

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

BOARD MEETING
AGENDA ITEM SUMMARY

September 27, 2006

ACTION REQUIRED

AGENDA ITEM NO. I

Information Only
 Motion
 Resolution
 Executive Session
 Other

TOPIC

2005 Test Year General Rate Case – Approval to File

DISCUSSION

Rate Readjustment and Cost Update

While overall Chugach financial performance is sound, the monthly unbundled financial statements presented to the Board have shown that the G&T function is earning negative margins, while Distribution function is earning greater than authorized margins. This filing is meant to ensure that each function at Chugach is recovering its costs and contributing the authorized margins. The Cost Allocation Manual (CAM) provides the basis for the costs assigned or allocated to the G&T and Distribution functions

Actual costs from 2005 form the basis of the filing, with appropriate ratemaking adjustments. This filing updates costs to current levels, with G&T rates needing to increase to recover current costs while Distribution rates can decrease to recover current costs. The 2002 and 2005 depreciation studies are incorporated into the rate filing

Efforts Undertaken to Expedite Review and Decision on Filing

In order to provide the Regulatory Commission of Alaska and the intervenors with a filing that can be easily understood and addressed, Chugach has largely incorporated the Commission findings in Docket U-01-108 (the last general rate case). The number of proposals that change the approach ordered in that docket and that also have significant financial impact is limited:

1. Depreciation study and resultant depreciation expense;
2. Allocation of long-term interest expense and debt;
3. Increase in G&T TIER to 1.20.

Outside Review of the Proposed Filing

Significant outside review of this proposed filing has taken place.

1. Data from the actual 2005 financials have been audited by KPMG;
2. The CAM has been reviewed by consultant from NERA;
3. The unbundled financial statements and process are being audited by KPMG; and,
4. Unbundled cost of capital (TIER and equity ratio) has been reviewed by consultant Dan Walker.

CEO's RECOMMENDATION

Recommend approval of the attached resolution.

Motion:

Move that the Board of Directors approves the filing of the 2005 Test Year General Rate Case, as recommended by the Chugach members of the Joint Committee at their September 25, 2006 meeting.

WHEREAS, Chugach Electric Association, Inc.'s (Chugach) current retail and wholesale base rates reflect the results of the 2000 test year rate case adjudicated under Docket U-01-108;

WHEREAS, the Regulatory Commission of Alaska (Commission) set an overall Times Interest Earned Ratio (TIER) at 1.30 and established Chugach's rates in the 2000 test year at an authorized TIER of 1.10 for Generation and Transmission (G&T) resulting in a TIER of 1.64 for Distribution;

WHEREAS, Chugach has developed routine monthly analysis of financial results on an unbundled basis and the results continuously show that the G&T function is generating negative margins and the Distribution function is achieving significantly greater margins than authorized by the Commission;

WHEREAS, Chugach's unbundled financial results indicate that revisions to the allocator for long-term debt and interest expense as well as the allocators for Administrative and General expense would more appropriately allocate costs;

WHEREAS, it is in the best long term interests of Chugach's members that electric rates be set at levels for both the G&T and Distribution functions that allow prudent investment in plant as well as sufficient funding to maintain high levels of reliability and service;

WHEREAS, Chugach's Financial Management Plan demonstrates that increased G&T margins are required to meet the equity ratio target;

WHEREAS, Chugach will not progress toward achieving the G&T equity ratio target without an increase in the authorized G&T TIER;

WHEREAS, Chugach has recently obtained Commission approval of the 2002 depreciation study rates and has prepared a required 2005 depreciation study update;

WHEREAS, both the 2002 and 2005 depreciation studies significantly altered the depreciation rates on a functional basis but electric rates have not been revised to reflect those depreciation rates;

WHEREAS, Chugach has incurred costs associated with the compression of natural gas associated with the Beluga River Field and the Commission has declared that such costs should be included for recovery in a general rate case;

WHEREAS, these rate case calculations based on the 2005 test year indicate that Chugach system revenues should increase \$2 million, with G&T revenues increasing \$10 million and Distribution revenues decreasing \$8 million;

WHEREAS, Chugach's labor agreements with its represented employees expired on June 30, 2006 and

negotiations on the terms and conditions of a new contract are underway;

WHEREAS, the Chief Executive Officer is directed to include the results of such labor negotiations in the determination of its base rates at the time new labor agreements are reached;

WHEREAS, the Chugach Board of Directors authorized the Chief Executive Officer to prepare a general rate case based on the 2005 test year and to communicate its intentions to revise base rates to its members in advance of submitting the filing to the Commission;

WHEREAS, Chugach has calculated a general rate case based on the 2005 test year and has undertaken a significant, several month-long communication effort with its members, including wholesale customers and the Regulatory Affairs and Public Advocacy section of the Commission, which included overview presentations, discussions and provision of a draft filing electronically for review and comment; and,

WHEREAS, Homer Electric Association, Inc., the City of Seward, Matanuska Electric Association, Inc. and the Regulatory Affairs and Public Advocacy Section of the Commission were invited to meet with Chugach Joint Committee members and staff on September 25, 2006 to provide comments on the filing;

WHEREAS, after providing opportunity for comments at the September 25, 2006 meeting, the Joint Committee recommended that the Board approve the proposed rate filing in a form substantially similar to the draft;

NOW THEREFORE, BE IT RESOLVED that the Chief Executive Office or his designee is authorized to file a general rate case based on the 2005 Test Year and take any other actions consistent with this authorization;