

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

FINANCE COMMITTEE MEETING
AGENDA ITEM SUMMARY

June 11, 2008

ACTION REQUIRED

AGENDA ITEM NO. XII.

Information Only
 Motion
 Resolution
 Executive Session
 Other

TOPIC

Amendment to the Tripartite Agreement with Matanuska Electric Association, Inc. (MEA)

DISCUSSION

MEA purchases all of its power from Chugach under the Tripartite Agreement. The purpose of the amendment to the Tripartite Agreement is to allow MEA the option to purchase non-firm power directly from two proposed run-of-river hydroelectric generation projects located in MEA's service area. The amendment is limited to purchases from the South Fork and Fishhook Hydroelectric projects.

The amendment is revenue neutral to Chugach. It does not change Chugach's obligation to provide firm power, nor does it change MEA's obligation to purchase firm power. Only non-firm energy is purchased and is brought into the Chugach system at Chugach's avoided cost.

Chugach is pursuing the amendment to aid in the development of renewable resources. The amendment allows the project developers the option to develop power sales agreements with MEA. Because the projects are located in MEA's service area, the developers would not incur wheeling charges to sell to other Railbelt utilities. If the developers have to pay wheeling charges, the projects are not economic based on current rates.

MOTION

Move that the Finance Committee recommend the Board of Directors approve the amendment to the Tripartite Agreement with Matanuska Electric Association, Inc.

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SECOND AMENDMENT TO MODIFIED AGREEMENT FOR THE SALE AND
PURCHASE OF ELECTRIC POWER AND ENERGY
dated April 5, 1989 by and among Chugach Electric Association, Inc., Matanuska Electric
Association, Inc. and
Alaska Electric Generation and Transmission Cooperative, Inc.

WHEREAS, Chugach Electric Association, Inc. (Chugach), Matanuska Electric Association, Inc. (MEA) and Alaska Electric Generation and Transmission Cooperative, Inc. (AEG&T) are parties (hereinafter jointly referred to as the “Parties”) to the Modified Agreement For The Sale And Purchase Of Electric Power And Energy dated April 5, 1989 by and among Chugach Electric Association, Inc., Matanuska Electric Association, Inc. and Alaska Electric Generation and Transmission Cooperative, Inc. (hereinafter “Agreement”); MEA and AEG&T acting collectively with respect to the Agreement are referred to herein as “AEG&T/MEA”);

WHEREAS, the Parties desire to amend the Agreement to facilitate MEA purchasing the electrical output of two hydroelectric facilities planned by South Fork Hydro, LLC and Fishhook Renewable Energy, LLC for location on the South Fork of Eagle River and on Fishhook Creek in the Hatcher Pass area, respectively, of Southcentral Alaska (hereinafter “South Fork/Fishhook Hydro Projects”);

WHEREAS, the intent of the Parties in this Second Amendment to the Agreement is to allow MEA to purchase the entire electrical output of the South Fork/Fishhook Hydro Projects, on terms that are financially neutral to both Chugach and AEG&T/MEA for wholesale power service provided to AEG&T/MEA, without changing AEG&T/MEA’s status under the Agreement as an “All Requirements” customer of Chugach;

WHEREAS, the Parties intend that except as specifically stated herein, this Second Amendment to the Agreement shall not in any way change or diminish the Parties’ respective rights and responsibilities under the Agreement, and shall not be considered as agreement to or precedent for future changes in the Parties’ rights and responsibilities under the Agreement; and

WHEREAS, the impact of the South Fork/Fishhook Hydro Projects on Chugach’s annual G&T transmission loss factor, when the energy deliveries from the Projects are included and calculated in accordance with the Stipulation on G&T Line Loss Issues that was accepted by the Commission in Order No. 12 of Docket U-99-106, is expected to be immaterial, both individually and collectively;

NOW, THEREFORE, consistent with the above, the Parties agree to the following Second Amendment to the Agreement:

A. New Section 7 (e)

The Parties agree to add a new Section 7(e) to the Agreement as follows:

7 (e). Treatment of South Fork/Fishhook Hydro Projects. Provided the installed capacity of two hydroelectric facilities planned by South Fork Hydro, LLC and Fishhook

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Renewable Energy, LLC for location on the South Fork of Eagle River and on Fishhook Creek in the Hatcher Pass area, respectively, of Southcentral Alaska (South Fork/Fishhook Hydro Projects) in the aggregate does not exceed 4 MW:

(1) Purchase by MEA of Electric Power from one or both of the South Fork/Fishhook Hydro Projects shall not be considered an AEG&T/MEA Resource for purposes of this Agreement.

(2) AEG&T/MEA shall not be obligated to use reasonable best efforts to persuade the developers of the South Fork/Fishhook Hydro Projects to deal directly with Chugach, as otherwise provided for in 7(b).

(3) Chugach's monthly invoice to AEG&T/MEA shall be reduced by an amount equal to the kWh received by MEA from the South Fork/Fishhook Hydro Projects multiplied by Chugach's tariffed rate for non-firm power purchases for that billing month. Specifically, unless and until an alternative avoided cost calculation is developed, the "Non-firm power rate" on the approved Chugach Tariff Sheet No. 97 (Purchase and Sales Rates for Qualified Cogeneration and Small Power Production Facilities) for each month shall be used to determine the amount by which Chugach's invoice shall be reduced based upon MEA's purchases from the South Fork/Fishhook Hydro Projects. At any time prior to the end of this agreement Chugach may propose to the Commission an alternative avoided cost calculation to apply to MEA's purchases from the South Fork/Fishhook Hydro Projects. Prior to filing any such proposal, Chugach shall meet with AEG&T/MEA to discuss how the proposed change, if approved, would affect AEG&T/MEA's monthly invoice. Any changes in the calculation of the avoided cost rate(s) are subject to the standard review and adjudicatory processes of the Regulatory Commission of Alaska. AEG&T/MEA reserves the right to oppose any such proposal before the Commission.

(4) Payments made by MEA for purchases from the South Fork/Fishhook Hydro Projects shall be not be less than the reduction to MEA's billings from Chugach for the kWh received by MEA from the South Fork/Fishhook Hydro Projects described in Section 7(e)(3), above.

(5) Except for the reduction in Chugach's monthly invoice to AEG&T/MEA computed pursuant to Section 7(e)(3), all rates and resulting invoices charged by Chugach to MEA shall be computed as if the Electric Power received from the South Fork/Fishhook Hydro Projects were received from Chugach. The wholesale billing rates charged by Chugach to AEG&T/MEA shall not be reduced to reflect any contribution of capacity from the South Fork/Fishhook Hydro Projects. Energy-related costs other than fuel and purchased power that are presently included in the rates charged by Chugach to AEG&T/MEA shall not be reduced to reflect Electric Power received by MEA from the South Fork/Fishhook Hydro Projects. For the remainder of the term of the Agreement, Chugach's rates for AEG&T/MEA's purchases of energy and capacity (including both monthly Billing Demand and determination of Coincident Peak for ratemaking purposes) shall be computed as if the amounts of capacity and energy taken from the South Fork/Fishhook Hydro Projects by AEG&T/MEA were actually taken from Chugach.

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For purposes of Chugach's quarterly Fuel and Purchased Power Cost Adjustment Factor updates (Chugach Tariff Sheets No. 94 *et al*), the amounts credited AEG&T/ MEA pursuant to Section 7(e)(3) for MEA's purchases of Electric Power from the South Fork/Fishhook Hydro Projects will be considered part of Chugach's system costs. Those costs shall be apportioned to all classes of service, including AEG&T/MEA, consistent with established cost assignment methodologies.

(6) All of Chugach's remaining obligations under the AEG&T/MEA Agreement, including the obligation to maintain reserves sufficient to support AEG&T/MEA's entire load, remain unchanged.

(7) Before allowing the South Fork/Fishhook Hydro Projects to interconnect with AEG&T/MEA's facilities or equipment, or accepting any Electric Power from the South Fork/Fishhook Projects, MEA shall confirm, to Chugach's satisfaction, its ability to provide Chugach with interval pulse data that are compliant with and subject to all metering requirements of the AEG&T/MEA Agreement. AEG&T/MEA shall ensure that telephone access is installed to Chugach's specifications at the metering point. The metering installed by Chugach, and the pulse output provided by MEA, shall be:

- (A) revenue class capable of measuring the amount of kWh delivered to AEG&T/MEA by the South Fork/Fishhook Hydro Projects
- (B) capable of measuring with a frequency of not less than every 15 minutes;
- (C) accessible by and compatible with Chugach's MV90 system; and
- (D) accepting of telephonic interrogation.

MEA shall assure by contract with the South Fork/Fishhook Hydro Projects that Chugach-owned meters on the premises of the South Fork/Fishhook Hydro Projects are fully accessible to Chugach, without charge, and that Chugach is afforded all of the same rights as it has with respect to other meters under the Agreement. Chugach shall bear the full cost of installing its meters and collecting metered data from those Chugach-owned and maintained meters.

(8) Once the South Fork/Fishhook Hydro Projects have commenced energy deliveries, they shall be counted as Points of Delivery for which a monthly Customer Charge is payable by AEG&T/MEA, pursuant to Chugach Tariff Sheet No. 99.

(B) The Parties acknowledge that no part of this Second Amendment shall be interpreted to have amended the Agreement, until this Second Amendment has been approved by the Regulatory Commission of Alaska. The Parties agree to use their best efforts to get prompt approval of this Second Amendment by the Regulatory Commission of Alaska.

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(C) Notwithstanding Part B of this Second Amendment, Chugach agrees that MEA can begin negotiations with the owners of the South Fork/Fishhook Hydro Projects for agreements to purchase the electrical output of those projects immediately upon the Parties having signed this Second Amendment, and that such negotiations will not be considered a violation of Section 7(b) of the Agreement.

(D) The Parties agree that this Second Amendment does not preclude Chugach from negotiating directly with the South Fork/Fishhook Hydro Projects or with any other power supplier to purchase the electrical output.