

**BRADLEY LAKE HYDROELECTRIC PROJECT
STATIC VAR COMPENSATION SYSTEM
OPERATION AND MAINTENANCE AGREEMENT**

**Between
CHUGACH ELECTRIC ASSOCIATION, INC.,
AND
ALASKA ENERGY AUTHORITY**

August 1996

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**BRADLEY LAKE HYDROELECTRIC PROJECT
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OPERATION AND MAINTENANCE AGREEMENT**

This Agreement (hereinafter referred to as "Agreement"), is made and entered into this 20th day of August, 1996, by and between ALASKA ENERGY AUTHORITY, a public corporation of the State of Alaska (hereinafter referred to as "Authority"), and CHUGACH ELECTRIC ASSOCIATION, INC., (hereinafter referred to as "Chugach"), a non-profit electric cooperative membership corporation of the State of Alaska.

WITNESSETH:

WHEREAS, the Authority is the owner of the Bradley Lake Hydroelectric Project, including the Project Power Transmission Lines between the substation at the Bradley Lake Power House and Bradley Junction;

WHEREAS, Chugach owns and operates electric transmission facilities and is engaged in the transmission, purchase, and sale of electric power and energy;

WHEREAS, Chugach, as owner of the Daves Creek facilities and lessee of the 115 kV portion of the Soldotna Substation, agrees to operate and maintain the SVS facilities for the benefit of the Bradley Lake Project;

WHEREAS, the Authority and Chugach desire to define the terms and conditions governing the operation and maintenance of the SVS facilities at the above described substations; and

WHEREAS, pursuant to the Power Sales Agreement, the BPMC has approved the terms of this Agreement;

NOW THEREFORE, IN CONSIDERATION of the mutual covenants herein contained the Parties hereto agree as follows:

SECTION 1 DEFINITIONS

The terms used in this Agreement shall be as defined in the Power Sales Agreement, except as specified below. For the purposes of this Agreement, the following definitions and abbreviations apply:

- A. "Agreement" means this Agreement.
- B. "BPMC" means the Bradley Lake Project Management Committee.
- C. "Emergency" shall mean an unforeseen circumstance or the resulting state that requires immediate action to protect or preserve the SVS Facilities, personnel, public health and safety, or the operation of the interconnected system in accordance with Prudent Utility Practice.
- D. "Party" or "Parties" means the signatories to this Agreement.
- E. "Power Sales Agreement" means the Bradley Lake Power Sales Agreement, dated December 8, 1987, among the Authority; the Municipality of Anchorage (d.b.a. Municipal Light and Power (ML&P)); the City of Seward (d.b.a. Seward Electric System (SES)); the Chugach Electric Association, Inc. (Chugach); the Golden Valley Electric Association, Inc. (GVEA); the Alaska Electric Generation and Transmission Cooperative, Inc. (AEG&T), the Matanuska Electric Association, Inc. (MEA); and the Homer Electric Association, Inc. (HEA).
- F. "Soldotna Substation" shall mean the 115 kV portion of HEA's substation at Soldotna, Alaska.
- G. "Substation Operator" means the Party operating and maintaining a 115 kV substation and the SVS equipment at that substation.
- H. "SVS" means a Static VAR Compensation System.

SECTION 2 EFFECTIVE DATE, TERM AND TERMINATION

A. Effective Date and Term of Agreement.

This Agreement shall become effective on the date set forth above and shall continue in effect until terminated as provided in Section 2B.

B. Termination of Agreement.

1. Unless otherwise extended in writing, as to the Soldotna Substation SVS, this Agreement shall automatically terminate upon the termination or expiration of the Agreement for Lease of

Facilities between Chugach and Homer Electric Association, Inc. dated September 25, 1985.

2. This Agreement may also be terminated under the following conditions:
 - a. In the event of a material breach of this Agreement by a Party, the other Party shall give the breaching Party written notice of the breach and an opportunity to cure the breach within a reasonable time considering the circumstances of the breach. In the event the breach is not cured within a reasonable time, the non-breaching Party, except as provided in Section 2.B.3., may terminate its obligations, duties and all rights it has under this Agreement. Any dispute as to a reasonable time to cure the breach shall be adjudicated by the BPMC.
 - b. By delivering written notice to the Authority and BPMC as provided in Section 5.B.3. All liabilities accruing under this Agreement prior to its termination shall be and are hereby preserved until satisfied and the rights of the Authority under 2.B.3. shall continue.
3. In the event this Agreement is terminated, the Authority, or its contractors, shall have the right to enter upon the substation facilities to operate and maintain the SVS facilities. Upon termination of this Agreement, the Substation Operator shall release all relevant records to the Authority.

SECTION 3 GENERAL PROVISIONS AND INCORPORATION OF EXHIBIT A OF THE MASTER OPERATING AGREEMENT

This Agreement is subject to the terms of the Master Operating Agreement between the Authority and the BPMC. Except for paragraphs (o) Notice and Communications and (t) Third Party Beneficiaries, the provisions of Exhibit A, Master Contract Provisions, of the Master Operating Agreement are expressly incorporated by reference in this Agreement. Paragraphs (o) and (t) are modified and included below as Sections 14 and 15.

Nothing in this Agreement is intended to alter the rights and obligations of the Authority and the Purchaser(s) under the Power Sales Agreement. In the event the terms of this Agreement and the Power Sales Agreement or Master

Operating Agreement are found to be in conflict, the terms of the Power Sales Agreement shall have first priority with the Master Operating Agreement having second priority. The provisions of this Agreement are not intended, nor shall they be construed, to alter or modify any previous contracts or agreements of any Party or preclude any Party from performing existing obligations.

In their performance of this Agreement, the Parties will comply with the terms and provisions of the Power Sales Agreement.

SECTION 4 OPERATIONAL REQUIREMENTS

A. Systems Operation.

The Parties agree to operate their respective systems in accordance with the provisions of Section 10 (c) of the Power Sales Agreement.

B. Substation and SVS Operation and Maintenance.

In accordance with the provisions of this Agreement, the Substation Operator shall be responsible for the operation and maintenance of the SVS equipment on behalf of the Authority and for provision of increased transfer capacity resulting from operation of the SVS for the Purchasers in proportion to their Project shares.

Chugach, as owner of the Daves Creek Substation and as lessee of the Soldotna Substation from HEA, shall be the Substation Operator for both the Daves Creek Substation and Soldotna Substation SVS equipment.

SECTION 5 OPERATION AND MAINTENANCE PLAN, SCHEDULE AND BUDGETS

A. Maintenance Plan and Schedule Requirements.

1. The Substation Operator shall develop annually a plan and schedule for operation and maintenance of the respective SVS facilities. This plan and schedule shall be used for planning and tracking maintenance activities and as the basis for budget submittals to the Authority and the BPMC.
2. The plan and schedule shall run from July first to June thirtieth of each Fiscal Year.

B. Annual SVS Facilities Budget.

1. After the effective date of this Agreement, and in accordance with schedules provided by the Authority, the Substation Operator shall prepare and submit each year to the Authority and to the BPMC a draft Annual SVS Facilities Budget for the following Fiscal Year as provided in Section 5 D. The draft budget shall be prepared in a format and schedule provided to the Authority by the BPMC.
2. The draft Annual SVS Facilities Budget shall be based upon prudent estimates and anticipated operation and maintenance expenditures, and reflect appropriate accounting and budgetary principles for utilities.
3. The Substation Operator shall perform its duties in a manner consistent with the Annual SVS Facilities Budget except as provided in Sections 7 and 8 below. If the Substation Operator makes a determination during any Fiscal Year that it cannot perform its obligations under this Agreement without an increase in the expenditures authorized under Annual Project Budget, the Substation Operator shall report such finding to the Authority and the BPMC and shall submit a revised budget for the Authority's and the BPMC's review and approval. In the event the revised budget is not adopted by the BPMC and the Authority, or in the event the Authority, pursuant to Section 13(e) of the Power Sales Agreement does not authorize and agree to fund such expenditures, and the Substation Operator determines that it cannot perform its obligations under this Agreement, the Substation Operator may terminate this Agreement upon 90 days written notice to the Authority and the BPMC.

C. Three Year Major Maintenance and Improvements Plan and Budget.

Annually the Substation Operator shall prepare and submit a three year plan and budget for proposed major maintenance and improvements, (e.g., major equipment replacement) and other projects deemed by the Substation Operator to be required to insure continued safe and economical operation of the respective SVS facilities that are not included in that Fiscal Year's proposed annual maintenance plan or require more than one year to complete. The three year plan shall be revised annually and submitted together with the proposed annual maintenance plan.

D. Budget and Plan Submittal.

The Substation Operator shall submit the annual maintenance plan, schedule and budget, and the three year plan and budget to the Authority and the BPMC no later than November 1 for the next Fiscal Year. The plans, schedules and budgets may be modified through negotiations between the Substation Operator and the Authority, subject to approval by BPMC.

SECTION 6 PAYMENT

- A. The ordinary costs of performing under this Agreement, including station service costs, shall be initially paid by the Substation Operator.
- B. The Substation Operator shall prepare an invoice each month identifying the actual and reasonable costs incurred in a format mutually agreeable to the Authority and the Substation Operator. The invoice shall be furnished to the Authority by the fifteenth (15) of the month following the month in which the costs are incurred. All such invoices shall be subject to audit and approval by the Authority, such approval shall not be unreasonably be withheld.
- C. Subject to the availability of funds, the Authority shall reimburse the Substation Operator for all costs reasonably incurred and properly invoiced and approved under this Agreement.
- D. Any amounts owed by the Authority to the Substation Operator shall be paid by the Authority within thirty (30) days of receipt of an appropriate invoice from the Substation Operator. Any amounts not paid within thirty (30) days shall accrue simple interest at the legal rate of interest beginning at the time payment was due.
- E. The Authority shall authorize payment for the full amount of the Substation Operator charges pending the resolution of any cost dispute, except for those costs expressly disapproved in writing. Within thirty (30) days after the Substation Operator submits a disputed invoice costs charge, the Authority shall notify the Substation Operator in writing of the amount in dispute and the basis for the dispute. If the Parties cannot settle the dispute informally, the dispute shall be submitted to the BPMC for resolution. In the event a resolution of the dispute through the BPMC fails, either Party may file an action in the Alaska Superior Court for the

Third Judicial District to obtain a decision resolving such dispute and to obtain any other remedy permitted by law. Pending final resolution of any such dispute the Parties shall continue to perform under this Agreement.

SECTION 7 EMERGENCY EXPENDITURES

The Substation Operator shall take such actions as it reasonably believes are necessary in an emergency. If, in the reasonable judgment of the Substation Operator, the emergency requires the Substation Operator to incur costs prior to obtaining written approval from the Authority, the Substation Operator shall notify the Authority and the BPMC within 72 hours after discovery of the emergency.

SECTION 8 EXTRAORDINARY MAINTENANCE AND EQUIPMENT REPLACEMENT

When the Substation Operator learns of an equipment failure or other contingency which, in the Substation Operator's judgment, necessitates incurring an extraordinary maintenance and equipment replacement cost, the Substation Operator shall promptly notify the Authority and the BPMC of the circumstances. Except as provided in Section 7, the Substation Operator shall obtain the Authority's written approval prior to incurring an extraordinary maintenance and equipment replacement cost. Except in emergency circumstances the Substation Operator shall incur no extraordinary maintenance and equipment replacement cost for which the approval of the Authority has been requested and expressly denied in writing.

SECTION 9 MODIFICATIONS AND ADDITIONS

Except in emergencies, no modifications or additions shall be made to the SVS equipment without the prior written approval of the BPMC.

SECTION 10 AUTHORIZED REPRESENTATIVE

The Parties shall each designate one representative to carry out the provisions of this Agreement. Within 30 days after execution of this Agreement, each Party shall notify the other Party in writing of its designated representative. Any Party may change its representative at any time and shall promptly provide written notice of such change to the other Party.

SECTION 11 ACCESS TO FACILITIES

Authority and BPMC personnel or agents shall be granted reasonable access to the substations, SVS equipment and facilities upon reasonable notice and subject to security measures, for the purpose of inspection and testing.

SECTION 12 FORCE MAJEURE

- A. No Party to the Agreement shall be liable to the other Party for, or be considered to be in breach of or default under this Agreement on account of, any delay in performance or any delay or failure to deliver, receive or accept delivery of energy due to any of the following events:
1. Any cause or condition beyond such Party's reasonable control which such Party is unable to overcome by the exercise of reasonable diligence, including but not limited to: fire, flood, earthquake, volcanic activity, wind, drought and other acts of the elements; court order and act of civil, military or governmental authority; riot, insurrection, sabotage and war; breakdown of or damage to facilities or equipment; electrical disturbance originating in or transmitted through such Party's electric system or any electric system with which such Party's system is interconnected; and, any act or omission of any person or entity other than such Party, or Party's contractors or suppliers of any type or anyone acting on behalf of such Party. Strikes, lockouts, and other labor disturbances shall be considered Force Majeure events and nothing in this Agreement shall require either Party to settle a labor dispute against its best judgment; provided, that during any labor dispute each Party shall make all reasonable efforts under the circumstances, including, to the extent permitted by law and collective bargaining agreements, the use of replacement personnel and or management personnel and/or other personnel under the provisions of a mutual aid agreement to ensure, if possible, the continued ability of the Parties to carry out their obligations under this Agreement, or
 2. Any action taken by such Party which is reasonably necessary or prudent to protect the operation, performance, integrity, reliability or stability of the Project or of such Party's electric system or any electric system with which such Party's electric system is interconnected, whether such actions occur automatically or manually.

- B. In the event of any delay excused under this section, the time for performance thereby delayed shall be extended by a period of time reasonably necessary to compensate for such delay. No cost adjustment shall be allowed, only time extensions as appropriate. Nothing contained in this paragraph shall require any Party to settle any strike, lockout or other labor dispute. Each Party shall give the other Party prompt written notice of any delay which the Party giving notice considers to be an excusable delay of its performance.

SECTION 13 DISPUTE RESOLUTION

Pending resolution of a disputed matter, the Parties shall continue performance of their respective obligations pursuant to this Agreement. If the Parties cannot reach timely mutual agreement on any matter in the administration of this Agreement, the Substation Operator shall, to the extent necessary for its continued performance, make a determination of such matter without prejudice to the rights of the other Party. Such determination shall not constitute a waiver of any other remedy belonging to any Party.

SECTION 14 NOTICES

Notices shall be addressed as follows: Executive Director, Alaska Energy Authority, 480 West Tudor Road, Anchorage, Alaska 99503-6690. Notices to Chugach will be addressed to: General Manager, Chugach Electric Association, Inc., P.O. Box 196300, Anchorage, Alaska 99519-6300. A Party may change the foregoing designations of its name or address to which notices or demands are to be directed at any time by written notice given to the other Party.

Any notice or request not otherwise provided for in this Agreement shall be given in such manner as the Parties agree.

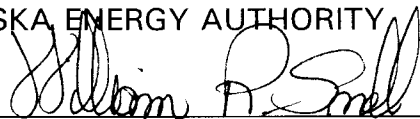
SECTION 15 THIRD PARTY BENEFICIARIES

This Agreement gives no rights or benefits to anyone other than the Parties, Chugach and the Authority, and the BPMC as a third party beneficiary. The BPMC is the only third party beneficiary. In any action by the BPMC for damages Chugach shall have the right to assert against the BPMC any defense which it could have asserted against the Authority. The raising of any such

defense by Chugach shall not affect any right of a Purchaser or the BPMC under the Master Operating Agreement or Power Sales Agreement.

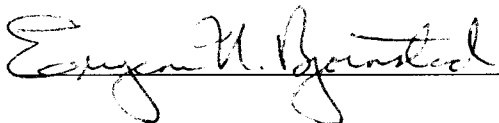
IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed by their authorized officers or representatives and their corporate seals to be hereunto affixed as of the day and year first above written.

ALASKA ENERGY AUTHORITY

By: 

Its: Executive Director

CHUGACH ELECTRIC ASSOCIATION, INC.

By: 

Its: General Manager

STATE OF ALASKA)
) ss.
THIRD JUDICIAL DISTRICT)

The foregoing Agreement was acknowledged before me this 20th day of August, 1996, by William R. Snell, the Executive Director of the Alaska Energy Authority, an Alaska corporation, on behalf of the corporation.

Shauna M. Dear
Notary Public in and for Alaska
My commission expires: 3-14-98

STATE OF ALASKA)
) ss.
THIRD JUDICIAL DISTRICT)

The foregoing Agreement was acknowledged before me this 19th day of August, 1996, by Eugene N. Bjornstad, the General Manager of the Chugach Electric Association, Inc., an Alaska corporation, on behalf of the corporation.

Annis A. Withers
Notary Public in and for Alaska
My commission expires: 4/8/99