

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

RESOLUTION NO. G09-02

**RESOLUTION OF THE ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY RELATING TO THE HEALY CLEAN
COAL PROJECT - SETTLEMENT TERM SHEET**

WHEREAS, the Authority owns the Healy Clean Coal Project (HCCP);

WHEREAS, the Railbelt has considerable need for additional electric power generating assets to replace aging generating infrastructure and to diversify generation resources;

WHEREAS, the Authority and independent experts on coal electric generation have evaluated HCCP and concluded that with some modifications, HCCP is capable of providing efficient electric power generation that can meet utility safety and reliability standards;

WHEREAS, the Authority entered various agreements with Homer Electric Association, Inc. ("HEA") under which the Authority and HEA would jointly provide for the restart and commercial operation of HCCP;

WHEREAS, the Authority's and HEA's agreements for the restart and commercial operation of HCCP are conditioned upon securing various agreements and working relationships between the Authority and Golden Valley Electric Association, Inc. (GVEA), which agreements and working relationships are the subject of ongoing litigation that has been pending since November 2005;

WHEREAS, the Authority from January 1, 2000, has continued to pay substantial amounts annually to maintain HCCP in a warm shut-down mode until litigation and disputes are resolved to enable the restart and commercial operation of HCCP;

WHEREAS, the Authority, HEA and GVEA negotiated a Settlement Term Sheet dated January 9, 2009 ("Settlement Term Sheet"), which provides the conceptual terms and framework for the negotiation of more specific agreements that will resolve litigation and other disputes, and will enable HCCP to be restarted and put into commercial operation to generate electric power for the Railbelt;

WHEREAS, the Settlement Term Sheet provides conceptual terms for the following basic transactions: (1) AIDEA will sell HCCP to GVEA for \$50,000,000, and finance the purchase with a 5.0 percent annual interest rate, over 25 years, and with collateral acceptable to AIDEA; (2) GVEA will sell to HEA, fifty percent (50%) of HCCP energy and capacity, under terms negotiated between GVEA and HEA; and (3) AIDEA will provide a secured loan to GVEA of up to \$45,000,000, to finance HCCP restart costs, financed at a 6.5 percent annual interest rate, over 25 years, and with collateral acceptable to AIDEA;

WHEREAS, the Settlement Term Sheet is made subject to approval by the Boards of the Authority, GVEA and HEA;

WHEREAS, on January 13, 2009, the GVEA Board and the HEA Board each approved the Settlement Term Sheet;

WHEREAS, the Board's HCCP subcommittee and Authority staff believe that the transactions contemplated in the Settlement Term Sheet are in the best interests of the Authority and the State of Alaska because the transactions contemplated: will offer a fair sale price to the Authority; will eliminate what has been considerable ongoing annual expense to, and fiscal drain on, the Authority maintaining HCCP and litigating disputes; will resolve litigation and other disputes; and will enable HCCP to be restarted and put into commercial operation to generate electric power for the Railbelt;

WHEREAS, for the reasons described above, the Board's HCCP subcommittee and Authority staff recommend that the Board approve the Settlement Term Sheet.

NOW, THEREFORE, BE IT RESOLVED BY THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY AS FOLLOWS:

Section 1. The Board approves the Settlement Term Sheet dated January 9, 2009.

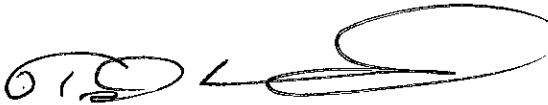
Section 2. The Board authorizes the Board's HCCP Subcommittee, the Executive Director and staff of the Authority to continue their efforts, and take all actions necessary, appropriate or desirable, to negotiate the additional agreements contemplated in the Settlement Term Sheet dated January 9, 2009.

Section 3. The Executive Director is authorized and empowered to take any and all actions appropriate and consistent with this Resolution.

DATED at Anchorage, Alaska, this 14th day of January, 2009.


Chairman

(SEAL)
ATTEST


Secretary

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HCCP Settlement Term Sheet
January 9, 2009

Terms

1. GVEA or an entity wholly-owned by GVEA will pay AIDEA \$50,000,000 for HCCP “as is.” GVEA will assume all responsibility and risks associated with the ownership and operations of the plant. AIDEA will offer no warranty for the operational capacity of the plant and condition of the facilities.
2. AIDEA will finance the purchase price with a secured loan, collateral acceptable to AIDEA, at an annual interest rate of 5.0 percent, which will accrue from the date of sale. Payment of principal and interest will commence January 1, 2014 or when HCCP first begins commercial operation, whichever is earlier, and will be amortized over 25 years with no prepayment penalties.
3. AIDEA will provide up to \$45,000,000 as a secured credit facility to GVEA or a GVEA wholly-owned entity, collateral acceptable to AIDEA, for the repairs and modifications to HCCP (including an upgrade of GVEA’s BESS system required to mitigate HCCP issues and up to \$500,000 each for GVEA and HEA’s development costs associated with making HCCP operational) that GVEA deems necessary. The annual interest rate for funds GVEA uses will be 6.5 percent, and will accrue from the date of each draw of funds. Payment of principal and interest will commence January 1, 2014, or when HCCP first begins commercial operation, whichever is earlier, and will be amortized over 25 years with no prepayment penalties. This credit facility will be available to GVEA or a wholly-owned entity of GVEA until December 31, 2012.
4. HEA or an entity wholly-owned by HEA will enter into a power sales agreement with GVEA or a GVEA wholly-owned entity for HCCP unit capacity and energy, effective January 1, 2014. Such sales/purchase agreement will include the following provisions:
 - a) Term will be the economic life of HCCP or retirement of HCCP associated debt; whichever is longer,
 - b) Rates will be based upon the full unit cost of HCCP including capital, startup, environmental and technical costs (any shared costs to be allocated between Healy #1 and HCCP based on approved allocation),
 - c) Up to two HEA management employees will be part of the HCCP management team,
 - d) An HEA employee will be invited to participate in the GVEA Economic Dispatch Committee,
 - e) HEA will be given full access to HCCP records and GVEA will disclose all HCCP records to HEA,
 - f) Unless GVEA and HEA otherwise agree in writing, HCCP capacity and energy will be split 50/50 between GVEA and HEA. The parties will meet annually to determine whether that split will vary for the coming year,

AIDEA – GVEA – HEA
HCCP Settlement Term Sheet
January 9, 2009

- g) Pricing of test power will be at the non-firm power rate of the respective utility using the power,
 - h) If energy is not being produced at the HCCP plant for reasons other than forced outage or scheduled outage, i.e. for economic convenience, GVEA will provide replacement capacity and energy, with the capacity charge being equal to the HCCP capacity charge and the energy charge equal to the lesser of the average cost of HCCP energy or the actual cost.
5. Upon AIDEA, GVEA, and HEA's execution of this term sheet:
- a) AIDEA will provide to GVEA all HCCP engineering data,
 - b) AIDEA and GVEA will expeditiously negotiate a mutually acceptable asset sales agreement,
 - c) AIDEA, GVEA, and HEA will expeditiously negotiate and simultaneously execute mutually acceptable definitive agreements for the sale of HCCP, including loan, collateral, security agreements, settlement of claims, and power sales/purchase agreements,
 - d) AIDEA and GVEA will jointly 1) postpone depositions and dispositive motion practice until February 15, 2009, and 2) petition the court to request appropriate amendments to the pretrial order.
6. Upon execution of an asset sales agreement, GVEA and AIDEA will jointly petition the court to stay the civil case between the two parties until the earlier of: (1) August 1, 2009; or (2) ten days after the execution by AIDEA, GVEA, and HEA of definitive agreements implementing the provisions of this term sheet.
7. Upon executing definitive agreements implementing the provisions of this term sheet:
- a) HEA and AIDEA will terminate by agreement the Power Sales Agreement and Project Development Agreement, each dated as of November 16, 2006.
 - b) Within ten days after the execution by AIDEA, GVEA, and HEA of definitive agreements implementing the provisions of this term sheet, GVEA and AIDEA will jointly petition the court to dismiss with prejudice and without recovery of attorneys fees or costs, the civil case between AIDEA and GVEA.
 - c) GVEA's custodial agreement with AIDEA shall terminate upon sale of HCCP.
 - d) AIDEA, GVEA, and HEA will, in writing, each release all known and unknown claims and potential claims against the other arising out of or relating to HCCP that arose on or before the date of the release.

AIDEA - GVEA - HEA
HCCP Settlement Term Sheet
January 9, 2009

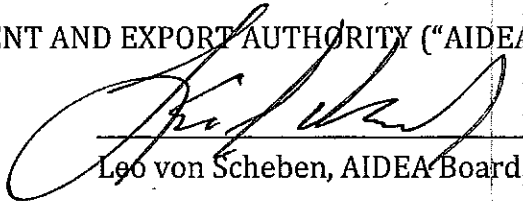
8. AIDEA, GVEA, and HEA each certify that by executing this term sheet it is not in breach of other agreements it may have with any other party.
9. In the event third party intervention concerning HCCP's permits prevents HCCP from beginning commercial operation using HCCP "clean coal" technology prior to January 1, 2014, then after January 1, 2014 and until commencement of commercial operations, AIDEA shall have the option to terminate the asset sales agreement and take full possession of HCCP for the purpose of salvage, provided AIDEA simultaneously releases GVEA from the purchase loan referenced in paragraph 2; however, if AIDEA does not exercise its option referenced in this paragraph, then AIDEA will defer debt payments (principal and interest) associated with this agreement until HCCP begins commercial operations or until AIDEA exercises its option referenced in this paragraph.
10. This term sheet shall terminate upon the earlier of (1) February 15, 2009 if AIDEA and GVEA have not executed a mutually acceptable asset sales agreement, or (2) August 1, 2009, if AIDEA, GVEA, and HEA have not executed mutually acceptable definitive agreements.

Executed (subject to Board approval of each party) this 9th day of January 2009.

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY ("AIDEA")

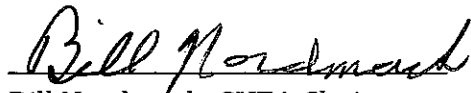


Patrick Galvin, AIDEA Chairman



Leo von Scheben, AIDEA Board Member

GOLDEN VALLEY ELECTRIC ASSOCIATION, INC. ("GVEA")

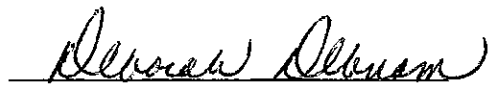


Bill Nordmark, GVEA Chairperson

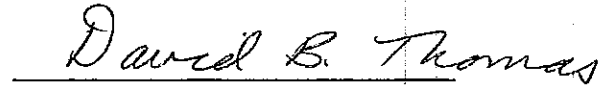


Dan Osborne, GVEA Vice-Chair

HOMER ELECTRIC ASSOCIATION, INC. ("HEA")



Deborah Debnam, HEA President



David Thomas, HEA Secretary/Treasurer

End of Terms