



**CHUGACH ELECTRIC ASSOCIATION, INC.
ANCHORAGE, ALASKA**

GOVERNANCE COMMITTEE MEETING

AGENDA

Susan Reeves, Chair
Rachel Morse, Vice Chair

Harry Crawford
Jim Henderson
Bettina Chastain

April 23, 2019

8:30 a.m.

Chugach Board Room

- I. CALL TO ORDER (8:30 a.m.)
 - A. *Roll Call*
- II. APPROVAL OF THE AGENDA*
- III. APPROVAL OF THE MINUTES*
 - A. *October 25, 2018 (Quezon-Vicente)*
- IV. PERSONS TO BE HEARD
 - A. *Member Comments*
- V. EXECUTIVE SESSION (*none*)
- VI. NEW BUSINESS* (*scheduled*) (8:35 a.m.)
 - A. *Board Policy 307, Interest Rate Risk Management Policy* (Committee) (8:35 a.m.)*
- VII. DIRECTOR COMMENTS (8:45 a.m.)
- VIII. ADJOURNMENT* (8:50 a.m.)

* *Denotes Action Items*

** *Denotes Possible Action Items*

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CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

October 25, 2018
Thursday
8:00 A.M.

GOVERNANCE COMMITTEE MEETING

Recording Secretary: Arden Quezon-Vicente

I. CALL TO ORDER

Chair Reeves called the Governance Committee meeting to order at 8:07 a.m. in the boardroom of Chugach Electric Association, Inc., 5601 Electron Drive, Anchorage, Alaska.

A. Roll Call

Committee Members Present:

Susan Reeves, Chair

Rachel Morse, Vice Chair

Jim Henderson, Director (*via teleconference*)

Harry Crawford, Director

Bettina Chastain, Director (*arrived during Executive Session*)

Guests and Staff in Attendance:

Tom Schulman

Matthew Clarkson

Connie Owens

II. APPROVAL OF THE AGENDA

Director Morse moved and Director Henderson seconded the motion to approve the agenda. The motion passed unanimously.

Director Chastain was not present at the time of the vote.

III. APPROVAL OF MINUTES

A. September 6, 2018

Director Morse moved and Director Crawford seconded the motion to approve the September 6, 2018 meeting minutes. The motion passed unanimously.

Director Chastain was not present at the time of the vote.

IV. PERSONS TO BE HEARD

A. Member Comments

None

V. NEW BUSINESS

None

VI. EXECUTIVE SESSION

A. Discussion – Bylaws, Article IV – Directors, Section 1 – General Powers

- B. *Discussion – Bylaws, Article IV – Directors, Section 9 – Compensation*
 - 1. *BP 204, Director Meeting Fees and Expenses*
- C. *Discussion – Bylaws, Article XIV – Advisory Council, Section 1 – Member Advisory Council and Section 2 – General Duties*
 - 1. *BP 601, Member Advisory Council*
 - 2. *BP 602, Appointment of Standing and Ad Hoc Committee Members*
- D. *Proposed Board Policies*
 - 1. *Fraud Policy*
 - 2. *Interest Rate Risk Management Policy*

At 8:08 a.m., Director Morse moved and Director Crawford seconded the motion that pursuant to Alaska Statute 10.25.175(c) (3) the Board of Directors' Governance Committee go into executive session to discuss legal matters with its attorneys, the immediate knowledge of which could have an adverse effect on the legal position of the cooperative. The motion passed unanimously.

Director Chastain was not present at the time of the vote.

Director Chastain arrived during the Executive Session.

The meeting reconvened in open session at 10:02 a.m.

Added VII. New Business after meeting reconvened in open session. No objections were made.

VII. NEW BUSINESS

A. Fraud Policy

Director Morse moved and Director Chastain seconded the motion that the Governance Committee recommend to the Board of Directors to adopt the Fraud Policy as discussed in Executive Session. The motion passed unanimously.

B. Interest Rate Risk Management Policy

Director Morse moved and Director Crawford seconded the motion that the Governance Committee recommend to the Board of Directors to adopt the Interest Rate Risk Management Policy as discussed and amended in Executive Session. The motion passed unanimously.

C. Member Advisory Council

Director Morse moved and Director Chastain seconded the motion that the Governance Committee recommend to the Board of Directors to establish a Member Advisory Council at the next Regular Board meeting. The motion passed unanimously.

VIII. DIRECTOR COMMENTS

Director Comments were made at this time.

IX. ADJOURNMENT

At 10:08 a.m., Director Morse moved and Director Chastain seconded the motion to adjourn. The motion passed unanimously.

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

GOVERNANCE COMMITTEE MEETING
AGENDA ITEM SUMMARY

April 23, 2019

ACTION REQUIRED

AGENDA ITEM NO. VI.A.

 Information Only
 X **Motion**
 Resolution
 Executive Session
 Other

TOPIC

Board Policy 307, Interest Rate Risk Management Policy

DISCUSSION

On November 28, 2018, the Chugach Board of Directors approved Board Policy 307, Interest Rate Risk Management Policy, as recommended by the Board Governance Committee on October 25, 2018. Additional detail concerning compliance has been added for clarification, amending the current policy.

MOTION

Move that the Governance Committee recommend to the Board of Directors that the attached amended Board Policy 307, Interest Rate Risk Management Policy, be adopted by the Board.

CHUGACH ELECTRIC ASSOCIATION, INC.

BOARDPOLICY: 307

INTEREST RATE RISK MANAGEMENT POLICY

I. OBJECTIVE

- A. To provide a framework through which interest rate risks are evaluated and managed to minimize the long-term cost of debt capital.
- B. To manage current and forecasted interest rate risk incurred in the ordinary course of business while maintaining optimal financial flexibility and credit quality.
- C. To take appropriate measures to ensure costs related to interest rate risk management can be recovered in rates.

II. EXPOSURE IDENTIFICATION AND DEFINITIONS

- A. The Association's financial performance is impacted by interest rates in a number of ways, including:
 - 1. Floating rate exposure. Floating rate exposure relates to variability of interest expense linked to outstanding or future variable rate financing, such as commercial paper or term loan debt.
 - 2. Refinancing risk. Refinancing risk relates to bullet debt maturities, lines of credit and the rollover of commercial paper to long-term debt.
 - 3. Financing risk. Financing risk relates to large construction projects or acquisitions that may be greater than existing commercial paper limits or lines of credit.
- B. For each of the above, the management of financial interest rate risk consists of three steps detailed below:
 - 1. Identification of Risk. Identify the interest rate risks relevant to the Association and ensure that these are regularly measured. This identification process needs to encompass all exposures as outlined above.

Floating rate risks and risks associated with forecasted issuance financings should be considered and re-evaluated on an ongoing basis.

2. Identification of Costs. For each potential transaction, costs should be identified in addition to the assessment of rate recovery and accounting treatment.
3. Determine the Company Association's Risk Appetite. Having identified the sources of interest rate exposure, determine the desired company risk appetite. This requires an assessment of the range and impact on the Association's financial performance and members' rates.

Hedging positions taken should always- be in -line with underlying exposures. In no instance is a speculative position to be taken for which there is no actual or anticipated underlying exposure that is being mitigated.

III. ALLOWABLE DERIVATIVE INSTRUMENTS

Chugach recognizes that there are numerous derivatives of varying degrees of complexity. Chugach attempts to avoid structural complexity in its use of derivatives and believes the instruments as defined below, used alone or in combination with each other, allow for sufficient flexibility to help the Association meet its interest rate risk management objectives.

- A. Interest Rate Swap - An interest rate swap can be utilized to synthetically lock in borrowing rates for either current floating rate debt or a planned future funding borrowing.
- B. Interest Rate Call or Put Options - An option gives the holder a right, but not an obligation, to buy or sell a security at or by a specified date(s) at an agreed upon price in exchange for the payment of a premium. Interest rate options, typically in the form of interest rate caps or floors, are designed to provide protection against interest rates being above a certain cap rate or below a certain floor rate. Options can be used when interest rates may rise prior to a new debt issuance. ~~Options to enter into swaps, or swaptions, give the buyer the right to enter into a swap as a fixed rate or floating-rate payer depending on the buyer's interest rate exposure.~~
- C. Swaption - A swaption provides the right, but not the obligation, to enter into an interest rate swap on a set future effective date at today's market pricing in exchange for an upfront premium.
- D. Swaption collar - This can reduce the upfront premium of a bought swaption by essentially purchasing an interest rate cap and selling an interest rate floor. ~~lower strike swaption~~ effectively locking the rate it would issue at within an agreed-upon range.
- E. Interest Rate Locks - A rate lock is a forward contract that represents the sale of a specific benchmark security (e.g., U.S. Treasuries, LIBOR, or tax-exempt indices) or other appropriate benchmark security at an agreed price or interest rate. This may be utilized to help lock in a future financing rate.

Before entering into any derivative transaction, Association staff, the Board Audit and Finance Committee and Board of Directors (BOD) shall perform appropriate due diligence and have a full understanding of the transaction, including: (i) a quantification of potential risks and benefits, and (ii) an analysis of the impact on the Association's debt portfolio.

IV. DOCUMENTATION

While not a requirement, documentation best practice relative to interest rate hedging is to have an International Swaps and Derivatives Association (ISDA) in place with each counterparty prior to the commencement of trading, including an appropriate credit support annex.

V. OPERATIONS CONTROL

From an internal control perspective, key treasury functions must be adequately segregated to prevent possible fraud, operational errors, misappropriation of funds, unauthorized deals and concealment of trades and/or manipulation of accounting records. Personnel involved in risk monitoring activities should be segregated from risk taking activities such as executing financial transactions.

VI. COMPLIANCE

- A. Due to the complex nature of interest rate hedging instruments, management must make every effort to ensure that they have sufficient knowledge to evaluate the transaction and risks. Management must not rely on advice provided by potential counterparties and therefore, may select a designated qualified independent representative (“QIR”), in accordance with the requirements of the Commodity Futures Trading Commission (“CFTC”), who is capable of independently evaluating investment risks and exercising judgment in the appropriateness of such instruments. Management must ensure that any designated QIR satisfies the requirements necessary and must provide for ongoing monitoring of the performance of the QIR.
- B. The QIR may provide recommendations and advice with respect to instruments presented by investment banking teams, swap dealers, or other potential counterparties. Management may rely on the advice from the QIR. The QIR must satisfy the following requirements: have sufficient knowledge, be independent of any counterparties, make timely and effective disclosures to management, have written policies and procedures in place that are reasonably designed to ensure the QIR satisfies the applicable CFTC requirements and undertake a duty to act in the best interest of the Association.
- C. Management and the QIR must ensure compliance with any and all rules and regulations set forth by the Securities and Exchange Commission (“SEC”) and the CFTC.

VII. RESPONSIBILITY

- A. The BOD shall review and approve all financial interest rate mitigation plans and costs.
- B. The Chief Financial Officer (CFO) is responsible for all interest rate risk management activities of the Association, providing oversight while monitoring all derivative transactions. At least quarterly, the CFO will report to the Chief Executive Officer (CEO) and the Board Audit and Finance Committee on the Association's outstanding derivatives and performance.
- C. This policy and any subsequent revisions shall be reviewed and approved by the BOD as it deems necessary.
- D. The CEO shall be responsible for ensuring this policy is carried out.

Date Approved:

Attested: _____
Stuart Parks
Secretary of the Board