

Rec'd 1/24/02
AVEC's original

**BUSINESS PLAN OF THE
OLD HARBOR BULK FUEL STORAGE PROJECT**

SUBMITTED BY THE CITY OF OLD HARBOR

TO

DENALI COMMISSION

September 21, 2001

Old Harbor Business Plan

Table of Contents

	<u>Page</u>
Summary	1
Background Information.....	2
Need for Project	2
Projected Fuel Use	3
Old Harbor Fuel Storage Project	3
Primary Operator.....	5
Secondary Operator.....	6
Operations and Maintenance	
General	6
Responsible Parties	6
Renewals and Replacements	6
Cost Projections	7
Operating Agreements.....	8
Land Lease Agreements	8
Spill Response	8
Appendixes:	
Appendix A – Project Layout	
Appendix B – Primary Operator	
Appendix C – Secondary Operator	
Appendix D – Operating Agreement	
Appendix E – Detailed Cost Projections	

Tables

1	<i>Selected Statistics – Old Harbor</i>	2
2	<i>Projected Fuel Use</i>	3
3	<i>Installed Capacity</i>	4
4	<i>Project Costs</i>	5
5	<i>Net Income Statement</i>	11
6	<i>Cash Flow Summary</i>	12
7	<i>Balance Sheet</i>	13

OLD HARBOR FUEL STORAGE PROJECT

BUSINESS PLAN

SUMMARY

The following Business Plan provides a summary of the anticipated plan of operating and maintaining the Old Harbor Fuel Storage Project (the "Project") by the City of Old Harbor (the "City" or "Old Harbor"). Elements of this Business Plan include:

- Information regarding the Project and how it meets the needs of the community.
- Projections of operating and maintenance costs of the Project.
- Responsibilities of the Project participants for paying these operating and maintenance costs.
- Qualifications of the City for operating the Project.

The Business Plan focuses on wholesale operations only. Additional costs that will be borne by the end-user include the cost of fuel itself and other retail operating and maintenance costs that will incur. These additional costs are not part of the analysis described herein.

Based on the assumptions and considerations described herein, the project can be operated and maintained for approximately 51 cents/gallon at current throughput levels. Inflation, fuel throughput, and other factors can and will affect this projected cost. Therefore, this Business Plan should be considered a guide for wholesale operations and maintenance that must be reviewed periodically and updated as appropriate.

The City will be the Primary Operator (as defined herein) of the Project and will own and operate it pursuant to the provisions set forth in this Business Plan. The City understands that the Denali Commission will periodically audit operations to ensure that they are indeed in compliance with this Business Plan. If not, the Denali Commission has the right to transfer operations and maintenance to the Secondary Operator (identified later in this Business Plan).

There are three participants in the Project: the City, the Alaska Village Electric Cooperative ("AVEC"), and the Kodiak Island Borough School District ("KISBD"). AVEC and KISBD will be responsible for operating and maintaining their own facilities, and this Business Plan does not reflect those activities. However to the extent that either party is responsible for payments to the City for operating and maintaining common facilities, such responsibilities and payments are described herein.

BACKGROUND INFORMATION

The village of Old Harbor is located on the southeast coast of Kodiak Island, approximately 70 miles southwest of Kodiak. It is accessible by air via a State-owned 2,750-foot gravel airstrip, and scheduled air service is available to and from Kodiak. The village is also accessible by floatplane and water transportation. A harbor provides docking facilities for 55 boats, and Seattle-based and local barge services are available.

The area around Old Harbor has been inhabited for nearly 2,000 years and became the first Russian colony in Alaska in the late 1700's. A series of earthquakes destroyed the village, and it was re-located to what is now known as Kodiak. The original settlement was reestablished in the late 1800's, but the 1964 Good Friday earthquake destroyed all but three buildings of that settlement. The community was rebuilt in the same location and incorporated as a second-class city in 1966.

The City owns and operates a public water system and a public sewer system. All homes are connected to the public water and sewer system and have complete plumbing. Electric power is provided by the AVEC, and diesel generation is the only source of power at this time. The economic merits of a potential hydroelectric facility are presently being investigated.

Selected historical data for the village is provided in Table 1.

*Table 1
Selected Statistics - Old Harbor*

Population:	
2000.....	237
1990.....	284
Occupied Housing (2000).....	79
Vacant Housing Due to Seasonal Use (2000).....	13
Other Vacant Housing (2000).....	19
Total.....	111
Unemployment Rate (1990).....	39.1%
Median Household Income (1990).....	\$16,875

NEED FOR PROJECT

Existing bulk fuel storage capacity is relatively limited at this time. The source of retail fuel storage was owned and operated by the Old Harbor Fuel Company, a privately owned fuel supplier. However, these tanks were shut down and abandoned in the spring of 1999 due to non-compliance with state and federal regulations. Subsequently, the City of Old Harbor installed a single, 12,000-gallon diesel tank to provide for both its own use and limited retail sales, but there is currently no bulk fuel storage for gasoline. Residents, therefore, have had to

transport their own fuel or to purchase it in small quantities from freight or fishing vessels.

Other storage in Old Harbor includes KISBD with two 3,000-gallon underground storage tanks and AVEC with four 10,000-gallon tanks.

The lack of bulk fuel storage for retail use has, therefore, created potential environmental hazards as well as economic hardships for the area residents. Clearly, there is a need for additional storage facilities in Old Harbor.

PROJECTED FUEL USE

Historical records of retail fuel use in Old Harbor are not available due to the closure of Old Harbor Fuel Company. Therefore, estimates had to be made from conversations with the operator of the Island Provider and a past manager of Old Harbor Fuel Company as well as records from the limited retail operations of the City.

The City anticipates that initial sales will be less than current fuel consumption since some of the residents may continue to haul in their own fuel or continue to purchase from freight and fishing vessels. The City believes, however, that these fuel users will ultimately purchase from the City as long as fuel prices are priced commensurate with other sources when taking into account delivery services. Therefore, the projections in Table 2 include an initial sales amount, a transition period to current consumption levels, and provisions for long-term growth.

AVEC maintains complete records of its fuel consumption for power generation, and records indicate a use of approximately 60,000 gallons per year.

Table 2
Projected Fuel Use
(Gallons)

	Initial	Intermediate	Transition Period	Long-term Growth	Maximum
City					
Diesel	60,000	75,000	5	2.0%	90,000
Gasoline	30,000	34,000	5	2.0%	40,000
Subtotal - City	90,000	109,000			130,000
AVEC	60,000			0.0%	
Total	150,000				

The numbers provided in Table 2 do not include all of the estimated fuel use in the area, as some residents may elect to continue to bring their own fuel in. Furthermore, the numbers do not include fuel purchased elsewhere by the local fleet of commercial and pleasure boats. Current consumption is estimated to be in excess of 14,000 gallons above that shown in the table.

OLD HARBOR FUEL STORAGE PROJECT

The Old Harbor Fuel Storage Project will be a new bulk fuel storage facility that consolidates the fuel storage facilities in one location. In order to take advantage of existing equipment, a site was selected that would allow the City's storage tanks to be located in an area adjacent to AVEC's existing facilities. The Project site will be separated into two general areas: one with City facilities and another with AVEC facilities. The City's existing 12,000-gallon diesel tank will be relocated to the new site, and additional storage capacity will be added. AVEC's facilities were installed in 1991 and are in very good condition and will, therefore, not be replaced but simply refurbished. Table 3 provides a summary of the installed capacity for each participant, and a Project layout is provided in Appendix A.

Table 3
Installed Capacity - Gallons

	Number of Tanks	Use	Total Capacity	Notes
City	1	Diesel	12,000	Relocation of existing tank
	1	Diesel	27,000	
	1	Diesel	12,000	Dual compartment tank
		Gasoline	15,000	
1	Gasoline	4,000	Remote location dispenser	
AVEC	3	Diesel	30,900	
	1	Diesel	9,000	

Storage capacity is less than annual consumption due to space limitations in the area and an effort to minimize construction and operating costs. The tank sizes will be, however, large enough to allow the participants to purchase fuel in large enough quantities to obtain quantity discounts. It is the intent of the City and AVEC to coordinate the timing of fuel purchases to best take advantage of these quantity discounts. Old Harbor is ice-free all year.

In addition to the tanks listed in the preceding table, the Project also includes the installation of two, 600-gallon tanks at KIBSD. The operations and maintenance of these tanks are the responsibility of KIBSD and are, therefore, not part of this Business Plan. There will be no filler pipelines or other facilities common to the overall Project within KIBSD's facilities, and the City will truck fuel to the tanks.

Other Project components will include the following.

- *Marine Header and Filling System* – A marine header will be located at the deepwater dock where fuel can be offloaded from barges and piped approximately 3,500 feet to the tank farm.

- *Manifold Piping* – Piping inside the secondary containment area that connects primary storage tanks, the secondary tanks and the fuel distribution systems.
- *Secondary Containment Structures* – The primary storage tanks will be located on a diked and lined gravel pad for secondary containment.
- *Miscellaneous* – Other components of the Project include fencing, lighting, and a tank farm access boardwalk.

The City's Project facilities will be on land owned by the City, and similarly, the AVEC facilities will be on land owned by AVEC. Therefore, no land lease agreements will be required for this Project.

Construction of the Project is nearly complete, and the incurred costs are provided in Table 4.

Table 4
Project Costs

City/KIBSD	\$ 809,523
AVEC	215,477
Total	\$ 1,025,000

PRIMARY OPERATOR

The City will act as Primary Operator and will be responsible for the day-to-day operations and long-term maintenance of Project components in place solely for its use as well as Project components that are common to both the City and AVEC. AVEC shall have the right to use the diesel marine header and filler pipeline independent of deliveries to the City if required.

AVEC will be responsible for operations and maintenance of its own Project facilities.

The City has extensive experience in overall management and utility operations. There are approximately ten part-time employees of the City and a 6-person City Council. The City owns and operates a public water system and a public sewer system. Bills are prepared by City personnel and sent out on a monthly basis to over 100 consumers. The City's books are maintained on QuickBooks Pro, and there are three computers at the City and another two at the tribal office.

Day-to-day operations of the Project will be performed by Mr. Russell Fox and Mr. Victor Larionoff. Brief biographies of each are included in Appendix B. The two operators will report directly to the Mayor of Old Harbor, Mr. James Nestic.

Administrative functions will be performed by Mr. Russell Fox who also acts as Treasurer of the City. Mr. Fox has been Treasurer for the past three years and was a part-time clerk prior to that.

There will be times when additional expertise is required for performing certain maintenance activities at the tank farm, and the City intends to secure outside services on an as-required basis.

SECONDARY OPERATOR

The City understands that the Denali Commission will audit Project operations on a periodic basis and will allow the Primary Operator an initial three years to establish operations pursuant to this Business Plan. If, after this initial three-year period, an audit reveals that the Primary Operator is not operating it in accordance with this Business Plan, the Denali Commission has the right to transfer the cash assets, receivables, inventory, and certain other assets of the Project to the Secondary Operator and designate the Secondary Operator as the Primary Operator. If the original Primary Operator can later demonstrate to the Denali Commission that it can then operate the Project in accordance with the Business Plan, the Denali Commission can designate it as the Primary Operator.

The Secondary Operator of the Project is the Yukon Fuel Company. Details regarding the Secondary Operator are provided in Appendix C.

OPERATIONS AND MAINTENANCE

General. A general overview of Project operations is as follow. Diesel and gasoline fuel will be delivered by barge and off-loaded at the marine header and piped into the City's and AVEC's storage tanks. The City will:

- Transport diesel fuel to area residents and businesses by truck for heating purposes. The City presently owns a fuel truck, and the capital and operating costs of these retail operations are outside of this Business Plan.
- Pipe fuel to a marine dispenser and sell diesel fuel on a retail basis to boats in the area.
- Pipe fuel to a gasoline dispenser, located separate from the Project site, for retail sales to the community. The dispenser will be operated by a third party.
- Truck diesel fuel purchased by KIBSD and stored in the City tanks to KIBSD on an as-required basis.

AVEC will continue to use its fuel as its primary source of power generation.

Responsible Parties. Each Project participant (the City, AVEC, and KIBSD) will be responsible for operating and maintaining its own Project facilities. There are, however, certain facilities that are common to both participants, and the City will be

responsible for operating and maintaining these facilities. Identification of these common facilities and how the costs will be allocated are provided in the Tank Farm Ownership and Maintenance Agreement provided in Appendix D.

Renewals and Replacements. Many of operating and maintaining expenses will be incurred on an on-going basis, be it daily, monthly, or annually. However, there will also be certain activities that must be performed on a less frequent basis over the life of the Project. Such activities include, but are not limited to, major inspections, repainting, normal repairs due to the aging of facilities, and emergency repairs. The costs of these activities (hereinafter referred to as Renewals and Replacements) can be quite substantial and could be well outside the bounds of the City's normal cash flow.

Accordingly, the City will establish a Renewal and Replacement Fund ("R & R Fund") in an interest-bearing account for the express purpose of funding the Renewals and Replacements incurred during the life of the Project. Deposits into the R & R Fund will be made on a quarterly basis by the City and by AVEC for its share of Renewals and Replacements of the common facilities. The quarterly deposits will be in an amount such that there are sufficient funds to pay for the Renewals and Replacements of the City's facilities and the common facilities and also to have at the end of 40 years an amount approximately equal to 40 percent of the replacement costs of the City and common facilities. This additional amount is at the request of the Denali Commission.

AVEC and KIBSD will be responsible for performing Renewals and Replacement activities on its own facilities and are not included as part of this Business Plan.

Cost Projections. Projections of the City's costs, in its role as Primary Operator of the Project, have been made and are provided in Tables 5 - 7 at the end of this Business Plan, and details of these projections are provided in Appendix E. Certain assumptions have been made in projecting these costs, and these are detailed as follows.

1. General inflation is 3.0 percent per year.
2. Detailed assumptions regarding labor rates, required labor hours, and other operating costs are provided in Appendix E.
3. In lieu of hourly wages, the City proposes to pay most of its workers on a dollars/gallon basis as reflected in Appendix E.
4. AVEC is assumed to be responsible for the operations and maintenance of its own facilities. However, it will pay its proportionate share of operating and maintenance costs and Renewal and Replacement costs of common facilities.
5. Operating costs of common facilities are allocated to each participant based on its share of installed primary storage capacity.
6. Throughput is assumed as outlined in Table 2.

7. Provisions for insurance, both fire/liability and spill, are established to be 10 cents/gallon of throughput.
8. The R & R Fund deposit by the City is initially established to be 14 cents/gallon. This amount is ramped up over time such that there are sufficient funds to pay for the periodic Renewals and Replacements and the balance at the end of 40 years is equal to the target amount of 40 percent of the replacement cost of the City and common facilities.
9. A reinvestment rate of 4.5 percent (1.5 percent above inflation) has been assumed for the R & R Fund.

Based on the results shown in Tables 5 - 7, the City will add approximately 57 cents/gallon to the cost of fuel in order to recover the expected costs of operating and maintaining its facilities. This amount includes 14.0 cents/gallon for deposits into a Renewals and Replacement Fund to provide for long-term renewals and to partially pay for total Project replacement at the end of the Project. The costs, in cents/gallon, are expected to decrease in the early years as fuel throughput increases at a greater rate than the increase in costs. Once increases in fuel sales become minimal, the costs in cents/gallon may increase depending on how general inflation and other factors affect operating costs.

The City anticipates implementing a number of cost-saving strategies in order to minimize operating costs. These include:

1. The volunteer fire department will be trained for spill response, thereby allowing the City to gain economies of scale in manpower and training costs.
2. The City is investigating the merits of acquiring adequate training to perform pressure testing of the pipelines. Although the short-term costs may be higher, this arrangement may provide long-term benefits.

In addition to the costs paid for by the City, approximately \$1,550 per year must also be collected from AVEC. This amount represents AVEC's contribution to operations, maintenance, and renewals of facilities common to all Project participants.

As described at the beginning of this Business Plan, the costs and rates just described are based on assumptions regarding throughput, maintenance activities, administrative support, and other factors. As operating experience specific to this project is obtained, the projections and assumptions will be reviewed and modified as required.

OPERATING AGREEMENTS

In order to collect adequate revenues at the appropriate time, the Primary Operator (the City) must have in place an operating agreement with AVEC. This agreement is provided in Attachment D.

The City will also have an operating agreement with a private party for the retail dispensing of gasoline. This agreement is outside the scope of this Business Plan.

LAND LEASE AGREEMENTS

No land-use or lease agreements will be required. All participants will own the land that their facilities are located on.

SPILL RESPONSE

Spill response plans will be developed as required by the regulatory agencies and submitted to the appropriate agencies for approval. The Project will include the development of the following spill response and related regulatory plans:

- US Coast Guard Oil Spill Plan (33 CFR Part 154) – This plan covers spills between the marine header and the first valve inside the tank farm secondary containment dike.
- US Coast Guard Operations Manual (33 CFR Part 154) – This plan identifies procedures and equipment to be used for off-loading fuel from marine vessels to the tank farm.
- Environmental Protection Agency (EPA) Spill Prevention Control and Countermeasures (SPCC) Plan (40 CFR Part 112) – This plan identifies compliance of the facility with the requirements of 40 CFR Part 112. The plan must be reviewed and approved by a Registered Engineer.
- EPA Facility Response Plan (40 CFR Part 112) – This plan relates to spill response for the tank farm, excluding the barge off-loading pipeline and marine header.

These plans will be developed near the end of the tank farm construction. The projected operating costs developed in this Business Plan include the anticipated costs of ensuring the reliability of the spill response equipment, maintaining the proper records, and conducting periodic spill drills.

An agreement between the City and AVEC regarding spill response will also have to be entered into. Details of this agreement have not been established at this time but will be completed prior to Project operations.

Tables 5 – 7

Table 5 – Projected Net Income

Table 6 – Revenue Requirements Summary

Table 7 – Projected Balance Sheet

Table 5
Old Harbor Bulk Fuel Project
Net Income Statement

Line No.	Note	Year																		
		1	2	3	4	5	6	7	8	9	10									
(1)	Operating Revenues																			
(2)	City of Old Harbor																			
(3)	Operating Expenses	\$ 33,944	\$ 35,947	\$ 38,088	\$ 40,376	\$ 42,824	\$ 44,455	\$ 46,155	\$ 47,928	\$ 49,778	\$ 51,708									
(4)	R & R Fund Payment	12,150	12,743	13,368	14,024	14,715	16,677	17,011	17,351	17,698	18,052									
(5)	Subtotal - City of Old Harbor	\$ 46,094	\$ 48,690	\$ 51,455	\$ 54,400	\$ 57,539	\$ 61,132	\$ 63,166	\$ 65,279	\$ 67,476	\$ 69,759									
(6)	AVEC																			
(7)	Operating Expenses	\$ 1,089	\$ 1,122	\$ 1,156	\$ 1,190	\$ 1,226	\$ 1,263	\$ 1,301	\$ 1,340	\$ 1,380	\$ 1,421									
(8)	R & R Fund Payment	668	701	735	771	809	917	935	954	973	992									
(9)	Subtotal - AVEC	\$ 1,757	\$ 1,822	\$ 1,890	\$ 1,961	\$ 2,035	\$ 2,179	\$ 2,236	\$ 2,293	\$ 2,353	\$ 2,414									
(10)	Total Operating Revenues	\$ 47,851	\$ 50,513	\$ 53,346	\$ 56,362	\$ 59,574	\$ 63,311	\$ 65,401	\$ 67,573	\$ 69,829	\$ 72,173									
(11)	Expenses:																			
(12)	Operations and Maintenance	\$ 21,533	\$ 22,768	\$ 24,089	\$ 25,502	\$ 27,016	\$ 28,155	\$ 29,345	\$ 30,588	\$ 31,886	\$ 33,243									
(13)	Renewals and Replacements	-	-	-	-	-	-	-	-	-	-									
(14)	Administrative	4,500	4,861	5,252	5,676	6,134	6,444	6,770	7,113	7,473	7,851									
(15)	Insurance	9,000	9,440	9,902	10,388	10,900	11,118	11,340	11,567	11,799	12,034									
(16)	Other	-	-	-	-	-	-	-	-	-	-									
(17)	Depreciation and Amortization	-	-	106	106	1,400	1,410	1,410	1,410	2,865	4,559									
(18)	Total Operating Expenses	\$ 35,033	\$ 37,069	\$ 39,349	\$ 41,672	\$ 45,450	\$ 47,128	\$ 48,866	\$ 50,678	\$ 54,023	\$ 57,688									
(19)	Net Operating Income	\$ 12,818	\$ 13,444	\$ 13,996	\$ 14,689	\$ 14,124	\$ 16,184	\$ 16,535	\$ 16,894	\$ 15,806	\$ 14,485									
(20)	Non-Operating Revenues (Expenses)																			
(21)	Interest Earnings on R & R Fund	288	892	1,545	2,258	2,896	3,618	4,572	5,594	6,344	6,641									
(22)	Net Income	\$ 13,106	\$ 14,336	\$ 15,541	\$ 16,947	\$ 17,019	\$ 19,801	\$ 21,108	\$ 22,488	\$ 22,150	\$ 21,127									

- 1 Appendix E, page 2, Line 28.
- 2 Appendix E, page 5, Column 7.
- 3 Appendix E, page 2, Line 42.
- 4 Appendix E, page 3, Column 8.
- 5 Appendix E, page 2, Lines 3 through 14.
- 6 Assumed to be depreciated.
- 7 Appendix E, page 3, Line 47.

Table 6
Old Harbor Bulk Fuel Project
Cash Flow Summary

Line No.	1	2	3	4	5	6	7	8	9	10	
(1)				<i>City of Old Harbor</i>							
(2)				Annual Costs (Dollars)							
				Operating Expenses							
(3)	\$ 11,700	\$ 12,640	\$ 13,656	\$ 14,757	\$ 15,948	\$ 16,755	\$ 17,603	\$ 18,494	\$ 19,430	\$ 20,413	
(4)	1,783	1,837	1,892	1,949	2,007	2,067	2,130	2,193	2,259	2,327	
(5)	1,127	1,161	1,196	1,232	1,269	1,307	1,346	1,387	1,428	1,471	
(6)	4,500	4,861	5,252	5,676	6,134	6,444	6,770	7,113	7,473	7,851	
(7)	-	-	-	-	-	-	-	-	-	-	
(8)	5,833	6,008	6,189	6,374	6,565	6,762	6,965	7,174	7,389	7,611	
(9)	9,000	9,440	9,902	10,388	10,900	11,118	11,340	11,567	11,799	12,034	
(10)	\$ 33,944	\$ 35,947	\$ 38,088	\$ 40,376	\$ 42,824	\$ 44,455	\$ 46,155	\$ 47,928	\$ 49,778	\$ 51,708	
(11)	12,150	12,743	13,368	14,024	14,715	16,677	17,011	17,351	17,698	18,052	
(12)	\$ 46,094	\$ 48,690	\$ 51,455	\$ 54,400	\$ 57,539	\$ 61,132	\$ 63,166	\$ 65,279	\$ 67,476	\$ 69,759	
(13)				Annual Costs (cents/gallon)							
(14)				Operating Expenses							
(15)	13.0	13.4	13.8	14.2	14.6	15.1	15.5	16.0	16.5	17.0	
(16)	2.0	1.9	1.9	1.9	1.8	1.9	1.9	1.9	1.9	1.9	
(17)	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	
(18)	5.0	5.2	5.3	5.5	5.6	5.8	6.0	6.1	6.3	6.5	
(19)	-	-	-	-	-	-	-	-	-	-	
(20)	6.5	6.4	6.2	6.1	6.0	6.1	6.1	6.2	6.3	6.3	
(21)	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	
(22)	37.7	38.1	38.5	38.9	39.3	40.0	40.7	41.4	42.2	43.0	
(23)	13.5	13.5	13.5	13.5	13.5	15.0	15.0	15.0	15.0	15.0	
(24)	51.2	51.6	52.0	52.4	52.8	55.0	55.7	56.4	57.2	58.0	
(25)				Projected City Throughput (gallons):							
(26)	60,000	63,442	67,082	70,931	75,000	76,500	78,030	79,591	81,182	82,806	
(27)	30,000	30,954	31,937	32,853	34,000	34,680	35,374	36,081	36,803	37,539	
(28)	90,000	94,396	99,019	103,883	109,000	111,180	113,404	115,672	117,985	120,345	

**Table 7
Old Harbor Bulk Fuel Project
Balance Sheet**

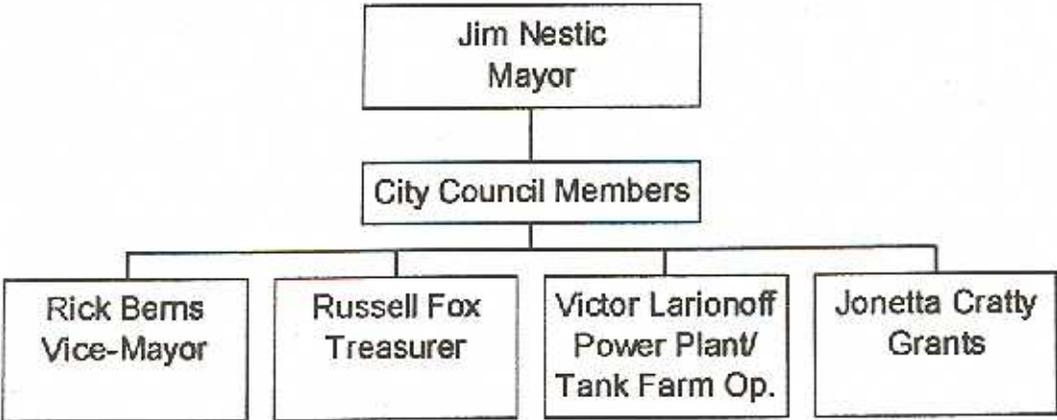
Line No.		Year																		
		1	2	3	4	5	6	7	8	9	10									
(1)	Assets:																			
(2)	Gross Plant	\$ 795,879	\$ 795,879	\$ 795,879	\$ 795,879	\$ 795,879	\$ 795,879	\$ 795,879	\$ 795,879	\$ 795,879	\$ 795,879	\$ 795,879	\$ 795,879	\$ 795,879	\$ 795,879	\$ 795,879	\$ 795,879	\$ 795,879	\$ 795,879	\$ 795,879
(3)	Less Plant Paid from Grants	(795,879)	(795,879)	(795,879)	(795,879)	(795,879)	(795,879)	(795,879)	(795,879)	(795,879)	(795,879)	(795,879)	(795,879)	(795,879)	(795,879)	(795,879)	(795,879)	(795,879)	(795,879)	(795,879)
(4)	Net Gross Plant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(5)	Improvements	-	-	318	318	6,790	6,790	7,138	7,138	7,138	7,138	7,138	7,138	7,138	21,959	21,959	44,336	44,336	44,336	44,336
(6)	Total Gross Plant	\$ -	\$ -	\$ 318	\$ 318	\$ 6,790	\$ 6,790	\$ 7,138	\$ 7,138	\$ 7,138	\$ 7,138	\$ 7,138	\$ 7,138	\$ 7,138	\$ 21,959	\$ 21,959	\$ 44,336	\$ 44,336	\$ 44,336	\$ 44,336
(7)	Less Accumulated Depreciation	-	-	(106)	(212)	(1,613)	(3,023)	(4,433)	(5,843)	(8,709)	(13,267)	(13,267)	(13,267)	(13,267)	(13,267)	(13,267)	(13,267)	(13,267)	(13,267)	(13,267)
(8)	Net Plant	\$ -	\$ -	\$ 212	\$ 106	\$ 5,177	\$ 4,115	\$ 2,705	\$ 1,294	\$ 1,294	\$ 1,294	\$ 1,294	\$ 1,294	\$ 1,294	\$ 13,250	\$ 13,250	\$ 31,069	\$ 31,069	\$ 31,069	\$ 31,069
(9)	Special Funds:																			
(10)	Maintenance Fund	13,106	27,443	42,772	59,825	71,773	92,637	115,155	139,053	149,247	152,555	152,555	152,555	152,555	152,555	152,555	152,555	152,555	152,555	152,555
(11)	Total Assets	\$ 13,106	\$ 27,443	\$ 42,984	\$ 59,931	\$ 76,950	\$ 96,752	\$ 117,860	\$ 140,348	\$ 162,497	\$ 183,624	\$ 183,624	\$ 183,624	\$ 183,624	\$ 183,624	\$ 183,624	\$ 183,624	\$ 183,624	\$ 183,624	\$ 183,624
(12)	Liabilities and Equity:																			
(13)	Long-term Debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(14)	Other Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(15)	Total Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(16)	Equity	13,106	27,443	42,984	59,931	76,950	96,752	117,860	140,348	162,497	183,624	183,624	183,624	183,624	183,624	183,624	183,624	183,624	183,624	183,624
(17)	Total Liabilities and Equity	\$ 13,106	\$ 27,443	\$ 42,984	\$ 59,931	\$ 76,950	\$ 96,752	\$ 117,860	\$ 140,348	\$ 162,497	\$ 183,624	\$ 183,624	\$ 183,624	\$ 183,624	\$ 183,624	\$ 183,624	\$ 183,624	\$ 183,624	\$ 183,624	\$ 183,624

APPENDIX A

PROJECT LAYOUT

APPENDIX B

PRIMARY OPERATOR



James "Jim" Nestic, Mayor City of Old Harbor

Mr. Nestic has resided in Old harbor for approximately 28 years.

He has 13 years of experience with the city and has held many positions within the community.

Mr. Nestic is the (APO) Alternate Power Plant Operator
AWT Water Certified Distribution person for Old Harbor water system.
Maintains roadways and streets
Solid Waste disposal
Equipment Operator

Duties are as follows:

Responsible for the overall direction and administration of city business and works closely with the city council.
Develops the annual budget
Develops implements and monitors policies and procedures appropriate for the day to day operation of the city

Community Service:

PWS RCAC - Prince William Regional Citizens Advisory Committee
KIVEC - Kodiak Island Village Environmental Council
Strategic Planning Committee Kodiak Chamber of Commerce

Jonetta Cratty is the Grants Person for the city and has performed day to day duties as required by the mayor for the City of Old Harbor.

Russell Fox – Treasurer for the City of Old Harbor

His duties are:

Accurate, complete, and timely submission of required financial reports, forecasts, and budgets to the mayor, such as payables, receivables, and pay roll.

Mr. Fox currently holds the following certificates:

40 Hr. Hazwoper Certification for Oil Spill Response
First Aid / CPR
Bulk Fuel Tank Farm Training

Victor Larionoff - AVEC Power Plant Operator

Victor has worked for the City of Old Harbor for approximately 18 years as the AVEC Power Plant Operator. His duties also include the Bulk Fuel Operation at the Power Plant. He routinely does oil changes and general operation of the power plant facility. Victor is also the community mechanic and has started his own retail fuel business.

APPENDIX C

SECONDARY OPERATOR

Yukon Fuel Company

WHEREAS the Denali Commission ("Commission") has, provided or will provide funds to the Alaska Village Electric Cooperative, Inc. ("AVEC") for a grant by the Alaska Village Electric Cooperative, Inc. to the City of Old Harbor ("City" as the Primary Operator) for the upgrading of bulk fuel storage facilities at Old Harbor, Alaska (the "Facility") owned by the City of Old Harbor (the "Participant"); and

WHEREAS the Commission has adopted Sustainability Criteria that apply to the use of Commission funds for the Facility, in order to ensure the long-term economic sustainability of the Facility; and

WHEREAS the Commission and the Participants have agreed to a business plan consistent with the Sustainability Criteria for the operation of the Facility, as contained in the City of Old Harbor Bulk Fuel Facility Business Plan ("Business Plan"); and

WHEREAS the Business Plan specifies that the City shall act as the Primary Operator of most components of the Facility, as specified therein, and shall operate the Facility in compliance with the terms and conditions of the Business Plan; and

WHEREAS the Commission and the Participants agree that if the Primary Operator is not operating the Facility in compliance with the terms and conditions of the Business Plan, the Commission may designate a Secondary Operator to assist the Primary Operator or to take over such functions of the Facility operations that the Commission determines are necessary for such time as it determines is necessary; pursuant to the terms and conditions of this Agreement:

NOW THEREFORE, the Commission and Participant agrees as follows, in consideration for the mutual promises contained herein and the benefits to the parties resulting from the completion and operation of the Facility:

1. The Primary Operator shall operate the components of the Facility specified in the Business Plan in accordance with the terms and conditions of the Business Plan and the requirements contained herein.
2. In addition to and consistent with its duties specified in the Business Plan, the Primary Operator shall, in a timely manner:
 - a. properly establish and maintain accurate books and records;
 - b. account for, bill for, and use its best efforts to collect all fuel sales and all other receivables;
 - c. deposit moneys into the appropriate accounts, including deposits into the Operations & Maintenance Fund account as well as deposits into the Renewal & Replacement account; (as defined in the Business Plan);

- d. maintain adequate cash reserves for fuel purchases so that emergency fuel shipments are not necessary;
 - e. obtain annual audits showing the absence of any management or financial irregularities;
 - f. perform necessary maintenance of and repairs to the Facility;
 - g. provide or obtain necessary training for Facility operations; and
 - h. meet its financial obligations.
3. If the Commission determines, in the exercise of its sole discretion that the City as the Primary Operator has failed or is unable to operate the Facility in accordance with the Business Plan and this Agreement and that this failure or inability significantly threatens the long-term economic sustainability of the Facility, the Commission may contact with and utilize a Secondary Operator.
 4. The Commission has the sole right to transfer the full custody and control of the assets and business operations of the Facility, including but not limited to, the cash, receivables, and inventory of the Facility, to the Secondary Operator and assign the Secondary Operator responsibility for partial or total management of the Facility.
 5. The Commission may appoint the Secondary Operator to assist the City in some or all aspects of the Facility operations or to take over some or all aspects of Facility operation from the Primary Operator, in such a manner and for such period of time as the Commission determines to be necessary and appropriate for operation of the Facility in compliance with the Business Plan and the long-term economic sustainability of the Facility. (For example, the Secondary Operator may be asked to assist the Primary Operator for a short period of days or weeks in bringing certain aspects of the operations back into compliance. Alternatively, the Secondary Operator may be asked to replace the Primary Operator of Old Harbor Tank Farm as Facility operator. The foregoing are intended only as illustrative examples, without limiting the effect of this Agreement.)
 6. If the Commission utilizes a Secondary Operator, the City as the Primary Operator will transfer the complete control and authority of the assets to the Secondary Operator: The books and records relating to the Facility operations, accounts receivable, and all account funds. The City as the Primary Operator agrees to cooperate with the Commission and the Secondary Operator in the release of the stated asset and the transfer of operations to the Secondary Operator.
 7. The Secondary Operator will be entitled to reasonable compensation for its services. This compensation will at a minimum, reimburse the Secondary Operator for any and all expenses associated with their duties as Facility operator, plus a reasonable profit. The profit will not exceed what is considered normal and customary for like service, as determined by the Commission in the exercise of its sole discretion.

8. The parties anticipate that, if a Secondary Operator is appointed, the Commission will appoint Yukon Fuel Company to serve as Secondary Operator. However, the parties acknowledge that the Yukon Fuel Company may not be willing to serve in this capacity at the time a Secondary Operator is needed, or other circumstances may prevent Yukon Fuel Company from serving as Secondary Operator. Therefore the participants acknowledge and agree that the Commission may appoint any qualified entity or entities to serve as Secondary Operator. The Commission will consult with the Participant on the replacement to the Secondary Operator; however, the Commission maintains final approval authority for the replacement Secondary Operator.
9. The Commission will act reasonably and responsibly in its enforcement of the Business Plan and this Agreement and its designation of a Secondary Operator, consulting with the Participant and taking into account the needs and interests of the community of Old Harbor as well as the general public interest. If the Commission employs the Secondary Operator, the Commission shall oversee the operations of the Secondary Operator to make sure that it is conducting its operations reasonably, in a cost-efficient manner, and consistent with the needs and interests of the community of Old Harbor as well as the general public interest.
10. If a dispute or controversy arises between the parties to this Agreement or among the parties to an agreement with the Secondary Operator, application or enforcement of this Agreement shall be decided through mediation. If mediation is unsuccessful, any party to this Agreement may bring an action to resolve the dispute in the Superior Court of the State of Alaska.
11. This Agreement may be executed simultaneously in two (2) or more counterparts, each of which will be considered an original, but all of which together will constitute one and the same instrument. The exchange of a fully executed Agreement (in counterparts or otherwise) by fax shall be sufficient to bind the parties to the terms and conditions of this Agreement.
12. No delay on the part of a party in the exercise of any right, power, or remedy shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power, or remedy preclude other or further exercise thereof or the exercise of any other right, power, or remedy. No amendment, modification, or waiver of, or consent with respect to, any provision of this Agreement shall be effective unless it shall be in writing and signed and delivered by the parties hereto.
13. All notices, demands or requests required or allowed under this Agreement or applicable law from one party to another shall be in writing and delivered in person or sent by mail, certified or registered, postage prepaid, to the parties hereto at the addresses set forth in this Agreement or to such other persons and addresses as either party may designate. Notice shall be deemed to have been given three (3) days after the day of mailing.

14. This Agreement is a contract made under and governed by the laws of the State of Alaska. All obligations and rights of the parties stated herein shall be in addition to, and not in limitation of, those provided by applicable law.
15. This Agreement shall be binding upon, and inure to the benefit of, the parties hereto, and their respective heirs, successors, and assigns.
16. This Agreement represents the entire agreement between the parties, and there are no other agreements, either oral or written, with respect to the subject matter of the Agreement.

CITY OF OLD HARBOR

By: James A. Mestor
As: Mayor
Date: 9-21-01

YUKON FUEL COMPANY

By: James L. Shuler
As: President
Date: 9-27-01

DENALI COMMISSION

By: Jeff Stason
As: Federal Co-Chair
Date: 1/24/01

APPENDIX D

City of Old Harbor / AVEC / KIBSD

Operating Agreement

TANK FARM OWNERSHIP AND MAINTENANCE AGREEMENT

CITY OF OLD HARBOR (CITY)

KODIAK ISLAND BOROUGH SCHOOL DISTRICT (KIBSD)

ALASKA VILLAGE ELECTRIC COOPERATIVE (AVEC)

FACTUAL BACKGROUND AND PURPOSE OF AGREEMENT

Project Management Agreement # 01-001 dated May 8, 2001 between the Alaska Village Electric Cooperative, Inc. (AVEC) and the City of Old Harbor (hereinafter CITY) provides a grant for construction of a collocated bulk fuel tank farm in the Community of Old Harbor. The CITY is the grantee under this Project Management Agreement and has appointed AVEC to serve as its agent for construction management. The collocated tank farm and associated facilities are shown in the drawings attached to this agreement as Exhibits A and B, which are hereby made a part of this Tank Farm Ownership and Maintenance Agreement (hereinafter the Agreement).

The collocated tank farm will be occupied and used by two entities – The City of Old Harbor (CITY) and Alaska Village Electric Cooperative, Inc. (AVEC). The primary purpose of this Agreement is to assign ownership of specific project elements, along with all responsibility for the operation and maintenance of the project elements, to each of the project participants upon completion of the project.

The ownership of the components of the collocated tank farm is and shall be as set forth in this Agreement, regardless of any prior verbal and/or written agreements. This Agreement controls project ownership and supercedes any inconsistent provisions in Project Management Agreement # 01-001 or any other agreement between the parties.

ARTICLE I. DEFINITIONS

In this Agreement, the following terms shall have the respective meanings set forth in this section:

"Agreement" shall mean this Tank Farm Ownership and Maintenance Agreement and any amendments thereto.

"Hazardous Substance" has the meaning ascribed to "hazardous substance" by AS 46.03.826 as of the date of execution of this agreement.

"Maintenance" shall include but not be limited to all maintenance and repairs necessary over the life of the project to keep the project elements fully functional, in good condition, and in compliance with applicable codes.

"Premises" and "Tank Farm" shall mean the collocated bulk fuel storage facility shown in Exhibit B, which is attached to and hereby made a part of this Agreement. This is the same facility labeled "collocated tank farm" in Exhibit B, which is also attached to and hereby made a part of this Agreement.

ARTICLE II. OWNERSHIP, OPERATIONS AND MAINTENANCE

AVEC shall own, operate, and maintain the following:

- The entire AVEC Tank Farm including the pad, liner, secondary containment system, tank foundations, exterior fencing, and security lighting identified in Exhibit B.
- The four fuel tanks identified as "AVEC" tanks in Exhibit B, consisting of four horizontal tanks including all fittings, valves, distribution piping, pumps, fixtures, and other hardware connected to the AVEC tanks. The AVEC tanks are numbered A1, A2, A3, and A4 in Exhibit B.
- The distribution pipeline and electrical conduit from the AVEC tanks to the power plant day tank, identified in Exhibit B.
- The fill pipeline from the tee at the confluence of the diesel fill pipeline with the City/AVEC fill manifold, located inside the City tank farm, including the ball valve and check valve on the AVEC side of the tee, identified in Exhibit B.

AVEC the real property on which the AVEC Tank Farm and appurtenances described herein are located.

KIBSD shall own, operate, and maintain the following:

- The two fuel tanks identified as "School" tanks in Exhibit A, consisting of two horizontal tanks, and including all fittings, valves, piping, pumps, fixtures, and other hardware connected to the school tanks. The School tanks are numbered S1 and S2 in Exhibit A.

The City shall own, operate, and maintain:

All elements of the City Tank Farm, as indicated on Exhibits A & B, that are not specifically owned by AVEC or KIBSD, as provided above. This includes, but is not limited to, the following:

- The entire City Tank Farm structure including the pad, liner, secondary containment system, tank foundations, exterior fencing, security lighting, electric service and control panels identified in Exhibit B.
- The four tanks identified as City tanks in Exhibit B, consisting of three horizontal tanks including all fittings, valves, piping, pumps, fixtures, and other hardware connected to the tanks. The City tanks are numbered C1, C2, C3, and C4 in Exhibit B. Tanks C1 and C2 are a single, 27,000

gallon tank with two compartments. The C1 compartment is 15,000 gallons and the C2 compartment is 12,000 gallons capacity.

- The marine header and gasoline and diesel fill pipelines, including all fittings, valves, piping, fixtures, and other hardware identified in Exhibit A and B.
- The gas-dispensing tank, dispensing enclosure and concrete pad, including dispenser and all fittings, valves, dispensing piping, fixtures, and other hardware identified in Exhibit A as City Gasoline Dispenser.
- The marine diesel bulk transfer area, enclosure and concrete pad, including hose reel and all fittings, valves, piping, meters, fixtures, and other hardware identified in Exhibit A as City Marine Diesel Bulk Transfer.
- The refurbished "contingency tank" identified in Exhibit B installed adjacent to the tank farm dike, including all associated fittings and valves.
- The storage van with spare parts and spill response equipment.

The City owns the real property on which the City tank farm and appurtenances described herein are located.

AVEC shall have access to the City Tank Farm premises shown in Exhibit B, and Marine Header shown in Exhibit A, as required to conduct operations reasonably necessary for or incidental to filling the AVEC fuel tanks.

Each party shall maintain the premises that it occupies or uses in an orderly, neat and clean condition, free of hazard and nuisance. No party shall cause, maintain, or permit any public or private nuisance to exist on the premises.

Each party shall conduct its operations on the premises so as to avoid interference with the other parties' operations on the premises.

ARTICLE III. TERM

This Agreement shall expire on June 30, 2031, unless terminated earlier as provided herein or by written agreement of the parties. The term may be extended by written agreement of the parties.

ARTICLE IV. CONSIDERATION

Each party acknowledges and accepts that it enters into this Agreement in consideration of the mutual promises contained herein and the covenants and conditions hereinafter specified to be performed and observed by each of the other parties.

ARTICLE V. SHARED COSTS

A. The City shall be responsible for arranging for the following services for the City Tank Farm, and for paying the costs of those services, specified herein:

- liability insurance,
- electricity;
- water removal from containment areas;
- annual diesel and gasoline fill pipeline pressure testing;
- periodic inspection as required by law or generally accepted practices;
- snow removal;
- maintenance, repairs, and cleanup, when no party to this Agreement is responsible;
- facility plans, manuals, reports, and other documents required for the facility by regulatory agencies, including but not limited to Facility Response and Operations manuals required by the U.S. Coast Guard, and Spill Prevention, Control, and Countermeasures (SPCC) plans required by the U.S. Environmental Protection Agency; however, a party may elect to prepare, at its own expense, such a plan, manual, report, or other document for the portion of the Tank Farm under its ownership and operation, if the regulatory agency allows separate documentation, in which case the party shall not be required to share in the cost of preparing such documentation for the portions of the facility unrelated to its activities; and
- The City's management and regulatory compliance activities for the Tank Farm which are not directly or primarily for the management, operation, or maintenance of The City's tanks and associated facilities.
- Deposits by the City into a Renewal and Replacement Fund for the funding of periodic repairs and overhauls of shared facilities.

B. The proportionate shares of shared costs are based on the percentage of each occupant's fuel storage capacity to the total existing Tank Farm fuel storage capacity, and will initially be as follows:

- | | |
|---------|-------|
| • AVEC | 37.7% |
| • KIBSD | 0.0% |
| • CITY | 62.3% |

If any party's fuel storage capacity changes, the cost shares of all occupants shall be recalculated accordingly.

- C. At least once each year, no later than May 31, The City will convene a meeting with AVEC for the purpose of determining the shared cost of the diesel fill pipeline maintenance and operation. As well for determining a budget of shared costs for the coming fiscal year beginning July 1. The parties shall use their best efforts to reach agreement on the annual budget of shared costs. However, if no agreement is reached by May 31, The City shall have the sole authority to establish a reasonable budget of shared costs for the coming fiscal year, based on its best estimate of actual costs for the year, and to collect from each party its proportionate share of the budgeted costs. Each party shall pay its share of the costs by June 30.
- D. The City shall keep the shared cost payments in a separate account, and shall use the payments only for the costs identified above. The City shall properly account for all expenditures from this account. AVEC may review the accounting records, invoices, and other documents associated with the shared costs, and the information upon which the proposed budget of shared costs is based.

ARTICLE VI. COMPLIANCE WITH LAWS AND ACCEPTED PRACTICES

- A. Each party will conduct its operations and maintain its facilities in compliance with all applicable State and federal laws and regulations. In addition, each party shall at all times conduct its operations in accordance with the fire prevention and oil spill prevention practices generally accepted as proper for such facilities.
- B. If a release or threatened release of oil or other hazardous substance occurs, the responsible party will promptly take whatever measures are necessary to stop or prevent the release, clean up the release, mitigate the damage caused thereby, and restore the area. "Responsible party" means the party whose activities proximately caused the release or threatened release, or if the release or threatened release is not caused by an identifiable activity, the owner of the premises at which the release or threatened release occurs. Each party shall report releases in accordance with state and federal law, regardless of whether the party is responsible. The party making the report shall also promptly notify the other parties to this Agreement.
- C. Each party has a right to review and copy, at its own expense, any plans, manuals, reports, and other documents required by or submitted to, any regulatory agency by any other party, including but not limited to submittals to the Alaska Department of Environmental Conservation, the U.S. Coast

Guard, and the U.S. Environmental Protection Agency. Wherever practical, the parties will coordinate and consolidate their regulatory compliance work for their mutual benefit.

ARTICLE VII. REPAIR, MAINTENANCE, AND CLEAN-UP COSTS

A. Each party is responsible for:

- maintenance or repair of its tanks, fittings, valves, piping, pumps, fixtures, or other equipment or hardware that is necessary to keep the Tank Farm operational and in compliance with all regulatory requirements;
- repair of any damage to the Tank Farm, the fuel distribution system, or its associated components, that is caused by or is primarily attributable to the operations or activities of that party or its employees, agents, or assigns;
- cleanup of or other required response to any release or threatened release that is the responsibility of that party or its employees, agents, or assigns.

B. If the responsible party does not take the necessary action within a reasonable time, The City may perform the activities and recover costs from the responsible party, and the responsible party agrees to pay such costs to The City.

C. If, at any time, the tank farm becomes unsafe or AVEC is unable to receive fuel deliveries due to The City's negligence, lack of maintenance, or failure to maintain strict safety conditions in and around the Tank Farm or fill line, AVEC may seek any reasonable means to remedy the situation and The City shall pay AVEC the expenses therefore.

ARTICLE VIII. MODIFICATIONS AND IMPROVEMENTS

A. Each party shall have the right to make such modifications, additions and repairs to its facilities as are reasonably necessary to its operations and activities. Provided such modifications, additions and repairs do not increase the burden of cost or responsibilities born by any of the other parties without their prior consent.

ARTICLE IX. DEFAULT AND TERMINATION

A. If AVEC fails to perform any material covenants, agreements or obligations hereunder, and fails to begin diligent action to cure such default within thirty (30) days after receiving written notice of default, or fails to continue diligent

action for a period of sixty (60) days, then The City shall have the right at its election, while such default shall continue, to give the defaulting party notice of its intention to terminate this Agreement and to establish a Termination Date. The Termination Date shall be not less than one year after the effective date of such notice.

- B. If The City fails to perform any material covenants, agreements or obligations hereunder, and fails to begin diligent action to cure such default within thirty (30) days after receiving written notice of default, or fails to continue diligent action for a period of sixty (60) days, then AVEC shall have the right at its election, while such default shall continue, to give The City notice of its intention to terminate this Agreement and to establish a Termination Date.
- C. Termination of the Agreement under this section terminates the obligations and rights of the terminated party that would exist or arise after the Termination date. It does not terminate the obligations or rights of the terminated party that exist or arise on or before the Termination Date.
- D. The rights and remedies provided for in this section are in addition to those rights and remedies allowed by law. A party that brings legal action to enforce this Agreement and that is found to have prevailed in its claims shall be entitled to recover from the defaulting party all the expenses incurred therefore, including full, actual, reasonable attorney's fees.

ARTICLE X. MISCELLANEOUS PROVISIONS

- A. Cumulative Remedies. Except insofar as this is inconsistent with or contrary to any provision of this Agreement, no right or remedy herein conferred upon or reserved to any party is intended to be exclusive of any other right or remedy, and each and every right and remedy shall be cumulative and in addition to any other right or remedy given hereunder, or now or hereafter existing at law or in equity or by statute.
- B. Nonwaiver. Except to the extent that a party may have otherwise agreed in writing, no waiver by such party of any breach by another party of any of its obligations, agreements or covenants hereunder shall be deemed to be a waiver of any subsequent breach of the same or any other covenant, agreement or obligation. Nor shall any forbearance by a party to seek a remedy for any breach of the other party be deemed a waiver by such party of its rights or remedies with respect to such breach.
- C. Integration. This document contains the entire agreement of the parties with respect to the matters addressed herein. All negotiations, statements, representations, warranties, and assurances, whether oral or written, which are in any way related to the subject matter of this Agreement or the

performance of either party hereto are merged and integrated into the terms of this document.

- D. Amendment. Any modification or amendment of this Agreement must be in writing and signed by the affected parties, and any purported modification or amendment is without effect until reduced to writing and signed by both parties hereto.
- E. Successors in Interest. This Agreement shall be binding upon and inure to the benefit of the respective heirs, successors and assigns of the parties hereto.
- F. Severability. Any provision of this Agreement deemed invalid by a court of competent jurisdiction shall not invalidate the remaining provisions of this Agreement.
- G. Jurisdiction. In any dispute between the parties, the laws of the State of Alaska will govern. Any lawsuit must be brought in the courts of the State of Alaska, 3rd Judicial District, unless the parties agree otherwise.

ARTICLE XI. NOTICES

- A. Any and all notices required or permitted under this Agreement, unless otherwise specified in writing by the party whose address is changed, shall be addressed as follows:
 - CITY: City of Old Harbor
Attn: Mayor
P.O. Box 109
Old Harbor, AK 99643
 - KIBSD: Kodiak Island Borough School District
Attn: Superintendent
722 Mill Bay Road
Kodiak, AK 99615
 - AVEC: Alaska Village Electric Cooperative, Inc.
Attn: President and CEO
4831 Eagle Street
Anchorage, AK 99503-7947
- B. Any notice required or permitted by this Agreement shall be in writing and shall be sent by certified mail. Such notice shall be deemed effective upon receipt.

- C. In addition to any other notices required by this Agreement, the affected party shall immediately notify the other party in writing of any of the following:
1. Any enforcement, cleanup, lien, removal or other governmental or regulatory action instituted, completed, or threatened relevant to the Tank Farm.
 2. Any claim made or threatened by any person relating to damage, contribution, compensation, loss or injury resulting from, or claimed to result from, any Hazardous Substance in, on, or under the Tank Farm or adjacent property.
 3. Any report made to any government agency arising out of or in connection with any Hazardous Substance in, on, or removed from the Tank Farm or adjacent property, including any complaints, notices, warnings or asserted violations.
- D. Unless otherwise agreed to in writing, the affected party shall also supply to the other party as promptly as possible, and in any event within 15 business days after the affected party first receives or sends the same, copies of all claims, reports, complaints, notices, liens or warnings, or asserted violations relating in any way to the Tank Farm or adjacent property.

CITY OF OLD HARBOR

Signature James A Nestle
Printed Name James A Nestle Title Mayor

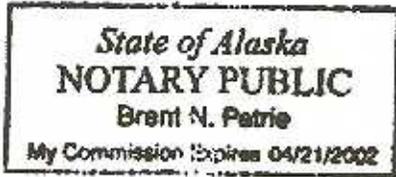
STATE OF ALASKA)
3rd JUDICIAL DISTRICT) ss.

THIS IS TO CERTIFY that on this 21st day of September, 2001, before me, the undersigned, a Notary Public in and for the State of Alaska, duly commissioned and sworn as such, personally appeared James Nestle known to me, and acknowledged to me that he/she had in his/her official capacity executed the foregoing instrument.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year first above written.

Notary Public in and for Alaska

Brent N. Patrie
My commission expires: April 21, 2002



ON BEHALF OF
KODIAK ISLAND BOROUGH

Signature Patrick S. Carlson

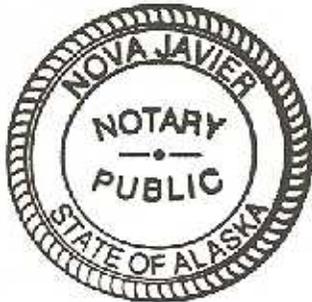
Printed Name Patrick S. Carlson Title Manager

STATE OF ALASKA)
3rd JUDICIAL DISTRICT) ss.

THIS IS TO CERTIFY that on this 20th day of November, 2001, before me, the undersigned, a Notary Public in and for the State of Alaska, duly commissioned and sworn as such, personally appeared PATRICK CARLSON, known to me, and acknowledged to me that he/she had in his/her official capacity executed the foregoing instrument.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year first above written.

Notary Public in and for Alaska



Nova Javier
My commission expires: 08/16/2003

ALASKA VILLAGE ELECTRIC COOPERATIVE, INC.

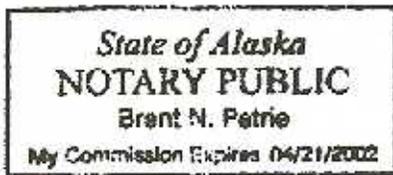
Signature Meera Kohler

Printed Name MEERA KOHLER Title PRESIDENT & CEO

STATE OF ALASKA }
3RD JUDICIAL DISTRICT } ss.

THIS IS TO CERTIFY that on this 21st day of September, 2001, before me, the undersigned, a Notary Public in and for the State of Alaska, duly commissioned and sworn as such, personally appeared Meera Kohler known to me, and acknowledged to me that he/she had in his/her official capacity executed the foregoing instrument.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year first above written.



Notary Public in and for Alaska

Brent N. Petrie
My commission expires: April 21, 2002

APPENDIX E

Detailed Assumptions to Projected Operating Results

Old Harbor Bulk Fuel Storage
General Assumptions
Page 1 of 1

Economic Assumptions	
General Inflation	3.00%
Reinvestment Rate	4.50%

Tank Capacity - Gallons			
	Tanks	Gallons	Total
City	4	70,000	70,000
AVBC	4	39,900	39,900
School		Not Included	
Total	8	109,900	109,900

Operating Cost Assumptions		
	Rate	per
City Labor Rates		
Operator 1	\$ 0.080	gallon
Operator 2	\$ 0.050	gallon
Administrative	\$ 0.050	gallon
Outside Services		
Pressure Testing - Labor	\$ 1,800	year
Pressure Testing - Other	\$ 1,000	year
Auditing	\$ 2,000	year
Technicians	\$ 75.00	hour
Inspector	\$ 900	day
Miscellaneous		
Repairs - City Only	\$1,000	year
Repairs-Common Facilities	\$200	year
Spill Drifts	\$0	year
Training	\$2,500	3 years
Other	\$5,000	year

Insurance		
Liability/Type	Per Gallon	Fixed
Spill Assessment (\$/gallon)	\$ -	-
Overall Insurance (\$/gallon)	\$ 0.10	

References			
Description	Reference	City	AVBC
City Only	1	100.00%	0.00%
Primary Tank Capacity	2	63.69%	36.31%
			Total
			100.00%
			100.00%

City	Throughput	Initial	Intermediate	Years to Int.	Long-term	
					Growth	Maximum
Diesel		60,000	71,000	5	2.0%	90,000
Gasoline		30,000	34,000	5	2.0%	40,000
Subtotal - City		90,000	109,000			130,000
AVBC		60,000			0.0%	
Total		150,000				

Major Maintenance					
Component	Frequency	Non-Labor Cost	Labor Position	Labor	
Inspection	10	\$ 1,000 per tank	Inspector	3 days/tank	
Pump - Minor	3	\$ 200			
Pump - Major	2	\$ 1,000			
Liquid Level Switch	5	\$ 500	Technician	30 hours	
Tank-up Painting	10	\$ 2,000 per tank			
Repair	20	\$ 20,000 per tank			
Major Overhaul	20	\$ 40,000			
Minor Pipeline Repair	5	\$ 2,000	Tech x .5	150 hours	
Major Pipeline Repair	20	\$ 80,000	Tech x .5	150 hours	

