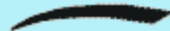


BENCHMARKING at CHUGACH ELECTRIC

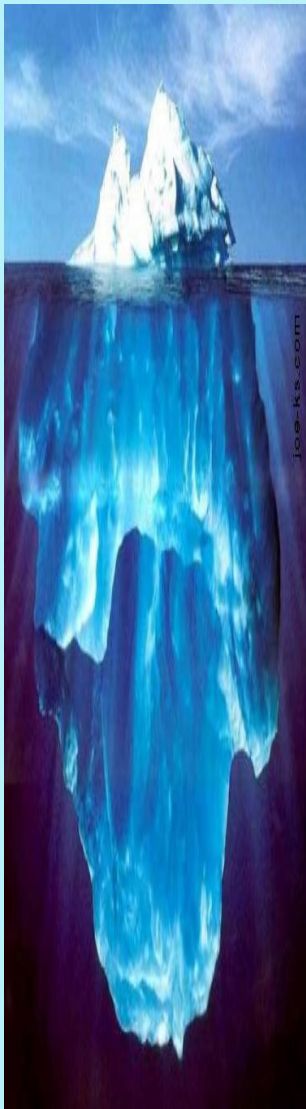
Monday, August 13, 2007

by Ray Kreig, Chairman, Chugach Consumers

for
CHUGACH ELECTRIC BLUE RIBBON
PANEL



SEEN and NOT SEEN



2000 costs

PER HOUSEHOLD (assume two persons each)	YEARLY	kwh
Typical residential household bill: \$80/month	\$1,000	8¢
ONE ISSUE: IBEW labor negotiation SAVINGS (3%)	- \$30	-1/4¢
If utilities were run to national norms of efficiency: SHOULD BE PAYING 25% LESS: \$60/month	- \$250	-2¢
Residents also paying other electricity costs in the community: Government, schools, street lights; Products bought from businesses; Employer has less \$\$ to pay wages.	- \$250	
NOT PART OF UTILITY BILL: Higher cost of homes passed on to consumers from featherbedding and lack of competitive bidding on utility extensions (government, developers and owners).	?	
Lost community economic development stimulus because electric rates are higher then need be.	?	

8/07



Who is Chugach Consumers?

- Grassroots group of fiscally-concerned Chugach Electric ratepayers that supports safe, reliable, **LOW COST** power for South Central Alaska.
- Other concerns
 - Homer Electric and Matanuska Electric customers (Chugach is their wholesale supplier).
 - ML&P (Chugach Electric customers are its majority owners)
- Major policy issues affect all of the utilities. Rarely are they truly pitted against one another. Not a zero sum game.



Who is Ray Kreig?

- Chugach Electric Association
 - Board of Directors 1994-2000, 2005-6
 - Board President 1995-97
- Alaska Rural Electric Cooperative Association, Board of Directors, Executive Committee, 1995-98
- Chugach Consumers volunteer 1992-present
 - Various slots including Chairman
- Alaska resident 1970+ (Anchorage 1978+)
- President of R.A. Kreig & Associates since 1975 -- Civil engineer, geologist, land consultant (terrain & airphoto analysis)
- Cornell University, M.S. & B.S. in Civil Engineering



BENCHMARKING AT CHUGACH ELECTRIC

4/94 – Ray Kreig elected to CEA board. High salaries and costly labor contracts at CEA were known but what was the actual effect on rates? Were the high salaries buying more productivity?

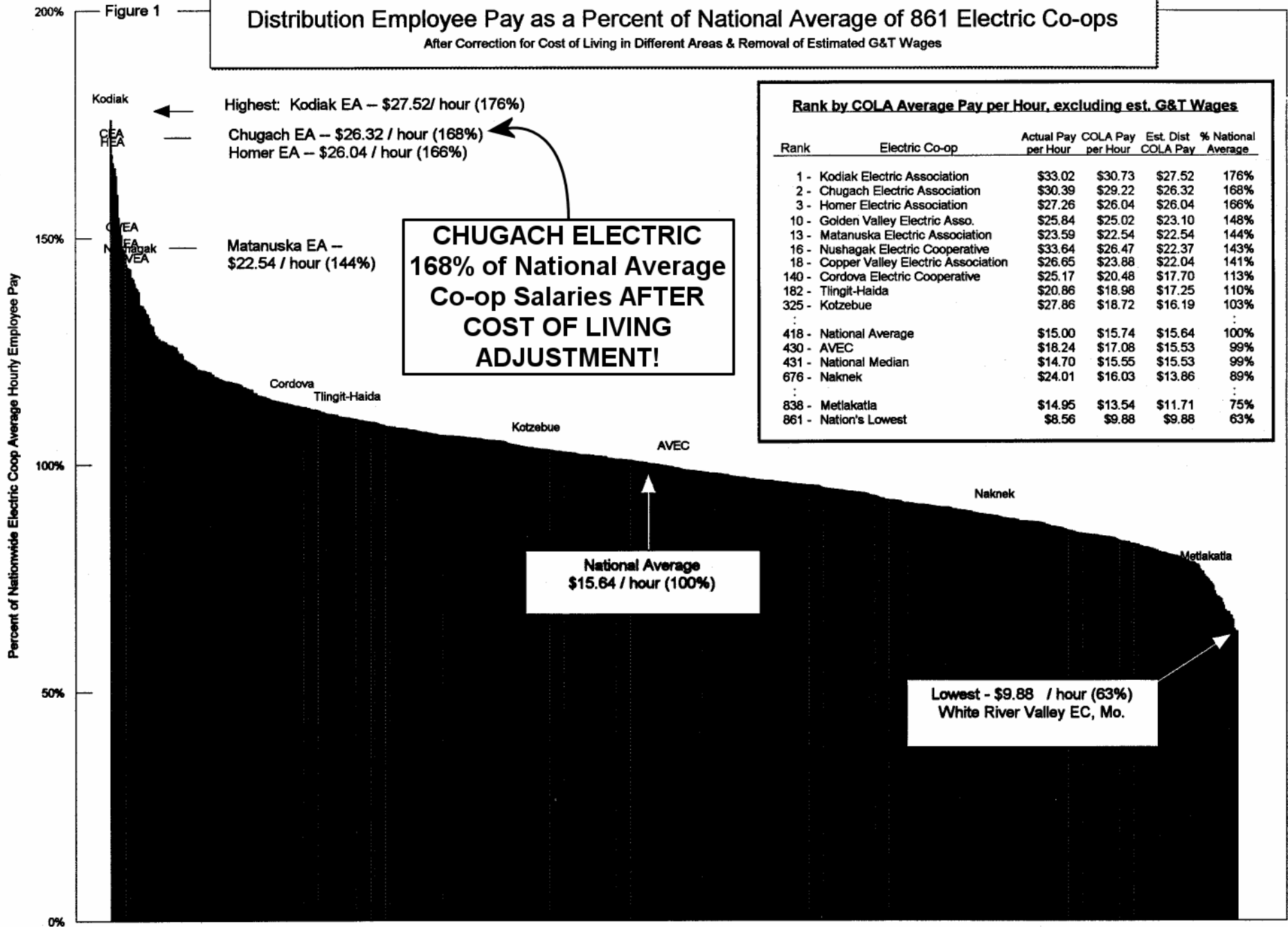
4/95 – Volunteer benchmarking done with USDA REA borrower data.

5/95 – Pro-Consumer reform board majority takes office; Ray Kreig president for next two years.

12/95 – Brought CEA into first UMS – NRECA benchmarking studies with 22 large co-ops on distribution line costs. \$1/2 million in work eventually done over the next three years. These were intended to be disclosed to the members and serve as “Virtual Competition” but all are still held confidential by CEA management over ten years later!



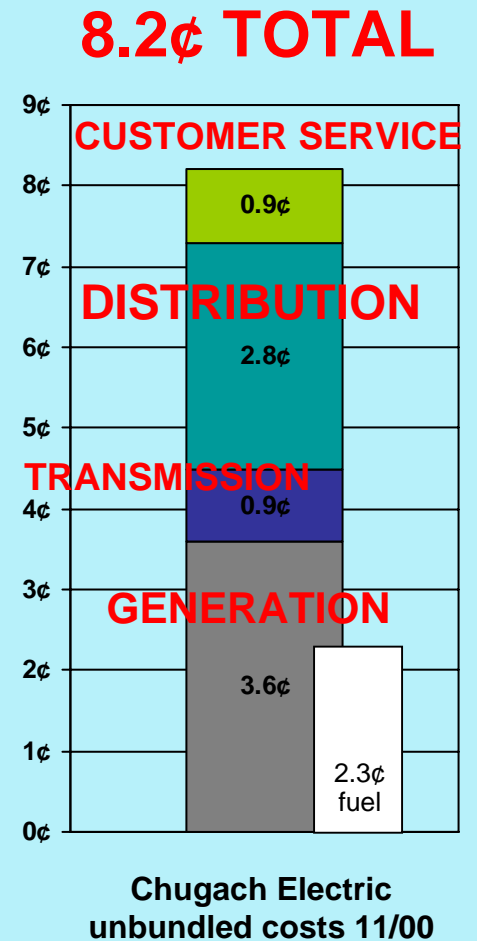
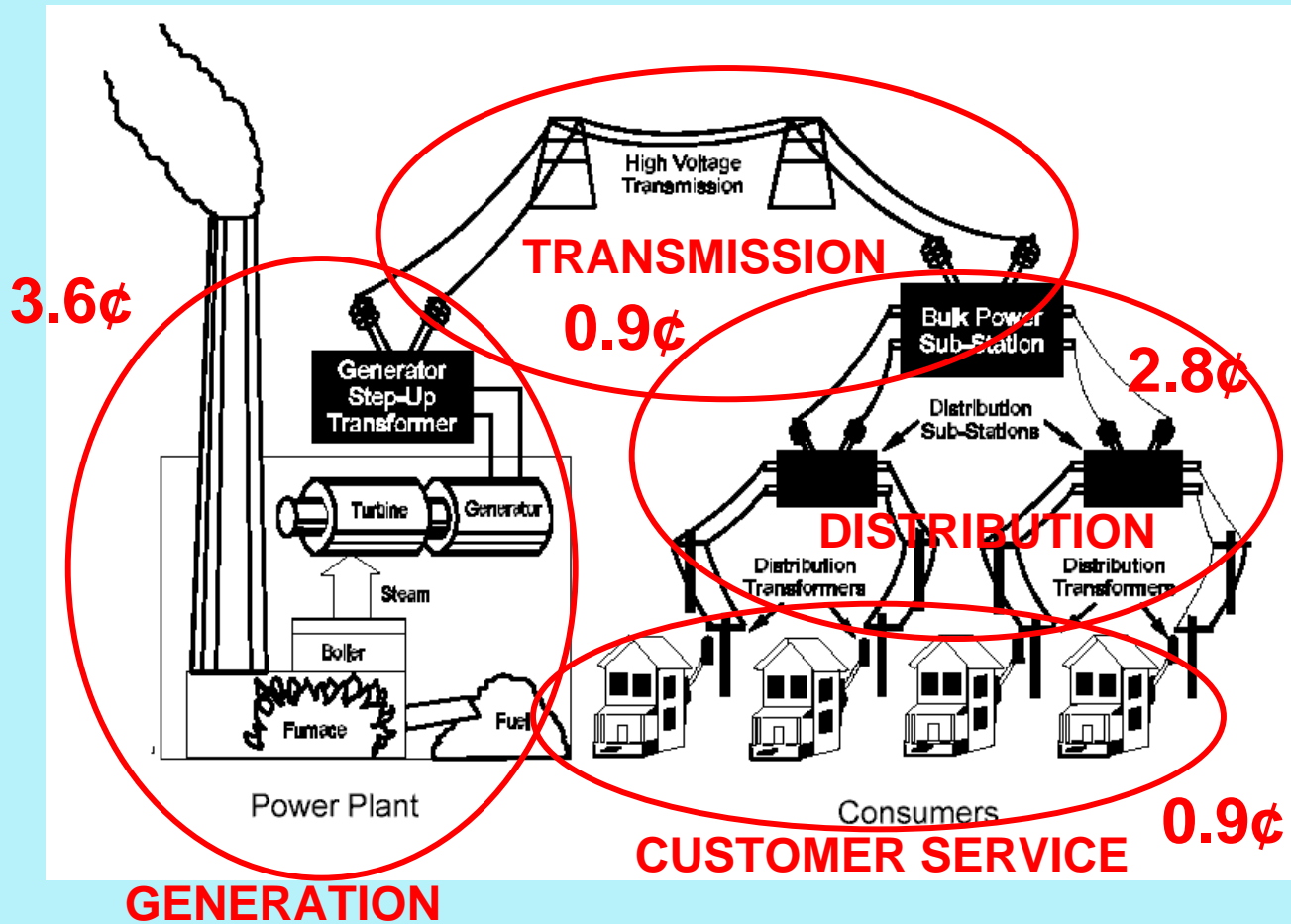
Distribution Employee Pay as a Percent of National Average of 861 Electric Co-ops
After Correction for Cost of Living in Different Areas & Removal of Estimated G&T Wages



Rank by COLA Average Pay per Hour, excluding est. G&T Wages

Rank	Electric Co-op	Actual Pay per Hour	COLA Pay per Hour	Est. Dist COLA Pay	% National Average
1	Kodiak Electric Association	\$33.02	\$30.73	\$27.52	176%
2	Chugach Electric Association	\$30.39	\$29.22	\$26.32	168%
3	Homer Electric Association	\$27.26	\$26.04	\$26.04	166%
10	Golden Valley Electric Asso.	\$25.84	\$25.02	\$23.10	148%
13	Matanuska Electric Association	\$23.59	\$22.54	\$22.54	144%
16	Nushagak Electric Cooperative	\$33.64	\$26.47	\$22.37	143%
18	Copper Valley Electric Association	\$26.65	\$23.88	\$22.04	141%
140	Cordova Electric Cooperative	\$25.17	\$20.48	\$17.70	113%
182	Tlingit-Haida	\$20.86	\$18.98	\$17.25	110%
325	Kotzebue	\$27.86	\$18.72	\$16.19	103%
418	National Average	\$15.00	\$15.74	\$15.64	100%
430	AVEC	\$18.24	\$17.08	\$15.53	99%
431	National Median	\$14.70	\$15.55	\$15.53	99%
676	Naknek	\$24.01	\$16.03	\$13.86	89%
838	Metlakatla	\$14.95	\$13.54	\$11.71	75%
861	Nation's Lowest	\$8.56	\$9.88	\$9.88	63%

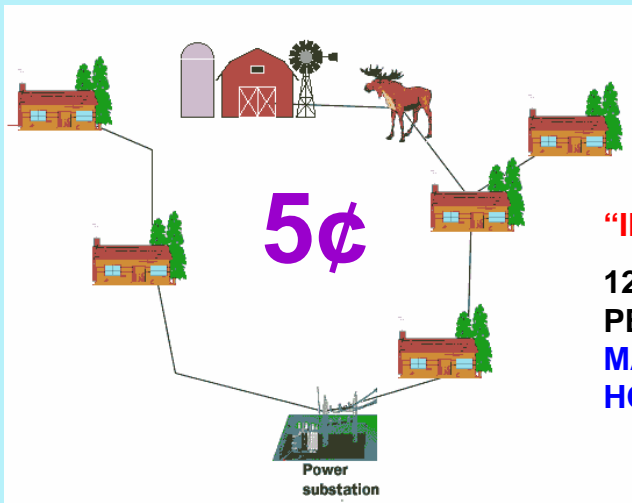
ELECTRIC UTILITY SEGMENTS



DISTRIBUTION SYSTEM DIFFERENCES

OPEN RURAL SYSTEM

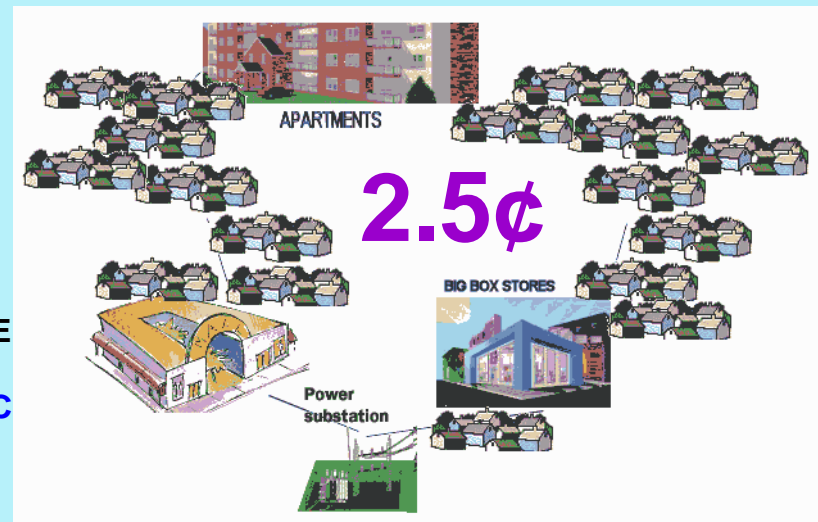
LOW AVERAGE CUSTOMER LOAD
2 CUSTOMERS PER MILE OF LINE
 EXAMPLE: **BIG HORN RURAL ELEC. (IOWA)**



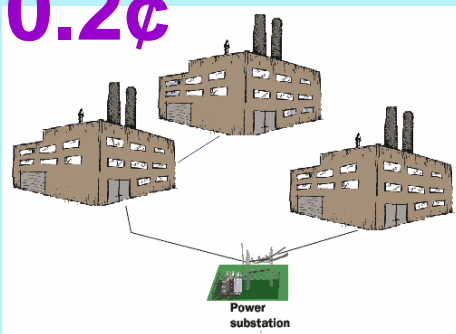
"IN BETWEEN"
12 CUSTOMERS PER MILE OF LINE
MATANUSKA, HOMER ELECTRIC

DENSE SUBURBAN SYSTEM

MODERATE AVERAGE CUSTOMER LOAD
50 CUSTOMERS PER MILE OF LINE
 EXAMPLES: **CHUGACH ELECTRIC, ML&P**



0.2¢



COMPACT INDUSTRIAL CONCENTRATION

VERY HIGH AVERAGE CUSTOMER LOAD
MANY FACTORIES with farms and houses
 EXAMPLE: **MISSISSIPPI COUNTY ELECTRIC (ARKANSAS)**

NATIONAL AVERAGE EXPECTED DISTRIBUTION MARKUP/KWH

*Safe, Reliable, **LOW COST** Power for South Central Alaska!*

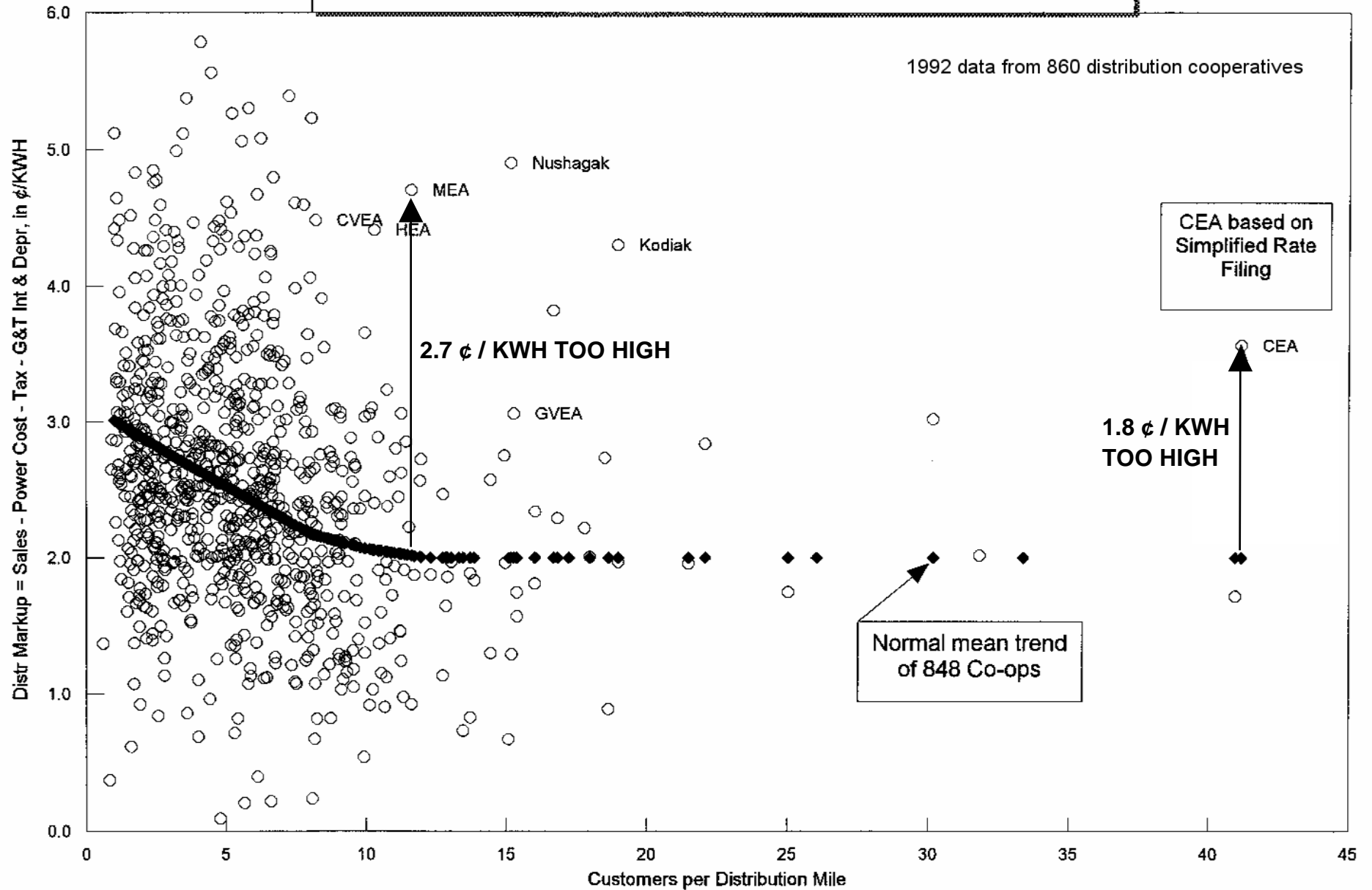


Figure 5

Electric Distribution

Distribution Markup per KWH vs. Service Area Density

1992 data from 860 distribution cooperatives



UMS Presentation



Benchmarking Follow-up at CEA

- Lots of \$\$ spent on detailed “benchmarking” in certain areas
- Refusal to do any high level “Macro” benchmarking that would roll up detail
- UMS reports from the 90’s remain sealed
- Refusal to use outside measures in performance reviews of staff or CEO (see Briefing Book TAB 10)
- Regression to crude averages and comparison to the wrong peer groups
 - Either don’t know what they are doing or don’t care. Neither is a good result for the consumer or policymaker



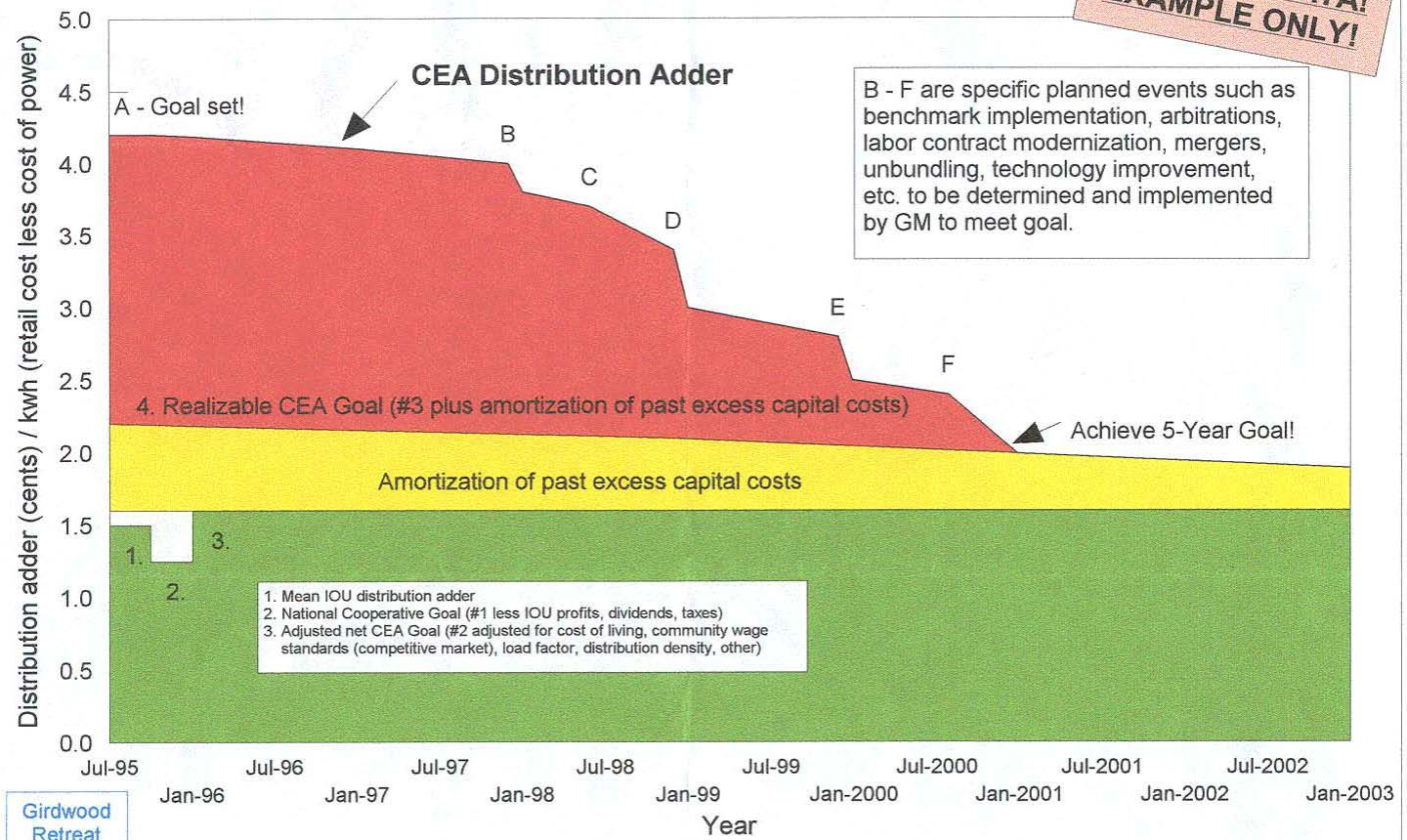
General Manager performance review 12/96

“The GM is Requested to prepare a plan for achieving CEA’s goal to be in the Top 10% in Economic Efficiency”

Attachment B

Display Example of Plan for Achieving CEA Goal to be in Top 10% in Economic Efficiency

**NOT REAL DATA!
EXAMPLE ONLY!**



FATE OF CHUGACH ELECTRIC TOP 10% EFFICIENCY PROMISE

1995 reform board goal:

"To be among the top 10% of electric utilities in economic efficiency while maintaining national standards of reliability and safety" ([1996 Chugach Electric Association Annual Report, p. 14](#))

By 2003 board had lost focus and it had been dumbed down to this amorphous, unaccountable statement:

"Through superior service, safely provide reliable and competitively priced energy" (Feb-March 2003 Outlet bill stuffer):

[2002 CEO Goals](#) adopted by Chugach Board say **nothing** about reducing costs or rates. They direct the CEO to maximize revenues!! Most of the revenues come from consumer-members that own Chugach! This is rather discouraging to the consumers who are paying these "maximized revenues".



“Virtual” Competition

THE CHUGACH OUTLET

October 1995 Number 141

Board viewpoint by Ray Kreig, President



COMPETITION! Everyone knows that competition is what gets consumers the best deal in their purchases whether it be groceries or airline tickets. What would happen to food prices if there was only one

Association. It will give us detailed information on where we are and where we need to improve in order to achieve the new joint staff-board goal of being at the top of all electric co-ops and investor-owned utilities in economic efficiency. Results and progress will be shared with you in future Outlets.

COST SAVING MEASURE - Your board is working with management in many areas to lower costs and your rates. Recently Chugach was faced with two alternatives in the disposal of obsolete turbines at Beluga and at

ion never see retail competition.
our mind-set to deal with retail out competition. At Chugach we intend to do this by not waiting for actual our' competition to materialize, but by are internally competing NOW against line the nation's most efficient utility hey practices."

September 1996

Ray Kreig

8/07

Safe, Reliable, **LOW COST** Power for South Central Alaska!



also come with your ballot package. Chugach's goal is "To be in the best 10 percent of electric utilities in economic efficiency while maintaining national standards of reliability and safety." This means Chugach is committed to giving you better value for the energy services you buy than 9 out of 10 consumers in the country. How can you assess our progress toward this goal? Read this year's Chugach Annual Report to find out. We intend to begin reporting measures that will improve our accountability to the membership and help you be an informed voter in co-op elections. Give this year's Chugach Annual Report a look and let us know what you think! And BE SURE TO VOTE!

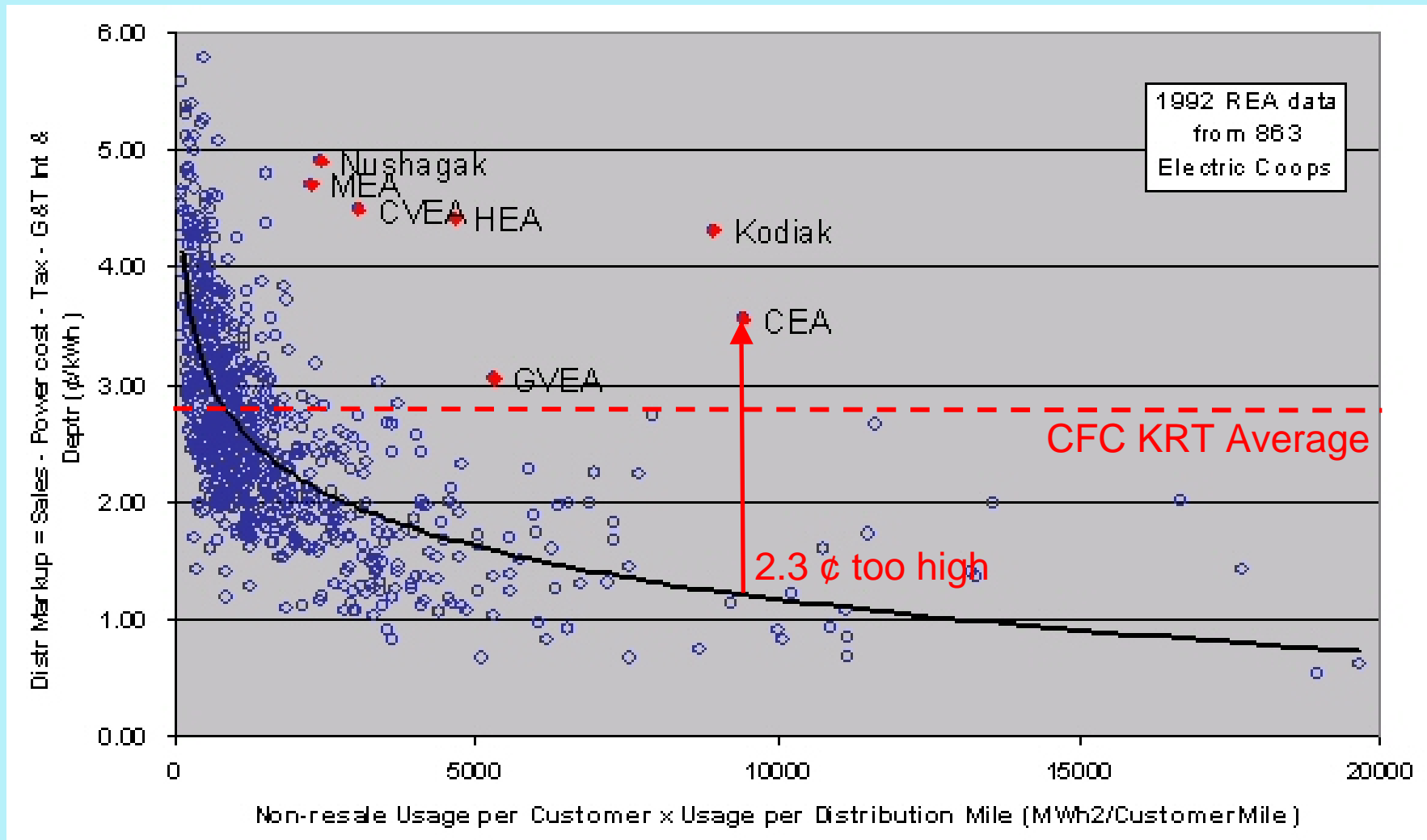
Ray Kreig

March 1997

It was always intended that benchmarking results would be made public.

CEA Benchmarking Caution #1

Use of crude averages conceals correct peer group





CEA Benchmarking Caution #2

Sample 2005-2006 Summary Results (2005 Data)

Reliability		
	Chugach	Benchmark
Customer Outage Hours per Year	2.0	3.26
Planned Transmission Equipment Outage/Circuit End	.195	.871
Unplanned Transmission Equipment Outage/Circuit End	.033	.090
REDACTED		
IT System Uptime	99.9%	99.5%

Expense Control		
	Chugach	Benchmark
Distribution Variable Adder	\$20.62	\$17.61
Processing Cost / Payment	\$1.02	\$0.41
Bad Debt Write Off	0.16%	0.38%
REDACTED		
Transmission Total Operating Cost, \$/MWH	\$2.12	\$2.58

Customer Service		
	Chugach	Benchmark
Residential Customer Satisfaction	89%	83%
Minutes to Respond & Restore Power	90	125
New Service Installation (Days)	3.17	5.0
% of Calls Answered in 30 Seconds or Less	83%	77%
Days to Close a Completed Capital Project	180	89

Capital Investment		
	Chugach	Benchmark
Return on Overnight Funds	4.22%	3.59%
Underground Construction Cost/Mile	\$15,767	\$9,919
% of Meters on AMR	94%	2%

Safety		
	Chugach	Benchmark
Lost Time Incident Rate	3.61	1.2

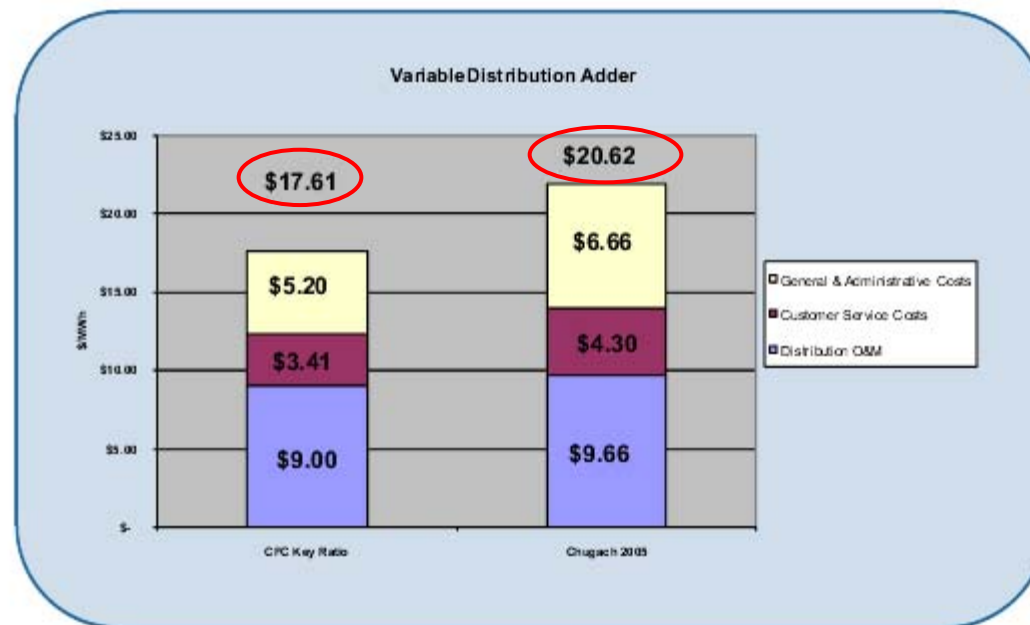


6



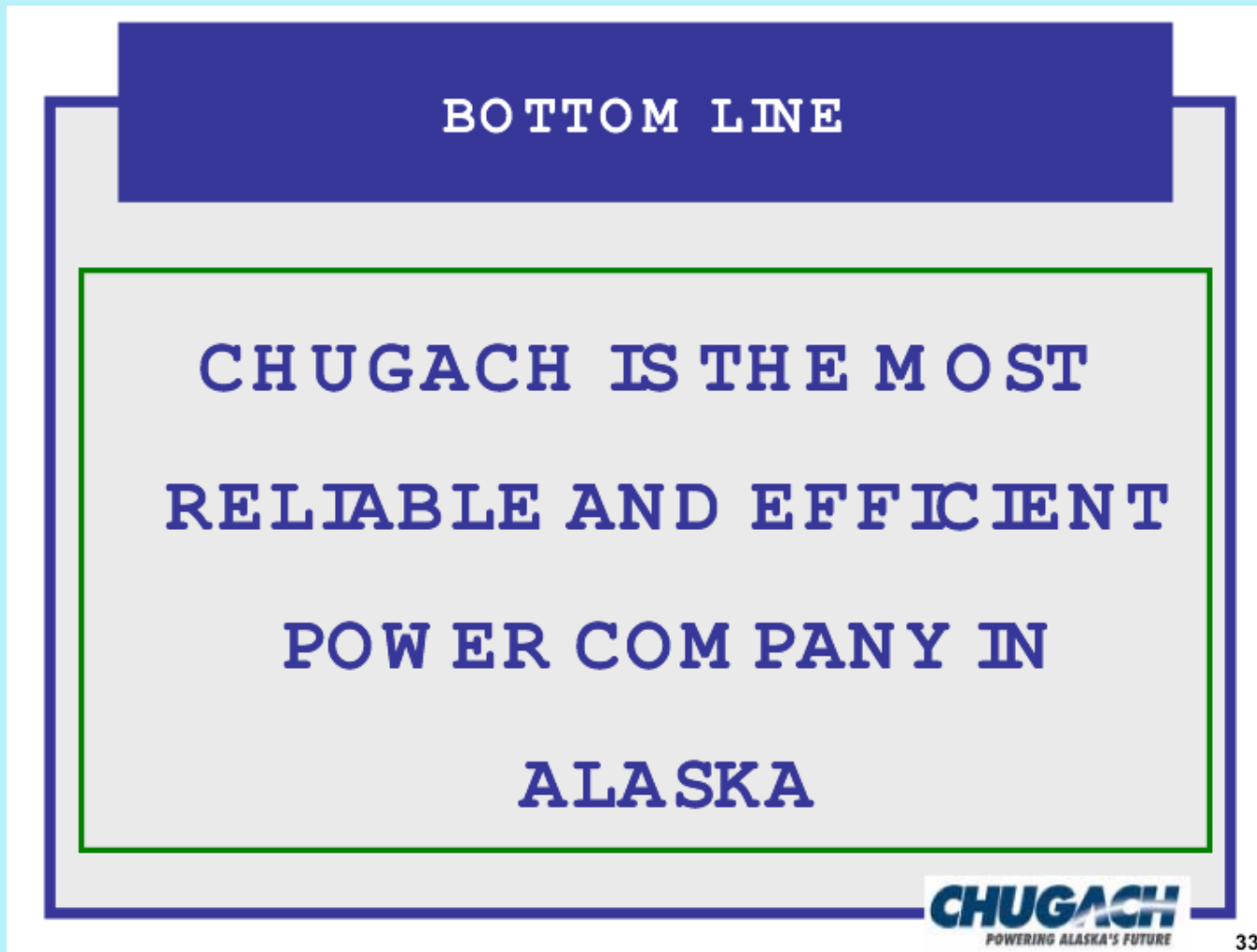
CEA Benchmarking Caution #3

Distribution Adder



CEA Benchmarking Caution #4

2003 CEA annual meeting treasurer's report



BOTTOM LINE

**CHUGACH IS THE MOST
RELIABLE AND EFFICIENT
POWER COMPANY IN
ALASKA**

CHUGACH
POWERING ALASKA'S FUTURE

33

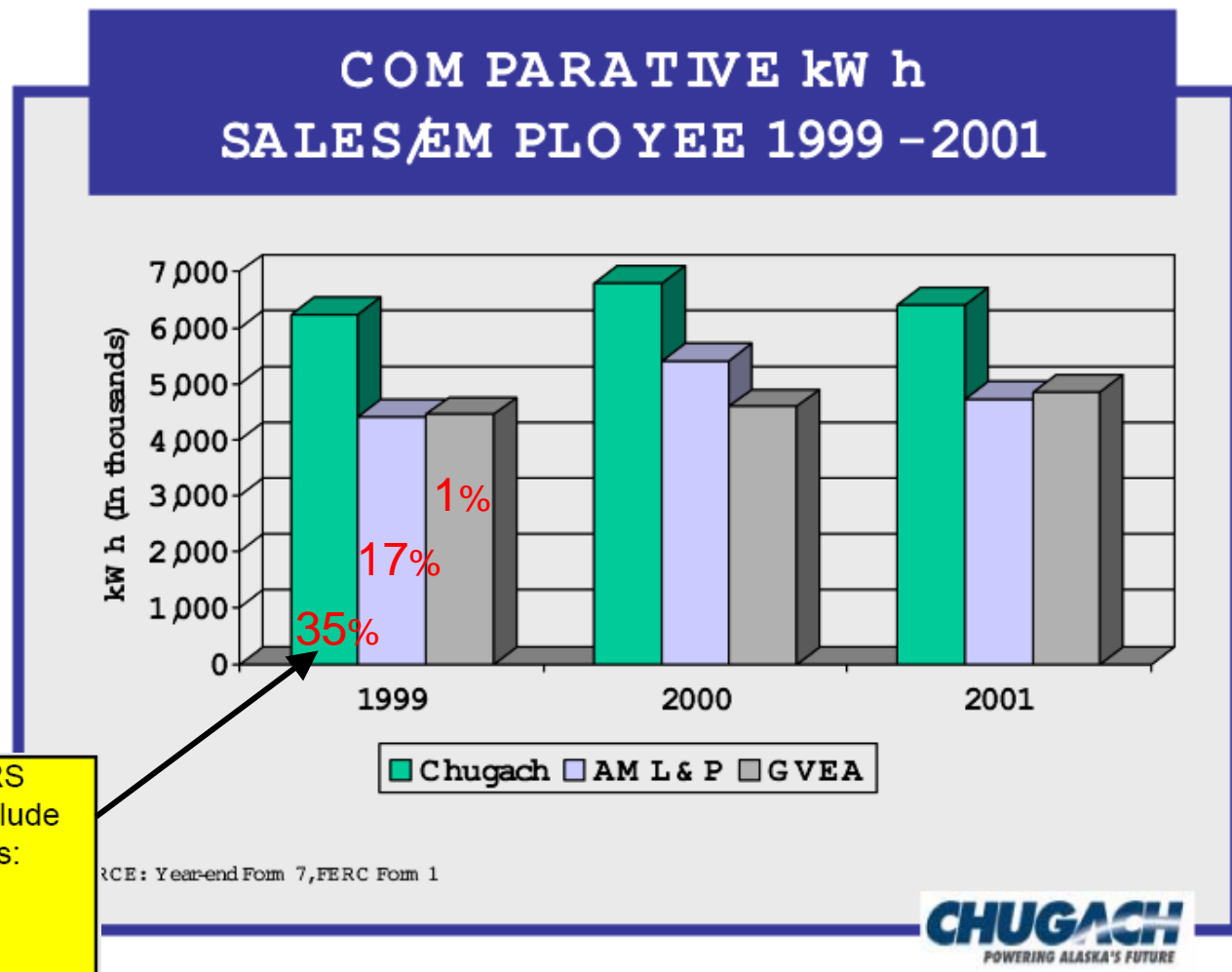


CEA Benchmarking Caution #5

CEA performance pumped up by adding wholesale into retail activities

THIS IS NOT A MEANINGFUL CHART.

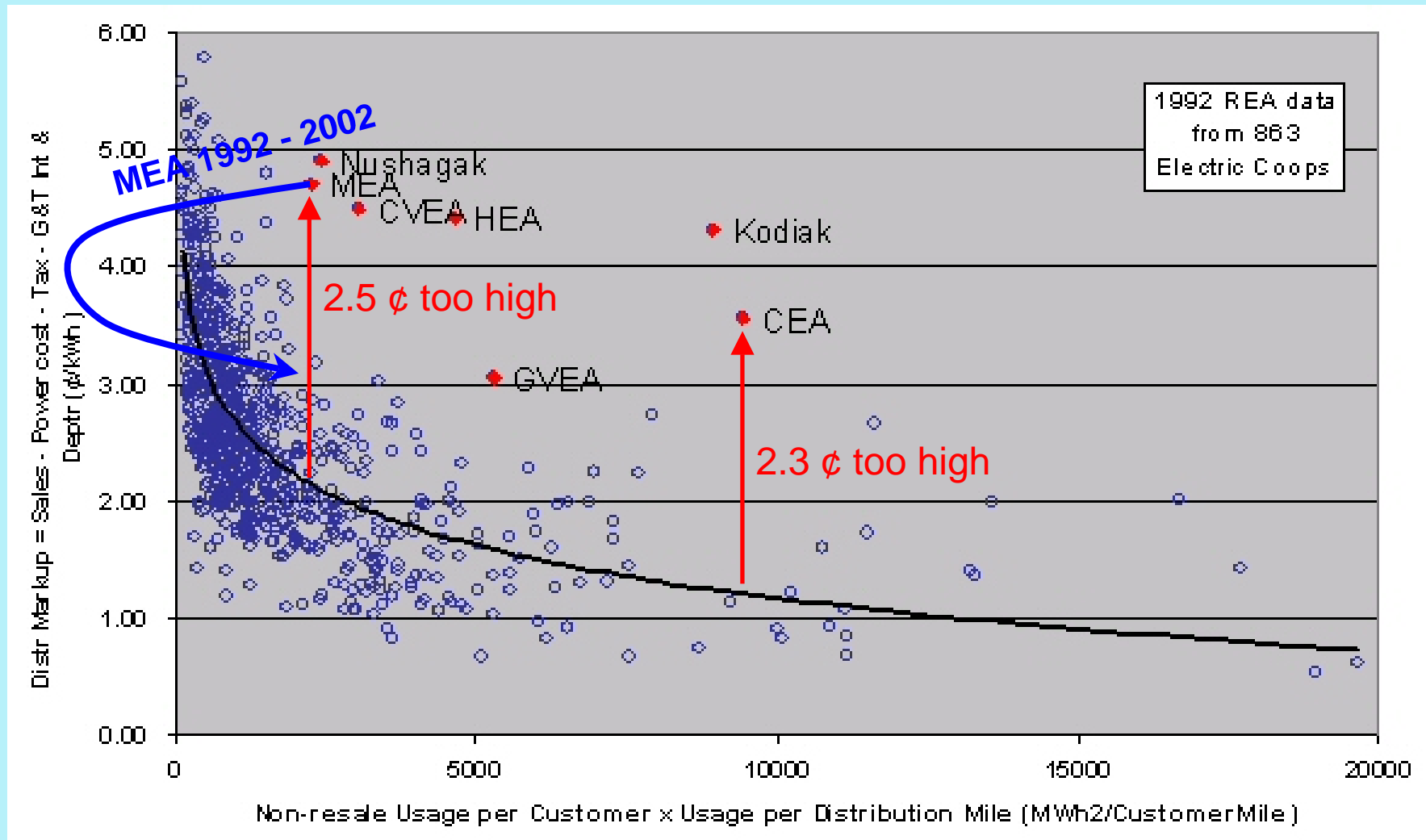
MUST UNBUNDLE TO COMPARE APPLES TO APPLES!



CHUGACH CONSUMERS COMMENT - Revenues include these wholesale amounts:
 Chugach - about 35%
 AML&P - about 17%
 GVEA - about 1%

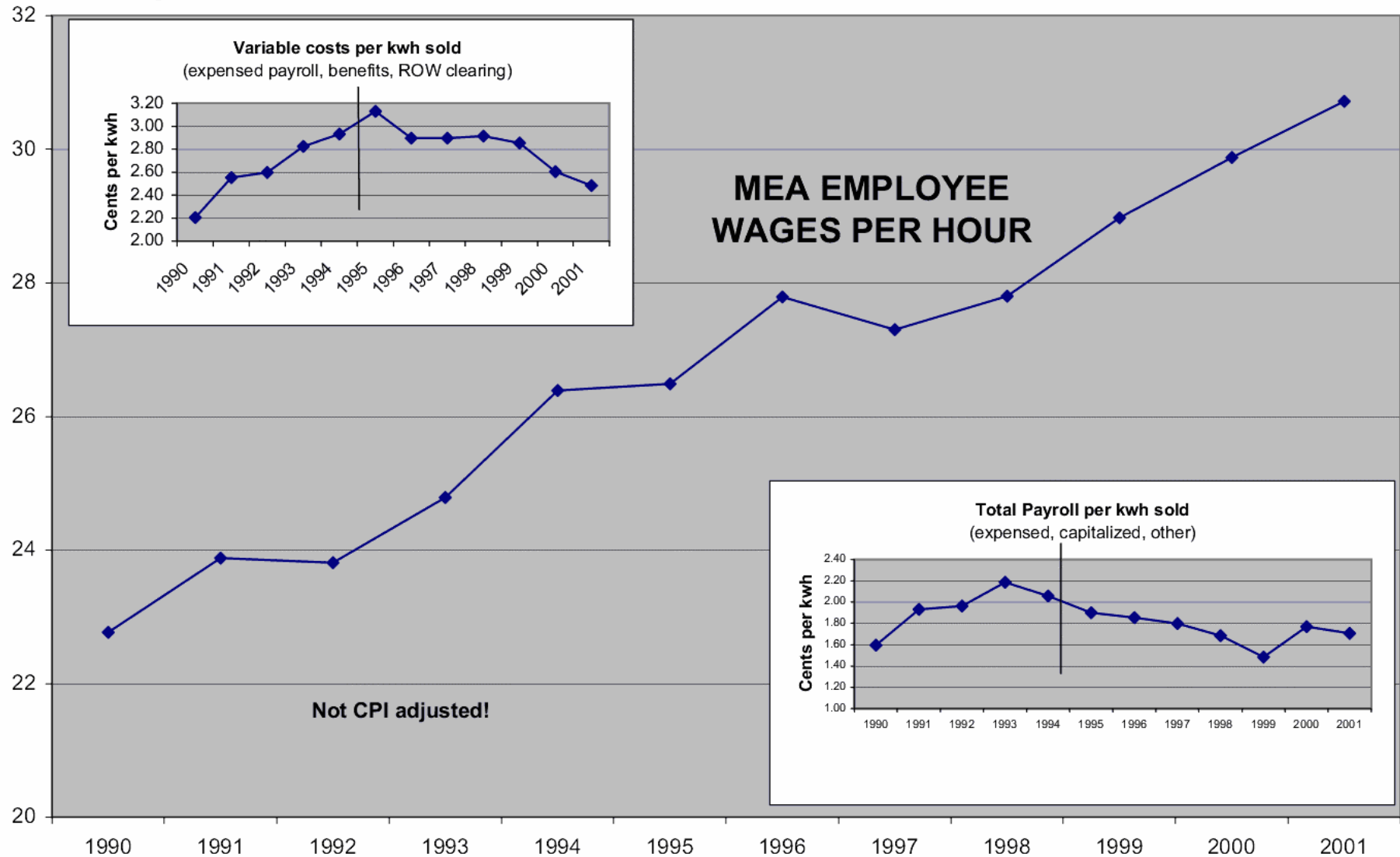


DISTRIBUTION MARKUP BY AVERAGE CUSTOMER USAGE AND SYSTEM DENSITY





ALASKA RAILBELT ELECTRIC UTILITIES DISTRIBUTION PERFORMANCE (MEA) prepared by Chugach Consumers - 2/03



CEA BLUE RIBBON PANEL

- WE BELIEVE YOUR PANEL IS THE MOST IMPORTANT ELECTRIC UTILITY REVIEW COMMISSION TO WORK THE NECESSARY REFORM ISSUES IN TWENTY YEARS.
- IT'S PARAMOUNT THAT THE BUSINESS COMMUNITY BECOME AWARE AND STAY INVOLVED.
- MANAGEMENT OF THESE BILLIONS OF DOLLARS OF PUBLICALLY OWNED CRITICAL ASSETS HAS LIMPED ALONG ON AUTOPILOT AND BENIGN NEGLECT FOR TOO LONG AND AT FAR TOO GREAT A COST.



THANK YOU FOR YOUR SERVICE
AND ATTENTION!

DISCUSSION - QUESTIONS

More Information:

www.ChugachConsumers.org

CHUGACH CONSUMERS

