

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

REGULAR BOARD OF DIRECTORS MEETING
AGENDA ITEM SUMMARY

August 27, 2008

ACTION REQUIRED

AGENDA ITEM NO. XI.C.

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

TOPIC

Amendment to the Participation Agreement - South Central Alaska Power Plant (SCAPP) between Chugach Electric Association, Inc. (Chugach) and Municipal Light & Power (ML&P) and gas turbine purchase

DISCUSSION

The Board approved at its July 30, 2008 Regular Board Meeting the Participation Agreement (Agreement) negotiated between Chugach Electric Association, Inc. and Municipal Light & Power (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 mechanism for the design, construction, ownership and operation, maintenance and repair of the SCAPP.

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 28, 2008. Chugach's estimated share of the gas turbine costs will be \$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.

The following amendments to the existing Participation Agreement are:

Existing language

Draft Amendments as approved by the MOA Assembly on August 19, 2008

Section 1. The Municipality is authorized to execute the Participation Agreement, Operation and Maintenance Agreement, and Lease Agreement between ML&P and CEA, in a form substantially as presented to the Assembly; **provided that it shall not do so until it reaches a cost sharing agreement with CEA on the transmission line that connects the SCAPP to the ML&P system.**

New section 2: **Prior to executing the Participation Agreement, ML&P shall obtain a commitment from CEA to seek economically viable ways to utilize the waste heat from SCAPP and to share the benefits from such use equitably between ML&P and CEA.**

New section 3: **ML&P and CEA are encouraged to negotiate with MEA to permit MEA to join the SCAPP project.**

(Note specific negotiated language will be made available to the Board prior to August 27, 2008 Regular Board meeting)

MOTION

Move that the Board of Directors authorize the CEO to execute an amendment to the SCAPP Participation Agreement relating to 1) cost sharing on the SCAPP to ML&P transmission line, 2) committing CEA and ML&P to seek economically viable ways to utilize waste heat from SCAPP, and 3) encouraging the participation of MEA in the SCAPP.