

DRAFT

Unocal Alaska
Anadarko
Aurora
Chevron
ConocoPhillips
Forest
Marathon

Re: Request for proposals for future natural gas supply needs

Dear :

Chugach is soliciting proposals to supply natural gas it needs to operate gas-fired turbine electric generators at its three power plants located at Beluga, Bernice Lake and in Anchorage as well as other power plants that may be added in the future. Specifically, Chugach seeks supplies sufficient to meet the estimated loads projected in the enclosed spreadsheet. The enclosed data refers to 120 bcf of “Period 3” natural gas that the producers of the Beluga River Field (Beluga Producers) have committed under the Basic Agreements signed in 1989. The parties to these contracts have an obligation to negotiate in good faith to establish the price, terms and conditions of delivery of this gas. Nevertheless, you are encouraged to make your preferred proposals for how much your firm would be willing to supply annually, assuming that the Beluga Producers do not supply 100% of Chugach’s annual needs for Period 3.

Chugach has a contractual obligation to supply all or substantial portions of the power needs of Homer Electric Association (“HEA”) and Matanuska Electric Association (“MEA”). Note that this obligation ceases as of January 1, 2014, for HEA and December 31, 2014, for MEA. The needs estimated in the enclosed spreadsheet reflect these reductions in fuel requirements. If both MEA and HEA cease to purchase power from Chugach on the above dates, we will nevertheless continue to require natural gas to supply our retail loads and this is also reflected in the enclosed spreadsheet.

Chugach’s main interest is in arranging supplies for those loads it is reasonably assured it will have in the future. This includes its wholesale loads for the duration of the current contracts as well as its retail customer loads for the indefinite future. Nevertheless,

Chugach is willing to entertain any proposals you may have to supply additional volumes on a contingent basis that may be needed to continue to serve part or all of these loads should Chugach be successful in extending these contracts. Chugach may pursue follow-on contracts with MEA and HEA as well as other power supply sales as opportunities may arise. Alternatively, Chugach is currently discussing with other Railbelt utilities the possibility of forming an entity to own and operate most or all electric power generation and transmission facilities in the Alaska Railbelt. If we are successful in this effort, it is possible that Chugach may seek to assign its fuel supply contracts to this entity.

Chugach's most important considerations include:

- Security of supply
- Price
- Price volatility
- Price as compared with alternative power supply sources including wind and coal
- Price as compared with price per generated kWh enjoyed by other Railbelt electric power generators

Chugach intends to retain the option to develop other power generation resources that may include wind, and is disinclined to limit power generation solely to natural gas or to restrict purchases from other resources or suppliers.

Chugach encourages you to offer alternative proposals that may include, but are not limited to, all requirements, take-or-pay (with right to resell) and each of the above alternatives for specific generation stations. While earlier responses are encouraged, we ask that you respond by the end of 2004. Upon receiving proposals, Chugach will engage in discussions that we hope will lead to contracts to purchase additional gas supplies.

Please feel free to contact me with any questions or to arrange a meeting at (907) 762-4517

Sincerely,

Lee Thibert,
Senior Vice President, Power Delivery