

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

December 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
Jim Nordlund – Director
Jeff Lipscomb – Director
Rebecca Logan – Director (arrived at 5:15 p.m.)

The following employees, members, and guests attended:

Brad Evans	Lee Thibert	Mike Cunningham
Dave Smith	Connie Owens	Phil Steyer
Bill Bernier	Ron Vecera	Tom Schulman
Rick Freymiller	Ed Jenkin	Burke Wick
Carol Heyman	Suzanne Gibson	Paul Risse
Jean Sauget	Patti Bogan	Dan Knecht
Jim Posey (ML&P)	Lorali Carter (MEA)	Debbie Debnam (HEA)
Ruth Fitzpatrick (HEA)	Crystal Enkvist (APA)	Don Edwards (Dorsey)
Parry Grover (Davis Wright)		

Jennifer McDonald, Legal Secretary, recorded the meeting proceedings.

I. CONVENE MEETING

Chair Vazquez called the regular meeting of the Board of Directors to order at 4:12 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.

III. EXECUTIVE SESSION

None.

IV. APPROVAL OF AGENDA

Director Kalenka moved and Director Hill seconded the motion to approve the Agenda. The motion to approve the Agenda passed unanimously.

V. CONSENT AGENDA

Director Kalenka moved to approve the Consent Agenda.

A. Board Calendar

B. Minutes – November 14; November 15; December 5; December 10, 2007

Deferred November 14 minutes to next Board meeting.

C. Directors' Expenses

D. Approval – Write-off of Accounts Receivable – Electric

E. Approval – Write off of Accounts Receivable – Other

F. Approval – Election Committee Appointments

G. Approval – Nominating Committee Appointments

H. Approval – Bylaws Committee Appointments

I. Approval – 2008 Operating Budget and Capital Budget

Item moved to Agenda Item XI.E.

J. Approval – Wholesale Capital Credit Retirement

K. Approval – Retail Capital Credit Retirement

Director Kalenka moved to amend the Consent Agenda to move Agenda Item V.I. Approval – 2008 Operating Budget and Capital Budget to Agenda Item XI.E. New Business.

Director Lipscomb requested that the November 14 minutes be deferred to the next Board meeting for approval as the Board has not had time to review them.

There were no objections to the amended Consent Agenda.

VI. PERSONS TO BE HEARD

A. Wholesale Customer Comments

None.

B. Member Comments

None.

VII. CEO REPORT

- Acting CEO Brad Evans stated that the Board packets include correspondence on employee training, random drug and alcohol testing and training, SOX update, conservation efforts, personnel update, annual meeting timeline, community council meetings and an update on record checks and stated there will be verbal updates on some of these items.
- Dave Smith, Vice President, Administration, gave an update and reported on the SOX compliance and random drug and alcohol testing.

- Lee Thibert, Chief of Staff and Vice President Power Delivery, gave an update and reported on the Hope outage and the HEA bi-annual planning meeting.

VIII. CORRESPONDENCE

Correspondence is in the Board of Director packets.

IX. DIRECTORS' REPORTS

A. Committee Reports

Chair Vazquez appointed Director Gimarc as the Board Liaison to the Elections Committee. Director Gimarc accepted the appointment.

Chair Vazquez stated that for now she will be the Board Liaison to the Bylaws Committee.

Director Lipscomb inquired about the Board having a Legislative Affairs Committee. Chair Vazquez stated that the Board needs to discuss this and placed it on the Agenda for the January 16 Board meeting.

Director Kalenka stated that he had a brief meeting with Dave Carey of HEA and they both agreed that the Chugach and HEA Boards should meet sometime in January. The Board agreed that January 21 was a good day to meet and Connie Owens, Executive Assistant II, stated she would confirm this date with HEA.

B. APA Report

Director Kalenka stated that he attended the last APA meeting and it appears that APA is moving in the direction of formulating a statewide energy policy.

Director Kalenka stated that he attended the Municipality's Commissioner's meeting. The issues discussed appeared routine and the meeting was uneventful.

Director Kalenka stated that he attended three NRECA classes on Renewables and Power Supply, New and Emerging Technologies and Capital Credits Legal and Financial Issues. Director Kalenka urged all Directors to attend those classes and stated they were very helpful and enlightening.

C. Meeting Reports

None.

X. UNFINISHED BUSINESS

None.

XI. NEW BUSINESS

A. Approval – HERE Labor Agreement

Director Kalenka moved and Director Gimarc seconded the motion that the Board of Directors approve the new collective bargaining agreement (Agreement) with

UNITE HERE Local 878 to go into effect when both parties have signed it (including retroactive terms), and to authorize the Acting Chief Executive Officer and Board Chair to sign the Agreement on behalf of the Association. The motion passed unanimously.

B. APA Legislative Affairs Committee Appointment

Director Kalenka moved and Director Gimarc seconded the motion that the Board nominate director Rebecca Logan to serve on the Alaska Power Association Resolutions Committee, subject to appointment by the Chairman of the Board of Alaska Power Association. The motion passed unanimously.

C. Chugach/ML&P Phase I Study Report

Chair Vazquez reported that there was supposed to be a public meeting on December 10 which was unilaterally cancelled by the Municipality. The Municipality is in the process of getting it rescheduled but the Mayor and several other people are not available most of the month of January. Chair Vazquez stated that this may be rescheduled for February.

D. Training

a. January 12, 2008 – SOX Training

Scheduled.

b. March 3-7 2008 – Financial Training with Dr. Berk

Scheduled. Director Hill stated that he is unable to attend.

E. Approval – 2008 Operating Budget and Capital Budget

Director Kalenka moved and Director Gimarc seconded the motion that the Board of Directors' vote to approve the 2008 Operating and Capital Budget which is expected to produce margins of \$6.7 million, a Margin for Interest/Interest (MFI) ratio of 1.28 and an Equity to Total Capitalization ratio of 31.6%. These results are based on a Total Cost of Service of \$266.4 million, total Revenue of \$271.8 million and Non-Operating Margins of \$1.3 million.

Director Kalenka moved to amend and Director Gimarc seconded the amendment to require the CEO to, within 60 days, propose appropriate budget adjustments to the 2008 Operating and Capital Budget to implement Blue Ribbon Panel report summary recommendation and to take all steps necessary to deliver the lowest possible long term cost and rate structure for our customers while maintaining national standards of safety and reliability.

The motion to amend the main motion passed unanimously. The motion on the main motion passed unanimously.

XII. DIRECTOR COMMENTS

Director Hill: "No comment."

Director Lipscomb: “Congratulations to our culinary folks. Glad that they have a new contract and encourage them to continue to work safely. They use sharp instruments in their profession. I am very proud of management and the employees for their recognition of the problems with drug and alcohol in the workplace and especially their success and avoidance of those substances and problems in the workplace. Lastly, to everyone, continue to be safe during the holidays and Happy Holiday.”

Director Nordlund: “I’d like to make comments now on the Blue Ribbon report was released since we didn’t really – I think this is the opportunity to do that. First of all I’d like to thank the panel members for their contributions – I think they worked very hard and thank them for some very good recommendations I think the Board should consider and adopt. I do want to point out though some things I thought were oversights in the report and this is pretty much for the purposes of our membership to make sure that they I think don’t have an incomplete picture. The report recommends that the organization do strategic planning and I don’t think the report adequately acknowledges the fact that the organization, that Chugach does do strategic planning. *Chair Vazquez – Excuse me, Director Nordlund. A lot of that discussion in the report has been redacted for certain sensitive reasons such as pending litigation. Director Nordlund questioned if that’s the part that’s been redacted? Chair Vazquez, yes, yes, just so that you know.* Alright, I prepared my comments based upon not the latest redactions so, but in any case I’m not going to say anything sensitive or anything that’s confidential and I think that in terms of strategic planning I think it’s certainly is appropriate and I think it’s good that the panel members are recommended that Chugach does long term strategic planning in terms of 1, 5, 10 year horizons but I think it should also be acknowledged that we do do that. And I think that’s important to say. Another thing that I know that has not been redacted is a mention that our distribution rates are higher than they should be and I think that while – a lot of us would admit that it is true – what the report did not mention at any point in there is that we are currently pursuing a rate case to address exactly that issue. That our retail rates, our distribution rates are high to make up for what we’re currently doing which is subsidizing our wholesale customers. So, I think it’s a good point to make in the report. I do think that if there is oversight in there to not, to fail to mention that we are pursuing a rate case with the RCA to help alleviate that problem. A third thing is that there is a lot of emphasis on benchmarking. I think that’s good. I think we should, the report however should have acknowledged that the organization does do benchmarking. I think it did not adequately state that. Perhaps benchmarking isn’t enough, perhaps it’s not done in the right areas, I acknowledge that but I also think the panel members should have given credit to the organization for the benchmarking that is done. And finally, there was a lot of credence put into the UMS study. I appreciate today, during the press conference, that it was acknowledged, that the UMS study while valuable is old data, 12 year old data, and that data does need to be updated to make it useful. The report had a lot of comments about the structure of the electrical business in the Railbelt saying that it essentially there should be better integration and coordination between Railbelt utilities. I think we all agree with that and I think that’s a very good comment. It endorsed the merger talks that are currently going on. I think that’s a positive thing to say. Certainly there will be a lot of discussion on this Board about the comment that the co-op model is an out-moded business model and should be looked at being eliminated. I don’t see

anything more about that other than that is certainly a startling recommendation and something that we're going to talk about. There was no mention – I don't believe there was any mention in the report about the JAA being a good structure in the future for doing utility coordination. And finally, there was a lot of emphasis in the report about labor rates and the amount of money that we pay our employees here at Chugach and I think that issue certainly has been one that has divided this Board for a long time and I think that – I know there's a movement going to be going on to take a strong look at that and I think that's good. I think we ought to really get to the bottom of that issue. I think that we ought to have a thorough independent and objective analysis of what the rates are that we pay the employees of Chugach – here at Chugach Electric and I think that it ought to be open – in an open and transparent process or even the collective bargaining units could participate or if not participate at least be allowed to comment on whatever funding might ever be had for such analysis. So, I do – that's kind of the 300 pound gorilla or 400 pound – however big a gorilla is in the room that's eluded to throughout the report and we might as well just tackle that and have a credible study done that will show if our rates to high – if our pay is too high to employees so then they should be adjusted to be within the industry standards. I agree with that but the way that we have been proceeding on this issue so far is not productive and I think a thorough analysis is called for. So, again, I thank the panel members for their work. I think there were some oversights in the report but for the most part it is something that I endorse and that we should proceed and consider implementing some of their recommendations.”

Director Gimarc: “Madam Chairman, I would also like to speak to the Blue Ribbon Panel report. This association did a good thing this morning with the release of the Blue Ribbon Panel report to the general membership and public. Little in that report was unknown to previous Boards or to previous management. We can now act upon its recommendations. We also held the first press conference in the Chugach Boardroom since 1987, a mere 20 years since the last one. Our members will make better decisions if they're fully informed. Management and this Board will lead better if our membership is fully informed. Welcome to the new era of open governance. We intend for it to continue for a very long time. Reliability and open governance are not incompatible goals for this Association. We could probably walk and chew gum at the same time.”

Director Kalenka: “Madam Chair, I think Director Gimarc stated it rather well. I'd only like to add a few things – there have been some individuals that claim that they have no idea where this Board is going. I hope the release of the Blue Ribbon report – I hope they read it and realize now which direction we are heading and yes, we will have a plan and have a plan and will follow in that direction. There will be openness, there will be democratic government, there will be light on the issues. None of that has been done in the past – 1990 – 1995 reports have been hidden from the public and I said hidden. There have been just some comments been made that that report had deficiencies. I'd like to point out that one of the people that made a presentation to that panel was a former CEO, Mr. Griffith, that made a presentation, and I'm sure if he had anything of value to add he did and it should have shown in that report. There are also some people in the Railbelt right now that claim that hope is not a solution. I'm just curious where have those people been the last 20 years – where was their vision. All I can say is they must have been twiddling their thumbs because if they would have done something and had a vision we

wouldn't be in the dilemma in that we are today. We face new generations, the oil companies basically have us in a barrel and all I can say is thank you very much for the past leadership that had such tremendous vision and didn't do nothing. Thank you Madam Chair."

Chair Vazquez: "First of all I want to thank staff and management for hanging in there and keeping up with the fast pace that we have been carrying business with. I'd like to address with regard to the issues – some of the issues raised with regard to the Blue Ribbon Panel report. The main thrusts of this report is that we need to have more accountability and how do we have more accountability – we have it in several ways by more transparency. We are an association and we are owned by our rate-payers – the member-owners and how do we seek accountability – we seek ways to lower costs for our ratepayers whenever possible. There are two charts in there that were based on 2006 data and it was so clearly indicated – they were on slide number 8 and slide number 9. The other slides on benchmarking criteria and study were based on old information or old data – based on 1995 data but the main issue with the old charts, or the old data, or the old benchmarking information is 1) that it was not updated after 12 years and 2) that it was suppressed or buried and not allowed to be seen by our members or the community. So, those are two major points, even though the data may have been old, it was the way it was treated and for years this organization did not want to release the data. I must say that the panel recognizes several instances in the report that the Association has an outstanding record in reliability. I think the statistic that was cited in the report was a 99.98% reliable rate and that we were just outstanding in that area so we need to acknowledge that accomplishment. Now it's to go on and seek efficiencies and see where we can give greater value to our community and to our rate-payers. Again, I want to thank everybody that's been working hard and Happy Holidays Thank you."

XIII. EXECUTIVE SESSION

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 to discuss (1) 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 topics to be discussed in this executive session are: 1) HEA Premium Demand Charge; 2) Rate Case Update; 3) 2008 Legislative Agenda; 4) Chugach / ML&P Phase I Study Report; 5) Acting CEO Compensation; 6) Gas Negotiations; and 7) Strategic Planning. The motion passed unanimously.

The Board paused for a break at 5:05 p.m. and went into executive session at 5:25 p.m.

Director Logan arrived at 5:15 p.m.

The Board paused for a break at 7:23 p.m. and went back in to executive session at 7:35 pm.

The Board resumed in open session at 9:28 p.m.

