IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF ALASKA

In re:	:	
	:	Case No. A10-00824
Naknek Electric Association, Inc.	:	Chapter 11
	:	
	:	
Debtor.	:	
	:	

SECOND AMENDED DISCLOSURE STATEMENT FOR PLAN OF REORGANIZATION

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January 25, 2013

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This Disclosure Statement contains information concerning the Debtor and the Plan of Reorganization proposed by the Debtor. The Disclosure Statement and the proposed Plan are being distributed to you, pursuant to 11 U.S.C. § 1125, to enable you to make an informed judgment before voting to accept or reject the Plan. The Bankruptcy Court has reviewed this Disclosure Statement and has approved it as containing adequate information. The approval of the Disclosure Statement, however, does not constitute a recommendation or endorsement of the Plan by the Bankruptcy Court.

I. INTRODUCTION

A. General Information.

The Debtor is an electric utility cooperative serving approximately 700 members and 1,100 meters in the vicinity of the cities of King Salmon and Naknek in Western Alaska. It makes its electricity by burning diesel fuel in its generators. Between 2005 and 2008 the price of diesel fuel delivered in Naknek increased from about $1.20 per gallon to more than $4.00 per gallon. During the same period, there was a 6 percent decrease in residential load due migration out of the region because of the high cost of living. In response, the Debtor's board of directors decided to pursue a geothermal power solution to its rapidly increasing cost of power generation.

In 2008 through late 2009 the Debtor incurred substantial debt in the process of drilling and attempting to develop a geothermal well. In the process of development of this well the Debtor did not receive the federal and state grants it had anticipated. Unanticipated state regulatory decisions added to the cost of the development. The drilling fluid utilized in the drilling of the well damaged the flow characteristics of the well and prevented the Debtor from proving the viability of its project. By the summer of 2010 a number of the Debtor's vendors had filed statutory liens against its geothermal assets and several of the Debtor's largest creditors obtained substantial judgments against it. To retain control of its assets, the Debtor filed its chapter 11 petition on September 29, 2010. In the fall of 2012 the Debtor stopped efforts to confirm that its geothermal resource has the temperature and flow characteristics to support a geothermal power plant. As discussed below, the Debtor's drill rig and accessories have been transferred to Baker Process, Inc. which is contractually obligated to assist the Debtor with the plug and abandonment of the geothermal well and, if it resells the drill rig, to make payments to all other creditor's with lien claims pursuant to the Geothermal Assets Transaction documents, as approved by the Court[1]. Thus, the Plan is based upon Debtor's continued diesel generation of power in the Naknek-King Salmon area of Alaska. In addition, the Plan is intended to:

- Resolve uncertainty among all constituencies regarding the future of the Debtor;
- End the lengthy and costly reorganization process in order to recommit Debtor's resources to operation of diesel power generation utility;

[1] Unless otherwise defined in this Disclosure Statement, all capitalized terms shall have the meanings defined in the Plan.

- Satisfy creditors' claims in accordance with bankruptcy law and creditors' best interests, as well as serve the interests of Debtor's membership.

The Plan is summarized as follows:

First, the Debtor will use cash on hand and current revenues to satisfy claims required by law to be paid on the Effective Date of the Plan, including administrative and priority expenses (other than certain post-petition financing which will be paid out over time by agreement of the lender, the National Rural Utilities Cooperative Finance Corporation ("CFC")).

Second, the Debtor will honor its remaining secured financing obligations to the Rural Utilities Services. All other secured claims have been resolved in accordance with the Geothermal Assets Transaction.

Third, the Debtor will dedicate a portion of the utility rates it recovers from its members over the next 20 years to satisfy its unsecured creditors' claims or afford them an opportunity for a one-time payment on or before August 31, 2014, as follows:

(i) Receive on a date no later than August 31, 2013 fifty percent (50%) of the Allowed amount of its Claim in cash up to a maximum of $12,500;

(ii) Receive on a date no later than August 31, 2014 five percent (5%) on the Allowed amount of its Claim in cash; or

(iii) Receive its pro rata share (among all Allowed Unsecured Claims selecting this treatment) of the cash payments to be made by the Debtor over 20 years, as explained in Article 4.3 Unsecured Claims, below.

Finally, the Debtor will preserve the interests of its members, subject to the terms and conditions of the Plan.

The Debtor will gradually raise rates approximately $.07 per kWh to pay its Plan payments. Additionally, rates will also be adjusted to address other factors not part of this Plan such as inflation, plant and distribution improvements and fuel costs.

On _____, the Court approved the distribution of this Disclosure Statement to holders of claims or interests against the Debtor or its property. The Court's approval of this Disclosure Statement is not an endorsement or recommendation of the Plan.

THE FINANCIAL INFORMATION IN THIS DISCLOSURE STATEMENT HAS NOT BEEN AUDITED. THE PLAN PROPONENTS BELIEVE THE INFORMATION IS ACCURATE TO THE BEST OF THEIR KNOWLEDGE, AND HAVE MADE SUBSTANTIAL EFFORT TO PRESENT THE INFORMATION ACCURATELY AND FAIRLY, BUT NO FURTHER REPRESENTATION OR WARRANTY REGARDING THE ACCURACY OF SUCH INFORMATION MAY BE MADE.

THE DEBTOR REQUESTS THAT YOU COMPLETE AND RETURN THE ENCLOSED BALLOT WITH YOUR VOTE ACCEPTING ITS PLAN OF REORGANIZATION

B. Source of Information.

Information presented in this Disclosure Statement has generally been obtained from records of the Debtor.

C. Representations.

The only representations concerning the Plan and the Debtor, which are authorized by the Debtor or the Court order approving this Disclosure Statement, are the representations contained in this Disclosure Statement. Creditors and parties in interest may not rely on any other representation or inducement in determining whether to accept or reject the Plan, and should report any such unauthorized representations or inducements to the Debtor or its counsel for appropriate action.

II. DEFINITIONS

Capitalized terms used in this Disclosure Statement shall have the meanings stated in the Plan of Reorganization.

III. ORGANIZATIONAL AND OPERATIONAL BACKGROUND

A. Organization.

Naknek Electric Association, Inc. was incorporated in 1949 and operates under AS 10.25.010 et. seq., the Alaska Electric and Telephone Cooperative Act. The Debtor is owned by its members. AS 10.25.080. It is operated on a nonprofit basis "for the mutual benefit of its members and patrons". AS 10.25.380. Members of the cooperative are not "liable or responsible for any debts of the cooperative and the property of the members is not subject to execution therefore." AS 10.25.410. The Debtor is managed by the uncompensated board of directors and a general manager described in the following table.

Name	Title	Annual Compensation
Tom Deck	Director & Officer	$0
Dale Peters	Director & Officer	$0
Stephen Jones	Director & Officer	$0
Pete Hill	Director	$0
Nanci Morris Lyons	Director	$0
George Wilson	Director	$0

Jason Lazore	Director	$0
Donna Vukich	General Manager	$151,595

B. Operations.

1. Diesel History

King Salmon and Naknek are located on the shore of Bristol Bay. Bristol Bay is the site of one of the largest commercial salmon fisheries in the world. Between June and August more than 30 million sockeye salmon return to rivers that run into Bristol Bay. There are now eight land based processing plants, and a number of small scale processing operations, located in the Debtor's service area.

The Debtor began distributing electricity in 1960. The Debtor started with three diesel generators and in the 1970's added four more diesel generators. In the 1980's it added three more diesel engines. In 1980 the Debtor entered into a wholesale power contract with the U.S. Air Force which was maintaining a forward air base in King Salmon from which it flew fighter interceptors in support of containment of Russian flights probing U.S. interests. (The Air Force base in King Salmon converted to a "warm" status in 1995, but still purchases approximately 3,000,000 kwh of wholesale electricity annually from the Debtor.) In the 1990's the fish processors began converting from canning operations to fresh fish freezing operations, which requires a larger electrical load.

In the 1990's the Debtor began exploring alternatives to diesel power generation. It explored wind power, methane from shallow coal beds and geothermal power. The University of Alaska Fairbanks conducted geothermal testing in Katmai National Park in the mid-1990's.

In 2005 the Debtor paid approximately $1.20 per gallon for diesel fuel. In 2008 the Debtor paid more than $4.00 per gallon for diesel fuel. (In 2011 the Debtor paid more than $3.50 per gallon for diesel fuel.)

In 2003, the Debtor first utilized a line of credit from National Rural Utilities Cooperative Finance Corporation ("CFC") to finance a portion of its diesel fuel purchase as the price of diesel began to climb above $.70 per gallon. The following chart depicts the Debtor's borrowings from CFC in selected years to purchase diesel fuel:

Year	Amount Borrowed	Diesel Price (per gallon)
2006	$4,500,000	$2.50
2007	$5,000,000	$2.50
2008	$5,000,000	$3.57
2009	$6,000,000	$4.00
2010	$2,682,854	$2.67
2011	$5,711,899	$3.14 to $3.57
2012 (thru 10/12/12)	$4,871,515	$3.67 to $3.81

As discussed more fully below, the Debtor anticipates that, subject to certain conditions, including confirmation of the Plan and the occurrence of the Effective Date, CFC will commit to providing continuing financing for the Reorganized Debtor to facilitate the purchase of diesel fuel.

2. Geothermal Well

From the late 1990's into 2008 the Debtor had explored geothermal sources in its service area. It had conducted seismic testing and in 2007 it drilled two 400 foot wells with available water well drilling tools. The high cost of diesel fuel in 2008 led the Debtor's board of directors to direct management to aggressively pursue a geothermal power solution to the high cost of diesel power generation. Although it was anticipated that the initial costs of development would be very high, once a geothermal power system is producing electricity, the ongoing cost of power generation would be lower than the cost of the Debtor's diesel power generation operation.

In 2008 the Debtor acquired a 120 acre native allotment and, in mid-2009, began building a road into that location. In 2009 the Debtor obtained from National Rural Utilities Cooperative Finance Corporation, ("CFC") a $15 million line of credit to be used in the exploration and development of the geothermal energy source. In May of 2009 the Debtor acquired a drill rig for $8.5 million. The Debtor made approximately $3 million of improvements to the drill rig. CFC loaned the Debtor $8.5 million, secured by the drill rig and reduced the Debtor's $15 million line of credit to $10 million. The drill rig arrived in King Salmon by barge in July, 2009.

In April 2009, the Debtor submitted an environmental report to the Department of Energy ("DOE") seeking an exclusion from the requirement to file an Environmental Assessment based on the fact that the Debtor was obtaining environmental permits from the State of Alaska. DOE's representative suggested that the Debtor's permitting activity with the State of Alaska would qualify it for a "categorical exclusion" from the requirement that it submit an

Environmental Assessment. The Debtor commenced work on its road and began drilling, but in October, 2009 was told by DOE that it must complete an Environmental Assessment and that no work associated with the drilling of Well 1 would be eligible for any DOE grants.

On August 13, 2009, three days before drilling of the exploratory well was scheduled to begin, the Alaska Oil and Gas Commission informed the Debtor that its exploratory well would be regulated as an oil & gas well instead of as a water well. This meant, among other things, that the Debtor would need more robust blowout preventers, and would have to use heavier drilling fluids than it had intended.

The Debtor began drilling Well 1 on August 16, 2009. In December 2009, at 11,218 feet, a drilling bit broke. After one attempt to retrieve the broken bit, the Debtor, on January 8, 2010, began a sidetrack well which failed after about one week. The second sidetrack was commenced on about January 21, 2010, and was successfully drilled to 11,387 feet.

On the advice of one of its vendors, the Debtor utilized Barite as a drilling mud, which has proven to be very difficult to remove from the well. On about April 16, 2010, the Debtor set a well liner and began flow testing the well. The well refused to flow under its own pressure. The Debtor utilized air compressors to assist with flow, without significant success. The Debtor's experts have concluded that the Barite drilling mud is clogging the well and preventing reliable testing of the well for geothermal power generation capability. (More than 32,000 barrels of Barite were inserted into the well. Less than 3,500 barrels of used Barite have been recovered from the well.)

C. Debtor's rate history over last 10 years.

The members of the Debtor are billed for their electric usage based upon whether they are residential users, commercial single phase user, commercial three phase user, large power user, or wholesale users. The U.S. Air Force is the only wholesale user. Since 2001 the Debtor's base rates have varied between $.165 per kwh and $.27 per kwh. In 2009, rates were increased by $.09 per kwh to help offset the costs of the geothermal well. The residential base rate since 2009 has been $.27 per kwh. For the same period, commercial rates varied depending on usage between $.255 and $.27 per kwh.

In addition to these base rates the Debtor charges a cost of power adjustment designed to pay for fluctuations in the cost of diesel fuel. Since 2001 the cost of power adjustment has varied from $.0143 per kwh to $.2098 per kwh, which is what it is now. The Debtor's 2011 overall rates for commercial and residential customers, (which does not including the Air Force which pays a wholesale rate) including cost of power adjustment, varied between $.4648 per kwh and $.4955 per kwh. The Debtor's 2012 overall rates for commercial and residential customers, including cost of power adjustment, has, so far, varied between $.4955 and $.5225 per kwh.

For the reasons explained in Debtor's discussion of the risk factors associated with this Plan at Article VIII of this Disclosure Statement, it is important that the Debtor minimize rate increases to retain large power customers. The Debtor, however, does project that some rate increases will be necessary to fund its Plan (see discussion in Article VII of this Disclosure Statement.)

D. Debtor's Statement of Factors Leading to Petition.

The costs associated with the Debtor's geothermal exploratory well were substantially greater than had been anticipated. By the September 29, 2010 petition date, the Debtor had incurred approximately $40 million of debt that was in one way or another associated with the geothermal project. Approximately $47 million of claims have been filed in this case. Approximately $7 million of those claims are either disputed or associated solely with the Debtor's diesel power generation activity.

The Debtor anticipated receiving substantially more grant funding of its project than it received. In 2008 and 2009 the Debtor obtained commitments from federal agencies for approximately $18 million of grants or awards, but has received less than $3 million.

Beginning in early 2010 the Debtor's geothermal vendors began recording statutory liens for unpaid goods and services. By its September 29, 2010 petition date, nine statutory liens had been recorded to secure claims in excess of $7 million. In addition, in the summer of 2010, the Debtor had fallen behind in payments to its banks and at least one of its bank loans had matured. By August, 2010, the Debtor had been named as the defendant in five separate collection lawsuits.

The Debtor had hoped that its 2010 geothermal drilling program would establish the productivity of its geothermal asset. But, in July and August of 2010, as it began testing its well for temperature and pressure, the Debtor learned that drilling fluids it had used were difficult to remove from the well structure and were inhibiting the well flow. With its well unproven, the Debtor could not obtain additional grants or other funding with which to bring current obligations associated with the drilling of the geothermal well. To stop the various actions which had been filed against it and to preserve its ability to avoid certain non-consensual liens against its assets, the Debtor filed its Chapter 11 petition on September 29, 2010.

IV. POST-PETITION EVENTS

SUMMARY

The Debtor has continued to operate its diesel power generation plant since its September 29, 2010 petition date and has continued to supply electricity to its members, without interruption, as it supplied such electricity pre-petition. While in this Chapter 11, the Debtor acquired tools which it believed would permit it to clean its geothermal well and confirm that the temperature and flow characteristics of this well. However, these efforts were not successful, and the Debtor and various creditors entered into a complex series of agreements culminating in the sale and foreclosure of the drill rig and related assets (Geothermal Assets Transaction) approved by the Court at DE 424. The Debtor filed a Report of Sale/Foreclosure (DE 458) summarizing and reporting the closing of the Geothermal Assets Transaction and its implications and impacts on the Debtor and creditors.

The Debtor experienced lower than projected utility usage in the summer of 2011. In 2011 the Debtor sold about 1.5 million kWh of electricity less than in 2010. In 2011 the Debtor burned about 840,000 fewer gallons of fuel than it burned in 2010. About 70% of this drop in fuel usage and sales was attributable to a loss of a processor customer in the summer of 2011. The rest

was due to commercial and residential efforts to reduce utility expenses. The Debtor also experience lower than projected utility usage in 2012 through September than for the same period of 2011. Through September, 2012, the Debtor has sold about 500,000 kWh of electricity less than what it sold through the same period in 2011. About 2/3 of the loss of 2012 sales was due to the fact that there was no herring processing in 2012.

A. Initial Orders

1. Professionals.

Shortly following the petition date the Debtor sought, and subsequently obtained Court approval for Debtor's employment of (i) Erik LeRoy, P.C. as debtor's counsel (DE 58), (ii) Kemppel Huffman & Ellis as general counsel, (DE 59) and (iii) Tom Lovas and Energy & Resource Economics, for economic analysis in support of applications for financial assistance (DE 60). Subsequently, the Debtor has also obtained Court approval to employ (i) Mikunda Cottrell to prepare the Debtor's annual financial statements (DE 172). Two committees have been constituted by the U.S. Trustee's Office. An unsecured creditor's committee was appointed. A committee to representing the members of the Debtor was appointed. The member committee hired David Bundy as counsel who obtained court authorization for his appointment. (DE 122) The unsecured creditors committee is comprised, to a significant degree, of attorneys for creditors, and it has not hired counsel.

2. Cash Collateral.

On the Petition Date the Debtor's accounts receivable and diesel assets were encumbered by security interests in favor of Rural Utilities Service. A preliminary Order was entered permitting use of cash collateral (DE 30) and subsequent orders extending that permitted use of cash collateral through December 31, 2012 have been entered. (DE's 84, 139, 216, 234, 303, 339)

3. Post-Petition Financing

a. Debtor in Possession loan.

On December 7, 2010 (DE 133) the Debtor obtained an order authorizing it to borrow $1.5 million with which to purchase and operate a large air compressor to attempt to clean the geothermal well of the drilling fluids that the Debtor's experts believed were preventing it from obtaining accurate readings of the well's temperature and pressure. The Debtor did purchase and operate this machinery but the well continuedto resist cleaning. This loan amortizes over 36 months beginning June, 2011 and will be paid off in June, 2014. To secure this loan, CFC was granted a lien against the Debtor's diesel assets senior to all liens or claims, other than the liens and mortgage of RUS. Prior to its Petition Date, the Debtor gave its members notice of a proposed amendment to its Articles of Incorporation which raised the Debtor's ability to incur debt over the $25 million limit then applicable. The Debtor had inadvertently exceeded that limit when the geothermal project encountered difficulties. Approval of that proposed amendment was a necessary pre-condition to the Bankruptcy Court's approval of this Debtor in Possession loan. The amendment was approved by a vote of 214 in favor to 75 opposed (DE 124).

b. Fuel Loans.

On May 2, 2011 (DE 233) the Debtor obtained an order authorizing it to borrow from CFC up to $6 million with which to purchase its June 2011 through June 2012 diesel fuel. Subsequently the Debtor purchased and received 1.6 million gallons of diesel fuel at a cost of more than $5.5 million. As of June 1, 2012 the Debtor's remaining obligation on this loan had been reduced to approximately $2 million. On May 17, 2012 (DE 348) the Debtor obtained an order authorizing it to borrow from CFC up to $ 6 million with which to purchase its June 2012 through June 2013 diesel fuel. Subsequently the Debtor purchased and has received 904,000 gallons of diesel fuel at a cost of more than $3.3 million. The Debtor held about 500,000 gallons of fuel from the 2011 delivery in its tanks at the time of the 2012 delivery. As of June 21, 2012, with the remainder of the 2011 fuel loan rolled into the 2012 fuel loan, the Debtor owed CFC approximately $5 million on the 2012 fuel loan. . The Debtor will repay this loan sometime in the summer of 2013 and, if a Plan has not been confirmed earlier, obtain authority from the Bankruptcy Court to borrow funds to purchase its 2013-2014 fuel requirements sometime in the Spring of 2013. This will be a recurring annual borrowing event that will be repaid each year when the Debtor collects its rates from its members as it burns the fuel purchased. The Debtor anticipates that, subject to certain conditions, including confirmation of the Plan and the occurrence of the Effective Date, CFC will commit to providing continuing financing for the Reorganized Debtor to facilitate the purchase of diesel fuel. This loan is secured by a lien against the Debtor's diesel assets, senior to the lien and mortgage of RUS.

c. Conveyance of Drill Rig and Accessories

In the fall of 2012 the Debtor entered into agreements with , Baker Hughes Oilfield Services, Inc., Baker Process, Inc., , National Rural Cooperative Finance Corporation., and the eight creditors who had filed liens in the Kvichak Recording District, pursuant to which the Debtor's drill rig was conveyed to Baker Process, Inc., the lien claimants received a payment of one-half of each of their allowed mining lien claims from Baker Process, Inc., and Baker Process, Inc. deposited $500,000 into an escrow account to help fund the plug and abandonment of the geothermal well with the drill rig, which it now owns, earlier in 2013.

4. Bankruptcy litigation

a. NEA v. CoBank & Baker Hughes (Adv. Pro. 10-90027)

The Debtor filed an adversary action in the Bankruptcy Court seeking to avoid the judicial liens that had been recorded against its diesel assets by Baker Hughes and CoBank. On January 1, 2011 a Consent Judgment was entered in this adversary action avoiding those liens.

b. Baker Hughes v. NEA et. al. (Adv. Pro. 11-90007)

Baker Hughes filed a complaint in the Bankruptcy Court seeking to determine the priority of statutory liens against the Debtor's drill rig, geothermal equipment and geothermal site. Liens of more than $10 million were filed against these assets. CFC and several other lien claimants filed counterclaims. On March 21, 2012 the Bankruptcy Court entered an Order and Memorandum on Cross Motions for Summary Judgment determining that the mining and mineral

liens took priority over CFC's Uniform Commercial Code liens against the drill rig and that the mechanic liens did not encumber the drill rig. This decision facilitated settlement discussions between the lien claimants which resulted in an Agreed Order Approving Motion to Compromise Controversy (DE 387).

c. NEA v. Centrifuge (Adv. Pro.12-90018)

NEA filed a complaint against Centrifuge Services alleging that it had received a preferential payment under 11 U.S.C. §547. This adversary action was settled in conjunction with the Order approving the Geothermal Assets Transaction and allowed an initial payment to Centrifuge because of its lien creditor status under the Geothermal Asset Transaction, and divided the remaining conditional receivable under the Geothermal Assets Transaction between Centrifuge and the Debtor.

d. Preference actions

NEA filed the following preference actions before September 29, 2012. These actions will proceed on schedules established by the Bankruptcy Court. The net recoveries after expenses in these actions will be distributed to Class 10, unsecured.

Case No.	Case name	Amount sought
12-90024	NEA v. TAM	$18,357
12-90025	NEA v. ASRC	$40,330
12-90026	NEA v. Northern Air Cargo	$27,304
12-90027	NEA v. Geothermex	$116,838
12-90028	NEA v. TNG	$24,000
12-90029	NEA v. Weaver Bros.	$300,000
12-90030	NEA v. Chancellor	$56,845
12-90031	NEA v. Delta Western	$74,632

5. State and Federal Court litigation

a. NEA v. Bristol Bay Borough

NEA filed a complaint in Superior Court in Anchorage seeking judgment against Bristol Bay Borough for damages of more than $500,000 which the Debtor alleges were caused by the Borough's agent when a portion of the drill rig known as the top drive was unloaded from the barge in 2009. The Bankruptcy Court approved a $175,000 settlement of this claim. The proceeds of this settlement were used to pay ongoing expenses of operation.

b. Premier v. NEA and GBR

Premier Equipment filed a complaint in federal district court in Lafayette, Louisiana, alleging that GBR, a vendor of the Debtor, and the Debtor, owed it more than $2 million for the use of drilling equipment by the Debtor. Premier and GBR settled their claims in this action and GBR filed an amended proof of claim in this bankruptcy asserting a claim for $909,000 which it maintained was a lien against the drill rig. The Debtor objected to this claim and Baker Hughes joined in the Debtor's objection. Subsequently, GBR, Baker Hughes and the Debtor have agreed to allow GBR a claim of $450,000, which treatment is described in the Agreed Order Approving Motion for Compromise (DE 387).

6. Administrative Expenses

a. Professionals

Five orders have been entered approving fee applications through July 31, 2012(DE's 164, 241, 261, 293, 406) totaling $328,462.04 for Erik LeRoy, P.C., David Bundy, P.C., Energy & Resource Economics, and Mikunda Cottrell. A Fifth set of fee applications has been filed requesting payment of fees and expenses of approximately $50,000. Debtor anticipates that final fee applications filed by the Effective Date will total an additional $50,000.

b. Arctic Drilling

Arctic Drilling filed a Motion seeking payment of approximately $67,000 of post-petition charges for repairs relating to alleged usage of its equipment. The Debtor has opposed this Motion. Arctic Drilling's pre-petition claim will be addressed in the claim object process.

7. Other Orders

a. Official Service List

An order was entered at DE 172 approving a shortened Official Service List for noticing of matters other than Disclosure Statement and Plan issues.

b. Acquisition of Baker Hughes' nine silos

Baker Hughes owned nine metal silos located on the geothermal site, seven of which are filed with dry powder cement which the Debtor needed to redrill the geothermal well or to plug and abandon the geothermal well. The Debtor obtained Court approval to purchase these silos from Baker Hughes for $112,500 and this payment was made in February, 2012.

V. ASSETS AND LIABILITIES

A. Assets.

1. Diesel Plant & non-geothermal assets.

The Debtor owns three and one half acres of land in Naknek, Alaska, on which is located an approximately 15,000 square foot building containing 10 diesel generators and the Debtor's offices. There is a separate metal building located on this property containing the Debtor's distribution assets, including transformers, switches and line. There are also six diesel fuel tanks located on the property with total capacity of 2,160,000 gallons. The Debtor owns 91 miles of above and below ground power lines, poles and appurtenant equipment.

As of September 30, 2012, the fuel tanks contained approximately than 1,200,000 gallons of diesel fuel valued at approximately $4,300,000, but encumbered by the fuel loan with a current balance equal to the approximate value of the fuel.

The Debtor owns a small parcel (less than one acre) with a small building in South Naknek located across the Naknek River (there is no bridge). The Debtor owns a small house in Naknek which has been vacant since before the petition date.

All but one piece of the rolling stock the Debtor owns are stored at the diesel facilities and were used for both diesel and geothermal purposes.

Although it is located at the geothermal site, and is dedicated to that project, the air booster that the Debtor acquired with the Debtor in Possession loan, is considered a non-geothermal asset, because none of the pre-petition statutory liens attach to it.

The Debtor's September 30, 2012 financial statement values the Debtor's diesel power generation property at $5,489,085 net of depreciation. A copy of this financial statement and the Debtor's analysis of its equity in the assets described in the financial statement is attached as Appendix D. These assets are encumbered by the RUS loan, the CFC Debtor in Possession loan, and any cost of plug and abandonment not covered by the plug and abandonment escrow. The Debtor's net equity in its diesel assets and geothermal air booster and materials, is about $2,937,900. The Debtor is anticipating that the entire cost of the plug and abandonment of the geothermal well will be paid for out of the escrow or Baker Process, Inc.'s contractual obligation to contribute its services and materials.

2. Geothermal Property.

The Debtor purchased a 120 acre native allotment approximately 17 miles from King Salmon, in January, 2008 for $120,000. Utilizing a conditional easement, the Debtor constructed a 1.4 mile road on land owned by the native village corporation, Paug-Vik, Inc. The easement, by its terms, reverts to Paug-Vik if the geothermal project is not developed. From the Paug-Vik conditional easement the Debtor constructed a .4 mile road to the geothermal pad. Alternative access to the geothermal pad is provided by the Pike Ridge Trail, an unimproved four wheeler track which passes within 60 feet of the geothermal property line. There is a 60 foot easement

from this trail to the geothermal pad which is available access even if the geothermal pad is not developed.

The pad is about 430 feet by 300 feet. There is a 250,000 gallon fresh water storage pond with an impermeable liner on the east side of the pad. On the west side of the pad is a 250,000 gallon storage pond with impermeable liner containing about 200,000 gallons of used drilling fluid. Off of the pad on the west side is a 1 million gallon storage pond with an impermeable liner containing water removed from the well. (Additional fluids will probably be added to the pond in the plug and abandonment process.) On the northwest corner of the property, off the pad, is an inert waste certificated storage area approximately 200 feet by 200 feet containing approximately 400 bags of material, including cutting and other dried material, recovered from the well. This area is similar to a small landfill. There are three environmental monitoring wells of 80 to 100 feet deep located just off the pad. The Debtor spent $887,866.79 on improvements to the geothermal real property including development of roads, pad, staging area inert waste monofil and settling ponds. When the drill rig acquired by Baker Process, Inc. is decommissioned and moved from the site, the Debtor will own the 120 acres, burdened by the 200,000 gallons of drilling fluid in the 250,000 pond and approximately 400 bags material recovered from the well. The Debtor investigated trucking these bags to the Borough dump, but the Borough will not permit the Debtor to dispose of these bags. The owner of the property is required to quarterly report on readings in the 3 test wells on the site. There are two active permits with Alaska Department of Environmental Conservation affecting the property. One is for an inert monfil waste storage area (where the 400 bags of material are stored) and one is for the three storage ponds with impermeable liners. Both permits expire in August, 2014.

This property is included in Construction Work in Progress ("CWIP") on the Debtor's financial statement. CWIP is discussed below. The real property is also encumbered by statutory liens. The Debtor does not believe this property has any value, and may be a liability, because it is burdened with the above-described fluid and material storage issues. The Plan provides that the Geothermal Real Property will revest in the Reorganized Debtor, free and clear of all liens or other claims, (but not free and clear of the four mechanic liens) on the Effective Date.

3. Additional Personal Property.

a. Geothermal

There is one trailer with two sleep quarters located on the geothermal pad. There is a second trailer with office space and break room. There are 6 to 7 20 to 40 foot containers, two of which contain a mechanic shop and a welding shop.

4. Construction Work in Progress.

The Debtor's financial statements contains a line item in the amount of $31.4 million described as Construction Work in Progress covering the Debtor's expenditures associated with the geothermal project. The Debtor believes that its remaining geothermal assets have no appreciable value, and that there is no net value to the Debtor in Construction Work in Progress.

B. Administrative Expenses.

Remaining administrative expenses associated with the bankruptcy case, to be paid under the Plan, cannot be estimated with precision. At present, the Debtor estimates that unpaid Administrative Expense Claims could be in the range of $100,000 by the Confirmation Date.

C. Discussion of Significant Claims and Interests

1. Rural Utilities Service Mortgage & Lien.

The Debtor has ten outstanding loans owned by RUS, secured by the Debtor's diesel assets, totaling $ 2,565,772 as of September 30, 2012. These loans were used to purchase or upgrade equipment. The most recent loan was issued in 2002 for a new fuel tank and tank farm upgrades. These loans amortize at various dates between 2013 and 2040. RUS's liens were subordinated to the post-petition super priority lien granted CFC for the fuel loan. The Plan provides for RUS to be repaid its loans in accordance with their contractual terms and conditions.

2. CFC Fuel Loans and Liens

CFC loaned the Debtor approximately $4.9 million to purchase and ship to King Salmon its 2011-2012 diesel fuel. This loan was secured by a first position lien against the assets of the Debtor and was senior to lien and mortgage of RUS. This loan was rolled into the approximately $5 million loan to purchase 2012-2013 fuel which will be repaid in full in the summer of 2013. The Debtor and CFC have reached an agreement in principle, subject to appropriate approvals at CFC and appropriate documentation satisfactory to CFC, for CFC to continue annual financing of the Debtor's purchases of diesel fuel for a period of five years, with CFC being granted and maintaining first and prior liens on Debtor's assets to secure repayment of such loans. At this time, the CFC fuel loan has been paid down to about $ 3.5 million, secured by about $ 3.5 million of fuel, as well as the Debtor's diesel assets. In part, in exchange for CFC's promise to finance the Debtor's fuel purchases, the Debtor will agree, in applicable loan documentation, to release CFC and its representatives, from any claims arising in or associated with this bankruptcy proceeding. The Debtor does not believe it has any claims it could assert against CFC. A Term Sheet summarizing terms to be included in its agreements with CFC is attached as Appendix E.

3. DIP Lien (air booster).

The Court approved a $1.5 million debtor in possession loan from CFC to fund the purchase and operation of an air booster to attempt to clean the geothermal well of Barite drilling mud. CFC was granted a security interest in the Debtor's diesel assets, junior only to the mortgage and lien of RUS. The current balance of this loan is approximately $879,000. This loan will be paid off in June 2014.

5. Drill Rig Liens

In the Geothermal Assets Transaction the six mining and mineral liens received payment of one-half of their lien claims, with the remainder of these claims to be paid from drill rig sale proceeds or as Class 10, Unsecured. Any remainder of these liens will be voided in the Confirmation Order.

6. Liens on geothermal real property

The four mechanic liens encumbering the Geothermal Real Property were not eliminated in the Geothermal Asset Transaction. The claims secured by the four mechanic liens were bifurcated in the Agreed Order Approving Motion to Compromise (DE 387) and each of these creditors received a lien against the Geothermal Assets for one-half of the value of its claim. The remainder of each of these claims retains its mechanic lien against the Geothermal Real Property and, under the Plan, may execute on its claim and take ownership of the Geothermal Real Property, or may participate in Class 10, Unsecured, up to the amount of its unpaid claim. The Debtor believes the Geothermal Real Property is a liability, and that none of the mechanic liens will execute on their liens.

D. Claim Summary

A summary of the Debtor's pre-petition claims is found in Appendix C, summarized as follows:

- Claims totaling $38,422,918 have been filed or scheduled in the case.
- After resolution of objections to claims, the Debtor expects there will be approximately $37,865,000 of Allowed Unsecured Claims in this case.
- RUS' Claim in the amount of approximately $2,565,000 is fully secured.

VI. POTENTIAL LITIGATION AND DISPUTED CLAIMS

A. Avoidance Actions. The Debtor has filed eight avoidance actions, which are described above. Net proceeds of settlements or recovered judgments will segregated and used to pay Class 10 Unsecured claims.

C. Objection to Claims The Debtor has not completed review of claims filed.

Arctic Drilling claim 29. $67,000, The Debtor will object to the characterization of this claim as administrative.

VII. DESCRIPTION OF PLAN

A. Summary.

The following is only a general description of the Plan. Creditors and parties in interest should read the Plan carefully to determine its impact upon them and their Claims or interests. In the event of any inconsistency between this Disclosure Statement and the Plan, the provisions of the Plan shall control.

1. General The Debtor will plug and abandon the geothermal well in the spring of 2013 with equipment provided by Baker Process, Inc. and with the $500,000 now held in the plug and abandonment escrow. Classes 2 and 6, Baker Hughes and BJ Services, will received nothing under the Plan and those Claims will either be disallowed or withdrawn. The Secured Claims of the mechanic and mining lien claims in Classes 3, 4, 5, 7, 8 and 9 will be paid (1) pursuant to the terms of the Geothermal Asset Transaction, and (2) as Class 10 unsecured, to the extent such claims are not fully satisfied in the Geothermal Asset Transaction. These classes could participate in Class 10, Unsecured, if their mining liens are not paid in full from drill rig sale proceeds. Any residual lien these Classes have will be voided in the Order of Confirmation and each Claim will retain a contingent Unsecured Claim until final payment under the Geothermal Assets Transaction. The Secured Claims of the four original mechanic liens (Class 4 Centrifuge, Class 7 BC Contractors, Class 8 Tecton, and Class 9 Workstring) retain their liens against the Geothermal Real Property but if they choose to foreclose those liens, they must file their foreclosure actions no more than 180 days following Confirmation of the Debtor's Plan. Each of the four mechanic liens also retain unsecured claims which will participate in Class 10. Any distribution on account of such unsecured claims will be escrowed until either such creditor's lien against the Geothermal Property is released or 180 days following Confirmation has passed to permit appropriate reduction in such claim to reflect such creditor's bid for the geothermal property at a judicially sanctioned sale. Each Claim in Class 10, Unsecured, will be paid according to its election as described below. Each claim in Class 10 will received payments on its Allowed Claim consistent with its election of Option 1, 2 or 3, described below.

2. Classification and Treatment of Claims. The Claims of creditors and interests of equity security holders are placed into Classes in Article 3 of the Plan. Article 4 specifies the treatment of Claims and interests.

The Debtor proposes the following classes of claims:

a. Administrative & Priority claims.

This class of claims does not vote.

i. Priority claims. $10,000. These are the claims of former-members of the Debtor for return of their utility deposits. These claims will be paid in full to former members who can be found, on the Effective Date.

ii. CFC debtor in possession loan. $878,566 This will be paid according to its terms over 36 months beginning in June 2011.

iii. CFC fuel loan. $5,000,000. This will be paid according to its terms or as amended by agreement of the parties.

iv. National Rural Electric Cooperative Association Any unpaid post-petition benefit contribution will be paid before Confirmation.

v. Professional fees. All allowed professional fees will be paid on or before the Effective Date.

vi. United States Trustee fees. All U.S. Trustee fees will be paid at or before confirmation and, later, when due.

b. Secured Claims

Class 1: Rural Utilities Services. $2,694,516.This class of claims is impaired because it has been subordinated to the fuel loan lien of CFC. These loans are current and will remain current, and paid according to their terms.

Classes 2 through 9: Mechanics and Mining and Mineral Lien Claims

Each of the creditors in these Classes recorded either mechanics liens under AS 34.35.050-.070 or mining and mineral liens under AS 34.35.125, in the Kvichak Recording District. In the Agreed Order Approving Motion to Compromise Controversy (DE 387) each of these creditors received a lien against the drilling rig and related machinery and equipment (the Geothermal Assets), but those four creditors who recorded mechanic liens did not receive liens against the Geothermal Assets for the full value of their claims and retained their mechanic liens against the Geothermal Real Property. The Order approving the Geothermal Assets Transaction directed that all liens against Geothermal Assets be released and approved partial payment of the Claims of Classes 2 through 9. Classes 2 and 6, BJ Services and Baker Hughes, have no further Claim in the case, are not impaired and will receive no payment under the Plan. The remaining claims which were secured by liens against the Geothermal Assets should be paid in full once the Geothermal Assets are sold by Baker Process, Inc. If these claims which were secured by the Geothermal Assets are not paid in full, then the unpaid portion of these Claims will be Class 10, Unsecured Claims, and $12,500 will be escrowed for each claim, until determination that such claims will not be fully satisfied in the Geothermal Assets Transaction. Four of these creditors, Classes 4, 7, 8 and 9, Centrifuge, BC Contractors, Tecton and Workstring, also have Class 10 Unsecured Claims and also retain mechanic liens against the Geothermal Real Property. Each of these Classes retains its rights under applicable law to execute against the Geothermal Real Property by filing an action in Superior Court within 180 days following the Confirmation Date. If any Class 4, 7, 8, or 9 does not file such action within the time allowed, its mechanic lien expires and its remaining claim will participate in Class 10, Unsecured. Class 4, 7, 8 or 9 may elect to release its mechanic lien and received a Class 10 distribution under Option 1 on August 31, 2013. Any class 4, 7, 8 or 9 which chooses not to release its mechanic lien will have its Class 10 distribution escrowed until it (1) releases its mechanic lien, (2) the time in which it could file an action to enforce its mechanic lien expires, or (3) it executes on its mechanic lien against the Geothermal Real

Property, with appropriate adjustment of its claims to account for the credit bid of, or other sums received by, such lien claimant at the foreclosure sale of the Geothermal Real Property.

Any deficiency classes 4, 7, 8 or 9 suffer as a result of their liens against the Geothermal Assets not being paid in full will be added to their Class 10 Claim, but each class will be entitled to receive no more than $12,500 if it elects Option 1 in class 10.

Classes 3, 4, 5, 7, 8 and 9 may be unimpaired. Classes 3 and 5 may receive their claims paid in full from the Geothermal Assets Transaction. If they do not receive their claims paid in full from the Geothermal Assets Transaction, then their deficiencies will be allowed Class 10 Unsecured Claims. Classes 4, 7, 8 and 9 may receive full payment of that portion their claims secured by a lien against Geothermal Assets . If they do not receive this portion of their claims paid in full from the Geothermal Assets Transaction, then their deficiencies will be allowed Class 10 Unsecured Claims. The claims of Classes 4, 7, 8 and 9 secured by their mechanic liens may be unimpaired because they retain their state law rights to foreclose those liens. Any deficiencies will be allowed Class 10 Unsecured Claims. Nevertheless, the Debtor's Plan allows these classes to vote.

Class 2: BJ Services: $914,484.39. This class of claims is unimpaired. Its rights have been determined by the Order of the Bankruptcy Court approving the Geothermal Assets Transaction. It will receive no distribution under this Plan, its claim will be disallowed, and any remaining vestige of the liens this claimant recorded in the Kvichak Recording District will be voided by the Order of Confirmation.

Class 3: TIW $128,043.88. This class of Claim is impaired. $64,021.94 of this Claim has been paid in the Geothermal Assets Transaction. The remaining $64,021.94 of this Claim (or such remaining amount of this Claim as is reduced by any payments pursuant to the Geothermal Assets Transaction) will be paid as a Class 10 Unsecured Claim, if it is not paid under the terms of the Geothermal Asset Transaction. Any distributions to this claim in Class 10, Unsecured Claims, will be escrowed by the Debtor for 36 months, or such other period as determined by the Bankruptcy Court sufficient to establish that this Claim will not received any further distribution under the Geothermal Assets Transaction. Any remaining vestige of the liens this claimant recorded in the Kvichak Recording District will be voided by the Order of Confirmation.

Class 4: Centrifuge Services $107,851.21. This class of Claim is impaired. $33,661.60 of this Claim has been paid in the Geothermal Assets Transaction. The remaining $33,661.60 of this Claim which was a lien against the Geothermal Assets (or such remaining amount of this claim as is reduced by any payments pursuant to the Geothermal Assets Transaction) will be paid as a Class 10 Unsecured Claim, if it is not paid under the terms of the Geothermal Asset Transaction. Any payment to this class from Geothermal Assets is shared with the Debtor as determined in the Order Approving Settlement (DE 426), and the Debtor's share will be added to the Debtor's payments to Class 10 $12,500, the amount to be paid on account of an unsecured claim in excess of $25,000 under a Class 10, Option 1 election, will be escrowed for the Class 10 portion of this claim until this class (1) releases its mechanic lien, (2) the time in which it could file an action to enforce its mechanic lien expires, or (3) execution by this class on its mechanic lien against the Geothermal Real Property, with appropriate adjustment of the Class 4 and Class 10 claims of this claim to account for the credit bid of, or other sums

received by, such lien claimant at the foreclosure sale of the Geothermal Real Property. Because this Class will receive no more than $12,500 under a Class 10, Option 1 election regardless of how large the deficiency is resulting from non payment of its lien against Geothermal Assets, there will be no escrow of funds pending determination of whether that portion of this claim is fully paid from the Geothermal Assets Transaction. This claim can elect to receive Class 10, Option 1 treatment and receive $12,500 and also receive its share of any proceeds from sale of Geothermal Assets.

Class 5: GBR $450,000. This class of Claim is impaired. $225,000.00 of this Claim has been paid in the Geothermal Assets Transaction. The remaining $225,000.00 of this Claim (or such remaining amount of this Claim as is reduced by any payments pursuant to the Geothermal Assets Transaction) will be paid as a Class 10 Unsecured Claim, if it is not paid under the terms of the Geothermal Asset Transaction. Any distributions to this Claim in Class 10, Unsecured Claims, will be escrowed by the Debtor for 36 months, or such other period as determined by the Bankruptcy Court sufficient to establish that this Claim will not received any further distribution under the Geothermal Assets Transaction. Any remaining vestige of the liens this claimant recorded in the Kvichak Recording District will be voided by the Order of Confirmation.

Class 6: Baker Hughes $3,547,058.80. This class of claims is unimpaired. Its rights have been determined by the Order of the Bankruptcy Court approving the Geothermal Assets Transaction. It will receive no distribution under this Plan, its claim will be disallowed, and any remaining vestige of the liens it recorded in the Kvichak Recording District will be voided by the Order of Confirmation.

Class 7: BC Contractors. $138,232. This class of Claim is impaired. $30,900.50 of this Claim has been paid in the Geothermal Assets Transaction. The remaining $30,900.50 of this Claim which was a lien against the Geothermal Assets (or such remaining amount of this Claim as is reduced by any payments pursuant to the Geothermal Assets Transaction) will be paid as a Class 10 Unsecured Claim, if it is not paid under the terms of the Geothermal Asset Transaction. $12,500, the amount to be paid on account of an unsecured claim in excess of $25,000 under a Class 10, Option 1 election, will be escrowed for the Class 10 portion of this claim until this class (1) releases its mechanic lien, (2) the time in which it could file an action to enforce its mechanic lien expires, or (3) execution by this class on its mechanic lien against the Geothermal Real Property, with appropriate adjustment of the Class 7 and Class 10 claims of this claim to account for the credit bid of, or other sums received by, such lien claimant at the foreclosure sale of the Geothermal Real Property. Because this Class will receive no more than $12,500 under a Class 10, Option 1 election regardless of how large the deficiency is resulting from non payment of its lien against Geothermal Assets, there will be no escrow of funds pending determination of whether that portion of this claim is fully paid from the Geothermal Assets Transaction. This claim can elect to receive Class 10, Option 1 treatment and receive $12,500 and also receive its share of any proceeds from sale of Geothermal Assets.

Class 8: Tecton Geologic. $289,287. This class of Claim is impaired. $68,020.90 of this Claim has been paid in the Geothermal Assets Transaction. The remaining $68,020.90 of this Claim which was a lien against the Geothermal Assets (or such remaining amount of this Claim as is reduced by any payments pursuant to the Geothermal Assets Transaction) will be paid

as a Class 10 Unsecured Claim, if it is not paid under the terms of the Geothermal Asset Transaction. $12,500, the amount to be paid on account of an unsecured claim in excess of $25,000 under a Class 10, Option 1 election, will be escrowed for the Class 10 portion of this claim until this class (1) releases its mechanic lien, (2) the time in which it could file an action to enforce its mechanic lien expires, or (3) execution by this class on its mechanic lien against the Geothermal Real Property, with appropriate adjustment of the Class 8 and Class 10 claims of this claim to account for the credit bid of, or other sums received by, such lien claimant at the foreclosure sale of the Geothermal Real Property. Because this Class will receive no more than $12,500 under a Class 10, Option 1 election regardless of how large the deficiency is resulting from non payment of its lien against Geothermal Assets, there will be no escrow of funds pending determination of whether that portion of this claim is fully paid from the Geothermal Assets Transaction. This claim can elect to receive Class 10, Option 1 treatment and receive $12,500 and also receive its share of any proceeds from sale of Geothermal Assets.

Class 9: Workstring. $310,729. This class of Claim is impaired. $77,682.32 of this Claim has been paid in the Geothermal Assets Transaction. The remaining $77,682.32 of this Claim which was a lien against the Geothermal Assets (or such remaining amount of this Claim as is reduced by any payments pursuant to the Geothermal Assets Transaction) will be paid as a Class 10 Unsecured Claims, if it is not paid under the terms of the Geothermal Asset Transaction. $12,500, the amount to be paid on account of an unsecured claim in excess of $25,000 under a Class 10, Option 1 election, will be escrowed for the Class 10 portion of this claim until this class (1) releases its mechanic lien, (2) the time in which it could file an action to enforce its mechanic lien expires, or (3) execution by this class on its mechanic lien against the Geothermal Real Property, with appropriate adjustment of the Class 9 and Class 10 claims of this claim to account for the credit bid of, or other sums received by, such lien claimant at the foreclosure sale of the Geothermal Real Property. Because this Class will receive no more than $12,500 under a Class 10, Option 1 election regardless of how large the deficiency is resulting from non payment of its lien against Geothermal Assets, there will be no escrow of funds pending determination of whether that portion of this claim is fully paid from the Geothermal Assets Transaction. This claim can elect to receive Class 10, Option 1 treatment and receive $12,500 and also receive its share of any proceeds from sale of Geothermal Assets.

4.3 Unsecured Claims

Class 10: Unsecured claims. $38,408,772 The Debtor has proposed a Plan in which it will pay approximately $20.1 million to its unsecured creditors over 20 years on August 31st of each year beginning in 2013. Class 10 Claims will elect to receive the treatment under one of the following Options:

Option 1: Receive on August 31, 2013 fifty percent (50%) of the Allowed amount of its Claim in cash up to a maximum of $12,500;

Option 2: Receive on a date no later than August 31, 2014 five percent (5%) on the Allowed amount of its Claim in cash; or

Option 3: Receive its pro rata share (among all Allowed Unsecured Claims selecting this treatment) of the cash payments to be made by the Debtor over 20 years as set forth in Appendix B to the Disclosure Statement, secured by liens on all assets of the Debtor including assets acquired after Substantial Consummation of this Plan, subordinate only to the liens of Rural Utilities Service (or such other loans obtained by Debtor solely for the purpose of replacing or overhauling its diesel generation or transmission assets if RUS should be unable to provide such financing), the CFC Fuel Loans, and the CFC DIP Loan. A Term Sheet describing the documentation of the rights afforded creditors making this election is attached as Appendix F.

Any Allowed Class 10 Claim which does not make an election will receive the treatment in Option 1.

Options 1 and 2 provide for potentially significant discounting of your claim in exchange for a final payment in 2013 or 2014.

Creditors choosing Option 3 will be paid their pro rata share of the Debtor's annual plan payments over 19 years beginning in 2014

The Debtor's projected plan payments are comprised of two components: 1) an annual fixed payment and 2) a variable payment based on the Debtor's annual retail (non-Air Force) sales. Both are shown in the following table. The fixed payment is specified in $/year and is made regardless of sales. The variable payment is specified in $/kilowatt-hour and is applied to the Debtor's annual sales to retail customers. If retail sales are less than 10 million kilowatt-hour per year, no variable payment will be made in that year. Consequently, the variable payments to Class 10 in the following Table are estimates and may vary from these projections depending upon the Debtor's annual retail sales. All of the plan payments in 2013 and at least a significant portion of the plan payments in 2014 will be used to pay claims electing Option 1 or 2.

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	Assumed Retail Sales (kWh)	Plan Payoff				
		Fixed	Variable	Variable	Total	Rate Impact
		$/year	$/kWh	$/year	$/year	$/kWh
2013	15,545,619	$275,000	.0048	$74,619	$349,619	.022
2014	15,545,619	$335,000	.0085	$132,138	$467,138	.030
2015	15,545,619	$450,000	.0111	$172,556	$922,556	.040
2016	15,545,619	$575,000	.0130	$202,093	$777,093	.050
2017	15,545,619	$575,000	.0130	$202,093	$777,093	.050
2018	15,545,619	$600,000	.0214	$332,676	$932,676	.060
2019	15,545,619	$600,000	.0314	$488,132	$1,088,132	.070
2020	15,545,619	$600,000	.0314	$488,132	$1,088,132	.070
2021	15,545,619	$700,000	.0250	$388,640	$1,088,132	.070
2022	15,545,619	$700,000	.0250	$388,640	$1,088,132	.070
2023	15,545,619	$700,000	.0250	$388,640	$1,088,132	.070
2024	15,545,619	$700,000	.0250	$388,640	$1,088,132	.070
2025	15,545,619	$700,000	.0250	$388,640	$1,088,132	.070
2026	15,545,619	$800,000	.0185	$287,594	$1,087,594	.070
2027	15,545,619	$800,000	.0185	$287,594	$1,087,594	.070
2028	15,545,619	$800,000	.0185	$287,594	$1,087,594	.070
2029	15,545,619	$800,000	.0185	$287,594	$1,087,594	.070
2030	15,545,619	$800,000	.0185	$287,594	$1,087,594	.070
2031	15,545,619	$900,000	.0121	$188,102	$1,088,102	.070
2032	15,545,619	$900,000	.0121	$188,102	$1,088,102	.070
totals		$13,310,000		$6,792,881	$20,102,881	

(The variable payment is based upon assumed sales)

The Debtor believes that most of Class 10 creditors will choose Option 1 and that the August 31, 2013 payments to these Option 1 creditors (or to escrows on their behalf) will total approximately $330,000. An analysis of claims and projections of payments by option is attached in Appendix C.

The Debtor's Financial Projections, Appendix B, page 5, calculates that the *present value* of the stream of payments proposed to satisfy those Class 10 Allowed Unsecured Claims selecting Option 3 represents a recovery of approximately 27% if all anticipated Allowed Unsecured Claims select this option. This payment stream, however, will occur over 20 years.

PLEASE NOTE: The 20-year payment term of Option 3 presents substantially greater risks of Debtor's performance than Option 1 or Option 2, each of which will be performed within 18 months of the Effective Date. There can be no assurances that the Debtor will perform all required payments under Option 3.

The Debtor's net recovery from avoidance actions will be segregated from operating funds and added to the Debtor's annual contributions to pay Class 10, which payments are described in Appendix B, page 5, line 101.

4.4. Members

Class 11: Equity Interest Holders The members of the Debtor have no interest cognizable in bankruptcy and are not entitled to vote on the Debtor's Plan of Reorganization. The members of the Debtor will receive no return of patronage capital until completion of its Plan of Reorganization.

3. Executory Contracts.

The Debtor is party to a labor contract and a power sale contract with the Air Force, both which were entered into post-petition and are not executory contracts as that term is defined in 11 U.S.C. §364.

B. Financial Projections.

The Debtor's Financial projections are found at Appendix B.

The Debtor's annual non-wholesale utilities sales has decreased from 17.2 million kWh in 2008 to 15.5 million kWh in 2012. The Debtor believes that sales will plateau at approximately non-wholesale 15.5 million kWh per year. The Debtor sells the largest percentage of its electricity in May through September of each year. This trend is apparent in both 2012 Monthly Cash Flow and Monthly Revenues in Appendix B. This is why the annual payments to Class 10 are scheduled to be made in August of each year.

In 2013 the Debtor will submit a construction work plan to purchase two engines to replace Units 9 and 10 which each have approximately 140,000 hours of use. That will be a $2 million expense but might be financed through RUS over the life of the assets. The DIP loan will be paid off in 2014. The annual fuel loans do not appear on the Annual Pro Forma because they are paid off and refinanced on an annual basis. The Debtor's Annual Pro Forma predicts that it will develop sufficient net income to make the proposed plan payments.

Appendix B contains a summary of utility rates charged in other Western Alaska villages and cities. Total cost of power in those locations varies between $.18/ kWh in Kodiak to $.81/ kWh in Unalaska. The Debtor's total cost of power averages about $.50/kWh. The Debtor does not believe these comparisons are particularly useful because it is likely that its processors will decide to either purchase power from the Debtor or self-generate their power with their own generators. It is the Debtor's belief that it cannot significantly increase the utility rates it charges without losing further customer base.

The Debtor's September 30, 2012, RUS Form 7 financial statement, Appendix D, contains a line item under Liabilities and other Credits for Patronage Capital. This entry does not represent a cash item. It is a bookkeeping entry which tracks the excess in Operating Revenue and Patronage Capital over the Total Cost of Electric Service. Through 2005, some portion of Patronage Capital was disbursed to members. In 2005 $150,000 was disbursed to members. Prior to 2006 the Debtor was able to purchase its annual fuel needs with cash. Beginning in 2006, due to the higher cost of fuel, the Debtor began borrowing to purchase its fuel needs and suspended payment of Patronage Capital to its members. The Debtor's actual cash position in any month is accurately reported in its monthly reports. The Debtor will make no return of capital contributions during the term of its Plan. Because the Debtor must minimize rate increases to retain large power customers, it will reduce rates before it returns Patronage Capital.

The Debtor projects that it will raise utility rates approximately $.07 per kWh over the next 20 years to pay for its Plan. Additionally, rates will also be adjusted to address other factors not part of this Plan such as inflation, plant and distribution improvements and fuel costs. The Debtor's projections, attached as Appendix B, estimates that over the next 20 years it will raise rates another $.07 per kWh to pay for these operational expenses.

VIII. CONFIRMATION

A. Bests Interests of Creditors / Liquidation Analysis.

To be confirmed by the Court, the Plan must pay creditors amounts at least equal to what they would obtain if it were liquidated under Chapter 7 of the Bankruptcy Code, unless a holder of a claim has agreed to different treatment. Because the Debtor is a non-profit cooperative corporation, under 11 U.S.C. §1112 (c) no one, other than the Debtor can force it into a chapter 7. For purposes of analyzing whether the Debtors are treated fairly under the Plan, however, the Debtor has valued its assets at what a purchaser of the Debtor's business could recover in rates. Such a hypothetical purchaser is unlikely to pay more than it could recover in rates.

When a utility that is regulated by the Regulatory Commission of Alaska ("RCA") sets its rates, it must abide by the ratemaking rules set forth by the RCA and the Alaska Statutes. In general, rates are set to recover the utility's revenue requirements that, in turn, are equal to the sum of operating costs net of other income, depreciation, taxes, and return on rate base. Return on rate base includes both interest on debt and return on equity and is calculated by applying the weighted cost of capital (debt and equity) to the un-depreciated rate base. Thus when a utility or its assets are purchased, the purchaser will recover the cost of acquisition through depreciation and return on rate base.

When considering the value of a utility in Alaska, the purchaser must consider Sec. 42.05.441(b) of the Alaska Statutes. That section states:

> "In determining the value for rate-making purposes of public utility property used and useful in rendering service to the public, the commission shall be guided by the acquisition cost or, if lower, the original cost of the property to the person

> first devoting it to public service, less accrued depreciation, plus materials and supplies and a reasonable allowance for cash working capital when required."

In other words, the Regulatory Commission of Alaska ("RCA") places emphasis on the original cost less depreciation (or, net book value) when determining what is allowed in rate base and the amount that can be depreciated. Anything above the net book value is considered an "acquisition premium," and would, in most cases, not be allowed to be included in calculating rates. If an acquisition premium were allowed, the owners of the selling utility would be compensated above what they would normally achieve through regulated rates. This excess compensation would be borne by the ratepayers of the new utility. The owners of the purchasing utility also stand to gain since they will earn a return on the higher equity amounts used to fund the acquisition premium.

Even if the purchasing utility is not directly regulated by the RCA, the additional expenses associated with the acquisition premium may not be allowed when the RCA calculates the State subsidy payments through the Power Cost Equalization ("PCE") program.

There has been at least one instance in Alaska where an acquisition premium was allowed. However, both the seller and purchaser were non-profit utilities, and it could clearly be demonstrated that the ratepayers of both utilities would have lower rates in a combined utility even with the premium. The RCA has consistently held that it will not allow the inclusion of acquisition adjustments in rate base unless the adjustment is offset by clear economic benefit to utility customers, such as lower future rates.

Inclusion of the net book value of the well in the purchase price is also problematic in that it is not "used and useful." The RCA has a very strong history of not allowing assets into the rate base until they are operating and providing benefits to the ratepayers.

In summary, the purchase price of the NEA system is prudently bound by the net book value of the system without any costs associated with the geothermal well. It is likely that the piecemeal sale value of the Debtor's assets is not substantially different than the net book value of its assets. Its fuel tanks would be difficult to move. Most of the Debtor's generators are more than twenty years old.

The Debtor's plan assumes that the electric utility will continue to be operated. The Debtor believes the liquidation value of its assets is the amount that the Regulatory Commission of Alaska would allow a buyer of the Debtor's utility assets to recover in its rates. The Debtor does not believe the Regulatory Commission of Alaska would allow the termination of the utility services the Debtor provides followed by piecemeal sale of its assets.

The Debtor's Liquidation Analysis found at Appendix D, is based upon its September 30, 2012 Form 7 Financial Statement. A summary of the Debtor's Form 990 Tax Return of Organization Exempt from Income Tax (Appendix B) shows that the Debtor reported net assets of $8,926,311on its 2011 Form 990. On its Liquidation Analysis, (page 1), the Debtor reported Net Plant in Service without Geothermal of $5,489,085. The difference between the two is that the net assets on the Debtor's 990's include about $3.5 million of fuel inventory, which are not included in the Liquidation Analysis.

B. Fair and Equitable / Cramdown.

If a class rejects the Plan, but the Court finds that the Plan does not discriminate unfairly and is fair and equitable with respect to each impaired class which does not accept the Plan, the Plan Proponents may seek "cram down" by requesting the Court to confirm it over the objections of the rejecting class. The Plan Proponents will request cramdown of the Plan in the event the conditions of section 1129(a) of the Bankruptcy Code are not met and the conditions of section 1129(b) of the Bankruptcy Code can be met.

C. Risk Factors.

Success of the Plan is conditioned on several factors

1. Increasing fuel costs and rates will not result in loss of customers.

The greatest risk to the success of Debtor's Plan is the effect of increased fuel costs and rates on the Debtor's customer base. The Debtor cannot indiscriminately increase rates to pay its creditors. There will be a tipping point as rates are increased at which NEA's commercial customers will find other means of meeting their utility needs. They could do so in a variety of ways. They could produce all or more of their own electricity with generators in their possession or which they install at their facilities in the Debtor's service area. Fish processors could choose to process their fish in other locations. The Debtor believes that the rates it is currently charging members are very close to this tipping point. Ninety percent of non-wholesale power is purchased in the summer months by approximately five fish processors in the Debtor's service area. Three of those processors each purchase approximately 1,300,000 kwh per year of power, or a little less than 10% of the Debtor's annual non-wholesale power sales each. One of those processors has in place generators sufficient to allow it to generate the majority of its annual power requirements. If that processor were to choose to generate its own power, the Debtor would produce about 13,700,000 non-wholesale kwh of power on an annual basis. It would save, in today's dollars, approximately $300,000 in fuel costs. But most of its remaining expenses would not decrease. It would have to recover those expenses from its remaining rate payers in the form of increased rates. A loss of any load could trigger a cascade effect where increased rates lead other commercial customers to switch to their own electric generation or shift operations to other communities. The Debtor projects that during the term of this Plan, it may increase rates by approximately $.14 per kWh. $.07 per kWh are solely related to the Debtor's Plan payments. Additionally, rates will also be adjusted to address other factors not part of this Plan such as inflation, plant and distribution improvements and fuel costs.

Since the Debtor's fix payment under its Plan is made regardless of the level of its sales, rates will necessarily increase if the Debtor experiences lower sale, to finance the fixed payment. Any member of the Debtor which wishes to generate its own power will encounter similar fuel cost increases. But as the Debtor's rates increase to fund its Plan, members will evaluate whether they can meet most or all of their power needs, with acceptable levels of attention to the mechanics of power generation, for price less than the Debtor will have to charge them. The Debtor cannot guarantee that it will not lose customers or achieve sufficient revenues to meet the obligations of the Plan.

2. The Debtor's cash flow will be sufficient to make all plan payments

The Debtor and CFC have reached an agreement in principle, subject to appropriate approvals at CFC and appropriate documentation, for CFC to continue annual financing of the Debtor's purchases of diesel fuel for a period of five years, with CFC being granted and maintaining first and prior liens on Debtor's assets to secure repayment of such loans. While Debtor anticipates that such financing will provide sufficient liquidity to meet its business plan, there can be no assurances that Debtor will not experience cash flow shortages over the life of its plan of reorganization.

3. Approval by Creditors. The success of the Plan is dependent upon prompt confirmation of the Plan. Confirmation of the Plan, in turn, is partially dependent upon the acceptance of the Plan by creditors and the determinations of the Court with respect to the requirements for confirmation under § 1129 of the Bankruptcy Code, which cannot be guaranteed.

4. Initial Payment Shortfall. The Debtor's plan projects that it will make a payment to Class 10 in August of 2013 of $350,000. The Plan requires that each Class 10 creditor elect whether it wants an early discounted payment. The Debtor believes it can predict which creditors will *not* want the Option 1 payout of 50% of claim up to $12,500. If it is wrong in its prediction and more creditors want the Option 1 payment than the 2013 $350,000 plan contribution, then the Debtor may not be able pay each creditor selecting Option 1 its entire dividend in 2013. At the other end of the spectrum, if either of the Debtor's two largest creditors elect Option 2 (payout of 5% of claim on August 31, 2014) instead of the Option 3 20 year payout, the Debtor, again, will not be able pay such discount claims in full in 2014.

5. Option 3 Risks. While Option 3, pro rata payment over 20 years, returns to the creditor who chooses it about 27% of its claim on a net present value basis, such creditor must accept the risk that the Debtor will not be able to consistently make the payments projected over 20 years. Approximately $6.8 of the total estimated $20.1 million of plan payments is based on a variable payment which could be eliminated if the Debtor's non-wholesale energy sales fall below 10 million kWh annually. Disruption in sales could be caused by increased self-generation of power, poor fishing seasons which result in lower electrical usage, or extraordinary unbudgeted expense.

D. Voting.

A ballot for voting to accept or reject the Plan is being mailed with this Disclosure Statement and the Plan. A creditor is entitled to vote if that person's claim or interest is "impaired" under the Plan. Articles 3 and 4 of the Plan identify the classes of Claims and interests, and whether they are impaired or unimpaired. Unimpaired classes are deemed to have accepted the Plan and need not vote.

Creditors should read the ballot instructions carefully and complete all information requested on the ballot. The signed and dated ballot must be returned to:

Erik LeRoy, P.C.,
500 L St., Ste 302
Anchorage, Alaska 99501

BALLOTS MUST BE RECEIVED BY THE DATE AND TIME INDICATED ON THE BALLOT IN ORDER TO BE COUNTED

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IX. AFTER CONFIRMATION

A. Tax Consequences.

The tax consequences of the Plan will vary significantly based upon each creditor's or affected party's individual circumstances. NEA is a non-taxable cooperative, so there should be no tax implications of the Plan. All creditors and parties in interest are urged to consult their own accountants or legal counsel regarding the tax effect of the Plan to them.

B. Discharge and Injunction.

On the effective date of the Plan, the Debtor shall be discharged from any debt that arose before confirmation of the Plan, except that the Debtor shall not be discharged of any debt (i) imposed by the Plan, (ii) of a kind specified in 11 U.S.C. § 1141. After the effective date of the Plan all claims against the Debtor will be limited to these obligations. In addition, as part of the CFC financing arrangement, the Debtor will, to the maximum extent permitted by law, release CFC from any liability to any person or entity for an act taken or omission made in good faith (a) in connection with any CFC financing prior to confirmation of the Plan, or (b) related to the formulation of the Plan, the related Disclosure Statement, or a contract, instrument, release, or other agreement or document created in connection therewith, the solicitation of acceptances for or Confirmation of the Plan, or the consummation and implementation of the Plan and the transactions contemplated therein.

As of the Effective Date, the Confirmation Order shall enjoin the prosecution, whether directly, derivatively or otherwise, of any Claim, obligation, suit, judgment, damage, demand, debt, right, cause of action, liability or interest released, discharged or terminated pursuant to the Plan.

Except as provided in the Plan or the Confirmation Order, as of the Effective Date, all entities that have held, currently hold, or may hold a Claim or other debt or liability that is or may be discharged are permanently enjoined from taking any of the following actions against the Debtor or the Estate or their property on account of any such claims, debts or liabilities: (1) commencing or continuing, in any manner or in any place, any action or other proceeding; (2) enforcing, attaching, collecting or recovering in any manner any judgment, award, decree or order; (3) creating, perfecting or enforcing any lien or encumbrance; (4) asserting a setoff, right of subrogation or recoupment of any kind against any debt, liability or obligation due to the Debtor; and (5) commencing or continuing any action in any manner, in any place that does not comply with or is inconsistent with the provisions of the Plan.

C. Modification of Plan

The Plan Proponent may modify the Plan at any time before confirmation of the Plan. However, the Court may require a new disclosure statement and/or re-voting on the Plan. The Plan Proponent may also seek to modify the Plan at any time after confirmation only if (1) the Plan has not been substantially consummated and (2) the Court authorizes the proposed modifications after notice and a hearing.

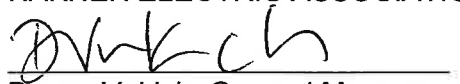
D. Final Decree

Once the estate has been fully administered, either the Debtor shall file a motion with the Court to obtain a final decree to close the case, or the Court may enter such a final decree on its own motion.

X. CONCLUSION

After reading this Disclosure Statement and the Plan carefully, please complete the ballot and submit it in time to be counted. The Debtor requests your acceptance of the Plan.

NAKNEK ELECTRIC ASSOCIATION, INC.



Donna Vukich, General Manager

Legal Counsel: ERIK LeROY, P.C.

/s/ Erik LeRoy
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(907)277-2006