

**CHUGACH ELECTRIC ASSOCIATION, INC.**  
**Anchorage, Alaska**

**REGULAR BOARD OF DIRECTORS' MEETING**  
**AGENDA ITEM SUMMARY**

**July 30, 2008**

**ACTION REQUIRED**

**AGENDA ITEM NO. XLB.**

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

---

**TOPIC**

Approve Participation and Operation and Maintenance Agreement - South Central Alaska Power Project between Chugach Electric Association, Inc. and Municipal Light & Power and gas turbine purchase.

**DISCUSSION**

Chugach Electric Association, Inc. (Chugach) has determined its least cost resource plan is to build new, more-efficient generation to replace its existing less efficient, aging generation. The Municipality of Anchorage d/b/a Municipal Light & Power (ML&P) also desires new, more-efficient generation. When compared with the costs to design, construct and operate smaller, separate plants, economies-of-scale can be achieved through the joint construction and operation of a larger, single plant capable of producing the new generation collectively required. Therefore, Chugach and ML&P plan to jointly build and own approximately 180 to 270 megawatts of new more efficient, combined-cycle generation. The new plant (the South Central Alaska Power Project, or "SCAPP"), the "Project", would be located adjacent to Chugach's existing International Station at 5601 Electron Drive in Anchorage, Alaska.

A Participation Agreement (Agreement) has been negotiated between Chugach and ML&P (individually "Owner" and collectively "Owners" or "Party" or "Parties", respectively) that includes provisions regarding their respective ownership as tenants in common of the SCAPP. The Agreement addresses responsibilities and mechanisms for the design, construction, ownership, operation, maintenance and repair of the SCAPP. Many of the provisions in the Agreement are modeled after the Bradley Lake and Eklutna Agreements. Specifically, the Agreement provides for an Operation and Maintenance Agreement, which the Parties have also negotiated, as well as a Land Lease from Chugach to the Project, and provides for management

and operations of the SCAPP, consisting of a Participants Committee (with Chugach as the Managing Participant) and an Operating Committee (with Chugach as the Operator of the SCAPP). The Term of the Participation Agreement is 30 years with a 5-year notice of termination in year 25 or later. Each Owner will provide its own financing for its share of the SCAPP and supply its own natural gas in proportion to its shares. Chugach will own approximately 70% of the SCAPP (and electrical output) and ML&P will own 30%. The Agreement also contains provisions for withdrawal, transfer of ownership and right of first refusal along with other defining Articles.

On the effective date of the Participation Agreement, Chugach will have a financial obligation to proceed with the SCAPP and the purchase of gas turbines for the SCAPP. The gas turbine proposals are valid through August 21, 2008. Chugach's estimated share of the gas turbine costs will be between \$45 to \$58 million over a two year time frame with an expected down payment of 10% (\$4.5 to \$5.8 million). Chugach's overall cost for its participation in the SCAPP from 2008 through 2013 is estimated to be \$256 million.

### **MOTION**

Move that the Board of Directors approve the attached resolution authorizing the Interim Chief Executive Officer to sign the South Central Alaska Power Project Participation Agreement and Operation and Maintenance Agreement with ML&P as well as the Land Lease and to proceed to procure the gas turbines for the Project.

## RESOLUTION

WHEREAS, Chugach Electric Association, Inc. (Chugach) has a need for new electric generation to replace its less efficient, aging generation and has determined that, when compared with the costs to design, construct and operate a small, separate plant to satisfy its respective new electric generation requirements, economies-of-scale can be achieved through the joint construction and operation of a larger single plant capable of producing the new generation. Accordingly, Chugach and the Municipality of Anchorage d/b/a Municipal Light & Power (ML&P) have decided to proceed with the joint development, construction and operation of South Central Alaska Power Project (SCAPP), to be operated for their mutual benefit; and

WHEREAS, Chugach desires to build the SCAPP as a combined cycle natural gas burning generation facility at a size that meets Chugach's and ML&P's collective needs for electric energy and new capacity; and

WHEREAS, the new generating facility will be located adjacent to Chugach's existing International Station at 5601 Electron Drive in Anchorage, Alaska; and

WHEREAS, Chugach intends to rely on the capacity and electric energy generated by SCAPP as part of its system planning and reliability needs and to serve the needs of its current and future members; and

WHEREAS, the cost to develop, build and operate SCAPP makes it advisable that Chugach and ML&P share the related financial and operational costs associated with such a project, and

WHEREAS, Chugach has determined that the sharing and allocation of such costs and SCAPP's generating capacity can best be accomplished by acquiring, owning and managing the related property rights necessary to build, own and operate SCAPP as tenants in common; and

WHEREAS, Chugach desires that SCAPP be operated in a cost-effective manner; and

WHEREAS, Chugach and ML&P have prepared a Participation Agreement and an Operation and Maintenance Agreement to provide for their respective ownership of the SCAPP as tenants in common and also sets forth certain responsibilities and mechanisms for the design, construction, ownership, operation, maintenance and repair of the SCAPP; and

WHEREAS, many of the provisions in the Participation Agreement were modeled after the Bradley Lake and Eklutna Agreements; and

WHEREAS, the Participation Agreement provides for an Operation and Maintenance Agreement as well as a Land Lease and defines the management of the SCAPP, which is composed of a Participation Committee, with Chugach as the Managing Participant of the SCAPP, an Operating Committee, with Chugach as the Operator of the SCAPP; and

WHEREAS, the term of the Participation Agreement is 30 years with a 5-year notice to terminate in year 25 or later; and

WHEREAS, Chugach and ML&P will each provide its own financing and supply its own natural gas in proportion to their ownership shares in the SCAPP, which are approximately 70% for Chugach and 30% for ML&P; and

WHEREAS, the Participation Agreement also provides provisions for withdrawal, transfer or ownership and right of first refusal of a Participant along with other defining articles; and

WHEREAS, on the effective date of the Participation Agreement, Chugach will have a financial obligation to proceed with the SCAPP including the procurement of the gas turbines for the SCAPP; and

WHEREAS, Chugach's estimated share of the gas turbine costs will be between \$45 to \$58 million over a two year time frame with an expected down payment of 10% (\$4.5 to \$5.8 million) due when the order is placed; and

WHEREAS, Chugach has included the SCAPP in its 2008-2012 Capital Improvement Plan; and

WHEREAS, Chugach's overall cost for its participation in the SCAPP from 2008 through 2013 is estimated to be \$256 million.

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of Chugach Electric Association, Inc., authorizes Chugach's Interim Chief Executive Officer (CEO) to sign the Participation Agreement and the Operation and Maintenance Agreement. It further authorizes the Interim CEO to proceed to procure the gas turbines for the SCAPP with a cost to Chugach of \$45 to \$58 million.

I, Alex Gimarc, do hereby certify that I am the Secretary of Chugach Electric Association, Inc., an electric non-profit cooperative membership corporation organized and existing under the laws of the State of Alaska: that the foregoing is a complete and correct copy of a resolution adopted at a meeting of the Board of Directors of this corporation, duly and properly called and held on the 30<sup>th</sup> day of July, 2008; that a quorum was present at the meeting; that the resolution is set forth in the minutes of the meeting and has not been rescinded or modified.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of this corporation the 30<sup>th</sup> day of July, 2008.

---

Secretary