

New gas contracts in effect

End of an era as legacy contracts and volumes come to an end

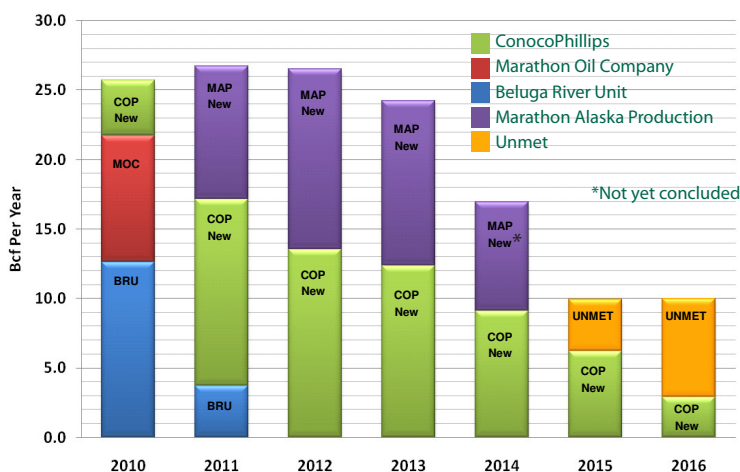
A pair of new gas contracts went into effect on April 1. Even though the suppliers aren't new to Chugach, the event marked a major change – bringing an end to contracts that had provided fuel for Chugach power plants for more than 20 years.

Chugach's natural gas is now supplied by ConocoPhillips and Marathon Alaska Production. As of April 1, each company provides approximately half of the fuel Chugach needs, and will through 2013.

The ConocoPhillips contract took effect in 2010 and runs until 2016. Under the terms of the contract, ConocoPhillips will meet approximately 50 percent of Chugach's needs through December 2015, and 25 percent in 2016.

The contract with Marathon Alaska Production (a subsidiary of Marathon Oil Company) went into effect on April 1. When it was approved in 2010, the agreement was initially for a 24-month period ending March 31, 2013. However, Chugach and Marathon subsequently agreed to terms on the first of two extensions provided in the contract. Consequently, Marathon will now meet approximately half of Chugach's needs through December 2013.

Chugach System Annual Natural Gas Requirements



The volumes under the ConocoPhillips and Marathon contracts are for Chugach's known needs. Currently that includes natural gas for power generated for wholesale customers Homer Electric Association and Matanuska Electric Association. Both utilities have given notice they intend to not continue their contracts beyond their expiration dates at the end of 2013 (HEA) and 2014 (MEA). Given that situation, Chugach's gas needs drop accordingly at those points in time. Another reduction will come once the new Southcentral Power Project begins producing commercial power in 2013. The new, efficient plant will use less gas to produce power than units currently in use, thereby cutting the amount of gas purchased.

A second extension through the end of 2014 is possible, but to date has not yet been concluded.

The price Chugach pays for fuel is different under each contract, but both tie the cost of natural gas to Lower 48 markets. The price paid to ConocoPhillips for the majority (90 percent or more) of its gas is based on a basket of Lower

48 production area price points as published in Platts Gas Daily. The Production Area Composite Index has been near or below the oft-cited Henry Hub price in recent years. Peaking gas is capped at a price twice the base unit cost. The 2nd Quarter price for base gas under the ConocoPhillips contract was expected

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SPP groundbreaking

Chugach and Municipal Light & Power broke ground on the Southcentral Power Project March 28. Representatives of the two utilities, Sen. Begich's office and the contractor joined Mayor Dan Sullivan in the ceremony. The SPP is a joint project to construct an efficient, new combined-cycle, 183-megawatt power plant. The output and \$369 million cost will be shared 70/30 between Chugach and ML&P.



The Chugach and ML&P boards were represented at the groundbreaking.

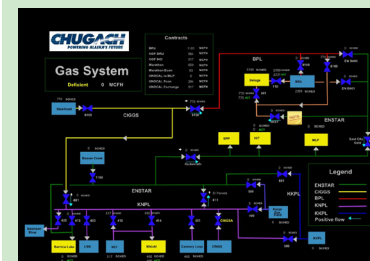
Management of gas an ongoing task

Unlike the old contracts, which essentially bundled all required services from the well head to the power plant, the new contracts make Chugach responsible for forecasting its hourly gas take – and for arranging for transportation for the gas through the various pipelines in the region. This has shifted key responsibilities – and risks – to the utility.

Every day, Chugach gas managers must predict the amount of gas the utility will need hour-by-hour the following day and provide this information to the producers.

In real-time, managers must chart a path for gas to flow from various production points to the different power plants where gas is used.

Throughout the process, managers and power dispatchers ensure compliance with the various contracts that cover the supply of natural gas, its transportation through the pipelines of various owners, and the dynamic interactions – including power sales – with other utilities.



This screen shows the gas transportation system Chugach personnel use to move natural gas from producers to power plants.

Gas contracts (cont'd from page 1)

to remain under \$4 per thousand cubic feet (MCF), but the specific price had not been set when the Outlet went to press since it will be based upon prices in effect through the end of March.

The Marathon contract uses a pricing mechanism tied to the New York Mercantile Exchange Index of futures gas contract prices. The price varies by contract period, type of gas (base, swing or excess) and deliverability commitment. The contract contains a price collar (which sets a floor and ceiling price), initially established at \$5.90 to \$8.90 per MCF. The 2nd Quarter price for gas under the Marathon contract is the floor, \$5.90 per MCF.

Chugach's blended price for natural gas during the 1st Quarter of 2011 was about \$4.70 per MCF. The 2nd Quarter price was expected to be around \$5.50 per MCF. The bump accounted for an increase of 0.626 cents per kilowatt-hour in the fuel charge on the April bills of retail customers. In general, the per-kwh fuel charge goes up about a penny for each dollar rise in the price of natural gas.

The new contracts mark the end of an era in which it was possible to lock in very large volumes of gas at relatively low prices. In the late 1980s, Chugach negotiated gas contracts with four suppliers that provided gas for the utility into 2011. A base per-MCF price was set for each contract, and then adjusted quarterly based upon changes to three nationally traded commodities.

ConocoPhillips and Marathon have been two of Chugach's gas providers for years under those contracts, so the working relationships among the organizations are well established. With the changing nature of the gas industry in the Cook Inlet Basin, the prospect is for gas contracts of shorter duration and price collars.

Natural gas is Chugach's primary generation fuel. Annually, about 90 percent of the kilowatt-hours Chugach sells are generated by burning natural gas, with the balance coming from hydro projects. {12447}

Election and annual meeting notes

Four director seats that are up for election and proposed by-law amendments will be on the ballot in the cooperative's spring election. Mail-voting packets will be mailed the week of April 25 to Chugach members of record.

For the first time, members may vote electronically. Passwords will be mailed prior to April 25. Members who do not wish to vote electronically may choose to vote either by mail or in-person at the annual meeting. Mail ballots must be received by noon, Monday, May 23. Electronic voting will also close at noon, May 23.

Information about the candidates and proposed bylaw changes will be in the election booklet, on the electronic voting site, on Chugach's website and in the May

Outlet.

A candidate forum will be held on April 28 in the training room at Chugach headquarters.

This year, due to a bylaw amendment passed by members in last year's election, the Chugach annual meeting is about a month later. The change was made to accommodate the auditors expanded scope of work and to save Chugach from paying for accelerated audited statements.

The annual meeting will be held at the Dena'ina Civic & Convention Center at 600 W. 7th Avenue, Thursday, May 26. Registration starts at 6 p.m. The meeting begins at 7 p.m. Members should bring a photo I.D. to help speed registration.

Chugach and local companies work together

Gene Carlson, Vice President, Special Projects, of Carlile Transportation Systems and CEO Brad Evans sign the transportation contract for the Once Through Steam Generators (OTSG) for the Southcentral Power Project. This was an example of Chugach and local businesses working together to build this shared project while keeping local dollars in the community.



Vote electronically

Chugach members can be a part of history this year by voting electronically in the cooperative's spring election.

Electronic voting is a new option for members to vote in the election. The election packet will contain directions to a voting website. The member number and a randomly-generated password will

allow the member access to the ballot, candidate information and the election brochure. As a promotion for electronic voting, incentive prizes will be given to two members this year chosen randomly from those who vote electronically; in addition, there are incentive prizes for five members who vote in this year's election using any of the voting options available.

Fuel adjustment increases

The Regulatory Commission of Alaska approved a request to increase Chugach's fuel and purchased power rates for the second quarter of 2011. The total monthly bill for a Chugach residential customer using 700 kilowatt-

hours of electricity will increase about 5.3 percent from \$91.13 to \$95.93, excluding the 2 percent MOA underground charge. Commercial customers will see similar increases.

Member number hide-n-seek Find your member number (in brackets) in the Outlet and get a \$100 credit on your electric bill. Call Chugach's service center at 563-7366 to claim your prize.

Contact us

Main number 563-7494
 Toll free (800) 478-7494
 Member Services 563-7366
 Member Services fax 762-4678
 24-hour payment line 762-7803
 Credit 563-5060
 Power theft hotline 762-4731
 Danger tree hotline 762-7227
 Street light hotline 762-7676
 Underground locates 278-3121
 Regulatory Commission of AK (800) 390-2782
 or 276-6222
 To report a power outage
 In Anchorage 762-7888
 Outside Anchorage (800) 478-7494

Hours

5601 Electron Drive
 Monday - Friday
 8 a.m. - 5 p.m.

The Chugach Outlet

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Corporate Mission: Through superior service, safely provide reliable and competitively priced energy.

Corporate vision: Powering Alaska's future

Personnel policy: It is a policy of Chugach Electric Association, Inc., to recruit, hire, train, compensate and promote persons without regard to race, color, religion, national origin, sex, marital status, pregnancy, parenthood, disability, veterans status, age or any other classification protected by applicable federal, state, or local law. Chugach is also an equal opportunity/affirmative action employer. Current openings are posted on the employment page at <http://chugachelectric.applications.com>. Chugach only accepts applications for open vacancies.

Monthly residential service costs (based on 700 kwh)

Customer charge/month	\$ 8.00
Energy charge \$0.070630 x kwh =	\$49.44
Fuel \$0.048670 x kwh =	\$34.07
Purchased power \$0.005750 x kwh =	\$ 4.03
(Fuel & purchased power adjustments effective 4/1/11 - 6/30/11)	
Subtotal	\$ 95.54
2% MOA Underground Charge =	\$ 1.91
RCC \$0.000552 x kwh =	\$ 0.39
Total bill	\$97.84