

Naknek Geothermal Project Update

January 2012

The \$80 million Naknek Geothermal Project, in which Naknek Electric Association (NEA) has invested approximately \$23 million to date, is now at a critical juncture – the immediate need for \$3.2 million to leverage approximately \$17 million in previously obligated federal grants as well as a federal loan guarantee.

The \$3.2 million will allow confirmation of the geothermal resource in the initial well, which has been drilled at the project site seven miles from the King Salmon Airport (which NEA serves) in the Bristol Bay area of southwestern Alaska. Geothermal experts, engaged by NEA as requested by federal and state agencies, are in agreement that the initial well and the overall site hold high potential for Alaska's first utility-grade geothermal power production facility.

NEA is a member-owned electric cooperative serving residents of Naknek, South Naknek and King Salmon. The geothermal project has the support of the majority of NEA's consumers, as well as the Bristol Bay Borough, the Bristol Bay Native Association, the Bristol Bay Native Corporation, Paug-Vik, Inc. and the Alaska congressional delegation.

Resource confirmation within the initial well is necessary to verify its electricity-producing potential, and allow release of approximately \$17 million in designated grants by the U.S. Department of Energy (DOE) and approval of a pending \$54 million loan guarantee request

to the U.S. Department of Agriculture's Rural Utilities Service (RUS).

NEA is currently in Chapter 11 reorganization brought on by the heavy front-end costs associated with development of the initial well coupled with delays in freeing up the bulk of the DOE grants and the RUS loan guarantee. The \$3.2 million is necessary immediately to assure the bankruptcy court that the resource confirmation will proceed without delay. The next scheduled proceeding in the Chapter 11 process is in late March.

Without assurance of resource confirmation, the bankruptcy court could effectively halt the project, forcing NEA to continue its total reliance on diesel generation, with rising fuel costs and environmental impacts. Currently, NEA is spending about \$6 million a year on diesel fuel. Within just 13 years, that fuel expense would eclipse the total cost of the geothermal facility with its renewable fuel source – hot water.

In addition to NEA's residential, business and government consumers in Naknek, South Naknek and King Salmon, the geothermal facility would serve major seafood processors in the largest salmon-producing region of the United States. Like others in the area, the processors are currently dependent on diesel generation. Bristol Bay seafood is a major economic engine in Alaska.

