

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

BOARD OPERATIONS COMMITTEE MEETING
AGENDA ITEM SUMMARY

June 7, 2006

ACTION REQUIRED

AGENDA ITEM NO. V.

Information Only
 Motion
 Resolution
 Executive Session
 Other

TOPIC

Revised Interim CEO Goals

DISCUSSION

The CEO Goals for 2006 were considered and revised at the May 3, 2006, Board Operations Committee meeting. The revised goals are attached for further consideration and approval.

CEO Goals for 2006
Chugach Electric Association, Inc.
May 3, 2006

Goal 1.0 - Rate Review

Discussion: Restructure rates between G&T and Distribution functions to correct debt structure and properly allocate interest expense while updating depreciation schedules and cost of service.

2006 Tasks

- a. Preliminary rate case outline to Chugach Board by 7/20/06 for direction to prepare a rate case
- b. Preliminary rate case results to MEA Joint Committee process, as well as HEA, SES and RAPA by 8/1/06
- c. Board approval of rate case filing at 9/20/06 Board meeting
- d. File rate case with RCA by 9/30/06

Goal 2.0 – Single-member G&T Update

Discussion: The Chugach Board of Directors (BOD) passed a Resolution on September 15th 2004 that directed the CEO to undertake all necessary steps to craft a plan to create a single-owner G&T organization that would hold all Chugach assets, contractual arrangements, and associated debt. A three-part plan was developed and presented to the BOD on March 8, 2005. To date, Chugach Staff has completed all steps in part A that functionally unbundles the organizations finances without a change in corporate structure. The next step is to determine whether organizational restructuring and financial unbundling meets the needs of the Association or if we need to evaluate the feasibility and necessity of proceeding with a separate corporate structure.

2006 Tasks

- a. Evaluate feasibility and necessity of proceeding with separate corporate structure by June 30, 2006.

Provide recommendation to BOD on whether Chugach should proceed with Steps B and C of the overall plan at the July strategic planning session.

Goal 3.0 – Make decision on future generation

Discussion: Aging generation and high fuel prices have significantly increased G&T rates to customers. Of the near-term options, coal has a significant hurdle due to high initial capital costs and gas turbines have the uncertain future of dwindling gas supply and volatility of market-based (Henry Hub) prices. Other options such as wind, geo-thermal, tidal and hydroelectric are under investigation, but likely will not meet near or mid-term needs (5 to 10 years).

2006 Tasks

- a. Complete coal plant and gas plant development options by September 1, 2006.

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- b. Provide recommendations to Board of Directors by October 2007.
- c. Fire Island
 - Complete study of issues raised by the FAA and report to the Board on results in August (contingent on FAA providing results in time)
 - Participate as an MOU partner in activity led by others
 - System integration study (GVEA)
 - Wind studies/Corp of Engineers 404 permit work/RFP development and issuance (ML&P, pending release of additional Denali Commission funds)

Goal 4.0 - Negotiate labor contracts with represented employees

Discussion: All three IBEW contracts (office & engineering, outside plant, and generation plant) and the culinary union (HERE) terminate on June 30 of this year. A substantial effort will be required by both management and bargaining unit personnel to work towards a win/win result.

2006 Tasks:

- a. Establish goals and objectives for each agreement
- b. Identify negotiating teams for each agreement
- c. Provide monthly updates to the Board of Directors

Goal 5.0 – Investigate and negotiate fuel options to meet Chugach’s short, medium and long-term needs.

Discussion: Chugach has gas contracts with the Beluga Producers (Conoco Phillips, Chevron, ML&P) and Marathon Oil Company. Gas volumes from all these contracts will run out by approximately 2011. Chugach has an additional 120 Bcf of additional volumes committed from the Beluga Producers (40 Bcf each) but not priced. Based on current use (25 Bcf per year), Chugach is obligated to initiate negotiations with Conoco Phillips, ML&P and Chevron by January 1, 2007 and agree upon terms by January 1, 2008.

2006 Tasks

- a) Begin negotiating with Conoco Phillips, Chevron and ML&P for Period 3 Volumes
- b) Begin negotiating with Marathon for follow-on volumes and potential volumes for sales to GVEA
- c) Investigate fuel-hedging strategies to mitigate market volatility with single market indices
- d) Investigate alternative fuel options to diversify fuel sources and mitigate potential gas shortages and volatile market pricing
- e) Participate with other gas users and producers to investigate alternatives such as LNG import and availability to new gas supplies within Alaska
- f) Provide regular confidential updates to the Board of Directors