

HB

243

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

REPORTED OUT
FEB 22 2006
 SENATE FINANCE COMMITTEE

DATE: 5/7/05

FURTHER:

DATE TURNED
 IN TO OFFICE: 2/22/06

Finance Committee considered CS FOR HOUSE BILL NO. 243(FIN)

HB 243 SWAN LAKE-TYEE LAKE INTERTIE

"An Act relating to the financial plan for the intertie between the Swan Lake and Tyee Lake hydroelectric projects; and providing for an effective date."

and recommends:

- be replaced with S CS CS HB 243 (FIN)
- adopt previous CS FORTHCOMING (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

CS Senate Bill:
 Same Title
 New Title

SCS House Bill:
 Same Title
 Technical Title Change
 New Title w/ SCR # _____

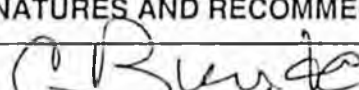
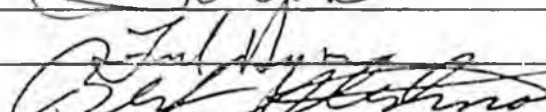
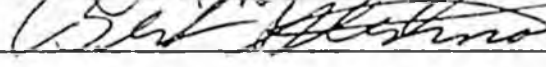
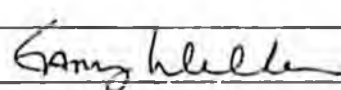
NEW FISCAL NOTE(S):

Department	Date	Fiscal	Ind.	Zero	FN#
DCCED	2/1/06			✓	

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Ind.	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
	✓			
	✓			
	✓			
COCHAIR: 			✓	
COCHAIR: _____				

FISCAL NOTE

REPORTED OUT
FEB 22 2006
 SENATE FINANCE COMMITTEE

STATE OF ALASKA
 2006 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SCS HB 243(FIN)
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Commerce
 Title Financing Plan for Southeast Intertie RDU Alaska Energy Authority (453)
 Component Power Cost Equalization
 Sponsor Rules by Request of Governor
 Requester Senate Finance Component No. 2602

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES (1169)						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2006) cost: 00

Check this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Indeterminate revenue impact to the Power Cost Equalization Endowment Fund. See attached analysis.

Prepared by: Sara Fisher-Goad, Financial Analyst Phone 907.269.4623
 Division AIDEA and AEA Date/Time 2/1/06 5:35 PM
 Approved by: William C. Noll, Commissioner Date 2/1/2006
 Agency Commerce, Community, and Economic Development

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. SCS HB 243 (FIN)

ANALYSIS CONTINUATION

This bill provides for the required legislative approval of the August 17, 2005 First Amendment to the Agreement for the Purchase and Sale of the Four Dam Pool Project entered between the Alaska Energy Authority (AEA) and The Four Dam Pool Power Agency (TFDPPA). This Amendment accommodates TFDPPA's desire to complete the Swan Lake-Lake Tyee Southeast Intertie (the "Intertie") while protecting the interests of the Power Cost Equalization (PCE) Endowment Fund.

The purchase price of the Four Dam Pool Project was \$73 million. A \$5 million credit was provided contingent upon the construction of the Intertie. TFDPPA is obligated to repay the credit if TFDPPA 1) abandons efforts to complete the Intertie, 2) fails to provide the Alaska Industrial Development and Export Authority (AIDEA) by April 11, 2005 with an approved finance plan demonstrating committed funds sufficient to complete the Intertie, or 3) fails to commence field construction of the Intertie by April 11, 2010. Repayment of the credit will be deposited into the PCE Endowment Fund.

Item 1 of the repayment stipulations has yet to occur and since field construction has commenced, item 3 will not occur.

Item 2 has occurred because TFDPPA failed to provide by April 11, 2005, a financing plan that demonstrated sufficient funds to complete the Intertie. On March 10, 2005 TFDPPA instead submitted a plan based upon TFDPPA seeking \$41 million in additional federal and state grants. Because considerable development of the Intertie had already occurred, AIDEA and AEA proposed that the \$5 million be transferred to AEA for deposit into an interest-bearing escrow account to be available to support completion of the intertie. AIDEA and AEA's proposal was accepted and TFDPPA and AEA negotiated the First Amendment to the Agreement for the Purchase and Sale of the Four Dam Pool Project.

The \$5 million credit is held by AEA in an interest-bearing Escrow Account. The Escrow Account will be deposited to PCE Endowment Fund if TFDPPA abandons construction of the Intertie or if the Intertie is not completed by April 11, 2015. If the Legislature fails to approve SCS HB 243(FIN), the Escrow Account will be deposited into the PCE Endowment Fund on July 1, 2006.

AEA will disburse a portion or all of the amounts in the Escrow Account to reimburse TFDPPA for its out-of-pocket (non-state or federal grant portion) construction costs for the completed Intertie. Any portion of the Escrow Account not needed to reimburse TFDPPA for out-of-pocket construction costs will be deposited into the PCE Endowment Fund.

ADOPTED
2/13/06

WORK DRAFT

WORK DRAFT

WORK DRAFT

24-GH1138X
Wayne
2/2/06

SENATE CS FOR CS FOR HOUSE BILL NO. 243(FIN)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FOURTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL
FOR AN ACT ENTITLED

1 "An Act relating to the financial plan for the intertie between the Swan Lake and Tyee
2 Lake hydroelectric projects; and providing for an effective date."

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

4 * Section 1. The uncodified law of the State of Alaska is amended by adding a new section
5 to read:

6 LEGISLATIVE APPROVAL REGARDING THE SALE OF THE FOUR DAM
7 POOL HYDROELECTRIC PROJECT. Notwithstanding the restrictions imposed by sec.
8 15(a), ch. 60, SLA 2000, the legislature approves the August 17, 2005, first amendment to the
9 agreement between the Alaska Energy Authority and the Four Dam Pool Power Agency for
10 the purchase and sale of the four dam pool hydroelectric project.

11 * Sec. 2. This Act takes effect immediately under AS 01.10.070(c).



Official Business

Alaska State Senate

Senate Finance Committee

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-1182

FAX COVER SHEET

DATE: 2/22/07 TIME: 9:32 AM

TO: LEGAL

NUMBER OF PAGES, INCLUDING COVER SHEET: 1

FROM: ROBIN PAUL
SENATE FINANCE CMTE. ASST. SECRETARY
PHONE: 465-2618
FAX: 465-2187

NOTES: FINAL PLS! SCS CS HB 243(FIN)
Version 24-GH1138/X
No Changes!

Thanks!
Robin

SOLOMON
GULCH

TERROR
LAKE

THE FOUR DAM POOL POWER AGENCY

• TYEE
• SWAN LAKE

703 W. Tudor Road, Ste. 102 • Anchorage, AK 99503-6650
907-258-2281 Tel • 907-258-2287 Fax • www.fdppa.org

HB 243 BRIEFING PAPER

ACTION REQUESTED

The First Amendment to the Agreement for the Purchase and Sale of the Four Dam Pool Project ("Escrow Agreement") was signed by The Four Dam Pool Power Agency ("FDPPA") and the Alaska Energy Authority ("AEA") on August 17, 2005. The purpose of the Escrow Agreement is to satisfy the terms of the purchase agreement by the State of Alaska to the FDPPA of the four hydroelectric facilities known as the Intertie Project¹ in 2002, while also preserving a funding mechanism for the completion of the Swan Lake – Lake Tyee Intertie Project. The Escrow Agreement requires that Alaska Legislature approve the Escrow Agreement on or before June 30, 2006. This memorandum provides a summary of the key provisions of the Escrow Agreement as well as a brief chronology of the events leading up to the execution of the Escrow Agreement.

BACKGROUND

On April 11, 2000, Copper Valley Electric Association, Inc. ("CVEA"), the City of Ketchikan d/b/a Ketchikan Public Utilities ("KPU"), Kodiak Electric Association, Inc. ("KEA"), the City of Petersburg d/b/a Petersburg Municipal Power & Light ("Petersburg"), and the City of Wrangell d/b/a Wrangell Municipal Power & Light ("Wrangell") executed a Memorandum of Understanding ("MOU") with AEA providing, in part, for the \$5 million credit from the purchase price of the Four Dam Pool Initial Project ("Intertie Credit") and for the repayment of the Intertie Credit upon certain events related to the development of the Swan-Tyee Intertie Project.² The MOU provides:

[Twenty million dollars] ("Intertie Loan Funds") has previously been appropriated to the power project fund to be used for a low interest loan for the proposed transmission intertie between the Tyee Lake Hydroelectric project and Ketchikan (the "Southeast Intertie"). The parties agree that, as an integral part of the transaction contemplated herein, effective no later than August 1, 2000,

¹ The Initial Project is comprised of the following four hydroelectric projects: Swan Lake, Lake Tyee, Solomon Gulch, and Terror Lake.

² The MOU was later amended on May 30, 2000.

the Intertie Loan Funds shall be released and be used by the State to fund the PCE Endowment. In recognition of the release of the Intertie Loan Funds, at Closing, the [FDPPA] shall be provided a credit against the Purchase Price of [five million dollars]. The [FDPPA] shall be obligated to immediately pay the State an additional \$5 million as repayment of the credit provided in this Section if (i) the [FDPPA] abandons efforts to complete the Southeast Intertie or (ii) within 5 years following the date of this MOU the [FDPPA] has not provided AIDEA with an approved finance plan demonstrating committed funds sufficient to complete the Southeast Intertie or (iii) field construction of the Southeast Intertie is not commenced within 10 years following the date of this MOU.

This provision was later made part of the executed Agreement for the Purchase and Sale of the Four Dam Pool Project dated as of January 31, 2002. Any portion of the Intertie Credit repaid to AEA under the terms above have been appropriated to the Power Cost Equalization Endowment Fund ("PCE Endowment Fund") created under AS 42.45.070 pursuant to Section 3 of Chapter 75 SLA 2000, as required by Section 2 of the MOU, and as acknowledged in Section 3.2 of the Agreement for the Purchase and Sale of the Four Dam Pool Project. In light of this appropriation and its potential impact on the PCE Endowment Fund, the Escrow Agreement requires that the FDPPA submit the Escrow Agreement to the Alaska Legislature for approval.

ESCROW AGREEMENT CHRONOLOGY AND SUMMARY:

- **April-May 2005** – Pursuant to the MOU, FDPPA submitted a plan of finance for the construction of the Intertie Project; this plan of finance was subsequently rejected by AEA; FDPPA and AEA discussed alternate strategies for the use of the \$5 million Intertie Credit (evolved into the Escrow Agreement in its current and prior forms).
- **June 15** - Letter from AEA demanding payment of \$5 million by 12/12/05.
- **Aug. 11** - Escrow Agreement approved by FDPPA board.
- **Aug. 12** - FDPPA transfer of \$5 million to AEA.
- **Aug. 17** - Escrow Agreement executed.
- **Oct. 16** (on or before) – FDPPA member utilities approve Escrow Agreement.

ESCROW AGREEMENT SUMMARY:

1. Use of Escrow Funds

The Escrow Agreement provides that the \$5 million Intertie Credit transferred by FDPPA to AEA will be held in trust in an interest bearing account by AEA. AEA will release funds from this account (including interest) to the FDPPA as reimbursement to FDPPA if it expends its own funds (i.e., not grant funds) on the Intertie project and the Intertie is completed on or before April 11, 2015 (reimbursement to FDPPA is limited mainly to direct construction costs).

Otherwise, the funds will be transferred to the PCE Endowment Fund if any one of the following occur:

- the Intertie is not completed by April 11, 2015;
- FDPPA does not qualify for reimbursement under the Escrow Agreement (e.g., does not expend its own funds on the Intertie project);
- a final judgment or award in a lawsuit or other dispute resolution process related to the Intertie Credit requires transfer of the funds to the PCE Endowment;
- legislative approval of the Escrow Agreement is not secured on or before June 30, 2006.

Attachments

1. Escrow Agreement dated 8/17/05
2. Memorandum of Understanding dated 4/11/00
3. Memorandum of Understanding dated 5/30/00

EXECUTION

First Amendment to the Agreement for the
Purchase and Sale of the Four Dam Pool Project

This First Amendment to the Agreement for the Purchase and Sale Agreement of the Four Dam Pool Project ("Amendment") is entered into and effective as of this 17th day of August, 2005, between The Four Dam Pool Power Agency ("FDPPA") and the Alaska Energy Authority ("AEA").

Recitals

- A. Prior to January 31, 2002, AEA was the owner of the Swan Lake Hydroelectric Project, the Lake Tyee Hydroelectric Project, the Solomon Gulch Hydroelectric Project and the Terror Lake Hydroelectric Project, collectively referred to as the Four Dam Pool projects (the "Projects").
- B. AEA and the Purchasing Utilities negotiated and entered into a Memorandum of Understanding dated April 11, 2000 ("MOU") under which the State, by and through AEA, would sell the Projects to a joint action agency ("Agency") to be formed under AS 42.45.300 and 42.45.310, whose board is solely appointed by the Purchasing Utilities (the "Purchasing Utilities").
- C. The State legislature passed legislation contemplated by the MOU, approving the sale of the Projects under the terms and conditions of the MOU, but which also imposed conditions requiring certain additional terms and conditions related to the sale of the Projects.
- D. AEA and the Purchasing Utilities amended the MOU by an Amendment to Memorandum of Understanding dated May 30, 2000 ("First Amendment to MOU") to incorporate the additional terms and conditions imposed by the legislature in the legislation authorizing the sale of the Projects.
- E. Contemplated under the MOU, as amended, FDPPA and AEA entered into an Agreement for the Purchase and Sale of the Four Dam Pool Project signed January 31, 2002 ("Agreement for P&S").
- F. Section 7 of the MOU provided for a \$5 million Intertie loan funds credit ("ILF Credit") towards the purchase price of the Projects, subject to the following terms for repayment of the credit:

The Purchaser shall be obligated to immediately pay the State an additional \$5 million as repayment of the credit provided in this Section if (i) the Purchaser abandons efforts to complete the Southeast Intertie or (ii) within 5 years following the date of this MOU the Purchaser has not provided AIDEA with an approved finance plan

demonstrating committed funds sufficient to complete the Southeast Intertie or (iii) field construction of the Southeast Intertie is not commenced within 10 years following the date of this MOU.

- G. Section 2.2.2 of the Agreement for P&S also provided for a \$5 million ILF Credit, subject to the following terms for repayment of the credit:

Subsequent to the Closing, the JAA shall have a continuing obligation to repay the ILF Credit to the AEA on one hundred eighty (180) days notice from the AEA, if (i) the JAA abandons efforts to complete the Southeast Intertie; (ii) prior to April 11, 2005, the JAA has not provided AIDE with an approved finance plan demonstrating sufficient funds to complete the Southeast Intertie; or (iii) field construction of the Southeast Intertie is not commenced on or before April 11, 2010.

- H. Any portion of the ILF Credit repaid to AEA has been appropriated to the Power Cost Equalization Endowment Fund ("PCE Endowment Fund") created under AS 42.45.070 pursuant to Section 3 of Chapter 75 SLA 2000, as required by Section 2 of the MOU, and as acknowledged in Section 3.2 of the Agreement for P&S.
- I. FDPPA has not abandoned efforts to complete the Swan Lake – Lake Tye Southeast Intertie, so term (i) has yet to occur under either Section 7 of the MOU or Section 2.2.2 of the Agreement for P&S.
- J. Field construction of the Swan Lake – Lake Tye Southeast Intertie has already commenced, timely satisfying term (iii) under both Section 7 of the MOU and Section 2.2.2 of the Agreement for P&S.
- K. The finance plan FDPPA submitted to AIDEA acknowledged that FDPPA has yet to secure approximately \$53 million of funds necessary to complete the Swan Lake – Lake Tye Southeast Intertie, and revealed that FDPPA's plan for financing the existing funding shortage is to attempt to obtain additional federal and state grants. This finance plan failed to satisfy term (ii) under either Section 7 of the MOU or Section 2.2.2 of the Agreement for P&S because it failed to demonstrate that FDPPA had sufficient committed funds.
- L. As an accommodation to FDPPA and to support FDPPA's desires to complete the Swan Lake – Lake Tye Southeast Intertie project while simultaneously protecting the interests of the PCE Endowment Fund, AEA proposed modifications to term (ii) under both Section 7 of the MOU and Section 2.2.2 of the Agreement for P&S related to FDPPA's obligations to repay the ILF Credit. That proposal was set forth in a proposed

agreement titled "Second Amendment to the Memorandum of Understanding and First Amendment to the Agreement for the Purchase and Sale of the Four Dam Pool Project" ("June 9, 2005, Proposed Agreement"). On June 9, 2005, FDPPA rejected the June 9, 2005, Proposed Agreement, and gave formal notice of the rejection on June 14, 2005. Following the FDPPA's rejection of the June 9, 2005, Proposed Agreement, in a letter dated June 15, 2005, AEA issued a demand for repayment of the ILF Credit on or before December 12, 2005.

- M. On July 29, 2005, the Board of Directors of FDPPA considered a modified version of AEA's June 9, 2005, Proposed Agreement for satisfaction of the obligations related to the ILF Credit. The directors of FDPPA voted three to two in favor of FDPPA entering into an agreement with AEA ("July 29, 2005, Proposed Agreement"). Two of FDPPA's Member Utilities (which are also Purchasing Utilities) — Kodiak Electric Association, Inc. ("KEA") and Copper Valley Electric Association, Inc. ("CVEA") — disputed that the three-to-two vote of FDPPA's directors was adequate to authorize FDPPA to enter into the July 29, 2005, Proposed Agreement and make repayment of the ILF Credit under the terms and conditions set forth in the agreement. The provisions of the July 29, 2005, Proposed Agreement were revised to include resolution of this dispute between KEA, CVEA and FDPPA as an additional condition and contingency in this Amendment.
- N. AEA and FDPPA have agreed to the modifications reflected in this Amendment.

NOW, THEREFORE, in exchange for the mutual promises contained herein and for other consideration the receipt and adequacy of which is hereby acknowledged, the parties agree as follows:

1. Notwithstanding the requirements imposed by Section 7 of the MOU and Section 2.2.2 of the Agreement for P&S, given FDPPA's timely payment to AEA of Five Million Dollars (\$5,000,000 U.S.) on August 12, 2005, the obligation of FDPPA to repay the ILF Credit shall be deemed satisfied unless and to the full extent FDPPA becomes entitled to obtain reimbursement of any portion of the Five Million Dollars in a manner contrary to the terms and conditions of paragraphs 5 through 8 of this Amendment, in which circumstance, the obligation of FDPPA to repay the balance owed on the ILF Credit shall be deemed due and payable to AEA on or before December 12, 2005.
2. AEA shall establish an interest bearing escrow account ("Escrow Account"), into which AEA shall deposit the Five Million Dollars (\$5,000,000) received from FDPPA under paragraph 1. AEA shall deposit and invest such funds as soon as possible after receipt, but in no event later than five (5) days after receipt of such funds from FDPPA.

3. Amounts in the Escrow Account will be invested, interest will be credited and fees, if any, will be charged as follows:

(a) Investments will be limited to debt instruments issued by the United States Government, its Agencies and Instrumentalities and money market funds in the highest rating category assigned by a nationally recognized rating service. No purchased investment will mature later than April 11, 2015.

(b) Investment maturities will be based on information provided by FDPPA and will be structured to provide funds for reimbursement to FDPPA or deposit into the PCE Endowment. FDPPA will provide estimated maturity data annually by April 1, along with a status report on the Swan Lake – Lake Tyee Southeast Intertie project.

(c) Interest earnings remain in the Escrow Account to be used as specified in this Amendment:

- (i) Interest earned will be credited to the Escrow Account.
- (ii) Payments for accrued interest will be deducted from the Escrow Account when investments are purchased.
- (iii) Fees, if any, paid to purchase or sell investments will be deducted from the Escrow Account and decrease the amount of retained net interest.
- (iv) Gains on sales of investments will be credited to the Escrow Account and increase the amount of retained net interest.
- (v) Losses on sales of investments will be charged to the Escrow Account and decrease the amount of retained net interest.

4. AEA shall disburse amounts from the Escrow Account, including retained net interest, pursuant to provisions of paragraphs 5 through 8.

5. AEA shall disburse a portion or all of the amounts in the Escrow Account, including retained net interest, to reimburse FDPPA for its out-of-pocket construction costs for the completed Swan Lake – Lake Tyee Southeast Intertie, under the following conditions:

(a) FDPPA shall submit to AEA a fully executed Engineer's Certificate, substantially in the form attached as Exhibit A, certifying that construction of the Swan Lake – Lake Tyee Southeast Intertie has been successfully completed.

EXECUTION

(b) FDPPA shall submit to AEA a fully executed Project Expenditures Certificate with attached related invoices, substantially in the form attached as Exhibit B, certifying:

- (i) amounts FDPPA has actually paid, out-of-pocket, for direct costs of construction of the completed Swan Lake – Lake Tyee Southeast Intertie, including normal project construction costs, such as costs related to design, engineering, project and construction management, and quality control inspections, or construction, but excluding amounts attributable to legal, accounting, lobbying, fundraising, advertising, public relations, FDPPA's administrative overhead or similar expenses, and
- (ii) that FDPPA has not, and will not, obtain reimbursement for any of the itemized out-of-pocket expenditures listed on the executed Project Expenditures Certificate from any federal or state grant or appropriation, or from any other source.

(c) AEA shall disburse to FDPPA the amount reflected in the executed Project Expenditures Certificate within ninety (90) days of receipt, up to the balance in the Escrow Account, including retained net interest. To obtain reimbursement of the entire Escrow Account under this paragraph 5, the executed Project Expenditures Certificate must include a minimum of \$5 million plus the amount of retained net interest of certified expenditures. Nothing in this paragraph 5, however, is intended to establish either a maximum or minimum amount FDPPA may expend towards construction.

(d) The Project Expenditures Certificate may only include construction expenses FDPPA pays out-of-pocket after the effective date of this Amendment.

(e) FDPPA shall refund to AEA any portion of an amount reimbursed from the Escrow Account that is attributable to an inaccurate statement in FDPPA's Project Expenditures Certificate under paragraph 5(b)(i). AEA shall be entitled to enforce this provision at any time, including after the Escrow Account has closed, but in no event after two (2) years from the date FDPPA delivers the executed Project Expenditures Certificate to AEA (unless the AEA files an enforcement action within such two year period). AEA shall deposit any amount FDPPA refunds under this provision into the PCE Endowment Fund.

(f) If and to the extent, and notwithstanding paragraph 5(b)(ii) FDPPA receives reimbursement from any source other than the Escrow Account for an itemized out-of-pocket expenditure listed on the executed Project Expenditures Certificate, FDPPA shall refund such reimbursed amounts to AEA or deposit into the PCE Endowment Fund. AEA shall be entitled to enforce this provision at any time, including after the Escrow Account has closed. AEA shall deposit any amount FDPPA refunds under this provision into the PCE Endowment Fund.

(g) The terms and conditions under paragraphs 7(a) and 8 of this Amendment, including approval of this Amendment by the Legislature, shall be satisfied before AEA may disburse any amount to FDPPA under this paragraph 5.

(h) In the event any or all of the Purchasing Utilities make a Claim as contemplated under paragraph 8, AEA shall not disburse any amount to FDPPA until the claim or demand is resolved.

6. AEA shall deposit into the PCE Endowment Fund a portion or all of the amounts in the Escrow Account, including a portion or all of the retained net interest, as follows:

(a) AEA shall deposit into the PCE Endowment Fund any amounts not reimbursed to FDPPA under paragraph 5. Such deposit shall occur at the same time AEA reimburses FDPPA under paragraph 5.

(b) AEA shall deposit into the PCE Endowment Fund the entire amount in the Escrow Account, including retained net interest, if the Swan Lake – Lake Tye Southeast Intertie project is abandoned.

(i) FDPPA shall notify AEA immediately if FDPPA abandons efforts to complete the Swan Lake – Lake Tye Southeast Intertie project.

(ii) For purposes of this Amendment, FDPPA shall be conclusively deemed to have abandoned the Swan Lake – Lake Tye Southeast Intertie project if that project is not completed by April 11, 2015.

(c) AEA shall deposit into the PCE Endowment Fund the entire amount in the Escrow Account, including retained net interest (except as otherwise provided for in paragraph 6(d)), on July 1, 2006, if the Legislature fails to approve this Amendment as contemplated under paragraph 7.

(d) KEA and CVEA claim that the July 29, 2005, three-to-two vote of the directors of FDPPA was not adequate to authorize FDPPA to enter into the July 29, 2005, Proposed Agreement, including the proposed immediate repayment of the ILF Credit. KEA and CVEA also claim that the vote was not sufficient to bind KEA or CVEA to the terms and conditions of the July 29, 2005, Proposed Agreement. KEA or CVEA may seek resolution of any claims as they relate to the FDPPA, the Member Utilities, and the Purchasing Utilities (collectively, the parties to those claims) through court action, or, upon agreement of all parties to those claims, other dispute resolution process. If KEA or CVEA choose to seek resolution of these claims, they shall initiate such efforts within sixty (60) days of the signing of this Amendment. FDPPA shall submit this Amendment to the Purchasing Utilities for ratification as being consistent with Section 7 of the MOU immediately upon execution of this Amendment. Should the matter not be ratified unanimously, FDPPA will take steps to include the MOU issue in the above dispute resolution procedure and take steps to add as a party to that procedure any Purchasing Utility that has not ratified the Amendment in order for the result to have binding and preclusive effect on such Purchasing Utility. If the dispute resolution procedure described above has not been initiated within sixty (60) days after the signing of this Amendment, and if any Purchasing Utility has not ratified the Amendment within such sixty-day (60-day) period, FDPPA shall seek resolution of the MOU issue through court action or, upon agreement by FDPPA and any non-ratifying Purchasing Utility, other dispute resolution process, as necessary for resolution of the MOU issue with binding and preclusive effect on any Purchasing Utility that has not ratified this Amendment.

- (i) If, prior to July 1, 2006, it is finally determined that the July 29, 2005 vote was not adequate to authorize FDPPA to enter into the July 29, 2005, Proposed Agreement, including the proposed immediate repayment of the ILF Credit, or to bind KEA and CVEA to the terms and conditions of the agreement, AEA shall deposit into the PCE Endowment Fund the entire amount in the Escrow Account, including a portion of retained net interest, on July 1, 2006. If such final resolution occurs on or after July 1, 2006, AEA shall deposit into the PCE Endowment Fund the entire amount in the Escrow Account, including a portion of retained net interest, at the earliest possible time considering the maturity dates of investments of the funds in the Escrow Account, but in no event shall

payment to FDPPA under (ii) of retained net interest that accrues prior to October 9, 2005, occur later than ninety (90) days after AEA receives notice of such final resolution.

- (ii) The portion of retained net interest in the Escrow Account to be deposited into the PCE Endowment Fund under (i) shall be the total retained net interest in the Escrow Account less the amount of retained net interest that accrues in the Escrow Account prior to October 9, 2005. If the final determination described in Paragraph 6(d)(i) is made, AEA shall pay to FDPPA the amount of retained net interest that accrues in the Escrow Account prior to October 9, 2005. Such payment to FDPPA shall occur at the same time or before AEA deposits into the PCE Endowment Fund the remainder of the funds in the Escrow Account.
 - (iii) If it is finally determined that the July 29, 2005, three-to-two vote was adequate to authorize the FDPPA to enter into the July 29, 2005, Proposed Agreement, including the proposed immediate repayment of the ILF Credit, and to bind KEA and CVEA to the terms and conditions of the agreement, AEA shall disburse amounts from the Escrow Account, including retained net interest, pursuant to the provisions of paragraphs 5, 6(a) - (c), and 7 - 8.
7. (a) FDPPA and AEA shall use reasonable efforts to jointly seek legislative approval for this Amendment and modifying the legislatively approved terms for the purchase and sale which the Legislature approved under sec. 15(a), ch. 60, SLA 2000, as contemplated under this Amendment. FDPPA and AEA shall review and approve a bill that is agreeable to both parties prior to the introduction of such bill to the Legislature. Neither party shall present a bill to the Legislature without the consent of the other party, which shall not be unreasonably withheld. FDPPA assumes responsibility to ensure that the Legislature approves the amendment in a clean bill which either contains only those provisions originally consented to by both parties, or which contains only additional provisions acceptable to both parties. AEA will not object to passage of such a bill. Nothing in this paragraph shall be construed to require KEA, CVEA, or their representatives serving as directors of FDPPA to participate in such advocacy efforts if such participation would be inconsistent with KEA's or CVEA's advocacy positions with respect to resolution of the claims described in paragraph 6(d).

(b) In the event this Amendment is not approved by the Legislature, as contemplated under paragraph 7(a), by June 30, 2006, AEA shall deposit into the PCE Endowment Fund on July 1, 2006, the entire amount in the Escrow Account, including retained net interest less any portion of retained interest to be paid to the FDPPA under the provisions of paragraph 6(d)(ii). The failure of FDPPA to ensure legislative approval as contemplated under paragraph 7(a) shall not, in any event, constitute a breach of this Amendment.

8. (a) Subject to AEA's compliance with the terms and conditions of this Amendment, FDPPA shall indemnify, defend, and hold harmless AEA, the State of Alaska, and other agencies of the State of Alaska, and their employees, directors, and officers (collectively, "Indemnified Parties") against all claims or demands (including reasonable attorneys fees and expenses) made by any or all of the Purchasing Utilities against AEA asserting that this Amendment contravenes Section 7 of the MOU or is otherwise improper as to the PCE Endowment Fund ("Claim"). The foregoing obligation of FDPPA to indemnify, defend, and hold harmless the Indemnified Parties includes the obligation for FDPPA to comply with or satisfy any judicial award or judgment issued pursuant to a Claim. The indemnity provided in this Section is subject to the Indemnified Parties' compliance with the following: (i) the Indemnified Party or Parties shall notify the FDPPA promptly in writing of the Claim; (ii) FDPPA is permitted to control the defense or settlement of the Claim; and (iii) the Indemnified Party cooperates reasonably in such defense or settlement of the Claim at the FDPPA's expense; however, FDPPA shall have no authority under this paragraph, as part of any defense or settlement of a Claim, to amend or waive any term or condition in this Amendment or the MOU without the prior written consent of AEA

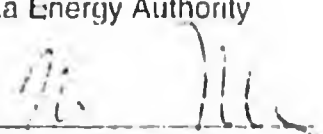
(b) If a person or entity other than one or more of the Purchasing Utilities asserts a Claim against AEA similar to a Claim contemplated under paragraph 8(a), AEA shall have no obligation to defend the Claim, nor to fund the costs of any defense, if AEA tenders defense of the matter to FDPPA. FDPPA shall elect to accept the tender of defense within 15 days, or FDPPA shall be deemed to have rejected the tender. If FDPPA elects to accept the tender of defense, FDPPA shall assume an obligation to defend, indemnify and hold harmless the Indemnified Parties to the full extent as contemplated in paragraph 8(a) as if the Claim were raised by one or more Purchasing Utilities. If FDPPA is deemed to have rejected the tender of defense, FDPPA authorizes AEA to attempt to resolve the Claim in any manner AEA deems appropriate, including in a manner that compromises or extinguishes FDPPA's rights and interests arising under this Amendment

EXECUTION

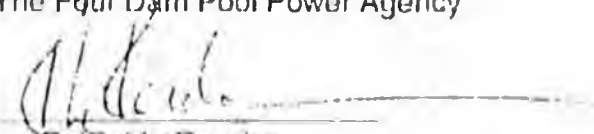
9. AEA has entered into this Amendment as an accommodation to FDPPA and the Purchasing Utilities. In the event a dispute or litigation arises with respect to this Amendment, the remedy of FDPPA and the Purchasing Utilities shall be solely limited to protection of FDPPA's rights to reimbursement of amounts in the Escrow Account as contemplated by this Amendment, and neither FDPPA nor the Purchasing Utilities shall be entitled to recover from AEA any additional amounts, damages, costs or attorneys' fees regarding any such dispute or litigation. Except as modified in this Amendment, all terms and conditions in the MOU and the Agreement for P&S shall continue to apply with full force and effect.
10. This Amendment may not be assigned, except with the prior written consent of the parties.
11. This Amendment shall be construed and enforced in accordance with the laws of the State of Alaska. Any litigation arising out of or related to this Amendment shall be venued in the State Court in Third Judicial District, Anchorage Alaska.
12. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original and all of which taken together shall constitute one agreement.

WHEREFORE the parties have executed this Amendment as of the date first written above.

Alaska Energy Authority


by: Ron Miller
Executive Director

The Four Dam Pool Power Agency


by: Robert LeResche
Acting General Manager

**AGREEMENT FOR THE PURCHASE AND SALE
OF THE
FOUR DAM POOL PROJECT**

between the

ALASKA ENERGY AUTHORITY

and the

THE FOUR DAM POOL POWER AGENCY

Dated as of January 1, 2002

**AGREEMENT FOR THE PURCHASE AND SALE
OF THE
THE FOUR DAM POOL PROJECT**

THIS AGREEMENT FOR THE PURCHASE AND SALE OF THE FOUR DAM POOL PROJECT is made and entered into and effective as of the 1st day of January, 2002, by and between the ALASKA ENERGY AUTHORITY, a public corporation and an agency of the State of Alaska, and THE FOUR DAM POOL POWER AGENCY, a joint action agency formed under the authority of AS 42.45.300 - AS 42.45.320 by the City of Ketchikan d/b/a Ketchikan Public Utilities, the City of Wrangell d/b/a Wrangell Municipal Light and Power, the City of Petersburg d/b/a Petersburg Municipal Power and Light, Copper Valley Electric Association, Inc., and Kodiak Electric Association, Inc. The AEA and the JAA are referred to herein collectively as "parties," and each as a "party."

RECITALS

WHEREAS, the AEA is the owner of the generation and transmission facilities and other property associated with the Swan Lake Hydroelectric Project, the Lake Tyee Hydroelectric Project, the Solomon Gulch Hydroelectric Project and the Terror Lake Hydroelectric Project; and

WHEREAS, power from the Four Dam Pool Initial Project is sold by the AEA to the Purchasing Utilities pursuant to the Long-Term Power Sales Agreement between the Purchasing Utilities and the AEA effective October 28, 1985; and

WHEREAS, the AEA and the Purchasing Utilities have negotiated an agreement under which the State of Alaska, by and through the AEA, would sell the Project to a joint action agency formed by the Purchasing Utilities, the terms of such agreement being set forth in a Memorandum of Understanding between the Purchasing Utilities and the AEA dated April 11, 2000, as amended by an Amendment to Memorandum of Understanding between the Purchasing Utilities and the AEA dated May 30, 2000; and

WHEREAS, in the MOU, the AEA and the Purchasing Utilities acknowledged that the sale of the Project would require, among other things, the enactment of certain enabling legislation by the Legislature of the State of Alaska; and

WHEREAS, the Alaska State Legislature enacted the legislation contemplated by the MOU approving the sale of the Project, making appropriations necessary to establish the PCE Endowment, authorizing the Alaska Industrial Development and Export Authority, a public corporation and an agency of the State of Alaska, to provide financing for the sale of the Project (subject to the approval of the AIDEA's Board of Directors), and providing for the formation of the JAA by the Purchasing Utilities, which enabling legislation is set forth in Chapters 60 and 75, SLA 2000, and Chapter 4, SLA 2001; and

WHEREAS, pursuant to the MOU and in accordance with the Legislation, the Purchasing Utilities have formed the JAA, and now desire that the AEA and the JAA enter into a definitive agreement setting forth the terms and conditions with respect to the sale of the Project and the transfer of four FERC licenses associated with the Project to the JAA; and

WHEREAS, this Agreement, including Appendix A - Definitions attached hereto and made a part hereof containing definitions of defined terms used herein, will set forth the terms and conditions agreed upon by the parties with respect to the sale of the Project to the JAA; and

WHEREAS, the JAA and the AEA have applied to the Federal Energy Regulatory Commission for the transfer of the AEA's FERC licenses for each of the Facilities to ensure that they shall be transferred to the JAA in accordance with applicable FERC regulations and requirements at or before Closing as required in this Agreement; and

NOW, THEREFORE, in consideration of the foregoing recitals which are incorporated herein and made a part of this Agreement, the mutual covenants, agreements, and promises herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

ARTICLE I PURCHASE OF PROJECT

Section 1.1 Purchase of Project. Subject to the terms and conditions of this Agreement, the AEA agrees to sell, convey, transfer, assign and deliver to the JAA and the JAA agrees to purchase from the AEA, all of the AEA's right, title and interest in and to the Project, including without limitation all of the AEA's right, title and interest in and to the Project Assets described in this Article I and in the Project Asset Lists.

Section 1.2 Project Assets. The Transfer of the Project, including the Project Assets, to the JAA shall occur as of Closing and include the sale, conveyance, transfer, assignment and delivery to the JAA of all of the AEA's property, rights and interests comprising the Project, including all of the AEA's property, rights and interests determined by the JAA to be necessary or desirable for the JAA to own and operate the Project in compliance with all FERC and other material regulatory requirements, including, without limitation, the following:

(a) all of the personal property, both tangible and intangible, located at and/or used in connection with the Project;

(b) the PSA, the Indemnification Agreement between the AEA and Ketchikan Electric Company, dated June 22, 1998, the various Memoranda of Understanding entered into between the AEA and the Four Dam Pool Project Management Committee with respect to the operation, maintenance and repair of the Project, and all other existing material contracts and contract rights, contract claims and warranty claims with respect to any such material contracts for which a claim has been or could be asserted by the AEA (but excluding material contracts, contract rights, contract claims and warranty claims related to matters over which AEA has any ongoing duty or responsibility after Closing, until AEA is fully released from such ongoing duty or responsibility) related to the ownership, operation, maintenance and repair of the Project (including consultant services agreements and warranties provided to the AEA by third party suppliers and contractors for the Project) in effect as of the Closing Date to the extent assignment of such contracts and agreements is permitted under the terms of the contracts and agreements;

(c) all licenses and permits related to each Facility that is part of the Project to the extent assignment of such licenses and permits is permitted under the terms of the licenses and permits;

(d) all of the real property, including fee title, leases, easements, rights of way and other land interests that comprise the Project;

(e) all insurance policies purchased by the AEA with respect to the Project to the extent assignment of such policies is permitted under the terms of the policies; and

(f) all Project records now existing or generated through the Closing Date, including

plant accounting information, working papers, technical reports, maps, drawings, schedules and other documents.

Section 1.3 Identification of Project Assets. The parties acknowledge that the Project Asset Lists have not been finalized at the time of the execution of this Agreement. Completion of the Project Assets Lists to the satisfaction of each of the parties shall be a condition to Closing as set forth in Sections 5.2.1 and 5.2.2 hereof. The parties agree to proceed to Closing in good faith and that each will continue to use reasonable commercial efforts to promptly complete the identification and description and the appropriate method of conveyance of particular Project Assets as soon as reasonably practicable to assure a timely Closing. The failure of the parties to include any Project Assets on any of the Project Asset Lists shall not operate to discharge or limit the obligation of the AEA to transfer, convey and/or assign any such Project Assets to the JAA in accordance with and pursuant to the AEA's obligations pursuant to this Agreement or prevent the Transfer of the Project and the Project Assets at Closing. In the event a Project Asset is identified subsequent to the Closing, the AEA will cooperate to the extent reasonably required with respect to the conveyance of such asset to the JAA in accordance with its obligations under Section 6.4 hereof; provided that, the AEA shall not be required to incur or become obligated to pay any fees or costs payable to third parties in cooperating with the JAA to complete any such conveyance.

1.3.1. Personal Property Interests. The parties shall jointly prepare a listing of the personal property, both tangible and intangible, which is part of the Project Assets and described generally in Section 1.2(a), which listing shall be attached to this Agreement as Schedule 1.3.1 prior to the Closing Date (the "Personal Property List"). The Personal Property List shall be agreed upon by the parties and shall include, at a minimum, (i) a description of all material items of equipment, including any vehicles or other equipment the ownership of which is evidenced by a certificate of title, (ii) a general description and/or specific listings of all other personal property which shall reasonably identify such property and its location, and (iii) the agreed-upon transfer documentation and procedures for each asset or category of assets.

1.3.2 Contracts and Contract Rights. The parties shall jointly prepare a listing of the material contracts related to the Project that are valid and enforceable at Closing which are part of the Project Assets described generally in Section 1.2(b), which listing shall be attached to this Agreement as Schedule 1.3.2-A on or before the Closing Date (the "Material Contracts List"). The parties, Purchasing Utilities, and TBPA shall also jointly prepare a listing of contract claims and warranty claims pending as of the Closing Date asserted by the AEA with respect to the Project, together with potential contract claims and warranty claims which the AEA and the JAA currently believe there are or may be material grounds to assert a claim, which listing shall be attached to this Agreement as Schedule 1.3.2-B on or before the Closing Date (the "Contract Claims and Warranty Claims List") (the Material Contracts List and the Contract Claims and Warranty Claims List, together the "Contracts List"). The Contracts List shall be agreed upon by the parties and shall include, at a minimum, the identity, applicable Facility(ies), parties, termination date, whether the contract, warranty, right or claim will be assigned or terminated, and, (i) if the contract, warranty or other rights or claims are to be assigned to the JAA, the agreed-upon assignment documentation and procedures for each such assignment, including the assumption of responsibilities and obligations by the JAA, or (ii) if the contract, warranty, right or claim is to be terminated, released or settled, the required documentation and procedures for such termination, release or settlement.

1.3.3 Licenses and Permits. The parties shall jointly prepare a detailed listing of licenses and permits held by the AEA as the owner and operator of the Project which are part of the Project Assets and described generally in Section 1.2(c), which listing shall be attached to this Agreement as Schedule 1.3.3 prior to the Closing Date (the "Licenses and Permits List"). The Licenses and Permits List shall be agreed upon by the parties and shall include, at a minimum, the identity, applicable project(s), party holding the permit, issuing agency, termination date, and agreed-upon transfer documentation and procedure for each license or permit, including the assumption of responsibilities and obligations by the JAA.

1.3.4 Insurance Policies. The parties shall jointly prepare a listing of insurance policies for or related to the Project which are part of the Project Assets and described generally in Section 1.2(e), which listing shall be attached to this Agreement as Schedule 1.3.4 prior to the Closing Date (the "Insurance Policy List"). The Insurance Policy List shall be agreed upon by the parties and shall include, at a minimum, the identity and type of policy, applicable Facility(ies), issuing insurance company, coverage amounts, premium amounts, termination date, whether the policy can be assigned or must be terminated, and, (i) if the policy is to be assigned to the JAA, the proposed assignment documentation and procedures for each policy, including the assumption of responsibilities and obligations by the JAA, or (ii) if the policy is to be terminated, the required documentation and procedures for termination and the anticipated premium rebate.

1.3.5 Real Property Interests. The parties shall jointly prepare a listing and description of real property interests which are part of the Project Assets and described generally in Section 1.2(d), including fee title, leases, easements, rights-of-way and other land interests, which listing shall be attached to this Agreement as Schedule 1.3.5 prior to the Closing Date (the "Real Property List"). The Real Property List shall be agreed upon by the parties and shall include, at a minimum, the identity, location, applicable Facility(ies), current ownership of the specific real property asset, and agreed upon transfer documentation and procedure for each asset.

The JAA and the AEA agree to work in cooperation with and shall assist the State of Alaska Department of Natural Resources and other relevant State agencies in the timely determination of the interests in real property to be conveyed and the determination of limitations, if any, applicable to the Transfer. The JAA acknowledges and agrees that the extent and type of real property interests that may be conveyed to the JAA as part of the Transfer are subject to various conditions and compliance with the procedures governing DNR's transfer of such interests. Further, the JAA acknowledges and agrees that to the extent any Project Assets are comprised of property interests, licenses or permits under the control and/or ownership of State agencies other than the DNR, the federal government, or third parties, the interests in such assets to be transferred to the JAA may be subject to the satisfaction of various conditions and compliance with the procedures governing the transfer of such assets. In no event, however, shall the JAA have any obligation to close the sale transaction if, except for the payment of the reasonable fees and costs associated solely with compliance with regulatory and similar requirements associated with the transfer of such assets, the JAA would be obligated to pay any amount in addition to the Purchase Price as consideration for the transfer of such assets.

1.3.6 Project Documents. On or before the Closing Date, the AEA shall provide the JAA with originals or copies of all Project records, including plant accounting information, working papers, technical reports, maps, drawings, schedules and other documents related to the ownership, operation, maintenance and licensing of the Project (the "Project Documents"). Notwithstanding any other provision of this Agreement, the AEA shall not be required to provide to the JAA any privileged documents or documents not otherwise subject to public release involving claims or disputes between the AEA and the Purchasing Utilities, TBPA, the PMC or the JAA; AEA analysis discussion, or executive branch communications regarding divestiture (including legislation and negotiations); AEA's analysis or position on PMC matters, and personnel matters. Further, AEA may redact information required by law to be kept confidential (e.g., social security numbers) in documents otherwise produced. At the request of the JAA, the AEA shall provide a list of any withheld documents and the basis for their privileged status. To the extent the AEA provides original Project Documents to the JAA, the JAA agrees to retain such documents in accordance with a document retention policy to be established by the JAA and approved in writing by the AEA before taking effect, and to provide reasonable access to the AEA and to other State agencies. In addition, the JAA shall make all Project Documents available to the public as may be required under applicable public records requirements or as otherwise required by law.

Section 1.4 Conveyance and Transfer of Project Assets. The Transfer shall occur on the Closing Date and shall be without warranty by the AEA, by quitclaim deed, bill of sale and other appropriate

conveyance, transfer and assignment documents and instruments in form and substance reasonably acceptable to the JAA. The AEA agrees to cooperate with the JAA in the process of applying for and coordinating all transfers, consents and approvals required to be obtained from federal, state or local governmental agencies or other third parties. The parties acknowledge and agree, however, that the JAA shall have the responsibility, at the JAA's sole cost and expense, to apply for, coordinate and obtain all such required transfers, consents and approvals, other than those to be obtained from the AEA and DNR. To the extent required, the JAA may elect to close the sale transaction with certain third-party transfers still pending; provided that, the postponement will have no effect on the Purchase Price or the JAA's responsibility to pay the Purchase Price in full at Closing. In no event, however, shall the JAA have any obligation to close the sale transaction if all Project Assets have not been identified to the reasonable satisfaction of the JAA and all governmental consents and approvals related to the Transfer of Project Assets have not been obtained as required by Section 5.2(d). In the event a Project Asset is identified subsequent to the Closing, the AEA will cooperate to the extent reasonably required with respect to the conveyance of such asset to the JAA in accordance with its obligations under Section 6.4 hereof; provided that, the AEA shall not be required to incur or become obligated to pay any fees or costs payable to third parties in cooperating with the JAA to complete any such conveyance.

Section 1.5 Waiver and Release of Claims to Residual Balance of Initial Project Revenue Fund. In conjunction with the Closing, subject to and provided that the Purchasing Utilities have made the Debt Service Payments required by Section 5 of the PSA as modified by Section 4 of the MOU, the AEA shall release and waive any claims, including those related to Debt Service Payments for energy delivered after June 30, 2001 and before January 1, 2002, the AEA may have or assert in or to the balance of the Initial Project Revenue Fund.

Section 1.6 No Assumption of Employment Contracts or Employee Related Obligations. Unless assumed in writing, the JAA shall not assume, be liable for, or incur any obligations to any employee, officer or agent of AEA for any salary, wages, fees, benefits or other obligations of the AEA owed to such persons at anytime as a result of the Transfer of the Project Assets to the JAA, nor shall the JAA be deemed to be the successor to the AEA with respect to any such liabilities or obligations.

Section 1.7 Transfer of FCC Licenses. The Department of Administration, Information Technology Group ("ITG") and the City of Ketchikan, d/b/a Ketchikan Public Utilities ("KPU"), individually, currently hold various Federal Communications Commission ("FCC") licenses used in the operations of the Projects, a listing of which shall be attached as Schedule 1.7. Independent from this Agreement, the JAA and AEA anticipate that ITG and KPU, individually, will transfer to the JAA the FCC licenses either holds that are used in the operations of the Project, as are identified on Schedule 1.7.

ARTICLE II PURCHASE PRICE & RELATED PROVISIONS

Section 2.1 Purchase Price. Subject to adjustment as provided in Section 2.2, the purchase price for the Project shall be Seventy Three Million Dollars (\$73,000,000) (the "Purchase Price"). The Purchase Price shall be paid in full in immediately available funds by wire transfer at Closing.

Section 2.2 Adjustments to Purchase Price.

2.2.1 Increase in Purchase Price Related to Debt Service Payments and Insurance Fund. In the event the sum of (i) the Debt Service Payments received by the AEA for power sold from July 1, 1999, through June 30, 2001, and (ii) the amount of the Insurance Fund released to the AEA at the Closing ((i) and (ii) collectively the "Additional Funds"), is less than Thirty-Two Million Dollars (\$32,000,000), the Purchase Price shall be increased by an amount equal to the difference between Thirty-Two Million Dollars (\$32,000,000) and the Additional Funds. For purposes of this Section 2.2.1, the term "Debt Service Payments"

shall mean those payments the Purchasing Utilities actually made to the AEA pursuant to Section 5(e) of the PSA.

2.2.2. Southeast Intertie Loan Funds Credit. In recognition of the reappropriation of Intertie Loan Funds, at Closing the JAA shall be provided a credit against the Purchase Price of Five Million Dollars (\$5,000,000) (the "ILF Credit"). Subsequent to the Closing, the JAA shall have a continuing obligation to repay the ILF Credit to the AEA on one hundred eighty (180) days notice from the AEA, if (i) the JAA abandons efforts to complete the Southeast Intertie; (ii) prior to April 11, 2005, the JAA has not provided AIDEA with an approved finance plan demonstrating sufficient funds to complete the Southeast Intertie; or (iii) field construction of the Southeast Intertie is not commenced on or before April 11, 2010.

Section 2.3 Project Purchase Financing. The JAA's obligation to purchase the Project pursuant to this Agreement is contingent on the JAA obtaining financing prior to the Closing Date in an amount and on terms and conditions reasonably acceptable to the JAA that will allow the JAA to pay the Purchase Price for the Project and to fund Project reserves to appropriate levels determined by the JAA. The parties acknowledge that the AIDEA is authorized to provide financing for the Purchase Price and to fund Project reserves, subject to AIDEA Board approval, as provided in Section 8 of the MOU and Section 15(b) of the Legislation. In the event the JAA does not procure financing in an amount and on terms and conditions the JAA in its discretion determines to be appropriate prior to the Closing, the JAA may terminate this Agreement on written notice to the AEA, and neither party shall have any further rights, duties or obligations under this Agreement other than those rights, duties or obligations which expressly or by their nature survive termination.

ARTICLE III SPECIAL PROVISIONS/CONDITIONS

Section 3.1 Relationship Between Agreement and Legislation/MOU. This Agreement (including the Appendices, Attachments, Exhibits and Schedules hereto) sets forth the entire understanding of the parties with respect to the subject matter hereof and supersedes all prior oral or written agreements and understandings with respect to the subject matter hereof. The parties acknowledge and agree, however, that the execution and delivery of this Agreement shall not operate to terminate the MOU and that the MOU shall survive the Closing and remain in effect and binding upon the parties. Further, the parties acknowledge and agree that all essential elements of the Transfer set forth in the provisions of the MOU have been incorporated into the terms and conditions of this Agreement in accordance with Section 12 of the MOU. The MOU and the Legislation shall govern and shall be relied upon in interpreting the provisions of this Agreement and the provisions of this Agreement shall be interpreted to be consistent with the MOU and Legislation if alternative interpretations can be ascribed to this Agreement.

Section 3.2 PCF Endowment. The parties acknowledge and agree, pursuant to Section 3 of Chapter 75 SLA 2000 and as required by Section 2 of the MOU, that the proceeds of the Purchase Price have been appropriated into the Power Cost Equalization Endowment created under AS 42.45.070.

Section 3.3 Releases from Purchasing Utilities. The AEA's obligation to close the sale of the Project and complete the Transfer as contemplated by this Agreement is contingent on the AEA receiving from the JAA and the Purchasing Utilities written releases, in form and substance satisfactory to the AEA and the State of Alaska, with respect to all risks and claims related to the Project of every kind or nature and whether known or unknown, including without limitation all liabilities, claims, expenses and ownership risks under the PSA and the Insurance Agreement; except that such written releases shall not release the AEA or the State from its obligation to complete any Required Repairs under Section 4.1(a) of this Agreement that have not been completed at Closing, nor shall such releases operate to release the AEA from any liabilities, claims or expenses with respect to claims or potential claims that AEA failed to disclose in breach of AEA's affirmative representation made under Section 4.1(c) of this Agreement. The JAA shall have the obligation to obtain such releases from the Purchasing Utilities and deliver the same to the AEA and the State on or prior to the Closing

Date. The parties acknowledge that the JAA has provided such a release to the AEA and the State of Alaska in Section 4.2 of this Agreement.

Section 3.4 FERC Approval. The parties acknowledge and agree that the parties' respective obligations to close the transactions contemplated by this Agreement is subject to the sale transaction receiving all necessary final approvals from FERC. The JAA shall have the primary responsibility for obtaining necessary FERC approvals, and the AEA shall use its best efforts to assure timely action by the State that is necessary to support the JAA's compliance with FERC regulations and requirements related to securing and finalizing such approvals.

Section 3.5 Subject to Appropriation. The parties acknowledge and agree that in addition to any other conditions related to financial obligations of the AEA hereunder or under the Legislation or the MOU, all such financial obligations are subject to the AEA receiving sufficient and lawful appropriations with respect to such obligations. The AEA shall use its best efforts to secure sufficient and lawful appropriations to support its obligations hereunder.

ARTICLE IV CONDITION OF PROPERTY

Section 4.1 Required Repairs/Pending and Potential Claims. (a) The AEA acknowledges and agrees that it is responsible for completing in a manner satisfactory to the JAA those repairs previously identified at the Swan Lake and Terror Lake Facilities, which repairs are described on Schedule 4.1-A. Additionally, the AEA acknowledges that it is required to make any additional Project repairs required under the Insurance Agreement that are identified prior to the Closing Date, which repairs shall be described in an appropriate amendment to Schedule 4.1-A executed by the parties. On or before the Closing Date, the parties shall execute an agreement with respect to the satisfaction of the AEA's repair obligations pursuant to this Section 4.1(a). This agreement shall, *inter alia*, (i) allocate responsibility for securing engineering and construction services with respect to the required repairs; (ii) assign responsibility for oversight and approval of the required repairs, (iii) include a commitment of an agreed-upon level of funding for completing the required repairs, (iv) provide for release of AEA from any further repair obligations. The agreement, together with any related documentation with respect to the satisfaction of the AEA's repair obligations, shall be included as part of Schedule 4.1-A. The JAA acknowledges and agrees that, except for the repair obligations that will be satisfied pursuant to the agreement included as part of Schedule 4.1-A, all other repairs with respect to the Project are the responsibility of the JAA, and the JAA assumes all risk of loss with respect to all other repairs and of the Project, whether the necessity for such other repairs arises before or after the Closing Date.

(b) The parties, the Purchasing Utilities, and TBPA shall jointly prepare a listing and description as Schedule 4.1-B of any pending litigation or other proceedings or actions involving claims of any kind asserted against the AEA or the State with respect to the Project arising prior to the Closing Date by any parties other than the JAA, the Purchasing Utilities, TBPA, Ketchikan Electric Company, Alaska Power & Telephone, or Cape Fox Native Corporation, together with any potential claims of any kind with respect to the Project which the AEA and the JAA currently believes prior to the Closing Date there are grounds on which a claim could be asserted, maintained, and result in the successful recovery against the AEA by parties other than the JAA, the Purchasing Utilities, TBPA, Ketchikan Electric Company, Alaska Power & Telephone, or Cape Fox Native Corporation.

(c) The AEA shall affirmatively represent to the JAA on the Closing Date that, to the actual knowledge of AEA/AIDEA's key employees related to the Projects, that AEA has not intentionally failed to disclose to the JAA known material claims or potential claims against the AEA or the State with respect to the Project, that should have been listed on Schedule 4.1-B, and that AEA/AIDEA's key employees

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
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related to the Projects believe there are substantial grounds for the third-party(ies) to obtain a material recovery against the AEA. The AEA representation made under this section 4.1(c) shall specifically exclude, and have no application towards, any claim or potential claim that (1) the JAA, the Purchasing Utilities, or the TBPA, or any employee, agent, representative, attorney, contractee, or affiliate of the JAA, the Purchasing Utilities, or the TBPA, has actual or constructive notice, (2) arises from or relates to title to land, or (3) arises from or relates to the Purchasing Utilities' or TBPA's operation or maintenance of the Project or any Project Asset. The JAA, Purchasing Utilities, and TBPA shall affirmatively represent at Closing that they have undertaken a diligent investigation and inquiry of the Projects and documents related to the Projects in an attempt to discover any grounds for claims or potential claims with respect to the Projects. Any action that includes any claim or allegation regarding this Section 4.1(c) of this Agreement shall be venued exclusively in the State of Alaska, Third Judicial District at Anchorage.

Section 4.2 Project Condition/Release of Claims. Except for the AEA's responsibility to complete those repairs described on Schedule 4.1-A, the AEA hereby disclaims any and all warranties or representations of any kind whatsoever, express or implied, with respect to the condition of or claims related to the Project, and the AEA makes no representations or warranties (express or implied) with respect to, and shall have no liability to the JAA or the Purchasing Utilities for the condition of, the Project, including without limitation the presence of any Hazardous Substances, and the JAA on its behalf and on behalf of its successors and assigns hereby releases and waives any and all claims, whether legal, equitable, or otherwise, whether known or unknown, which the JAA has or may have against the AEA or the State of Alaska or any agency or instrumentality thereof with respect to the condition of the Project, including without limitation claims pertaining to the presence of any Hazardous Substances, or claims under the PSA or the Insurance Agreement. The release set forth in this Section 4.2 shall take effect on the Closing Date.

The JAA acknowledges to the AEA that the JAA has had the opportunity as of the Closing to fully inspect the Project, that the JAA has conducted or will conduct prior to the Closing such due diligence activities as the JAA deems appropriate with respect to the Project and with respect to the identification and sufficiency of the Project Assets, and that the JAA is purchasing the Project and accepting the Project and Project Assets AS IS, WITH ALL FAULTS, and that the JAA assumes the responsibility and risks of all defects and conditions other than the AEA's obligation to complete those repairs described on Schedule 4.1-A hereto, including such defects and conditions, if any, that cannot be observed by casual inspection.

The limitations on liability contained in this Section 4.2 have been specifically negotiated by the parties. It is expressly agreed that these limitations on liability constitute a condition precedent to the AEA's obligation to sell the Project to the JAA, and to provide for the other terms and conditions of this Agreement, and that the AEA would not be willing to sell the Project to the JAA or enter into this Agreement in the absence of such limitations on liability. These limitations on liability shall survive Closing and remain in full force and effect thereafter and shall not merge into the deeds, bills of sale or other conveyance, transfer or assignment documents or instruments to be delivered to the JAA hereunder, and shall be binding upon the JAA and its successors and assigns. Further, the AEA assumes no liability with respect to, and makes no representation or warranty, whether express or implied, regarding the merchantability or suitability of any portion of the Project or the fitness or adequacy of the Project for any particular or intended purpose or for the uses contemplated or proposed by the JAA. This release is solely for the benefit of the AEA and the State of Alaska and does not release any vendor or contractor of the AEA from its warranty obligations that are related to the Project.

For purposes of this Section 4.2 and Section 4.3, the term "Hazardous Substances" means any flammables, explosives, radioactive materials, crude or refined petroleum, pollutants, contaminants, or any hazardous, toxic, or dangerous waste, substance, or material, including asbestos, defined as such in (or for purposes of) the Comprehensive Environmental Response, Compensation, and Liability Act (42 U.S.C.A. Sec. 9601 *et seq.*), any so-called "Superfund" or "Superlien" law, or any other Environmental Law, including, but not limited to, Alaska Statutes Title 46, Chapters .03, .08 and .09, as now or at any time hereafter in effect. For

purposes of this Section 4.2, the term "Environmental Law" means any Federal, state, or local laws, ordinances, codes, regulations, rules, orders, or decrees, relating to, or imposing liability or standards of conduct concerning the treatment, storage, use or disposal of any Hazardous Substances.

Section 4.3 Indemnity by the JAA.

4.3.1 Indemnification: Generally. The JAA shall save, protect, defend, indemnify and hold harmless the AEA and all of its officers, directors, employees and agents from and against any and all demands, claims, causes of action (whether in the nature of an action for damages, indemnity, contribution, government cost recovery or otherwise), actions, damages, fines, penalties, judgments, costs and expenses (including without limitation costs of defense, settlement and reasonable attorney's fees), charges, forfeitures, liens, liabilities or losses of any nature or kind whatsoever, whether known or unknown, including, but not limited to, personal injury, property damage and wrongful death, arising or resulting directly or indirectly from, or in any way connected with the JAA, the PSA, the Insurance Agreement, the Indemnification Agreement between the AEA and Ketchikan Electric Company, dated June 22, 1998, the various Memoranda of Understanding entered into between the AEA and the Four Dam Pool Project Management Committee with respect to the operation, maintenance and repair of the Project, or the Project arising after the Closing Date. Such right of indemnification shall not extend, however, to claims asserted against the AEA or any of its officers, directors, employees and agents that AEA failed to disclose in breach of AEA's affirmative representation made under Section 4.1(c) of this Agreement.

4.3.2 Indemnification: Hazardous Substances. Without limiting the duty to indemnify as provided in Section 4.2.1, the JAA shall save, protect, defend, indemnify and hold harmless the AEA from any and all demands, claims, causes of action, actions, damages, fines, penalties, judgments, costs and expenses, charges, forfeitures, liens, liabilities or losses of any nature and kind whatsoever, which arise after Closing from or in connection with the presence or suspected presence of Hazardous Substances in the soil, groundwater, or otherwise on, above or in the Project, or otherwise generating from the Project. This indemnification includes, without limitation, costs incurred in connection with any investigation of site conditions or any clean-up, remedial, removal, or restoration work required by any federal, state, or local government agency or political subdivision.

4.3.3 Indemnification: Other Sources. The right of indemnification provided in Sections 4.3.1 and 4.3.2, only as they relate to accidents, events, or occurrences prior to January 31, 2002 (the 'AEA Rights of Indemnity/Pre-Closing') shall not relieve any insurer which has provided insurance to the AEA as an additional insured on a third party's policy of insurance or any other indemnitor of the AEA, its officers, directors, employees and agents, of any obligation of such insurer or indemnitor to insure, defend, indemnify or pay losses on behalf of the AEA, its officers, directors, employees and agents for claims arising out of accidents, events or occurrences prior to January 31, 2002 related to the Project (hereinafter the 'Other Insurance/Indemnity'). In the event that there is Other Insurance/Indemnity applicable to a claim or lawsuit which is subject to the AEA Rights of Indemnity/Pre-Closing, such Other Insurance/Indemnity shall be primary and the AEA Rights of Indemnity/Pre-Closing shall be excess and not contributory; provided, however, that if such Other Insurance/Indemnity fails or refuses to provide insurance or indemnity to the AEA, its officers, directors, employees and agents, then the JAA will provide the AEA Rights of Indemnity/Pre-Closing and be subrogated to any and all rights of the AEA, its officers, directors, employees and agents against such Other Insurance/Indemnity.

Section 4.4 Conduct Prior to Closing.

(a) Except as otherwise permitted by this Agreement or with the prior written consent of the JAA, prior to the Closing the AEA shall not: (i) mortgage, pledge, otherwise encumber or subject to lien any of the Project Assets or commit to do any of the foregoing; (ii) dispose of, or agree to dispose of, any of the Project Assets or lease or license to others, or agree so to lease or license, any of the Project Assets or make

any commitment to do the same; (iii) physically relocate or remove any Project Assets to any other location, or (iv) agree or commit to do any of the foregoing.

(b) Except as otherwise permitted by this Agreement or with the prior written consent of the JAA, prior to the Closing the AEA shall: (i) not cancel or change any existing policy of insurance (including self-insurance) or fidelity bond related to the Project Assets, or any policy or bond providing substantially the same coverage, unless replaced by a policy or bond providing substantially the same coverage or such cancellation or change is effective only on the Closing, and not change in any respect to currently existing policies and practices with respect to the maintenance of self-insurance reserves allocable to the AEA; (ii) advise the JAA in writing of any adverse change or any event, occurrence or circumstance which are likely to cause an adverse change in the condition or operation of the Project Assets or measurably affect the value of the Project Assets, including the value of the FERC licenses; and (iii) preserve all records related to the Project Assets.

(c) The JAA acknowledges its association with the Purchasing Utilities and Thomas Bay Power Authority which entities operate and otherwise use the Project and Project Assets. The JAA acknowledges and agrees that this Section 4.4 imposes no obligation on the AEA regarding (i) the operation, use, physical relocation or removal, encumbrance (by mortgage, pledge, lien or otherwise), disposal, lease, or license of the Project or Project Assets, or agreement or commitment regarding any of the foregoing, by a Purchasing Utility or TBPA, (ii) notwithstanding Section 4.4(b), advising the JAA in writing of any adverse change or any event, occurrence or circumstance related to the condition or operation of the Project or Project Assets that are otherwise known to a Purchasing Utility or TBPA, or (iii) preserving any record under the control of a Purchasing Utility or TBPA.

ARTICLE V CLOSING

Section 5.1 Closing.

5.1.1 Closing Date. The closing of the transactions contemplated by this Agreement (the "Closing") shall occur on a date, time and place mutually agreeable to the parties after all of the conditions precedent to each parties' obligation to close has been satisfied; provided that, in any event the Closing shall occur on or before March 1, 2002, unless the date is extended by mutual agreement of the parties. The actual date on which the Closing occurs is herein described generally as the "Closing Date."

5.1.2 Closing Agent. Upon mutual agreement of the parties, the Closing may be completed through escrow, with an escrow closing agent acceptable to both parties, and with the parties equally sharing the costs of such closing escrow agent.

Section 5.2 Conditions to Each Party's Obligations to Effect the Closing. The respective obligations of the AEA and the JAA to effect the sale and purchase of the Project and the Project Assets shall be subject to the fulfillment at or prior to the Closing of the following conditions:

(a) there shall not be in effect on the Closing Date any order, regulation or law restraining, enjoining or otherwise prohibiting or making illegal or materially adversely affecting the consummation of any of the transactions contemplated by this Agreement, the Financing Agreement or any documents or instruments related thereto;

(b) each of the Purchasing Utilities shall have taken all necessary and appropriate actions through their respective governing bodies or otherwise to approve, authorize and direct the JAA to complete the purchase of the Project and the Project Assets, the financing of such sale and consummate all transactions and other matters related thereto;

(c) the AEA shall have taken all necessary and appropriate actions through its Board of Directors or otherwise to approve, authorize and direct the completion of the sale of the Project and the Transfer of the Project Assets and the consummation of all transactions and other matters related thereto; and

(d) all governmental consents and approvals for the consummation of the sale and purchase of the Project and the Transfer of Project Assets as contemplated by the terms of this Agreement, and by the terms of the indenture, loan agreement or other agreement(s) entered into with the AIDEA to finance the purchase of the Project and any documents or instruments related thereto shall have been obtained, other than those consents and approvals that the JAA determines would not, in the aggregate, have a material adverse affect on the ability of the JAA to own and operate the Project.

Section 5.2.1 Conditions to Obligation of the JAA to Effect the Closing. The obligation of the JAA to effect the sale and purchase of the Project and the Project Assets shall be subject to the fulfillment at or prior to the Closing of the following conditions:

(a) The Financing Agreement containing financing terms, conditions and covenants acceptable to the JAA shall have been negotiated, executed and delivered by the JAA and the AIDEA, or other financing upon terms and conditions satisfactory to the JAA shall have been obtained;

(b) All conveyance and transfer documents related to the sale, conveyance, transfer, assignment and delivery to the JAA of the Project and the Project Assets required by Section 1.4 hereof shall have been approved by all applicable regulatory authorities and shall have been executed and delivered to the JAA or the designated escrow closing agent by the AEA and each of the other necessary transferor parties;

(c) The attachment to this Agreement of the Project Asset Lists, and all other Schedules and Exhibits to this Agreement, each in form and substance satisfactory to the JAA;

(d) Unless approved by the JAA, the Purchase Price shall not have increased (as a result of an adjustment in the Purchase Price pursuant to Section 2.2 hereof) to an amount in excess of Seventy-Three Million Dollars (\$73,000,000);

(e) Unless approved by the JAA, no material losses to the Project shall have occurred;

(f) The resolution, to the satisfaction of the JAA and each of the Purchasing Utilities, in their reasonable discretion, of all litigation involving claims by Ketchikan Electric Company against the City of Ketchikan or challenging the validity of any orders issued by FERC with respect to the Project or any of the Facilities;

(g) The resolution, to the satisfaction of the JAA and each of the Purchasing Utilities, in their reasonable discretion, of all material issues related to the governmental or other tax-exempt status of the JAA for Federal income tax purposes;

(h) The release of all claims of the AEA in or to any amounts on deposit in or attributable to the Project R&R Fund;

(i) The delivery to the JAA of a written release of all claims in and rights to the balance of the Initial Project Revenue Fund as required by Section 1.5 in form and substance satisfactory to the JAA;

(j) The execution and delivery to the JAA of a Closing Certificate by a duly authorized officer of the AEA, to the effect that, to such officer's knowledge the representations and warranties of the AEA set forth in Section 7.2 of this Agreement and the other Closing documents are true and correct in all

material respects as of the Closing Date and that all conditions to the obligations of the AEA to effect the Closing have been satisfied or appropriately waived by the AEA; and

(k) The delivery to the JAA of an opinion of counsel to the AEA from the State of Alaska Attorney General's Office substantially in the form of Exhibit A attached hereto.

(l) Acceptance of Schedule 4.1-B (the list of known claims and potential claims) by the JAA, in its reasonable discretion.

Section 5.2.2. Conditions to Obligation of the AEA to Effect the Closing. The obligation of the AEA to effect the sale and purchase of the Project and the Project Assets shall be subject to the fulfillment at or prior to the Closing of the following conditions:

(a) The payment of the Purchase Price to the AEA or the designated escrow closing agent;

(b) The execution and delivery by the JAA to the AEA or the designated escrow closing agent of all conveyance and transfer documents required by Section 1.4 hereof to which the JAA is a party;

(c) The attachment to this Agreement of the Project Asset Lists, and all other Schedules and Exhibits to this Agreement, each in form and substance satisfactory to the AEA;

(d) The execution and delivery to the AEA by each of the Purchasing Utilities of sufficient written releases in form and substance satisfactory to the AEA as required by Section 3.3 hereof;

(e) The execution and delivery to the AEA of a Closing Certificate by a duly authorized officer of the JAA to the effect that, to such officer's knowledge the representations and warranties of the JAA set forth in Section 7.1 of this Agreement and the other Closing Documents are true and correct in all material respects as of the Closing Date and that all conditions to the obligations of the JAA to effect the Closing have been satisfied or appropriately waived by the JAA; and

(f) The delivery to the AEA of an opinion of counsel to the JAA from Ater Wynne LLP in substantially in the form of Exhibit B attached hereto.

Section 5.3 Closing Costs.

5.3.1 AEA Closing Costs. Unless otherwise expressly agreed to by the parties, the AEA shall pay the following Closing costs: (i) AEA's own attorney fees; (ii) AEA internal costs related to this transaction; (iii) any AEA consultant costs related to the Project Asset Lists to be prepared pursuant to Section 1.3 hereof; (iv) any costs or fees of DNR related to Project Asset transfers of State land interests that were the subject of public notice published by DNR in August 2001 and of water rights; and (v) one-half (1/2) of any recording or escrow closing agent fees.

5.3.2 JAA Closing Costs. Unless otherwise expressly agreed to by the parties, the JAA shall pay the following Closing costs: (i) JAA's own attorney fees; (ii) JAA internal costs related to this transaction; (iii) costs of JAA's third-party consultants and other costs related to the JAA's due diligence and the Project Asset Lists to be prepared pursuant to Section 1.3 hereof; (iv) costs related to any FERC or any other regulatory body approvals (other than costs or fees of DNR related to Project Asset transfers of State land interests that were the subject of public notice published by DNR in August 2001 and of water rights); (v) costs or fees of DNR related to Project Asset transfers of State land interests that were not the subject of public notice published by DNR in August 2001 (AEA will use its best efforts to ensure that any such fees shall be reasonable in amount) and (vi) one-half (1/2) of any recording or escrow closing agent fees.

Section 5.4 Possession. The JAA shall obtain possession of the Project and all Project Assets at Closing.

ARTICLE VI POST-CLOSING PROVISIONS

Section 6.1 Restriction on Subsequent Sale of Project. The parties acknowledge and agree that the conveyance and transfer of the Project Assets shall be subject to the restrictions on the subsequent sale of Project Assets as provided for in Section 15(a) of Chapter 60 SLA 2000 and Section 2 of the Amendment to the MOU. All conveyance, transfer and assignment documents and instruments shall incorporate such restrictions.

Section 6.2 Compliance with Financing Documents. Subsequent to Closing, the JAA will timely and fully comply with the Financing Agreement and all other financing documents entered into in conjunction with the Closing to finance the payment of the Purchase Price.

Section 6.3 Project Maintenance and Operation. Subsequent to Closing, the JAA shall at all times maintain and operate the Project in accordance with prudent utility practices. In addition, the JAA shall produce and maintain adequate records in accordance with prudent utility practices with respect to its operation and maintenance of the Project.

Section 6.4 Further Assurances. In addition to the acts and deeds recited herein and contemplated to be performed, executed and/or delivered by either party at Closing, each party agrees to perform, execute and deliver, without further consideration, but without any obligation to incur any additional liability or any obligation to pay fees or costs payable to third parties, on or after the Closing, further documents, acts and assurances as may be reasonably necessary to consummate the transactions contemplated hereby or to further perfect the conveyance and transfer of the Project and the Project Assets (including any Project Assets identified subsequent to the Closing) to the JAA.

Section 6.5 Insurance Premium Rebates. Following Closing, the AEA shall pay to the JAA expeditiously upon receipt of the same, an amount equal to the amount of all premium rebates received by the AEA with respect to the cancellation of insurance policies identified on the Insurance Policy List and not assigned to the JAA as part of the Transfer at Closing.

Section 6.6 Southeast Intertie. The parties acknowledge and agree that the construction of the Southeast Intertie connecting the Lake Tye and Swan Lake Facilities is anticipated to increase Project revenues because the Southeast Intertie will enable Lake Tye excess energy and capacity to be sold to the City of Ketchikan, d/b/a Ketchikan Public Utilities (KPU) to the extent of KPU's needs, as is required under the Power Sales Agreement. The parties are committed to support the construction and operation of the Southeast Intertie if it is demonstrated to be feasible, and to support additional federal funding therefor as provided in the MOU.

ARTICLE VII REPRESENTATIONS AND WARRANTIES

Section 7.1 Representations and Warranties of the JAA. The JAA represents and warrants to, and agrees with, the AEA as follows:

(a) The JAA is a joint action agency organized under the authority of AS 42.45.300 - AS 42.45.320, which is duly organized, validly existing and in good standing under the laws of the State of Alaska. The JAA has the full power and authority to carry on its business as presently conducted and to own

and operate its assets, properties and business.

(b) The JAA has all requisite power and authority to execute and perform this Agreement and to consummate the transactions contemplated by this Agreement. On the Closing Date, the execution and delivery of this Agreement and all the transactions provided for in this Agreement shall have been duly authorized by proper proceedings and will be in all respects legally binding upon the JAA.

(c) The party executing this Agreement on behalf of the JAA is duly authorized to do so, and upon execution hereof the Agreement will be enforceable against the JAA in accordance with its terms.

(d) The JAA is not subject to any restriction contained in any law, regulation, joint action agency agreement, charter, bylaw, partnership or similar agreement, mortgage, lien, lease, agreement, instrument, order, judgment or decree which would prevent the consummation of the transactions contemplated by this Agreement.

(e) The representations and warranties of the JAA contained in this Agreement shall be true on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of such date, and each and all of the agreements and conditions to be performed or observed by the JAA on or before the Closing Date pursuant to the terms hereof shall have been duly performed or observed.

(f) As of the Closing Date, the JAA has fully inspected the Project and conducted all due diligence the JAA deems necessary or is otherwise prudent to determine or confirm (i) the condition of the Project; (ii) that the JAA is obtaining all necessary right, title and interest in and to the Project Assets to own and operate the Project; and (iii) that the Project can continue to be operated successfully and in accordance with prudent utility practices.

(g) As of the Closing Date, all necessary approvals and consents from the Purchasing Utilities in conjunction with this transaction have been duly and properly obtained.

Section 7.2 Representations and Warranties of the AEA. The AEA represents and warrants to, and agrees with, the JAA as follows:

(a) The AEA is a public corporation of the State of Alaska in the Department of Community and Economic Development but with separate and independent legal existence created under AS 44.83.020. The AEA has full power and authority to carry on its business as presently conducted and to own and operate its assets, properties and business.

(b) The AEA has all requisite power and authority to execute and perform this Agreement and to consummate the transactions contemplated by this Agreement. On the Closing Date, the execution and delivery of this Agreement and all the transactions provided for in this Agreement shall have been duly authorized by proper proceedings and will be in all respects legally binding upon the AEA.

(c) The party executing this Agreement on behalf of the AEA is duly authorized to do so.

(d) The AEA is not subject to any restriction contained in any AEA statute (AS 44.83), AEA regulation or bylaw or, to its knowledge after reasonable inquiry, any other statute or any regulation or any agreement, mortgage, lien, lease, instrument, order, judgment or decree which would prevent the consummation of the transactions contemplated by this Agreement.

(e) The representations and warranties of the AEA contained in this Agreement shall be

true on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of such date, and each and all of the agreements and conditions to be performed or observed by the AEA on or before the Closing Date pursuant to the terms hereof shall have been duly performed or observed.

ARTICLE VIII
GENERAL PROVISIONS

Section 8.1 Assignment. Except for an assignment to one or more of the Purchasing Utilities that is authorized by the Legislation, the JAA shall not assign or otherwise transfer its rights under this Agreement. No such assignment shall be effective, however, without the assignee first assuming all of the obligations of the assignor under this Agreement. Any assignment or transfer in violation hereof shall be null and void and of no force or effect. The AEA may assign its interest in this Agreement to any successor agency of the State of Alaska in accordance with State law; provided that such assignment does not diminish the obligations of the AEA or a successor agency of the State of Alaska to the JAA as specified herein.

Section 8.2 Nonmerger. All of the terms and provisions of this Agreement, including, but not limited to, the representations and warranties, the disclaimer and release of claims in Section 4.2, shall not merge in, but shall survive, the Closing of the transaction contemplated hereunder and the deeds, bills of sale and other conveyance, transfer and assignment documents to be delivered pursuant hereto.

Section 8.3 Notices. Except as otherwise expressly provided in this Agreement, any notice, request, approval, consent, demand, or other communication required or permitted to be given by either party to the other hereunder shall be in writing and shall be deemed delivered upon receipt if personally delivered, upon confirmation of successful transmission if sent via facsimile, or five (5) days after deposit in the United States mail, postage prepaid, certified mail, and addressed as set forth below if mailed, or at such other address as such party shall have last designated by notice to the other.

If to the AEA:

Alaska Energy Authority
813 West Northern Lights Boulevard
Anchorage, Alaska 99503
Attention: Executive Director
Telephone No.: (907) 269-3000
Facsimile No.: (907) 269-3044

With a copy by first class mail
and facsimile to:

Brian Bjorkquist, Esq.
Assistant Attorney General
State of Alaska
Department of Law
1031 West Fourth Avenue, Suite 200
Anchorage, Alaska 99501
Telephone No.: (907) 269-5100
Facsimile No.: (907) 258-4978

With an additional copy by first class mail
and facsimile to:

Keith Laufer, Esq.
Foster Pepper Rubini & Reeves, LLC
1007 West Third Avenue, Suite 100
Anchorage, Alaska 99501
Telephone No.: (907) 222-7118

Facsimile No.: (907) 222-7198

If to the JAA:

Four Dam Pool Power Agency
P.O. Box 329 - 11 South Nordic Drive
Petersburg, Alaska 99833
Attention: Dennis Lewis, Chairman
Telephone No.: (907) 772-4203
Facsimile No.: (907) 772-9287

With a copy by first class mail
and facsimile to:

Ronald L. Saxton, Esq.
Ater Wynne LLP
222 SW Columbia, Suite 1800
Portland, Or 97201
Telephone No.: (503) 226-1191
Facsimile No.: (503) 226-0079

Section 8.4 Intentionally left blank.

Section 8.5 Governing Law/Disputes. This Agreement and the rights of the parties under it shall be governed by and construed in all respects in accordance with the laws of the State of Alaska.

Section 8.6 Waiver. Any waiver must be in writing, and any waiver by any party of a breach of any provision of this Agreement shall not operate as or be construed to be a waiver of any other breach of that provision or of any breach of any other provision of this Agreement. The failure of a party to insist upon strict adherence to any term of this Agreement on one or more occasions shall not be considered a waiver or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement. All remedies of the parties shall be cumulative.

Section 8.7 Amendments. This Agreement shall not be altered, modified, or otherwise amended except by an instrument in writing signed by all parties.

Section 8.8 No Partnership, Joint Venture, Etc. Nothing in this Agreement shall be intended or deemed to create a partnership, joint venture, association, or other similar relationship between the parties hereto.

Section 8.9 No Third Party Beneficiaries. This Agreement does not create, and shall not be construed to create, any rights enforceable by any person not a party to this Agreement. Nothing in this Agreement is intended to relieve or discharge the obligation or liability of any third person to any party, nor give any third person any right of subrogation or action against any party.

Section 8.10 Severability. If any provision of this Agreement or any application thereof shall be held invalid, illegal or unenforceable, the remainder of this Agreement or any other application of such provision shall not be affected thereby.

Section 8.11 Headings. Title, section and paragraph headings used in this Agreement are for the convenience and reference of the parties only and in no way define, limit, extend or describe the scope of this Agreement or the intent of any of the provisions hereof.

Section 8.12 Construction. This Agreement has been negotiated by the parties and their respective legal counsel, and the parties specifically agree that any legal or equitable principles that might require the construction of this Agreement or any provision of this Agreement against the party drafting will not apply in

any construction or interpretation of this Agreement.

Section 8.13 Time of the Essence. Time is of the essence in the performance of this Agreement.

Section 8.14 Appendices, Attachments, Schedules and Exhibits. The Appendices, Attachments, Schedules and Exhibits attached hereto are an integral part of this Agreement and are incorporated herein by reference.

Section 8.15 Expenses. Each party shall bear its own expenses incident to the negotiation, preparation and execution of this Agreement and the transaction documents to be entered into pursuant to this Agreement.

Section 8.16 Counterparts. For the convenience of the parties hereto, this Agreement may be executed in one or more counterparts, including by facsimile signature, each identical to the other, so long as the counterparts in a set contain the signatures (and acknowledgements) of all the parties to this Agreement.

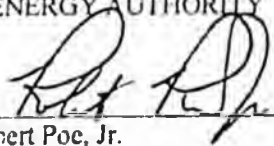
Section 8.17 Termination of Sale and Purchase. The AEA and the JAA shall each have the right to terminate the sale and purchase of the Project at any time upon making specific written findings concluding that one or more conditions to its obligation to effect the Closing on or before March 1, 2002 has not and cannot with reasonable diligence and effort be fulfilled at or prior to the Closing. Notice of termination pursuant to this Section 8.17 shall be made in writing and shall set forth the specific findings supporting termination. The parties shall promptly meet to discuss the Notice, and the termination shall be effective five (5) business days (excluding State of Alaska holidays) after that meeting unless the Notice is withdrawn by mutual consent of the parties. In the event either party terminates this Agreement as provided in this Section 8.17, neither party shall have any further rights, duties or obligations under this Agreement other than those rights, duties or obligations which expressly or by their nature survive termination.

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IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the date first hereinabove written.

ALASKA ENERGY AUTHORITY

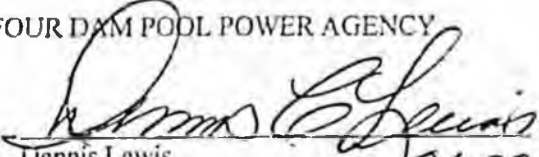
By:


Robert Poe, Jr.
Executive Director

1/31/02

THE FOUR DAM POOL POWER AGENCY

By:


Dennis Lewis
Chairman

01-31-02

Appendix A

Definitions

"*AEA*" means the Alaska Energy Authority, a public corporation and an agency of the State of Alaska.

"*Additional Funds*" has the meaning given to such term in Section 2.2.1 of the Agreement.

"*Agreement*" means the Agreement for the Purchase and Sale of the Four Dam Pool Project, together with all exhibits, schedules, appendices and attachments thereto, as the same may be amended or supplemented from time to time in accordance with its terms by agreement of the parties thereto.

"*AIDEA*" means the Alaska Industrial Development and Export Authority, a public corporation and an agency of the State of Alaska.

"*Contract Claims and Warranty Claims List*" means the listing of pending warranty claims and potential warranty claims with respect to the Project attached to the Agreement as Schedule 1.3.2-B.

"*Contracts List*" means the Material Contracts List and the Contract Claims and Warranty Claims List, collectively.

"*Closing*" means the closing of the transaction contemplated by this Agreement on a date, time and place mutually agreeable to the parties, on or before March 1, 2002.

"*Closing Date*" has the meaning given to such term in Section 5.1.1 of the Agreement.

"*DNR*" means the State of Alaska Department of Natural Resources.

"*Debt Service Payments*" for purposes of Section 2.2.1 of this Agreement means those payments actually made by the Purchasing Utilities to the AEA pursuant to Section 5(e) of the PSA.

"*Facility*" or "*Facilities*" mean the Swan Lake Hydroelectric Project, the Lake Tyee Hydroelectric Project, the Solomon Gulch Hydroelectric Project and the Terror Lake Hydroelectric Project, related auxiliary facilities including, without limitation, all generation, transmission and substation facilities associated with each such Project, either individually or collectively, and includes all Project Assets.

"*FERC*" means the Federal Energy Regulatory Commission.

"*Financing Agreement*" means the indenture, loan agreement and/or other agreement(s) entered into between the JAA and the AIDEA to finance the purchase of the Project.

"*Four Dam Pool Initial Project*" or "*Project*" means the Facilities, collectively.

"*Hazardous Substance*" has the meaning given to such term in Section 4.2 of the Agreement.

"*Initial Project Revenue Fund*" means the Initial Project Revenue Fund established by the PMC pursuant to Section 5(e) of the PSA.

"*ILF Credit*" means a credit against the Purchase Price in the amount of Five Million Dollars (\$5,000,000) related to the reappropriation of Intertie Loan Funds as described in Section 2.2.2 of the

Agreement.

"Insurance Agreement" means the Amended Agreement for Satisfaction of Insurance Cost Payment Obligation and Concerning Risk Allocation dated June 24, 1994 by and between the AEA and the PMC pursuant to the PSA.

"Insurance Fund" means the Insurance Fund established by the AEA pursuant to the PSA and the Insurance Agreement to provide for the payment of insurance and risk management costs.

"Insurance Policy List" means the listing of insurance policies for or related to the Project which are part of the Project Assets and described in Section 1.2(e) of the Agreement and attached to the Agreement as Schedule 1.3.4.

"Intertie Loan Funds" mean the \$20 million previously appropriated by the State to fund a portion of the costs of the Southeast Intertie, as described in Section 7 of the MOU.

"JAA" means The Four Dam Pool Power Agency, a joint action agency formed under the authority of AS 42.45.300 - AS 42.45.320 by the City of Ketchikan d/b/a Ketchikan Public Utilities, the City of Wrangell d/b/a Wrangell Municipal Light and Power, the City of Petersburg d/b/a Petersburg Municipal Power and Light, Copper Valley Electric Association, Inc., and Kodiak Electric Association, Inc.

"Legislation" means Chapters 60 and 75, SLA 2000, and Chapter 4, SLA 2001 enacted by the Alaska State Legislature.

"Licenses and Permits List" means the listing of licenses and permits which are part of the Project Assets and described in Section 1.2(c) of the Agreement and attached to the Agreement as Schedule 1.3.3.

"Material Contracts List" means the listing of material contracts related to the Project which are part of the Project Assets and described in Section 1.2(b) of the Agreement and attached to the Agreement as Schedule 1.3.2-A.

"Memorandum of Understanding" or "MOU" means a Memorandum of Understanding between the Purchasing Utilities and the AEA dated April 11, 2000, as amended by an Amendment to Memorandum of Understanding between the Purchasing Utilities and the AEA dated May 30, 2000, copies of which are attached to the Agreement as Attachment 1 and Attachment 2, respectively.

"PMC" means the Four Dam Pool Project Management Committee established by Section 7 of the PSA.

"Personal Property List" means the listing of personal property, both tangible and intangible, which are part of the Project Assets and described in Section 1.2(a) of the Agreement and attached to the Agreement as Schedule 1.3.1.

"Project Assets" mean all of the real and personal property, contracts, contract rights and other rights and interests comprising the Project and which are described in Sections 1.2 and 1.3 of the Agreement including, without limitation, all real and personal property, contracts, contract rights and other rights and interests described in detail in the Project Asset Lists.

"Project Asset Lists" mean the Real Property List, the Personal Property List, the Contracts List, the Licenses and Permits List and the Insurance Policy List.

"*Project Documents*" means originals or copies of all Project records including, without limitation, plant accounting information, working papers, technical reports, maps, drawings, schedules and other documents related to the ownership, operation, maintenance and licensing of the Project.

"*Project R&R Fund*" means the R&R Fund established by the PMC pursuant to Section 6 of the PSA.

"*Prudent Utility Practices*" means, at a particular time, those practices, methods, equipment and acts then engaged in or approved by a significant portion of the electric utility industry and commonly used in utility engineering and operations to design, construct, operate and maintain equipment similar to the facilities' equipment consistent with good business practices, economy, reliability, safety and expedition, having due regard for applicable codes.

"*PSA*" or "*Long-Term Power Sales Agreement*" means the Long-Term Power Sales Agreement between the Purchasing Utilities and the AEA effective October 28, 1985, as currently amended and supplemented.

"*Purchase Price*" means Seventy-Three Million Dollars (\$73,000,000), as such amount may be adjusted as provided in Section 2.2 of the Agreement.

"*Purchasing Utilities*" mean the City of Ketchikan d/b/a Ketchikan Public Utilities, the City of Wrangell d/b/a Wrangell Municipal Light and Power, the City of Petersburg d/b/a Petersburg Municipal Power and Light, Copper Valley Electric Association, Inc., and Kodiak Electric Association, Inc.

"*Real Property List*" means the listing of real property interests that are part of the Project Assets and described in Section 1.2(d) of the Agreement and attached to the Agreement as Schedule 1.3.5.

"*Required Repairs*" mean the repairs and improvements to the Swan Lake and Terror Lake Facilities described in Schedule 4.1 to the Agreement.

"*Southeast Intertie*" means the proposed transmission intertie between the Lake Tyee and Swan Lake Facilities.

"*TBPA*" means the Thomas Bay Power Authority established by the City of Petersburg and the City of Wrangell to operate the Lake Tyee Facility.

"*Transfer*" means the sale, conveyance, transfer, assignment and delivery of the Project and all Project Assets to the JAA in accordance with the terms and conditions of the Agreement.

Schedule 1.3.1

Personal Property List

Schedule 1.3.2-A

Material Contracts List

Schedule 1.3.2-B

Contract Claims and Warranty Claims List

Schedule 1.3.3

Licenses and Permits List

Schedule 1.3.4

Insurance Policy List

Schedule 1.3.5

Real Property List

Schedule 1.7

FCC Licenses

Schedule 4.1

Swan Lake and Terror Lake Facilities Repairs

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Appendix A – Definitions

Attachment 1 – Memorandum of Understanding dated April 11, 2000

Attachment 2 – Amendment to Memorandum of Understanding dated May 30, 2000

Schedule 1.3.1 – Personal Property List

Schedule 1.3.2-A – Material Contracts List

Schedule 1.3.2-B – Warranty Claims List

Schedule 1.3.3 – Licenses and Permits List

Schedule 1.3.4 – Insurance Policy List

Schedule 1.3.5 – Real Property List

Schedule 1.7 – FCC Licenses

Schedule 4.1 – Swan Lake and Terror Lake Facilities Repairs

Exhibit A – Form of Opinion of Counsel to the AEA

Exhibit B – Form of Opinion of Counsel to the JAA

HB 243



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STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 30, 2005

The Honorable John Harris
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Harris:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the calculation of the annual regulatory cost charge for public utilities and pipeline carriers within the jurisdiction of the Regulatory Commission of Alaska (RCA).

Currently, the operations of the RCA are financed through a regulatory cost charge collected from regulated public utilities and pipeline carriers in accordance with AS 42.05.254 and AS 42.06.286, which, under existing statute, may not exceed .7 percent of the total adjusted gross revenue applicable to the regulated public utility and pipeline carrier sectors. The bill would increase that percentage to .9 percent for the fiscal years beginning July 1, 2005, July 1, 2006, and July 1, 2007, to finance certain information system improvements within the RCA. The improvements include the implementation of a case management system, a time management system, and an interactive RCA website that would allow regulated entities to electronically file forms and pleadings on-line.

Because it is anticipated that the information system improvements will result in lower operating costs for the RCA, the bill would then reduce that .9 percent maximum regulatory cost charge to the previous .7 percent level for the fiscal year beginning July 1, 2008, and for subsequent fiscal years. This bill would not change the existing maximum for the portion of the regulatory cost charge that finances operations of the public advocacy function under AS 42.04.070(c) and AS 44.23.020(e) within the Department of Law.

I urge your prompt and favorable action on this measure.

Sincerely yours,

A handwritten signature in cursive script that reads "Frank H. Murkowski".

Frank H. Murkowski
Governor

Enclosure