



CHUGACH ELECTRIC ASSOCIATION, INC.
ANCHORAGE, ALASKA

OPERATIONS COMMITTEE MEETING

AGENDA

Mark Wiggin, Chair
Harold Hollis, Vice Chair

Sisi Cooper, Director
Bettina Chastain, Director
Bernie Smith, Director

May 3, 2023

4:00 p.m.

Chugach Board Room

- I. CALL TO ORDER (4:00 p.m.)
 - A. Roll Call
- II. APPROVAL OF THE AGENDA* (4:05 p.m.)
- III. APPROVAL OF THE MINUTES* (4:10 p.m.)
 - A. April 19, 2023 (Doyle)
- IV. PERSONS TO BE HEARD (4:15 p.m.)
 - A. Member Comments
- V. NEW BUSINESS (scheduled) (4:20 p.m.)
 - A. Renewable Energy Alaska Project (REAP) Update (Skaling) (4:20 p.m.)
 - B. 2023 General Rate Case Update (Kornmuller/Clarkson) (4:50 p.m.)
- VI. EXECUTIVE SESSION* (scheduled) (5:20 p.m.)
 - A. 2023 General Rate Case Update (Kornmuller/Clarkson) (5:20 p.m.)
 - B. Personnel Matters – Succession Planning (Miller/Orendorff) (5:50 p.m.)
 - C. Personnel Matters – Engagement (Miller/Orendorff) (6:20 p.m.)
- VII. NEW BUSINESS (none)
- VIII. DIRECTOR COMMENTS (7:45 p.m.)
- IX. ADJOURNMENT* (8:00 p.m.)

* Denotes Action Items

** Denotes Possible Action Items

4/28/2023 4:45:08 PM

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

April 19, 2023
Wednesday
4:00 p.m.

OPERATIONS COMMITTEE MEETING

Recording Secretary: Ashton Doyle

I. CALL TO ORDER

Chair Wiggin called the Operations Committee meeting to order at 4:02 p.m. in the boardroom of Chugach Electric Association, Inc., 5601 Electron Drive, Anchorage, Alaska.

A. Roll Call

Committee Members Present:

Mark Wiggin, Chair

Harold Hollis, Vice Chair

Bettina Chastain, Director (*via teleconference*)

Sisi Cooper, Director

Bernie Smith, Director

Board Members Present:

Sam Cason, Director

Guests and Staff Attendance

Present:

Arthur Miller

Via Teleconference:

Sandra Cacy

II. APPROVAL OF THE AGENDA

Director Hollis moved and Director Cooper seconded the motion to approve the agenda. The motion passed unanimously.

III. APPROVAL OF THE MINUTES

Director Hollis moved and Director Cooper seconded the motion to approve the March 15, 2023, Operations Committee Meeting minutes. The motion passed unanimously.

IV. PERSONS TO BE HEARD

A. Member Comments

None.

V. NEW BUSINESS

None.

VI. EXECUTIVE SESSION

- A. *May 1, 2022 – April 30, 2023 – Chief Executive Officer Project Specific Initiatives & Priority Areas Discussion. (Committee)*

At 4:06 p.m., Director Cooper moved and Director Hollis seconded the motion that pursuant to Alaska Statute 10.25.175(c)(4) the Operations Committee goes into executive session to discuss personnel matters. The motion passed unanimously.

The meeting reconvened in open session at 7:29 p.m.

Director Morse joined the meeting during Executive Session.

VII. NEW BUSINESS

- A. *Recommendation on May 1, 2022 – April 30, 2023 – Chief Executive Officer Evaluation and Compensation (Committee)*

Director Cooper moved and Director Smith seconded the motion that the Operations Committee recommends the Board of Directors approve the May 1, 2022 – April 30, 2023, Chief Executive Officer Evaluation and Compensation as discussed in executive session. The motion passed unanimously.

VIII. DIRECTOR COMMENTS

Comments were made at this time.

IX. ADJOURNMENT

At 7:36 p.m., Director Hollis moved and Director Cooper seconded the motion to adjourn. The motion passed unanimously.

Renewable Energy Alaska Project Update

**Chugach Electric Association, Inc.
Operations Committee Meeting
May 3, 2023**



REAP Update

- April REAP meetings
 - Public Policy Committee, April 19, 2023
 - Board Meeting, April 24, 2023
- Relevant topics
 - Intervene in Chugach rate case
 - Endorse candidates in utility elections

Public Policy Committee Meeting 4/19/23

- Agenda included Chugach rate case
- REAP requested to raise \$150,000 to intervene in Chugach's rate case
 - Funds to pay Antony Scott and regulatory attorney
- Approval needed to allow time to fundraise prior to intervening in July
- Committee approved a motion to advance topic to the REAP Board for approval on 4/24/23

REAP Public Policy Committee
April 19, 2023
9:00 – 10:00 AM

Meeting Agenda

9:00	Call to Order/Approval of Agenda
9:05	Chair Welcome
9:10	Persons to be Heard
9:20	Update on REF, RPS, Green Bank and RRC
9:35	Chugach Electric rate case
9:45	Proposed solar legislation
9:55	Persons to be Heard
10:00	Adjourn

REAP Board Meeting 4/24/23

- Relevant topics included:
 - Intervening in Chugach Rate Case
 - Utility Board Candidate Endorsement

RENEWABLE ENERGY ALASKA PROJECT (REAP)

QUARTERLY MEETING AGENDA

April 24, 2023
11:00 AM to 2:00 PM

Welcome/Introductions

Approval of Agenda and Board Meeting Minutes from 1/13/23

NEW BUSINESS

Director's Report

Finance Committee Report

Director's Financial Report

Break for Lunch

Executive Committee Report

Development Committee Report

Education Committee Report

Public Policy Committee Report & Discussion

-CEA Rate Case

Member Comments

Set next quarterly meeting date (July 2023)

**Utility Board
Candidate Endorsement
added to agenda**

REAP Board Meeting – Chugach Rate Case Intervention

- 2-page handout on intervening was distributed
- Members asked questions
 - What work would be displaced?
 - Antony Scott is currently part time; this would bring him to full time
 - What specifically is REAP seeking by intervention?
 - Not yet outlined
- The REAP Board approved fundraising and intervention in Chugach rate case

REAP Board Meeting – Utility Election Endorsements

- Topic was not included in the announced meeting agenda but was added to the agenda during the meeting
- The board made two votes:
 - To decide whether to endorse candidates in Railbelt utility elections
 - To decide who to endorse this year and how REAP will decide in future years

REAP Board Meeting – Utility Election Endorsements

- Board approved a motion to endorse candidates
- Board endorsed same candidates as Alaska Center for Chugach Electric and the same candidates as Cook Inlet Keeper for Homer Electric
- Board will establish a process to select REAP's own candidates in future years
 - The vote was too late for this year's Matanuska Electric's election and Golden Valley Electric's election was not contested this year.
 - Other Alaska electric utilities were not mentioned

Questions?



REAP Intervention in Chugach's Next Rate Case?

Summary

This document urges the Board to approve staff efforts to raise funds to initiate intervention as a party into Chugach Electric's forthcoming rate case in front of the Regulatory Commission of Alaska. The goal of the intervention is to try to influence the ultimate design of electricity rates to forward REAP's mission of promoting renewable energy and energy efficiency.

Background and Rationale

The Regulatory Commission of Alaska's order approving Chugach Electric's acquisition of ML&P requires that Chugach file a general rate case by December 31, 2023. Owing to its thin equity position and its pledge to not raise base rates as a result of the acquisition, Chugach has incentive to file sooner, and management has indicated it hopes to file by August. The RCA required Chugach to file a new rate design to equalize base rates between the two service territories as part of its rate case.

Rate design involves the allocation of a utility's fixed costs to different customer classes, and then the recovery of those costs through different charges to those classes (e.g. customer charges, energy charges, demand charges, time of use charges). The exercise of designing rates thus establishes different prices that consumers pay. Prices affect consumer behavior – how much energy they use, when they use it, and what investments they find worth making to change those patterns.

The RCA's regulations at 3 AAC 48.500-560 concern rate design. As a baseline, most sections of these regulations seem fairly prescriptive. They tend to rely heavily on the NARUC Electric Utility Cost Allocation Manual from 1973. However, without exception the prescriptive portions of regulation allow for rate design to deviate from guidance so long as the deviations are supported with data and analysis. And, if ever there was a time to and justification for deviating from the 1973-era guidance, it is now.

Fifty years ago electricity use was growing, Cook Inlet natural gas was cheap and plentiful, and the "Railbelt" as we now know it did not yet exist. New generation capacity needed to be added, new transmission needed to be built, and fuel costs mattered much less in the overall cost of service. The NARUC guidance was a reasonable model for designing rates. The commission could place less emphasis on the one statutory requirement for rate design, that is: "In the establishment of electric service rates under this chapter the commission shall promote the conservation of resources used in the generation of electric energy." AS 42.05.141(c).

Today we face an impending crisis in natural gas availability and cost. Fossil generation capacity on the Railbelt provides reserve margins that are many multiples of those carried by utilities Outside. Electricity load has been declining for since 2008. Natural gas costs look to become a far greater proportion of the overall cost of service. Meanwhile, a host of new technologies can be harnessed so that consumers can respond to rates that "promote the conservation of resources used in the generation of electric energy". These include customer installation of rooftop solar, energy efficiency, and beneficial electrification that reduces overall natural gas consumption (e.g. heat pumps for space heating and cooling, for hot water, and for clothes drying).

Proposal

REAP's mission is to promote renewable energy and energy efficiency. Chugach's current rate design fails to send price signals customers that adequately weight the requirements of AS 42.05.151(c). For example:

- Large commercial customers face high demand charges (which recover utility costs on the basis of a customer's peak kW use) and low energy charges (which recover utility costs on the basis of energy consumption).
- Small commercial customers face lower energy charges than residential customers on the rationale that they contribute less to peak demand.
- All customer classes pay rates on a flat basis (meaning that the cost per kWh does not change, regardless of how many kWh are used).
- No rate elements or overall rate designs have been designed to encourage the adoption of beneficial electro-technologies.

REAP staff believes that it should try to muster the resources to intervene in Chugach's upcoming rate case *to help design rates that are consistent with REAP's mission, and state statute*. The specific positions for which REAP might advocate have not yet been developed. The foregoing are areas worthy of consideration. However, nothing can be concluded until Chugach has filed its case in chief (which, again, may happen as soon as this summer) and until discovery has been conducted (discovery would provide the underlying data upon which any alternative case would need to be based).

Process

Once Chugach files its general rate case, the Commission will have 45 days to either accept the tariff filing without a proceeding, or to suspend it into a docket of investigation. During that 45 days interested persons have the opportunity to make comments on the filing. This would be the time to recommend that the filing be suspended into a docket of investigation. Even if no comments are filed, the Commission will almost certainly open a docket to investigate the filing. At that point members of the public would be given approximately two weeks to petition to intervene in the docket as a party, which confers the right to conduct discovery, present testimony, and cross examine witnesses.

Unless the proceeding is extended, the rate case will conclude approximately one year after the docket has been opened. (This gives the Commission about three months to write and issue an order before the end of the 15-month statutory timeline.) The major workflows of participating as a party involve conducting discovery, developing and filing pre-filed testimony in response to Chugach's case in chief and participating in the hearing itself.

Budget

REAP believes that it can effectively participate in the rate design portion of the rate case for about \$150,000. At least one foundation we have spoken with has shown some interest in the initiative.

2023 General Rate Case

Chugach Electric Association, Inc.
Board of Directors - Operations Committee Meeting
May 3, 2023

Summary

Introduction

Rate Case Team
Background

Preliminary Results

Revenue Requirement (Kornmuller)
Cost of Service/Rate Design (Concentric)

Schedule

Overview of future milestones, meetings, and proceeding dates

Rate Case Team

Chugach Legal/Regulatory

Matt Clarkson (Chief Legal Officer)
Jean Kornmuller (Sr. Manager, Regulatory Affairs)
Brandy Curtis Richards (Economic/Regulatory Analyst)
David Caye (Economic/Regulatory Analyst)
Jessica Smirnoff (Regulatory Specialist)



Concentric

Carl Peterson
Bickey Rimal



NERA

Kurt Strunk
Walter Hopkins



Kempell Huffman & Ellis

Dean Thompson

Background – Why A General Rate Case?



Acquisition/Regulatory Requirements

- RCA expressed concern about Chugach's post-acquisition financial health and equity levels
- Required Chugach to file a 2022 TY rate case by August 15, 2023 including:
 - Revenue requirement study
 - Cost-of-service study, and
 - Rate design

Financial Performance

- ML&P's base rates have not been updated since 2017 and Chugach's base rates have not been updated since 2020
- Experienced financial pressure from increased costs (inflation and supply chain disruptions) and declining sales (COVID impacts and customer efficiencies)
- Need to update rates to recover the costs of operating and maintaining the utility system
- Ensure adequate progress toward 40% equity target within reasonable period of time

Unified Rates

- RCA expressed concern about allowing disparate rates between legacy service territories
- Required Chugach to propose a uniform rate design for all customers regardless of geographic location
- Chugach's objective has always been to create a more efficient and equitable set of uniform rates for the combined service territory

Innovative Rate Structures

- Provide members with rate options that fit their individual energy needs
- Eliminate ML&P's demand ratchet for large commercial customers
- Offer time of use rates to incentivize customer usage during off-peak hours
- Provide new rate for shore to ship electrical use to help reduce localized emissions

Principles of Ratemaking



Prudent investment and management



Assets are used and useful



Costs are known and measurable



Rates are just and reasonable



Cost causer is cost payer

The ratemaking process is designed to ensure that the utility recovers its prudent and reasonable costs, including capital costs.

Preliminary Results



Revenue Requirement

Jean Kornmuller

Calculation of Revenue Requirement

- Includes all reasonable and prudent expenses necessary for the delivery of utility services
- Chugach uses a 2022 calendar year as ordered by the RCA
- Results are normalized
 - To levels that are expected during the period when proposed rates will be in effect.
 - Normalizing adjustments to test year expenses are made for inclusion of known and measurable changes and exclusion of non-recurring or otherwise non-recoverable items.

	O&M Expenses
	Depreciation Expenses
	Taxes Other Than Income Taxes
+	Interest on Debt
	Margin
<hr/>	
	Total Revenue Requirement
	Other Operating Revenue
-	Non-Utility Revenues, Interest Income
	Patronage Capital Credits from Lenders
<hr/>	
=	Revenue Required from Rates for Service

Proforma Revenue

North District

South District

Combined

	2015 Test Year Rate Case	Proforma*	December 2019 Test Year SRF (System)	Proforma*	Previous Rate Filing Revenue Requirements (ML&P and Chugach combined)	2022 Test Year North & South District Proforma Revenue Combined
Revenue	\$127,319,527	\$109,337,729	\$136,985,274	\$134,637,102	\$264,304,801	\$243,974,831
\$ Change	---	(\$17,981,798)	---	(\$2,348,172)	---	(\$20,329,970)
% Change	---	(14.1%)	---	(1.7%)	---	(7.7%)
kWh	1,004,496,565	863,721,331	1,112,447,962	1,097,340,196	2,116,944,527	1,961,061,527
kWh Change	---	(140,775,234)	---	(15,107,766)	---	(155,883,000)
% Change	---	(14.0%)	---	(1.4%)	---	(7.4%)
LGS kW	1,911,810	1,583,067	1,284,181	1,237,872	3,195,991	2,820,939
kW Change	---	(328,743)	---	(46,309)	---	(375,051)
% Change	---	(17.2%)	---	(3.6%)	---	(11.7%)

*Proforma is based on current rates and test period sales (kWh)

Acquisition Savings

Calendar Year 2022 Actuals¹

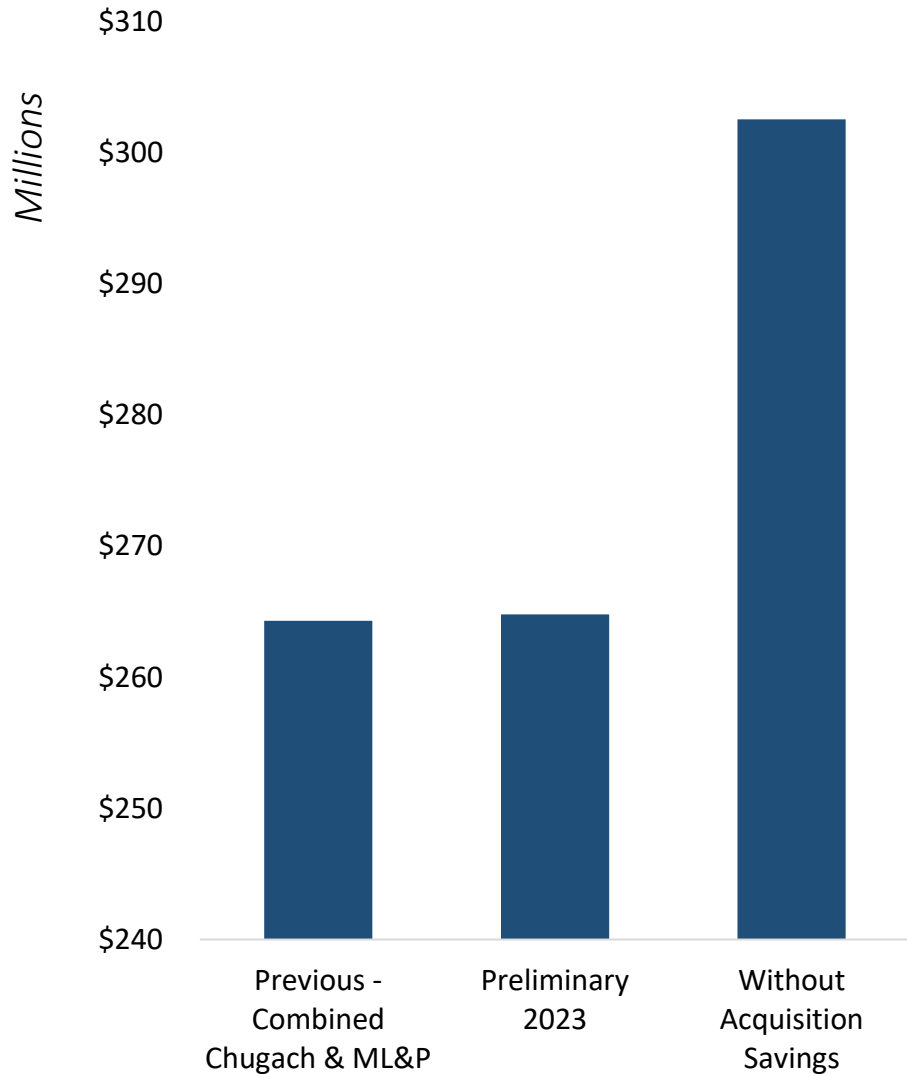
Operating

Functional Area	Personnel	Savings	Costs	Total
Accounting & Purchasing	\$2,418,647	\$0	(\$433,940)	\$1,984,708
CEO	\$2,251,268	\$0	\$0	\$2,251,268
Dispatch	\$2,047,720	\$458,755	(\$59,229)	\$2,447,246
Engineering	\$2,138,743	\$0	\$0	\$2,138,743
Fuel	(\$182,268)	\$342,213	\$0	\$159,945
Generation	\$4,478,043	\$0	\$0	\$4,478,043
HR & Safety	\$1,338,809	\$0	(\$21,274)	\$1,317,535
Information Services	\$1,305,968	\$2,043,156	(\$2,190,624)	\$1,158,500
Member Svc. & Regulatory	\$654,536	\$477,719	(\$351,035)	\$781,220
T&D Operations	\$3,138,201	\$0	\$0	\$3,138,201
Other Operating*	\$0	\$28,096,464	(\$10,215,923)	\$7,789,033
Total	\$19,589,669	\$31,418,308	(\$13,272,025)	\$37,735,952

¹ Acquisition savings represent calendar year 2022 and are not cumulative (Other operating costs represent only one year amortization of the Secondary Regulatory Asset and Eklutna PPA)

*Other Operating Savings: RRR Adjustment, economic dispatch fuel savings (\$10M), intergovernmental charges, BRU property tax, integrated campus, ML&P non-rep overtime
Other Operating Costs: Secondary Regulatory Assets, Eklutna PPA, cooperative tax, wage and benefit costs

Revenue Requirement Comparison



Percent Change to Total Rates

Preliminary Revenue Requirement	5% - 6%
Preliminary Revenue Requirement Without Acquisition	16% -17%

	Pre-Acquisition ML&P and Chugach	Preliminary 2022 Test Period Revenue Requirement	Difference
Revenue Requirement	\$264.3M	\$264.8M	\$0.4M
% Change	---	---	0.2%

Preliminary Results



Cost of Service Study

Carl Peterson



Cost of Service and Rate Design

Objectives

- Integrate North (legacy MLP) and South (legacy Chugach) Districts into one rate schedule
- Minimize disruption of changes in the rate design on customers
- Utilize RCA-approved, traditional Chugach costing methods

Rate Design Changes

- Remove demand ratchets from North large customer rates
- Updating all billing components (i.e. customer charge, energy charge and demand charge)
- Consolidate lighting schedules
- Propose TOU rate for residential/small commercial customers to support beneficial electrification
- Adding a rate schedule for cruise ship interconnection



Other Pricing Issues

▪ **Beneficial Electrification**

- Promote more efficiency use of the electric system by spreading usage out over hours
- Prepare customers for move to large share of renewable

▪ **Beneficial Electrification Proposals**

- Increase incentives for heat pumps and electric vehicle chargers to further spur adoption
- Costs associated with incentives/rebates should be recovered through rates
- Time of Use (TOU) rates to incentivize customer engagement by providing better price signals to customers
- Adoption of shore power for cruise ships will reduce harmful pollutants and modernize critical infrastructure
- Shore power revenues in excess of operating costs would be credited to customers under the new tariff

Timeline

Date

Event

May 3, 2023

Board Operations Committee Meeting

→ Review preliminary results

May 4, 2023

Meeting With Key Account Members

→ Conceptual review

May 5, 2023

Individual Q/A Follow-Up Sessions With Key Accounts Members

May 24, 2023

Regular Board of Directors Meeting

→ Review refined results

TBD

Follow-Up Meeting with Key Account Members

→ Review customer class impacts

TBD

Meeting With Stipulating Parties

→ Discuss amortization of primary regulatory asset

TBD

Board Committee Meeting

June 28, 2023

Regular Board of Directors Meeting

→ Review/approve final results

June 30, 2023

File Rate Case With RCA

→ 15-month statutory timeline

September 1, 2023

Interim rates effective

→ Assumes RCA suspends filing

Chugach Electric Association, Inc.
Anchorage, Alaska

Summary of Executive Session Topics for
Operations Committee Meeting on May 3, 2023
Agenda Item VI.

- A. Discussion regarding financial and legal matters concerning an update of the Chugach Electric 2022 test year general rate case. (AS 10.25.175(c)(1) and (3))
- B. Discussion regarding personnel matters concerning succession planning. (AS 10.25.175(c)(4))
- C. Discussion regarding personnel matters concerning engagement. (AS 10.25.175(c)(4))