

ELECTRONICALLY FILED WITH RCA

September 30, 2013

TARIFF ADVICE LETTER 381-8

Regulatory Commission of Alaska
701 West Eighth Avenue, Suite 300
Anchorage, AK 99501-3469

Dear Commissioners:

Chugach Electric Association, Inc. (“Chugach”) hereby submits the following tariff filing, addressing a new gas purchase agreement, to the Regulatory Commission of Alaska (“Commission”) in compliance with the Alaska Public Utilities Regulatory Act and 3 AAC 48.200 – 3 AAC 48.430.

| <u>TARIFF SHEET NUMBER</u> | | <u>CANCELS SHEET NUMBER</u> | | <u>SCHEDULE OR RULE NUMBER</u> | | |
|----------------------------|----------------|-----------------------------|----------------|------------------------------------|----------------|--------------------|
| <u>ORIGINAL</u> | <u>REVISED</u> | <u>ORIGINAL</u> | <u>REVISED</u> | | | |
| 94 | – | 118th Revision | 94 | – | 117th Revision | Fuel & Purchased |
| 95 | – | 117th Revision | 95 | – | 116th Revision | Power Cost |
| 95.5 | – | 54th Revision | 95.5 | – | 53rd Revision | Adjustment Factors |

Pursuant to 3 AAC 52.470(e), Chugach files for the Commission’s information: (1) the Gas Sale and Purchase Agreement between Cook Inlet Energy, LLC (“CIE”) and Chugach, dated as of September 30, 2013 and attached hereto as Appendix A (“Chugach-CIE Agreement” or the “Agreement”); (2) Chugach’s load forecasting data, attached as Appendix B, that justifies the need for the Agreement; and (3) information demonstrating that the Agreement is the most feasible means available to Chugach for meeting its forecasted load. As explained below, the Agreement comes before the Commission under unique circumstances, so Chugach is also requesting a waiver of the requirements of 3 AAC 52.470(e), should the Commission find that the standards of that provision are not met. Chugach is also providing information establishing that the Agreement satisfies the statutory public interest standard set forth in AS 42.05.141(d).

Chugach respectfully requests Commission approval of the Chugach-CIE Agreement as a gas supply contract and approval to recover all fuel and related costs of the Agreement (including gas purchase, transportation and storage costs) through Chugach’s quarterly fuel and purchased power adjustment process pursuant to 3 AAC 52.502(a).

This filing is not for a new service nor will it result in the termination of an existing service or conflict with any other schedule or rate contained in Chugach’s operating tariff. Because the Chugach-CIE Agreement applies to gas purchases from April 1, 2014 through March 31, 2018,

Homer Electric Association, Inc. (“HEA”) is not impacted by this filing and Matanuska Electric Association, Inc. (“MEA”) will be minimally impacted, if at all, by this filing.¹ Approximately 67,000 Chugach retail customers and the wholesale class of Seward Electric System are impacted by this filing. Chugach further requests that the Commission make the approvals requested by this filing and other determinations, if any, by no later than March 31, 2014.

I. Background

As noted in Tariff Advice No. 377-8, requesting approval of the Gas Sale and Purchase Agreement between Chugach and Hilcorp Alaska, LLC (“Hilcorp”), dated July 1, 2013 (“Chugach-Hilcorp Agreement”), “Chugach would normally prefer not to be dependent on a single supplier of natural gas.”² Nevertheless, the near- to middle-term Cook Inlet natural gas market essentially requires that Chugach tolerate such dependence. As noted by the Commission in Letter Order L1300429, dated September 10, 2013, which approved the Chugach-Hilcorp Agreement: after considerable investigation into alternatives, Chugach has determined that “Hilcorp is the only producer currently able to provide gas sufficient to meet Chugach's full electric load.”³

Chugach has expended significant efforts to investigate and develop relationships with various independent sellers of Cook Inlet natural gas (“Independents”) in order to obtain some of its unmet base load gas needs. In particular, at various points in recent years, Chugach has had discussions with Aurora Gas, LLC; Buccaneer Alaska, LLC; Furie Operating Alaska, LLC; and XTO Energy, Inc. None of these discussions have resulted in a firm supply agreement sufficient to satisfy a meaningful portion of Chugach's base load gas needs.

The reason for this is that the Independents are still developing the abilities that major sellers like Hilcorp already have. Thus, in general, “none of the independent gas sellers are [*currently*] capable of meeting the volume and firm deliverability requirements that providing service to Chugach's base load member-customers requires.”⁴ The new Chugach-CIE Agreement is an attempt to move past this limitation by establishing a framework for gas purchases and sales between Chugach and CIE, allowing CIE to continue to develop its resources and, if that development work produces sufficient volumes of reliable production, providing a means for the parties to quickly conclude a sale at known prices and other key terms. Put simply, the Agreement provides a means for CIE to meet Chugach's volume and firm deliverability requirements when it is able.

This in turn provides Chugach with an opportunity to diversify away from the single source dependence that has overtaken the Cook Inlet gas market. As discussed in Section III.B, there are specific features of the recent Chugach-Hilcorp Agreement that simultaneously permit Chugach to ensure that its needs through March 2018 are met while also providing it with the opportunity to contract for some of its needs with Independents, like CIE.

¹ Chugach expects that MEA will be minimally impacted, if at all, because the quantity of gas purchased under the Agreement in 2014 will be very limited, on the order of 150,000 Mcf or less, as Chugach has satisfied its projected needs for the coming year.

² Tariff Advice No. 377-8 at 9.

³ Letter Order L1300429 at 5 (emphasis added).

⁴ Tariff Advice No. 377-8 at 9.

The default Term of the Agreement (assuming Commission approval) is April 1, 2014 through March 31, 2018, essentially coinciding with the term of the Chugach-Hilcorp Agreement, with some limited potential for gas purchases in 2014 as CIE continues to develop its gas production volume and deliverability capabilities. Chugach and CIE have also provided for the possibility of a built-in 5 year Extension Term, subject to their mutual agreement as described in Section 4.2, and have further agreed on the key term of the prices that would apply during that Extension Term. If CIE is able to develop its resources as planned, Chugach anticipates that the parties will trigger this Extension Term at these set prices. All other terms and conditions of the Agreement, as summarized below, would continue to apply during the Extension Term.

II. Key Features of the Chugach-CIE Agreement

The Chugach-CIE Agreement contains several provisions tailored to Chugach's near- to middle-term natural gas needs and the allowances of the balance of Chugach's gas supply portfolio. Capitalized terms used but not defined herein have the meanings given them in the Agreement.

A. Sales Price

The Gas Sales Prices for gas sold and purchased under the Agreement were arrived at by the parties through negotiation and are not pegged to any index or other external referent (as are Chugach's current base contracts, including the recently-approved Chugach-Hilcorp Agreement, which contains prices set at the Consent Decree's price caps). The Sales Prices in each Contract Year, including prices that would apply during the Extension Term if it is agreed to, are summarized below.

| Contract Year | Base Load Gas Price (Dollars per Mcf) | Swing Load Gas Price (Dollars per Mcf) |
|----------------------------|--|---|
| 1 (4/1/2014 – 12/31/2014) | \$6.12 | \$7.65 |
| 2 (1/1/2015 – 12/31/2015) | \$6.24 | \$7.80 |
| 3 (1/1/2016 – 12/31/2016) | \$6.37 | \$7.96 |
| 4 (1/1/2017 – 12/31/2017) | \$6.49 | \$8.12 |
| 5 (1/1/2018 – 12/31/2018) | \$6.62 | \$8.28 |
| 6 (1/1/2019 – 12/31/2019) | \$6.76 | \$8.45 |
| 7 (1/1/2020 – 12/31/2020) | \$6.89 | \$8.62 |
| 8 (1/1/2021 – 12/31/2021) | \$7.03 | \$8.79 |
| 9 (1/1/2022 – 12/31/2022) | \$7.19 | \$8.96 |
| 10 (1/1/2023 – 12/31/2023) | \$7.31 | \$9.14 |

These prices are roughly ten percent (10%) below those currently available under, e.g., the Consent Decree, which Chugach noted and the Commission referenced as "approved after due inquiry and a public comment period by the Superior Court for the State of Alaska" in its recent approval of the Chugach-Hilcorp Agreement.⁵ As Consent Decree-based prices have effectively been found just and reasonable in the current Cook Inlet gas market, Chugach believes that these

⁵ Letter Order L1300429 at 5.

Gas Sales Prices, prices below those provided under the Consent Decree over the same period, are likewise just and reasonable. There are not present comparisons for the Extension Term, but the Gas Sales Prices are less than post-2017 gas prices in other gas contracts before the RCA.

B. Volumes

The Agreement does not provide a current commitment by either party to sell or purchase any volume of gas. Instead, Section 2.1 provides for the parties to meet and confer each year on the possible volumes of gas that could be sold and delivered in the next Contract Year (or such other period as they might mutually agree). This is necessary given CIE's on-going development work: while it anticipates having gas to sell on a Firm basis, it was not, at the point the parties negotiated the Agreement, able to commit to sell such volumes.

While this lack of specific Firm volume commitments is atypical in Cook Inlet gas supply agreements to date, Chugach's gas supply needs are finite and it has no reason to contract for volumes of gas that are significantly in excess of its need.⁶ In any event, because there is no current commitment by Chugach to purchase any particular volume of gas from CIE, it is not at risk of over-supply and has only the upside of diversifying its resource base to look forward to, should CIE be able to develop its gas resources to produce gas in volumes and at delivery rates on which Chugach can rely for some of its base supply needs.

C. Variable Deliverability

Section 2.1(D) provides that, if Firm volumes cannot be agreed to, the parties may still conduct Interruptible transactions, which may be reduced or ceased entirely by either party for any reason. It is not possible for this variability to harm Chugach: it will not rely on Interruptible purchases to meet its base load obligations (but would only, e.g., agree to purchase such gas to place in storage for later peaking use), and it is protected from any possible over-supply via Interruptible volumes because it can curtail or cease its receipt of such volumes in its discretion.

For agreed-to Firm volumes, Section 2.1(A) requires the parties to also agree to the maximum and minimum Delivery Rates at which such Firm volumes will be sold and purchased. As with its other base load contracts, Chugach anticipates being able to receive Firm volumes under the Agreement at a standard daily rate, using some such gas to generate electricity and storing the rest, and then using its Cook Inlet Natural Gas Storage Alaska ("CINGSA") gas storage service for its peaking needs. To the extent Chugach has needs in excess of the agreed daily rate of a Firm volume, Chugach can request Swing Gas from CIE to cover such excess need and pay the stated Swing Gas Price. Section 2.3(B) requires that any such Swing Gas be specifically nominated by Chugach in order to be priced at the applicable Swing Gas Price. Agreed-to Firm volumes must be delivered by CIE to Chugach without Interruption except due to expressly agreed causes, including, as described in Article 9, Force Majeure and CIE's need to curtail deliveries so as to have a sufficient supply of Field Operations Gas. Unexcused failures to deliver or to receive contracted-for Firm volumes of gas are addressed via the remedy of Cover, set forth in Article 14.

⁶ Though, to be clear, it may seek to contract for gas that is somewhat in excess of its expected need, as a hedge against finding itself short and needing to seek higher-priced short term gas.

D. Cover

Chugach's Section 14.1 Cover remedy permits it to go into the market and obtain replacement gas in relation to an unexcused failure to deliver by CIE. CIE is required to reimburse Chugach for the cost of such replacement gas in excess of the price Chugach would have paid CIE had the gas been sold and purchased under the Agreement. Note that, unlike the Chugach-Hilcorp Agreement, there is no cap on CIE's obligation to reimburse Chugach for the positive difference between the amount Chugach pays for Cover gas and the amount it would have paid CIE. With respect to the Chugach-Hilcorp Agreement, Chugach accepted the cap on Hilcorp's cover liability in part because the sheer volume of Hilcorp's gas holdings greatly minimizes the chances that Hilcorp will suffer an unexcused failure to deliver gas to Chugach. This is not the case with CIE: because it is still developing its resources and has less operating experience than Hilcorp, the possibility of an unexcused failure to deliver gas is somewhat more likely (although, Chugach believes, still fairly remote). To account for this increased risk and to otherwise ensure that its member-ratepayers are entirely economically indifferent to treating CIE like Chugach's other base load gas suppliers, Chugach and CIE agreed that there would be no cap on CIE's cover liability.

Chugach has also negotiated for a CINGSA Gas Substitution very similar to that under the Chugach-Hilcorp Agreement. As in the Chugach-Hilcorp Agreement, here Chugach has required CIE to bear transportation and storage costs relating to its use of CINGSA, in addition to the cost of the replacement gas itself. The major difference between the Chugach-Hilcorp Agreement provision and the CINGSA Gas Substitution under the Chugach-CIE Agreement is that, like Cover liability generally, CIE's liability with respect to Cover of a CINGSA Gas Substitution is uncapped.

Pursuant to Section 14.3, the Cover remedy also applies to an unexcused failure by Chugach to take gas that Chugach is obligated to take, i.e., Chugach would have to pay CIE the positive difference between the price CIE receives in a market sale of gas that Chugach was supposed to take and the applicable Gas Sales Price that CIE would have earned on such gas under the Agreement. As discussed above, this will only be gas that the parties agree will be sold on a Firm basis. To manage its risk of paying Cover damages, Chugach will confirm before agreeing to any Firm volumes that such gas is actually needed to meet Chugach's needs.

E. Conditions Precedent

As in other gas supply agreements Chugach has entered into in recent years, the effectiveness of the Chugach-CIE Agreement is contingent on the Commission's approval (*see* Section 4.3(b)). With this filing, Chugach requests approval of Chugach's recovery of all costs of the Agreement via Chugach's quarterly fuel and purchased power adjustment process pursuant to 3 AAC 52.502(a). Chugach requests that the Commission make the approvals requested by this filing and other determinations, if any, by no later than March 31, 2014. The other condition precedent, the approval of Chugach's Board of Directors, was achieved on September 18, 2013.

F. Royalties, Taxes and Transportation Costs

Consistent with recent practice in Cook Inlet gas contracts, the Agreement allocates the costs of excess royalties and excess taxes to Chugach (*see* Sections 10.1 and 10.3, respectively).

In a break from recent practice (and a return to the historical practice of Chugach's legacy contracts), the Agreement allocates the costs of transportation to the producer. Section 6.3 makes CIE "solely responsible for all gas transportation costs, including (without limitation) pipeline tariff(s), whether incurred by Seller or Buyer" by requiring CIE to both bear such costs initially (for delivery to the Delivery Points) and, with respect to the Cook Inlet Gas Gathering System ("CIGGS") Delivery Point, to reimburse Chugach for Chugach's costs of transporting gas from the CIGGS Delivery Point to the 8101/8102 meter sets.

III. Load Forecasting Data and Demonstration of "Most Feasible Means"

A. Load Forecasting Data

Chugach's load forecasting data for 2013 through 2023 are attached as Appendix B. Chugach has sufficient gas under its existing gas contracts to meet these load requirements for 2013 through the first quarter of 2018, but is at some limited risk based on its steadily increasing single supplier dependence over this period, which peaks in 2017.⁷ To address this potential risk, Chugach has contracted with CIE for possible future alternative supplies to be sold and purchased under the Agreement. The Agreement also represents a hedge against the possibility that Chugach has higher loads than forecast over this time period (i.e., if Chugach needs gas in excess of that provided under its current contracts, and CIE has gas available, Chugach can purchase such gas under the Agreement). The Agreement may assist Chugach in meeting its projected load over the Term of the Agreement.

B. Most Feasible Means

As described in Tariff Advice No. 377-8:

Under the [Chugach-Hilcorp Agreement], Chugach has contracted for up to one-hundred percent (100%) of Chugach's unmet needs for 2015 through the first quarter of 2018. . . . The [Chugach-Hilcorp Agreement] is capable of filling the balance of Chugach's need not met by the COP Base Contract in 2015 and 2016 [and] is further capable of satisfying one hundred percent (100%) of Chugach's needs in 2017 and a portion of its total need in 2018.

Specifically, the [Chugach-Hilcorp Agreement] has these capabilities because it allows Chugach to adjust its contracted-for annual gas quantity for the next year. Chugach may reduce or increase the annual quantity by 5%. Accordingly, the [Chugach-Hilcorp Agreement]'s annual volumes are calculated to provide

⁷ See TA377-8 at 9-10.

approximately ninety-five (95%) of Chugach's gas requirements in each year of the Term. Chugach plans to increase or decrease the volume commitment each year depending on changes in electric load (including variations due to weather) and/or energy production (including variations due to hydroelectric production).⁸

This five percent (5%) "held in reserve" portion of Chugach's unmet need in each year of the term of the Chugach-Hilcorp Agreement gives Chugach significant flexibility. As described in Tariff Advice No. 377-8, this provides Chugach with (1) protection against over-committing its gas purchases and (2) a means to purchase more gas from Hilcorp over the term of the Chugach-Hilcorp Agreement if needed.⁹ Although not the main focus of the provision, this reserved portion also gives Chugach the opportunity to purchase limited quantities of its base load gas need from Independents, should such sellers be able to satisfy the volume and deliverability conditions that Chugach requires in order to meet its obligations to the public.¹⁰

The Chugach-CIE Agreement has been tailored to respond to each of these elements. As described in Section II.B, the Agreement allows Chugach and CIE to agree on the volumes of gas that will be purchased and sold on a Firm basis, protecting Chugach from over-committing its gas purchases. The ability to purchase additional gas under the Agreement (including Interruptible gas, which the parties may agree to aside from their agreed Firm transactions) also provides Chugach with something of a "stand-by" mechanism to purchase gas at a known price if and when the need arises. Finally, as discussed below and in Section IV.A, if CIE is capable of committing to Firm gas sales during the Term of the Agreement, then Chugach can commit to purchase from CIE up to 5% of Chugach's base gas requirements for all or any of the period beginning 2015 and ending in the first quarter of 2018 and thus diversify its portfolio of gas suppliers (albeit incrementally to start). If CIE (or another Independent, should Chugach enter into additional contracts) cannot commit to such Firm sales, then as discussed in Tariff Advice No. 377-8, the Chugach-Hilcorp Agreement is fully capable of satisfying all of Chugach's expected, otherwise unmet base load gas needs over its term.

As shown in Chart 1, the COP Base Contract¹¹ and the Existing Hilcorp Base Contract¹² meet up to one hundred percent (100%) of Chugach's gas requirements in 2013 and 2014. The COP Base

⁸ TA377-8 at 3 (emphasis added).

⁹ *Id.*

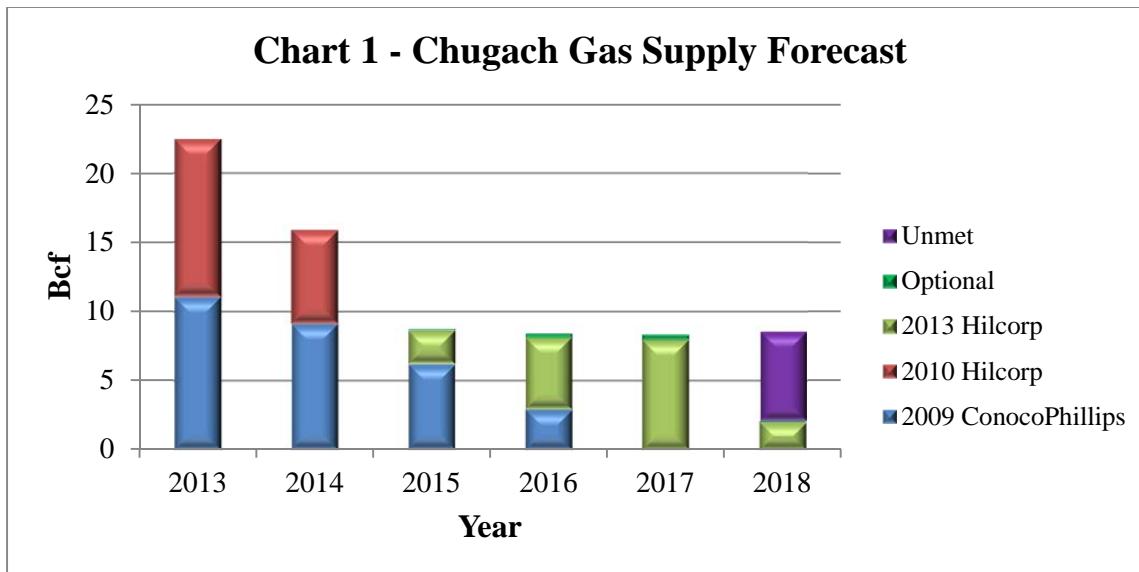
¹⁰ To be clear, the Chugach-Hilcorp Agreement does not permit Chugach to "provide a Minor Adjustment Notice which reduces the Annual Contract Quantity for the purpose of buying the amount by which the Annual Contract Quantity was reduced from a third party." (Chugach-Hilcorp Agreement § 2.3(A)(2)) As a result, the maximum amount of gas that Chugach expects to be able to purchase from any Independent(s), including CIE, during the term of the Chugach-Hilcorp Agreement is the "reserved" five percent (5%) of its expected unmet need that it does not take by default under the Chugach-Hilcorp Agreement (but could by delivering a Minor Adjustment Notice *increase*), as discussed above.

¹¹ The Base Contract for Sale and Purchase of Natural Gas between Chugach and ConocoPhillips Company and ConocoPhillips Alaska, Inc. (collectively, "COP"), dated as of May 12, 2009, submitted to the Commission under Tariff Advice No. 305-8 and approved by the Commission in Letter Order L0900456, dated August 21, 2009.

¹² The Base Contract for Sale and Purchase of Natural Gas between Chugach and Marathon Alaska Production, LLC ("MAP"), dated as of March 31, 2010, submitted to the Commission under Tariff Advice No. 316-8 and approved by the Commission in Letter Order L1000175, dated May 17, 2010, and assigned by MAP to Hilcorp with Chugach's consent as part of Hilcorp's acquisition of MAP's Cook Inlet assets.

Contract provides approximately fifty percent (50%) of Chugach's wholesale and retail load gas needs through December 2014, approximately seventy percent (70%) of its gas needs during 2015, and approximately thirty-five percent (35%) of Chugach's gas needs in 2016 before expiring by its terms on December 31, 2016. The Existing Hilcorp Base Contract will meet the remaining fifty percent (50%) of Chugach's wholesale and retail load gas needs through December 2014, before expiring by its terms on December 31, 2014.

Chart 1 also shows that the recently-approved Chugach-Hilcorp Agreement is capable of satisfying up to 100% of Chugach's unmet need for 2015 through the first quarter of 2018 – again, this assumes that Chugach takes both the ninety-five percent (95%) it has committed to and the additional five percent (5%) it has rights to pursuant to a "Minor Adjustment Notice" under the agreement with Hilcorp. The Chugach-CIE Agreement that Chugach files today gives Chugach another option for some or all of this five percent (5%) of its expected unmet need.¹³



To be clear: (1) Chugach is not *currently obligated* to purchase gas under the Chugach-CIE Agreement, should its other base contracts prove sufficient to meet its needs; and (2) Chugach believes that, including gas available under the Minor Adjustment Notice process with Hilcorp, Chugach has currently contractual rights for up to one hundred percent (100%) of its unmet need through March 31, 2018. Chugach has thus protected itself and its member-ratepayers against both a possible over-supply and an under-supply situation. Under the circumstances, the Agreement represents the most feasible means currently available to Chugach to meet the portion of its gas load needs that can be met by an Independent gas seller (here, CIE), to the extent Chugach has such needs, while at the same time not compromising Chugach's ability to meet its

¹³Chart 1 also depicts the decline in Chugach's gas load in the near-to middle-term, due to a combination of: (1) HEA and MEA ceasing to be wholesale customers of Chugach in 2014; (2) efficiencies from operation of the Southcentral Power Project, which achieved commercial operation as of February 1, 2013; and (3) Chugach's purchases of energy produced by the Fire Island Wind Project, as reviewed and approved by the Commission in Docket U-11-100.

obligations to serve the public. The Agreement is thus the best means available to Chugach to diversify its gas supply away from the current dependence on COP and Hilcorp.

C. Request for Waiver

In the alternative, because Chugach does not absolutely *require* the gas that may be sold under the Agreement, the Commission may be inclined to view the Agreement as not meeting the standards of 3 AAC 52.470(e). If the Commission takes this view, Chugach requests a waiver from the strict requirements of 3 AAC 52.470(e). In requesting this waiver, Chugach also observes that the Agreement satisfies the statutory standard for determining whether a contract is in the public interest.

IV. Public Interest Statutory Standard for Review of Gas Contracts: AS 42.05.141(d)

The Legislature has provided AS 42.05.141(d) to guide the Commission in its review of natural gas contracts. This provision reads as follows:

When considering whether the approval of a rate or a gas supply contract proposed by a utility to provide a reliable supply of gas for a reasonable price is in the public interest, the commission shall:

- (1) recognize the public benefits of allowing a utility to negotiate different pricing mechanisms with different gas suppliers and to maintain a diversified portfolio of gas supply contracts to protect customers from the risks of inadequate supply or excessive cost that may arise from a single pricing mechanism; and
- (2) consider whether a utility could meet its responsibility to the public in a timely manner and without undue risk to the public if the commission fails to approve a rate or a gas supply contract proposed by the utility.

The Chugach-CIE Agreement satisfies each of these standards, especially so in the context of (A) Chugach's portfolio of other gas supply agreements and (B) the broader Cook Inlet natural gas market.

A. Introducing a New Pricing Mechanism; Diversifying Chugach's Portfolio

In his recent concurrence to the Commission's approval of ENSTAR's agreement with Hilcorp, Commissioner Rokeberg observed that “[t]he price caps set forth in the Consent Decree have become a benchmark and de facto ‘price mechanism’ for all the GSA’s filed with the Commission this year.”¹⁴ Chugach believes this is a fair assessment. Commissioner Rokeberg goes on to question whether “[i]f use of pricing indexes are ‘outliers’ and arm’s length bargaining yields [significant short-term price increases] we may have a dysfunctional market

¹⁴ Letter Order L1300428, dated September 9, 2013, approving Tariff Advice No. 242-4 (Concurring Statement of Commissioner Norman Rokeberg at 5).

which is imbalanced due to lack of competition in danger of creeping inflation.”¹⁵ Chugach shares this concern.

The Chugach-CIE Agreement will introduce a new pricing mechanism into the Cook Inlet gas market. The sales price under the Agreement was negotiated at arm’s length, without reference to the Consent Decree or any of the indices that have been used recently. It accounts both for the somewhat speculative nature of the potential gas in question and the optionality of sales and for CIE’s need to offer its backers a reasonable return on their investment in order for them to make the capital and other commitments CIE needs to perform its new gas field development work. As a general matter, the prices under the Chugach-CIE Agreement are lower than any other GSA recently filed with the Commission. Chugach is hopeful that this new pricing mechanism will halt or at least slow the “creeping inflation” that Commissioner Rokeberg noted.

The Agreement also represents a first for Chugach: its first multi-year contract for an Independent seller to (potentially) supply Chugach with gas for a portion of its base load needs. All of Chugach’s other base agreements are with the major Cook Inlet gas market sellers, COP and Hilcorp. Approval of the Chugach-CIE Agreement will begin what Chugach hopes to be a steadily-increasing diversification of its gas supply options. The existence of such options depends on the development of a full, fair and free market for gas sales in the Cook Inlet, and Chugach believes the Agreement will help drive the development of such a market.

B. Meeting Chugach’s Responsibility to the Public Long-Term by Fostering a Well-Functioning Market for Cook Inlet Natural Gas

Chugach is, depending on the generation and purchased power resources available to it at any given time, approximately 85-90% dependent on natural gas to generate electricity to serve its member-customers. Historically, this reliance did not raise serious issues as natural gas in the Cook Inlet was plentiful and therefore cheap. That is no longer the case; as the Commission is well aware, the production of Cook Inlet natural gas has steadily declined in recent years,¹⁶ and as it has declined prices have increased.

Given the steady production declines, Chugach was cautiously optimistic when Hilcorp entered the Cook Inlet gas market by purchasing first Unocal’s and then Marathon’s Cook Inlet-area natural gas assets. Hilcorp has a reputation as an expert gas field re-developer and further committed to invest not only the expertise but the time and the money necessary to re-develop these Cook Inlet properties. These commitments did not come without a latent cost, however: with its acquisitions, approximately seventy-five percent (75%) of the known, readily-producible gas in the Cook Inlet area would be concentrated in Hilcorp’s hands.

Recognizing the potential for market disruption given such a significant concentration of market power, the Attorney General required Hilcorp to enter into the Consent Decree as a condition of permitting Hilcorp to acquire Marathon’s assets. The Consent Decree thus specifically recognized and provided a mechanism to reconcile the concern on the one hand that “the

¹⁵ *Id.* at 6.

¹⁶ See, e.g., Petrotechnical Resources of Alaska, Cook Inlet Natural Gas Supply Update – 2012, RCA Presentation, October 24, 2012, filed in Docket R-11-006.

Acquisition [would] result in Hilcorp obtaining increased market power over the sale of natural gas in the Cook Inlet" with the benefit on the other hand that "the Acquisition will create efficiencies and achieve meaningful synergies. . . allowing Hilcorp to use its expertise, experience, and capital to substantially increase reserves and production of natural gas in the Cook Inlet".¹⁷ To date this balance appears to have been borne out: Hilcorp has concluded Consent Decree-based agreements with Chugach,¹⁸ ENSTAR¹⁹ and MEA²⁰ and has reportedly invested more than \$500 million in the last two years re-developing the assets it has acquired from Unocal and Marathon.²¹

Chugach's interactions with Hilcorp have been positive and Chugach looks forward to a long and mutually beneficial relationship as Hilcorp continues its re-work efforts. That said, Hilcorp offers a commodity for which Chugach is, at least in the short-term, a relatively captive customer. The good working relationship that Hilcorp and Chugach share is not, by itself, a replacement for the significant customer benefits that can be gained from a supplier like Hilcorp being required to compete for Chugach's business in a robust free market.

The Chugach-CIE Agreement is an initial, modest attempt to inspire such a free market. If the Agreement is approved, then if, during the Term, CIE has gas available to sell and Chugach has need of such gas, the parties can quickly and easily agree on the sale and purchase of such gas, on known and pre-approved terms, including the key term of price.

Chugach further believes this offers one response to Commissioner Rokeberg's concern that "[g]iven the number of reported finds of new or unproduced gas, albeit much unproven, it is unfortunate that the combined GSAs did not accommodate the potential for future delivery in the contract provisions, for example, staggered terms for a small percentage carve out."²² The "Minor Adjustment Notice" allowance in Chugach's contract with Hilcorp provides a version of just this mechanism, while still allowing Chugach's member-ratepayers the peace of mind that comes from Chugach having ensured that, one way or another, its anticipated needs are met through the first quarter of 2018.

V. Recovery via Chugach's quarterly fuel and purchased power adjustment process

Chugach is requesting Commission approval to include all costs of gas purchases, transportation and storage arising under or in relation to the Chugach-CIE Agreement as a new cost element for recovery in its fuel and purchased power cost adjustment process. Section 3 AAC 52.502(a) of the Alaska Administrative Code permits utilities to add cost elements for recovery through the quarterly fuel and purchased power cost recovery mechanism outside a general rate case process provided: (1) the cost element is subject to change at a rate that would cause financial harm to the utility if the costs were recovered exclusively in base rates; (2) the costs are beyond the control of the utility; and, (3) the costs are easily verifiable.

¹⁷ Consent Decree at 3.

¹⁸ Tariff Advice No. 377-8.

¹⁹ Tariff Advice No. 242-4.

²⁰ See Docket No. U-13-160.

²¹ Kristen Nelson, *No LNG Needed?*, Petroleum News, June 9, 2013.

²² Letter Order L1300428, dated September 9, 2013, approving Tariff Advice No. 242-4 (Concurring Statement of Commissioner Norman Rokeberg at 4-5).

A. Subject to Change at a Rate That Would Cause Financial Harm

Given its role in Chugach's portfolio as a contract that, at least initially, does not provide for specified volumes of gas, the Chugach-CIE Agreement is one under which Chugach's purchases will vary, potentially significantly. A further likely source of variability is that, even if Chugach and CIE never come to terms on sales and purchases of Firm gas, the parties still may agree to transact for Interruptible volumes. Such transactions, which can be ended by either party at any time for essentially any reason, are intentionally transient and can change significant not only between months but between days and even hours. Aside from these factors, should Chugach and CIE agree on the purchase and sale of Firm gas, such sales will be susceptible to the various issues that affect Chugach's other gas contracts, resulting in unpredictability due to, for example, abnormal weather, variable hydroelectric production, and the availability (or unavailability) of generation and transmission assets on both Chugach's native and the wider Railbelt interconnected electrical system.

Chugach's system production, transmission and distribution ratemaking margins total \$7.4 million based on Chugach's June 30, 2012 test year general rate case ("Rate Case") that was approved by the Commission on an interim basis in Order No. 1 of U-13-007. Chugach's calculated production revenue requirement in its Rate Case totaled \$71.1 million. Chugach's current authorized Times Interest Earned Ratio ("TIER") for production related activity is 1.10, which provides about \$1.5 million of annual margins. As indicated above, the potential variability of purchases under the Chugach-CIE Agreement is significant and, at current margin levels, such variation would have a direct impact (either positive or negative) on Chugach margin performance if the costs were recovered in base rates. The extent of the impact would be dependent on purchase amounts included in the test period for which the base rates were established as compared to future period purchases. If there were no CIE purchases in the test year, subsequent purchases of 245,000 Mcf at the 2014 Base Load Gas Price of \$6.12/Mcf would completely eliminate Chugach production margins in that year. Purchases of only 122,500 Mcf would reduce subsequent year margin levels by 50 percent. Conversely, Chugach margin performance could increase if test period purchase amounts were higher than subsequent year amounts. The extent of the impacts, either positive or negative, would depend on the variability of gas purchases in relation to the cost levels included in base rates, but regardless any variability would directly (and likely substantially) impact Chugach's margin performance.

The benefit of recovery through the fuel rate adjustment process ensures that all costs are fully recovered, no more or no less, with no impact on margin performance.

B. Beyond the Control of the Utility

Chugach's purchases of Firm gas under the Agreement will, at least initially, be under its control: it will ultimately decide the volumes it will request or agree to purchase under the Agreement on a Firm basis, based on its needs. Chugach's purchases of Interruptible gas, however, are entirely outside its control: CIE may elect to cease Interruptible sales at any time for essentially any reason. With regard to those sales, the eventual costs Chugach will bear are clearly beyond the control of the utility.

Even with respect to its potential Firm purchases, Chugach's ability to control its costs related to such purchases is very limited. It has little control over any gas transportation or gas storage assets in the Cook Inlet region, other than its ability to request that the owners of such assets provide Chugach with service. As Chugach's purchases under the Agreement are dependent, to varying degrees and at varying times, on third parties to provide these services, the costs it will incur in relation to such purchases are also beyond its control.²³

Assuming the availability of these services, the costs are decidedly not within Chugach's control. As is the case with Chugach's other base load gas contracts, the costs of almost all transportation and certainly all storage charges that Chugach could incur as a result of its purchases of gas under the Agreement are determined pursuant to tariffs that must be filed with, and approved by, the Commission. Although Chugach may be able to file comments or intervene to argue in support of (or against) various tariff provisions and costs, the ultimate determination of such costs will be made based on a combination of the justifications offered by the requesting regulated entity, the diligent investigation of the Commission's staff, and the reasoned analysis of the Commission itself. In any event, such gas storage and transportation costs are certainly beyond Chugach's control.

C. Easily Verifiable

Section 7.1 of the Agreement provides for CIE to deliver monthly invoices "showing the total agreed volume of Gas actually delivered, the applicable Gas Sales Price, the total amount due for such Gas delivered and sold, and any corrections for the Months prior to such Month." As the Gas Sales Prices have been mutually agreed in advance, Chugach's costs incurred under the Agreement are easily verifiable. The costs of the Chugach-CIE Agreement will thus be supported in a manner very similar to that Chugach currently uses in support of its adjustment clause costs: the supporting invoices, as well as a summary of the amount of gas purchased, its cost and any related costs of transporting and/or storing such gas, will be provided to the Commission as part of each quarterly filing.

VI. Description of Tariff Sheet Changes

Tariff Sheet No. 94: The line items "Bernice - ConocoPhillips" and "Nikiski - ConocoPhillips" have been deleted, consistent with the expiration of contracts associated with Chugach's use of Bernice Lake and Nikiski generation. Line items "Beluga - Cook Inlet Energy", "IGT - Cook Inlet Energy" and "SPP - Cook Inlet Energy" were added to reflect the new contract between Chugach and CIE.

Tariff Sheet No. 95: Line items "Beluga - Cook Inlet Energy", "IGT - Cook Inlet Energy" and "SPP - Cook Inlet Energy" were added to reflect the new contract between Chugach and CIE.

²³ Although the Agreement requires CIE to pay transportation costs, with respect to the CIGGS Delivery Point Chugach will initially incur all costs of transporting gas delivered there from the CIGGS Delivery Point to the 8101/8102 meter sets. *See* Agreement § 6.3 and discussion in Section II.F, above. Even though these costs will be reimbursed by CIE, Chugach will incur such costs initially and bear them until the reimbursement is paid. Chugach will also bear all storage costs related to gas purchased under the Agreement and all transportation costs of moving stored gas to Chugach's facilities. These costs of gas purchased under the Agreement are beyond Chugach's control.

Tariff Sheet No. 95.5: Line items “Beluga - Cook Inlet Energy”, “IGT - Cook Inlet Energy” and “SPP - Cook Inlet Energy” were added to reflect the new contract between Chugach and CIE.

VII. Summary

Chugach respectfully requests that the Commission:

- (1) Acknowledge the information filed pursuant to 3 AAC 52.470(e) or, if necessary, grant Chugach a waiver from its requirements;
- (2) Find that the Chugach-CIE Agreement is in the public interest pursuant to AS 42.05.141(d) and approve the Agreement; and
- (3) Approve Chugach’s recovery of all costs of the Chugach-CIE Agreement via Chugach’s quarterly fuel and purchased power adjustment process pursuant to 3 AAC 52.502(a).

Please contact Arthur Miller in Chugach’s Regulatory Affairs and Pricing Department at (907) 762-4758 or Arthur_Miller@chugachelectric.com if any additional information is needed as you review this filing.

Sincerely,

CHUGACH ELECTRIC ASSOCIATION, INC.



Lee D. Thibert
Senior Vice President, Strategic Development and Regulatory Affairs
Chugach Electric Association, Inc.
P.O. Box 196300
5601 Electron Drive
Anchorage, AK 99519-6300
Telephone: (907) 762-4715
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Lee_Thibert@chugachelectric.com

Attachments

cc: Carrie Buckley, Homer Electric Association, Inc. (electronically)
Dan Dieckgraeff, ENSTAR (electronically)
J.D. Draves, Homer Electric Association, Inc. (electronically)
John Foutz, City of Seward (electronically)
Jim Patras, Homer Electric Association, Inc. (electronically)
Robert Reagan, Anchorage Municipal Light & Power (electronically)
Don Zoerb, Matanuska Electric Association, Inc. (certified mail and electronically)

Canceling

Chugach Electric Association, Inc.

FUEL AND PURCHASED POWER ADJUSTMENT FACTORS AT G&T

e.1. Fuel Adjustment Factor: Predicted costs for the quarter beginning October 1, 2013:

| Description | Total | Retail | HEA | MEA | SES |
|--|-----------------------|----------------------|----------------------|----------------------|--------------------|
| Fuel Expense | | | | | |
| Beluga - ConocoPhillips | \$4,715,350 | \$2,220,570 | \$928,853 | \$1,456,907 | \$109,020 |
| Beluga - Cook Inlet Energy | \$0 | \$0 | \$0 | \$0 | \$0 N |
| Beluga - Hilcorp | \$10,971,311 | \$5,166,651 | \$2,161,182 | \$3,389,819 | \$253,658 |
| Beluga - Hilcorp (2015 - 2018) | \$0 | \$0 | \$0 | \$0 | \$0 |
| Beluga - Chugach Hilcorp Agreement | \$5,777,600 | \$2,720,809 | \$1,138,100 | \$1,785,112 | \$133,579 D |
| IGT - ConocoPhillips | \$56,175 | \$26,454 | \$11,066 | \$17,356 | \$1,299 |
| IGT - Cook Inlet Energy | \$0 | \$0 | \$0 | \$0 | \$0 N |
| IGT - Hilcorp (2015 - 2018) | \$0 | \$0 | \$0 | \$0 | \$0 D |
| SPP - ConocoPhillips | \$1,997,197 | \$940,528 | \$393,418 | \$617,076 | \$46,175 |
| SPP - Cook Inlet Energy | \$0 | \$0 | \$0 | \$0 | \$0 N |
| SPP - Hilcorp | \$5,226,541 | \$2,461,302 | \$1,029,550 | \$1,614,850 | \$120,838 |
| SPP - Hilcorp (2015-2018) | \$0 | \$0 | \$0 | \$0 | \$0 |
| CINGSA - Capacity and Withdrawal Fees | \$1,635,125 | \$770,019 | \$322,095 | \$505,206 | \$37,804 |
| CINGSA - Gas Withdrawn | \$4,716,986 | \$2,221,341 | \$929,175 | \$1,457,413 | \$109,057 |
| Gas Transportation and Compression | \$2,190,011 | \$1,031,328 | \$431,399 | \$676,650 | \$50.633 |
| Total Fuel and Transportation Expense | \$40,867,806 | \$19,245,623 | \$8,050,340 | \$12,626,973 | \$944,869 |
| Less Credits | | | | | |
| Economy Fuel / Transportation Costs | (\$9,085,857) | (\$4,278,746) | (\$1,789,777) | (\$2,807,268) | (\$210,066) |
| Economy Margins | (\$1,571,039) | (\$739,840) | (\$309,471) | (\$485,406) | (\$36,323) |
| Gas Exchange Contributions | \$0 | \$0 | \$0 | \$0 | \$0 |
| Wheeling Revenue | (\$391,638) | (\$184,432) | (\$77,147) | (\$121,005) | (\$9,055) |
| Subtotal | (\$11,048,534) | (\$5,203,018) | (\$2,176,394) | (\$3,413,678) | (\$255,444) |
| Net Fuel Expense | \$29,819,272 | \$14,042,605 | \$5,873,946 | \$9,213,295 | \$689,426 |
| Generation & Purchases (MWh) | 716,817.1 | 342,764.7 | 132,337.8 | 224,886.5 | 16,828.1 |
| Cost per MWh at Generation | \$41.60 | \$40.97 | \$44.39 | \$40.97 | \$40.97 |
| Projected Balances as of Sep. 30, 2013 | (\$1,136,901) | (\$1,331,472) | \$250,665 | (\$56,094) | \$0 |
| Fuel Expense to be Recovered at G&T | \$28,682,371 | \$12,711,133 | \$6,124,611 | \$9,157,201 | \$689,426 |
| <u>Predicted Sales at G&T (MWh)</u> | <u>696,249.9</u> | <u>332,929.9</u> | <u>128,540.7</u> | <u>218,433.9</u> | <u>16,345.3</u> |
| <u>Fuel Adjustment Factor per kWh at G&T</u> | <u>\$0.04120</u> | <u>\$0.03818</u> | <u>\$0.04765</u> | <u>\$0.04192</u> | <u>---- *</u> |

* Not calculated. Seward is billed for actual fuel and purchased power costs on a monthly basis.

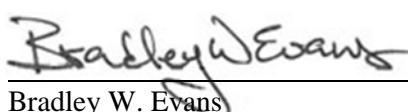
Tariff Advice No.: 381-8

Effective:

Issued by:

Chugach Electric Association, Inc.
P.O. Box 196300, Anchorage, Alaska 99519-6300

By:


Bradley W. EvansTitle: Chief Executive Officer

Chugach Electric Association, Inc.

f.1. Actual fuel costs for the quarter ending June 30, 2013

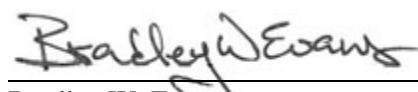
| Description | Total | Retail | HEA | MEA | SES |
|---|---------------------|---------------------|--------------------|--------------------|-------------------|
| Fuel Adjustment Factor Balance as of March 31, 2013 | (\$8,014,642) | (\$3,095,396) | (\$1,537,861) | (\$3,381,385) | \$0 |
| Fuel Balance for Quarter Ending June 30, 2013 | | | | | |
| Fuel Expense | | | | | |
| Beluga - ConocoPhillips | \$3,634,485 | \$1,720,083 | \$713,322 | \$1,102,287 | \$98,793 |
| Beluga - Cook Inlet Energy | \$0 | \$0 | \$0 | \$0 | \$0 |
| Beluga - Hilcorp | \$8,924,683 | \$4,225,826 | \$1,752,579 | \$2,703,358 | \$242,920 |
| Beluga - Hilcorp (2015 - 2018) | \$0 | \$0 | --- | --- | --- |
| Beluga - Chugach Hilcorp Agreement | \$6,198,644 | \$2,932,840 | \$1,216,676 | \$1,880,674 | \$168,453 |
| Bernice - ConocoPhillips | \$1,273,200 | \$599,756 | \$251,274 | \$387,519 | \$34,650 |
| IGT - ConocoPhillips | \$264,567 | \$125,132 | \$52,214 | \$79,985 | \$7,237 |
| IGT - Cook Inlet Energy | \$0 | \$0 | \$0 | \$0 | \$0 |
| IGT - Hilcorp (2015 - 2018) | \$0 | \$0 | --- | --- | --- |
| Nikiski - ConocoPhillips | \$1,322,797 | \$632,496 | \$257,686 | \$396,529 | \$36,087 |
| SPP - ConocoPhillips | \$2,474,951 | \$1,172,005 | \$486,025 | \$749,546 | \$67,376 |
| SPP - Cook Inlet Energy | \$0 | \$0 | \$0 | \$0 | \$0 |
| SPP - Hilcorp | \$6,426,145 | \$3,042,789 | \$1,261,999 | \$1,946,431 | \$174,926 |
| SPP - Hilcorp (2015-2018) | \$0 | \$0 | --- | --- | --- |
| Emergency Generator Fuel | \$0 | \$0 | \$0 | \$0 | \$0 |
| CINGSA - Capacity and Withdrawal Fees | \$1,559,865 | \$740,021 | \$306,106 | \$471,212 | \$42,525 |
| CINGSA - Gas Withdrawn | \$1,849,353 | \$876,528 | \$365,385 | \$556,641 | \$50,799 |
| Gas Transportation and Compression | \$1,905,811 | \$901,383 | \$375,278 | \$577,166 | \$51,983 |
| <u>Adjustment</u> | <u>\$56,268</u> | <u>\$26,958</u> | <u>\$11,272</u> | <u>\$16,443</u> | <u>\$1,595</u> |
| Total Fuel and Transportation Expense | \$35,890,769 | \$16,995,817 | \$7,049,816 | \$10,867,790 | \$977,346 |
| Less Credits | | | | | |
| Economy Fuel / Transportation Costs | (\$7,756,943) | (\$3,674,717) | (\$1,525,507) | (\$2,345,048) | (\$211,672) |
| Economy Margins | (\$1,175,234) | (\$556,439) | (\$230,822) | (\$355,981) | (\$31,993) |
| Gas Exchange Contributions | \$0 | \$0 | \$0 | \$0 | \$0 |
| <u>Wheeling Revenue</u> | <u>(\$764,793)</u> | <u>(\$359,822)</u> | <u>(\$150,231)</u> | <u>(\$234,085)</u> | <u>(\$20,655)</u> |
| Subtotal | (\$9,696,970) | (\$4,590,978) | (\$1,906,560) | (\$2,935,113) | (\$264,319) |
| <u>Net Fuel Expense</u> | <u>\$26,193,799</u> | <u>\$12,404,840</u> | <u>\$5,143,256</u> | <u>\$7,932,677</u> | <u>\$713,027</u> |
| Generation & Purchases (MWh) | 594,301.4 | 291,303.7 | 106,045.2 | 180,724.4 | 16,228.0 |
| Cost per MWh at Generation | \$44.07 | \$42.58 | \$48.50 | \$43.89 | \$43.94 |
| <u>Total Fuel Cost Recovery</u> | <u>\$21,647,940</u> | <u>\$10,751,205</u> | <u>\$3,826,139</u> | <u>\$6,315,744</u> | <u>\$754,852</u> |
| Quarter Balance | \$4,545,859 | \$1,653,634 | \$1,317,117 | \$1,616,933 | (\$41,825) |

Tariff Advice No.: 381-8

Effective:

Issued by: Chugach Electric Association, Inc.
P.O. Box 196300, Anchorage, Alaska 99519-6300

By:



Bradley W. Evans

Title: Chief Executive Officer

Chugach Electric Association, Inc.

SUMMARY OF ACTUAL AND PROJECTED FUEL AND PURCHASED POWER COSTS

| Description | Actual - Quarter Ended June, 2013 | | | Projected - Quarter Ended December, 2013 | | |
|--|--------------------------------------|-----------|--------------|---|-----------|--------------|
| | Volume ¹ | Unit Cost | Total Cost | Volume | Unit Cost | Total Cost |
| | | | | | | |
| Fuel Expense | | | | | | |
| Beluga - ConocoPhillips, Mcf | 1,056,397 | \$3.44 | \$3,634,485 | 1,384,934 | \$3.40 | \$4,715,350 |
| Beluga - Cook Inlet Energy | 0 | \$0.00 | \$0 | 0 | \$0.00 | \$0 |
| Beluga - Hilcorp, Mcf | 1,498,488 | \$5.96 | \$8,924,683 | 1,847,022 | \$5.94 | \$10,971,311 |
| Beluga- Hilcorp, Mcf (2015-2018) | 0 | \$0.00 | \$0 | 0 | \$0.00 | \$0 |
| Beluga - Chugach Hilcorp Agreement, Mcf ² | 800,754 | \$7.74 | \$6,198,644 | 736,000 | \$7.85 | \$5,777,600 |
| Beluga - Aurora Gas, LLC, Mcf ³ | 0 | --- | \$0 | --- | --- | \$0 |
| Bernice - ConocoPhillips, Mcf | 370,265 | \$3.44 | \$1,273,200 | 0 | \$0.00 | \$0 |
| IGT - ConocoPhillips, Mcf | 76,904 | \$3.44 | \$264,567 | 16,499 | \$3.40 | \$56,175 |
| IGT - Cook Inlet Energy | 0 | \$0.00 | \$0 | 0 | \$0.00 | \$0 |
| IGT- Hilcorp, Mcf (2015-2018) | 0 | \$0.00 | \$0 | 0 | \$0.00 | \$0 |
| Nikiski - ConocoPhillips, Mcf | 384,026 | \$3.44 | \$1,322,797 | 1,051,917 | \$3.40 | \$3,581,511 |
| SPP - ConocoPhillips, Mcf | 719,318 | \$3.44 | \$2,474,951 | 586,592 | \$3.40 | \$1,997,197 |
| SPP - Cook Inlet | 0 | \$0.00 | \$0 | 0 | \$0.00 | \$0 |
| SPP - Hilcorp, Mcf | 1,078,977 | \$5.96 | \$6,426,145 | 879,889 | \$5.94 | \$5,226,541 |
| SPP- Hilcorp, Mcf (2015-2018) | 0 | \$0.00 | \$0 | 0 | \$0.00 | \$0 |
| Emergency Generator Fuel | 0 | \$0.00 | \$0 | 0 | \$0.00 | 0 |
| CINGSA - Capacity and Withdrawal Fees | --- | --- | \$1,559,865 | --- | --- | \$1,635,125 |
| CINGSA - Gas Withdrawn | 253,597 | \$7.29 | \$1,849,353 | 664,973 | \$7.09 | \$4,716,986 |
| Gas Transportation and Compression | --- | \$0.31 | \$1,905,811 | --- | \$0.31 | \$2,190,011 |
| Adjustment | --- | --- | \$56,268 | --- | --- | \$0 |
| Subtotal⁴ | 6,238,726 | \$5.75 | \$35,890,769 | 7,167,826 | \$5.70 | \$40,867,806 |
| Purchased Power Expense | | | | | | |
| Bradley Lake Purchases, MWh | 45,907 | \$42.65 | \$1,957,974 | 45,000 | \$43.51 | \$1,957,974 |
| Total FIW Renewable Resource Expense | 7,976 | \$100.47 | \$801,335 | 12,904 | \$97.00 | \$1,251,688 |
| AEEC (Nikiski & Bernice Lake), MWh | 30,328 | \$23.82 | \$722,453 | 86,345 | \$9.14 | \$788,953 |
| Eklutna - MEA, MWh | 5,457 | \$15.39 | \$84,003 | 8,169 | \$6.24 | \$51,000 |
| Golden Valley Electric, MWh | 0 | --- | \$0 | --- | --- | \$0 |
| AML&P, MWh | --- | --- | \$0 | --- | --- | \$0 |
| Non-Utility Generation | 9 | \$51.24 | \$447 | 13 | \$48.51 | \$631 |
| Other Purchases, MWh | --- | --- | \$18,822 | --- | --- | \$18,821 |
| Subtotal⁴ | 89,677 | \$39.98 | \$3,585,034 | 152,431 | \$26.69 | \$4,069,067 |
| Total Fuel & Purch. Power Expense | ---- | ---- | \$39,475,803 | ---- | ---- | \$44,936,873 |

¹ Fuel volumes from invoice. ² The Chugach-Hilcorp Agreement is for economy energy sales to GVEA. ³ Represents emergency natural gas purchases for operation of generation units located at the Beluga Power Plant. This line item will remain blank if not used. ⁴ Actual Total Cost does not include fuel cost for emergency generator at Hope.

Tariff Advice No.: 381-8

Effective:

Issued by:

Chugach Electric Association, Inc.
P.O. Box 196300, Anchorage, Alaska 99519-6300

By:

Bradley W. Evans
 Bradley W. Evans

Title: Chief Executive Officer

GAS SALE AND PURCHASE AGREEMENT

BETWEEN

COOK INLET ENERGY, LLC

AND

CHUGACH ELECTRIC ASSOCIATION, INC.

GAS SALE AND PURCHASE AGREEMENT**TABLE OF CONTENTS**

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GAS SALE AND PURCHASE AGREEMENT

This GAS SALE AND PURCHASE AGREEMENT (“Agreement”) dated as of September 30, 2013 (“Effective Date”), is entered into by and between Cook Inlet Energy, LLC (“Seller”) and Chugach Electric Association, Inc. (“Buyer”). Seller and Buyer may be referred to, collectively, as “Parties” and each, individually, as a “Party”.

RECITALS

- A. Seller owns, controls, or has the right to dispose of certain volumes of Natural Gas produced from lands located in the Cook Inlet region of Alaska;
- B. Buyer may desire to purchase such Natural Gas; and
- C. The Parties wish to provide the terms and conditions for the sale and purchase of such Natural Gas.

AGREEMENT**1. DEFINITIONS**

1.1 The following definitions apply to this Agreement:

“ADNR” is defined in Section 10.1.

“Agreement” is defined in the first paragraph hereof.

“Annual Commitment” is defined in Section 2.1(A).

“Base Gas” is defined in Section 2.3(A).

“Beluga Delivery Point” is defined in Section 2.6.

“Business Day” means any Day except a Saturday, Sunday, or a Federal Reserve Bank holiday. A Business Day shall open at 8:00 a.m. and close at 5:00 p.m. local time for the relevant Party’s principal place of business.

“Buyer” is defined in the first paragraph of this Agreement.

“Buyer Shortfall Quantity” means the volume of Firm Gas that Buyer is required to take and pay for on a given Day less the volume of Gas that Buyer actually takes and purchases from Seller on such Day.

“CINGSA” means the Cook Inlet Natural Gas Storage Alaska, LLC, storage facility.

“CINGSA Delivery Point” is defined in Section 2.6.

“Claim” means any claim, liability, loss, demand, damages, lien, cause of action of any kind, obligation, costs, royalty, fees, assessments, penalties, fines, judgment, interest and award (including recoverable legal counsel fees and costs of litigation of the party asserting the Claim), whether arising by law, contract, tort, voluntary settlement or otherwise.

“Cover Standard” means that if there is an unexcused failure to deliver or to receive any quantity of Gas that is to be sold and purchased hereunder on a Firm basis, then the non-failing Party shall use commercially reasonable efforts to: (A) if Buyer is the non-failing Party, obtain Gas from a third party (or an alternate fuel, or alternate electricity, in either case as elected by Buyer when replacement Gas is not available), or (B) if Seller is the non-failing Party, sell Gas to a third party, in either case, at a price reasonable for the delivery or production area, as applicable, consistent with: (1) the amount of notice provided by the non-performing Party; (2) the immediacy of the Buyer’s Gas consumption needs or Seller’s Gas sales requirements, as applicable; (3) the quantities involved; and (4) the anticipated length of failure by the non-performing Party.

“Contract Year” means: (A) for the initial “Contract Year,” a nine (9) month period beginning at 00:00 on April 1, 2014 and ending at 23:59 on December 31, 2014; and (B) otherwise, a twelve (12) month period beginning at 00:00 on January 1 of a calendar year and ending at 23:59 on December 31 of the same calendar year.

“Day” means a 24-hour calendar day.

“Daily Rate” means the estimated average daily rate (in MMcfpd) of Gas deliveries, which may be expressed as a range with respect to a Contract Year but shall be expressed as a single rate with respect to each Day on which Gas deliveries are scheduled hereunder.

“Delivery Point” is defined in Section 2.6.

“Dispute” means any dispute or controversy arising out of this Agreement including a Claim under this Agreement and any dispute or controversy regarding the existence, construction, validity, interpretation, enforceability, or breach of this Agreement.

“Effective Date” is defined in the first paragraph of this Agreement.

“ENSTAR/APC Delivery Point” is defined in Section 2.6.

“Extension Term” is defined in Section 4.2.

“Field Operations Gas” means Gas that Seller determines, in its reasonable discretion, is necessary for Seller’s use for its field operations and maintenance, gas dehydration, gas treatment and similar field uses.

“Final RCA Approval” is defined in Section 4.3.

“Firm” means that a Party may interrupt its delivery or receipt of Gas, as applicable, without liability to the other Party only to the extent that such performance is prevented by an event of Force Majeure or is otherwise explicitly excused hereunder.

“Force Majeure” is defined in Section 9.2.

“Gas” or “Natural Gas” means any mixture of hydrocarbons or of hydrocarbons and non-combustible gases, in a gaseous state consisting primarily of methane and meeting the quality specifications of Section 5.2.

“Gas Sales Price” means the price per Mcf for Gas delivered during a Contract Year, as set forth in Section 6.1.

“Interrupt”, “Interruptible”, or “Interruption” means, in the case of Seller’s obligations, Seller’s reduction or cessation of the delivery of Gas when Seller in its sole discretion elects to reduce or cease deliveries for any reason and, in the case of Buyer’s obligations, Buyer’s reduction or cessation of the receipt of Gas when Buyer in its sole discretion elects to reduce or cease receipt for any reason.

“Mcf,” “MMcf” and “Bcf” mean thousand standard cubic feet, million standard cubic feet, and billion standard cubic feet, respectively. Standard conditions will be at 14.65 psia pressure, and 60 degrees Fahrenheit temperature.

“MMcfpd” means million standard cubic feet per Day.

“Month” means a period beginning at 12:00:00 a.m., Anchorage time, on the first Day of a calendar month and ending at 11:59:59 p.m., Anchorage time, on the last Day of the same calendar month.

“Operational Notice” means a notice given as provided in Section 2.8 and Section 15.2.

“Party” and “Parties” are defined in the first paragraph of this Agreement.

“Production Taxes” has the meaning defined and set by AS 43.55.011, as amended, replaced, or supplemented from time to time after the date hereof.

“Seller” is defined in the first paragraph of this Agreement.

“Seller Shortfall Quantity” means the volume of Firm Gas that Seller is required to deliver and sell to Buyer on a given Day less the volume that Seller actually

delivers and sells to Buyer on such Day.

“Seller’s Other Obligations” is defined in Section 9.5.

“Swing Gas” is defined in Section 2.3(B).

“Term” is defined in Section 4.1.

2. GAS SALES AND PURCHASES

2.1 Annual Commitments. Buyer and Seller will meet to discuss annual commitments for the sale and purchase of Gas on or before September 1 of each year during the Term and agree on or before September 15 of each year during the Term on the sale and purchase of Gas between the Parties for the next Contract Year, such commitments to be determined as follows:

- (A) Either Party may in its sole discretion offer to sell or purchase (as applicable) an annual volume of Gas during such Contract Year, as well as the maximum and minimum Daily Rates at which such volume shall be sold and delivered on a Firm basis (“Annual Commitment”);
- (B) The Parties may agree to different start dates for the commencement of Gas sales for each Contract Year of the Term;
- (C) The Annual Commitment may include both Base Gas and Swing Gas, as may be mutually agreed by the Parties;
- (D) For the avoidance of doubt, in the event that the Parties cannot reach mutual agreement on the Annual Commitment or the Daily Rates at which such volume shall be sold and delivered, then neither Party shall be obligated to deliver and sell or receive and buy (as applicable) any Gas on a Firm basis, but the Parties may nonetheless agree to the sale and purchase of Gas on an Interruptible basis; and
- (E) Annual Commitments and Interruptible sales and purchases of gas shall be made on the terms herein and confirmed in writing using the Transaction Confirmation attached hereto as Exhibit A.

2.2 Contract Years. Subject to the other provisions of this Agreement, the Contract Years during which Seller may deliver and sell Gas to Buyer and Buyer may receive and purchase Gas from Seller are for the calendar year except the initial year is April 1, 2014 through December 31, 2014.

2.3 Base Gas and Swing Gas.

- (A) “Base Gas” includes, without limitation: (1) all Gas sold and purchased hereunder on a Firm basis at an agreed Delivery Rate; (2) all Gas sold and

purchased hereunder on an Interruptible basis; and (3) such other Gas as the Parties may mutually agree in writing.

(B) “Swing Gas” means Gas to be sold and purchased hereunder on a Firm basis at a Delivery Rate in excess of the Delivery Rate applicable to Base Gas, pursuant to Buyer’s explicit nomination of such Gas for delivery at such a Delivery Rate. For the avoidance of doubt, Buyer shall not be obligated to accept and purchase Swing Gas except as expressly set forth as a Swing Gas purchase in Buyer’s nominations and schedules provided to Seller hereunder.

2.4 Daily Nomination of Deliveries. Buyer will nominate to Seller by email, by 4:00 PM each Day, a volume of Gas within the Daily Rate range agreed to for the then-applicable Annual Commitment that Buyer desires to receive and purchase from Seller on the next Day. Without limiting the foregoing, Buyer and Seller will work together on a continuous basis, as necessary, to schedule deliveries and receipt of Gas. If Buyer and Seller do not intend to change the Daily Rate, Seller must send an email to Buyer and Buyer must reply confirming such by 4:00 PM each Day and no additional confirmation that the Daily Rate will continue to be applicable is needed.

2.5 Rate Variations. Unless otherwise agreed in an Operational Notice, daily delivery of the Gas volumes nominated in accordance with Section 2.4 shall be delivered at continuous uniform rate during the Day. Changes to the Delivery Rate of Interruptible Gas volumes to be delivered on a particular Day as specified in an Operational Notice agreed to by the Parties requires twenty-four (24) hours prior notice to Buyer.

2.6 Transportation. Seller is solely responsible for arranging the logistics of transporting Gas to meter 415B (“CINGSA Delivery Point”), to meter 8106 (“GIGGS Delivery Point”), and to delivery points mutually agreed to (collectively with the CINGSA Delivery Point and the CIGGS Delivery Point, the “Delivery Points”). Buyer is solely responsible for arranging the logistics of transporting Gas from the CIGGS Delivery Point.

2.7 Interruptible Sales. For the avoidance of doubt, the Parties may agree to any volume of Gas sales and purchases to be made on an Interruptible basis during the Term of this Agreement, and all such sales and purchases shall be made pursuant to the applicable terms of this Agreement, unless otherwise agreed in writing by the Parties.

2.8 Operational Notices and Documentation. Actions under Sections 2.4, 2.5, and 2.6 will be made or confirmed through Operational Notices. The Parties will document the commencement and termination of all sales and purchases of Gas, and any modifications of the rates of flow within a reasonable time after the applicable Operational Notice. The transactional summaries will be tabulated by Seller in a spreadsheet that will be provided to Buyer periodically or in response

to a request and will contain at least the following information in relation to each such transaction: (A) the total volume of sales and purchases of Gas, (B) the applicable rate(s) of Gas delivery, (C) the applicable Delivery Point(s), (D) the applicable Gas Sales Price, and (E) the total amount due.

3. DELIVERY POINT; TITLE; LIABILITY AND RISK OF LOSS

- 3.1 Unless otherwise mutually agreed in an Operational Notice, Gas delivered under this Agreement shall be delivered, at Buyer's election, to one or more Delivery Points.
- 3.2 Title to all Gas delivered under this Agreement will pass from Seller to Buyer upon the delivery of such Gas by Seller to Buyer at the applicable Delivery Point(s).
- 3.3 Subject to the other provisions of this Agreement, including (without limitation) Article 10, all cost, liability and risk associated with the Gas will be with Seller prior to and at delivery by Seller to the applicable Delivery Point(s), and with Buyer after delivery by Seller to the applicable Delivery Point(s).

4. EFFECTIVE DATE AND TERM

- 4.1 **Effective Date.** Section 14.6 and Articles 4, 8, 9, 13, 15, 16, 17 and 18 of this Agreement are effective as of the Effective Date. The other provisions of this Agreement shall be effective as of the date that Final RCA Approval is obtained. The term of the Agreement, unless earlier terminated under Section 4.3 or Article 8, begins on the Effective Date and terminates on March 31, 2018 (the "Term").
- 4.2 **Extension Term.** The Term of this Agreement may be extended by mutual agreement for an additional five (5) years ("Extension Term") during the Term of the Agreement.
- 4.3 **Early Termination.** Notwithstanding Section 4.1 to the contrary, the following events shall be conditions precedent to any alleged or actual obligation of Buyer to purchase Gas hereunder:
 - (A) that this Agreement be presented to and receive the approval of the Board of Directors of Buyer, as determined by Buyer in its sole discretion. Buyer intends to achieve such approval by September 18, 2013; and
 - (B) that this Agreement be filed with the Regulatory Commission of Alaska ("RCA") pursuant to 3 AAC § 52.470(e) and that, as directed by the RCA or otherwise determined by Buyer in its sole discretion, any and all necessary regulatory approvals have been obtained. With respect to the RCA, such regulatory approval means a final order of the RCA, not subject to further reconsideration by the RCA or appeal by any third party, without condition(s) or modification(s) unacceptable to either Party or

both Parties, such unacceptability to be determined in each such Party's sole discretion ("Final RCA Approval"). If Final RCA Approval is not obtained, or if Final RCA Approval is denied (including by imposition of condition(s) or modification(s) unacceptable to either Party or both Parties), then this Agreement may be terminated by either Party, effective on notice to the other Party. Buyer intends to file the Agreement with the RCA by September 30, 2013, and to achieve Final RCA Approval by March 31, 2014.

4.4 Survival. Notwithstanding anything to the contrary herein, all provisions of this Agreement relating to accrued payment obligations, indemnification, limitation of liability, and dispute resolution, including, without limitation, Sections 3.2, 3.3, 4.3(B), and 14.6 and Articles 1, 8, 9, 10, 11, 12, 13, 15, 16, 17 and 18 will survive any expiration or termination of this Agreement.

5. MEASUREMENT; QUALITY

5.1 The American Gas Association (AGA) measurement standards in effect on the date of delivery will apply to all Gas delivered under this Agreement.

5.2 Seller warrants all Gas delivered to the applicable Delivery Point(s) will be of a pressure, condition and quality to meet the standard requirements of the receiving pipeline system.

6. GAS SALES PRICE; OTHER COSTS

6.1 Gas Sales Price. Buyer will pay Seller the applicable "Gas Sales Price" for each Mcf of Gas delivered by Seller to Buyer, all in accordance with Article 7. The applicable Gas Sales Price for Base Gas and Swing Gas, respectively, during each Contract Year are as follows. Contract Years 6 through 10 apply to the Extension Term.

| Contact Year | Base Gas Price (\$/Mcf) | Swing Gas Price (\$/Mcf) |
|--------------|-------------------------|--------------------------|
| 1 | \$6.12 | \$7.65 |
| 2 | \$6.24 | \$7.80 |
| 3 | \$6.37 | \$7.96 |
| 4 | \$6.49 | \$8.12 |
| 5 | \$6.62 | \$8.28 |
| 6 | \$6.76 | \$8.45 |
| 7 | \$6.89 | \$8.62 |
| 8 | \$7.03 | \$8.79 |
| 9 | \$7.17 | \$8.96 |
| 10 | \$7.31 | \$9.14 |

Buyer shall pay the applicable Base Gas Price for all Base Gas and the applicable

Swing Gas Price for all Swing Gas (if any).

- 6.2 **Production Costs.** Seller is responsible for all Gas processing and treatment expenses to meet the quality requirements of Section 5.2, all royalties payable on the production of Gas, and all taxes assessed in relation to all Gas hereunder (including, without limitation, severance, production and similar taxes) prior to and at its delivery to Buyer at the applicable Delivery Point(s).
- 6.3 **Transportation Costs.** Seller shall be solely responsible for all gas transportation costs, including (without limitation) pipeline tariff(s), whether incurred by Seller or Buyer: (A) to transport gas to the Delivery Points; and (B) to transport gas received at the CIGGS Delivery Point and transported by Buyer to the 8101/8102 meter sets.
- 6.4 **Post-Delivery Costs.** Except as set forth in Section 6.3, Buyer is responsible for all transportation costs and taxes related to Gas after its delivery to Buyer at the applicable Delivery Point.

7. INVOICING AND PAYMENT

- 7.1 **Invoicing.** Seller will provide to Buyer, on or before the fifth (5th) Business Day of each Month, a statement showing the total volume of Gas that Seller's records reflect was actually delivered and sold to Buyer hereunder during the preceding Month. Buyer may request adjustments to such statement based on its records of Gas actually received from Seller during the preceding Month, and the Parties shall work in good faith to determine the actual amount of Gas delivered and received. By the fifteenth (15th) Business Day of each Month in which an invoice is to be delivered, Seller will deliver to Buyer an invoice showing the total agreed volume of Gas actually delivered, the applicable Gas Sales Price, the total amount due for such Gas delivered and sold, and any corrections for the Months prior to such Month.
- 7.2 **Payment.** Buyer will make payment on or before the twenty-fifth (25th) Business Day of the Month in which the invoice was presented. Payment will be by Automated Clearing House ("ACH") transfer to the account of Seller set out below:

Bank Name: First National Bank of Alaska
Bank ABA # 125200060
Account Name: Cook Inlet Energy
Account Number: 30830376

- 7.3 Buyer may dispute an invoice by delivering a notice to Seller that reasonably sets forth the basis of the dispute, the amount in dispute and reasonable documentation supporting Buyer's position. Buyer will pay all undisputed amounts on or before the twenty-fifth (25th) Business Day of the Month in which the invoice was presented. Buyer may, without prejudice to any claim or right, pay any disputed

amount.

7.4 Interest. Any undisputed amount not paid when due will accrue interest daily at a rate of interest that is the lower of: (A) two (2) percentage points more than the Wall Street Journal prime rate applicable at the due date for payment; or (B) the maximum interest rate permitted by applicable law.

7.5 Audit. Each Party to this Agreement, at its sole expense, will have the right to audit the books and records of the other Party relating to performance of this Agreement. All audits will be conducted in accordance with professional auditing standards and during normal business hours. The audited Party will fully cooperate with the auditing Party to accomplish the audit as expeditiously as possible. All invoices and billings shall be conclusively presumed final and accurate and all associated claims for under- or overpayments shall be deemed waived unless such invoices or billings are objected to in writing, with adequate explanation and/or documentation, within two years after the Month of Gas delivery. All retroactive adjustments to previous billings shall be paid in full by the Party owing payment within thirty (30) Days of notice from the other Party and substantiation of such adjustments.

8. TERMINATION

8.1 The Parties agree this Agreement is a forward contract within the meaning of and for the purposes of the United States Bankruptcy Code, as amended. Further each Party represents to the other Party that it is a forward contract merchant as such term is defined in and for the purposes of the Bankruptcy Code, as amended. If (a) a Party becomes the subject of bankruptcy or other insolvency proceedings, or proceedings for the appointment of a receiver, trustee, or similar official, (b) a Party becomes generally unable to pay its debts as they become due, or (c) a Party makes a general assignment for the benefit of creditors, the other Party to this Agreement may suspend its performance hereunder and/or terminate this Agreement effective on notice to the other Party.

8.2 In the event that: (a) either Party defaults in its undisputed payment obligations, or (b) either Party defaults in its performance of any other material obligation hereunder; and (i) in the case of a default under Section 8.2(a), the non-defaulting Party has given notice to the defaulting Party of such default and the defaulting Party has not cured such default within thirty (30) Days from the date it receives the notice to cure such default, or (ii) in the case of a default under Section 8.2(b), the non-defaulting Party has given notice to the defaulting Party specifying the default and the defaulting Party has not cured such default within sixty (60) Days from the date it receives the notice to cure such default, then the non-defaulting Party has the right to withhold or suspend deliveries or payment, or terminate this Agreement, each in the sole discretion of the non-defaulting Party, effective on notice to the other Party.

9. FORCE MAJEURE; FIELD OPERATIONS GAS; PRIORITY OBLIGATION

- 9.1** In the event a Party is rendered unable wholly or in part by Force Majeure to carry out its obligations under this Agreement, the obligations of such Party, insofar as fulfillment of the obligation is affected by such Force Majeure, will be suspended during the continuance of any inability so caused, but for no longer period, and such affected Party shall use commercially reasonable efforts to remedy such Force Majeure, to minimize the impact of the Force Majeure on the non-affected Party, and to resume its performance of the affected obligations as soon as is reasonably possible. In the event that either Party is affected by a Force Majeure that entirely prevents the affected Party's performance for more than three-hundred sixty-five (365) consecutive Days, the non-affected Party may terminate this Agreement, in the sole discretion of the non-affected Party, effective on notice to the affected Party.
- 9.2** The term "Force Majeure," as used herein, means acts of God, natural disasters and catastrophes (including, without limitation, fire, lightning, landslide, earthquake, volcano activity, storm, hurricane, hurricane warning, flood, high water, or explosion); acts of the public enemy, war, strikes, lockouts or industrial disputes or disturbances, civil disturbances; breakage or accident to machinery or lines of pipes, partial or total failure, curtailment or unavailability of a Gas well, a Gas storage facility (including, without limitation, CINGSA) or any facilities for the transmission of electricity; acts or omissions of public bodies or officers acting under claims of authority; or any other cause, whether or not similar to the foregoing, that is beyond the reasonable control of the Party rendered unable to perform in whole or part, could not have been prevented by the affected Party with reasonable foresight, at reasonable cost, and by the exercise of reasonable diligence in good faith, and is not attributable to the negligence or willful misconduct of the affected Party. Settlement of strikes, lockouts, or other labor disputes will be entirely within the discretion of the Party having the difficulty and the above requirements that any Force Majeure event must be remedied with all reasonable dispatch do not require the Party experiencing strikes, lockouts, or other labor disputes to accede to any demand of opposing persons when such course is inadvisable in the sole discretion of that Party.
- 9.3** A Party experiencing a Force Majeure event shall provide Operational Notice of the Force Majeure event as soon as reasonably possible after becoming aware of the occurrence of such event. The Operational Notice must include a description of the nature of the event, and an estimate of its extent and duration. The Party experiencing the Force Majeure event shall update any affected other Parties on a reasonably frequent basis as to the affected Party's progress in resolving the Force Majeure event.
- 9.4** Notwithstanding the other provisions of this Agreement, Seller may cease or curtail deliveries of Gas under this Agreement to ensure a sufficient supply of Field Operations Gas, and the Parties shall be relieved of all obligations to each other solely with respect to such Field Operations Gas.

9.5 Without limiting any other provision of this Agreement, if at any time Seller determines in good faith that Seller's Gas production is, due solely to an event of Force Majeure directly affecting Seller, insufficient to permit Seller to both: (A) make available to Buyer the applicable Annual Commitment (or any portion thereof); and (B) meet its obligations to other purchasers of Gas required to be offered by Seller pursuant to binding contractual obligations entered into by Seller ("Seller's Other Obligations"), then Seller shall reduce deliveries of Gas under Seller's Other Obligations, including reducing such deliveries to zero, to the extent necessary for Seller to deliver the applicable Annual Commitment (or any portion thereof) hereunder.

10. ROYALTIES AND TAXES

10.1 Seller shall be responsible for the payment of all royalties, and any fees, penalties and assessments attributable to the royalties, on Gas delivered under this Agreement, provided that the Alaska Department of Natural Resources ("ADNR") agrees that the price paid under this Agreement is the value of the State of Alaska's royalty share of productions under AS 38.05.180(aa) (with the exception of production covered by a royalty settlement agreement). The Parties shall work together to obtain acceptance by the ADNR of the price paid under this Agreement as the value of the State of Alaska's royalty share of production under AS 38.05.180(aa) (with the exception of production covered by a royalty settlement agreement). If the Parties are not successful in obtaining such acceptance (with the exception of production covered by a royalty settlement agreement), Buyer shall reimburse Seller for any royalties which exceed the royalties that would be payable if the price paid under this Agreement were equal to the State of Alaska's royalty share of such production.

10.2 General Allocation. Seller shall pay all taxes, fees, penalties, and assessments (including Production Taxes) attributable to Gas or any other activity or facility prior to the Delivery Points. Buyer shall pay all taxes, fees, penalties, and assessments attributable to Gas or any other activity or facility at or after the Delivery Points.

10.3 New Production Taxes. Notwithstanding anything in Section 10.2 to the contrary, Buyer shall reimburse Seller for any Production Taxes or other new taxes attributable to the operations and transactions contemplated by this Agreement in excess of \$0.25 per Mcf of Gas.

11. WARRANTY OF TITLE; OWNERSHIP AND DISPOSITION OF GAS

11.1 Seller warrants good title to all Gas delivered to Buyer hereunder at the Delivery Point(s) and Seller's right to deliver the same, and agrees to hold Buyer harmless from, and indemnify it against, any and all loss, damage, cost, or liability of whatsoever kind arising out of Claims of third persons with respect to the title to such Gas, including costs, expenses, and reasonable attorneys' fees incurred by Buyer in defending against any such Claims.

11.2 Without limiting any right of Buyer hereunder or pursuant to applicable law, for the avoidance of doubt, Buyer shall have all rights accruing to the owner of Gas purchased under this Agreement including, without limitation, all rights to resell, store, exchange, and use such Gas, for combustion to make energy sales to any person or otherwise, all as determined in Buyer's sole and absolute discretion.

12. NO PUBLIC UTILITY

Seller is not a public utility and nothing contained herein will be deemed as a dedication to the public of the Gas, or any land, wells, pipelines or other facilities, or any part thereof.

13. INDEMNIFICATION

13.1 Seller agrees to indemnify and defend Buyer and save it harmless from all Claims, from any and all persons, arising from or out of claims of title, personal injury (including death) or property damage from Gas delivered under this Agreement occurring prior to delivery at the Delivery Point, or other charges for which Seller is responsible under Sections 6.2 or 6.3 or that otherwise attach before title to such Gas passes to Buyer at the Delivery Point(s), subject to the provisions of Article 10. Buyer agrees to indemnify and defend Seller and save it harmless from all Claims, from any and all persons, arising from or out of claims regarding personal injury (including death) or property damage from Gas delivered under this Agreement occurring after delivery at the Delivery Point, or other charges for which Buyer is responsible under Section 6.4 which attach after title passes to Buyer.

13.2 Without limiting Section 13.1, as between Seller and Buyer, Seller will be liable for all Claims that arise from the failure of Gas delivered by Seller to Buyer hereunder to meet the quality requirements of Section 5.2.

14. COVER DAMAGES; EXCUSED FAILURES; LIMITATION OF LIABILITY

14.1 Except as set forth in Section 13.2, Buyer's sole remedy for Seller's failure to deliver Gas that Seller is obligated to deliver under this Agreement is that Seller shall pay to Buyer: (A) all costs actually incurred by Buyer, utilizing the Cover Standard, to purchase and transport the amount of Gas (or, if Gas is not reasonably available, to produce and transmit and/or receive an equivalent amount of electric power) necessary to cover the Seller Shortfall Quantity; minus (B) the cost that would have been incurred by Buyer if Buyer had purchased such Gas (or Gas equivalent) under this Agreement.

14.2 Notwithstanding anything in Section 14.1 to the contrary, in the event Buyer withdraws any Gas stored by it or on its behalf at CINGSA (or any other Gas storage facility) in order to address any Seller Shortfall Quantity, Seller shall pay to Buyer, as and when invoiced by Buyer, an amount equal to: (1) all costs to withdraw and transport such Seller Shortfall Quantity to Delivery Points; plus (2)

all costs incurred by Buyer to purchase Gas as necessary to replace such volumes of Gas withdrawn from storage by Buyer; plus (3) all costs to transport and inject such Gas into CINGSA (or any other applicable Gas storage facility). Buyer shall provide to Seller all information necessary to calculate amounts due from Seller to Buyer (including volume, price, transports and injections or withdrawal costs (if applicable), and the delivery Day (as applicable) as soon as practicable after acquiring replacement Gas through Cover.

- 14.3** Seller's sole remedy for Buyer's failure to take Gas that Buyer is obligated to take under this Agreement is the payment to Seller by Buyer of an amount equal to the positive difference between (A) the amount that Buyer would have paid hereunder for the Buyer Shortfall Quantity and (B) the amount, if any, received by Seller utilizing the Cover Standard in a contemporaneous replacement sale of such Gas to a third party.
- 14.4** Any amount payable under this Article 14 shall be payable fifteen (15) Business Days after presentation of the non-defaulting Party's invoice, which shall set forth the basis upon which such amount was calculated.
- 14.5** Notwithstanding anything to the contrary herein, any failure of Buyer to meet its obligations to purchase and receive any amount of Gas hereunder shall be an excused failure under this Agreement, and Buyer shall not be in default of this Agreement and Seller shall not have any remedy against Buyer under this Agreement, including under Section 14.3, if Buyer's failure to purchase and receive such Gas is due to: (A) Buyer being required to purchase electric power from one or more qualifying facilities pursuant to the Public Utilities Regulatory Policies Act of 1978, 3 AAC 50.50.770(a)-(g) or any successor laws or policies; or (B) Buyer being required, pursuant to any federal, state or local law or regulation, to reduce its use of Gas (including, without limitation, as required to meet emissions standards, renewable portfolio standards, or otherwise); *provided*, that Buyer shall apply such reductions in its Gas purchases proportionately among all Gas supply contracts to which Buyer is a party that permit such reductions. Buyer shall use commercially reasonable efforts to provide Seller with at least 30 Business Days' prior notice of any reduction pursuant to this Section 14.5; *provided*, that for the avoidance of doubt the failure to provide such notice shall not affect Buyer's right to reduce its Gas purchases and Seller shall not have any remedy against Buyer for any such failure to provide notice, including, without limitation, under Section 14.3.
- 14.6** FOR BREACH OF ANY PROVISION FOR WHICH AN EXPRESS REMEDY OR MEASURE OF DAMAGES IS PROVIDED, SUCH EXPRESS REMEDY OR MEASURE OF DAMAGES SHALL BE THE SOLE AND EXCLUSIVE REMEDY. A PARTY'S LIABILITY HEREUNDER SHALL BE LIMITED AS SET FORTH IN SUCH PROVISION, AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED. IF NO REMEDY OR MEASURE OF DAMAGES IS EXPRESSLY PROVIDED HEREIN OR IN A

TRANSACTION, A PARTY'S LIABILITY SHALL BE LIMITED TO DIRECT ACTUAL DAMAGES ONLY. SUCH DIRECT ACTUAL DAMAGES SHALL BE THE SOLE AND EXCLUSIVE REMEDY, AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED. UNLESS EXPRESSLY HEREIN PROVIDED, NEITHER PARTY SHALL BE LIABLE FOR CONSEQUENTIAL, INCIDENTAL, PUNITIVE, EXEMPLARY OR INDIRECT DAMAGES, LOST PROFITS OR OTHER BUSINESS INTERRUPTION DAMAGES, BY STATUTE, IN TORT OR CONTRACT, UNDER ANY INDEMNITY PROVISION OR OTHERWISE. IT IS THE INTENT OF THE PARTIES THAT THE LIMITATIONS HEREIN IMPOSED ON REMEDIES AND THE MEASURE OF DAMAGES BE WITHOUT REGARD TO THE CAUSE OR CAUSES RELATED THERETO, INCLUDING THE NEGLIGENCE OF ANY PARTY, WHETHER SUCH NEGLIGENCE BE SOLE, JOINT OR CONCURRENT, OR ACTIVE OR PASSIVE, EXCEPT THAT NO PARTY SHALL BE LIABLE, UNDER THE INDEMNITY PROVISIONS OF THIS AGREEMENT OR OTHERWISE, TO PAY ANY AMOUNT TO THE OTHER PARTY HERETO TO THE EXTENT ARISING FROM THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF THAT OTHER PARTY. TO THE EXTENT ANY DAMAGES REQUIRED TO BE PAID HEREUNDER ARE LIQUIDATED, THE PARTIES ACKNOWLEDGE THAT THE DAMAGES ARE DIFFICULT OR IMPOSSIBLE TO DETERMINE, OR OTHERWISE OBTAINING AN ADEQUATE REMEDY IS INCONVENIENT AND THE DAMAGES CALCULATED HEREUNDER CONSTITUTE A REASONABLE APPROXIMATION OF THE HARM OR LOSS.

15. NOTICES

15.1 Except as specifically provided otherwise in Article 7 of this Agreement, all notices and communications under this Agreement (other than Operational Notices as provided in Section 15.2) will be made in writing by certified mail (return receipt requested), facsimile (with confirmation by one of the other means described herein received within two (2) Business Days of receipt of such facsimile), email, or by nationally recognized overnight courier. All such notices will be deemed effective (a) if mailed, on the date indicated on the returned receipt, (b) if delivered personally or by overnight courier, when delivered, (c) if sent by email or by facsimile during the normal business hours of the recipient, on the same Business Day as sent, and (d) if sent by email or facsimile after the normal business hours of the recipient, on the next Business Day following the date of transmission.

Seller

Cook Inlet Energy, LLC
Attn: David Hall
601 W. 5th Avenue
Suite 310

Anchorage, AK 99501
Telephone: (907) 334-6745
Fax: (907) 334-6735
Email: david.hall@cookinlet.net

Buyer

Chugach Electric Association, Inc.
Attn: Lee Thibert
5601 Electron Drive
Anchorage, Alaska 99518
Phone: (907) 762-4517
Fax: (907) 762-4514
Email: Lee_Thibert@chugachelectric.com

15.2 Any Operational Notice required or permitted to be given to either Party will be given by telephone and confirmed by email, at the telephone numbers and email addresses set forth below (or such other telephone numbers and email addresses as the Parties may designate from time to time by written notice under Section 15.1 and 15.3). Notices given by telephone will be effective immediately and the confirmation by email will be effective as provided in Section 15.1. The Party providing an Operational Notice will attempt to contact the primary contact first. If the primary contact is unavailable to receive notice in a timely manner, the Party providing an Operational Notice will contact the alternate contact.

Seller

Cook Inlet Energy, LLC
601 W. 5th Avenue
Suite 310
Anchorage, AK 99501

Primary Contact:

Mark Slaughter
Commercial Manager
Telephone: (907) 433-3813
Mobile: (907) 632-2474
Fax: (907) 334-6735
Email: mark.slaughter@cookinlet.net

Alternate Contact:

J.R. Wilcox
President
Telephone: (907) 433-3805
Mobile: (907) 310-2637
Fax: (907) 334-6735
Email: jr.wilcox@cookinlet.net

Billing Contact:

Rene Valery
Accounting Technician
Telephone: (907) 433-3807
Fax: (907) 334-6735
Email: rene.varley@cookinlet.net

Buyer

Chugach Electric Association, Inc.
5601 Electron Drive
Anchorage, Alaska 99518

Primary Contact:

Andrew White
Manager of Fuel Supply and Operations
CEA Fuel Supply Desk (907) 762-4502
Telephone: (907) 762-4577
Mobile: (907) 306-0123
Fax: (907) 561-0027
Email: Andrew_White@chugachelectric.com

Billing Contact:

Marina Casey
General Ledger Accountant
Telephone: (907) 762-4369
Fax: (907) 562-0027
Email: Marina_Casey@chugachelectric.com

15.3 Either Party may designate address changes by formal written notice as provided in Section 15.1.

16. ASSIGNMENT

16.1 This Agreement is assignable only with the prior written consent of the other Party, which consent will not be unreasonably withheld. A Party may withhold consent if, in its commercially reasonable opinion, the proposed assignee is not financially and technically capable of assuming the assigning Party's obligations pursuant to this Agreement. No assignment for which written consent has been received will be effective until the assignee agrees in a writing delivered to the non-assigning Party, in a form reasonably satisfactory to the non-assigning Party, to assume and fully perform the liabilities and obligations of the assigning Party under this Agreement.

16.2 This Agreement is binding upon and will inure to the benefit of the Parties and their respective and permitted successors and assigns.

17. GOVERNING LAW AND DISPUTE RESOLUTION

17.1 **Governing Law.** This Agreement is governed by and interpreted under the laws of the State of Alaska, without regard to its choice of law rules.

17.2 **Resolution of Disputes.** The Parties shall exclusively and finally resolve any Dispute between them using direct negotiations and/or non-jury trials, all as set out in this Article 17. A Party who violates this Article 17 shall pay all reasonable legal, expert and court fees and costs incurred by the other Party in any suit, action, or proceeding to enforce this Article 17. While the procedures in this Article 17 are pending, each Party shall continue to perform its obligations under this Agreement, unless to do so would be impossible or impracticable under the circumstances.

17.3 **Direct Negotiations.** If a Dispute arises, a Party shall initiate the resolution process by giving notice setting out in writing and in detail the issues in Dispute and the value of the Claim to the other Party. If a Party refuses to toll all applicable statutes of limitations and defenses based upon the passage of time while the proceedings in this Section 17.3 are pending, the other Party may file a court proceeding under Section 17.4 in an attempt to preserve its Claim and such proceeding shall be stayed by the arbitrator or arbitrators after appointment so that the Parties may continue efforts to resolve this Dispute as set out in this Section 17.3. A meeting between the Parties, attended by individuals with decision-making authority, must take place within twenty (20) days from the date the notice was sent in an attempt to resolve the Dispute through direct negotiations.

17.4 **Trial.** If the Dispute is not resolved by mediation within thirty (30) days from the date of the notice requiring direct negotiations, then the Dispute will be resolved by the state or federal courts of Alaska in Anchorage, Alaska. Each Party, to the extent permitted by law, knowingly, voluntarily, and intentionally waives its right to a trial by jury in any action or other legal proceeding arising out of or relating to this Agreement and the transactions it contemplates. This waiver applies to any action or legal proceeding, whether sounding in contract, tort, or otherwise. All reasonable attorneys' and court fees and costs of both Parties shall be borne by the Party determined by the court to be at fault.

17.5 **Enforcement.** Proceedings to enforce judgment entered on an award may be brought in any court having jurisdiction over the person or assets of the non-prevailing Party. The prevailing Party may seek, in any court having jurisdiction, judicial recognition of the award, or order of enforcement or any other order or decree that is necessary to give full effect to the award.

18. MISCELLANEOUS

- 18.1** This Agreement is made for the sole benefit of the Parties and their respective successors and permitted assigns. The Parties do not intend to create, and this Agreement will not be construed to create, by implication or otherwise, any rights in any other person or entity not a Party to this Agreement, and no such person or entity will have any rights or remedies under or by reason of this Agreement, or any right to the exercise of any right or power hereunder or arising from any default hereunder.
- 18.2** This Agreement is the entire and complete agreement between the Parties regarding the sale of Gas as described herein. Any prior agreements or understandings, oral or written, are superseded and replaced by this Agreement. This Agreement may not be amended except in a writing duly executed by the Parties.
- 18.3** Waiver of any default under this Agreement will not act as a waiver of any other or future default.
- 18.4** Each Party acknowledges and agrees that it has participated in the drafting of this Agreement and has had the opportunity to consult with legal counsel and any other advisors of its choice to its satisfaction regarding the terms and provisions of this Agreement and the results thereof. As a result, the rule of construction that an agreement be construed against the drafter will not be asserted or applied to this Agreement.
- 18.5** The execution and performance of this Agreement is not intended by the Parties to create and will not be construed to create any partnership or business association between the Parties.
- 18.6** The headings in this Agreement are for the convenience of the reader only. The headings are not part of this Agreement and do not purport to and will not be deemed to define, limit, or extend the scope or intent of the article or section to which they pertain.
- 18.7** Each Party represents and warrants to the other Party that it has the legal authority to enter into and perform this Agreement and each obligation assumed by such Party under this Agreement.
- 18.8** This Agreement may be executed by the Parties in any number of counterparts and on separate counterparts, including electronic transmittals, each of which when so executed will be deemed an original, but all such counterparts, when taken together, will constitute but one and the same Agreement. In the event one Party executes the Agreement, and the other Party does not execute the Agreement within ten (10) days of the first Party's execution, the execution of the Agreement by the first Party will be deemed null and void.
- 18.9** No Party, nor any director, employee, or agent of a Party will give to or receive from any Party or any director, employee, or agent of the other Party any

commission, fee, rebate, gift, or entertainment of significant cost or value in connection with this Agreement. Each Party will promptly notify the other Party of any violation of this section, and any consideration received by a Party as a result of such violation will be paid over or credited to the other Party. Each Party, or its designated representative(s), may audit any and all records of the other Party as provided in Section 7.5 for the sole purpose of determining whether there has been compliance with this section.

[SIGNATURES APPEAR ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the Parties have executed this Gas Sale and Purchase Agreement effective as of the Effective Date.

SELLER:
COOK INLET ENERGY, LLC

Signature:

Name: David Hall
Title: CEO
Date: August 20, 2013

BUYER:
CHUGACH ELECTRIC ASSOCIATION,
INC.

Signature:

Name: Bradley Evans
Title: CEO
Date: September 26, 2013

[Signature Page to Cook Inlet Energy-Chugach Gas Sale and Purchase Agreement]

EXHIBIT A
TRANSACTION CONFIRMATION

| | |
|---|--|
| <p>This Transaction Confirmation is subject to the Gas Sale and Purchase Agreement between Seller and Buyer, dated _____.</p> | |
| SELLER: Cook Inlet Energy, LLC Attn: _____ Phone: _____ Fax: _____ | BUYER: Chugach Electric Association, Inc. Attn: _____ Phone: _____ Fax: _____ |
| CONTRACT YEAR: Contract Year: _____ Transaction Start Date: _____ Transaction End Date: _____ | |
| GAS PRICE: Base Price: _____ \$/Mcf Swing Price: _____ \$/Mcf | |
| GAS QUANTITY: Base Gas Quantity: Firm: _____ Mcfpd Interruptible: _____ Mcfpd Swing Gas Quantity: Firm: _____ Mcfpd Interruptible: _____ Mcfpd | |
| DELIVERY POINTS: | |
| SPECIAL CONDITIONS: | |
| Seller: _____ By: _____ Title: _____ Date: _____ | Buyer: _____ By: _____ Title: _____ Date: _____ |

APPENDIX B

**Load Forecasting Data
of
Chugach Electric Association, Inc.
for
2013 to 2023 by Gas Supplier
Units: Bcf**

| | 2009 ConocoPhillips | 2010 Hilcorp | 2013 Hilcorp | Option | Unmet |
|------|------------------------|-----------------|-----------------|--------|-------|
| 2013 | 11.1 | 11.4 | 0.0 | 0.0 | 0.0 |
| 2014 | 9.1 | 6.8 | 0.0 | 0.0 | 0.0 |
| 2015 | 6.2 | 0.0 | 2.4 | 0.1 | 0.0 |
| 2016 | 2.9 | 0.0 | 5.2 | 0.3 | 0.0 |
| 2017 | 0.0 | 0.0 | 8.0 | 0.4 | 0.0 |
| 2018 | 0.0 | 0.0 | 2.0 | 0.1 | 6.5 |
| 2019 | 0.0 | 0.0 | 0.0 | 0.0 | 8.6 |
| 2020 | 0.0 | 0.0 | 0.0 | 0.0 | 8.8 |
| 2021 | 0.0 | 0.0 | 0.0 | 0.0 | 8.6 |
| 2022 | 0.0 | 0.0 | 0.0 | 0.0 | 8.9 |
| 2023 | 0.0 | 0.0 | 0.0 | 0.0 | 8.9 |