

EXECUTION COPY

**LONG-TERM POWER SALES AGREEMENT
BY AND BETWEEN
SOUTHEAST ALASKA POWER AGENCY
CITY OF KETCHIKAN
CITY AND BOROUGH OF WRANGELL
AND
CITY OF PETERSBURG**

THIS LONG-TERM POWER SALES AGREEMENT is entered into by and among the CITY OF KETCHIKAN, the CITY AND BOROUGH OF WRANGELL, the CITY OF PETERSBURG, and the SOUTHEAST ALASKA POWER AGENCY, each a PARTY and collectively the PARTIES, to provide for the sale, delivery, and purchase of Electric Power from the Swan Lake Project ("Swan Lake"), from the Tyee Lake Project ("Tyee Lake"), and from other Agency Facilities.

WHEREAS, the Southeast Alaska Power Agency (the "Agency") is a public agency of the State of Alaska duly created, organized and existing pursuant to AS 42.45.300, and authorized by law to sell electric power generated by its facilities; and

WHEREAS, the City of Ketchikan, the City and Borough of Wrangell, and the City of Petersburg are qualified utilities within the meaning of AS 44.83.425(5), and are authorized to operate, and entitled to purchase power at wholesale from the facilities of the Agency; and

WHEREAS, the Parties have entered into this Agreement in order to set forth the terms and conditions under which the Agency will sell and the Purchasing Utilities will buy Electric Power from the Agency Facilities;

NOW THEREFORE, in consideration of the mutual covenants set forth herein, the Parties hereto agree as follows:

SECTION 1. Parties, Authority and Allocation of Facilities.

a. The parties to this Agreement ("Parties") are:

- (i) the Southeast Alaska Power Agency("Agency"), or its successor;
- (ii) the City of Ketchikan ("Ketchikan"), d.b.a. Ketchikan Public Utilities, a home rule municipality of the State of Alaska, or its successor;
- (iii) the City and Borough of Wrangell ("Wrangell"), d.b.a. Wrangell Municipal Light and Power, a home rule municipality of the State of Alaska, or its successor; and

(iv) the City of Petersburg ("Petersburg"), d.b.a. Petersburg Municipal Power and Light, a home rule municipality of the State of Alaska, or its successor;

b. The Parties shall include the respective successors and assigns of the above Parties, except as limited by Section 11.

c. The Parties are also referred to herein as follows:

(i) Ketchikan, Wrangell, and Petersburg are referred to as "Purchasing Utilities."

(ii) Wrangell, and Petersburg are referred to as "Interconnected Utilities."

d. Reference in this Agreement to any of the Parties shall include such officers or agents as may from time to time lawfully exercise responsibility and authority for and on behalf of such Parties, unless the context clearly requires otherwise.

e. Each Party hereto represents and warrants to the others that it is authorized to and has taken all steps necessary pursuant to law to enter into this Agreement and to comply fully with its terms.

f. For purposes of this Agreement the output of the Dedicated Facilities shall be allocated as follows:

(i) The output of Swan Lake will be, in the first instance, dedicated to serving the Firm Power Requirements of Ketchikan.

(ii) The output of Tyee Lake will be, in the first instance, dedicated to serving the Firm Power Requirements of the Interconnected Utilities.

g. Unless otherwise agreed, additional generation or transmission facilities that may be constructed in the future, shall be added as Dedicated Facilities in accordance with Section 3(g).

h. In reference to the Swan Lake and Tyee Lake Intertie Project (the "Swan-Tyee Intertie"), a transmission project currently being developed by the Agency for the purpose of interconnecting the Dedicated Facilities, the Purchasing Utilities shall have access to the output generated by the Dedicated Facilities. See Exhibit C for a description of the Swan-Tyee Intertie. The available output of each project will, in the first instance, be dedicated as set forth in Sections 1(f) above; however, any Dedicated Output in excess of a Purchasing Utility's Firm Power Requirements shall be made available by the Agency and shall be purchased by another Purchasing Utility if necessary to meet its Firm Power Requirements (Additional Dedicated Output). Such Additional Dedicated Output shall be purchased at the Wholesale Power Rate determined pursuant to Section 6 of this Agreement.

i. The Dedicated Facilities, the Swan-Tyee Intertie, and any subsequent project developed by the Agency shall be deemed to be Agency Facilities.

SECTION 2. Term of Agreement.

- a. Effective Date. This Agreement shall be effective upon its execution by the authorized representatives of all Parties ("Effective Date").
- b. Term. The term of this Agreement shall be twenty-five (25) years from the Effective Date ("Term").
- c. Termination Restriction. No Party may terminate this Agreement except with the written consent of all other Parties.
- d. Renewal. The Purchasing Utilities may renew this Agreement at the end of the Term on the same terms and conditions as provided herein for any period not to exceed the remaining useful life of the Agency Facilities as reasonably determined by the Agency. When considering renewal or extension of this Agreement, the Agency may engage an independent expert to assist with the following: (i) the determination of the remaining useful life of the Agency's Facilities; (ii) the identification of which Purchasing Utilities want to continue to be part of the Agency; and (iii) the recommendation of the length of any renewal term. The final determination of the length of any renewal term shall be at the sole discretion of the remaining Parties to this Agreement.

SECTION 3. Sale and Purchase of Power.

- a. Sales by Agency. All capacity and energy generated by Agency Facilities shall be sold by the Agency.
- b. Rates. Each Purchasing Utility shall meet its Firm Purchase Requirements by purchasing Dedicated Output, and any Additional Dedicated Output, from the Agency on the basis of Billed Energy, at the Firm Wholesale Power Rate established by the Agency in accordance with Section 6 of this Agreement. The sale of Surplus Power to non-Parties shall be at rates established by the Agency in accordance with Section 6(e) of this Agreement.
- c. Full Requirements. The Parties have a direct financial interest in ensuring the maximum practicable sales of capacity and energy from the Agency's Facilities pursuant to this Agreement. Therefore, to the extent energy and capacity are available from the Agency's Facilities to meet the portion of the Purchasing Utility's electric load requirements that exceed the available output of that Purchasing Utility's existing hydroelectric resources such Purchasing Utility shall serve those requirements with purchases of Dedicated Output or Additional Dedicated Output. See Exhibit A for a listing of qualifying existing hydroelectric resources of the Purchasing Utilities. The requirement of Subsection c of this Section 3 shall not apply to the extent that (a) the Agency consents in writing to a Purchasing Utility's use of electric power resources other than Agency Facilities or (b) the Party is required by law to purchase power generated by such other resource.
- d. Surplus Power. Any and all sales of Surplus Power herein shall be subject to the following conditions and procedures:

(i) If a prospective purchaser (including a Purchasing Utility) applies to the Agency to purchase Surplus Power, the Agency shall notify the Purchasing Utilities of the application, and afford each Purchasing Utility, as appropriate, an opportunity to file an application to purchase such Surplus Power. In the event that the Agency receives competing or conflicting applications for Surplus Power, the Agency shall give preference and priority to Purchasing Utilities in the sale of such Power.

(ii) Before agreeing to make any sale of Surplus Power, other than sales of hourly or next-day capacity or energy not needed to serve Firm Power Requirements, the Agency shall afford the Purchasing Utilities a reasonable period of time in which to review and comment on the proposed sale and the proposed terms and conditions of that sale. The Agency shall not unreasonably refuse to implement commercially reasonable suggestions for sales conditions, or unreasonably refuse to honor commercially reasonable objections to proposed sales, that it receives from Purchasing Utilities.

(iii) If, in the determination of the Agency, there is Surplus Power available, this Surplus Power may, in the sole commercially reasonable discretion of the Agency, be sold on an Interruptible Basis, at a price determined by the Agency and as established in Section (6)(e).

e. Payment Obligations. The payment obligations of the Purchasing Utilities under this Agreement are obligations payable solely out of the revenues of the Purchasing Utilities' Systems and are not general obligations of such Purchasing Utilities. In the event that any Purchasing Utility fails to perform its payment obligations under this Agreement, the Agency shall proceed to enforce such obligations against such Purchasing Utility in accordance with the provisions of Section 7 of this Agreement.

f. Interruptible Contracts. Contracts for sale of interruptible power by a Purchasing Utility validly existing on the Effective Date shall be honored, under the currently effective terms and conditions in those contracts. Upon expiration, the Agency will determine whether the contracts will be a sale of Surplus Power pursuant to Section 6(e). With this limited exception, all Interruptible sales of Electric Power from Agency Facilities only shall be made as a sale of Surplus Power by the Agency.

g. New Projects - Agency. The Electric Power available from any new generation or transmission projects developed by the Agency after the Effective Date shall be apportioned between the Parties as shall be determined by the Agency. The Electric Power to be apportioned pursuant to this Section shall be determined using the annual generation available from the new project. Any new projects developed or purchased by the Agency shall be Agency Facilities and treated as Agency Facilities subject to the terms of this Agreement.

h. New Projects - Purchasing Utility. A Purchasing Utility may undertake to develop and operate an energy project that is separate and distinct from the Agency's Facilities so long as the Party's obligations under Section 3(c) Full Requirements are fully satisfied or expressly waived in writing by the Agency.

SECTION 4. Continuity Of Service.

a. Continuity of Service. The Agency shall at all times, except when prevented by a cause or event not within the control of the Agency, make Electric Power continuously available to each Purchasing Utility at the Delivery Point of that Purchasing Utility's system in the amount of that Purchaser's Firm Power Requirements, subject to the following limitations:

(i) Interruptions or restrictions of deliveries caused by the reasonable need of the Agency or a Purchasing Utility to inspect, maintain, repair, test, or otherwise service its facilities or equipment in accordance with Prudent Utility Practice and standards shall excuse the Agency from its obligation to meet the Operations Plan for that Purchasing Utility to the extent of such interruptions or restrictions, but such interruptions or restrictions shall be of reasonable duration, and shall, whenever practicable, be scheduled during light load hours or periods. All Parties shall provide the others as much notice as is reasonable and practicable of any planned interruption or restriction, the reasons therefor, and the probable duration thereof.

(ii) In order to protect facilities and equipment that might otherwise be damaged when service is restored or increased following an interruption or substantial restriction, all parties shall notify the others as reasonable, in advance, of an intent to resume or increase deliveries of or demand for Electric Power from a Dedicated Facility, and the time of such resumption or increase.

(iii) This Agreement shall not create on the part of the Purchasing Utilities or the Agency any legal duty to maintain continuity of electric power service to any Purchaser's retail customers.

See Exhibit B for the Delivery Points and Single Line Diagrams of the Purchasing Utilities Delivery Point(s).

b. Facilities of Purchasing Utilities. All Parties shall, at all times, construct, maintain and repair their respective facilities and equipment in accordance with Prudent Utility Practice and standards in order to prevent, minimize, or correct any failures or partial failures of such facilities or equipment.

c. System Interference. All Parties shall operate, maintain and use their utility systems and related protective relays to minimize electric disturbances which may interfere with the system of another party or any Interconnected System, or which may reduce the efficiency or increase the cost of operation of any Dedicated Facility.

d. Risk. The Parties to this Agreement understand that operating the Agency Facilities carries with it certain risks. The Agency shall attempt to mitigate such risks by taking the following actions: (i) adopt an insurance plan to provide appropriate levels of insurance for Agency Facilities; (ii) provide for sufficient reserves, consistent with Prudent Utility Practices, to address unmitigated risks; and (iii) establish a renewal, replacement, and risk fund to maintain Agency Facilities.

c. System Disturbances. If a Purchasing Utility reasonably determines that service from its Dedicated Facility is so erratic or unreliable as to (i) interfere substantially with the continuous delivery of Electric Power to that Utility's retail customers, or (ii) threaten damage to its facilities or equipment, the Purchasing Utility may, upon notice to the other Purchasing Utilities and the Agency, refuse to accept Power from its Dedicated Facility until reliability has been restored to industry standards (the "System Disturbance Notice"). If such reliability problems are not so resolved within twenty-four (24) months after the date of the System Disturbance Notice, the Utility shall be excused from making purchases pursuant to this Agreement and may meet its load requirements with any resources it deems appropriate, irrespective of the provisions of Sections 2(c) and 3(c) of this Agreement until such time as the Agency deems reliability to be restored. The Agency and the Purchasing Utility shall thereafter resume purchases of power under this Agreement.

SECTION 5. Operations Plan.

a. Operations Plan Development. The Agency shall, in cooperation with the Purchasing Utilities, annually prepare an Operations Plan, and review it periodically as needed. The Operations Plan shall estimate the Firm Power Requirements of the Purchasing Utilities and shall identify the Dedicated Output to be delivered to meet the Firm Power Requirements of Dedicated Parties, as well as any Additional Dedicated Output to be delivered to meet a Purchasing Utility's Firm Power Requirements. The objectives of the Operating Plan shall include maximizing the utilization of the output of the Agency Facilities and optimizing the output of the Agency Facilities in order to serve the Purchasing Utilities' Firm Power Requirements as set forth pursuant to this Agreement, through the use of water management and other efficient dispatch procedures adopted by the Agency, subject to Dedicated Parties' priority access to Dedicated Output. The Operations Plan shall also be utilized for the dispatch of the power generated by the Dedicated Facilities.

b. Priority. A Party's Dedicated Output shall be included in the Operations Plan. The Operations Plan shall give first priority to satisfaction of a Dedicated Party's Firm Power Requirements from Dedicated Output, and second priority to satisfaction of a Purchasing Utility's Firm Power Requirements from Additional Dedicated Output. Satisfaction of the Purchasing Utilities' Firm Power Requirements shall have priority over delivery of Surplus Power under the Operations Plan.

SECTION 6. Rates and Billing

a. Payment Obligation and General Billing Practices.

(i) The payment obligation of each Purchasing Utility in each Contract Year shall be the product of the Firm Wholesale Power Rate for that Contract Year (expressed in cents per kilowatt-hour) multiplied by that Purchasing Utility's Billing Energy (expressed in kilowatt-hours, for that Year, each as finally determined after the end of that Contract Year).

(ii) The Parties recognize that in practice neither the Firm Wholesale Power Rate nor the actual Billing Energy of any Purchasing Utility is capable of

final determination for any Contract Year until after that Year has ended. Therefore, during each Contract Year each Purchasing Utility will pay, on a monthly basis, amounts equal to the Purchasing Utility's Billing Energy multiplied by the Firm Wholesale Power Rate then in effect.

(iii) Each Purchasing Utility may offset against and deduct from its monthly payments all or a portion of the approved Facility Operating Costs the Purchasing Utility has incurred. All such costs shall be subject to audit, approval, and such other procedures as the Agency may from time to time prescribe.

b. Firm Wholesale Power Rate Components. The Agency shall set the Firm Wholesale Power Rate for Dedicated Output and Additional Dedicated Output on an annual basis as soon as practicable after the budget is approved, but no later than the beginning of the Agency's fiscal year. The Firm Wholesale Power Rate established pursuant to this Agreement is a rate estimated to produce sufficient revenue to meet any of the Agency's debt service obligations and to pay for the cost of operations, maintenance, renewals and replacement, insurance, regulatory compliance, or other costs of the Agency. The price of the Firm Wholesale Power determined by the Agency, shall be sufficient to cover the following items for the Operating Year within which such rates will be in effect:

(i) debt service payments (including interest) and any other amounts included in any resolutions or agreements related to borrowed funds, and additional debt service coverage;

(ii) estimated operations and maintenance expenses for the Agency, the Agency Facilities, and Agency administrative costs;

(iii) Funding of renewal, replacement, and risk amounts, insurance (including self-insured reserves); and, may also include

(iv) Any assessments, surcharges, rebates, refunds and over-collections.

c. Firm Wholesale Power Rate Calculation. To determine the Firm Wholesale Power Rate paid by the Purchasing Utilities on a per kilowatt hour basis, the amounts determined by the Agency pursuant to subsections (i), (ii), (iii) and (iv) of Section 6(b) shall be totaled and then divided by the estimated amount of kilowatt hours to be produced by the Agency's Facilities and purchased by the Parties in accordance with the Operating Plan during the Operating Year within which such rates will be in effect. Such price (\$/kWh) shall be paid for all Billed Energy for Dedicated Output and Additional Dedicated Output delivered to each Party for that Operating Year.

d. True Up. The Firm Wholesale Power Rate may include surcharges or refunds that are estimated to be sufficient to collect from or to repay to the Purchasing Utilities within twelve (12) months any revenue deficiency or surplus. The final such deficiency or surplus, which can be determined only after the last Contract Year of this Agreement, shall constitute a continuing obligation of the Parties to be collected or repaid during a reasonable period of time following such final Contract Year, the provisions of Section 2(d) of this Agreement notwithstanding.

e. Surplus Power Rate. The Agency shall set the Surplus Power Rate on a case-by-case basis when a particular request is made for the Agency to supply Surplus Power. The price of the Surplus Power determined by the Agency shall take into account the Agency's cost to produce the power and the value of the Surplus Power relative to the purchaser's alternative sources of power.

f. Transmission Rate. When a request for transmission services is made, whether for service from a generating station or to a load other than Firm Power Requirements or both, transmission rates will be developed by the Agency at the time of the request. Such transmission services shall be on an Interruptible Basis and shall be second in priority to transmission service for Firm Power Requirements. The transmission rate will be developed in a manner that recovers, at a minimum, the full cost-of-service for use of the Agency Facilities.

g. Rate Revisions. The Firm Wholesale Power Rate to be paid by the Purchasing Utilities may be revised by the Agency if deemed necessary during an Operating Year if analysis of costs and sales indicate that failure to revise the estimated Rates will produce a revenue deficiency or over-collection. However, it is the intention of the Parties that mid-Year rate revisions be avoided, and that surcharges and refunds should be applied over a twelve (12) month period to the fullest extent practicable, even if such surcharges or refunds that occur during an Operating Year and are collected and/or refunded during a succeeding Operating Year.

h. Billing. Each Purchasing Utility will be billed monthly by the Agency based on that Purchaser's Billed Energy during the preceding month. A Purchasing Utility shall be permitted to "net" its payments to the Agency by reducing its bill by the amount of allowable expenses it advanced or incurred on behalf of the Agency, as established in Section (6)(a)(iii). The Agency shall adopt a policy that establishes the process for Purchasing Utilities to report sales, and remit all such "net" payments to the Agency, including the items that are allowable for such net billing. A Purchasing Utility must provide documentation reasonably satisfactory to the Agency substantiating such expenses at the time a net payment is made.

SECTION 7. Performance Pending Dispute Resolution.

a. Dispute Resolution. The Parties and Agency involved in any dispute arising from this Agreement or its interpretation agree, in the event of such a dispute, to a meeting with senior officials from all Parties to the dispute. In the event such a meeting does not result in a final agreement to the dispute, the Parties agree to mediate the dispute if they fail to resolve the dispute in the meeting with senior officials. Any mediator used under Subsection a of this Section 7 shall be experienced in electric generation matters and the issue which is in dispute. Should the Parties fail to resolve any dispute through a meeting of senior officials and a mediation between all Parties to the dispute, a Party may bring an action in the Superior Court of the State of Alaska.

b. Unresolved Disputes. Pending resolution of any disputed matter, the Parties shall continue performance of their respective obligations under this Agreement. The existence of a dispute shall not excuse the Agency from delivering Power hereunder or excuse the Purchasing Utilities from making payment for such Power. Rather, the Parties shall continue to perform while pursuing other remedies, including judicial remedies, available to them under this Agreement.

c. Remedies. Upon the failure of any Purchaser to make any payment under this Agreement, and after following the procedures established in Subsection (a) of this Section 7, the Agency may bring any suit, action, or proceeding at law or in equity, including mandamus, injunction, and actions for specific performance, as may be necessary or appropriate to enforce that Purchaser's payment obligation.

d. No Exclusivity. No remedy conferred upon or reserved by the Parties 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 8. 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 to the extent required to comply with licensing requirements of the Federal Energy Regulatory Commission (FERC). In keeping books of account, the Parties shall, to the extent that different rules are not prescribed by this Agreement or federal and state laws, follow the system of accounts prescribed for public utilities and licensees by FERC.

SECTION 9. Inspection of Facilities.

For purposes of this Agreement, each Party may, but shall not be obligated to, inspect any other Party's facilities at any reasonable time, 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 facilities.

SECTION 10. Covenants to Maintain Integrity of Agreement.

a. Compliance with Laws. The Purchasing Utilities shall take all necessary steps to comply with applicable federal and state laws and regulations, licenses and permits relating to the use and operation of utility systems of the Purchasing Utilities.

b. Utility System Operations. Each Purchasing Utility agrees to continue to operate its electric utility properties for the term of this Agreement and renewal thereof in a sound and businesslike manner to provide electric services within its service area. Each Purchaser agrees to establish its retail electric rates in accordance with generally accepted accounting principles, applicable regulatory requirements, and customary utility practice.

c. Purchasing Utility Covenants. Each Purchasing Utility covenants and agrees that it will establish, maintain, and collect rates or charges for energy and capacity supplied hereunder and other services, facilities, and commodities sold, furnished, or supplied by it which shall be adequate to provide revenues sufficient to enable such Purchasing Utility to make the payments required under this Agreement and to pay all other charges and obligations payable from or constituting a charge against or lien on such revenues. Each Purchasing Utility covenants and agrees that its payment obligations under this Agreement shall constitute an operating expense of such Purchasing Utility's System and shall have a priority pledge of the revenues of such Purchasing Utility's System superior to any future debt obligations.

The Parties shall take all necessary steps within their control to comply with applicable federal and state laws, regulations, licenses and permits relating to the use and operation of the Agency Facilities, and without limitation, to comply with the terms of FERC licenses applicable to Agency Facilities. The Agency shall take all necessary steps to cause the FERC license to be renewed, if necessary, so that it is in effect during the term of this Agreement or any extension thereof.

This Agreement shall supersede and replace the Long-Term Power Sales Agreement Four Dam Pool – Initial Project of the Alaska Power Authority and any power sales agreement currently in effect between any Purchasing Utility, and each Party to this Agreement has released the other from any prior power sales agreements. After the Effective Date, any reference to a power sales agreement between the Parties shall only apply to this Agreement except where the context clearly requires otherwise.

SECTION 11. Assignment.

a. Assignment. 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, however, that (i) neither this Agreement nor any interest herein shall be transferred or assigned by a Purchasing Utility to any other person unless prior written consent of the Agency has been obtained and the assignee or successor in interest complies with the statutory requirements for a purchaser of power under applicable statutes, and (ii) although the Agency may assign its rights under this Agreement to another party, the Agency may not assign its obligations under this Agreement to any party other than a party authorized and able to perform those obligations.

b. Consent to Assignment. The Purchasing Utilities agree that for the purpose of increasing the security the Agency is able to offer to purchasers of bonds, notes, or other evidences of indebtedness used to finance future projects of the Agency, the Agency may assign to such purchasers, to other future lenders, or to other third parties acting as trustees for such purchasers or future lenders, by subordination or otherwise, its rights to receive payments under this Agreement.

SECTION 12. Notices and Computation of Time.

Any notice required by this Agreement to be given to any Party shall be effective when it is received by such Party. Whenever this Agreement calls for notice to (unless otherwise specifically provided) or notification by any Party, the same shall be in writing directed to the Agency's executive director or an official designated by the Purchaser.

SECTION 13. Availability of Information.

To the extent required for any calculation or determination to be made pursuant to this Agreement, the Parties shall make available to each other, for inspection and copying during business hours, all books, records, plans and other information relating to or supporting such calculation or determination.

SECTION 14. Waiver Not Continuing.

Any waiver at any time by any Party to this Agreement of its rights with respect to any default of any other Party here to, 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 15. 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 16. Severability.

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, unless such invalidity or unenforceability materially impairs the benefit of the remainder of this Agreement.

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.

SECTION 17. Definitions.

- a. "Additional Dedicated Output" means the energy and/or capacity from an Agency Facility that is in excess of the Firm Power Requirements needs of the Party or Parties designated to receive Dedicated Output from that Agency Facility, is available for use, and can be used to meet a Party's Firm Power Requirements.
- b. "Agency Facility or Agency's Facilities" means, collectively Swan Lake and Tyee Lake hydroelectric facilities, together with associated equipment, transmission lines (including the Swan-Tyee Intertie), and other facilities, now owned or later developed, and made part of this Agreement by the Parties, by the Agency that are used or useful for the generation and delivery of electric power by the Agency to a Purchasing Utility.
- c. "Agreement" means this Long-Term Power Sales Agreement.
- d. "Agency" means the Southeast Alaska Power Agency.
- e. "Billing Energy or Billed Energy" means the amount of electric energy, expressed in kilowatt-hours, actually delivered to and taken by a Purchaser pursuant to this Agreement, on

the basis of which that Purchaser's payment obligations are computed in accordance with Section 6 of this Agreement.

f. "Contract Year" means, except for the first and last Contract Years, the twelve-month period used for budgeting and ratemaking purposes. The second through forty-fifth Contract Years shall each start on July 1 and shall end on June 30 of the next calendar year. The first Contract Year shall be that portion of the 12-month period between the effective date of this Agreement and the following June 30. The last Contract Year shall be that portion of the 12-month period between the end of the last full (i.e., 12-month Contract Year and the expiration of this Agreement).

g. "Dedicated Facility" (or jointly referred to as "Dedicated Facilities") means the following:

(i) The Swan Lake Hydroelectric Facility (Swan Lake) for Ketchikan.

(ii) The Tyee Lake Hydroelectric Facility (Tyee Lake) for the Interconnected Utilities.

(iii) Transmission lines and the related facilities and equipment necessary or useful for delivery of Dedicated Output or Additional Dedicated Output or Surplus Power, and other facilities and resources, now owned or later developed, and made part of this Agreement by the Parties, that are used or useful for the generation and delivery of electric power by the Agency

See Exhibit C for a description of the Swan Lake and Tyee Lake and the Swan-Tyee Intertie projects.

h. "Dedicated Output" means the energy and capacity from a particular Agency Facility that has been designated to be supplied to a Dedicated Party or Dedicated Parties and sold at Firm Wholesale Power Rates. Dedicated Output has first priority delivery under the Operations Plan.

i. "Dedicated Party" or "Dedicated Parties" means a Party that is designated to receive its Firm Power Requirements from Agency Facilities. Ketchikan is a Dedicated Party with respect to the output from Swan Lake. The Interconnected Utilities, Petersburg and Wrangell, are each a Dedicated Party with respect to the output from Tyee Lake.

j. "Delivery Point" means the point or points designated in Exhibit A attached hereto and made a part hereof where

(i) electric power may actually be metered, or, if no meter exists at that point, the equivalent point adjusted mathematically for line losses from the nearest point of such actual metering; and

(ii) delivery normally occurs.

k. "Effective Date" shall be as provided in Section 2(a) of this Agreement.

l. "Electric Power" or "Power" means electric energy or electric capacity, or both, except where the context requires a distinction, in which case electric energy is expressed as such or in kilowatt-hours, and electric capacity is expressed as such or in kilowatts.

m. "Facility Operator" means a qualified public utility or electric operating entity with responsibility for operating and maintaining a Dedicated Facility pursuant to this Agreement or a separate operating agreement.

n. "Firm Power" means power from the Agency Facilities that is sold to a Purchasing Utility pursuant to the Operations Plan and cannot be interrupted, except for scheduled required maintenance and system emergencies.

o. "Firm Power Requirements" means the Electric Power load being served by a Party in its respective community, excepting that portion of a Party's load which Party-owned hydroelectric generation (existing and in service prior to 1985) can supply.

p. "Firm Wholesale Power Rate" means the rate charged for Firm Power delivered to Dedicated Parties from the Agency's Facilities.

q. "Interconnected System" means a Purchasing Utility's System, the Dedicated Facility of that Purchasing Utility, and any other system for the generation, transmission or distribution of electric power which is physically interconnected with the Purchasing Utility's System or its Dedicated Facility.

r. "Interconnected Utilities" means Wrangell and Petersburg.

s. "Interruptible" or "Interruptible Basis" means power produced or transmission service provided, but the delivery of which can be interrupted or recalled by the Agency for any reason in its sole discretion including, but not limited to, the purpose of satisfying the Firm Power Requirements of a Dedicated Party or Dedicated Parties.

t. "Operations Plan" means the annual operations and dispatch plan developed by the Parties for serving the Purchasing Utilities' respective loads from the Agency Facilities.

u. "Operating Year" means the one (1) year period used for the development of the budget for revenues and expenditures required by the Agency and determination of the rates paid by the Parties for Firm Power generated and supplied by the Agency.

v. "Party" or "Parties" shall have the meaning provided in Section 1(a) and 1(b) of this Agreement.

w. "Prudent Utility Practice" means, at any particular time, any of the practices, methods, and acts which, in the exercise of reasonable judgment in light of the facts known at the time, would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety, and expedition, including but not limited to the practices, methods, and acts engaged in or approved by a significant portion of the electric utility industry prior thereto. In applying the standard of Prudent Utility Practice to any matter under this Agreement, equitable consideration should be given to the circumstances, requirements, and

obligations or each of the Purchasing Utilities, and the fact that the Purchasing Utilities are cooperative corporations, public corporations, or political subdivisions of the State of Alaska. It is recognized that Prudent Utility Practice is not intended to be limited to the optimum practices, methods, or acts to the exclusion of all others, but rather is 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 the Initial Project, but also to appropriate structures, landscaping, painting, signs, lighting, and other facilities.

x. "Purchasing Utility" or "Purchasing Utilities" means Ketchikan, Wrangell or Petersburg, or any of them.

y. "Purchasing Utility's System" means a Purchasing Utility's public utility system for the generation, transmission and distribution of electric power.

z. "Surplus Power" means power generated by Agency Facilities available for delivery that no Party requires or desires to purchase. Surplus Power shall be priced at the Surplus Power Rate.

aa. "Surplus Power Rate" means the rate charged for Surplus Power that is established by the Agency and sold on an Interruptible Basis.

SECTION 18. Exhibits.

The following exhibits attached hereto are incorporated by reference herein:

- | | |
|-----------|--|
| Exhibit A | Description of Each Purchaser's Existing Hydroelectric Resources |
| Exhibit B | Delivery Points and Single Line Diagrams |
| Exhibit C | Description of the Agency's Facilities |

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed, each on the date written below.

CITY OF KETCHIKAN

By: Bob Gukimstein
Title: Mayor
Date: 2-18-09

[SEAL]

ATTEST:

Latherine M. Suiter
CITY CLERK

[Signatures continued on following page]

CITY OF WRANGELL

By: _____
Title: _____
Date: _____

[SEAL]

ATTEST:

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed, each on the date written below.

CITY OF KETCHIKAN

By: _____
Title: _____
Date: _____

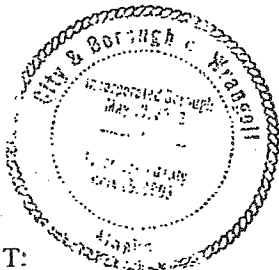
[SEAL]

ATTEST:

[Signatures continued on following page]

CITY OF WRANGELL

By: [Signature]
Title: MAYOR
Date: December 30, 2008



[SEAL]

ATTEST:

Carol Bean Deputy
Borough Clerk

CITY OF PETERSBURG

By: [Signature]
Title: City Manager
Date: 2/19/2009

[SEAL]

ATTEST:

[Signature]
City Clerk

SOUTHEAST ALASKA POWER AGENCY

By: _____
Title: _____
Date: _____

APPROVED:

CITY OF PETERSBURG

By: _____
Title: _____
Date: _____

[SEAL]

ATTEST:

SOUTHEAST ALASKA POWER AGENCY

By: Bob Weinstein
Title: Chair, Board of Directors
Date: 2-18-09

APPROVED:

EXHIBIT A

Description of Each Purchaser's Existing Hydroelectric Resources

<u>Purchasing Utility</u>	<u>Qualifying Existing Hydroelectric Resources¹</u>
Ketchikan	(1) Beaver Falls/Silvas Lake (FERC Project. No. 1922) (2) Ketchikan Lakes Project (FERC Project. No. 420)
Wrangell	None
Petersburg	Crystal Lake Hydroelectric Project (the Blind Slough Project) (FERC Project. No. 201)

¹ The capacity of the above-listed existing hydroelectric resources shall be set as of the Effective Date for purposes of determining the requirements in Section 3(c). The capacity set at the Effective Date may also include any subsequent efficiency improvements made to the resource (e.g., an efficiency improvement not requiring a modification to its FERC licenses such as generator rewind, turbine runner redesign, or other power train efficiency improvements).

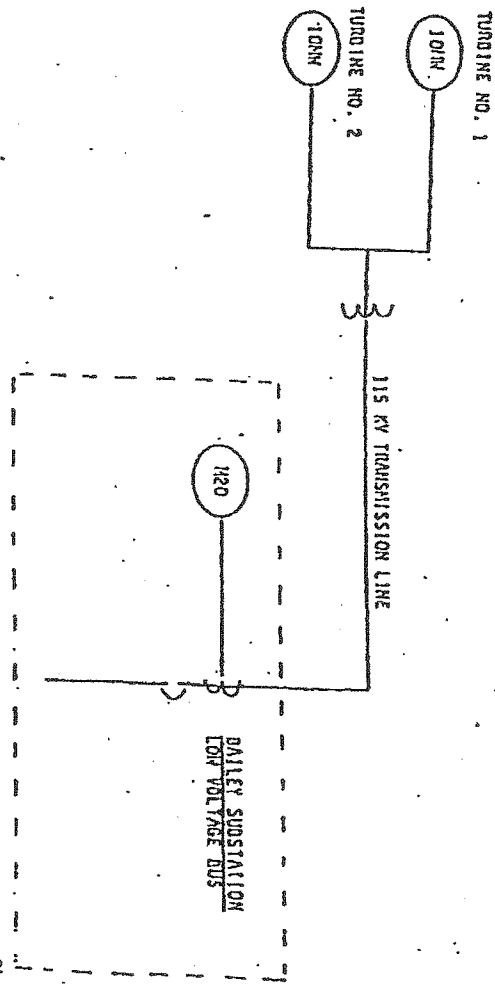
EXHIBIT B

Delivery Points and Single Line Diagrams

The Delivery Points shown in this Exhibit may be changed, and additional Delivery Points may be added, by agreement between the Authority and individual Purchasing Utilities.

DELIVERY POINTS AND SINGLE-LINE DIAGRAM

SUN LAKE PROJECT



DELIVERY POINTS: ALL POWER IS DELIVERED ON THE KPU SIDE OF THE BAILEY SUBSTATION LOW VOLTAGE CIRCUIT BREAKERS.
REVENUE METER LOCATION: FOR POWER DELIVERED TO KPU REVENUE METERING IS LOCATED AT POSITION 120.

Exhibit A--Page 2

DELIVERY POINTS AND SINGLE-LINE DIAGRAM.

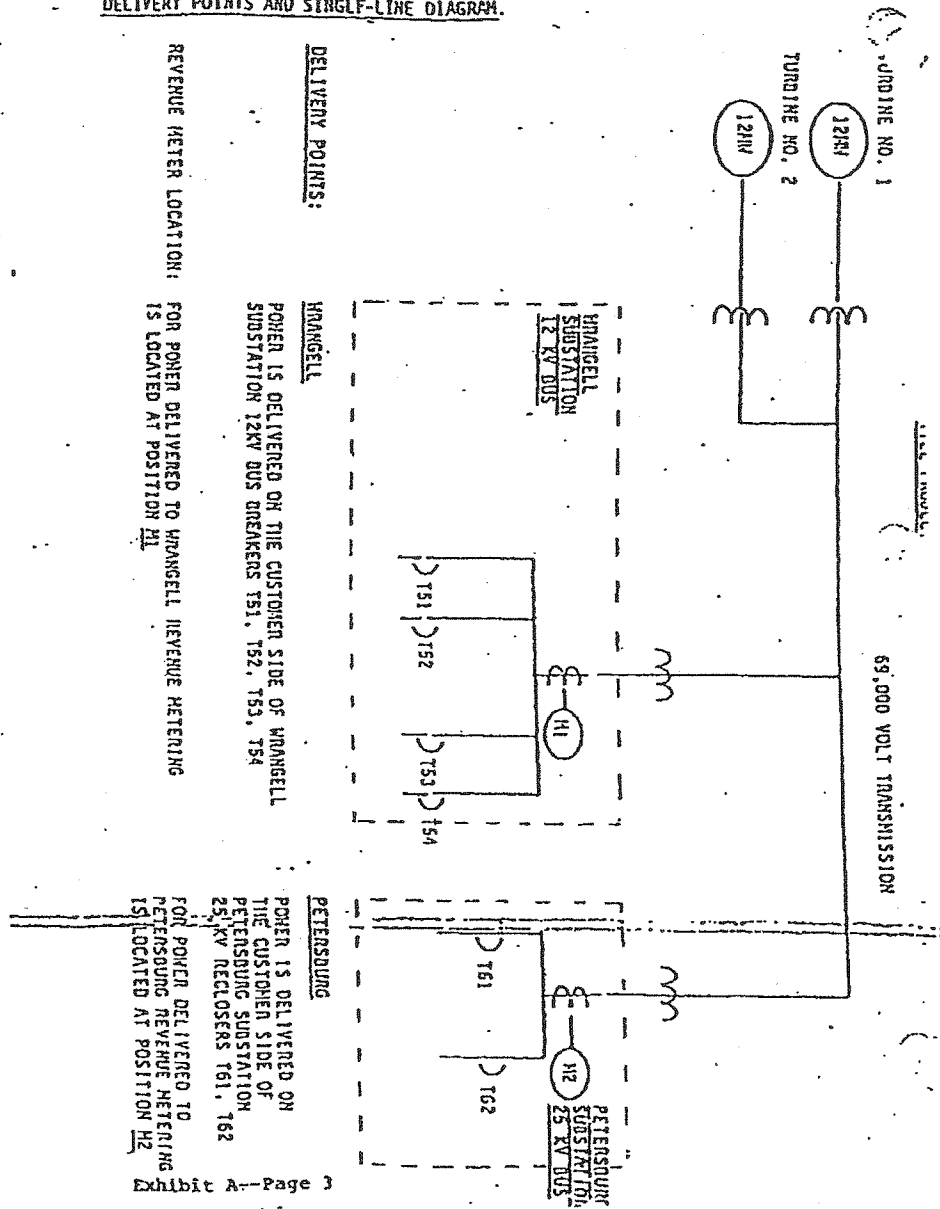


Exhibit A--Page 3

EXHIBIT C

Description of the Agency's Facilities

I.. Description of Swan Lake Hydroelectric Project

The Swan Lake Hydroelectric Project located in the vicinity of Ketchikan, Alaska consists primarily of:

(1) All lands constituting the project area and enclosed by the project boundary, to the extent of the Authority's interests in those lands as generally described by exhibits to the application for the FERC license;

(2) Project works consisting of: (a) a concrete arch dam, 174 feet high and 430 feet long at its crest, located approximately ¼ mile downstream from the mouth of the original Swan Lake and having an uncontrolled ogee spillway section, 100 feet long, with a crest elevation of 330 feet; (b) Swan Lake Reservoir, with a surface of 1,500 acres at normal maximum elevation and usable storage capacity of 80,000 acre-feet between elevations 330 and 271.5 feet; (c) a power tunnel, 2,200 feet long and 11 feet in diameter, leading from intake structure at the north abutment upstream of the dam to the powerhouse where it divides into two steel-lined penstocks, 5.5 feet in diameter; (d) an indoor -type, remotely controlled, concrete powerhouse containing two generating units with a total rated capacity of 22,000 kw and located at Carroll Inlet immediately north of the mouth of Falls Creek and also containing the Authority's one-half interest in the SCADA system; (e) a 13.8/115-kv substation to the extent of the Authority's interest therein located adjacent to the powerhouse; and (f) access facilities comprised of port facilities 1,000 feet north of the powerhouse, a staging area adjacent to the port facilities, and access roads from the port facilities to the powerhouse and dam;

(3) A 115-kv transmission line extending from the powerhouse substation 30.5 miles to the existing S.W. Bailey Substation; and

(4) All equipment, apparatus, structures and appurtenances, and property or interests therein necessary or desirable for the operation of the foregoing all as specified in plans and specifications therefore now on file with the authority.

II. Description of Lake Tyee Hydroelectric Project

The Tyee Lake Hydroelectric Project, FERC Project No. 3015, is located in southeast Alaska (approximately 40 miles southeast of the City of Wrangell) and consists primarily of:

1. All lands constituting the project area and enclosed by the project boundary, to the extent of the Agency's interests in those lands as described by exhibits to the application for the FERC license;

2. Project works consisting of: Tyee Lake, a natural lake used as a storage reservoir with 15 square miles of catchment area, 52,400 acre feet of active storage, and a normal water surface elevation of 1396.0 feet; an 8,300-foot-long tunnel; and, a powerhouse, switchyard and transmission system. There is no dam or spillway. Water from the lake is conducted to the powerhouse through an opening near the lake bottom that connects to the tunnel. There is a 54-inch diameter penstock that is 1,350 feet long connecting the tunnel to a manifold adjacent to the powerhouse.

3. The powerhouse and switchyard consist of: A 122-foot x 38-foot multistory concrete building with two Sulzer Pelton wheel turbines rated 16,700 hp at 1306 foot head, and provision for a third turbine. The generators are manufactured by Meidensha of Japan and are each rated at 12.5 kVA, 13.8 kV, 3 phase. Governors are manufactured by L&S Electric and are industrial PLCs. The fenced switchyard has 2 main, 3 phase 138/69 kV, step-up transformers manufactured by Westinghouse that are each rated at 11,250 kVA. The switchyard also contains three single phase, oil filled, circuit breakers.

4. The transmission system consists of; The Tyee transmission line (designed and built for 138 kV but energized at 69 kV), consists of 68.2 miles of the overhead line and 12.6 miles of submarine cable connecting the Project to the communities of City of Wrangell and Petersburg. The transmission system includes substations in City of Wrangell and Petersburg.

5. All equipment, apparatus, structures, and appurtenances, and property or interests therein necessary or desirable for the operation of the foregoing as specified in the plans and specifications therefore now on file with the Agency.

III. Description of Swan-Tyee Intertie

The Swan-Tyee Intertie is a 57-mile long 138-kilovolt (kv) transmission line to be located in Southeast Alaska that will interconnect the electric system of Ketchikan to the Tyee Lake hydroelectric project. Construction of the Swan-Tyee is presently underway. Clearing for the right-of-way and installation of structure foundations was completed in 2008. Structure installation and stringing of conductor is planned to be accomplished in 2009 with completion of the project scheduled for late 2009.

The estimated construction cost of the Swan-Tyee Intertie is approximately \$115 million. Essentially all of the cost of construction will be funded with both Federal and State grants. Grants received to date total approximately \$110 million. The Agency is pursuing additional grants to complete funding of the construction costs of the Swan-Tyee Intertie and is committed to complete the project with grant funding and other sources.

In addition to greater utilization of the energy generation capability of the Tyee Lake hydroelectric project, a significant benefit of the Swan-Tyee Intertie will be the interconnection of the Ketchikan, Wrangell and Petersburg electric systems. Integrated operation of the hydroelectric facilities in the interconnected system should improve overall utilization of the available hydroelectric resources. System reliability should be improved through the ability to backup hydroelectric generating units in the system with other hydroelectric units. Maintenance of the generating units can also be more effectively scheduled than can be accomplished with the non-interconnected systems that presently exist.

The Swan-Tyee Intertie will also serve as a significant component of a proposed Southeast Alaska electrical transmission system and will provide for long-term benefits in the ability to develop Southeast Alaska's significant hydroelectric potential in the future on a more cost effective regional basis rather than on a community by community basis.