

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

September 19, 2007

BOARD OF DIRECTORS'
MEETING MINUTES

The following board members were present:

Elizabeth Vazquez – Chair
Uwe Kalenka – Vice Chairman
Alex Gimarc – Secretary
PJ Hill – Treasurer (*arrived at 4:18 p.m.*)
Jim Nordlund – Director
Jeff Lipscomb – Director

The following employees, members, and guests attended:

Bill Stewart	Juvy Gobaleza	Sean Skaling
Aaryana Black	Kim Hankins	Tina Staten
Eric Black	Carol Heyman	Phil Steyer
Patti Bogan	Joe Miller	Mary Tesch
Loralie Carter (MEA)	Connie Owens	Lee Thibert
Mike Cunningham	Divina Portades	Tom Tierney
Don Edwards (Dorsey & Whitney)	Jackie Purcell (KTUU)	Phil Todd
Brad Evans	Jean Sauget	Andy Tomco
Dru Gerkman	Tom Schulman	Jim Tongea
Tina Gerkman	Cody Simons	Thomas Van Flein (Clapp, Peterson)
Suzanne Gibson	John Simons	Ron Vecera
Rick Gobaleza	Kenni Simons	Gary Zipkin (Guess & Rudd)

DeAnna Scott, Executive Assistant, recorded meeting proceedings.

I. CONVENE MEETING

Chair Vazquez called the regular meeting of the Board of Directors to order at 4:03 p.m. in the boardroom of Chugach Electric Association, Inc., 5601 Electron Drive, Anchorage, Alaska.

II. PLEDGE OF ALLEGIANCE

Chair Vazquez led the Board and audience in the Pledge of Allegiance.

A. Presentation of Safety Calendar Awards

Jackie Purcell, Chief Meteorologist for KTUU, Channel 2, and Chair Vazquez presented the awards for the Safety Calendar Contest.

First Place Winners:

- Ages 6 and under – Dakota Simons, son of Kenni Simons, Environmental Assistant.
- Ages 7 to 9 – Kyle Johnson, son of Kim Hankins, Customer Service Department

- Ages 10 to 13 – Alyssia McGuire and 4th Place Winner, Brianna McGuire, daughters of Randy McGuire, Boiler Operator, Beluga Power Plant

Calendar Front Cover and Back Cover Winners:

- Rick Gobaleza – son of Juvy Gobaleza, Record Drawing Technician, Engineering
- Aaryana Black – daughter of Greg Gerkman, Maintenance Operation, Beluga Power Plant

III. EXECUTIVE SESSION

At 4:13 p.m., Director Kalenka moved and Director Gimarc seconded the motion that pursuant to Alaska Statute 10.25.175(c) (1) and (3) the Board go into executive session 1) to discuss matters the immediate knowledge of which would clearly have an adverse effect on the finances of the cooperative; and 2) to discuss matters with its attorneys, the immediate knowledge of which could have an adverse effect on the legal position of the cooperative. The matters to be discussed are: 1) Labor Negotiation Update; 2) The Chugach/ML&P Consolidation Study including: a) the Phase I Study, b) the NRECA scope of Work and, c) the Navigant Contract; 3) RCA Docket No. R-07-001 entitled, “In the Matter of the Petition by Matanuska Electric Association, Inc., to Open a Notice of Inquiry and Adopt Regulations Governing the Creation of a Traditional G&T Cooperative or a Unified Power Pool for the Railbelt’s Regulated Electric Cooperatives;” 4) Board Policy 106 – Delegation of Authority from the Board of Directors to the CEO; 5) Board Financial Advisors including: a) General Financial Advisor and b) Financial Advisor for the Chugach/ML&P Study; and, 6) An update on Chugach v. Ray Kreig, Stephen Routh and Chugach Consumers. *The motion to go into Executive Session passed unanimously.*

Director Hill arrived at 4:18 p.m.

The Board came out of Executive Session at 8:35 p.m. and the Regular Board Meeting reconvened at 8:44 p.m.

IV. APPROVAL OF AGENDA

Director Kalenka moved and Director Hill seconded the motion to approve the agenda. Chair Vazquez recommended amending the agenda to delete Agenda Item XI.G. Financial Advisor. Director Lipscomb requested under the Consent Agenda, item D. Credit Card Payments – Implementation Plan, be moved to agenda item XI. G. *The motion to approve the agenda, as amended, passed unanimously.*

V. CONSENT AGENDA

A. Board Calendar

- Move the Finance and Operations Committee meetings from November 28 to November 7, 2007
- Move November 21 Regular Board meeting to November 14, 2007
- Move December 26 Finance and Operations Committee meetings to December 5
- December 19, 2007 – Regular Board Meeting

B. Minutes – 8/8/07 and 8/22/07

No changes.

C. Directors’ Expenses

D. Credit Card Payments – Implementation Plan

This item was moved to XI. New Business G. – Credit Card Payments – Implementation Plan as requested by Director Lipscomb under item VI. Approval of Agenda.

E. Financial Management Plan Target & Guidance

F. Green Star – Anchorage Lighting Energy Efficiency Pledge

There was no formal action taken on the Consent Agenda.

VI. PERSONS TO BE HEARD

A. Wholesale Customer Comments

None.

B. Member Comments

None.

VII. CEO REPORT

- CEO Stewart reported he was notified that Chugach was listed in the Top 49ers. The Top 49ers Lunch is scheduled for October 1, 2007, at the Egan Convention Center. If you would like to attend, please contact Connie Owens.
- CEO Stewart reported that an RFP has been placed on the AEA website entitled *Study The Railbelt Electrical Grid Authority*.
- CEO Stewart reported that Chugach has been issued a 50-year license for the Cooper Lake Power Plant.
- CEO Stewart reported on the original 230 kV line coming out of Beluga over to Anchorage.
- CEO Stewart reported that the APA Executive Committee appointed three new members. They are Ron Bergh, Joe Cook, and Tim Barnum.
- CEO Stewart reported that he met with the new CEO at Enstar, Ms. Colleen Starrings. Her official Semco title is Regional Vice President.
- CEO Stewart reported that last year at this time, Chugach received 20 complaints in 2006 and this year, we have only received 8. Verbal complaints received last year were 333 and in 2007, we have received 255 to date. Customer complaints are trending downward.

VIII. CORRESPONDENCE

None.

IX. DIRECTORS' REPORT

A. Committee Reports

Finance Committee

Chair Vazquez reported that all Directors were in attendance for the Finance Committee meeting.

Operations Committee

Chair Vazquez reported that all Directors were in attendance for the Operations Committee meeting.

B. APA Report

Director Kalenka reported on the APA Meeting that was held in Valdez from September 12–14, 2007.

C. Meeting Reports

None.

D. Blue Ribbon Panel Update

Chair Vazquez reported on the Blue Ribbon Panel meeting that was held on September 18, 2007. She also reported on the CFC Workshop.

E. Chugach/ML&P (Phase 1 Study) Update

Chair Vazquez reported on the Chugach/ML&P (Phase 1 Study).

X. UNFINISHED BUSINESS

A. Revised Meeting Schedule of the Board of Directors

Director Kalenka moved and Director Gimarc seconded the motion that the Board of Directors schedule the Finance and Operations Committee meetings to the first Wednesday of each month beginning in October 2007. The motion passed unanimously.

Director Gimarc moved and Director Kalenka seconded to amend the motion to have the meeting change take place beginning November 2007. The amendment to the motion passed unanimously. *(It is noted that a new Board calendar will be forwarded to the Director's reflecting the new schedule on September 20, 2007.)*

XI. NEW BUSINESS

A. 230 kV Cable Erosion Project

Director Kalenka moved and Director Hill seconded the motion that the Chugach Board of Directors authorize the Chief Executive Officer to execute a contract with AIC, LLC in the amount of \$1,007,531 for the Six Mile West Cable Terminal – Erosion Protection. The motion passed unanimously.

B. Release Historical Benchmarking & Supporting Documents (1995-1999)

Director Gimarc moved and Director Kalenka seconded the motion to postpone this item until the September 26, 2007, Operations Committee meeting. The motion passed unanimously.

C. Release of Certain Labor Analysis after all Contracts are Ratified

Director Gimarc moved and Director Kalenka seconded the motion to postpone this item to the Operations Committee Meeting on September 26, 2007. The motion passed unanimously.

D. MEA (RCA Filing)

Director Kalenka moved and Director Gimarc seconded the motion that the CEO be directed to respond to the letter from MEA and file comments with the RCA consistent with the discussion held in Executive Session. The motion passed unanimously.

E. Board Policy 106 – Delegations of Authority from the Board of Directors to the CEO

Director Kalenka moved and Director Gimarc seconded the motion that the Board of Directors amend Section II(B)(8) and add new Section II(C)(1)(h) to Board Policy 106, to read as set forth in Attachment 1.

After discussion on the motion, Director Nordlund moved and Director Lipscomb seconded to amend the motion to include routine legal matters, those additional matters that Carol Johnson, Chugach Legal Counsel, outlined in blue would also be included in the Attachment 1. Director Lipscomb moved to amend the motion to place this on the October 17, 2007, Board Meeting agenda. Directors Hill, Lipscomb and Nordlund voted yes to amend the main motion and Chair Vazquez, Directors Kalenka and Gimarc voted no.

Chair Vazquez called for the vote on the main motion. Chair Vazquez and Director Kalenka voted yes; Directors Nordlund, Lipscomb, Gimarc and Hill voted no. The motion failed.

Director Gimarc moved and Director Lipscomb seconded the motion for reconsideration and requested that this item be placed on the October 17, 2007, Board meeting agenda. *No action was recorded on this motion.*

F. Chugach/ML&P Phase I Study

i. Navigant Contract Discussion

Director Kalenka moved and Director Gimarc seconded the motion that the Chugach Board of Directors authorize Board Counsel to enter into negotiations toward a contract with Navigant as discussed during Executive Session and that Chair Vazquez is authorized to execute a contract with Navigant subject to Board ratification at the Board's October 17, 2007 meeting. The motion passed unanimously.

ii. NRECA – Scope of Work and Budget

Director Gimarc moved and Director Kalenka seconded the motion that the Chugach Electric Association, Inc. (Chugach) engage National Rural Electric Cooperative Association (NRECA) to assist Chugach on possible business combinations with Anchorage Municipal Light and Power. The motion passed unanimously.

The Board recessed at 9:32 p.m. and reconvened at 9:37 p.m.

G. Credit Card Payments– Implementation Plan

Director Gimarc moved and Director Kalenka seconded the motion that the Chugach Management adopt the transition plan for credit card payments as attached.

There was discussion and questions raised regarding this motion. Director Hill moved and Director Kalenka seconded the motion that this item be postponed and addressed at the next Operations Committee meeting. The motion passed unanimously.

H. Chugach Electric Association, Inc., v. Ray Kreig, Stephen Routh and Chugach Consumers, Superior Court Case No. 3AN-06-13743

Director Kalenka moved and Director Gimarc seconded the motion that Thomas Van Flein conclude settlement discussions with the goal of ending this lawsuit before the expiration of the stay on December 27, 2007. Mr. Van Flein is directed to obtain a settlement which will return Chugach Consumers, Mr. Kreig and Mr. Routh to the place they would have been as of the day before the lawsuit was filed by Chugach on December 22, 2006. They shall be made whole as to costs they have incurred. All documents and personal property seized and impounded as a result of this lawsuit shall be returned. Such return shall not affect the obligations of defendants to continue to keep confidential material considered by Chugach to be confidential. Mr. Van Flein is further directed to obtain a settlement that would dismiss any related claims asserted by Chugach or the defendant in their complaints with prejudice. Mr. Van Flein is also directed to obtain an agreement from the defendants not to sue any directors or employees of Chugach for any claims related to this lawsuit. The settlement shall require the defendants to continue to keep confidential material considered by Chugach to be confidential. The motion passed with Chair Vazquez, Directors Gimarc, Hill, and Kalenka voting yes; Directors Lipscomb and Nordlund voted no.

I. Board Vacancy

Director Hill moved and Director Gimarc seconded the motion that the Board proceed to fill the vacancy on the Chugach Board pursuant to Board Policy 115 and Article IV, Section 8 of Chugach's bylaws. The motion passed unanimously.

XII. DIRECTOR COMMENTS

Director Hill: No comment.

Director Lipscomb: Thanked the CEO and employees for the safe month of July. Director Lipscomb stated that since July 2007, the Board has addressed budget revisions relating to labor agreements, advisors to the Board, legal counsel, economy energy revenue and due to questions, the Board only took partial action on the budget revisions at the August 22, 2007, Special Board meeting. Director Lipscomb requested that the Chair place on the October 17, Regular Board Meeting agenda an item for 2007 Budget Revisions. Director Lipscomb commented on Board Policy 101 and 106 "Operations on Operations Policies". Director Lipscomb stated that in an e-mail to Mr. Stewart and Chair Vazquez, a recommendation coming out of our SOX Compliance Review was the need for a "Policy on Operating Policies". The Operating Policies falls under the privy of the CEO, and recommended CEO Stewart and his staff work up the first draft of the Operating Policy so that we would be in the position to have the SOX Compliance Consultants review and provide comments. Director Lipscomb asked it be placed on the next Operations Committee agenda and on the Regular Board meeting agenda on October 17. In another e-mail to CEO Stewart and Chair Vazquez, he addressed another SOX review recommendation which was to increase the financial expertise on the Board by reviewing Director's qualifications. Director Lipscomb stated he thought it is very appropriate to work up a bylaw revision proposal and forward it to the Bylaws Committee for consideration. The CEO could prepare a draft for the Operations Committee for review and then the Board could forward something to the Bylaws and Nominations Committees in October. There are several alternatives to be considered: 1) training, 2) increase in education or experience qualifications for certain director positions, i.e., RCA one director maybe an Engineer, CPA or Attorney. He requested the Chair place

the bylaw proposal item on the next Operations Committee and regular Board meeting agenda in October. Wage and Salary Plan Update: Due to the length of the special meeting of the Board on August 22, 2007, the Board did not get into the non-represented employee compensation program. It is a very important piece of the operations at Chugach and the Board needs to consider this promptly and requested that it be placed at the next Operations Committee agenda and on the regular Board meeting agenda on October 17th. He also stated that it was unconscionable, the action that was taken tonight in regards to the litigation with Ray Kreig and Chugach Consumers; and lastly, the *Alaska Journal of Commerce* -July 29, 2007, article on Chugach Electric written by Tim Bradner. It contained several false and misleading statements regarding the financial condition of Chugach. Chair Vazquez and Director Kalenka were interviewed for the article and incurring that conclusion drawn were from comments made from their interview. In particular, the caption in the picture of Chair Vazquez posing in front of transmission equipment states "Increase in the cost of fuel and balloon payments of \$270 million are throwing the Cooperative in financial doubt." Well, the cost of fuel is a pass through and there is no impact on the financial condition of the Cooperative. This and the interest rate risk are disclosed and is stated to be acceptable in the 2006 10K signed by the CEO, CFO and six members of the Board including Chair Vazquez and myself. Long term financial management plans are approved annually by the Board with financial management and debt management plans neither of which include anything but continuing sound financial condition maintenance of our current A- credit rating. He strongly encouraged Chair Vazquez to promptly prepare a response to the *Alaska Journal of Commerce* regarding the false and misleading statements in the article.

Director Nordlund: He too expressed his disappointment with the vote that the Board took totally relinquishing our case against Ray Kreig to the extent that we will even pay Ray Kreig's legal fees on a case which we won. Unfortunately, he thinks that slants to conflict of interests on the part of the Board members that was recruited by Mr. Kreig and supported by Mr. Kreig in their election to the Chugach Board. This action by the Board was not in the best interest of our membership. He also agreed with Director Lipscomb at the lack of response to the negative article in the *Alaska Journal of Commerce* under the financial conditions of Chugach Electric. This has been discussed and should be responded to. He thanked Alan Christopherson, for his service on the Board. While some of us have our agreements/disagreements, anybody that agrees to serve on the Chugach board deserves a great deal of credit for commitment and service to our membership. Director Christopherson served honorably, he brought a lot of expertise to the Board and he is disappointed to see him leave. Director Nordlund wished him well.

Director Gimarc: Stated the he is glad that the Board has decided to quit mud wrestling.

Director Kalenka: Stated that unfortunately on the August 8th meeting he was not present but read the minutes and has several things he has to take issue with. One specifically is Director Lipscomb, he stated this concern and specifically, "In three months this Board has hired a Labor Advisor, Communications Advisor, as of tonight, five attorneys, a Blue Ribbon Panel and the Chair has appointed two members to the Utility Merger Committee. Director Lipscomb stated that the Board is now trying to oversee the largest electric utility in Alaska and a shadow management team at the same time. He thinks that is very bad governance." I'd like to remind Director Lipscomb Director Lipscomb that he was the Chairman of the previous Board. I would also like to point out to Director Lipscomb that yes, this Board has enough common sense to hire a Labor Advisor before they sign any labor contracts nilly willy the day before the Annual Election and ram it through. I think that was poor governance at its best. I would also like to point out to Director Lipscomb that we have a Communications

Advisor now because, I do believe, as we go into the merger or proposed affiliation with MEA, we will have to have somebody with the expertise to do that. As far as the five attorneys, I don't know how he comes up with the figure of five attorneys. When I counted it, there were two attorneys that were specifically handling matters on behalf of Management not on behalf of the Board. As for the Blue Ribbon Panel, we have requested repeatedly to have a management audit and we settled on five outstanding members and pillars of this community to look at Chugach and give this Board an unbiased opinion what can or should be done in the future. That's a lot better than what the previous Board did. They didn't have foresight to even consider that. We have appointed two members to the Utility Merger Committee. This leadership here, specifically Madam Chair had the foresight to pick people, which again are members and pillars of this community that has no axe to grind with anybody rather than appoint anybody from the Board that brings their own bias opinions with them. Now, I don't consider that bad governance, I consider that good governance. I also like to point out those two things by themselves, the Blue Ribbon Panel and engaging with the ML&P in negotiations are major accomplishments of this Board. I also like to point out to the Board that this new Board had the courage to go to our wholesale members and consequently, our wholesale members and specifically one of them, no, rather three if you include Seward and the AG's office, agreed to a settlement in regards to the RCA case. Again, that's a heck of a lot better than the previous Board did. So, I really take issue with you comments Mr. Lipscomb because I believe they are totally out of place. As far your recommendation to change the bylaws in order to have educated people, if I may use one of your things there, "educated" on this Board, I have seen educated people. In fact, I have seen some real experts on this Board. They might have been experts in their field, their professional field but quite frankly, from my prospective, they lack totally in common sense. I personally think it would be undemocratic to go and specifically have certain people with certain professional qualifications as a pre-requirement to be on this Board. I personally would much rather have a house-wife with common sense. I think on that note, I would like to conclude my comments.

Chair Vazquez: With regard to Director Lipscomb remarks having specific qualifications, like wise, I have seen Directors with lots of educational credentials and professional credentials who don't have much common sense or business sense for that matter. I would like to see some board policies on training. I think training is very important, training is essential to do a better job on this Board and certainly can do a better job about insuring that Directors get sufficient training and have better opportunity so it is an area for improvement in that area. As far as our Board hiring five attorneys, I think Ms. Johnson hires a lot more than that per year. The legal on most years, the Legal Department budget is in excess of a million dollars. We have hired Mr. Zipkin that follows the national trend of having Boards, Boards like us who are subject to Sarbanes Oxley to have their own legal counsel separate from the Association's Counsel. On a one time basis, we hired Mr. Sulfey of Mr. Zipkin's law firm to review the drug policy that was going to be implemented. We wanted a second set of eyes to look at that board policy and that was money well spent and I think it was a little over \$1,000 that was spent in Mr. Sulfey's fees. The other attorney that has been hired was frankly, to clean up the mess that the prior Board or whoever got us into the lawsuit, specifically the Chugach Consumer's lawsuit. Nobody is owning up to it because actually it was an ultra virus act. It was not formally and properly authorized by the full Board. So, whoever initiated an authorized that lawsuit is really on the hook. I'm really glad we're putting that behind us. I think it has taken way too much time and energy on the part of this Board. We have too many important issues it's really a cost-economic analysis we move on. We are going to pay the money anyway if we go on to the Supreme Court. I almost have no doubt that we are headed to appeal land and once you continue the litigation, things can get rather nasty. So, I'm really happy that we can just move on to other more important

issues and we do have a consensus on the other issues. I'm really happy we had an extensive and I know some of us got impatient about the lengthy discussion we had on the Merger - Phase I Study with Municipal Light & Power. But frankly, that has been personally worrying me in that we didn't think the Board was devoting enough time and energy to that subject and I felt tonight was the first time that we really dealt into it, so, although it took a long time, I think it was well worth it. That is one of the issues, that's one of the big picture issues this Board needs to be concerned about. We can delegate a lot of issues to Mr. Stewart but that type of issue we need to work together on including Mr. Stewart and his management team. Thank you Mr. Thibert, you have been doing a lot of research in this area, I really appreciate it. Mr. Cunningham, I know you have been busy with providing information to Navigant and your hands are full with the Sarbanes Oxley compliance; and, Ms. Tesch has been real busy with labor negotiations. Mr. Stewart, yes, I have a statement here. I would like to address an issue that I know have been on the minds of many employees, I'm talking about a salary adjustment for the portion of the Chugach work force that is not represented by the Union. I want to assure those employees that the Board knows it needs to address this very important. Last year, when we started the negotiation process for the Bargaining Unit employees, we felt that the proper course of action would be to resolve the labor agreements first and then consider a pay adjustment for the non-represented employees. At the time, I don't think any of us anticipated that the negotiations would take as long as they have. I am hopeful that we are now nearing the end of that process. This will be a top priority at the October Board meeting. I am sorry for any concerns this delay may have had. Originally, we had it at our September agenda, today's agenda and you can see that we are real full. So, and I've been also working with Mary, Ms. Tesch on some information and data that needs to be made available to the Board. So, I think we should first take it up at Operations next week and then take it up at the next Board meeting. With regard to, that's all I have.

XIII. EXECUTIVE SESSION

The items for the Executive Session were updated and will be forwarded to the Operations Committee that is to be held on September 29, 2007. Therefore, there was no Executive Session.

XIV. ADJOURNMENT

Director Kalenka moved and Director Gimarc seconded the motion to adjourn. The meeting adjourned at 10:37 p.m.

/ss/

Alex Gimarc, Secretary

Date Approved: November 14, 2007