



CHUGACH ELECTRIC ASSOCIATION, INC.
ANCHORAGE, ALASKA

AUDIT AND FINANCE COMMITTEE MEETING

AGENDA

Rachel Morse, Chair
Sisi Cooper, Vice-Chair
Susanne Fleek-Green, Director

Sam Cason, Director
Jim Nordlund, Director

November 8, 2023

4:00 p.m.

Chugach Board Room

- I. CALL TO ORDER *(4:00 p.m.)*
 - A. *Roll Call*
- II. APPROVAL OF THE AGENDA*
- III. APPROVAL OF THE MINUTES*
 - A. *August 30, 2023 (Slocum)*
- IV. PERSONS TO BE HEARD
 - A. *Member Comments*
- V. NEW BUSINESS* *(Scheduled) (4:10 p.m.)*
 - A. *Review Chugach's 2023 Audit Plan (KPMG) (4:10 p.m.)*
 - B. *2024-2028 Capital Improvement Plan and 2024 Operating Budget (Laughlin/Highers/Griffin/Sims) (4:25 p.m.)*
- VI. CEO REPORTS AND CORRESPONDENCE *(none)*
- VII. NEW BUSINESS *(none)*
- VIII. EXECUTIVE SESSION* *(scheduled) (5:45 p.m.)*
 - A. *Review Chugach's 2023 Audit Plan (KPMG) (5:45 p.m.)*
- IX. NEW BUSINESS* *(scheduled) (6:10 p.m.)*
 - A. *2024 Operating and Capital Budget* (Griffin/Sims) (6:10 p.m.)*
- X. DIRECTOR COMMENTS *(6:15 p.m.)*
- XI. ADJOURNMENT* *(6:30 p.m.)*

* *Denotes Action Items*

** *Denotes Possible Action Items*

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

August 30, 2023
Wednesday
4:00 p.m.

AUDIT AND FINANCE COMMITTEE MEETING

Recording Secretary: Heather Slocum

I. CALL TO ORDER

Chair Morse called the Audit and Finance Committee meeting to order at 4:03 p.m. in the boardroom of Chugach Electric Association, Inc., 5601 Electron Drive, Anchorage, Alaska.

A. Roll Call

Committee Members Present:

Rachel Morse, Chair
Sisi Cooper, Vice Chair
Sam Cason, Director
Jim Nordlund, Director
Susanne Fleek-Green, Director

Board Members Present:

Bettina Chastain, Director (*via teleconference*)

Guests and Staff Attendance

Present:

Arthur Miller	Josh Travis	Curtis Sims
Sherri Highers	Beth Stuart, KPMG	Karen Griffin
Matthew Clarkson	David Caye	Jessie Anderson
Allan Rudeck	Jean Kornmuller	Julie Hasquet
Andrew Laughlin	Emily Mueller	Sandra Cacy

Via Teleconference:

Ashton Doyle Deborah Gardino

II. APPROVAL OF THE AGENDA

Director Cason moved and Director Fleek-Green seconded the motion to approve the agenda. The motion passed unanimously.

III. APPROVAL OF THE MINUTES

Director Cason moved and Director Fleek-Green seconded the motion to approve the May 31, 2023, Audit and Finance Committee Meeting minutes. The motion passed unanimously.

IV. PERSONS TO BE HEARD

None.

V. NEW BUSINESS

None.

VI. CEO REPORTS AND CORRESPONDENCE

A. 2nd Quarter 2023 Financial Information and Variance Report (Griffin/Sims)

Arthur Miller, Chief Executive Officer, made introductory comments, and Karen Griffin, VP of Finance and Accounting, presented the 2nd Quarter 2023 Financial Information and answered questions from the committee.

B. BRU Quarterly Investment Review (Miller)

Arthur Miller, CEO, gave a brief update on the BRU Quarterly Investment Review.

C. 2nd Quarter 2023 Capital Tracking Report (Miller)

The 2nd Quarter 2023 Capital Tracking Report was provided in the meeting packet.

Arthur Miller, CEO, gave a summary of the CEO Reports and Correspondence items and responded to questions from the Committee.

Director Nordlund arrived at 4:06 p.m.

VII. NEW BUSINESS

None.

VIII. EXECUTIVE SESSION

A. BRU Asset Retirement Obligation (ARO) Investment Account (Highers)

B. KPMG Contract Extension (Stuart/Highers)

At 4:31 p.m., Director Fleek-Green moved and Director Cooper seconded the motion that pursuant to Alaska Statute 10.25.175(c)(1), the Board of Directors Audit and Finance Committee go into executive session to discuss and receive reports regarding financial matters, the immediate knowledge of which would clearly have an adverse effect on the finances of the cooperative. The motion passed unanimously.

The meeting reconvened in open session at 5:07 p.m.

IX. NEW BUSINESS

A. BRU ARO Investment Account (Griffin)

Director Nordlund moved and Director Cason seconded that the Audit and Finance Committee recommend the Board of Directors approve the attached resolution establishing an asset management account with KeyBank for the BRU ARO investment fund. The motion passed unanimously.

B. KPMG Contract Extension (Stuart/Highers)

Director Cason moved and Director Fleek-Green seconded that the Audit and Finance Committee recommend the Board of Directors approve moving forward with financial audit services as discussed in executive session using option B. The motion passed unanimously.

X. DIRECTOR COMMENTS

Director comments were made at this time.

XI. ADJOURNMENT

At 5:19 p.m., Director Nordlund moved and Director Cason seconded the motion to adjourn. The motion passed unanimously.

U.S. Audit Quality, Transparency, and Impact reports



- Interactive dashboard highlights key quality metrics
- Details KPMG’s investment in our audit approach, people, technology, quality management system and the future of audit

Audit Quality Report



- Provides more granular detail on our commitment to continually enhance audit quality
- Outlines KPMG LLP’s structure, governance and approach to audit quality
- Discusses how the firm aligns with the requirements and intent of applicable professional standards

Transparency Report



- Provides annual update on our progress on meeting goals aligned to People, Planet, Prosperity, and Governance
- Our goals reflect a materiality assessment and our aspiration to be an employer of choice

KPMG Impact Plan

In addition to this report, we are providing you with our [Transparency Report Supplement: Assisting audit committees in meeting NYSE rules on auditor communications Reports and supplements available at: \[audit.kpmg.us/auditquality\]\(https://audit.kpmg.us/auditquality\)](#)

2023 Audit Committee agenda

Issues for audit committees to keep in mind as they carry out their 2023 agendas



Stay focused on financial reporting and related internal control risks—job number one.



Make sure internal audit is focused on the company's key risks—beyond financial reporting and compliance—and is a valuable resource for the audit committee.



Clarify the role of the audit committee in overseeing the company's climate and other ESG risks—particularly the scope and quality of ESG/sustainability reports and disclosures.



Help sharpen the company's focus on ethics, compliance, and culture.



Maintain a sharp focus on leadership and talent in the finance organization.



Reinforce audit quality and set clear expectations for frequent, candid, and open communications with the external auditor.



**2024 – 2028 Capital Improvement Plan (CIP)
&
2024 Operating Budget**

Audit & Finance Committee
November 8, 2023

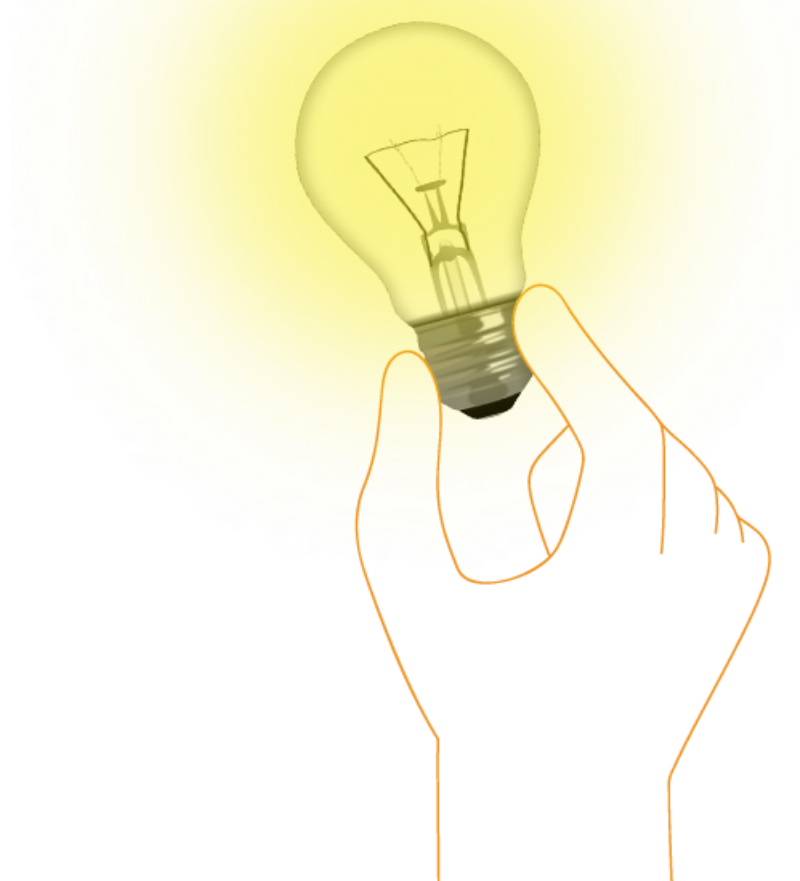
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Overview

Our Mission

We provide safe, reliable and affordable electricity through superior service and sustainable practices, powering the lives of our members.



Major Assumptions

Zero-based Budget

- Input provided by all budget owners
- Includes appropriate contingencies

Sales

- Slight load decline in retail sales
- Continued economy sales to GVEA at 156 GWh
- Pooling sales increased from 159 GWh to 300 GWh
 - GVEA provides % of their fuel needs
 - MEA provides their own fuel

Workforce

- Wage and salary adjustments
- Positions funded to meet financial targets
- Funding for additional training and education

Fuel & Purchased Power

- Increased use of BRU gas
- AEA cost increases

Regulatory

- Interim and refundable rates through September 2024
- Permanent rates effective October 2024

Other

- BESS ownership and commercial operation
- Retail capital credits targeted at 50% of prior year margins

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Overview

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2024 – 2028 CIP

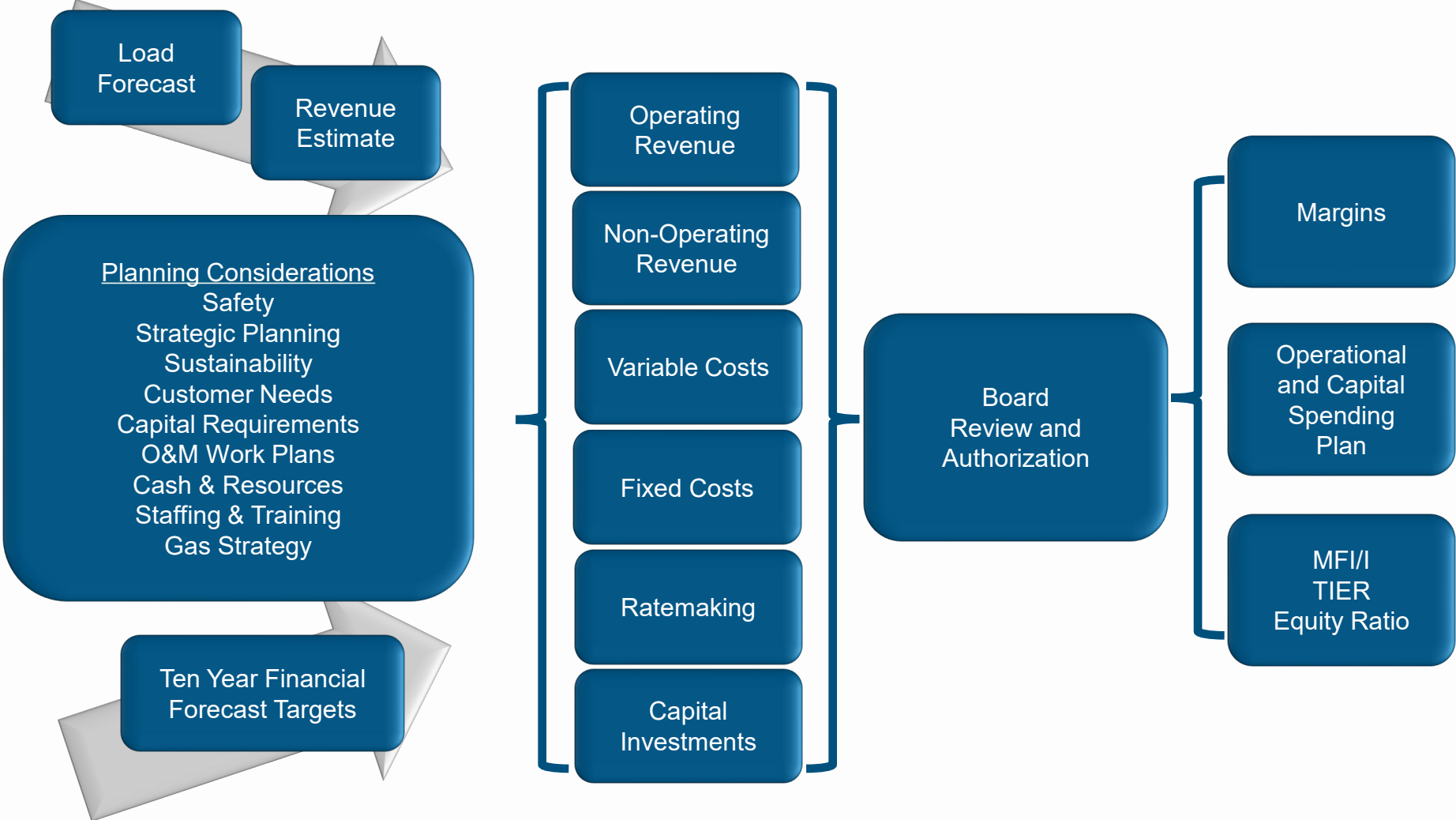
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2024 Operating

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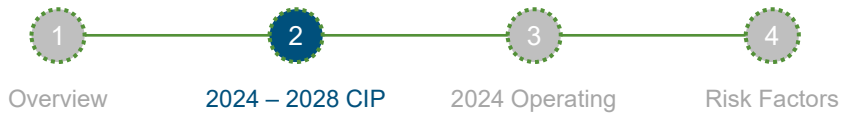
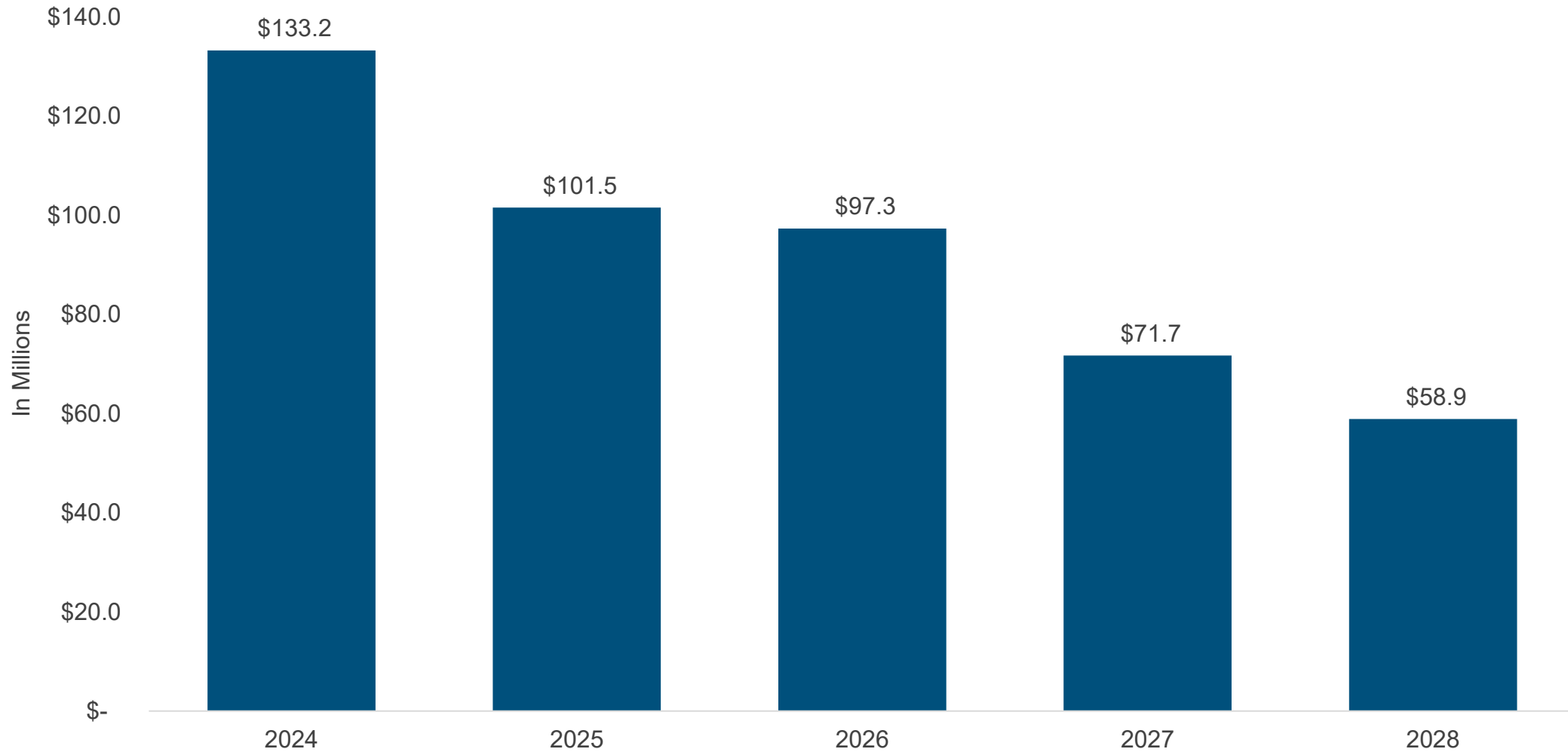
Risk Factors

Budget Process

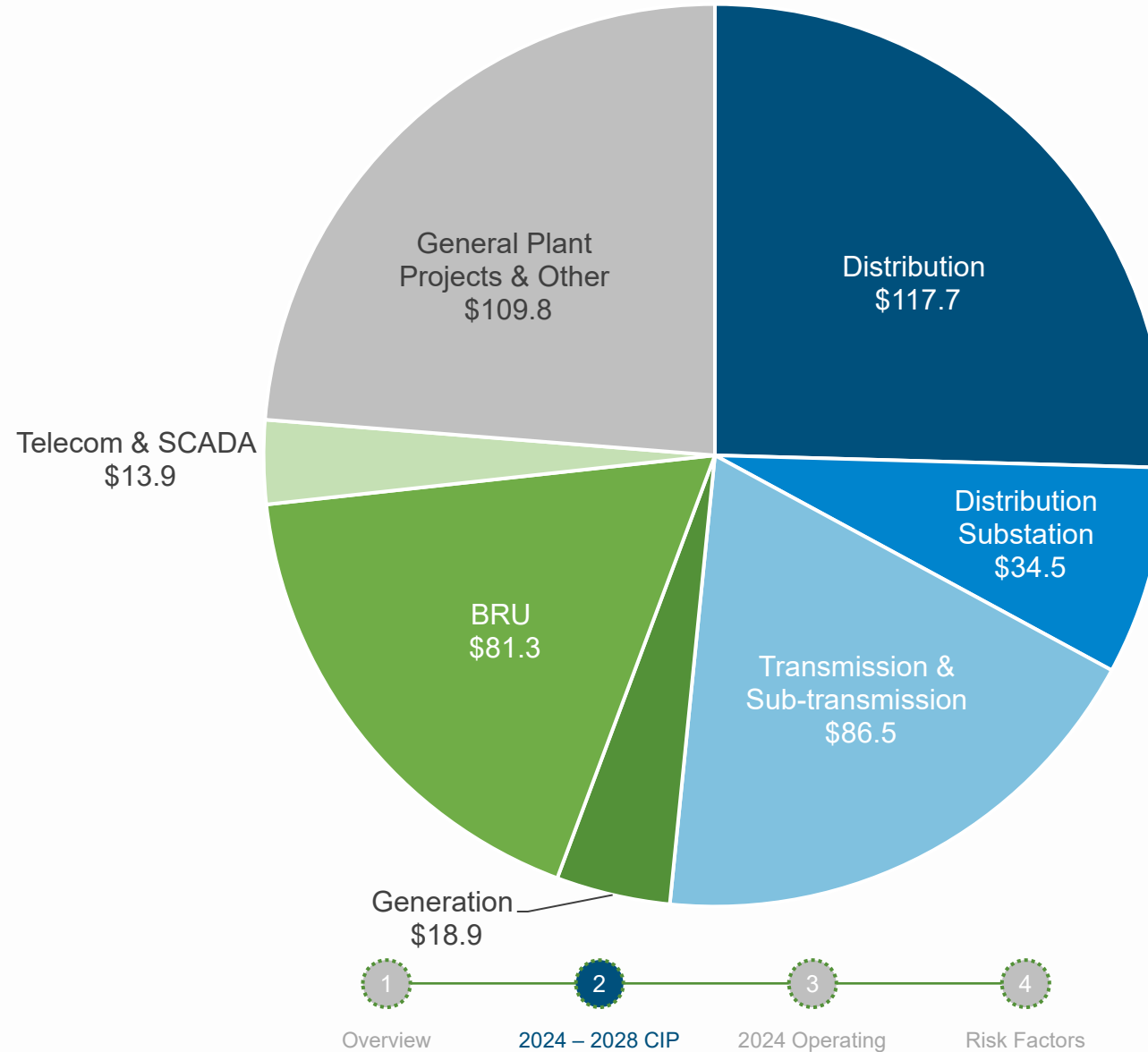


2024 – 2028 Capital Improvement Plan (CIP)

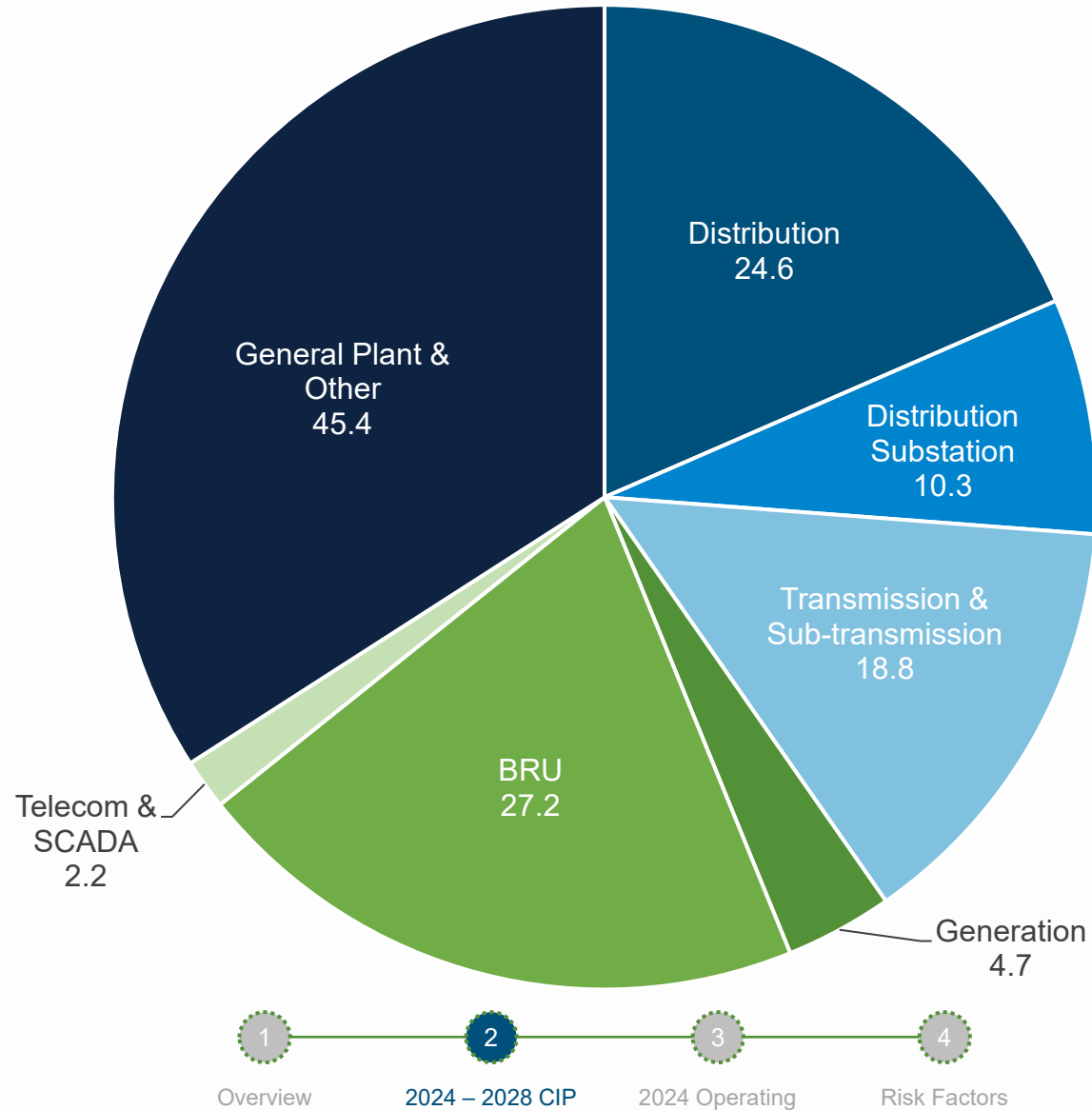
5-Year CIP By Year \$462.6M



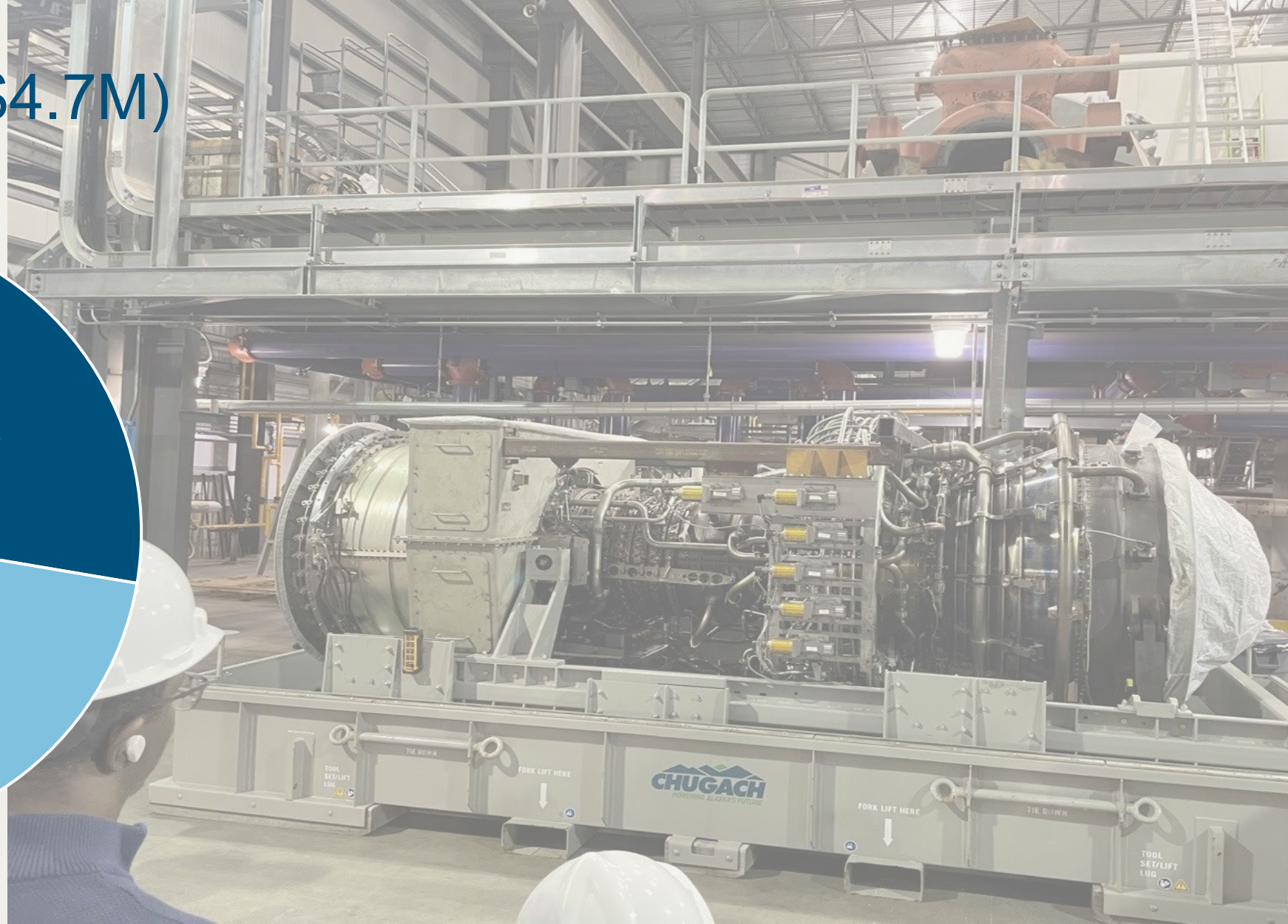
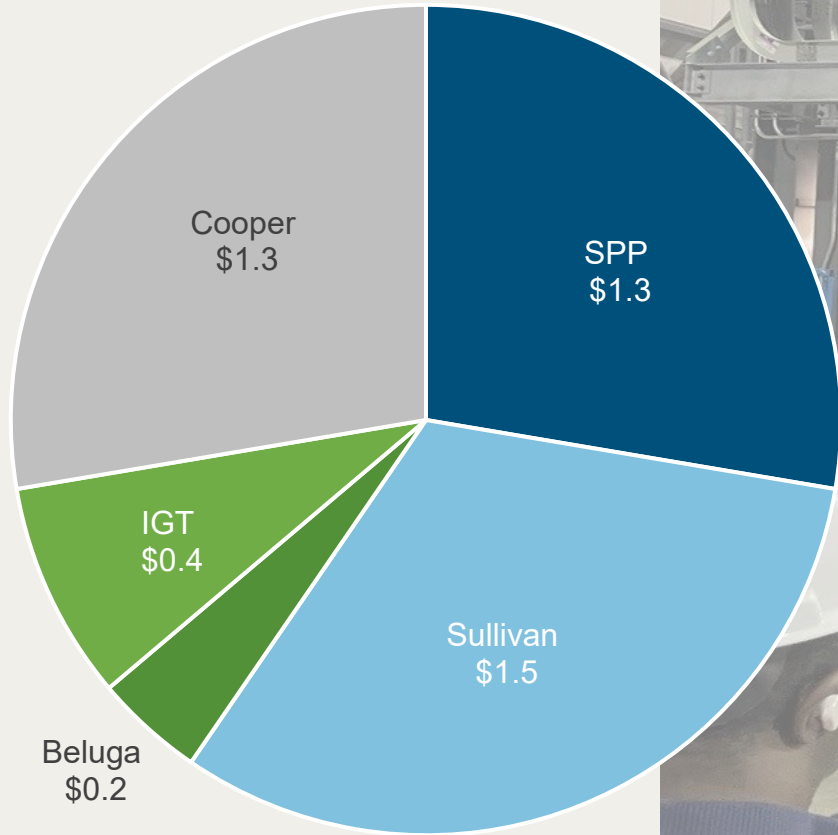
5-Year CIP By Function \$462.6M



2024 CIP By Function \$133.2M



2024 Generation (\$4.7M)



Overview



2024 – 2028 CIP

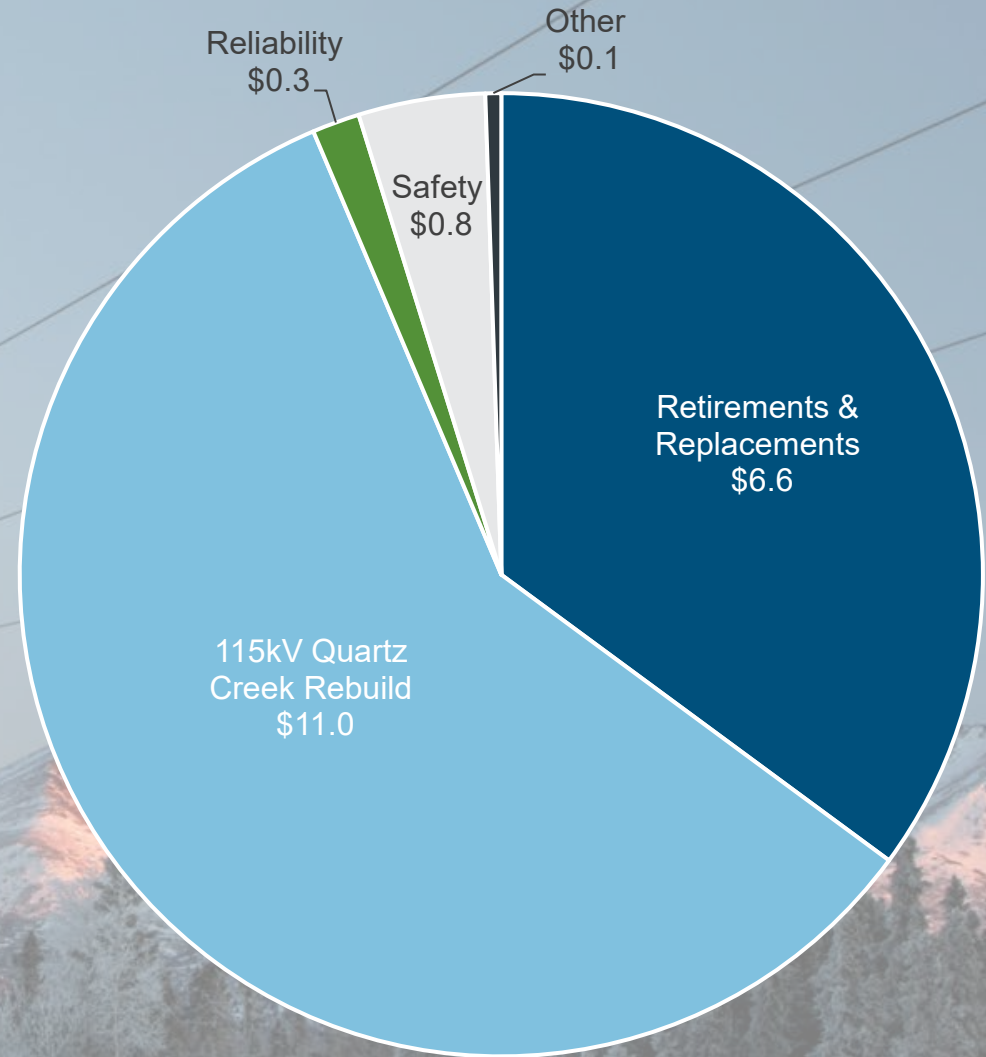


2024 Operating



Risk Factors

2024 Transmission and Sub-Transmission (\$18.8M)



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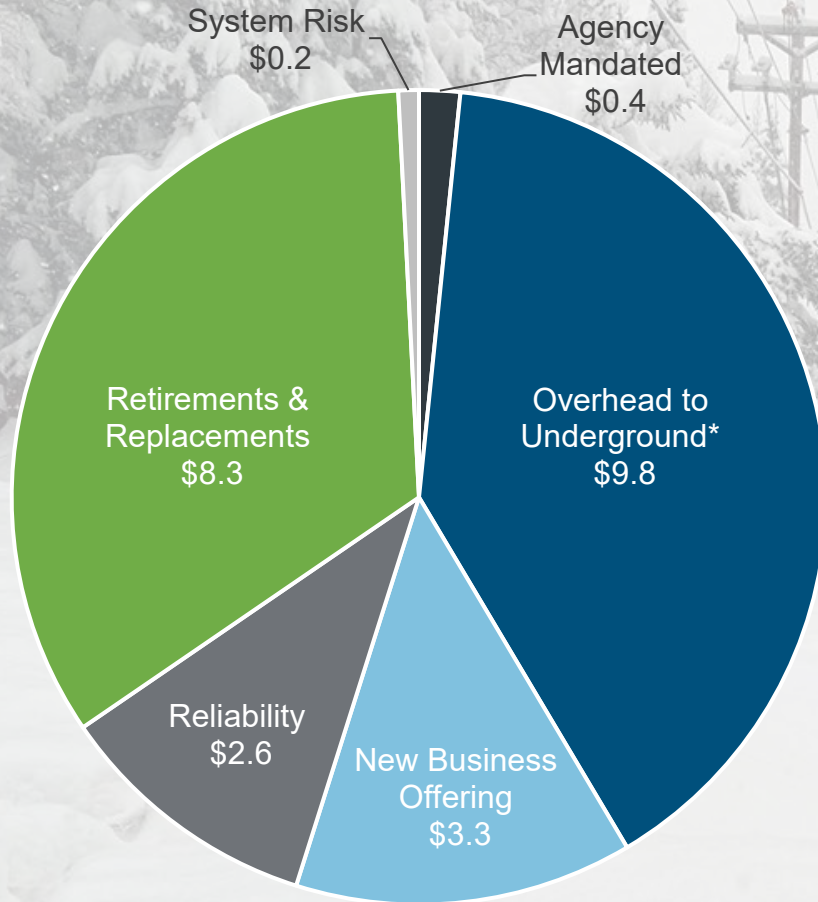
Overview

2024 – 2028 CIP

2024 Operating

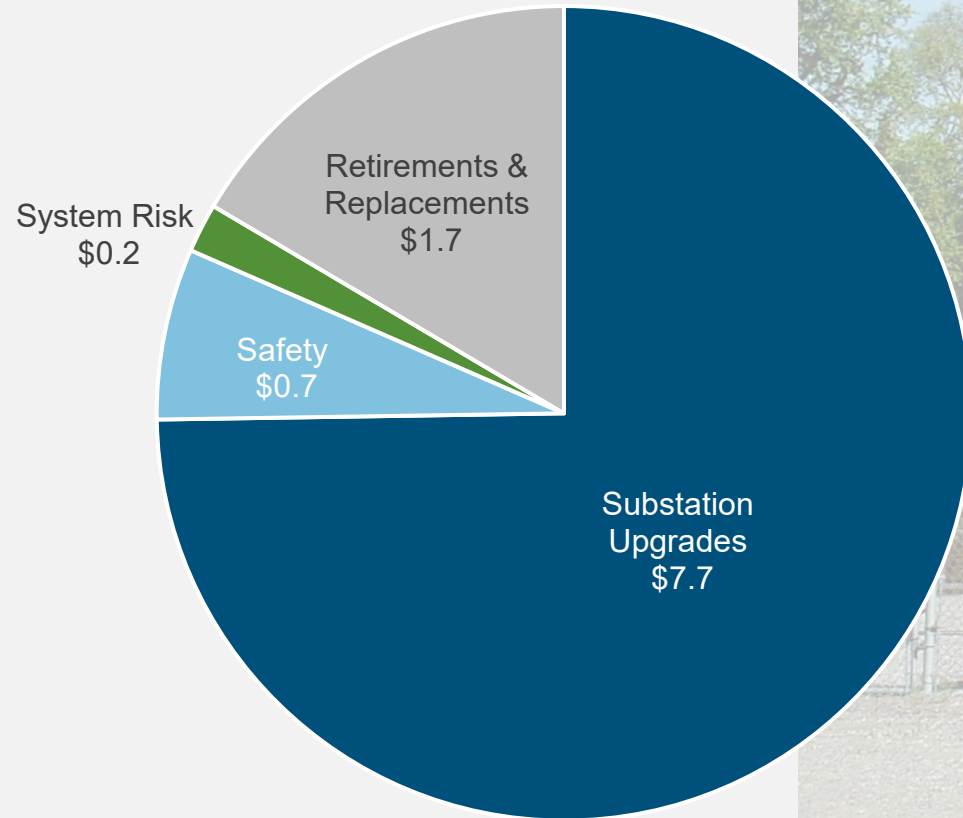
Risk Factors

2024 Distribution (\$24.6M)

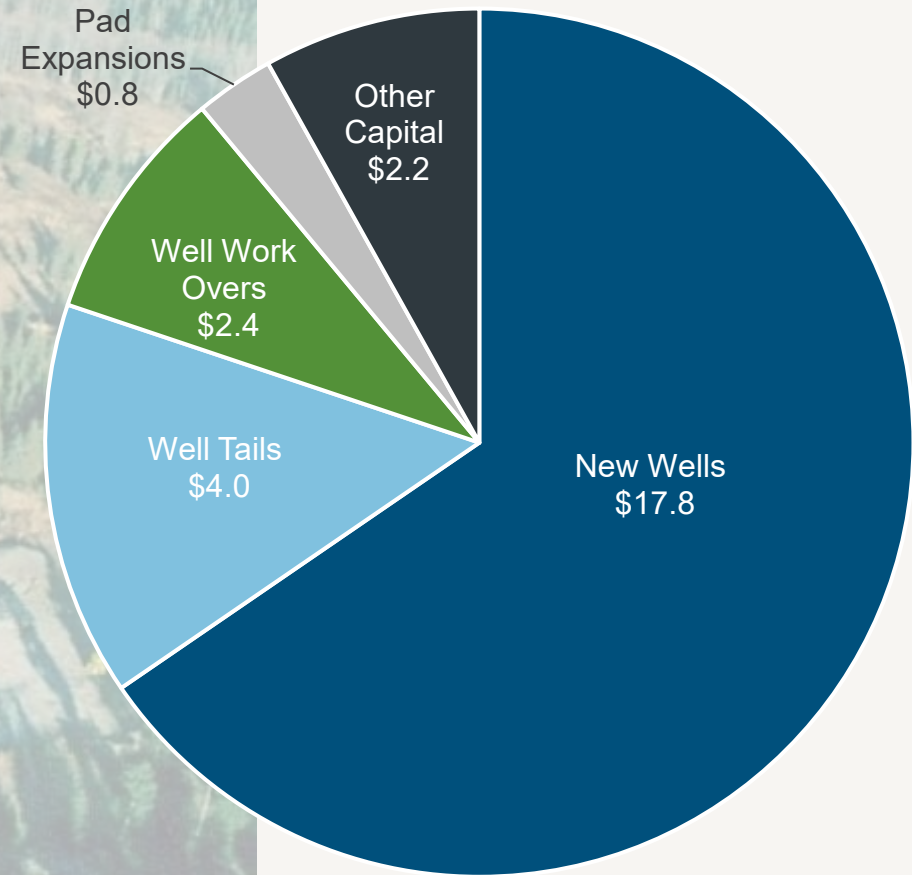


*Overhead to Underground projects funded by the Title 21 surcharge

2024 Distribution Substation (\$10.3M)



2024 Beluga River Unit (\$27.2M)



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Overview

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2024 – 2028 CIP

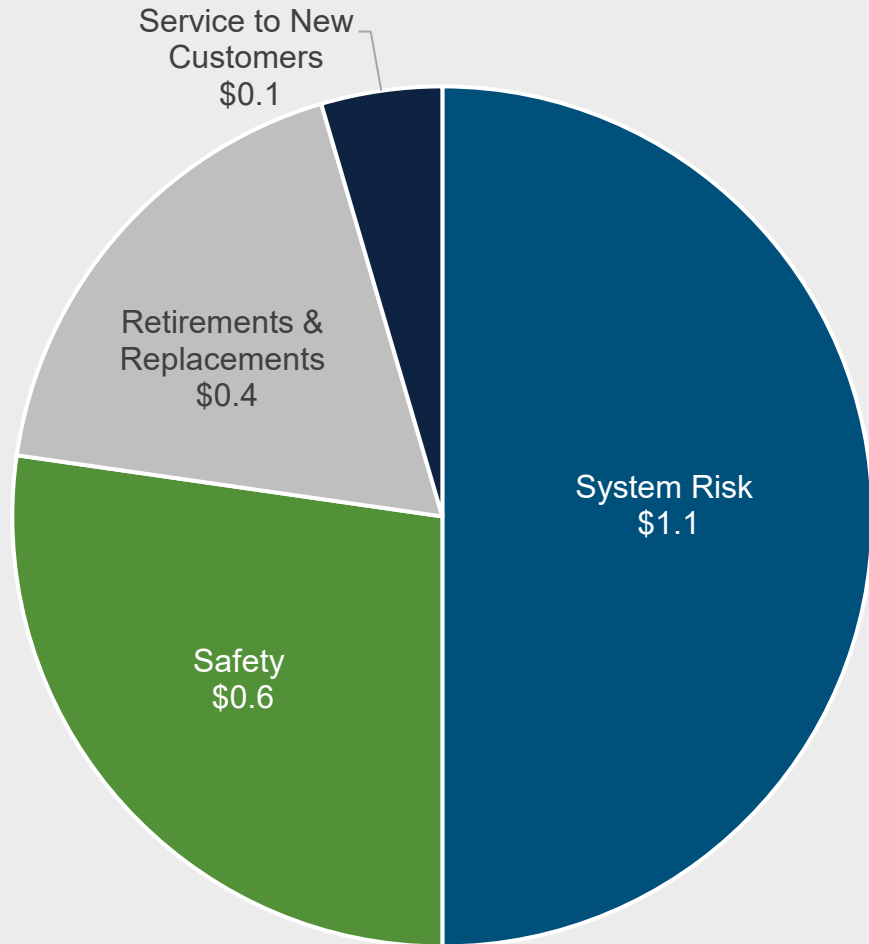
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2024 Operating

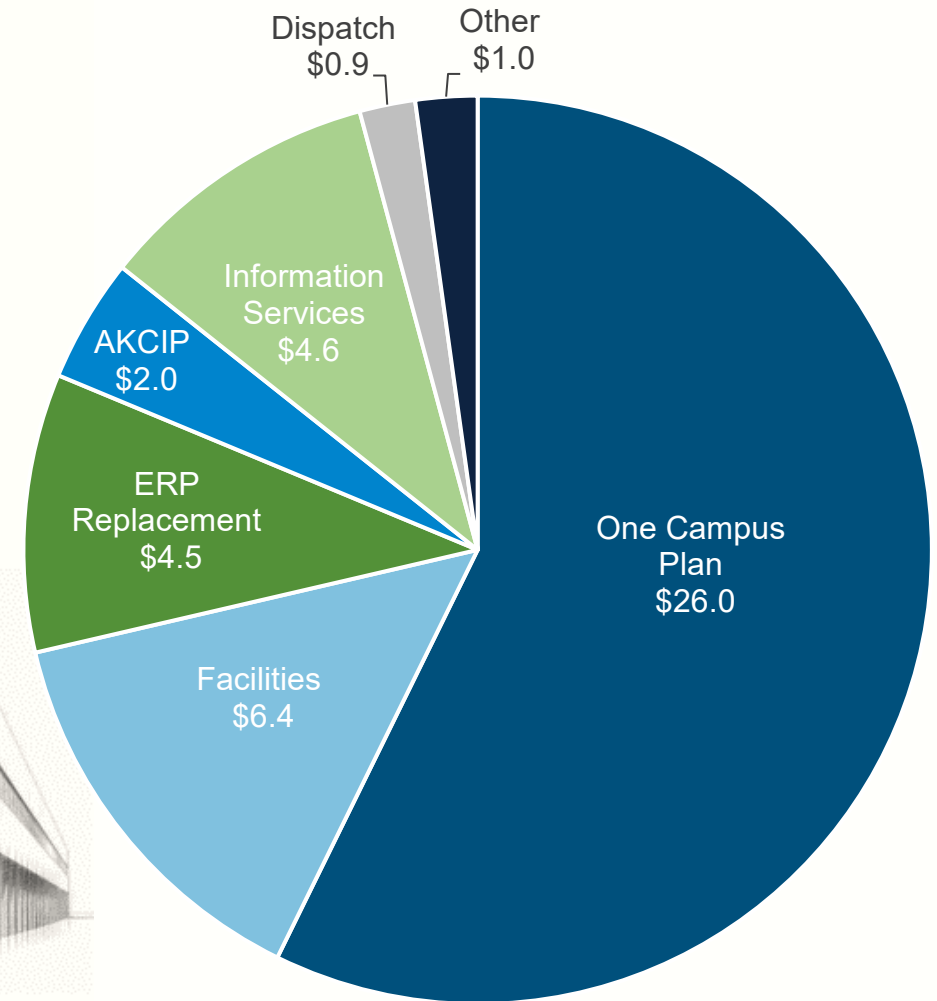
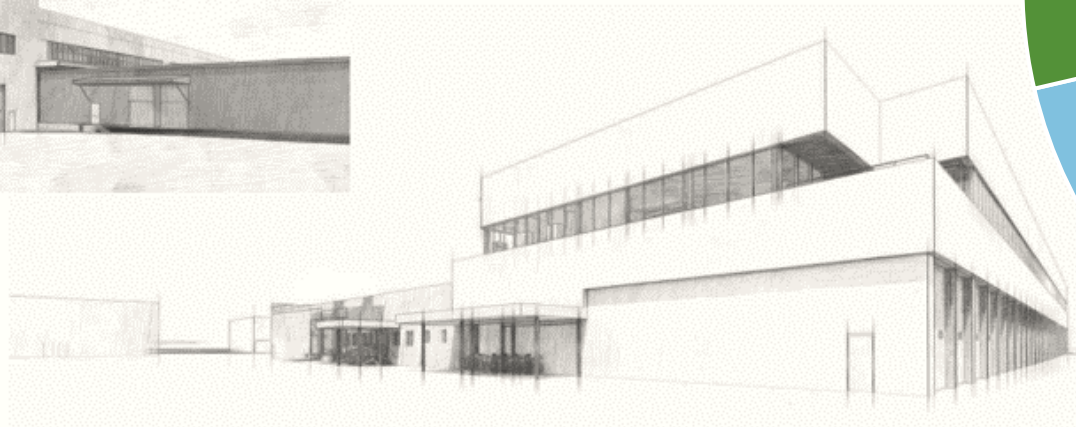
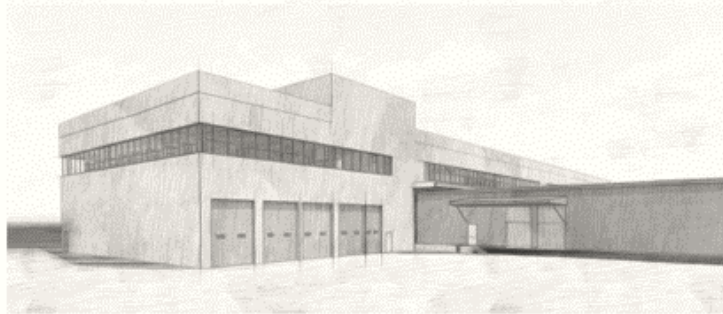
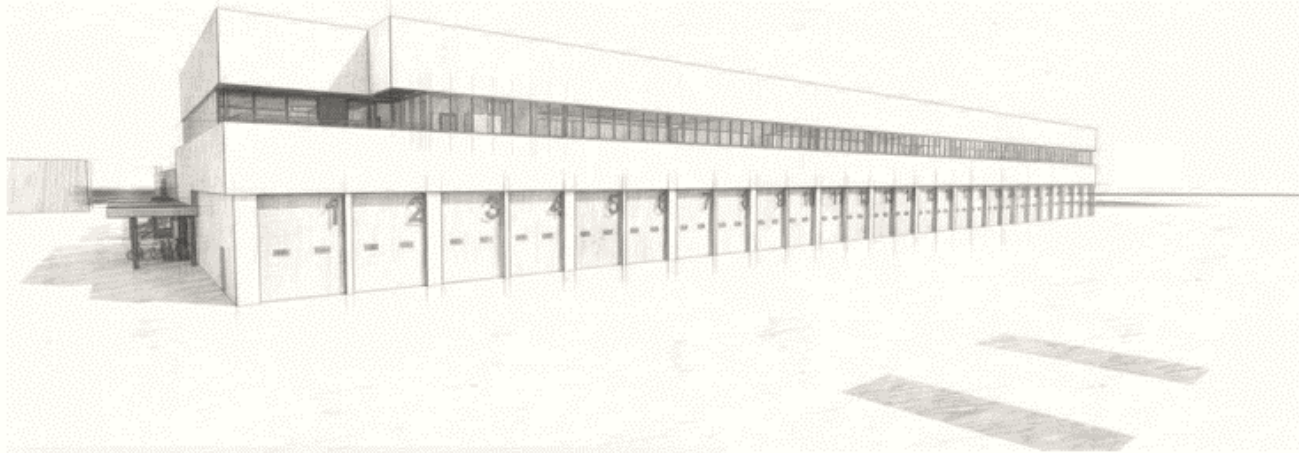
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Risk Factors

2024 Telecom and SCADA (\$2.2M)



2024 General Plant and Other (\$45.4M)



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Overview

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2024 – 2028 CIP

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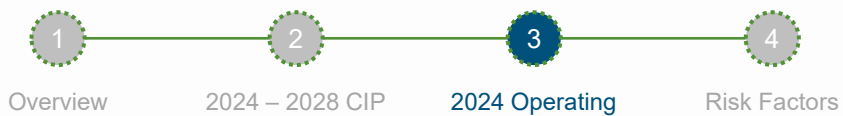
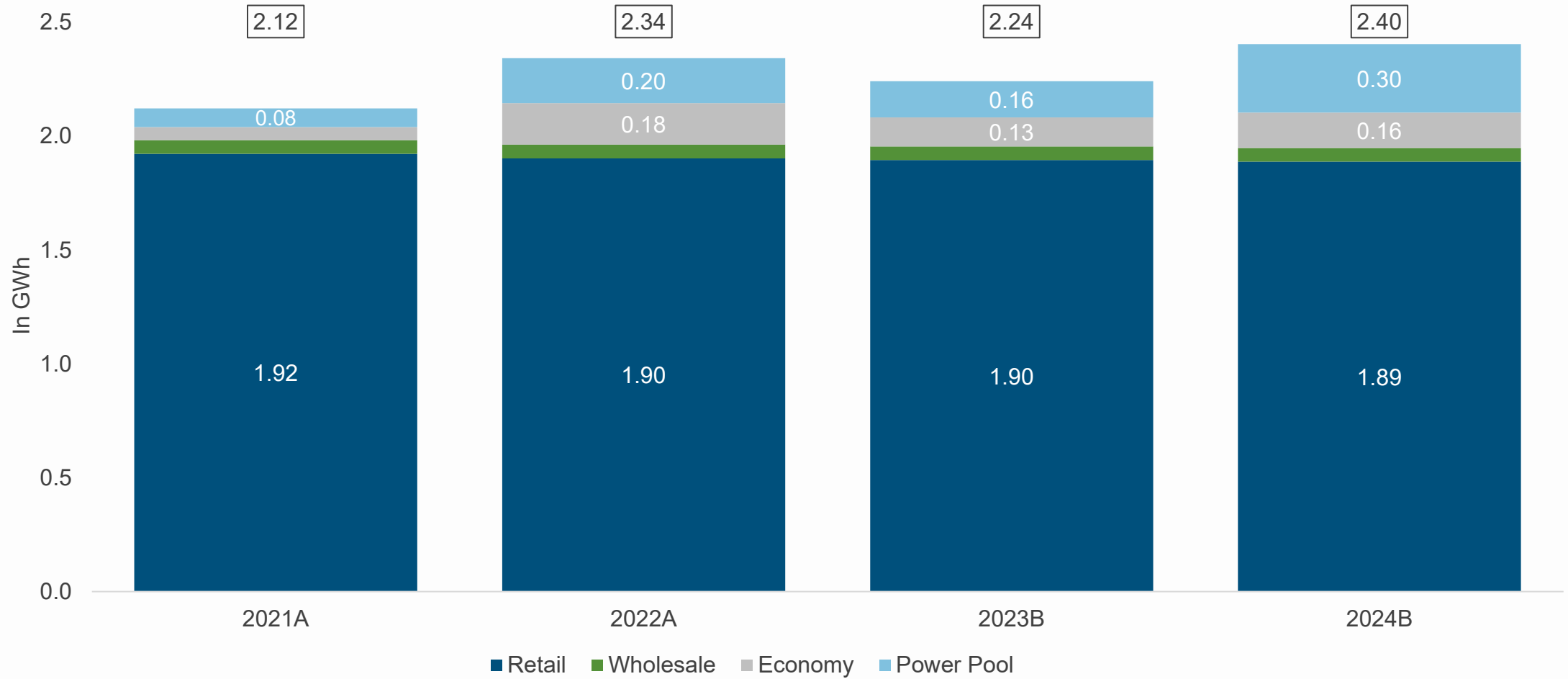
2024 Operating

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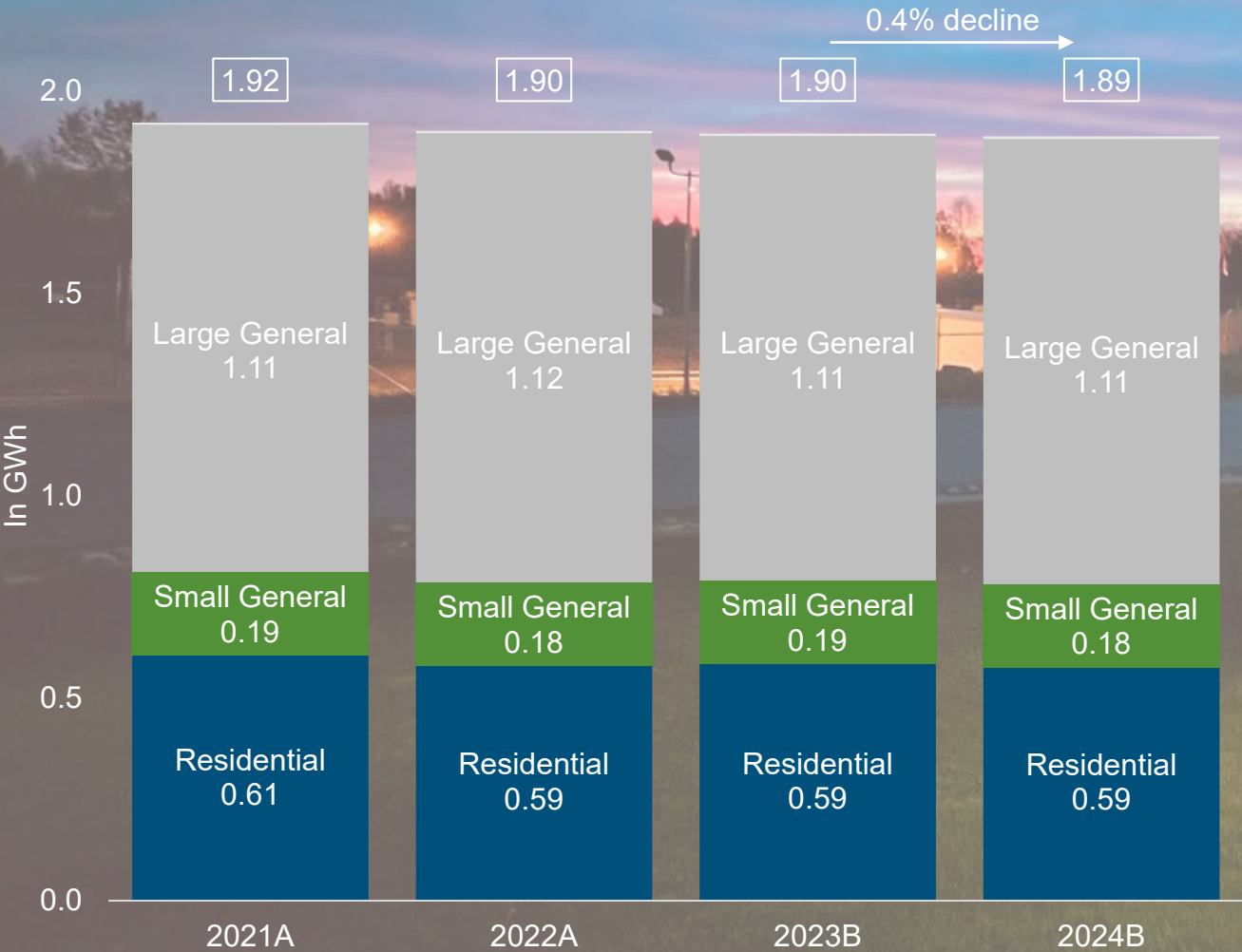
Risk Factors

2024 Operating Budget

Total Energy Sales

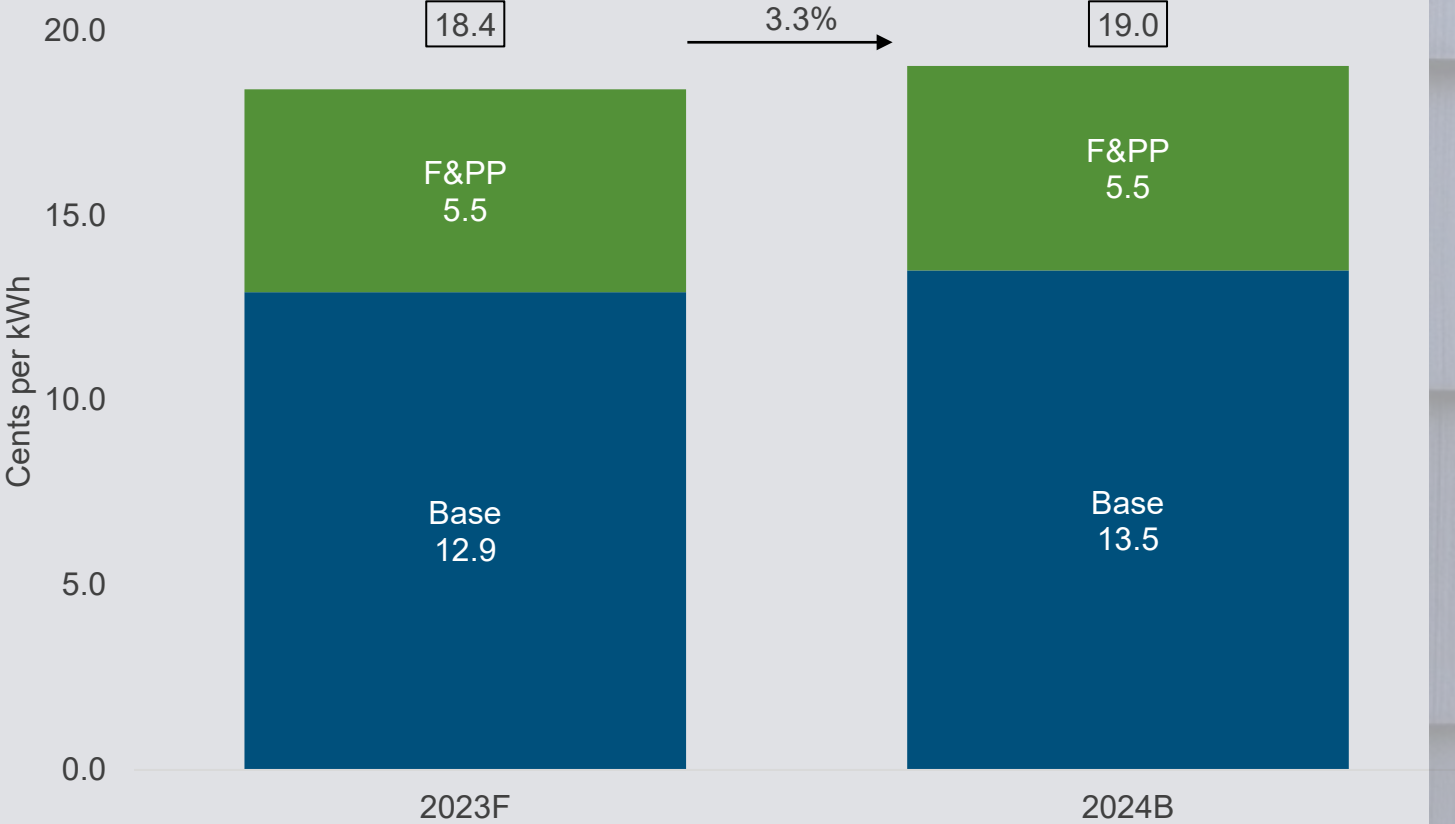


Retail Energy Sales



Retail Rates

Retail Bill Impact



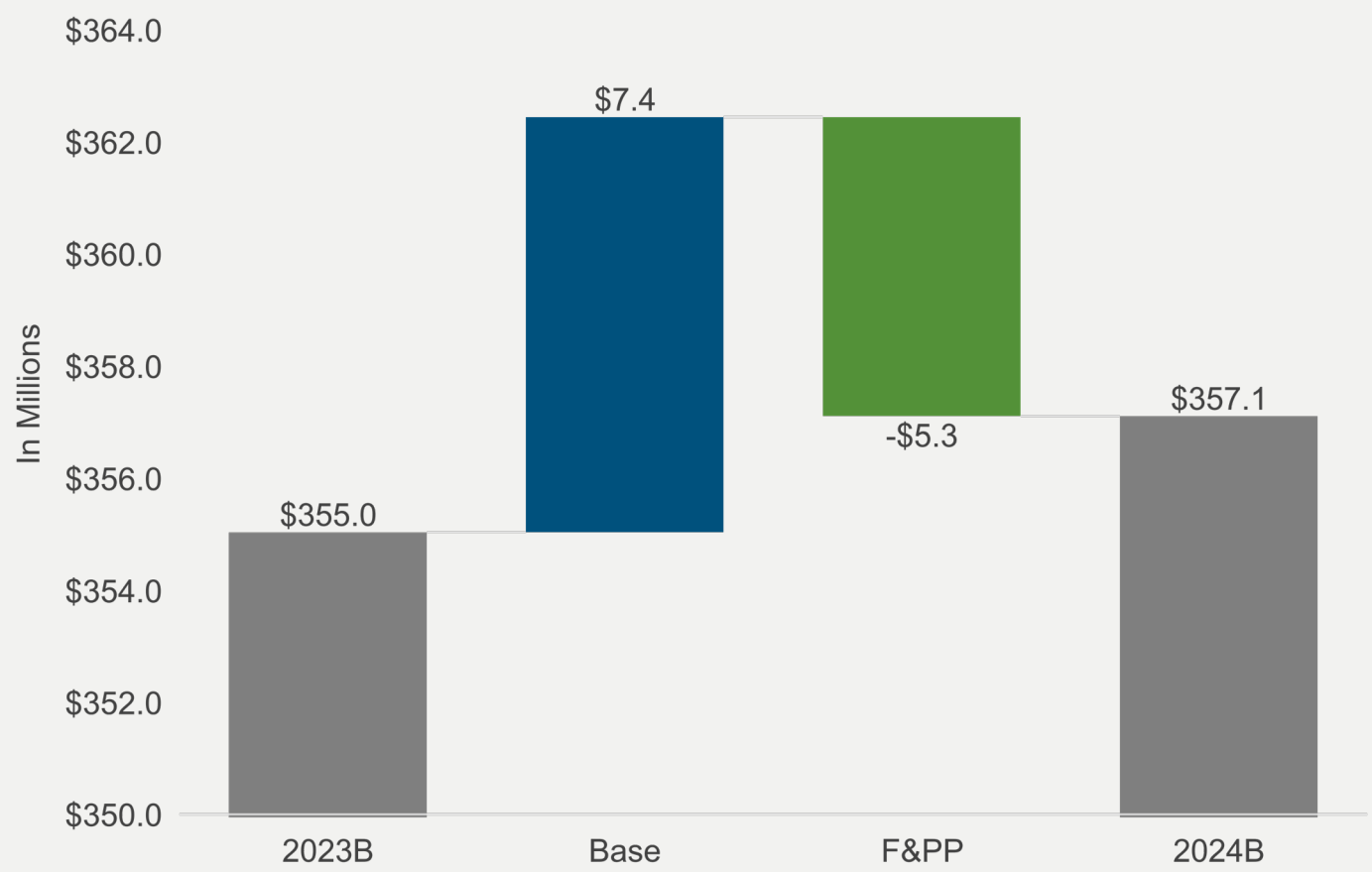
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- 2 2024 – 2028 CIP
- 3 2024 Operating
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Revenue



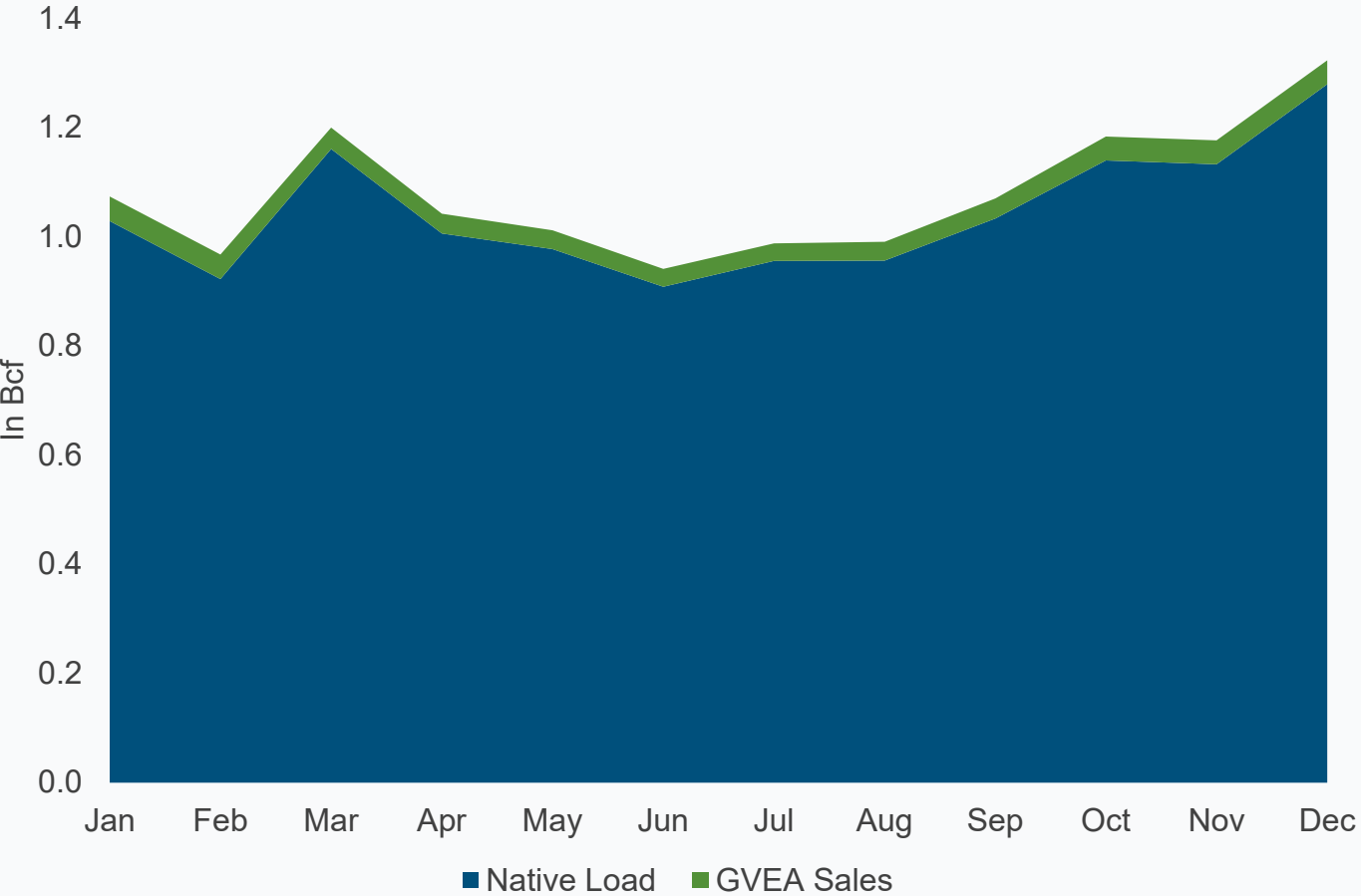
2023 to 2024 Operating Revenue



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- 3 2024 Operating
- 4 Risk Factors

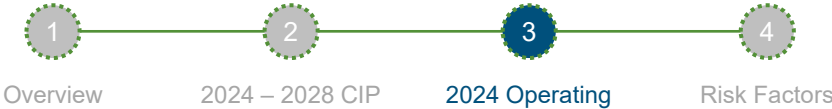
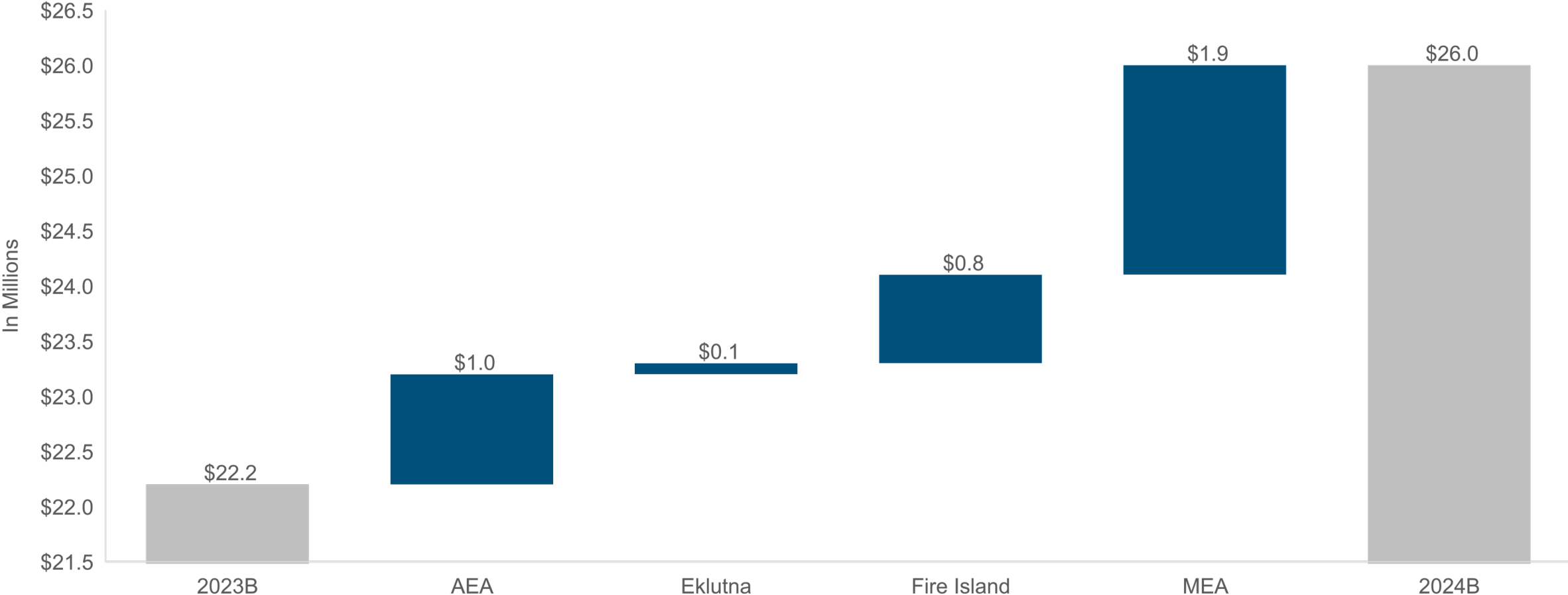
Fuel

2024 Fuel Demand



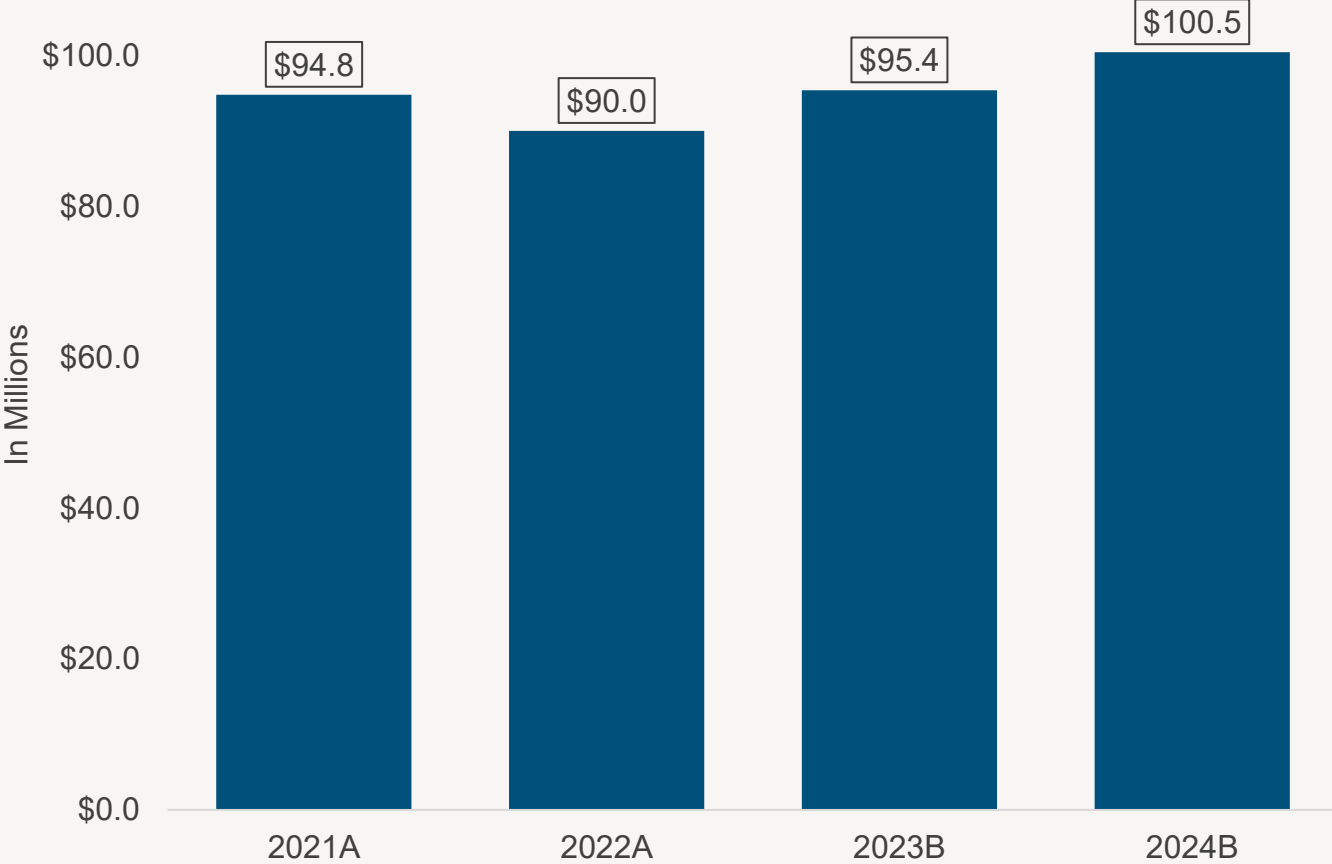
Purchased Power

2023 to 2024 Purchased Power Cost

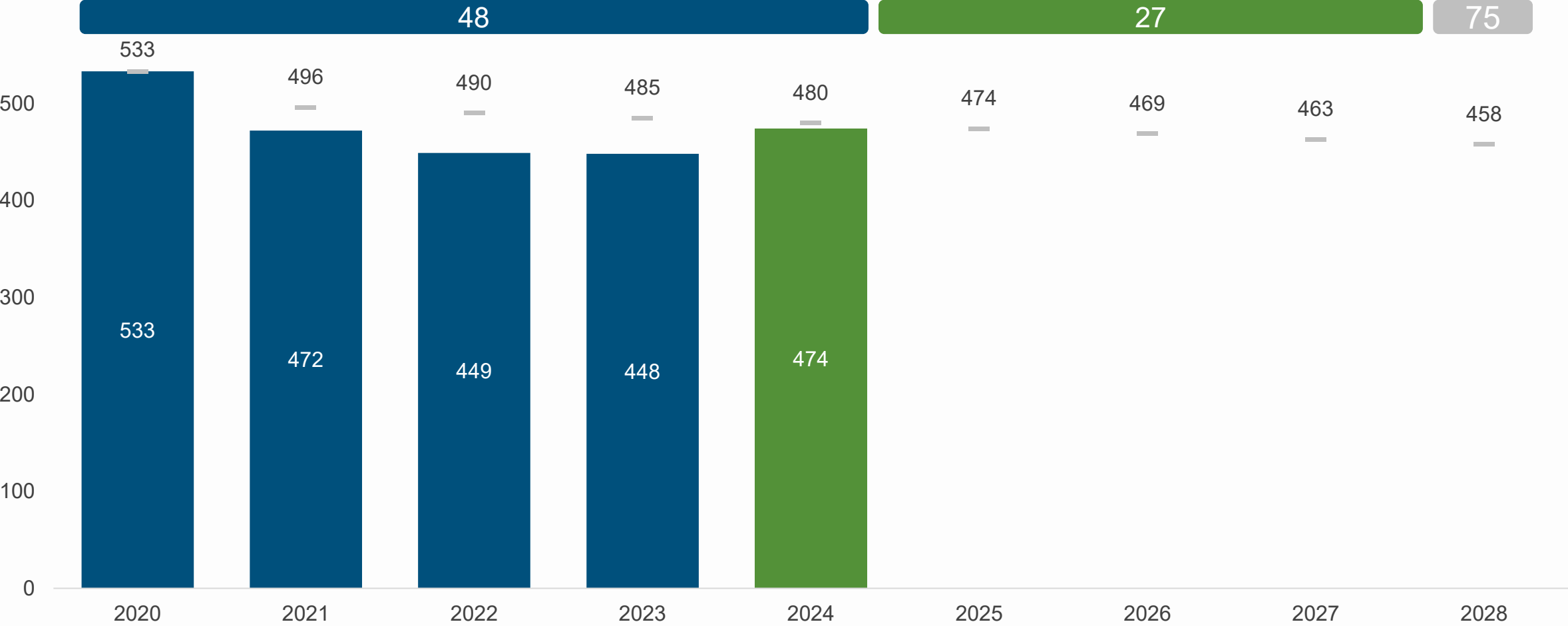


Labor

Labor Cost by Year



Number of Employees / Positions



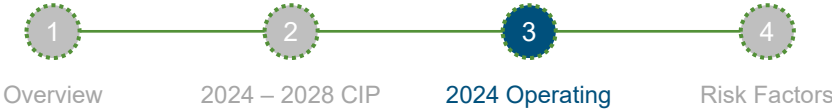
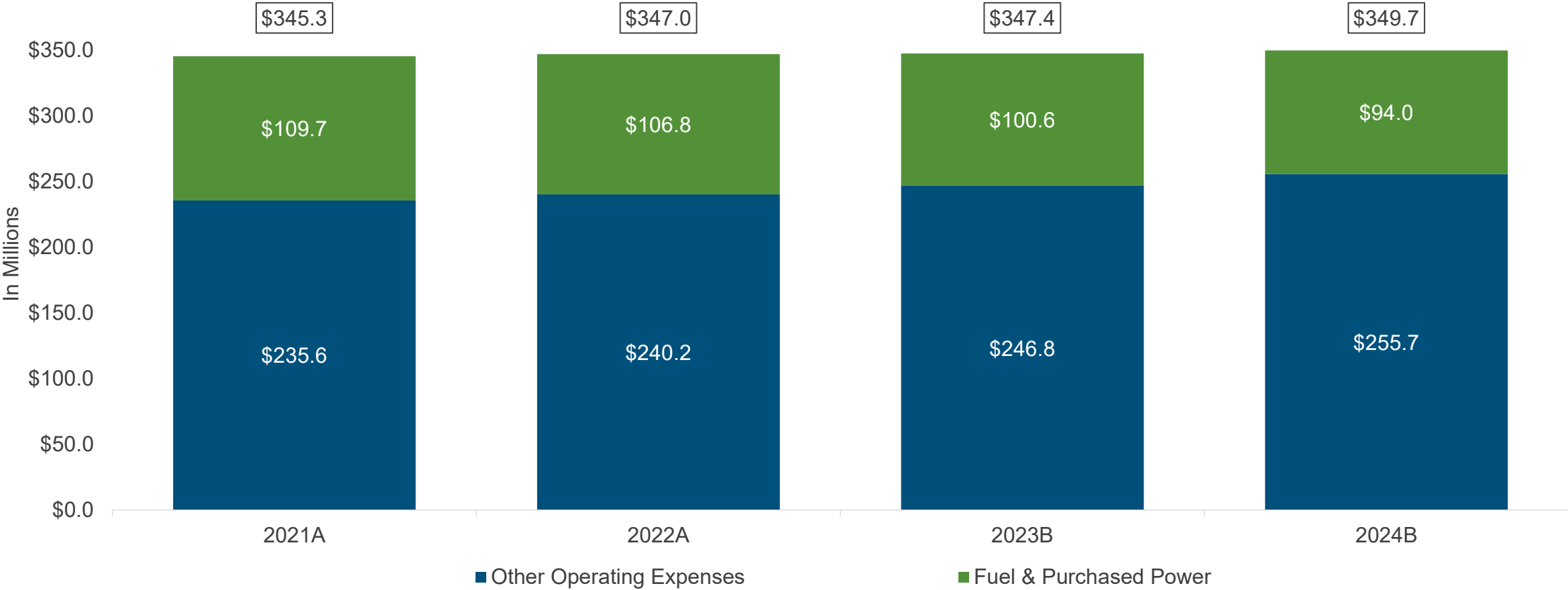
■ Actual & Projected* – Target

*2024 valued at full-time equivalent (FTE)

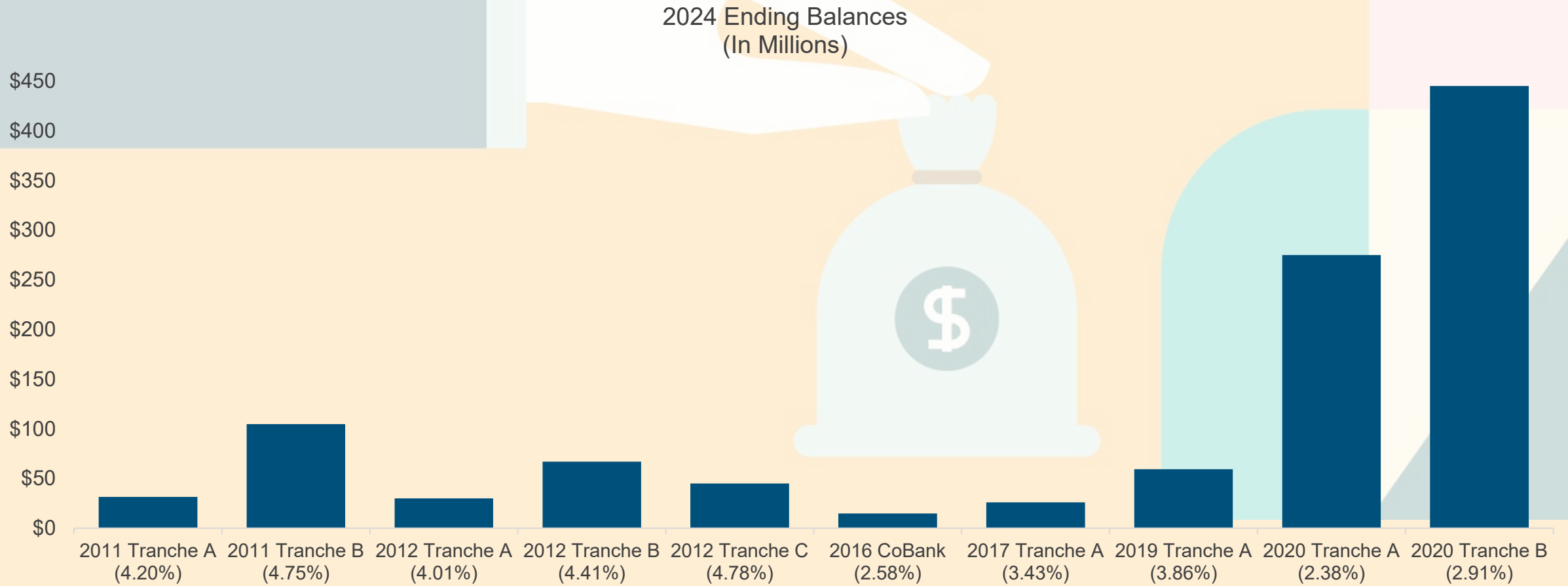


Cost of Electric Service

Operating Expense by Year



Long-Term Debt



2024 Principal Payments:
\$48.9 million

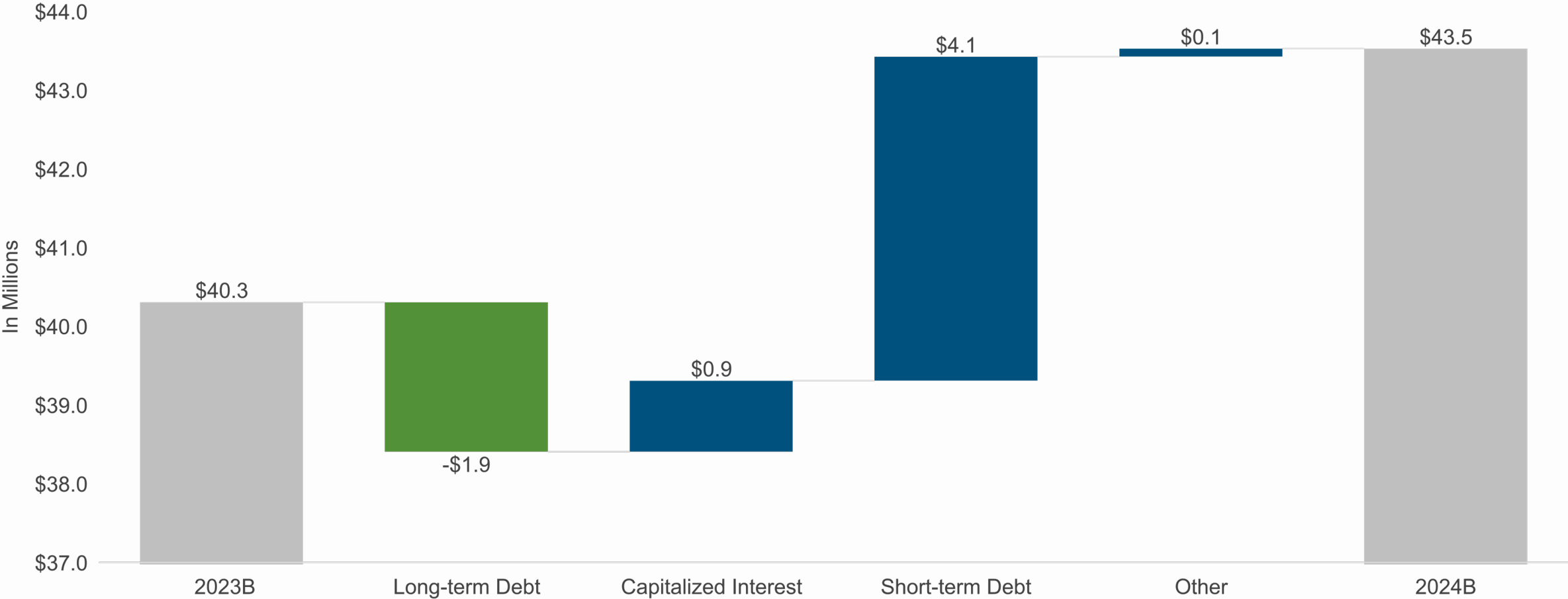
Weighted Average Interest Rate:
3.25%

2024 Debt Outstanding:
\$1.1 billion



Interest Expense

2023 to 2024 Interest Expense



Consolidated Statement of Operations

	2022 Actual	2023 Budget	2024 Financial Forecast	2024 Budget
Operating Revenue	\$ 354,419	\$ 355,034	\$ 361,454	\$ 357,104
Fuel and Purchased Power	106,743	100,584	98,909	93,938
Power Production	37,961	37,066	38,992	42,111
Transmission	9,690	11,618	11,806	11,159
Distribution	26,319	26,635	27,496	28,571
Customer	10,299	11,055	11,394	11,517
Administrative, General, & Other	52,204	53,650	49,947	51,395
Depreciation and Amortization	64,661	66,473	71,871	67,450
Interest Expense, Net	39,086	40,305	43,393	43,535
Total Cost of Electric Service	\$ 346,962	\$ 347,386	\$ 353,808	\$ 349,677
Operating Margins	\$ 7,456	\$ 7,647	\$ 7,646	\$ 7,427
Non-Operating Margins - Interest	639	771	412	450
AFUDC	96	150	279	196
Non-Operating Margins - Other	(68)	(130)	(142)	110
Net Margins	\$ 8,124	\$ 8,438	\$ 8,195	\$ 8,183
MFII	1.20	1.20	1.18	1.18
TIER	1.20	1.22	1.22	1.22
Equity Ratio	15.7%	16.3%	17.6%	17.6%

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Overview

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2024 – 2028 CIP

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2024 Operating

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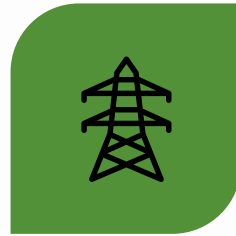
Risk Factors

Risk Factors

Budget Risks



SALES



OPERATIONAL
RISK



FUEL SUPPLY



RESOURCE
AVAILABILITY



REGULATORY
UNCERTAINTY



Overview



2024 – 2028 CIP

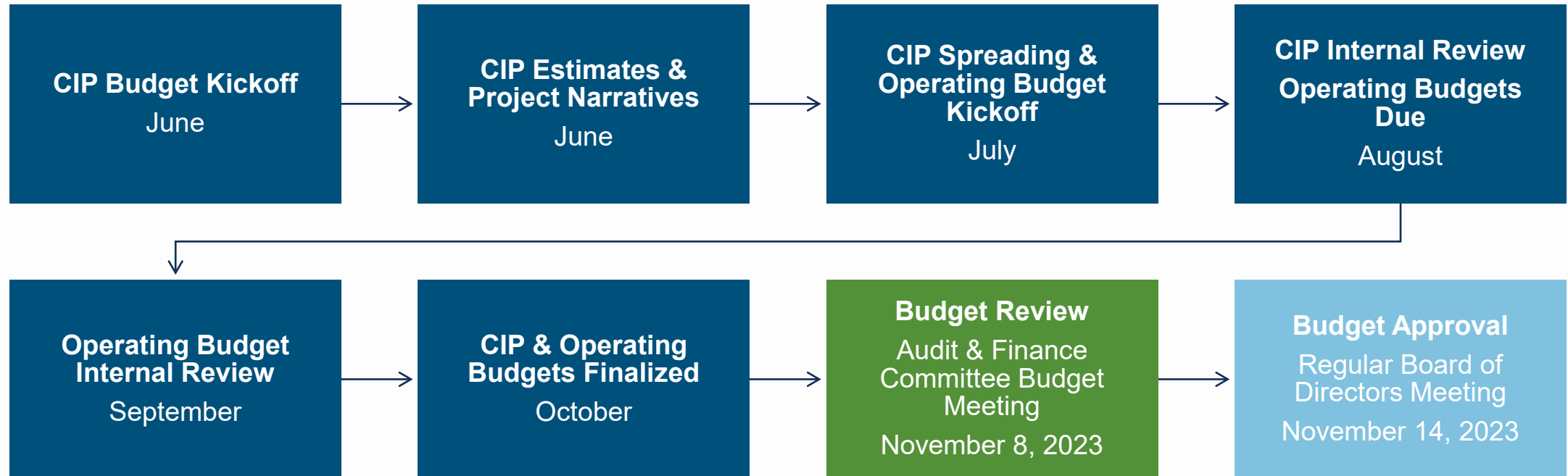


2024 Operating



Risk Factors

Timeline / Next Steps





Our Vision

Responsibly developing energy to build a clean, sustainable future for Alaska.

Chugach Electric Association, Inc.
Anchorage, Alaska

Summary of Executive Session Topics for
Audit and Finance Committee Meeting on November 8, 2023
Agenda Item VIII.

Discussion of confidential and sensitive information concerning KPMG's review of Chugach's 2023 Audit Plan, public disclosure of which could have an adverse effect on the finances of the Association. (AS 10.25.175(c)(1))

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

AUDIT AND FINANCE COMMITTEE MEETING
AGENDA ITEM SUMMARY

November 8, 2023

ACTION REQUIRED

AGENDA ITEM NO. IX.A.

Information Only
 Motion
 Resolution
 Executive Session
 Other

TOPIC

Recommendation on Approval of the 2024 Operating and Capital Budget

DISCUSSION

On November 8, 2023, the Audit and Finance Committee met and reviewed a proposed 2024 Operating and Capital Budget.

The 2024 Operating Budget is expected to produce margins of \$8.2 million, Margins for Interest/Interest (MFI/I) ratio of 1.18, Times Interest Earned Ratio (TIER) ratio of 1.22 and Equity to Total Capitalization Ratio of 17.6%. These results are based on a Total Cost of Service of \$349.7 million, Total Revenue of \$357.1 million and Non-Operating Margins of \$0.8 million.

The 2024 Capital Budget cash requirement is \$133.2 million, consisting of 4.7 million in Generation, \$18.8 million in Transmission and Sub-Transmission, \$24.6 million in Distribution, \$10.3 million in Distribution Substation, \$27.2 million in Beluga River Unit, \$2.2 million in Telecommunications/SCADA and \$45.4 million in General Plant and Other expenditures. The 2024 Capital Budget includes \$28.6 million funding from surcharges related to BRU and undergrounding.

MOTION

Move that the Audit and Finance Committee recommend the Board of Directors approve the 2024 Operating and Capital Budget which is expected to produce margins of \$8.2 million, MFI/I ratio of 1.18, TIER ratio of 1.22 and Equity to Total Capitalization ratio of 17.6%. These results are based on a Total Cost of Service of \$349.7 million, Total Revenue of \$357.1 million, Non-Operating Margins of \$0.8 million, and a capital expenditure cash requirement of \$133.2 million.