

Joe Griffith
CHIEF EXECUTIVE OFFICER



March 30, 2004

Commissioner
Department of Natural Resources
550 West 7th Avenue, Suite 1400
Anchorage, Alaska 99501

Subject: Cook Inlet Royalty in Kind Gas

Dear Mr. Arwin:

Thank you for the invitation to express our interest in Cook Inlet Royalty in Kind gas.

Chugach currently purchases approximately 23.5 BCF of Cook Inlet gas annually and has long-term contracts for about 184 BCF of Cook Inlet gas. We expect that these contracts will meet Chugach's entire requirement through 2010. These contracts also restrict our ability to buy gas needs from other sources, including RIK gas from the state, prior to exhausting the volumes under those contracts. Nevertheless, Chugach is interested in this source of gas as follow-on supplies to our current contract.

Chugach passes the full cost of gas it uses to produce electric energy directly through to its members without a markup. Chugach's contracts for gas from the Beluga River Field have provisions that if royalty gas is taken in kind, the volumes dedicated to Chugach may be reduced on a 1-for-1 basis at the discretion of the seller. Currently 91 BCF remain under contract to Chugach. RIK would hasten the end of these contracts by about a year.

Clearly it is not in the best interest of South Central Alaska residents to raise the price of gas for electricity and heating. Chugach is concerned that the result of the State directly marketing RIK gas at this time could reduce volumes of gas available under Chugach's existing contracts and cause Chugach to have to purchase higher priced gas. While we recognize that such a sale may increase the revenue to the State of Alaska, we believe it would be poor social and revenue policy to burden one segment of the Alaska population disparately with this additional cost.

In conclusion, Chugach may not be in a position to purchase RIK gas in the near term but could be harmed by the State taking RIK gas without additional assurances as to volumes otherwise committed in our contracts. Chugach recommends that DNR take and sell RIK gas only if we can be assured it will not reduce the volumes available under our contracts with the Beluga producers.

Sincerely,


Joe Griffith
Chief Executive Officer

DEPARTMENT OF
NATURAL RESOURCES

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