



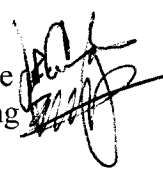
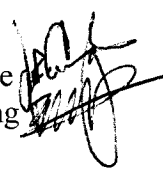


CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

October 30, 2007

TO: Bill Stewart, CEO

FROM: Dave Smith, Vice President, Administration 
Ron Vecera, Director, Member Services 
Carol Johnson, General Counsel 
Mary Tesch, Vice President, Human Resources 
Mike Cunningham, CFO, Senior Vice President, Finance 
Rick Freymiller, Director, Regulatory Affairs and Pricing 

SUBJECT: Board Policy 119 – Contributions

At its May 23, 2007 meeting, the Board Operations Committee discussed the possibility of revising Chugach's Contributions Policy, Board Policy 119, specifically so that it provided more direct aid to Chugach members who are unable to pay their past due electric bill. We have looked into a number of options and recommend as follows:

- 1) Continue to budget annually and provide to qualifying groups as defined in the Policy, an amount not to exceed two-hundredths of one percent (.0002) of the Association's anticipated Retail, Economy Energy and Other Revenues.¹ We believe that these contributions benefit a broad cross section of Chugach's members and that these contributions are important to our members and community. Alaska Statute 10.25.010(a)(13) specifically authorizes electric cooperatives to "make donations for the public welfare or for charitable, scientific, or educational purposes."
- 2) If the Board wishes, Chugach could, in addition to these budgeted contributions, solicit donations from its members in its member bills and provide that money to the Municipality of Anchorage, Health and Social Services (MOA HSS) agency to use in assisting qualified indigent Chugach members to pay their delinquent electric bills with Chugach. We have discussed this with MOA HSS and they are agreeable to doing so. Since the MOA HSS already has a system in place through MOA HSS, a qualified, experienced agency that is expressly tasked with doing this type of work as one of its responsibilities, to provide these services, Chugach would not need to establish its own in-house group to do so. This would require a change to Chugach's Customer Information System to use "recurring other charges", which allows a recurring fee to be billed each month for a certain length of time. The cost to implement this change is approximately \$8,600 for the programming modifications only and not any

¹ The amount allocated for 2006 and 2007 was \$35,000. The amount for 2008 is \$35,000.

administrative costs associated with entering, tracking, and reporting the donation amounts. The administrative cost, specifically staffing to perform these functions, is estimated at .25 FTE or about \$17,500 per year.

- 3) Alternatively, Chugach could dedicate a certain percentage of the funds budgeted annually under Board Policy 119 for payment to organizations or an agency such as the MOA HSS to assist Chugach members who are unable to pay their past due electric bills. Chugach currently provides information to such members about organizations which they might qualify with for financial assistance.
- 4) We extensively researched the possibility, suggested by some Board members, of developing and instituting a “round up” program at Chugach and using those funds to assist needy members to pay their electric bills. For a number of reasons, we do not recommend that Chugach pursue this option.
 - Chugach’s Customer Information System (CIS) would need to be modified in at least two ways in order to administer the program. First, Chugach would need to flag the accounts that are enrolled in the program. Second, the CIS would need to be able to capture the difference between the actual bill and the rounded up bill for those members that are enrolled in the program. The difference would need to be accounted for and subsequently remitted to whoever will actually give out the money. Balances would need to be adjusted for bounced checks or other charge backs. Reconciling and accounting is complicated by the fact that there are several means for members to make their payments on their Chugach electric accounts, including all methods available to make payments directly to Chugach, by payments to Bill Matrix (phone and Internet) payments to First National Bank of Anchorage (lockbox) and through a variety of electronic processing agencies.
 - Information Services (IS) estimates that the cost to modify the CIS billing program necessary to implement a bill round-up program including making changes to bill calculations, bill printing, billing corrections, and past due and delinquent calculations, is \$19,300. This cost estimate only includes those costs associated with programming modifications and does not include any estimates for the administrative costs associated with entering, tracking and reporting on the donation amounts.
 - It appears that cooperatives that have “round-up” program receive their CIS services from National Information Solutions Cooperative (NISC). NISC is an outsourcer for about 500 cooperatives. The programming to administer a round-up program is part of their CIS package. Thus, the cooperatives did not have to do any design, programming, testing, etc., of the round up program. At least some of them also are coordinated with a

governmental agency for administration of the funds to needy customers. AWWU's "round up" program (called "Coins Can Count") was also included in its CIS program.

- Member Services estimates that staffing required to perform the processing, account reconciliation and customer service activities for this program is .25 FTE, at a cost of about \$17,500 per year.
- A "round up" program would need to be one in which members affirmatively "opt in" to participate. In other words, a member must be given notice and an opportunity to voluntarily round up her or his electric bill to the nearest dollar. The rounding up cannot be done automatically by Chugach without the member's consent. Chugach has 77,725 metered locations; 10,600 are already "rounded up" because they are on "level pay" (budget billing). Thus, there are 66,675 Chugach accounts that could potentially participate in such a voluntary "round up" program. Based on the experience of cooperatives we identified that require members to "opt in" to their round up programs, assuming Chugach would have a maximum participation rate of four percent (4%), that would total approximately 2,700 participants. If the average contribution by rounding up is 50 cents per month, annual contributions through this program would total \$16,200. At this time, only about one percent (1%) of AWWU members have enrolled in their "round up" program.
- A Certificate of Public Convenience and Necessity is required by A.S. 42.05.221 for a "public utility" to provide a "commodity or service." Because the "round up" program is not related to the provision of a utility service, we do not believe this program would require Commission approval provided it is very clear that the program is voluntary. However, the Commission's authority would allow it to impose requirements that assure that members are not confused by the billing format about the voluntariness of the program. The Commission will likely hear about the program, positively or negatively, if Chugach decides to implement it and may then want to review it; alternatively, Chugach may want to notify the RCA in advance if Chugach decides to adopt the program and the RCA may then decide it wants to review it.
- If adopted, RAPA or an intervenor in a future rate case may inquire into the round-up program and argue that some portion of Chugach's overhead should be assigned to this non-regulated and charitable activity and removed from the revenue requirement. If successful, this would affect Chugach's ability to recover its costs for the program.
- Charitable donations are generally removed from a utility's revenue requirement used to establish the amount that the utilities rates must

recover on a pro forma basis in the rate making process. Both the added revenue and the related charitable donations would be excluded from the revenue requirement calculation and there would be no impact.

- We have not looked at any tax issues associated with this program but believe that whether these donations are deductible by the member is something that should be left to the member.