

November 7, 2008

SENT: PDF copy via email and original via U.S. Postal Service.

The Honorable Sarah Palin
State of Alaska
550 West 7th Avenue, Suite 1700
Anchorage, Alaska 99501

Subject: ORDER NO. 8 by The Regulatory Commission of Alaska, Regarding Gas Sales Agreements between ENSTAR Natural Gas and ConocoPhillips Alaska, Inc. and ENSTAR Natural Gas and Marathon Oil Company

Dear Governor Palin:

I am writing to bring your attention to the recent unanimous decision issued on October 31, 2008 by the Regulatory Commission of Alaska (RCA) regarding ENSTAR Natural Gas Company's (ENSTAR) contracts with ConocoPhillips Alaska, Inc. (COP) and Marathon Oil Company (MOC) beginning on January 1, 2009. As you may know, ENSTAR's proposed gas sales agreements with MOC and COP would have tied Cook Inlet natural gas prices to Lower 48 consumption market prices like those paid by residents of Chicago, San Francisco and Los Angeles. However, the Commission found ample evidence in the record that producers used market power to extract higher prices from ENSTAR and that the producers were able exercise that power because of the LNG license extension.

As a result, the RCA's order approves ENSTAR's contracts on the condition that the parties agree to replace the price provisions of each contract. The RCA ordered that so long as natural gas is exported from Cook Inlet, prices will be capped by the average of a Commission imposed basket of Lower 48 production basin market prices. The RCA concluded that these price caps are appropriate for Cook Inlet gas because they reflect the market prices paid in production basins, like Cook Inlet, where natural gas is consumed in the same geographical region from which it is produced.

These changes represent a nearly 15% decrease in the MOC contract price and a nearly 19% reduction in the COP contract price for 2009 and hence, will ultimately result in substantial savings to all of Alaska's consumers of natural gas over the next several years. By establishing these price caps, the order provides for a paradigm in which utilities can acquire the gas needed to serve residents of this State at reasonable market-based prices, while at the same time, producers can continue to export natural gas from Cook Inlet.

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Chugach hopes that you will support the RCA for its work in reaching this very important decision. After over two weeks of hearings in August and after months of deliberation, the RCA issued an articulate and well-reasoned order that establishes a path for Alaska's producers, utilities, and consumers to work together in charting the future of Cook Inlet natural gas. The RCA's approach supports the continued export of our State's gas to the benefit of the local economy while securing at reasonable prices the gas Alaska needs at home. As such, the Commission's order addresses many of the concerns articulated in your letter to the U.S. Department of Energy dated April 6, 2007.

Given the recent economic climate and growing concerns of people across the state over the cost of heating their homes this winter, the RCA's decision comes at a critical time. Chugach believes that your public support of the Commission's unanimous decision is also critical. We thus urge you to consider releasing a statement that recognizes the positive impact of the RCA's efforts toward protecting the public's interest. The citizens of Alaska will be eager to hear your voice on these very important matters.

For your convenience, please find enclosed a copy of the RCA's October 31, 2008 order, concurring Commissioner Statements, and your April 6, 2007 letter to the U.S. Department of Energy.

Sincerely,

Bradley W. Evans
Chief Executive Officer

Cc: Joe Balash, State of Alaska
Marty Rutherford, State of Alaska
Daniel O'Tierney, State of Alaska
Lee Thibert, Chugach Electric Association, Inc.
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