

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

REGULAR BOARD OF DIRECTOR' MEETING
AGENDA ITEM SUMMARY

August 27, 2008

ACTION REQUIRED

AGENDA ITEM NO. XI.D.

 Information Only
 X Motion
 X Resolution
 Executive Session
 Other

TOPIC

Authorization for the CEO to approve a gas turbine O&M contract for the term of 120,000 operating hours (approximately 15 years) at a cost up to \$60 million (70% of the total cost of \$80 million).

DISCUSSION

Negotiations with gas turbine vendors have resulted in O&M proposals for their respective gas turbines that offer substantial savings and risk reductions over “do it yourself” maintenance. These contracts proposals reflect a tradeoff of vendor support and parts cost reductions in exchange for exclusive service and parts purchases. Chugach’s savings are estimated to be as much as 18% (\$10-15 million for Chugach’s 70% share) while substantially reducing O&M risk through risk sharing of unplanned outage costs. The selected contract must be awarded concurrent with the gas turbine equipment contracts.

BUDGETARY IMPACTS

Amount: Up to \$60 million over the 15 year period starting late 2012.

Expense: Approximately 1% down, \$400,000, and approximately \$3-5 million per year starting 2013.

Capital: About \$500,000.

Discussion: Expenses for the O&M contract are based on operating hours, which don't begin until the unit is commissioned in late 2012.

MOTION

Move to that the Board of Directors authorize the CEO to approve a gas turbine O&M contract for the term of 120,000 operating hours (approximately 15 years) at a cost up to \$60 million (70% of the total cost of \$80 million).



RESOLUTION

Participation and Operation and Maintenance Agreements – South Central Alaska Power Project

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

WHEREAS the Board of Directors of Chugach Electric Association, Inc., has authorized Chugach's Chief Executive Officer (CEO) to proceed to procure the gas turbines for the SCAPP with a cost to Chugach of \$45 to \$58 million.

WHEREAS Chugach has evaluated gas turbine vendor O&M agreements for the maintenance of such gas turbines and identified cost savings of up to 18% (approximately \$10-15 million) over 15 years, and substantial reductions of O&M risk through risk sharing of unplanned outage costs.

The Board of Directors hereby authorizes the CEO to approve a gas turbine O&M contract for the term of 120,000 operating hours (approximately 15 years) at a cost up to \$60 million (70% of the total estimated cost of \$80 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 27th day of August, 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 27th day of August, 2008.

Secretary