets. Kema is a firm specializing in utility automation and IT consulting. This was the firm that worked with us in 2004 in developing SCADA/EMS security policies. They also performed an independent security audit for SCADA/EMS in 2004.
- C. Report regularly the results of cyber security efforts
 - We have completed an external cyber security audit of the Business Network and will be reporting on the results at this meeting. The audit was performed by 3SG, a local firm, and they did not find any serious vulnerabilities. We plan to present a cyber security awareness program during the September-November timeframe. Additional G&T Cyber Security activities were reported in the February and March monthly reports.

IV. **Provide a High Level of Service to our Members**

- A. Ensure members are treated appropriately and conduct retail customer surveys
 - The member survey is planned for fourth quarter.
- B. Offer new and innovative customer and member services
 - Operations - Looking into a remote meter disconnect project via the Chugach paging system for the Anchorage bowl area.
 - Member Services - Planning is underway to provide capital allocations to members on their monthly bill rather than a separate statement - the expected annual savings is \$30,000.
 - Member & Community Relations - Fourth quarter member survey.
- C. Keep the membership informed of benefits of membership - Fourth quarter survey.

- V. **Maintain our Leadership Amongst Electric Utilities in the State**
- A. Lead efforts with Railbelt utilities to develop and execute a Railbelt-wide Legislative Plan
 - This is a moving target - our lobbyists are actively monitoring and I plan to continue giving you regular updates on the issues.
 - B. Integrate Chugach's IRP with other Railbelt Utilities
 - Integrated Resource Plan - Updating generation alternatives.
 - Transmission Long Range Plan - updating 1992 plan. Collecting base-line data and updating electric system model.
 - Load Forecast - working with ISER, ML&P, and wholesale customers to develop economic projections.
- VI. **Provide our Employees a Safe, Challenging, and Rewarding Place To Work**
- A. Maintain an aggressive safety program. Achieve an improvement over 2004 safety statistics by reducing the lost time rate from 3.39 to 3.25 and a recordable incident rate of 5.5
 - There were three lost time injuries during the first quarter, resulting in an incident rate of 3.52. There were nine recordable injuries resulting in an incident rate of 10.57. Four of the recordable injuries were due to individuals having a reportable amount of hearing loss as defined by OSHA.
 - B. Create a new safety awareness campaign to encourage safe work practices and reward success
 - The Safety Advisory Committee has been meeting monthly to develop a Safety Incentive Program. The program is due to be completed by June 30, 2005.
 - C. Provide opportunities for employees to progress to higher responsibilities
 - All jobs continue to be posted internally for internal promotions. Three promotions have been given in 2005 for non-represented positions.
 - Training opportunities are given to all employees to keep their skills current as well as to provide the opportunity to upgrade skills to be qualified for higher-level positions.
 - D. Ensure a competitive wage and salary program
 - Annual updates to Chugach's wage and salary plan continue. A management compensation update will be given to the Operations Committee at this meeting.
 - E. Develop a strategy for labor negotiations within the first quarter of 2005
 - Discussions continue with the IBEW regarding an extension of the current collective bargaining unit agreements.
 - F. Set appropriate targets under the Gains program
 - Business unit scorecards with targets have been finalized for participation in the GAINS program.
- VII. **Relationship with our Wholesale Customers**
- A. Continue meeting with Wholesale Customers on plans for renewal, extension, or modification of current agreements
 - B. Implement acceptable alternative wholesale customer relationships such as joint action agencies, power pools or G&T organizations
 - Strategic Alternatives - updating resource plans for JAA, power pools, and G&T alternatives.
 - Management continued to vigorously pursue the JAA effort including reviewing documents, advising the Board, and interfacing with other involved parties and attorneys as needed.
 - C. Involve Wholesale Customers and others in the Chugach planning process as appropriate
- VIII. **Continue pursuit of innovative ways, means, methods, and procedures in achieving Goals I-VII above.** Report quarterly to Board of Directors on progress
- Member Services - Discontinuing Saturday hours and closing phones at 9 p.m. rather than 11 p.m. will improve service by shifting Saturday workers to Monday (busiest day) and starting evening workers at noon each day rather than 3 p.m. Staffing is slightly reduced.
 - Operations - Continuing with the GIS upgrade and complete the installation and training to use computers in truck assigned as Loop Wagon.