

ALASKA LEGISLATURE COMMITTEE FILES 1987-1988 8672

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taxes, if any, for which HEA may become liable as a result of the sale of transmission capability.

(c) Initial Carrying Capacity. The carrying capacity of the Transmission Line for the purposes of making the computations required by Attachments A, B and C, subject to the provisions of Section 10, is 135 megawatts.

(d) Schedule of Payments.

(i) A Purchaser electing to pay amortization costs through direct payments shall make such payment within 30 days of demand therefor by HEA, but not before 30 days following the Date of Commercial Operation.

(ii) A Purchaser electing to pay amortization costs through installment payments shall pay the first monthly payment on or before 30 days after the effective date of the documents evidencing the Construction Loan.

(e) Character of Payments. The amounts payable under this Agreement are operating expenses of each Purchaser's System, and are valid and binding obligations of each Purchaser, payable only from the gross revenues of said Purchaser's System as a cost of electric transmission, and not payable from any taxes.

(f) Tax Consequences. In the event the sale of transmission capability or the payment arrangements contemplated by this Agreement result in any Party being liable for the payment of Federal income tax, the Parties shall work together to revise the Agreement to reduce or eliminate such liability, provided, that any such revision shall not reduce the amount of transmission capability to which a Party is entitled hereunder, nor shall HEA be obligated to convey any greater interest in the Transmission Line than as is herein provided.

(g) Purchaser's Obligation. Except as provided in Section 10, each Purchaser shall make payments in the amounts and at the times required by this Agreement notwithstanding a suspension or reduction in the amount of transmission capability of the Transmission Line.

SECTION 5. DUTY TO OPERATE AND MAINTAIN

So long as HEA owns the Transmission Line, HEA will in good faith and at all times operate, maintain and repair the electrical facilities used to perform the services provided hereunder in accordance with Prudent Utility Practice in a manner consistent with HEA's obligations under this Agreement.

SECTION 6. OUTAGES

(a) Forced and scheduled outages. The Transmission Line is subject to Forced Outage and to scheduled outages for maintenance.

(b) HEA's system. During any outage of the Transmission Line, absent an agreement to the contrary, a Purchaser shall not be entitled under the terms of this Agreement to the use of transmission capacity on HEA's system or to wheeling services over the transmission line from Bradley Junction to Soldotna substation via the Fritz Creek Substation.

(c) Scheduling. HEA shall schedule outages for maintenance or upgrading of the Transmission Line in consultation with the Bradley Lake Project Management Committee.

SECTION 7. FAILURE TO CONSTRUCT ACCORDING TO SCHEDULE.

(a) Default. Subject to the provisions of Section 7(b), if HEA fails, in any material respect, to construct the Transmission Line in accordance with the schedule set forth in Attachment D, unless such delay is a result of Force Majeure, HEA shall be deemed to be in default hereunder and the Parties thereupon shall be entitled to assume ownership and control of the Transmission Line and to complete the construction thereof, and HEA shall assign and convey to the Parties entitled thereto, all of its right, title and interest in the Transmission Line.

(b) Takeover. Upon default by HEA, a Party may perfect its right to construct the Transmission Line as follows:

(i) The Party shall first give notice to HEA and to all of the other Parties of its election to construct the Transmission Line.

(ii) Within 30 days from the date of receipt of the notice HEA shall be entitled to cure any such default.

(iii) If HEA fails to cure the default within the period prescribed by subsection (ii), above, then within 45 days of the receipt of the notice referred to in subsection (i), above, each Party electing to participate in the construction of the Transmission Line shall notify the other Parties of such election.

(iv) Thereafter, all Parties electing to exercise their respective rights to construct the Transmission Line shall be entitled to do so, pursuant to such arrangements as they may agree upon among themselves.

(c) Cooperation by HEA. Upon the completion by any Parties of their rights to construct the Transmission Line as set forth in section 7(b), HEA shall deliver to such Parties all documents in its possession relating to the construction of the Transmission Line, including design documents and construction documents, and shall execute in favor of the Parties assignments of all assignable easements and permits, together with such other documents as may be reasonably required to transfer control of the construction of the Transmission Line to such Parties.

(d) Title. Any Party which perfects its right to complete the construction of the Transmission Line pursuant to the terms hereof, shall be entitled to demand and receive from HEA a conveyance of all of HEA's right, title, and interest in the Transmission Line, provided, that in the event more than one Party becomes entitled to make such demand HEA shall have no responsibility for determining the parties entitled thereto, but HEA may deliver any instrument of conveyance to all such Parties as tenants in common.

(e) Repayment of HEA's costs. In the event one or more Parties obtain title to the Transmission Line pursuant to the terms hereof, such Party or Parties shall pay to HEA, on or before 12 months from the date of receiving such title all sums expended by HEA for the construction of the Transmission Line.

(f) Damages. The exercise by any Party of any right under this section shall not operate to limit or restrict the Party's right to pursue any other legal remedies.

SECTION 8. UPGRADING OF LINE

(a) Increased share. If after the initial construction of the Transmission Line, additional improvements constructed by HEA result in an increase of the capacity of the Transmission Line above the capacity stated in Section 2(b) no Purchaser will be entitled to any share of the increased capacity of the Transmission Line, except such Purchasers as were offered and accepted an opportunity to share in the costs of the upgrade.

(b) Reimbursement of costs. A Purchaser may be equitably entitled to some financial compensation in the event the Transmission Line is upgraded, depending upon the nature of the upgrade and the arrangements entered into for the purpose of financing and allocating the capacity associated with the upgrade.

(c) Treatment of voltage support. Any capital cost of adding or enhancing voltage support for the Transmission Line included within the definition of Construction Cost shall not be considered to be an upgrade; rather the cost shall be treated as though it were a cost of constructing the Transmission Line and

shall be paid by the Parties in accordance with the provisions of Section 4(a).

(d) Shared costs. The cost of making any capital improvements which result in benefits to both the HEA system and to the Transmission Line will be allocated on an equitable basis.

SECTION 9. INTERVENING TAPS ON TRANSMISSION LINE

HEA may, at some future time, desire to place substations or taps ("facilities") along the Transmission Line in order to provide for the specific needs of HEA's system. All capital and operating costs associated with such facilities, including voltage support equipment that is required as a result of the installation of such facilities, will be the responsibility of HEA. HEA agrees to allow the other Parties to review its plans for such facilities, and the subsequent design of such facilities, and absent compensation from HEA to the Purchasers, HEA shall propose no changes to the Transmission Line that will significantly degrade the line's reliability or result in an increase in losses to the other Parties.

SECTION 10. DOWNRATING

If, after the construction of the Transmission Line its carrying capacity is diminished: (a) the Parties shall attempt to make the necessary repairs or modifications to restore the original carrying capacity of the Transmission Line, if it is economically feasible to do so, with each Party to pay the cost of making such repairs or modifications in accordance with Section 4(b); but (b), if it is not economically feasible to make such repairs or modifications, each Purchaser's share of the Transmission Line's capability shall be decreased by a percentage equal to the percentage decrease in carrying capacity of the Transmission Line.

SECTION 11. SPECIAL PROVISIONS AFFECTING CHUGACH

(a) Chugach's treatment of the transmission capability for ratemaking purposes. The costs paid by Chugach for its share of the capability of the Transmission Line shall not be included in any revenue requirement, nor included for any other purpose, in establishing rates to be paid by AEG&T to Chugach under the Agreement for Sale of Electric Power and Energy between HEA, Chugach, and AEG&T, effective May 13, 1986 (the "Tripartite Agreement").

(b) Deliveries to AEG&T. Notwithstanding the provisions of Section 6, during any outage on the Transmission Line but only to

the extent of such outage, Chugach shall be entitled to use Bradley Lake power in place of other power, subject to the physical constraints of the HEA system, to satisfy all or any part of Chugach's power sales obligations to AEG&T for the benefit of HEA, and to deliver the power from Bradley Junction via the Fritz Creek substation, but such delivery shall not otherwise relieve Chugach of its obligations to provide ~~with~~ power pursuant to the terms of the Tripartite Agreement.

(c) Conveyance to AEG&T. If HEA at any time transfers to AEG&T the ownership of the Transmission Line, Chugach shall also transfer its Transmission Line capability to AEG&T under a Project Agreement among AEG&T, HEA, Chugach, and any other entities conveying shares of the Transmission Line to AEG&T, if Chugach is then a Joint Action Member of AEG&T.

SECTION 12. TERM OF AGREEMENT; AMENDMENT

(a) Term. This Agreement shall become effective upon the Effective Date and shall continue in force until the Termination Date, subject only to the limitations set forth in Section 12(b), provided, that if the Date of Commercial Operation does not occur before January 1, 1996, then this Agreement shall terminate on January 1, 1996.

(b) Amendments. This Agreement may be amended, extended, or terminated at any time by the written consent of all Parties, but no such amendment, extension, or termination shall be effective unless approved by the federal and state agencies (if any) whose approval is required at the time.

SECTION 13. DISPUTE RESOLUTION.

The Parties agree that any procedures for dispute resolution under this Agreement be entrusted to good faith negotiations and adoption by the Project Management Committee, with HEA's affirmative vote required for adoption of such procedures. HEA shall not withhold its affirmative vote unreasonably, but HEA's unreasonableness in this regard may be challenged and determined only in an action to enforce this Agreement and shall not be determined by vote or other action of the Project Management Committee.

SECTION 14. APPROVALS.

All Parties agree to seek and support as expeditiously as possible and in good faith, all necessary approvals of this Agreement and its terms. Each Party agrees that this Agreement

and each of its provisions is lawful, valid, binding and enforceable in accordance with its terms.

SECTION 15. MISCELLANEOUS PROVISIONS.

(a) Waiver. Any waiver at any time by any Party of its rights with respect to any default of the other Party, or with respect to any other matter arising in connection with this Agreement, shall not be considered a waiver with respect to any prior or subsequent default, right or matter.

(b) Successors and Assigns. This Agreement and all of the terms and provisions hereof shall be binding upon and inure to the benefit of the respective successors and assignees of the Parties; provided, that no assignment or other transfer of this Agreement, or any interest hereunder (other than to an entity which is a party to the Power Sales Agreement) shall be effective without the prior written consent of all of the other Parties (which consent shall not be unreasonably withheld), and any successor or assignee which is not a party to the Power Sales Agreement must, in the commercially reasonable opinion of the other Parties, be financially capable of assuming the obligations of the Party from which the successor or assignee has accepted the assignment or other transfer. This Section 15(b) shall not prevent an assignment of a Party's rights hereunder for security purposes only, and shall not prevent a financing entity with recorded or secured rights from exercising all rights and remedies available to it under law or contract, provided that performance of this Agreement is not thereby impaired. The Parties shall have the right to be reasonably notified by the financing entity prior to the time of exercise that it is exercising such rights or remedies.

(c) Performance Pending Resolution Of Disputes. Pending resolution of any dispute, each Party shall continue to perform its obligations under this Agreement, including but not limited to the obligation to make the payments required by this agreement. All Parties shall be entitled to seek immediate judicial enforcement of this continued performance obligation notwithstanding the existence of a dispute. Application for such enforcement shall be made to the Superior Court for the State of Alaska, at Kenai.

(d) Applicable Law. The laws of the State of Alaska (including without limitation the equal opportunity laws set forth in AS 18.80.220, as the same may be amended from time to time) shall govern the interpretation and application of this Agreement and the actions of the Parties hereto. In addition, HEA will comply with all other equal opportunity laws and regulations applicable to HEA.

(e) Section Headings. The section headings in this Agreement are for convenience only, and do not purport to and shall not be deemed to define, limit or extend the scope or intent of the section to which they pertain.

(f) Payment. HEA shall endeavor to render bills to the appropriate other Party or Parties on or before the 10th day of each calendar month for charges which accrued under this Agreement during the preceding month. In such bills, if any item is designated as being estimated due to unavailability of final underlying data, then, adjustments to the correct amounts, when such amounts are determined, shall be included in a bill for subsequent months. Payment from every Party billed shall be due in the office of HEA by the 25th day after mailing of the bill. If such bill is delayed in the mail and not received within ten days of the date shown on the postmark, then the Party billed shall immediately notify HEA and agree upon a new date, but in no event shall HEA be required to accept a delay in payment beyond 15 days from the date of actual receipt of the bill by the Party billed. Payment shall be mailed, directly deposited to the account of HEA, or may be paid in person, at HEA's main office in Homer, Alaska.

(g) No Third Party Beneficiaries Or Liability To Third Parties. Notwithstanding that the operation of this Agreement may and is intended to confer benefits on third parties who are not signatories to this Agreement, in promising performance to one another under this Agreement the Parties intend to create binding legal obligations to and rights of enforcement in (i) one another, and (ii) one another's assignees or successors in interest. The Parties expressly do not intend to create any obligation or liability, or promise any performance to, any third party (including without limitation the Authority or any individual or entity supplied with electric power by any of the Parties). The Parties have not created for any third party any right to enforce this Agreement.

(h) Notice and Access to Records. HEA shall apprise the Parties of any planned construction or maintenance activities on the Transmission Line, or any changes in its system that might affect the availability of capacity on the Transmission Line. HEA shall make available to a Party such books, records, or other information relating to the Transmission Line, its cost, construction and operation, as that Party may reasonably request.

(i) Execution of Documents. The Parties shall execute such other documents as may be reasonably required to effectuate the purposes of this Agreement. Any conveyance or lease executed pursuant to this Agreement shall contain terms which are substantially the same as the terms hereof.

(j) Multiple copies. This Agreement shall be executed in several counterparts, each of which shall be an original, but all of which shall constitute one and the same instrument.

(k) Increase in Purchaser's Share. If and to the extent that the amount of Bradley Lake Power delivered to a Purchaser, or a Purchaser's Percentage Share (as defined in the Power Sales Agreement), shall increase or decrease as a result of the occurrence of an event described in Section 9(b)(i) of the Power Sales Agreement, the Purchaser's share of the Transmission Line capability shall be increased or decreased.

(l) Default by Purchaser. If a Purchaser suspends, reduces, fails to make or is prevented from making payments required under this Agreement, HEA, without waiving any other rights or remedies available to it, and upon not less than 30 days' advance written notice to the Purchaser, may terminate or suspend the right of the Purchaser to receive power over its share of the transmission capability, and in such event HEA shall be entitled to the use of such transmission capability.

(m) Relationship to Alaska Intertie Agreement. Except for the rights and duties set out in this Agreement to use the Transmission Line from Bradley Junction to Soldotna Substation, this Agreement does not change or modify the rights and duties set out in the Alaska Intertie Agreement.

SECTION 16. DEFINITIONS.

(a) AEG&T. The Alaska Electric Generation and Transmission Cooperative, Inc.

(b) Agreement. This Agreement governing sale of Transmission Line capability.

(c) Alaska Intertie Agreement. Alaska Intertie Agreement dated December 23, 1985 among the Alaska Power Authority, Municipality of Anchorage, Alaska, d.b.a. Municipal Light & Power, Chugach Electric Association, Inc., City of Fairbanks, Alaska, Municipal Utilities System, Golden Valley Electric Association, Inc. and Alaska Electric Generation and Transmission Cooperative, Inc.

(d) Alaska Power Authority. The Alaska Power Authority, an agency of the State of Alaska, and any successor thereto as owner of the Bradley Lake Hydroelectric Project.

(e) Authority. See Alaska Power Authority.

(f) Bradley Lake Power. Electric capacity, expressed in kilowatts (kw), generated at the Bradley Lake Hydroelectric

Project for a Party in a manner consistent with the Power Sales Agreement and applicable criteria, procedures, and guidelines adopted by the Project Management Committee. As used in this Agreement, Bradley Lake Power does not include capacity produced by generators other than those located at the Bradley Lake Hydroelectric Project, regardless of whether energy or capacity from such other generators is or may be sold to a Party pursuant to provisions of the Power Sales Agreement relating to reserves for the Project.

(g) Bradley Lake Hydroelectric Project. The hydroelectric generating project as defined in the Power Sales Agreement.

(h) Construction Cost. The sum of the costs, as determined in accordance with generally accepted accounting principles, associated with the construction of the Transmission Line and any capital improvements installed at or between Bradley Junction and Soldotna Substation and required to provide voltage support as provided in Section 2(b), provided that the cost of the construction of the Transmission Line shall not exceed the equivalent sum of \$18 million and the cost of the construction of any such voltage support shall not exceed the equivalent sum of \$2 million, based upon the value of the US dollar on November 1, 1987.

(i) Construction Loan. The sum of the funds borrowed from time to time by HEA to fund the Construction Cost, but only to the extent such funds were actually used to pay the Construction Cost, plus the costs associated with borrowing such funds.

(j) Date of Commercial Operation. The date on which HEA reasonably declares sufficient carrying capacity to be available on the Transmission Line to accommodate the Purchasers' shares on a commercial basis.

(k) Delivery Point. The Delivery Point located at Bradley Junction, as defined in the Power Sales Agreement.

(l) Effective Date. The first day on which both of the following conditions have been met: (i) all Parties have executed this Agreement, and (ii) this Agreement has been approved in its entirety by all entities whose approval is necessary. For purposes of this provision, the approval of any entity other than a federal or state governmental body shall be considered necessary only if that non-governmental entity is identified in writing by one or more Parties, at the time such Parties execute this Agreement, as an entity whose approval is necessary to permit this Agreement to become effective with respect to such Party or Parties.

(m) Force Majeure. Any event, without limitation, the occurrence of which (i) is beyond the control of HEA, and (ii)

makes it impractical or imprudent in terms of safety, efficiency, or reliability to perform as agreed.

(n) Forced Outage. Any event, without limitation, beyond the control of and unforeseen by HEA, the occurrence of which interferes with the capability of the Transmission Line to transmit energy by rendering physically impossible or unsafe the transmission of all or a portion of the electric power that under normal conditions could safely be so transmitted. Any Forced Outage shall constitute an event of Force Majeure under this Agreement, but events of Force Majeure are not limited to Forced Outages.

(o) Fritz Creek Substation. The Fritz Creek Substation owned and operated by HEA, or any successor facility.

(p) Party. Any entity listed in Section 1 of this Agreement.

(q) Percentage Share. The amount of Project Capacity to which a Purchaser shall be entitled under the terms of the Power Sales Agreement, as determined at the Date of Commercial Operation of the Project.

(r) Prudent Utility Practice. Prudent Utility Practice as defined in the Power Sales Agreement.

(s) Purchaser. Every Party except HEA.

(t) Purchaser's System. A Purchaser's electric utility system for the distribution, transmission, and generation of electrical power and which is owned and operated by the Purchaser. If a Purchaser's electric utility system is combined with other utilities of the Purchaser, then "Purchaser's System" includes only those facilities, activities, and revenues properly allocable to Purchaser's electric utility service. "Purchaser's System" does not include the Project, regardless of whether the Purchaser operates the Project under a separate agreement with the Authority.

(u) Power Sales Agreement. The agreement for the sale and purchase of electric power from the Project entered into by and among the Authority, the Parties, and others.

(v) Project. See Bradley Lake Hydroelectric Project.

(w) Project Management Committee. The committee composed of the Authority, the Parties and others and established and invested with authority pursuant to the Power Sales Agreement.

(x) Soldotna Substation. The Soldotna Substation owned and operated by HEA, or any successor facility.

(y) Termination Date. The earliest of the following dates:

(i) The date the Transmission Line is no longer used and useful and all costs associated with the Construction Loan have been paid;

(ii) The date on which the Power Sales Agreement terminates as provided at Section 2(c) of the Power Sales Agreement;

(iii) Such other date as the Parties may mutually agree upon, subject to such approvals as may be necessary at the time of such agreement.

(z) Transmission Line. The transmission line, approximately 46.8 miles in length, to be constructed by HEA between the Delivery Point at Bradley Junction and the Soldotna Substation at a projected cost of approximately \$14.1 million, being constructed of 556 ACSR conductor and having a projected capacity (when enhanced by voltage support) of 135 MW and a voltage of 115kv.

ATTACHMENT A

Computation of a Purchaser's Share of Capital Costs If
the Purchaser is Responsible for Direct Payment

The portion of the Transmission Line's Construction Cost for which a Purchaser shall be responsible if the Purchaser assumes responsibility for making direct payment for its share of the Transmission Line's capability shall be determined by the following formula:

$$p_p = \frac{U}{135 \text{ MW}} * L_1$$

Where:

p_p = Principal amount (in dollars) for which the Purchaser is directly responsible

$U *$ = (i) During the first 3 years following the Date of Commercial Operation of the Project (as determined with reference to the Power Sales Agreement), the Purchaser's Percentage Share (as determined with reference to the Power Sales Agreement) multiplied by 110 MW, and

(ii) After the first 3 years following such date, the Purchaser's actual MW share of the Project,

L_1 = Principal amount due under the Construction Loan

* After the first three years, HEA shall repay to the Purchaser any difference between the actual payments made and the sums the Purchaser otherwise would have paid if the Purchaser had been paying pursuant to the terms of Paragraph (ii) above, rather than Paragraph (i) above, and the Purchaser shall repay to HEA the difference between any sums the Purchaser otherwise would have made if the Purchaser had been paying pursuant to the terms of said Paragraph (ii) rather than Paragraph (i), and the actual payments made.

ATTACHMENT B

Computation of a Purchaser's Share of Loan Costs
in Payment for Transmission Capability Where
Purchaser Pays debt Service on HEA's Loan

$$P_1 = \frac{U}{135 \text{ MW}} \times \frac{L_1}{12}$$

Where:

P_1 = Monthly payment which the Purchaser shall make to HEA,

U * = Same as in Attachment A,

and

L_1 = For the first two years of the term of the Construction Loan, an amount equal to the sum of the payments which HEA shall be obligated to pay in the third year of the Loan term, plus a TIER component based upon the minimum TIER required by the mortgage securing the Construction Loan, and for each year thereafter, an amount equal to the sum of the payments which HEA shall be obligated to pay in that year, plus a TIER component based upon the said minimum TIER requirement.

The monthly payments made pursuant to this Attachment B shall terminate on the date which is two years prior to the date on which the last scheduled payment shall be due pursuant to the terms of the Construction Loan.

* After the first three years, HEA shall repay to the Purchaser any difference between the actual payments made and the sums the Purchaser otherwise would have paid if the Purchaser had been paying pursuant to the terms of Paragraph (ii) above, rather than Paragraph (i) above, and the Purchaser shall repay to HEA the difference between any sums the Purchaser otherwise would have made if the Purchaser had been paying pursuant to the terms of said Paragraph (ii) rather than Paragraph (i), and the actual payments made.

ATTACHMENT C

The Purchaser's Monthly O&M Payment To HEA

$$P_{o_n} = \frac{U}{135 \text{ MW} + K_2} \times O_1$$

Where:

P_{o_n} = Dollars which the Purchaser must reimburse HEA for O & M expense in each month,

U * = Same as in Attachment A,

K_2 = Any increase in the capacity of the Transmission Line resulting from upgrades to the original Transmission Line,

and

O_1 = Dollar amount of HEA's O & M expense for the Transmission Line in the preceding month (including the Transmission Line's equitable share of any HEA A & G expense properly allocated to HEA transmission in that month, and including all expenses of providing voltage support to the Transmission Line at or between Bradley Junction and the Soldotna Substation during that month).

* After the first three years, HEA shall repay to the Purchaser any difference between the actual payments made and the sums the Purchaser otherwise would have paid if the Purchaser had been paying pursuant to the terms of Paragraph (ii) above, rather than Paragraph (i) above, and the Purchaser shall repay to HEA the difference between any sums the Purchaser otherwise would have made if the Purchaser had been paying pursuant to the terms of said Paragraph (ii) rather than Paragraph (i), and the actual payments made.

ATTACHMENT D

Schedule for Construction of
the Transmission Line

1. On or before the first day of the 5th month following the June 1st date which next follows the date the Authority gives notice of having awarded the contract for the construction of the Project to the successful bidder, HEA shall have placed orders for the purchase of substantially all of the major construction materials to be used in the construction of the Transmission Line.

2. On or before the first day of the 11th month following the June 1st date which next follows the date the Authority gives notice of having awarded the contract for the construction of the Project to the successful bidder, HEA shall have awarded to a responsible contractor a contract for the construction of the Transmission Line and shall have given the contractor a notice to proceed under the contract.

3. On or before the first day of the 33rd month following the June 1st date which next follows the date the Authority gives notice of having awarded the contract for the construction of the Project to the successful bidder, HEA shall have completed and placed into service the Transmission Line.

From: Carolyn Guess, Acting Chairman, APUC

Re: "Clean SB22"

Date: December 23, 1987

This memo is to raise several questions regarding the draft of a "clean SB22" which the Commission was recently asked to review. The Commission is not including in these comments any of the broader concerns which the Commission addressed in comments on the legislation when it was considered last session.

There are three primary issues which concern the Commission, as discussed below. In each case, the Commission believes that the present draft of the legislation goes much beyond what is actually necessary in order for the Bradley Lake project to proceed based on contracts which do not require further regulatory review.

1. Is the intent of the legislation to exempt from Commission review not only the "services agreements" which have already been entered into between the utilities, but also to exempt all future agreements between utilities that are "related" to wheeling, storage, regeneration, or repurchase of Bradley Lake power? The Commission is concerned that if the intent is the latter then a very large "hole" in the Commission's ratemaking authority may be created. It is conceivable that at some time in the future the utilities may enter into a contract calling for Chugach to build a new generator which would be used to "regenerate" Bradley Lake power for delivery to Fairbanks and that the contract would include ratemaking provisions. As presently drafted, such an agreement would be "related" to regeneration of Bradley Lake power and could be beyond the Commission's jurisdiction, not only as to prior approval but also as to ratemaking effects.

2. Is the intent of the legislation to remove all of the Commission's ratemaking authority over the "services agreements,"

... also to determine the proper allocation of those costs.

Although the Commission recognizes that exemption of the current services agreements from the requirement of prior approval is necessary in order for the Bradley Lake project to proceed quickly, it is not clear that exemption from the ratemaking authority is also necessary. As discussed above, such exemption creates a "hole" in the Commission's ratemaking authority. Further, even if it is necessary to restrict the authority of the Commission to disallow costs (not include them in rates), it should not be necessary to restrict the Commission's authority to determine which customers, including other utilities, should pay those costs.

3. Is the intent of the legislation to cover projects other than the Bradley Lake project? As drafted, Subsection (c)(2) would also apply to covenants between the APA and "four-dam pool" utilities which may be entered into in the future. Again, such a provision should not be necessary in order for the Bradley Lake project to proceed.

Our rewrite of the draft, modified to address the foregoing concerns, follows:

(c) Notwithstanding (b) of this section

(1) a wholesale agreement for the sale of power from a project licensed by the Federal Energy Regulatory Commission on or before January 1, 1987, entered into between the Alaska Power Authority and one or more public utilities after October 31, 1987 and prior to January 1, 1988, is not subject to review or approval by the Commission, and

(2) a contract entered into prior to January 1, 1988, for wheeling, storage, regeneration, and/or wholesale repurchase of power purchased under an agreement specified in subparagraph (1) above is not subject to approval by the Commission; provided, however, that the Commission shall have the authority to establish rates for any services provided pursuant to such

... allocate costs?

contain a covenant by a public utility to establish, charge, and collect rates sufficient to meet its obligations under the contract, and the covenant is valid and enforceable.

Whatever legislation ultimately becomes law, the Commission believes that it is very important for the intent of the legislation to be very clear. If possible, a statement of that legislative intent would be desirable.

If there are any questions regarding our concerns or proposed changes, either Jimmy Jackson or Susan Knowles will be available this week at 263-2112. Susan can be reached at home next week at 279-6336 and I will be back in the office on January 4, 1988.

BRADLEY LAKE HYDROELECTRIC PROJECT

AGREEMENT FOR THE SALE AND PURCHASE OF ELECTRIC POWER
("POWER SALES AGREEMENT")

by and among

THE ALASKA POWER AUTHORITY,
An Agency Of The State Of Alaska,
("Seller"),

and

The CHUGACH ELECTRIC ASSOCIATION, INC.,
The GOLDEN VALLEY ELECTRIC ASSOCIATION, INC.,
The MUNICIPALITY OF ANCHORAGE d/b/a MUNICIPAL LIGHT AND POWER,
The CITY OF SEWARD d/b/a SEWARD ELECTRIC SYSTEM,
and
The ALASKA ELECTRIC GENERATION & TRANSMISSION COOPERATIVE, INC.,
("Purchasers")

and

The HOMER ELECTRIC ASSOCIATION, INC.,
and
The MATANUSKA ELECTRIC ASSOCIATION, INC.,
(Additional Parties)

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Exhibit "E", Form Of Certain Supplemental Bond Resolutions

POWER SALES AGREEMENT

THIS AGREEMENT dated as of _____, 1987, is entered into by and among the ALASKA POWER AUTHORITY (the "Authority") and the CHUGACH ELECTRIC ASSOCIATION, INC., the GOLDEN VALLEY ELECTRIC ASSOCIATION, INC., the MUNICIPALITY OF ANCHORAGE d/b/a MUNICIPAL LIGHT AND POWER, the CITY OF SEWARD d/b/a SEWARD ELECTRIC SYSTEM, and the ALASKA ELECTRIC GENERATION & TRANSMISSION COOPERATIVE, INC. (individually a "Purchaser," and collectively the "Purchasers"), and the HOMER ELECTRIC ASSOCIATION, INC., and the MATANUSKA ELECTRIC ASSOCIATION, INC. (as additional Parties with some, but not all, of the rights and responsibilities of Purchasers).

W I T N E S S E T H:

The Authority recites, agrees, represents and covenants as follows:

(1) The Authority is a public corporation of the State of Alaska duly created, organized and existing pursuant to AS 44.83;

(2) The Authority is authorized, and has taken all steps necessary pursuant to the Constitution and laws of the State of Alaska and the regulations and by-laws of the Authority, to enter into this Agreement and to comply fully with the terms hereof;

(3) The Authority desires to fulfill its legislatively established duty of providing residents of the State of Alaska with long-term, stable, and economic sources of power and an adequate, economic, and reliable long-term supply of power; and

(4) The Authority's execution and performance of this Agreement will not conflict with, violate, or constitute an event of default under any other resolution, contract, agreement, bond, note, mortgage, or other obligation of the Authority, or with respect to any order, ruling, or decree of any court or regulatory agency to which the Authority is subject at the time the Authority executes this Agreement.

Each Cooperative Purchaser (as hereinafter defined) and the Homer Electric Association, Inc. ("HEA") and the Matanuska Electric Association, Inc. ("MEA") recites, agrees, represents and covenants as follows:

(1) The Purchaser is a duly organized and constituted electric cooperative under the laws of the State of Alaska and is currently a borrower from the Rural Electrification Administration, United States Department of Agriculture, under the Rural Electrification Act of 1936 (7 U.S.C. < 901 et seq.);

(2) The Purchaser is authorized, and has taken all steps necessary pursuant to its articles of incorporation and by-laws and applicable laws and regulations, to enter into this Agreement and to comply fully with the terms hereof;

(3) The Purchaser performs the functions of a utility and is a wholesale power customer eligible to purchase power produced from a project pursuant to AS 44.83; and

(4) The Purchaser's execution and performance of this Agreement will not conflict with, violate, or constitute an event of default under any other resolution, contract, agreement, bond, note, mortgage, or other obligation of the Purchaser, or with respect to any order, ruling, or decree of any court or regulatory agency to which the Purchaser is subject at the time the Purchaser executes this Agreement.

Each Municipal Purchaser (as hereinafter defined) recites, agrees, represents and covenants as follows:

(1) The Purchaser is a duly organized and constituted municipal corporation under the Constitution and laws of the State of Alaska;

(2) The Purchaser is authorized, and has taken all steps necessary pursuant to the Constitution and laws of the State of Alaska and other applicable laws and regulations, and pursuant to its charter and ordinances, to enter into this Agreement and to comply fully with the terms hereof;

(3) The Purchaser performs the functions of a utility and is a wholesale power customer eligible to purchase power produced from a project pursuant to AS 44.83; and

(4) The Purchaser's execution and performance of this Agreement will not conflict with, violate, or constitute an event of default under any other charter, ordinance, resolution, contract, agreement, bond, note, mortgage, or other obligation of the Purchaser, or with respect to any order, ruling, or decree of any court or regulatory agency to which the Purchaser is subject at the time the Purchaser executes this Agreement.

NOW, THEREFORE, the parties agree as follows:

Section 1. Definitions. For the purposes of this Agreement, the following definitions apply:

(a) "Act" or references to AS 44.83 mean Title 44, Chapter 83 of the Alaska Statutes (AS 44.83) as the same may be amended or supplemented from time to time.

(b) "Agreement" means this Power Sales Agreement.

(c) "Annual Payment Obligation" means the total amount payable by a Purchaser in or for a Fiscal Year pursuant to this Agreement.

(d) "Annual Project Budget" means the budget for the Project as adopted or in effect for a particular Fiscal Year, and amended or supplemented from time to time, pursuant to Section 13.

(e) "Annual Project Costs" shall have the meaning given it in Section 8 of this Agreement.

(f) "Authority" means the Alaska Power Authority as established by the Act, and any successor agency thereto.

(g) "Bond Resolution" means (i) the document attached as Exhibit "A", or a resolution adopted by the Authority substantially in the form of Exhibit "A", as supplemented and amended from time to time in a manner consistent with Section 11 of this Agreement and with the provisions of the Act, or (ii) a further bond resolution, consistent with Section 11, adopted in connection with the issuance of bonds to refund the Bonds.

(h) "Bonds" means bonds, notes or other evidences of indebtedness (including refunding bonds) issued pursuant to the Bond Resolution, the proceeds of which are used to pay or reimburse Costs of Acquisition and Construction and Required or Optional Project Work.

(i) "Committee" means the Project Management Committee established pursuant to Section 13.

(j) "Consultant" means an independent individual or firm (i) of nationwide and favorable reputation, having demonstrated expertise in the field or the matter or the item referred to it under various specific provisions of this Agreement, and (ii) approved by the Authority and the Committee in accordance with rules of procedure to be adopted by the Committee to govern such approval, which approval shall not be unreasonably withheld.

(k) "Cooperative Purchasers" means Chugach Electric Association, Inc., Golden Valley Electric Association, Inc., and Alaska Electric Generation & Transmission Cooperative, Inc. The term "Cooperative Purchasers" includes Homer Electric Association, Inc., and Matanuska Electric Association, Inc., only to the extent specified in Section 30 of this Agreement.

(l) "Cost of Acquisition and Construction" means the Cost of Acquisition and Construction (as defined in Section 101 of the Bond Resolution) of the Project; provided, that for purposes of this Agreement the Cost of Acquisition and Construction of the Project shall not include the Cost of Acquisition and Construction of Capital Improvements (as defined in Section 101 of the Bond Resolution).

(m) "Late of Commercial Operation" means the date on which engineers retained for this purpose by the Authority have reasonably declared that the Project is fully available to be operated at not less than ninety megawatts (90 MW), and its output can be scheduled on a commercial basis.

(n) "Debt Service" means amounts that the Authority is required to set aside for the payment of principal of, premium, if any, sinking fund payments, and interest on the Bonds, as the same are scheduled to become due under the Bond Resolution, and not by reason of any acceleration.

(o) "Delivery Point" means the Bradley Junction facilities, as identified and further described in Exhibit B.

(p) "Electric power" or "power" means electric energy or electric capacity or both. here the context of this Agreement requires a distinction, electric energy is specified and/or expressed in kilowatthours or megawatt-hours and electric capacity is specified and/or expressed in kilowatts or megawatts.

(q) "Excess Payment Amount" means the amounts, if any, computed as provided in Section 29 and included in Annual Project Costs.

(r) "Fiscal Year" means that twelve-month period starting July 1 of a calendar year through and including June 30 of the succeeding calendar year. The initial Fiscal Year for purposes of this Agreement is that portion of the twelve-month period starting on the Date of Commercial Operation through and including the following June 30. If the portion of the period is shorter than 90 days the parties shall determine the initial Fiscal Year, which must end on a June 30 and may not be longer than 456 days. The last Fiscal Year for purposes of this Agreement shall be that portion of the twelve-month period between the end of the last full (i.e., twelve month) Fiscal Year and the expiration of this Agreement.

(s) "Municipal Purchaser" means the Municipality of Anchorage d/b/a/ Municipal Light and Power, and the

City of Seward d/b/a Seward Electrical System.

(t) "Optional Project Work" means Project repairs, renewals and replacements, improvements, betterments, additions, or expansions that do not constitute Required Project Work.

(u) "Percentage Share" means the fraction, expressed as a percent and set forth for each Purchaser in Exhibit D as that Exhibit may be amended from time to time, used to compute the amount of each Purchaser's entitlement to Project Capacity and obligation to pay Annual Project Costs.

(v) "Project" means the Bradley Lake Hydroelectric Project as described in Exhibit C.

(w) "Project Capacity" means the amount of electric capacity capable of being produced by the Project (including capacity attributable to Required or Optional Project Work) at any and all times from the Date of Commercial Operation until the termination of this Agreement (or any renewal thereof) under the operating conditions that exist during such times, including periods when the Project may be not operating or inoperable or the operation thereof is suspended, interrupted, interfered with, reduced, or curtailed, in each case in whole or in part for any reason whatsoever, after corrections for station and Project use, and depletions required under any federal license for the Project.

(x) "Prudent Utility Practice" shall mean at a particular time any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry at such time, or which, in the exercise of reasonable judgment in light of facts known at such time, could have been expected to accomplish the desired results at the lowest reasonable cost consistent with good business practices, reliability, safety and reasonable expedition. Prudent Utility Practice is not required to be the optimum practice, method or act to the exclusion of all others, but rather to be a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. Prudent Utility Practice includes due regard for manufacturers' warranties and the requirements of governmental agencies of competent jurisdiction and shall apply not only to functional parts of a Project, but also to appropriate structures, landscaping, painting, signs, lighting and other facilities. In evaluating whether any matter conforms to Prudent Utility Practice, the parties shall take into account (i) the nature of the parties hereto under the

laws of the State of Alaska and their statutory duties and responsibilities, and (ii) the objective of integrating Project Capacity with the generating resources of the Purchasers, including resources available under contract, to achieve optimum utilization of the resources and achieve efficient and economical operation of each Purchaser's System. For purposes of this Agreement, "national standards for the industry" means Prudent Utility Practice.

(y) "Purchaser" means, as of any particular time, such of the Municipality of Anchorage d/b/a Municipal Light and Power, Chugach Electric Association, Inc., Golden Valley Electric Association, Inc., the City of Seward as have executed this Agreement, and the Alaska Electric Generation & Transmission Cooperative, Inc. ("AEG&T"). The term "Purchaser" includes Homer Electric Association, Inc., and Matanuska Electric Association, Inc., only to the extent specified in Section 30 of this Agreement.

(z) "Purchaser's System" means a Purchaser's electric utility system for the distribution, transmission, and generation of electrical power and which is owned and operated by the Purchaser. If Purchaser's electric utility system is combined with other utilities of the Purchaser, then "Purchaser's System" includes only those facilities, activities, and revenues properly allocable to Purchaser's electric utility service. "Purchaser's System" does not include the Project, regardless of whether the Purchaser operates the Project under a separate agreement with the Authority.

(aa) "Purchaser's Water Allocation" means the number of acre feet of water from the Project allocated for generation purposes by the Committee to a Purchaser from time to time, based on that Purchaser's Percentage Share.

(bb) "Railbelt" means the geographic area served by the Purchasers.

(cc) "Railbelt Energy Fund" means a fund created by the legislature, the use of which is intended only for approved power supply and transmission projects in the Railbelt.

(dd) "REA" means the Rural Electrification Administration, an agency of the United States Department of Agriculture.

(ee) "Recoverable Construction Cost" means an amount equal to \$175,000,000 less one half the amount, if

any, by which \$350,000,000 exceeds the Cost of Acquisition and Construction, plus the principal amount of additional Bonds (if any) issued pursuant to Section 31.

(ff) "Renewal and Contingency Reserve Fund" means the Renewal and Contingency Reserve Fund established pursuant to Section 502 of the Bond Resolution.

(gg) "Required Action" means an action that must be taken in order for the Authority to comply with federal or state law, the orders of licensing and regulatory agencies, the Bond Resolution, or this Agreement.

(hh) "Required Project Work" means repairs, maintenance, renewals, replacements, improvements or betterments required by federal or state law, a licensing or regulatory agency with jurisdiction over the Project, or this Agreement, or otherwise necessary to keep the Project in good and efficient operating condition, consistent with (1) sound economics for the Project and the Purchasers, and (2) national standards for the industry.

(ii) "Revenue Fund" means the Revenue Fund established pursuant to Section 502 of the Bond Resolution.

(jj) "Trustee" means the trustee appointed pursuant to Article IX of the Bond Resolution, or that Trustee's successor or successors and any other corporation which may at any time be substituted in that Trustee's place under the Bond Resolution.

Section 2. Term Of Agreement.

(a) Effectiveness. This Agreement shall become effective on the first date when (i) the Agreement has been executed and delivered by all Purchasers and by the Authority, and (ii) each Purchaser has obtained all necessary approvals of this Agreement and of all transmission and/or services agreements for the transmission of Project power to the Purchasers. An approval shall not be considered "necessary" for purposes of this Section 2(a) unless, prior to or contemporaneously with delivery of this Agreement, the person or entity from which such approval must be obtained has been identified to the other parties in writing by the Purchaser requiring such approval. It is the intent of each Purchaser to take all steps reasonably within its power to obtain all necessary approvals from its governing body no later than December 1, 1987.

(b) Commencement of payment obligations. The payment obligations of each Purchaser under this Agreement shall commence on the Date of Commercial Operation; provided, that the Purchasers shall be obligated to pay those Committee costs referenced in the last sentence of Section

13(a) regardless of whether the Date of Commercial Operation occurs.

(c) Termination. This Agreement shall terminate (i) 50 years after the Date of Commercial Operation, or (ii) when no Bonds are Outstanding under the Bond Resolution and all payment obligations under this Agreement (other than any payment obligations under Section 29) have been satisfied or provided for, whichever occurs later; provided, that if the Date of Commercial Operation does not occur before January 1, 1996, then this Agreement shall terminate on January 1, 1996. The parties may mutually agree to terminate or to renew this Agreement prior to termination, subject, however, to the written approval of the Administrator of REA if such written approval is then required, and the terms and conditions of covenants and agreements between the Authority and holders of Bonds. If such approval is then required, no amendment of this Agreement shall take effect without the written approval of the Administrator of REA.

(d) Renewal. Any Purchaser may renew this Agreement on the same terms and conditions as provided herein for successive additional terms (such terms to equal forty (40) years or, if shorter, the remaining useful life of the Project), upon written notice to the Authority by the Purchaser given no less than six and no more than twenty-four months prior to the end of the term of this Agreement. Purchasers electing to renew this Agreement shall be entitled to have their Percentage Shares adjusted pro rata, based on their Percentage Shares as set forth in Exhibit D as that Exhibit exists twenty-four months prior to the end of the initial term of this Agreement, so that the adjusted Percentage Shares of the Purchasers renewing this Agreement total one hundred percent (100%). No renewing Purchaser shall be required to accept the entirety of the Percentage Share to which that Purchaser becomes entitled, but if the Percentage Shares of all renewing Purchasers do not total one hundred percent, the Authority may sell to any other utility that is a qualified purchaser of power under the Act any remaining Percentage Share or portion thereof upon the same terms and conditions applicable to the renewing Purchasers, if the Authority reasonably determines that such utility is able to carry out the obligations of a Purchaser under this Agreement and that such sale to such utility will not adversely affect the tax exemption of interest on any Bonds Outstanding under the Bond Resolution that originally were issued on a tax-exempt basis. The Authority shall not be obligated to renew this Agreement if, after reasonable notice to the renewing Purchasers, Percentage Shares that total one hundred percent have not been sold to such Purchasers or to other qualified utility purchasers.

Section 3. Exhibits. The following exhibits are incorporated by reference into this Agreement:

- (a) Exhibit "A", Bond Resolution,
- (b) Exhibit "B", Delivery Point,
- (c) Exhibit "C", Description of the Project,
- (d) Exhibit "D", Purchasers' Percentage Shares of Project Capacity and of Annual Project Costs, and
- (e) Exhibit "E", Form Of Certain Supplemental Bond Resolutions.

Section 4. Electric Service To Be Furnished.

(a) Sale and purchase. The Authority hereby sells, and each Purchaser hereby purchases, that Purchaser's Percentage Share of Project Capacity (together with associated energy) from the Project in accordance with this Agreement. The actual delivery (if any) of electric capacity and associated energy to Purchasers from the Project shall be made in accordance with scheduling procedures adopted by the Committee.

(b) Available Power. The Authority shall at all times, except when prevented by a cause or event not within the control of the Authority, make power available to the Purchasers from the Project in an amount equal to the amount the Purchasers may schedule from the Project, within the limitations imposed by available Project capability, available water, and the scheduling procedures adopted by the Committee.

(c) Required Project Work. The Authority shall make or cause to be made all Required Project Work, provided that funds are legally available to the Authority for this purpose. The costs of Required Project Work shall be included in Annual Project Costs in the manner set forth in Section 8(a)(iv). The Authority shall give reasonable notification to all Purchasers prior to making or causing to be made any Required Project Work. Alternative methods (if any) of carrying out and funding Required Project Work shall be subject to approval by the Committee under rules of procedure to be adopted pursuant to Section 13.

(d) Optional Project Work. The Authority shall not make or cause to be made Optional Project Work unless such Optional Project Work is approved by the Committee. Any Optional Project Work shall be at the expense of the benefitted Purchaser(s), as determined in advance by the Committee, in proportion to the value of the benefit conferred upon each such Purchaser. If such Optional Project Work has an adverse impact upon the operations or finances of a Purchaser as determined by the Committee, the benefitted Purchaser(s) shall compensate the adversely affected Purchaser(s) for the increased costs and reduced benefits resulting from such impact. In the event the Purchasers are unable to agree as to how any increased costs or compensation will be apportioned, or as to the amount of any increased costs or appropriate compensation, the parties shall submit the question to dispute resolution in accordance with the dispute resolution procedures adopted by the Committee under Section 13.

Section 5. Electric Power Reserves For The Project

(a) Need for reserves. The parties recognize that (i) electric power from the Project may be unavailable periodically because of generation and transmission outages, repairs, maintenance, inspections, testing, and similar events, and (ii) under the Alaska Intertie Agreement or otherwise, each Purchaser is responsible for maintaining (or contracting for the use of) generation reserves in amounts sufficient to protect its own loads in the event that Project power is unavailable.

(b) Reserve procedures. Promptly after its establishment, the Committee shall adopt and implement procedures under which, in as cost-effective a manner as possible:

(i) the Authority shall have the right to require the operation of specific amounts of generating capacity owned by a Purchaser and made available to the Authority, and to use the power produced by such operation to provide reserves to requesting Purchasers for some or all Project power, to the extent such capacity would otherwise be idle or its output would otherwise not be needed by the owner of that capacity to enable that Purchaser to meet its own loads or to make power sales to other utilities;

(ii) the additional costs incurred by any Purchaser in making such capacity available to the Authority and in operating the same for the Authority shall be computed equitably and reimbursed promptly to such Purchaser by the Authority; and

(iii) the costs of so reimbursing any Purchaser shall be included in Annual Project Costs.

(c) Alternative reserves. Nothing in Section 5(b) shall:

(i) relieve any Purchaser of the responsibility set forth in Section 5(a)(ii);

(ii) require any Purchaser to make reserve capacity available to the Authority under Section 5(b)(i); or

(iii) require any Purchaser to avail itself of reserve power available from the Authority under Section 5(b)(i), or to bear any of the costs of such power if the Purchaser does not avail itself of such power, if the Purchaser chooses and is able to rely upon its own reserves to meet its loads when Project power is unavailable.

Section 6. Obligations Under Bond Resolution; Completion of Project.

(a) Assignment or payment to Trustee. The parties recognize and agree that (i) the Authority may assign its rights to receive payments under this Agreement as security for the payment of the Bonds to the Trustee under the Bond Resolution for the benefit of the holders of the Bonds, and (ii) the Authority may direct that amounts payable to it under this Agreement be paid directly to the Trustee.

(b) Project funding. The Authority shall issue Bonds, or otherwise obtain funds (including appropriations), sufficient to pay or reimburse the Cost of Acquisition and Construction. Annual Project Costs shall include Debt Service on Bonds issued to pay the Cost of Acquisition and Construction in an aggregate principal amount up to but not exceeding the Recoverable Construction Cost. The Authority may estimate the Recoverable Construction Cost and issue Bonds at any time in amounts up to the amount of such estimate. As soon as practicable after the Date of Commercial Operation, the Authority shall adjust (and re-adjust when necessary) Annual Project Costs to reflect actual Recoverable Construction Cost.

(c) Covenants of the Authority. The Authority covenants that it will not cause rates for Project Power to increase by reason of any bond resolution, covenant or agreement contained in any trust indenture or trust agreement entered into by the Authority in connection with a power project other than the Project, nor on account of any inadequacy in its actual or projected aggregate

revenues, other than revenues from the Project, nor will the Authority include in Annual Project Costs debt service payable on debt incurred for any purpose except in respect of the Project as provided herein.

(d) Project completion and operation. The Authority agrees to use its best efforts to complete the Project expeditiously and in accordance with sound engineering practice and with the provisions of the Bond Resolution. The Authority shall also use its best efforts consistent with Prudent Utility Practice to construct and complete, and to operate and maintain the Project (or to arrange for such operation and maintenance) to provide power at the lowest reasonable cost to the Purchasers in a manner that is compatible with the Purchasers' Systems and consistent with the Act, the Bond Resolution, and this Agreement.

(e) Best efforts by Committee members. To the extent that the cost of Project power is or may be affected by actions of the Committee under Section 13, each Purchaser in its capacity as a member of the Committee agrees to use its best efforts consistent with Prudent Utility Practice to assist in assuring that the Project provides power at the lowest reasonable cost to the Purchasers in a manner that is compatible with the Purchasers' Systems and consistent with the Act, the Bond Resolution, and this Agreement.

Section 7. Payment Obligation.

(a) Payment Obligation. Each Purchaser agrees to pay its Percentage Share of Annual Project Costs for each Fiscal Year. The procedures for determining the amount of and for making such payments are set forth in Section 13 of this Agreement.

(b) Purchaser's Obligations. Each Purchaser shall make payments in the amounts and at the times required by this Agreement notwithstanding a suspension or reduction in the amount of power supplied by the Project. Such payments shall not be subject to any reduction, by offset or otherwise. The parties intend and interpret the foregoing two sentences to mean that the obligation to make such payments shall be absolute and unconditional and unaffected by any interruption, interference, or curtailment in whole or in part of power supplied by the Project. In the event that (i) the Project is no longer operable, or its operation is interrupted or curtailed for any reason whatsoever in whole or in part, and (ii) the Authority does not restore the Project to full operation within a reasonable time, then the Purchasers may upon reasonable notice to the Authority and at their own expense take such action as they deem necessary to so restore the Project.

The taking of such action by the Purchasers shall not alter each Purchaser's obligation to pay its Percentage Share of Annual Project Costs.

Section 8. Annual Project Costs

(a) Annual Project Costs defined. Annual Project Costs means all of the costs resulting from the ownership, operation, maintenance of and renewals and replacements to the Project, properly incurred or paid during each Fiscal Year, including:

(i) Amounts required to be set aside by the Authority for the payment of Debt Service on Bonds issued to pay the Cost of Acquisition and Construction in an aggregate principal amount up to but not exceeding the Recoverable Construction Cost;

(ii) Amounts required to be set aside for the payment of Debt Service on other Bonds and debt service on other obligations approved in accordance with Sections 11 and 13;

(iii) Amounts required to restore the funds established under the Bond Resolution to the levels required by the Bond Resolution to be maintained therein;

(iv) Amounts which may be required to pay for Required Project Work, to the extent that such costs are not covered by insurance or Bond proceeds or by the Renewal and Contingency Reserve Fund;

(v) Other amounts determined by the Committee to be necessary or appropriate to supplement and to be paid into the Funds established under the Bond Resolution;

(vi) Excess Payment Amounts, if any, computed in accordance with Section 29;

(vii) All other costs of producing and delivering Project power (excluding depreciation) not accounted for by the payments out of funds and reserves specified in the foregoing sections and properly chargeable to the Project under the Uniform System of Accounts, less any credits against said costs by reason of revenues from sources other than the direct sale of power to Purchasers, and also less any credits for interest earned during construction and available for Project purposes; provided, that income from interest earned on reserve funds shall be used at least annually to accumulate and maintain said reserve funds in the amounts required under the Bond

Resolution or in such greater amounts as may be determined by the Committee, or to reduce Annual Project Costs. Such other costs shall include:

(A) Project operating and maintenance costs, in accordance with the Annual Budget adopted in accordance with Section 13;

(B) Costs of Project-related insurance, and, to the extent permitted with respect to each Purchaser under Section 5, the costs of electric power reserves for the Project;

(C) Project-specific administrative and general expenses of the Authority, such as costs of safety inspections and investigations;

(D) Costs of the Committee, whether incurred by the Authority or incurred by a Purchaser on behalf of the Committee; and

(E) Such other Project costs as the Committee may from time to time approve for inclusion in Annual Project Costs in accordance with procedures to be adopted by the Committee.

(b) Proceeds of a taking. Any payment received by the Authority as a result of a taking of the whole or any portion of the capacity, facilities, available water, or output of the Project by any state or federal government agency shall be used by the Authority, after consultation with the Committee, to (i) reduce Annual Project Costs, (ii) retire Bonds, or (iii) reimburse the State of Alaska for a portion of the State's capital contribution to the Project (recognizing the separate sources of Project funding under Section 6(b)), whichever of these uses or combination of such uses shall be equitable and proper under the circumstances existing at the time of the taking.

Section 9. Obligations In The Event Of Default.

(a) Enforcement. Upon failure of a Purchaser to perform any obligation herein, the Authority may bring any suit, action or proceeding at law or in equity ("Suit"), including mandamus, injunction and action for specific performance, as may be necessary or appropriate to enforce any covenant, agreement or obligation of this Agreement against that Purchaser. The Authority may bring such Suit (i) thirty days after giving the Purchaser a written demand for performance, in the case of default by the Purchaser on any obligation other than a payment obligation, and (ii) immediately, in the case of default by the Purchaser on any payment obligation. Each Purchaser

shall continue to make payments in the event of any dispute regarding performance of any obligation by any party under this Agreement or in the event of any dispute under the Bond Resolution, and this obligation of continued payment pending resolution of disputes shall be immediately enforceable by any party upon application to any court of competent jurisdiction.

(b) Additional rights and remedies. In addition to the Authority's rights under Section 9(a), if a Purchaser has for any reason suspended or reduced, or has failed to make or has been prevented from making, payments required under this Agreement, the Authority may terminate or suspend the delivery of power to that non-paying Purchaser if, after consulting with the other Purchasers, the Authority reasonably determines that such termination or suspension is more effective than other available alternatives in minimizing adverse impacts on such other Purchasers.

(i) If the Authority so terminates or suspends deliveries, the Authority shall:

(A) offer to other Purchasers, on terms and conditions applicable to other power sold under this Agreement, any power not delivered to the non-paying Purchaser, and if necessary allocate such power pro rata on the basis of Percentage Shares among Purchasers accepting such offer;

(B) offer any power not sold under Section 9(b)(i)(A) to any qualified utility (including the other Purchasers) on terms and conditions deemed favorable by the Authority after consultation with the Committee; and

(C) if the Authority projects that the amounts to be deposited into the Revenue Fund will nonetheless be insufficient to pay Annual Project Costs, increase every other Purchaser's Percentage Share of Annual Project Costs and Project Capacity pro rata to the extent and for the period necessary to compensate for such insufficiency; provided, that no Purchaser's Percentage Share shall be increased by more than twenty-five (25) percent above the amount set forth in Exhibit D without the written consent of that Purchaser.

(ii) If the Authority determines that the process of offering power to others under Sections 9(b)(i)(A) or (B) would delay exercise of the Authority's rights under Section 9(b)(i)(C), and that as a

result the Authority will be unable to make deposits when required under the Bond Resolution, the Authority may exercise its rights under (C) immediately and take the actions required under (A) and (if necessary) under (B) as soon as practicable thereafter. No exercise by the Authority of any of its rights (or any failure by the Authority to exercise any of its rights) under this Section 9(b) shall relieve any non-paying Purchaser of any payment obligation under this Agreement or relieve such Purchaser of any liability for damages resulting from non-payment. In particular, sales of power under Section 9(b)(i)(A) and (B) are intended to reduce the financial impact of any Purchaser's non-payment on other, paying Purchasers. Such sales are not intended to, nor shall they, reduce the payment obligations of the non-paying Purchaser or the damages for which such non-paying Purchaser may be liable.

(iii) To the extent that the Authority uses Project reserve funds to permit it to make timely payments under the Bond Resolution following non-payment by a Purchaser, the amount needed to replenish such reserve funds shall be added to the Annual Payment Obligation of the non-paying Purchaser, and if the non-paying Purchaser fails to make payment of its Annual Payment Obligation as so increased, the Authority may exercise any of the rights available to it under this Section 9(b).

(c) Litigation. If Purchasers' Percentage Shares are increased pursuant to Section 9(b)(i)(C), then the Authority shall, and any other Purchaser(s) may, immediately initiate and diligently pursue litigation in any court of competent jurisdiction to compel full and timely payment by the non-paying Purchaser, to recover amounts needed to compensate Purchasers whose Percentage Shares have been increased, and to obtain such other relief as shall be fair and equitable. The same or similar litigation against any non-paying Purchaser may also be initiated and pursued by the Authority and/or by any paying Purchaser if in response to any non-payment the Authority takes action pursuant to Sections 9(b)(i)(A) or (B).

(d) Default by the Authority. In the event of any default by the Authority under any covenant, agreement or obligation under this Agreement with respect to a Purchaser, that Purchaser may, upon thirty (30) days written notice to the Authority, bring any suit, action or proceeding, at law or in equity, including mandamus, injunction and action for specific performance, as may be necessary or appropriate to enforce any covenant, agreement or obligation of this Agreement against the Authority. No

payment obligation of a Purchaser under this Agreement is subject to offset, however.

Section 10. Purchasers' Systems.

(a) Character of expense. The amounts payable under this Agreement are operating expenses of each Purchaser's System, and are valid and binding obligations of each Purchaser, payable only from the gross revenues of said Purchaser's System as a cost of purchased electric power, and not payable from any taxes.

(b) Purchasers' rate covenants. In order to afford, permit, and make timely payments as specified in this Agreement, each Purchaser agrees that it will establish, charge and collect rates, fees, and charges with respect to that Purchaser's System in accordance with applicable law to provide revenues sufficient to meet its obligations under this Agreement and sufficient to pay, together with any other funds or monies available therefor, any and all other amounts payable from or which constitute or may constitute a charge and lien upon such revenues including, but not limited to, amounts sufficient to meet obligations to service debt incurred by the Purchaser to finance the Purchaser's System.

(c) Operation and maintenance of Purchasers' Systems. Each Purchaser covenants and agrees that it will operate and maintain its System in good repair, working order and condition, and in accordance with Prudent Utility Practice.

(d) Limitation on certain contracts. Each Purchaser covenants and agrees not to enter voluntarily into any contract or agreement to take or to take or pay for power, other than this Agreement, payable from the revenues of the Purchaser's System on a parity with or superior to the payment of its obligations under this Agreement, except that a Purchaser may enter into such a contract or agreement of not to exceed two years' duration under which the Purchaser's payment obligation is on a parity with the payment of its obligations under this Agreement. The limitations of this Section 10(d) shall not apply to contracts or agreements creating obligations on a parity with obligations under this Agreement if a written opinion from a Consultant is rendered that (i) the contract or agreement is reasonably expected to contribute to the conduct of the business of the Purchaser's System in an efficient and economical manner consistent with Prudent Utility Practice, and (ii) the contract or agreement will not impair the ability of the Purchaser to raise revenues sufficient to meet its obligations under this Agreement.

Section 11. Bond Resolution.

(a) Amendment or supplementation of Bond Resolution. Except as provided in Section 12, the Authority will not amend or supplement the Bond Resolution in any manner, or adopt a new Bond Resolution in connection with the refunding of the Bonds, which would materially adversely affect the ability of a Purchaser to fulfill the terms of this Agreement or impose any increased burden or obligation, financial or otherwise, on a Purchaser, without the consent of the Purchaser, unless:

(i) the Committee has approved the Authority's proposed action by a resolution adopted by the affirmative vote of members whose Percentage Shares equal or exceed eighty percent (80%) of Project Capacity and of Annual Project Costs; or

(ii) the Committee by majority vote of the Purchasers requests that Required Project Work be paid for out of the proceeds of Bonds, and such Work is projected to cost in excess of the amount of money then available in the Renewal and Contingency Reserve Fund established pursuant to the Bond Resolution, plus available insurance proceeds, in which event, if such Bonds can then be legally issued and can be sold, the Authority shall issue such Bonds, payable from the Revenues of the Project (as defined in the Bond Resolution), to pay the portion of such costs which exceed insurance proceeds, if any, and to restore said Reserve Fund to its required level.

(b) Insurance. The Authority will maintain physical loss insurance to the extent required by the Bond Resolution, and the Authority will consult with the Committee as provided in Sections 12 and 13 with respect to the disposition of proceeds of said insurance received as a consequence of physical destruction or impairment of the Project, including but not limited to disposition for the purpose of redemption of Bonds, replacement of the Project, or replacement of power. The Committee shall advise the Authority from time to time as to the appropriate extent of insurance coverage.

(c) Information. The Authority shall provide each Purchaser a copy of any report, certificate, letter, or other communication which the Authority is required to furnish to the Trustee under the Bond Resolution or that the Trustee furnishes to the Authority.

Section 12. Purchasers' Consent To Supplemental Bond Resolutions To Construct The Project. The Purchasers hereby consent to the adoption by the Authority of supplemental Bond Resolutions pursuant to Section 11(a), as necessary to comply

with the Authority's obligation to finance and construct the Project pursuant to Section 6(b) and the Authority's obligation under Section 6(d) to use its best efforts to complete the Project expeditiously and in accordance with sound engineering practices and with the provisions of the Bond Resolution. The Authority shall consult with the Purchasers regarding the provisions to be included in such supplemental Bond Resolutions, and shall use its reasonable best efforts to comply with the requests of the Purchasers with respect thereto. Unless otherwise approved in accordance with Section 11(a)(i), such supplemental Bond Resolutions shall:

(a) provide that the total amounts required for the payment of Debt Service when due shall be, on an annual basis, as nearly equal as practicable;

(b) provide that the final maturity of Bonds issued pursuant to such supplemental Bond Resolutions shall not be earlier than twenty-five (25) years from the date when the first of such Bonds is issued;

(c) be substantially in the form attached hereto as Exhibit E, except to the extent that the Authority finds that modifications are necessary to sell the Bonds on a tax-exempt basis; and

(d) be adopted no earlier than January 1, 1989.

Section 13. Establishment Of The Committee.

(a) Formation and composition of the Committee. The parties agree that a Project Management Committee ("Committee") shall be established on January 15, 1988, or on such earlier date as may be agreed to by the parties. The Committee shall consist of the Authority and the Purchasers (including as Purchasers for this purpose both Homer Electric Association, Inc., and Matanuska Electric Association, Inc., for themselves and for AEG&T as a Purchaser represented by and through those utilities). No Committee member shall obtain an additional vote through merger with, acquisition of, or assignment from any other Committee member, and AEG&T shall have no direct vote, but shall be represented by and through Homer Electric Association, Inc., and Matanuska Electric Association, Inc., each of which shall be entitled to vote as a Purchaser member for purposes of Committee procedure. Each Committee member entitled to vote shall name one representative to serve on the Committee and one designated alternate for that representative. Each such member shall notify all other members in writing of the names, addresses, and telephone numbers of its representative and designated alternate. After it is established, the Committee shall meet not less than once each quarter. Costs of the Committee (other than costs incurred by the Authority) which

are incurred prior to the Date of Commercial Operation shall be borne by the Purchasers in accordance with the Percentage Shares of each.

(b) Adoption of rules of procedure. The Committee shall adopt, by the affirmative vote of a majority of the Purchasers and the affirmative vote of the Authority, procedural rules governing the conduct of the Committee's affairs. Such rules shall address, among other matters, procedures for the periodic selection of Committee officers, the conduct of Committee meetings, dispute resolution, the approval (including possible pre-approval) of Consultants, and modification of the Committee's procedural rules, and, to the extent not otherwise specified in this Agreement, such rules shall also specify the applicable voting requirements for approval of matters to be decided by the Committee. Committee approval of operations and maintenance arrangements for the Project, the sufficiency of the annual budget and wholesale power rates, and the undertaking of Optional Project Work shall require the affirmative vote of a majority of the Purchasers and the affirmative vote of the Authority.

(c) Committee responsibilities; approval by the Authority.

(i) As the legal owner and licensee of the Project, the issuer of Project debt, and the agency charged by statute with various duties affecting or affected by the Project, the Authority has certain non-delegable rights, duties, and responsibilities with respect to the Project. Subject to such non-delegable rights, duties, and responsibilities, the Committee shall be responsible for the management, operation, maintenance, and improvement of the Project, in recognition that as take-or-pay purchasers of Project Capacity after the Date of Commercial Operation, the Purchasers have substantial long-term financial interests in, and service and planning responsibilities affected by, the Project.

(ii) The Committee shall take the following actions, subject to the provisions of the Bond Resolution, federal and state law, the requirements of licensing and regulatory agencies, and the rights of the Authority and the Purchasers under other provisions of this Agreement:

(A) Arrange for the operation and maintenance of the Project, and the scheduling, production, and dispatch of Project power;

(B) Establish procedures for the use of each Purchaser's Water Allocation in a manner

consistent with the needs and desires of other Purchasers and the capabilities of the Project;

(C) Adopt in each Fiscal Year (and revise as necessary or prudent during such Fiscal Year) a budget of Annual Project Costs for that Fiscal Year, which budget shall be in an amount estimated by the Committee to be sufficient to pay all Annual Project Costs;

(D) Establish for each Fiscal Year the estimated Annual Payment Obligation of each Purchaser, together with a schedule for each Purchaser of equal monthly payments that such Purchaser shall be required to make during that Fiscal Year, which payment schedule shall be (I) designed to recover such estimated Annual Payment Obligation from that Purchaser during the Fiscal Year, and (II) revised during such Year to reflect any revisions to the budget of Annual Project Costs for that Fiscal Year;

(E) Determine after the conclusion of each Fiscal Year the actual Annual Project Costs for that Fiscal Year, the actual Annual Payment Obligation of each Purchaser for that Fiscal Year, and the amount of any additional payment required from (or the amount of any refund to be returned to) each Purchaser to ensure that the total of all payments received from each Purchaser for each Fiscal Year is equal to that Purchaser's actual Annual Payment Obligation for that Fiscal Year;

(F) Evaluate and select among alternative methods (if any) of carrying out and funding (including through issuance of bonds) Required Project Work;

(G) Adopt provisions to evaluate and approve Optional Project Work, and to determine the compensation (if any) to be provided in accordance with Section 4(d) of this Agreement if the Committee approves any such Optional Project Work;

(H) Adopt procedures consistent with Section 13(f) for the resolution of disputes that may arise between or among the Purchasers and the Authority concerning the interpretation of this Agreement, the obligations created by this Agreement, or the performance of such obligations;

(I) Make an initial determination of "customary" insurance within the meaning of Section 714 of the Bond Resolution and determine the appropriate amount of, and obtain, insurance for or related to the Project, in addition to such insurance as may be required by the Bond Resolution;

(J) Adopt maintenance schedules for the Project that do not interfere unreasonably with the operations of the Purchasers;

(K) Adopt and implement procedures relating to electric power reserves for the Project in accordance with Section 5; and

(L) Consider the need for and approve any additional amount to be added to the Renewal and Contingency Reserve Fund over and above the Renewal and Contingency Reserve Requirement provided under the Bond Resolution.

(iii) If and when no Bonds are outstanding under the Bond Resolution, and the Bond Resolution is therefore no longer effective, the Committee shall provide for the establishment of such accounts and the taking of such actions as may be necessary to manage the Project.

(d) Payment obligation unimpaired. Notwithstanding any Committee action or inaction under this Agreement, each Purchaser's obligation to make the monthly payments necessary to pay its Purchaser's Percentage Share of Debt Service, costs of operation and maintenance, and all other amounts to be paid by Purchasers under this Agreement shall be absolute and unimpaired.

(e) The Authority's ability to take Required Action. In the event the Committee fails to take any of the actions set forth in Section 13(c)(ii)(C)-(E) in a timely fashion, or fails to take any other action which the Authority believes to be a Required Action, and as a result the Authority determines that it will be unable to meet any of its obligations imposed by statute, by the Bond Resolution, by this Agreement, or by any licensing or regulatory agency, then the Authority may (i) adopt a budget of Annual Project Costs, (ii) estimate the Annual Payment Obligation of each Purchaser, (iii) require each Purchaser to make payments on the basis of such estimated Annual Payment Obligation, and (iv) take such other action as the Authority deems necessary to meet such obligations. Failure of the Committee to adopt an Annual Project Budget by the ninetieth (90th) day prior to the beginning of a Fiscal Year shall permit the Authority to adopt an Annual

Project Budget pursuant to this subsection. All actions and determinations under this Section 13(e) shall be taken and made in accordance with Prudent Utility Practice.

(f) Purchasers' duties and rights of review. Each Purchaser shall make payment as required by the Authority as a result of any action taken by the Authority under Section 13(e), but such payment shall not constitute a waiver of any Purchaser's rights under this Agreement. Any Purchaser may seek review of such action in accordance with the dispute resolution procedures adopted by the Committee, or may seek to enforce this Agreement judicially in accordance with Section 9(d) if no applicable dispute resolution procedures have been adopted.

Section 14. End Of Project

(a) Authority's declaration. The Authority shall declare the Project ended, and the Authority's obligations to make power available to the Purchasers and to operate and maintain (or to assure the operation and maintenance of) the Project shall also end, if and when (i) such a declaration is required under Section 14(b), or (ii) the Project can no longer be operated in accordance with Prudent Utility Practice.

(b) Consultant's report. The Authority shall make the declaration described in Section 14(a) if all of the following conditions are met:

(i) the Project cannot be operated at full capacity in a manner consistent with Prudent Utility Practice absent repairs, modifications, or additions ("Repairs") to the Project;

(ii) a Consultant retained by the Committee concludes that such Repairs are not cost-effective in comparison with other power supply alternatives then available to the Purchasers; and

(iii) Committee members who are Purchasers and whose Percentage Shares total eighty percent (80%) vote that such Repairs should not be undertaken.

(c) Consequences of Authority's declaration. After the Authority has declared the Project ended, each Purchaser shall complete its payment obligation for Project Capacity and associated energy delivered to such Purchaser before the Project ended, and shall do so by paying its Percentage Share of Annual Project Costs until all Bonds have been paid or provision has been made for the payment of the Bonds in accordance with the Bond Resolution; provided, that from the date on which the Authority

declares the Project ended, Annual Project Costs shall no longer include (except with Committee approval) costs other than those set forth in Sections 8(a)(i), 8(a)(ii), 8(a)(iii), 8(a)(vii)(C), and 8(a)(vii)(D).

Section 15. Records. In addition to meter records, the parties shall keep log sheets and other records as may be needed for the purposes of this Agreement. In keeping books of account, each Purchaser will, to the extent that different rules are not prescribed by this Agreement or by federal and state laws or agencies, follow the system of accounts prescribed for public utilities and licensees by the Federal Energy Regulatory Commission, except that as long as a Purchaser is a borrower from REA then it shall follow the system of accounts prescribed by REA for its electric borrowers.

Section 16. Inspection Of Facilities. For purposes of this Agreement, each party may, but shall not be obligated to, inspect any other party's facilities relating to the Project at any time upon reasonable notice, but such inspection or failure to inspect shall not render the inspecting party, its officers, agents or employees, liable or responsible for any injury, loss, damage, or accident resulting from defects in such electric installation, or for violation of this Agreement.

Section 17. Covenants To Maintain Integrity Of Agreement.

(a) Retail rate approval. Each Purchaser will affirmatively and promptly pursue all administrative and judicial remedies necessary to secure Alaska Public Utility Commission approval of retail rates required to meet the terms of this Agreement where Commission approval is required.

(b) Compliance with law. Each Purchaser will take all necessary steps to comply with applicable federal and state laws and regulations, licenses and permits relating to the use and operation of the Purchaser's System.

(c) Sales, mergers, and assignments. No Purchaser shall abandon, sell, mortgage, lease or otherwise dispose of the Purchaser's System or any assets of that System (including by sale to or merger with any other utility), or assign this Agreement or any interest thereunder to any assignee or successor in interest, unless:

(1) such disposal or assignment accords with the terms of any of the Purchaser's covenants or agreements with the holders of the Purchaser's bonds, notes or other evidences of indebtedness relating to the abandonment, sale, mortgage, lease or other disposition of property of the Purchaser's System; and

(2) such disposal or assignment is:

(A) consented to in writing by a majority of the Committee, including the Authority's representative; or

(B) made to another utility that is already a Purchaser under this Agreement and is able to meet the obligations resulting from the disposal or assignment; or

(C) limited to assets that the Purchaser determines to be surplus to the needs of that Purchaser's System, but the depreciated value of assets so disposed of or assigned in any given year shall not exceed five percent (5%) of the depreciated value of the assets of the Purchaser's System prior to the disposal or assignment; or

(D) evaluated by a Consultant and that Consultant certifies that, taking into account the other obligations of the Purchaser or of the assignee or successor in interest (as the case may be), the Purchaser or the assignee or successor in interest will have (A) substantially the same or greater ability to produce sufficient revenues to meet its payment obligations as would the Purchaser absent the transaction, and (B) the ability to perform all obligations under this Agreement.

Any assignee of this Agreement must assume in writing all of the assigning Purchaser's obligations hereunder, must pay any amounts due and owing from the assigning Purchaser hereunder, and (unless the assignee is already a Purchaser) must provide the Authority and the Purchasers with an opinion of counsel that this Agreement is enforceable against the assignee.

(d) Status of Bonds. The parties will not take any action, including entry into power sales agreements, which would cause the interest on any Bond which is originally issued on a tax-exempt basis to become taxable under the Internal Revenue Code of 1986, as the same may be amended from time to time.

(e) Licenses and permits. The parties will take all necessary steps within their control to comply with applicable federal and state laws and regulations, and to obtain and thereafter comply with all applicable licenses and permits relating to the use and operation of the Project, including without limitation, the Federal Energy Regulatory Commission license applicable to the

Project. The Authority will take all necessary steps to cause the Federal Energy Regulatory Commission license to be renewed, if necessary, so that it is in effect during the term of this Agreement or any renewal hereof.

Section 18. Assignment.

(a) Assignment generally. This Agreement shall inure to the benefit of, and shall be binding upon the respective successors and assigns of the parties to this Agreement; provided, that this Agreement or any interest herein may be transferred or assigned by a Purchaser only in accordance with the provisions of Section 17(c).

(b) Specific rights and transactions. Notwithstanding Sections 17(c) and 18(a):

(1) A Cooperative Purchaser shall have the right to assign its assets, including its rights under this Agreement for security purposes to REA, or to a lender or guarantor in connection with loans to such Cooperative Purchaser where the proceeds of such loans are used to refinance obligations of such Cooperative Purchaser to REA or the Federal Financing Bank under Section 311 of the Rural Electrification Act or otherwise; provided, however, that (A) neither REA nor any secured lender or guarantor exercising any rights, powers or privileges with respect to this Agreement under any mortgage, deed of trust or other security agreement shall be entitled to exercise the rights of the Cooperative Purchaser under this Agreement unless the obligations of such Cooperative Purchaser hereunder shall have been performed, (B) no such assignment shall in any way relieve such Cooperative Purchaser of any obligations hereunder, and (C) no assignment shall be permitted hereunder if such assignment would adversely affect the tax exemption of interest on any Bonds Outstanding under the Bond Resolution that originally were issued on a tax-exempt basis.

(2) A Purchaser's agreement to resell power from the Project shall not be deemed a transfer or assignment of this Agreement, but neither shall any such resale of Project power relieve the Purchaser of any payment obligation under this Agreement.

Section 19. Notices, Computation Of Time And Holidays. Any notice required by this Agreement to be given to any party shall be effective when it is received by such party, and in computing any period of time from such notice, such period shall commence at 12:01 p.m. prevailing time at the place of receipt on the date of receipt of such notice. Whenever this Agreement calls for notice to or notification by any party the

same (unless otherwise specifically provided) shall be in writing directed to the Authority's executive director or a Purchaser's general manager. If the date for making any payment or performing any act is a day on which banking institutions are closed in the place where payment is to be made or a legal holiday, payment may be made or the act performed on the next succeeding day which is neither a legal holiday nor a day when banking institutions are closed in such place.

Section 20. Applicable Law. The laws of the State of Alaska (including without limitation the equal opportunity laws set forth in AS 18.80.220, as the same may be amended from time to time) shall govern the interpretation and application of this Agreement and the actions of the parties hereunder.

Section 21. Availability Of Information. The parties shall make available to each other, for inspection and copying during business hours, all books, records, plans and other information relating to any calculation or determination to be made pursuant to this Agreement.

Section 22. Severability.

(a) Severability generally. If any section, paragraph, clause or provision of this Agreement or any agreement referred to in this Agreement shall be finally adjudicated by a court of competent jurisdiction to be invalid or unenforceable, the remainder of this Agreement shall be unaffected by such adjudication and all the remaining provisions of this Agreement shall remain in full force and effect as if such section, paragraph, clause or provision or any part thereof so adjudicated to be invalid had not been included herein.

(b) Correction and substitution. If any section, paragraph, clause or provision of this Agreement or any agreement referred to in this Agreement shall be finally adjudicated by a court of competent jurisdiction to be invalid or unenforceable, then and in such event the parties agree that they shall exercise their best efforts to correct such invalidation and substitute appropriate agreements and contractual arrangements to achieve the intent of this Agreement.

(c) References to REA. From and after the time any Cooperative Purchaser is no longer indebted to REA under any mortgage or other security agreement with REA, all references to REA and required approvals of the Administrator of REA provided for in this Agreement shall be of no further force and effect with respect to that Cooperative Purchaser.

Section 23. Remedies Cumulative. No remedy conferred upon or reserved to the parties hereto is intended to be

exclusive of any other remedy or remedies available hereunder or now or hereafter existing at law, in equity, by statute or otherwise, but each and every such remedy shall be cumulative and shall be in addition to every other such remedy.

Section 24. Waiver Not Continuing. Any waiver at any time by either party to this Agreement of its rights with respect to any default of the other party hereto, or with respect to any other matter arising in connection with this Agreement, shall not be considered a waiver with respect to any subsequent default, right or matter.

Section 25. Section Headings. The section headings in this Agreement are for convenience only, and do not purport to, and shall not be deemed to, define, limit or extend the scope or intent of the section to which they pertain.

Section 26. Multiple Copies. This Agreement shall be executed in several counterparts, each of which shall be an original, but all of which shall constitute one and the same instrument.

Section 27. Covenant To Act In Good Faith. In order to permit this Agreement, throughout its term, to be fully effective in accordance with the original intent of the parties, each party agrees that it shall at all times act in good faith in performing its obligations and in exercising its rights under this Agreement.

Section 28. No Third Party Beneficiaries. Notwithstanding that the operation of this Agreement may and is intended to confer benefits on third parties who are not signatories to this Agreement, this Agreement shall be enforceable only in accordance with its provisions expressly governing enforcement. In promising performance to one another under this Agreement, the parties intend to create binding legal obligations to and rights of enforcement in (a) one another, and (b) such assignees or successors in interest of the parties as may enjoy a right to enforce this Agreement by virtue of provisions of this Agreement that expressly create such a right in such assignees or successors in interest. By entering into this Agreement, the parties expressly do not intend to create any obligation or promise any performance to any other third party, nor have the parties created for any other third party any right to enforce this Agreement.

Section 29. Excess Payments.

(a) Payments in Recognition of Efforts to Obtain Intertie. In recognition of the Railbelt Energy Council's commitment to continue efforts to obtain a satisfactory transmission intertie between Fairbanks and the Kenai Peninsula, and the Railbelt Energy Council's recognition of the importance of such an intertie to the well-

being of the Railbelt region and the Purchasers' ratepayers, and in anticipation of legislative funding of such an intertie, the Purchasers agree to make the payments described below in excess of actual debt service required for retirement of Bonds issued to pay Recoverable Construction Costs. The Purchasers' obligations to make payment under this Section 29 are not contingent upon the success of such continued efforts to obtain a satisfactory transmission intertie between Fairbanks and the Kenai Peninsula.

(b) Calculation of Excess Payment Amount. Subject to the limitations set forth in Sections 29(e) and 29(f), upon the retirement of all Bonds issued to pay Recoverable Construction Costs (and of all Bonds issued to refund such Bonds) and the consequent reduction of Debt Service includable in Annual Project Costs, there shall be added to and included in Annual Project Costs an amount (the "Excess Payment Amount") calculated as follows:

(i) The average annual Debt Service on such retired Bonds, less

(ii) any debt service included in Annual Project Costs that is associated with bonds or other debt issued to fund Required Project Work.

In no event shall the Excess Payment Amount be negative.

(c) Payment of Excess Payment Amount. Each Purchaser shall pay its Percentage Share of the Excess Payment Amount as part of that Purchaser's Annual Payment Obligation so long as that Purchaser continues to purchase Project power under this Agreement or any renewal thereof.

(d) Disposition of Payments. All Excess Payment Amounts received from Purchasers, and all additional charges paid pursuant to Section 29(b), shall be paid to the Authority for deposit into the Railbelt Energy Fund.

(e) Limitation. Notwithstanding any other provision of this Section 29, no Purchaser's Annual Payment Obligation shall include a charge with respect to any Excess Payment Amount in excess of four cents (\$0.04) per kilowatthour of Project power delivered to such Purchaser.

(f) Duration. The provisions of this Section 29 shall not serve to extend the term of this Agreement or any renewal thereof, and shall cease to be effective upon the expiration or termination of this Agreement (as the same may be extended through any renewal thereof).

Section 30. Special Arrangements Regarding AEG&T.

(a) Contracts acknowledged. The parties recognize that Homer Electric Association, Inc. ("HEA") and Matanuska Electric Association, Inc. ("MEA"), have previously entered into contracts with the Alaska Electric Generation & Transmission Cooperative, Inc. ("AEG&T"), and that under such contracts AEG&T is to sell and HEA and MEA are to buy electric power in amounts necessary to meet the full requirements of HEA and MEA, such power to be generated by AEG&T or to be purchased by AEG&T from other suppliers. Under this Agreement, therefore, AEG&T is a Purchaser on behalf of HEA and MEA, and AEG&T's payment obligations are secured by HEA's and MEA's respective obligations to provide at all times the monies necessary for the performance of AEG&T's payment obligations, as more fully described in Section 30(b).

(b) Treatment of HEA and MEA as Purchasers for certain purposes. HEA and MEA shall have all the rights and obligations of individual Purchasers and/or Cooperative Purchasers with respect to Sections 2(a), 4(d), 6(e), 8(a)(vii)(D), 10, 13(c), 13(d), 15, 17, 18, 31, and 32, unless the context otherwise requires. If AEG&T at any time fails to meet its payment obligations under this Agreement, then to the extent of such failure by AEG&T and for so long as such failure continues, HEA and MEA shall each be obligated to meet directly its respective share of AEG&T's payment obligations in the same manner as if HEA and MEA were individual Purchasers obligated to make payment in accordance with Section 7 and Section 9. All rights and remedies available to the Authority and/or to the other Purchasers against AEG&T shall also be available to the Authority and the other Purchasers against HEA and MEA to the extent of the respective individual share of HEA and/or MEA, as applicable. For purposes of this Section 30(b), HEA's share shall be a Percentage Share of Project Capacity equal to 12.0 percent, and MEA's share shall be a Percentage Share of Project Capacity equal to 13.8 percent.

(c) Arrangements among HEA, MEA, and AEG&T. In accordance with the provisions of Section 30(a) and subject to the provisions of Section 30(b), AEG&T as a Purchaser hereunder shall act on behalf of HEA and MEA for purposes of power deliveries, billing, payment, notification, and other communications under this Agreement. AEG&T shall be, on behalf of HEA and/or MEA, the Purchaser from the Authority and the re-seller to HEA and/or MEA of power to be taken by HEA and/or by MEA under this Agreement. Further, AEG&T will receive, on behalf of HEA and/or MEA, all billings and other communications under

this Agreement, and AEG&T will be required to pay such bills for and on behalf of HEA and/or MEA from funds made available to AEG&T by HEA and/or MEA for this purpose.

Section 31. Capitalization Of Certain Costs Of Purchasers.

(a) Promptly after the Committee is formed, and before the Authority first issues Bonds, the Purchaser members of the Committee shall determine by the affirmative vote of members whose Percentage Shares equal or exceed eighty percent (80%) of Project Capacity and of Annual Project Costs:

(i) whether and to what extent the costs borne by the Purchasers pursuant to the last sentence of Section 13(a) should be capitalized through issuance of additional Bonds, with the costs of debt service on those additional Bonds to be added to Annual Project Costs; and

(ii) whether and to what extent the costs incurred by the individual Purchasers in conjunction with this Agreement prior to the Date of Commercial Operation should be capitalized and reimbursed through issuance of additional Bonds, and whether and to what extent the costs of debt service on those additional Bonds should be added to Annual Project Costs and allocated among Purchasers either in accordance with their respective Percentage Shares or in some other manner.

(b) If the Purchasers provide the Authority with a written determination that additional Bonds should be issued for either or both of the foregoing purposes, then notwithstanding any other provision of this Agreement, the Authority shall issue additional Bonds in the requisite principal amount, allocate the proceeds of such additional Bonds among the appropriate Purchasers in accordance with such written determination, and include the costs of debt service on such additional Bonds in Annual Project Costs; provided, that the Authority shall not be obligated to issue such additional Bonds unless the Authority is reasonably able to do so in conjunction with the issuance of other Bonds; and provided further, that the allocation among Purchasers of the costs of debt service on additional Bonds issued for the purpose set forth in Section 31(a)(ii) shall be made in the manner specified in such written determination.

Section 32. Efforts To Obtain Intertie. The Purchasers recognize the importance of the completion of a satisfactory high-capacity Fairbanks to Kenai Peninsula transmission

intertie, and of full \$218 million funding for the Project, and agree to continue all reasonable efforts to obtain sufficient state funding for such transmission intertie and Bradley Lake.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed the day and year first above written.

THE ALASKA POWER AUTHORITY

By _____

As _____

ALASKA ELECTRIC GENERATION & TRANSMISSION COOPERATIVE, INC.

By _____

As _____

CHUGACH ELECTRIC ASSOCIATION, INC.

By _____

As _____

HOMER ELECTRIC ASSOCIATION, INC.

By _____

As _____

GOLDEN VALLEY ELECTRIC ASSOCIATION, INC.

By _____

As _____

MATANUSKA ELECTRIC ASSOCIATION, INC.

By _____

As _____

THE MUNICIPALITY OF ANCHORAGE d/b/a MUNICIPAL LIGHT AND POWER

By _____

As _____

THE CITY OF SEWARD d/b/a SEWARD ELECTRIC SYSTEM

By _____

As _____

Exhibit A

ALASKA POWER AUTHORITY
POWER REVENUE BOND RESOLUTION

Adopted: _____

ALASKA POWER AUTHORITY
POWER REVENUE BOND RESOLUTION

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ALASKA POWER AUTHORITY
POWER REVENUE BOND RESOLUTION

BE IT RESOLVED by the Board of Directors of the Alaska Power Authority, as follows:

ARTICLE I

Definitions and Statutory Authority

101. Definitions. The following terms shall, for all purposes of this Resolution, have the following meanings:

"Accountant's Certificate" shall mean a certificate signed by a firm of independent certified public accountants of recognized national standing, selected by the Authority and approved in writing by the Trustee (which approval shall not be unreasonably withheld), which may be the firm of accountants which regularly audits the books of the Authority, provided that, if the Trustee shall fail to so approve, it shall deliver to the Authority a statement of its reasons for such failure.

"Act" shall mean Title 44, Chapter 83 of the Alaska Statutes (AS 44.83) as the same may be amended or supplemented from time to time.

"Additional Bonds" shall mean Bonds authenticated and delivered pursuant to Section 204.

"Aggregate Debt Service" for any period shall mean, as of any date of calculation, the sum of the amounts of Debt Service for such period with respect to all Series.

"Annual Budget" shall mean the annual budget, as amended or supplemented, adopted or in effect for a particular Fiscal Year as provided in Section 709.

"Annual Project Costs" shall have the meaning given it in Section 8 of the Power Sales Agreement.

"Authority" shall mean the Alaska Power Authority organized and existing under the Act.

"Authorized Officer" shall mean the Chairman of the Board of Directors, Vice Chairman of the Board of Directors,

Executive Director, Secretary or Treasurer or any officer or employee of the Authority authorized to perform specific acts or duties by resolution duly adopted by the Board of Directors.

"Board of Directors" shall mean the Board of Directors of the Authority.

"Bond" or "Bonds" shall mean any bond or bonds, note or notes, or evidence of indebtedness or evidences of indebtedness, as the case may be, authenticated and delivered under and pursuant to, and entitled to the benefit and security of, this Resolution.

"Bondholder" or "Holder of Bonds" shall mean any person who shall be the registered owner of any Bond or Bonds.

"Bond Registrar" shall mean the Trustee or any other bank or trust company organized under the laws of any state of the United States of America or any national banking association appointed by the Authority to perform the duties of Bond Registrar enumerated in Section 703.

"Bond Year" shall mean each period of 12 calendar months ending on each July 1.

"Capital Improvements" shall mean (a) repairs, maintenance, renewals, replacements, improvements or betterments required by federal or state law, a licensing or regulatory agency with jurisdiction over the Project, or the Power Sales Agreement, or otherwise necessary to keep the Project in good and efficient operating condition, consistent with (1) sound economics for the Project and the Purchasers and (2) national standards for the industry, which Capital Improvements constitute Required Project Work under the Power Sales Agreement; or (b) repairs, renewals and replacements, improvements, betterments, additions or expansions which Capital Improvements do not constitute Required Project Work, but which in each case are approved by the Committee as Optional Project Work pursuant to the Power Sales Agreement. For purposes of this Resolution, "national standards for the industry" shall mean Prudential Utility Practice.

"Capital Reserve Fund" shall mean the Capital Reserve Fund established in Section 502.

"Capital Reserve Requirement" shall mean (i) an amount equal to the lesser of Maximum Aggregate Debt Service or ten per cent of the proceeds of Bonds; or (ii) such other lesser amount as is required in order to maintain the tax-exempt status of the Bonds.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Committee" shall mean the Project Management Committee established in the Power Sales Agreement.

"Construction Engineer" means an independent engineer or engineering firm or corporation having a nationwide and favorable reputation and demonstrated experience in the field of construction engineering and construction management at the time retained by the Authority to perform the acts and carry out the duties provided for such Construction Engineer in this Resolution.

"Construction Fund" shall mean the Construction Fund established in Section 502.

"Consulting Engineer" means an independent engineer or engineering firm or corporation having a nationwide and favorable reputation and demonstrated experience in the field of consulting engineering for power systems at the time retained by the Authority pursuant to Section 708 to perform the acts and carry out the duties provided for such Consulting Engineer in this Resolution.

"Cost of Acquisition and Construction" shall mean all costs and expenses of planning, designing, acquiring, constructing, installing and financing the Project or a Capital Improvement, placing the Project or a Capital Improvement in operation, and obtaining governmental approvals, certificates, permits and licenses with respect thereto, heretofore or hereafter paid or incurred by or on behalf of the Authority or by any Purchaser which has heretofore entered into a contract or contracts with the Authority with respect to construction or acquisition of the Project or a Capital Improvement. Such costs shall include amounts required to be paid to any other party which are applied or are to be applied under agreement to the payment of items of Cost of Acquisition and Construction. The Cost of Acquisition and Construction shall include, but shall not be limited to:

(1) Costs of preliminary investigation and development, the performance or acquisition of feasibility and planning studies, the securing of regulatory approvals, as well as costs for land and land rights, water and water rights, engineering, contractors' fees, labor, materials, equipment, utility services and supplies, accounting, legal and financing fees and expenses;

(2) Working capital and reserves in such amounts as shall be required during construction of the Project or a Capital Improvement and to place the Project or a Capital

Improvement in operation and such additional amounts of working capital and reserves as are required by this Resolution;

(3) Interest accruing in whole or in part on Bonds prior to and during construction and for such additional period as the Authority may reasonably determine to be necessary for the placing of the Project or a Capital Improvement or any facility thereof in operation in accordance with the provisions of this Resolution;

(4) Amounts, if any, required by this Resolution or a Supplemental Resolution to be paid from the proceeds of Bonds issued to finance the Cost of Acquisition and Construction into any Funds or Accounts established pursuant to this Resolution;

(5) The payment of principal, premium, if any, and interest when due (whether at the maturity of principal or at the due date of interest or upon redemption) on any bond anticipation note or other note or evidence of indebtedness issued in anticipation of Bonds for the purpose of financing the Cost of Acquisition and Construction of the Project or a Capital Improvement, including, without limitation, the Variable Rate Demand Bonds;

(6) Training and testing costs incurred by the Authority which are properly allocable to acquisition and construction;

(7) All costs of insurance applicable to the period of construction;

(8) The cost of restoring and repairing in accordance with Prudent Utility Practice all public or private property damaged or destroyed in the construction of the Project or a Capital Improvement, or the amount required by law to be paid by the Authority as adequate compensation for such damages, or amounts required by law or Prudent Utility Practice to be paid with respect to the restoration, relocation, removal, reconstruction or duplication of property made necessary or caused by the construction and installation of such Project or a Capital Improvement to the extent such costs are not otherwise paid out of the proceeds of insurance;

(9) Legally required or permitted Federal, state and local taxes and payments in lieu of taxes applicable to the period of construction;

(10) All other costs incurred by or on behalf of the Authority and properly allocable to the acquisition and construction of the Project or a Capital Improvement; and

(11) Costs of Issuance.

"Costs of Issuance" shall mean any item of expense payable or reimbursable, directly or indirectly, by the Authority and related to the authorization, offering, sale, issuance and delivery of Bonds, including, but not limited to, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and disbursements, fees and disbursements of the Consulting Engineer, fees and disbursements of other consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, application fees and premiums on municipal bond insurance, credit facility charges and costs and expenses relating to the refunding of Bonds or other obligations issued to finance or refinance the Project or a Capital Improvement, including, but not limited to, the refunding of the Variable Rate Demand Bonds and any obligations of the Authority outstanding at the time of adoption of this Resolution, the proceeds of which were applied to pay the Cost of Acquisition and Construction of the Project.

"Counsel's Opinion" or "Opinion of Counsel" shall mean an opinion of counsel of nationwide recognized standing in the field of municipal bonds, selected by the Authority and satisfactory to the Trustee.

"Date of Commercial Operation" shall have the meaning ascribed thereto in the Power Sales Agreement.

"Debt Service" for any period shall mean, as of any date of calculation and with respect to any Series, an amount equal to the sum of (i) interest accruing during such period on Bonds of such Series, except to the extent that such interest is to be paid from deposits in the Interest Account in the Debt Service Fund made from Bond proceeds and (ii) that portion of each Principal Installment for such Series which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such Series (or, if there shall be no such preceding Principal Installment due date, from a date one year preceding the due date of such Principal Installment or from the date of issuance of the Bonds of such Series, whichever date is later). Such interest and Principal Installments for such Series shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof. For purposes of this definition (x) interest and Principal Installments with respect to interest accreting on compound interest or zero coupon or like interest paying Bonds shall be deemed to accrue in the 12 months immediately prior to the final maturity of such

Bonds; and (y) the Authority may determine that interest will accrue on variable rate Bonds at a rate equal to the actual rate during a prior period.

"Debt Service Fund" shall mean the Debt Service Fund established in Section 502.

"Depository" shall mean any bank or trust company organized under the laws of any state of the United States or any national banking association selected by the Authority and approved in writing by the Trustee as a depository of moneys and securities held under the provisions of this Resolution, and may include the Trustee; provided that, if the Trustee shall fail to so approve, it shall deliver to the Authority a statement of its reasons for such failure.

"Event of Default" shall have the meaning given to such term in Section 801.

"Excess Investment Earnings" shall mean for each Bond Year, the excess of (i) the amount earned on certain investments held under this Resolution, or otherwise constituting gross proceeds of the Bonds under Section 148(f)(6)(B) of the Code, as specified in the Supplemental Resolution authorizing the issuance of such Bonds (excluding amounts held in the Excess Investment Earnings Fund and amounts in the Revenue Fund but including unrealized gains and losses upon the retirement of such Bonds over (ii) the amount that would have been earned on such investments at the yield on such Bonds (determined on a present value basis from the date of issuance of such Bonds, without adjustment for costs of issuance).

"Excess Investment Earnings Fund" shall mean the Excess Investment Earnings Fund established in Section 502.

"Federal Obligation" shall mean any direct obligation of, or any obligation the full and timely payment of principal of and interest on which is guaranteed by, the United States of America.

"Fiduciary" or "Fiduciaries" shall mean the Trustee, the Bond Registrar, the Paying Agents, or any or all of them, as may be appropriate.

"Fiscal Year" shall mean the twelve-month period commencing on July 1 of each year and including June 30 of the succeeding calendar year.

"Fund" or "Funds" shall mean, as the case may be, each or all of the Funds established in Section 502.

"Interest Account" shall mean the Interest Account in the Debt Service Fund established in Section 502.

"Investment Securities" shall mean and include any of the following securities, if and to the extent the same are at the time legal for investment of the Authority's funds:

(i) Federal Obligations;

(ii) obligations of the Government National Mortgage Association, the Federal National Mortgage Association to the extent that such obligations are guaranteed by the Government National Mortgage Association, the Federal Financing Bank, the Federal Intermediate Credit Banks, Federal Banks for Cooperatives, Federal Land Banks, Federal Home Loan Banks, Farmers Home Administration and Federal Home Loan Mortgage Association;

(iii) new housing authority bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(iv) direct and general obligations of any state of the United States of America, to the payment of the principal of and interest on which the full faith and credit of such state is pledged, provided that at the time of their purchase under this Resolution such obligations are rated not less than AA or Aa or their equivalents by Moody's Investors Services, Inc. or Standard & Poor's Corporation, or their successors;

(v) evidences of ownership of interests in Federal Obligations in the custody of a bank or trust company organized under the laws of any state or any national banking association in each case having capital and surplus not less than \$200,000,000 in amount;

(vi) certificates of deposit, whether negotiable or nonnegotiable, issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking association (including any Fiduciary), provided that such certificates of deposit shall be purchased directly from such a bank, trust company or national banking association and shall be either (1) continuously and fully insured by the Federal

Deposit Insurance Corporation, or (2) continuously and fully secured by Qualified Collateral, which shall have a market value (exclusive of accrued interest) at all times at least equal to 100% of the principal amount of such certificates of deposit and shall be lodged with the trust department of the Trustee or with a Federal Reserve Bank or branch, as custodian, by the bank, trust company or national banking association issuing each such certificate of deposit required to be so secured;

(vii) repurchase agreements with banks which are members of the Federal Reserve System or with government bond dealers recognized as primary dealers by the Federal Reserve Bank of New York that are secured by Federal Obligations or the obligations referred to in paragraph (ii) (herein called "Other Obligations"), having a current market value at least equal to 100% of the amount of the repurchase agreement, marked to market weekly, and which Federal Obligations or Other Obligations shall have been deposited in trust by such bank or dealer with the trust department of the Trustee or with a Federal Reserve Bank or branch, or with another third party custodian approved by the Trustee, by such bank or dealer and by the Authority, as collateral security for such repurchase agreements; and

(viii) "commercial paper" rated either A-1 or P-1, or corporate bonds or notes, in each case issued by a United States corporation, rated in one of the two highest rating categories by any nationally recognized agency.

"Maximum Aggregate Debt Service" shall mean, as of any date of calculation, the greatest amount of Aggregate Debt Service payable in any unexpired Bond Year.

"Operating Expenses" shall mean (i) the Authority's operation, maintenance, administrative and general expenses of the Project, and shall include, without limiting the generality of the foregoing, costs of investigations, insurance, ordinary repairs of the Project which do not entail the acquisition and installation of a unit of property (as generally prescribed by the Federal Energy Regulatory Commission), fuel costs, rents, engineering expenses, legal and financial advisory expenses, Committee expenses, refunds for overpayments by Purchasers, salaries and required Project employee costs, any taxes or payments in lieu of taxes pursuant to the Act or otherwise pursuant to law, (ii) any other current expenses or obligations required to be paid by the Authority under the provisions of this Resolution or by law, all to the extent properly allocable to the Project, or required to be incurred under or in connection with the performance of the Power Sales Agreement, and

(iii) the fees and expenses of the Fiduciaries. Operating Expenses includes all the items listed in Section 8(a) of the Power Sales Agreement under the definition of Annual Project Costs except the items listed under Section 8(a)(i), (ii) and (iv). Operating Expenses shall not include any costs or expenses for new construction or any allowance for depreciation.

"Operating Fund" shall mean the Operating Fund established in Section 502.

"Operating Reserve Account" shall mean the Operating Reserve Account established in Section 502.

"Operating Reserve Account Requirement" shall mean an amount equal to 20 percent of the Operating Expense component of the Annual Budget as calculated annually, or such other amount as may be determined pursuant to the Power Sales Agreement.

"Optional Project Work" shall have the meaning given it in Section 1 of the Power Sales Agreement.

"Outstanding", when used with reference to Bonds, shall mean, as of any date, Bonds theretofore or thereupon being authenticated and delivered under this Resolution except:

(i) Bonds cancelled by the Trustee at or prior to such date;

(ii) Bonds (or portions of Bonds) for the payment or redemption of which moneys equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held in trust under this Resolution and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice;

(iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Article III or Section 406 or Section 1106; and

(iv) Bonds deemed to have been paid as provided in subsection 2 of Section 1201.

"Paying Agent" shall mean any bank or trust company organized under the laws of any state of the United States or any national banking association designated as paying agent for

the Bonds of any Series, and its successor or successors hereafter appointed in the manner provided in this Resolution.

"Power Sales Agreement" shall mean the Power Sales Agreement for the purchase and sale of Project capacity (together with associated energy) dated as of _____ between the Authority and the Purchasers as the same may be amended.

"Principal Account" shall mean the Principal Account in the Debt Service Fund established in Section 502.

"Principal Installment" shall mean, as of any date of calculation and with respect to any Series, so long as any Bonds thereof are Outstanding, (i) the principal amount of Bonds of such Series due on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for Bonds of such Series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bonds on such future date in a principal amount equal to said unsatisfied balance of such Sinking Fund Installments, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any.

"Project" shall mean the Bradley Lake Hydroelectric Project, as the same is described on Exhibit C to the Power Sales Agreement.

"Project Capacity" means the amount of electric capacity capable of being produced by the Project (including capacity attributable to Required or Optional Project Work) at any and all times from the Date of Commercial Operation until the termination of the Power Sales Agreement (or any renewal or replacement thereof) under the operating conditions that exist during such times, including periods when the Project may be not operating or inoperable or the operation thereof is suspended, interrupted, interfered with, reduced, or curtailed, in each case in whole or in part for any reason whatsoever, after corrections for station and Project use, and depletions required under any federal license for the Project.

"Prudent Utility Practice" shall mean at a particular time any of the practices, methods and acts, engaged in or approved by a significant portion of the electric utility industry at such time, or which, in the exercise of reasonable judgment in the light of the facts known at such time, could have been expected to accomplish the desired result at the lowest

reasonable cost consistent with good business practices, reliability, safety and reasonable expedition. Prudent Utility Practice is not required to be the optimum practice, method or act to the exclusion of all others, but rather to be a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. Prudent Utility Practice includes due regard for manufacturers' warranties and requirements of governmental agencies of competent jurisdiction and shall apply not only to functional parts of a Project, but also to appropriate structures, landscaping, painting, signs, lighting and other facilities. In evaluating whether any matter conforms to Prudent Utility Practice, there shall be taken into account (i) the nature of the Authority and Purchasers under the laws of the State of Alaska and their statutory duties and responsibilities and (ii) the objective of integrating the Project with the generating resources of the Purchasers, including resources available under contract, to achieve optimum utilization of the resources and efficient and economical operation of each Purchaser's electrical system. For purposes of this Resolution, "national standards for the industry" shall mean Prudent Utility Practice.

"Purchasers" shall mean the entities defined as Purchasers in the Power Sales Agreement.

"Qualified Collateral" shall mean:

(i) Obligations described under items (i), (ii) and (iii) of the definition of Investment Securities;

(ii) direct and general obligations of any state of the United States of America which are rated not less than AA or Aa or their equivalents by Standard & Poor's Corporation or Moody's Investor's Service, Inc., or their successors.

"Redemption Price" shall mean, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to such Bond or this Resolution.

"Refunding Bonds" shall mean all Bonds, whether issued in one or more Series, authenticated and delivered on original issuance pursuant to Section 205, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to Article III or Section 406 or Section 1106.

"Renewal and Contingency Reserve Fund" shall mean the Renewal and Contingency Reserve Fund established in Section 502.

"Renewal and Contingency Reserve Requirement" shall mean an amount equal to \$5,000,000.

"Required Project Work" shall have the meaning given it in Section 1 of the Power Sales Agreement.

"Resolution" shall mean this Resolution as from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms hereof.

"Revenue Fund" shall mean the Revenue Fund established in Section 502.

"Revenues" shall mean (i) all revenues, income, rents and receipts, derived or to be derived by the Authority from, or attributable to the ownership and operation of, the Project, including all revenues attributable to the Project or to payment of the costs thereof including, without limitation, all revenues received or to be received by the Authority under the Power Sales Agreement or under any other contract for the sale of power, energy, transmission or other service from the Project or any part thereof or any contractual arrangement with respect to the use of the Project or any portion thereof or the services, output or capacity thereof, and (ii) interest received or to be received on any moneys or securities (other than in the Construction Fund or in the Excess Investment Earnings Fund) held pursuant to this Resolution and required to be paid into the Revenue Fund.

"Series" shall mean all of the Bonds authenticated and delivered on original issuance and identified pursuant to this Resolution or a Supplemental Resolution authorizing such Bonds as a separate Series of Bonds, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to Article III or Section 406 or Section 1106, regardless of variations in maturity, interest rate, Sinking Fund Installments, or other provisions.

"Sinking Fund Installment" means, as of any particular date of determination and with respect to the Outstanding Bonds of any Series, the amount required by a Supplemental Resolution to be paid in any event by the Authority on a single future date for the retirement of Bonds of such Series which mature after said future date, but does not include any amount payable by the Authority by reason only of the maturity of a Bond.

"Supplemental Resolution" shall mean any resolution supplemental to or amendatory of this Resolution, adopted by the Authority in accordance with Article X.

"Trustee" shall mean the trustee appointed pursuant to Article IX, and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to this Resolution.

"Variable Rate Demand Bonds" shall mean the \$267,500,000 Alaska Power Authority Variable Rate Demand Bonds (Bradley Lake Hydroelectric Project) dated November 20, 1985.

102. Interpretation. In this Resolution, unless the context otherwise requires:

(i) The terms "hereby," "hereof," "hereto," "hereunder," "herein" and any similar terms used herein refer to this Resolution, and the term "hereafter" shall mean after, and the term "heretofore" shall mean before, the date of adoption of this Resolution;

(ii) Words of the masculine gender shall mean and include correlative words of the feminine and neuter genders and words importing the singular number shall mean and include the plural number and vice versa;

(iii) Words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;

(iv) Words importing the redemption or redeeming of a Bond or the calling of a Bond for redemption do not include or connote the payment of such Bond at its stated maturity or the purchase of such Bond;

(v) Any percentage of Bonds, for purposes of this Resolution, shall be computed on the basis of the unpaid principal amount of Bonds Outstanding at the time the computation is made or is required to be made hereunder;

(vi) Any headings preceding the text of the several Articles and Sections of this Resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Resolution, nor shall they affect its meaning, construction or effect;

(vii) Articles and Sections mentioned by number only are the respective Articles and Sections of this Resolution so numbered; and

(viii) The term "principal" when used in connection with compound interest or zero coupon or like interest paying Bonds shall mean the initial principal amount of such Bonds as at their date of issuance plus interest accreted thereon to the date of calculation.

103. Authority for this Resolution. This Resolution is adopted pursuant to the provisions of the Act. The Board of Directors has ascertained and hereby determines and declares that adoption of this Resolution is necessary to carry out the powers and duties expressly provided by the Act, that each and every act, matter, thing or course of conduct as to which provision is made in this Resolution is necessary or convenient in order to carry out and effectuate the purposes of the Authority in accordance with the Act and to carry out powers expressly given in the Act, and that each and every covenant or agreement herein contained and made is necessary, useful or convenient in order to better secure the Bonds and all contracts or agreements necessary, useful and convenient to carry out and effectuate the corporate purposes of the Authority under the Act.

104. Resolution to Constitute Contract. In consideration of the purchase and acceptance of any and all of the Bonds authorized to be issued hereunder by those who shall hold the same from time to time, this Resolution shall be deemed to be and shall constitute a contract between the Authority and the holders from time to time of the Bonds, a trust agreement under the Act and a security agreement under the Alaska Uniform Commercial Code. The pledge and assignment made in this Resolution and the covenants and agreements herein set forth to be performed on behalf of the Authority shall be for the equal benefit, protection and security of the holders of any and all of the Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof except as expressly provided in or permitted by this Resolution.

105. Obligation of Bonds. The Bonds shall be direct and general obligations of the Authority, and the full faith and credit of the Authority are hereby pledged to the payment of the principal of and interest on the Bonds in accordance with their terms. All Bonds shall be entitled to the benefit of the continuing pledge and lien created by this Resolution to secure the full and final payment of the principal and Redemption Price of and interest on all of the Bonds.

ARTICLE II

Authorization and Issuance of Bonds

201. Authorization of Bonds. 1. The Resolution provides for the authorization of Bonds of the Authority to be designated as "Power Revenue Bonds" for the purpose of providing funds for the financing or refinancing of the Project and Capital Improvements. The aggregate principal amount of the Bonds which may be executed, authenticated and delivered under this Resolution is not limited except as may hereafter be provided in this Resolution, or as may be limited by the Power Sales Agreement or by law.

2. The Bonds may, if and when authorized by the Authority pursuant to one or more Supplemental Resolutions, be issued in one or more Series, and the designation thereof, in addition to the name "Power Revenue Bonds", shall include such further appropriate particular designation added to or incorporated in such title for the Bonds of any particular Series as the Authority may determine. Each Bond shall bear upon its face the designation so determined for the Series to which it belongs.

3. Nothing contained in this Resolution shall be deemed to preclude or restrict the consolidation pursuant to a Supplemental Resolution of any Bonds of two or more separate Series authorized pursuant to such Supplemental Resolution to be issued pursuant to any of the provisions of Sections 202, 204 and 205 into a single Series of Bonds for purposes of sale and issuance; provided that each of the tests, conditions and other requirements contained in Sections 202, 204 and 205 as applicable to each such separate Series shall be met and complied with. Except as otherwise provided in this subsection or in such Supplemental Resolution, such a consolidated Series shall be treated as a single Series for all purposes of this Resolution.

202. General Provisions for Issuance of Bonds. 1. All (but not less than all) the Bonds of each Series shall be executed by the Authority for issuance under this Resolution and delivered to the Trustee and thereupon shall be authenticated by the Trustee and by it delivered to the Authority or upon its order, but only upon the receipt by the Trustee of:

(a) A Counsel's Opinion to the effect that
(i) the Authority has the right and power under the Act as amended to the date of such Opinion to adopt this Resolution, and this Resolution has been duly and lawfully adopted by the Authority, is in full force and effect and is valid and binding upon the Authority in accordance with its terms, and no other authorization for this Resolution

is required; (ii) the Authority has the right and power under the Act as so amended to enter into the Power Sales Agreement and the Power Sales Agreement is valid and binding upon the Authority in accordance with its terms, and no other authorization for the Power Sales Agreement is required; (iii) this Resolution creates the valid pledge and assignment which it purports to create of the Revenues, moneys, securities and funds held or set aside under this Resolution subject only to the provisions of this Resolution permitting the application thereof for the purposes and on the terms and the conditions set forth in this Resolution; and (iv) the Bonds of such Series are valid and binding general obligations of the Authority for the payment of which the full faith and credit of the Authority are pledged as provided in this Resolution, and entitled to the benefits of this Resolution and of the Act as amended to the date of such Opinion, and such Bonds have been duly and validly authorized and issued in accordance with law, including the Act as amended to the date of such Opinion, and in accordance with this Resolution; provided, that such Opinion may take exception for limitations imposed by or resulting from bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights generally;

(b) A written order as to delivery of such Bonds, signed by an Authorized Officer of the Authority;

(c) A copy of the Supplemental Resolution authorizing such Bonds, certified by an Authorized Officer of the Authority, which shall, to the extent necessary and not already fixed by the Resolution, among other provisions, specify: (i) the authorized principal amount, designation and Series of such Bonds; (ii) the purposes for which such Series of Bonds is being issued, which shall be (A) the purpose specified in Section 203, (B) one of the purposes specified in Section 204, or (C) the refunding of Bonds as provided in Section 205; (iii) the date, and the maturity date or dates, of the Bonds of such Series; (iv) the interest rate or rates or the maximum rate of interest of the Bonds of such Series or the method of calculating the interest rate, which interest rate may be determinable at one or more specified times or periodically by reference to an index or other reference point, an interest accreting or compound interest, zero coupon, or like method of interest rate or yield calculation and the interest payment dates therefor, provided that the interest rate shall be identical for all such Bonds of like maturity; (v) the denominations of, and the manner of dating, numbering and lettering, the Bonds of such Series; (vi) the Paying Agent or Paying Agents and the place or

places of payment of the principal and Redemption Price, if any, of, and interest on, the Bonds of such Series; (vii) the Redemption Price or Prices, if any, and subject to Article IV, the redemption terms for the Bonds of such Series; (viii) the amount and due date of each Sinking Fund Installment, if any, for Bonds of like maturity of such Series; (ix) if so determined by the Authority, provisions for the sale of the Bonds of such Series; (x) the amount (or the method of determining the amount), if any, to be deposited from the proceeds of such Series of Bonds in the Debt Service Fund and provisions for the application thereof to the payment of all or a portion of the interest on such Series of Bonds or any other Series of Bonds; (xi) the amount to be deposited from the proceeds of such Series of Bonds in the Capital Reserve Fund, such that, immediately after the authentication and delivery of such Series of Bonds, the amount in such Fund shall equal the Capital Reserve Requirement; (xii) the amount, if any, to be deposited from the proceeds of such Series of Bonds in the Renewal and Contingency Reserve Fund, such that, immediately after the authentication and delivery of such Series of Bonds, the amount in such Fund shall be not less than the Renewal and Contingency Reserve Requirement; (xiii) the amount, if any, to be deposited from the proceeds of such Series of Bonds in the Operating Reserve Account; (xiv) the method of calculating Excess Investment Earnings; (xv) the amount to be deposited from the proceeds of such Series of Bonds in the account in the Construction Fund established for the Project or the undertaking of Capital Improvements for which such Bonds are authorized to be issued; and (xvi) the form of the Bonds of such Series and of the Trustee's certificate of authentication, which forms shall be, respectively, substantially in the forms set forth in Section 1301, with such variations, omissions and insertions as are required or permitted by this Resolution; and (xvii) such other matters as shall be necessary or appropriate so as to comply with the provisions of this Resolution;

(d) Except in the case of Refunding Bonds, a certificate of an Authorized Officer of the Authority stating that the Authority is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in this Resolution;

(e) A certificate from the Committee stating that the Supplemental Resolution authorizing such Bonds has been adopted in accordance with Section 11 of the Power Sales Agreement, provided that, the Supplemental Resolution adopted pursuant to Section 12 of the Power Sales Agreement does not require such a certificate; and

(f) Such further documents as are required by the provisions of Section 203, 204 or 205 or Article X or any Supplemental Resolution adopted pursuant to Article X.

2. After the original issuance of Bonds of any Series, no Bonds of such Series shall be issued except in lieu of or in substitution for other Bonds of such Series pursuant to Article III or Section 406 or Section 1106.

3. The Supplemental Resolution authorizing the initial Series of Bonds for the Project shall establish Principal Installments for such Series.

203. Project Issue. 1. There is hereby authorized an issue of Bonds under this Resolution which shall be designated "Power Revenue Bonds" and which shall be issued in the aggregate principal amount not exceeding \$175,000,000, pursuant to the Supplemental Resolution establishing the terms of the issue in Series from time to time, for the purpose of paying all or a portion of the Cost of Acquisition and Construction of the Project.

2. The proceeds of the initial Series of Bonds, including accrued interest shall be paid to the Trustee and deposited by the Trustee, as follows:

(a) The amount, if any, necessary so that the amount in the Renewal and Contingency Reserve Fund is equal to 100% of the Renewal and Contingency Reserve Fund Requirement shall be deposited in the Renewal and Contingency Reserve Fund;

(b) The amount, if any, necessary so that the amount in the Capital Reserve Fund is equal to the Capital Reserve Fund Requirement shall be deposited in the Capital Reserve Fund;

(c) The amount, if any, necessary so that the amount in the Operating Reserve Account is equal to the Operating Reserve Requirement shall be deposited in the Operating Reserve Account; and

(d) The balance of the proceeds shall be deposited into the Construction Fund.

204. Additional Bonds. 1. One or more Series of Additional Bonds may be authenticated and delivered upon original issuance for the purpose of paying all or a portion of the Cost of Acquisition and Construction of any Capital Improvements, upon compliance with the terms and conditions set forth in Section 202, and upon receipt by the Trustee of (i) evidence

that such Capital Improvements have been approved by the Committee in accordance with the Power Sales Agreement, and (ii) a written Opinion of the Consulting Engineer that neither the issuance of the Additional Bonds nor the payment of the Cost of Acquisition and Construction of the Capital Improvements will impair the ability of the Authority to pay Debt Service through collection of revenues under the Power Sales Agreement.

2. The proceeds, including accrued interest, of the Additional Bonds of each Series shall be applied simultaneously with the delivery of such Bonds, as provided in the Supplemental Resolution authorizing such Series.

205. Refunding Bonds. 1. One or more Series of Refunding Bonds may be authenticated and delivered upon original issuance to refund any Outstanding Bond or Bonds. Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make the deposits in the Funds and Accounts under this Resolution required by the provisions of the Supplemental Resolution authorizing such Bonds. Bonds issued to retire the Variable Rate Demand Bonds are not subject to the requirements of this section for Refunding Bonds.

2. Refunding Bonds of each Series shall be authenticated and delivered by the Trustee only upon receipt by the Trustee (in addition to the documents required by Section 202) of:

(a) Irrevocable instructions to the Trustee, satisfactory to it, to give due notice of redemption, on a redemption date or dates specified in such instructions, of any of the refunded Bonds to be redeemed;

(b) Irrevocable instructions to the Trustee, satisfactory to it, to give due notice provided for in Section 1201 to the Holders of the Bonds being refunded; and

(c) Either (i) moneys (including moneys withdrawn and deposited pursuant to subsection 4 of Section 507) in an amount sufficient to effect payment at the applicable Redemption Price of the refunded Bonds to be redeemed and of the principal amount of the refunded Bonds not to be redeemed, together with accrued interest on such Bonds to the redemption date or maturity date, as the case may be, which moneys shall be held by the Trustee in a separate account irrevocably in trust for and assigned to the respective Holders of the Bonds to be refunded, or (ii) Federal Obligations in such principal amounts, of such maturities, bearing such interest, and otherwise

having such terms and qualifications, and any moneys, as shall be necessary to comply with the provisions of subsection 2 of Section 1201, which Federal Obligations and moneys shall be held in trust by the Trustee and used only as provided in said subsection 2.

3. The proceeds, including accrued interest, of the Refunding Bonds of each Series shall be applied simultaneously with the delivery of such Bonds for the purposes of making deposits in such Funds and Accounts under this Resolution as shall be provided by the Supplemental Resolution authorizing such Series of Refunding Bonds and shall be applied to the refunding purposes thereof in the manner provided in said Supplemental Resolution.

4. The Supplemental Resolution authorizing a Series of Refunding Bonds may establish such funds and accounts in addition to the Funds and Accounts established herein as are necessary to provide for such refunding.

ARTICLE III

General Terms and Provisions of Bonds

301. Medium of Payment; Form and Date; Letters and Numbers. 1. The Bonds shall be payable, with respect to interest, principal and Redemption Price, in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

2. The Bonds of each Series shall be negotiable instruments issued in the form of fully registered Bonds. If and to the extent it is hereafter judicially determined or determined by enactment of law that coupon bonds may be issued with interest exempt from federal income taxation or if the Authority determines to issue Bonds the interest on which is not exempt from taxation, the Authority may provide for the issuance, execution, authorization, exchange and other details of coupon bonds by Supplemental Resolution.

3. Each Bond shall be lettered and numbered as provided in this Resolution or the Supplemental Resolution authorizing the Series of which such Bond is a part and so as to be distinguished from every other Bond.

4. Bonds of each Series shall be dated as provided in the Supplemental Resolution authorizing such Series.

5. The principal and Redemption Price of the Bonds shall be payable upon presentation and surrender at the principal corporate trust office of any Paying Agent or as may be

provided by Supplemental Resolution. Interest on Bonds shall be paid by the Trustee by check or draft mailed to the registered owners of record at the addresses of such owners appearing on the registration books maintained by the Authority for such purpose at the principal corporate trust office of the Bond Registrar or as may be provided by Supplemental Resolution.

302. Legends. The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Resolution as may be necessary or desirable to comply with custom, the rules of any securities exchange or commission or brokerage board, or otherwise, as may be determined by the Authority prior to the authentication and delivery thereof.

303. Execution and Authentication. 1. The Bonds shall be executed in the name of the Authority by the manual or facsimile signature of its Chairman or its Vice Chairman, and its corporate seal (or a facsimile thereof) shall be impressed, imprinted, engraved or otherwise reproduced thereon and attested by the manual or facsimile signature of the Secretary or an Assistant Secretary of the Authority, or in such other manner as may be required or permitted by law. In case any one or more of the officers who shall have signed or sealed any of the Bonds shall cease to be such officer before the Bonds so signed and sealed shall have been authenticated and delivered by the Trustee, such Bonds may, nevertheless, be authenticated and delivered as herein provided, and may be issued as if the persons who signed or sealed such Bonds had not ceased to hold such offices. Any Bond of a Series may be signed and sealed on behalf of the Authority by such persons as at the time of the execution of such Bonds shall be duly authorized to hold the proper office in the Authority, although at the date borne by the Bonds of such Series such person may not have been so authorized or have held such office.

2. The Bonds of each Series shall bear thereon a certificate of authentication, in the form set forth in Section 1301 and any Supplemental Resolution authorizing such Bonds, executed manually by the Trustee. Only such Bonds as shall bear thereon such certificate of authentication shall be entitled to any right or benefit under this Resolution and no Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of the Authority shall be conclusive evidence that the Bond so authenticated has been duly authenticated and delivered under this Resolution and that the Holder thereof is entitled to the benefits of this Resolution.

304. Exchange of Bonds. Bonds, upon surrender thereof at the principal corporate trust office of the Bond Registrar with a written instrument of transfer satisfactory to the Bond Registrar, duly executed by the registered owner or his duly authorized attorney, may, at the option of the registered owner thereof, and upon payment by such registered owner of any charges which the Bond Registrar may make as provided in Section 306, be exchanged for an equal aggregate principal amount of Bonds of the same Series and maturity of any other authorized denominations.

305. Negotiability, Transfer and Registry. 1. Bonds shall be transferable only upon the books of the Authority, which shall be kept for such purposes at the principal corporate trust office of the Bond Registrar, by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Bond Registrar duly executed by the registered owner or his duly authorized attorney. Upon transfer of any such Bond, the Authority shall issue in the name of the transferee a new Bond or Bonds of the same aggregate principal amount and Series and maturity as the surrendered Bond.

2. The Authority and each Fiduciary may deem and treat the person in whose name any Bond shall be registered upon the books of the Authority as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes, and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the Authority nor any Fiduciary shall be affected by any notice to the contrary. The Authority agrees to indemnify and save each Fiduciary harmless from and against any and all loss, cost, charge, expense, judgment or liability incurred by it, acting in good faith and without negligence under this Resolution, in so treating such registered owner.

306. Regulations With Respect to Exchanges and Transfers. In all cases in which the privilege of exchanging or transferring Bonds is exercised, the Authority shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of this Resolution. All Bonds surrendered in any such exchanges or transfer shall forthwith be delivered to the Trustee and cancelled by the Trustee. For every such exchange or transfer of Bonds, whether temporary or definitive, the Authority or the Bond Registrar may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer.

Neither the Authority nor the Bond Registrar shall be required (a) to transfer or exchange Bonds of a Series which could be redeemed for a period of 15 days next preceding any selection of such Bonds to be so redeemed or thereafter until after the first mailing of any notice of redemption; or (b) to transfer or exchange any Bonds called for redemption.

307. Bonds Mutilated, Destroyed, Stolen or Lost. If any Bond becomes mutilated or is lost, stolen or destroyed, the Authority may execute and the Trustee shall authenticate and deliver a new Bond of like date of issue, maturity date, principal amount and interest rate per annum as the Bond so mutilated, lost, stolen or destroyed, provided that (i) in the case of such mutilated Bond, such Bond is first surrendered to the Authority, (ii) in the case of any such lost, stolen or destroyed Bond there is first furnished evidence of such loss, theft or destruction satisfactory to the Authority together with indemnity satisfactory to the Authority, (iii) all other reasonable requirements of the Authority are complied with, and (iv) expenses in connection with such transaction are paid by the Holder. Any Bonds surrendered for exchange shall be cancelled. Any such new Bonds issued pursuant to this Section in substitution for Bonds alleged to be destroyed, stolen or lost shall constitute original additional contractual obligations on the part of the Authority, whether or not the Bonds so alleged to be destroyed, stolen or lost be at any time enforceable by anyone, and shall be equally secured by and entitled to equal and proportionate benefits with all other Bonds issued under this Resolution, in any moneys or securities held by the Authority or any Fiduciary for the benefit of the Bondholders.

308. Temporary Bonds. 1. Until the definitive Bonds of any Series are prepared, the Authority may execute, in the same manner as is provided in Section 303, and upon the request of the Authority, the Trustee shall authenticate and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds except as to the denomination thereof, one or more temporary Bonds substantially of the tenor of the definitive Bonds in lieu of which such temporary Bond or Bonds are issued, in denominations authorized by the Authority, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. The Authority at its own expense shall prepare and execute, and, upon surrender of such temporary Bonds for exchange and the cancellation of such surrendered temporary Bonds, the Trustee shall authenticate and without charge to the Holder thereof deliver in exchange therefor, definitive Bonds, if any, of the same aggregate principal amount and Series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same

benefits and security as definitive Bonds authenticated and issued pursuant to this Resolution.

2. If the Authority shall authorize the issuance of temporary Bonds in more than one denomination, the Holder of any temporary Bond or Bonds may, at his option, surrender the same to the Trustee in exchange for another temporary Bond or Bonds of like aggregate principal amount and Series and maturity of any other authorized denomination or denominations, and thereupon the Authority shall execute and the Trustee shall authenticate and, in exchange for the temporary Bond or Bonds so surrendered and upon payment of the taxes, fees and charges provided for in Section 306, shall deliver a temporary Bond or Bonds of like aggregate principal amount, Series and maturity in such other authorized denomination or denominations as shall be requested by such Holder.

3. All temporary Bonds surrendered in exchange either for another temporary Bond or Bonds or for a definitive Bond or Bonds shall be forthwith cancelled by the Trustee.

ARTICLE IV

Redemption of Bonds

401. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity pursuant to this Resolution or a Supplemental Resolution shall be redeemable, upon notice as provided in this Article IV, at such times, at such Redemption Prices and upon such terms in addition to the terms contained in this Article IV as may be specified in this Resolution or in the Supplemental Resolution authorizing such Series.

402. Redemption at the Election or Direction of the Authority. In the case of any redemption of Bonds at the election or direction of the Authority, the Authority shall give written notice to the Trustee of its election or direction so to redeem, of the redemption date, of the Series, and of the principal amounts of the Bonds of each maturity of such Series to be redeemed (which Series, maturities and principal amounts thereof to be redeemed shall be determined by the Authority in its sole discretion, subject to any limitations with respect thereto contained in this Resolution and the Supplemental Resolution with respect to such Series). Such notice shall be given at least 40 days prior to the redemption date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as in Section 405 provided, there shall be paid prior to the redemption date to the appropriate Paying Agents an amount in cash which, in

addition to other moneys, if any, available therefor held by such Paying Agents, will be sufficient to redeem on the redemption date at the Redemption Price thereof, plus interest accrued and unpaid to the redemption date, all of the Bonds to be redeemed. The Authority shall promptly notify the Trustee in writing of all such payments by it to a Paying Agent.

403. Redemption Otherwise Than at the Authority's Election or Direction. Whenever by the terms of this Resolution the Trustee is required or authorized to redeem Bonds otherwise than at the election or direction of the Authority, the Trustee shall select the Bonds to be redeemed, give the notice of redemption and pay out of moneys available therefor the Redemption Price thereof, plus interest accrued and unpaid to the redemption date, to the appropriate Paying Agents in accordance with the terms of this Article IV and, to the extent applicable, Section 507.

404. Selection of Bonds to be Redeemed. If less than all of the Bonds of like maturity of any Series shall be called for prior redemption, the particular Bonds or portions of Bonds to be redeemed shall be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate.

405. Notice of Redemption. When the Trustee shall receive notice from the Authority of its election or direction to redeem Bonds pursuant to Section 402, and when redemption of Bonds is authorized or required pursuant to Section 403, the Trustee shall give notice, in the name of the Authority, of the redemption of such Bonds, which notice shall specify the Series and maturities of the Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Bonds of any like Series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. Such notice shall be given by mailing such notice, postage prepaid, not less than 25 or more than 40 days before the redemption date, to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books.

406. Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 405, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office specified in such notice, such Bonds, or portions thereof, shall be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there shall be drawn for redemption less than all of a Bond, the Authority shall execute and the Trustee shall authenticate and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, at the option of the owner thereof, Bonds or like Series and maturity in any of the authorized denominations. If, on the redemption date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the redemption date, shall be held by the Paying Agents so as to be available therefor on said date and if notice of redemption shall have been mailed as aforesaid (and notwithstanding any defect therein or the lack of actual receipt thereof by any Bondholder), then, from and after the redemption date interest on the Bonds or portions thereof of such Series and maturity so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

ARTICLE V

Establishment of Funds and Application Thereof

501. Pledge of Revenues and Other Funds. 1. A pledge of the Revenues, and of all moneys, securities and funds, except the Excess Investment Earnings Fund, held or set aside or to be held or set aside by the Authority or any Fiduciary under this Resolution, is hereby made, and the same are hereby pledged and assigned to secure the payment of the principal and Redemption Price of and interest on the Bonds and any Sinking Fund Installments for the retirement thereof, subject only to the provisions of this Resolution permitting the payment, setting apart or appropriation thereof for or to the purposes and on the terms, conditions, priorities and order set forth in or provided under this Resolution. This pledge shall be valid and binding from the time when it is made; the Revenues so pledged and then or thereafter received by the Authority shall immediately be subject to the lien of such pledge without any physical delivery or further act; and the lien of such pledge and the obligation

to perform the contractual provisions hereby made shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

2. The Bonds shall be direct and general obligations of the Authority for the payment of which the full faith and credit of the Authority are pledged and neither the State of Alaska nor any political subdivision (other than the Authority) nor any Purchaser shall be obligated to pay the principal or Redemption Price thereof or interest thereon and neither the faith and credit nor the taxing power of the State of Alaska or any political subdivision thereof (other than the Authority) or of any Purchaser is pledged to the payment of the principal or Redemption Price of, or interest on, the Bonds. The Authority may not pledge the full faith and credit of the State or any political subdivision thereof, except the Authority, to the payment of the Bonds and the issuance of the Bonds by the Authority may not directly or indirectly or contingently obligate the State or a political subdivision of the State to apply money from, or levy or pledge any form of taxation whatever to the payment of the Bonds. Nothing contained in this section shall be construed to affect any obligation of a Purchaser under the Power Sales Agreement.

3. Nothing contained in this Resolution shall be construed to prevent the Authority from acquiring, constructing or financing through the issuance of its bonds, notes or other evidences of indebtedness any facilities which do not constitute a part of the Project for the purposes of this Resolution or from securing such bonds, notes or other evidences of indebtedness by a mortgage of the facilities so financed or by a pledge of, or other security interest in, the revenues therefrom or any lease or other agreement with respect thereto or any revenues derived from such lease or other agreement; provided that such bonds, notes or other evidences of indebtedness shall not be payable out of or secured by the Revenues or any Fund held under this Resolution and neither the cost of such facilities nor any expenditure in connection therewith or with the financing thereof shall be payable from the Revenues or from any such Fund.

502. Establishment of Funds and Accounts. 1. The following Funds and Accounts, each to be held by the Trustee, are hereby established:

- (1) Construction Fund,
- (2) Debt Service Fund, which shall consist of an Interest Account and a Principal Account,

- (3) Capital Reserve Fund,
- (4) Renewal and Contingency Reserve Fund, and
- (5) Excess Investment Earnings Fund.

2. The following funds, each to be held by the Authority, are hereby established:

- (1) Revenue Fund, and
- (2) Operating Fund, which shall include therein an Operating Reserve Account.

503. Construction Fund. 1. There shall be paid into the Construction Fund the amounts required to be so paid by the provisions of this Resolution and any Supplemental Resolution, and there may be paid into the Construction Fund, at the option of the Authority, any moneys received for or in connection with the Project by the Authority from any other source, unless required to be otherwise applied as provided by this Resolution. Amounts in the Construction Fund shall be applied to the Cost of Acquisition and Construction in the manner provided in this Section 503, and until so applied are pledged for the security of and the payment to Bondholders of the principal or Redemption Price of and interest on the Bonds and shall at all times be subject to the lien of such pledge.

2. There shall be established within the Construction Fund separate accounts for the Project and for each undertaking of Capital Improvements for which Bonds are authorized to be issued.

3. The proceeds of insurance, including the proceeds of any self-insurance fund, maintained pursuant to this Resolution against physical loss of or damage to the Project or Capital Improvements, or of contractor's performance bonds or other assurances of completion with respect thereto, pertaining to the period of construction thereof, shall be paid into the appropriate separate account in the Construction Fund.

4. The Trustee shall, during and upon completion of the Project or Capital Improvements, make payments from the Construction Fund in the amounts, at the times, in the manner, and on the other terms and conditions set forth in this paragraph and in paragraph 5 of this Section 503. Before any such payment shall be made, the Authority shall file with the Trustee:

- (a) its requisition therefor, stating in respect of each payment to be made (1) the name of the

person, firm or corporation to whom payment is due, (2) the amount to be paid, and (3) in reasonable detail the purpose for which the obligation was incurred; and

(b) its certificate signed by the chief financial officer of the Authority attached to the requisition certifying (1) that obligations in the stated amounts have been properly incurred by the Authority in or for the construction or acquisition of the Project or Capital Improvements, and that each item thereof is a proper charge against the Construction Fund and is a proper Cost of Construction and Acquisition of the Project or Capital Improvements and has not been paid, (2) that there has not been filed with or served upon the Authority notice of any lien, right to lien, or attachment upon, or claim affecting the right to receive payment of, any of the moneys payable under such requisition to any of the persons, firms or corporations named in such requisition, or if any such lien, attachment or claim has been filed with or served upon the Authority, that such lien, attachment or claim has been released or discharged in the amount in which such lien, right to lien, attachment or claim is stated in said notice, or if no amount is so stated the amount stated by the Construction Engineer as his opinion of the amount thereof, and (3) that such requisition contains no item representing payment on account of any retained percentages which the Authority is at the date of such certificate entitled to retain.

Upon receipt of each such requisition and accompanying certificates, the Trustee shall transfer from the Construction Fund to the credit of a special account in the name of the Authority an amount equal to the total of the amounts to be paid as set forth in such requisition but not more than the excess of such amounts over the amount stated of any lien, right to lien, attachment or claim referred to above in subparagraph (b), the amounts in such special account to be held solely for the payment of the obligations set forth in such requisition. In making such transfer, the Trustee may rely upon such requisition and accompanying certificates.

5. If any requisition filed with the Trustee in accordance with paragraph 4 of this Section 503 contains any item for the payment of the cost and expense of acquisition of any lands, easements, or rights or interests in or relating to lands, there shall be attached to such requisition, before any transfer or payment with respect to such item shall be made, in addition to the certificates mentioned in said paragraph 4: (a) a certificate of an Authorized Officer to the effect that such lands, easements, rights or interests have been or are being acquired and are necessary for the Project or Capital

Improvements; and (b) a Counsel's Opinion stating, in the opinion of the signer, that the Authority has authority to acquire such lands, easements, rights or interests, and that the Authority will have upon the payment of such item title in fee simple to, or perpetual easements for the purposes of the Authority over and through, such lands subject to no lien, charge or encumbrance thereon or affecting the title thereto except such as will not under any circumstances cause the possession and use of the property by the Authority for its purposes to be disturbed, or, if such payment be a payment for an option to purchase or a quitclaim deed or a lease or a release or on a contract to purchase or be a payment to the United States of America or the State of Alaska or any political subdivision, or to a public utility, for the acquisition of a right or interest in lands less than a fee simple or a perpetual easement, or if such payment be a part payment for any such purpose, the written approval, by the signer of such Counsel's Opinion, of such payment as proper, and of the acquisition of such lesser right or interest as sufficient, for the purposes of the Authority.

6. As soon as practicable after the date as of which the Construction Engineer shall determine that (i) the Project or Capital Improvements conforms to the plans and specifications thereof as may be modified from time to time and is ready for normal continuous operation; (ii) acquisition, construction and installation of the Project or Capital Improvements has been completed in every material respect; and (iii) costs (including contingencies), as estimated by the Construction Engineer, of all work remaining to be done in order to complete such acquisition, construction and installation will not exceed 2% of the Cost of Acquisition and Construction of the Project or Capital Improvements, the Authority shall cause the Construction Engineer to file a report to that effect with the Authority and the Trustee.

7. As soon as practicable after the date referred to in paragraph 6 of this Section 503, or the Date of Commercial Operation of the Project or Capital Improvements, whichever is the later, the Authority shall cause the Construction Engineer to file with the Authority and the Trustee a report setting forth, as of such later date, the following in reasonable detail with respect to the Project or Capital Improvements: (a) the total Cost of Acquisition and Construction exclusive of claims of contractors and others which are the subject of actual or prospective dispute or controversy and exclusive of the cost (including contingencies), as estimated by the Construction Engineer, of the remaining work; (b) the portion of the total Cost of Acquisition and Construction specified pursuant to clause (a) of this paragraph which has been paid in full; (c) the portion of the total Cost of Construction and