CHUGACH ELECTRIC
ASSOCIATION, INC.

November 9, 1990

Michael P. Kelly, General Manager
Golden Valley Electric Association, Inc.
758 Illinois Street
Fairbanks, AK 99702

Re: Chugach's ability to meet GVEA's firm power needs

Dear Mike:

I appreciate your taking the time on October 25 to brief the Chugach Board on your plans with respect to the Healy II project. GVEA's power requirements are of particular interest to Chugach since we both benefit so heavily from our current arrangement.

Healy II raises important questions for both of us. You are at a crucial decision point on how to meet your firm power needs in the future. Chugach is concerned since fuel and resources are available to meet some of those GVEA power needs. Therefore, I believe it is an appropriate time for us to discuss the availability of low-cost firm power from Chugach which would be both more reliable than Healy II and cause no new environmental impacts. If you are interested, I would be happy to arrange a time for you and your staff to meet with my staff to discuss in more detail your needs and how Chugach could help meet those needs.

We were somewhat surprised to hear that you are seriously considering Healy II as a firm power source given that current studies show the delivered price of power in 1996 from Healy II will be 5.6 cents/kWh despite $120 million in subsidies. It was our understanding that you would only consider purchasing power from Healy II if the price were competitive with other resources in the Railbelt. Based on the information you presented, it appears that Healy II is not competitive with prices we could currently offer to GVEA. We believe that Chugach can sell GVEA the firm power it needs for less than the cost of firm power from the Healy II project.

It should be understood that this letter is not an offer, but rather, an overture to discussion. As a starting point to these discussions, Chugach requests that you supply us with information on the costs of alternatives to Healy II which you have considered. Of course, any updated information on your expected costs of power from Healy II would be appreciated.

5601 Minnesota Drive • P.O. Box 196300 • Anchorage, Alaska 99519-6300
Phone 907-563-7494 • FAX 907-564-8406 or 907-562-0027

Much of the required work to facilitate firm sales has already been done as part of the arrangements to provide GVEA's non-firm energy needs. Our dispatchers are well-acquainted with your system's needs, and are accustomed to meeting those needs, as provided by the current contract. Chugach has the capacity to provide firm delivery of the power GVEA now receives on a non-firm basis over the Alaska Intertie. It is important to note that we have already arranged to purchase 70 billion cubic feet of natural gas from Marathon Oil Company that may be used to meet GVEA's needs. This gas represents a major generation resource which is economical, clean and reliable. It is also an inexpensive resource, relative to current cost estimates of the Healy II alternative. Chugach believes that the opportunity to fully utilize this low-cost gas will be jeopardized if GVEA enters into a long-term agreement for Healy II power.

I believe you are now in a position to reap the full benefits of the Alaska Intertie, which permits Fairbanks to use power generated from relatively inexpensive natural gas, rather than choosing the more expensive and less reliable coal-fired generation offered by Healy II. The power from Healy II will be less reliable than firm supply from the Intertie because of maintenance and other Healy II unit outages. Our multiple generation sources are capable of delivering power on a continuous basis. As you are aware, GVEA has been successfully operating with non-firm Intertie deliveries for the last several seasons. Operations using firm power would be even more reliable than purchases under the current agreement.

As a part of an agreement for the sale of firm power to GVEA, Chugach would willingly consider different operating arrangements for the Intertie (such as a single operating entity) that would reduce costs for all users. In this way, the firm sale by Chugach to GVEA would benefit all Intertie participants by reducing current Intertie costs.

In conclusion, there is clearly the opportunity for Chugach to provide GVEA's firm power needs. I hope this letter will open a dialogue which will allow GVEA to capitalize on a firm low-cost energy alternative through sales by Chugach over the Intertie. Please let me know when we may discuss your power requirements and how we can assist you in economically meeting those needs.

Sincerely,

CHUGACH ELECTRIC ASSOCIATION, INC.

Dave

David L. Highers
General Manager