



## Chugach Acquisition of ML&P

Anchorage Chamber of Commerce, Board of Directors  
February 2, 2018

- A combined electric utility for Anchorage has been discussed for decades
- Two utilities are not necessary to serve the Anchorage bowl
- Significant opportunity to increase efficiencies and reduce cost through consolidation
- This is a logical next step from our existing successful joint operations
- Benefits to changing from a municipal owned utility (government) to a member-owned cooperative business structure

## Cooperative Members

Rates will not increase as a result of the acquisition

## Employees

No layoffs; all workers will be protected

## Community

Provides revenue to the Municipality of Anchorage for critical services to the community

# Cooperative Members

Not-for-Profit Cooperative

Member Elected Board



Capital Credit  
Retirements

(Similar to a Dividend Payment)



Locally Owned by Membership

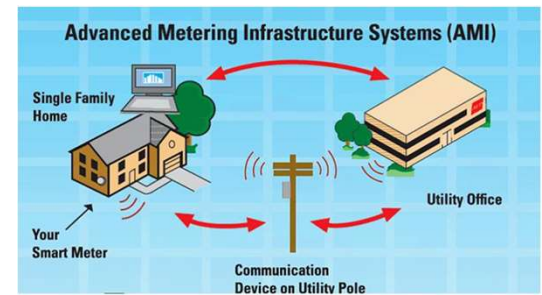
Hundreds of Millions in Savings Over Time



# Employees: A company's most valuable resource



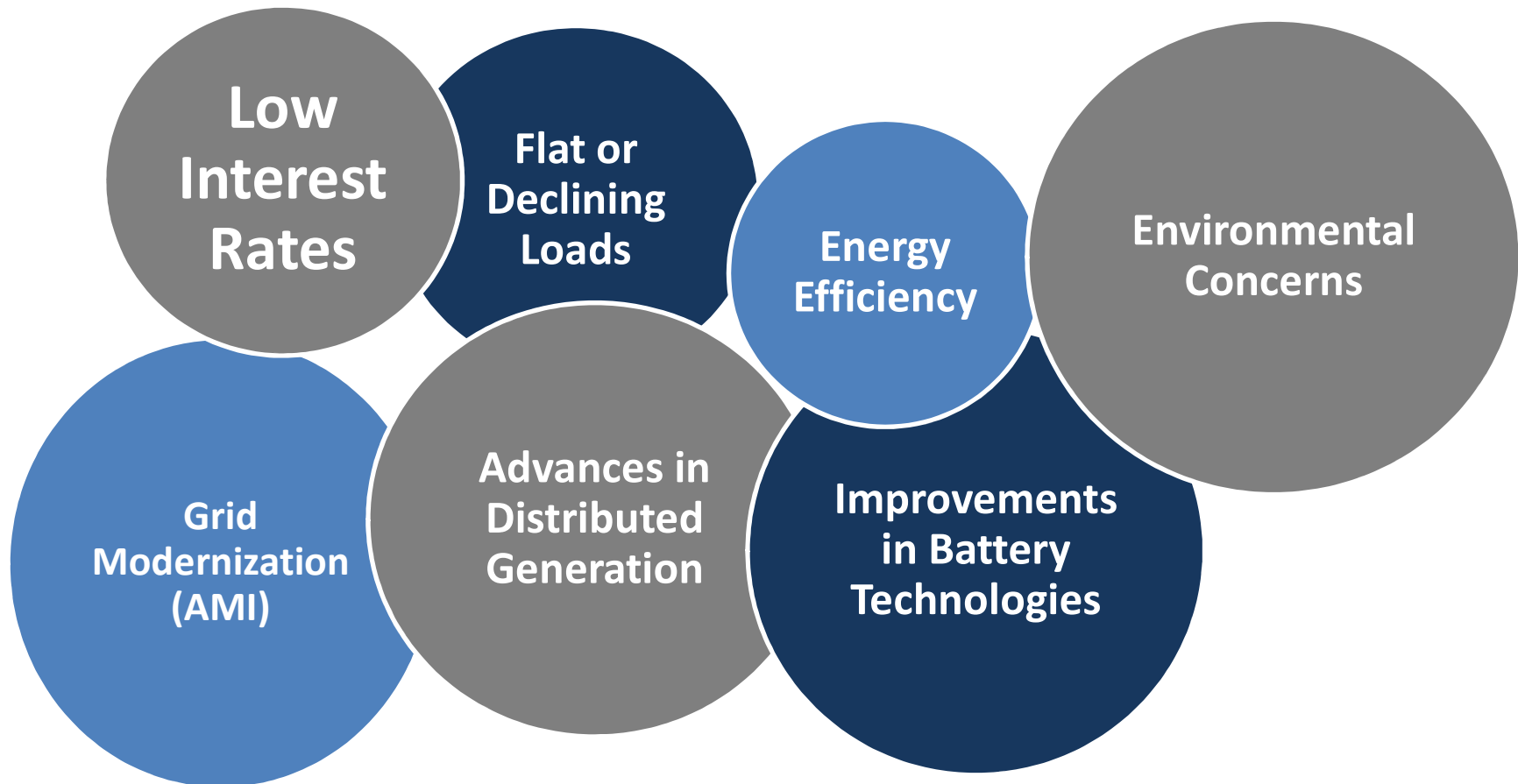
- Competitive Wages
- No Layoffs; Employment Levels Adjusted Through Attrition
- Training and Development
- Pay for Performance
- Opportunities for Leadership Positions



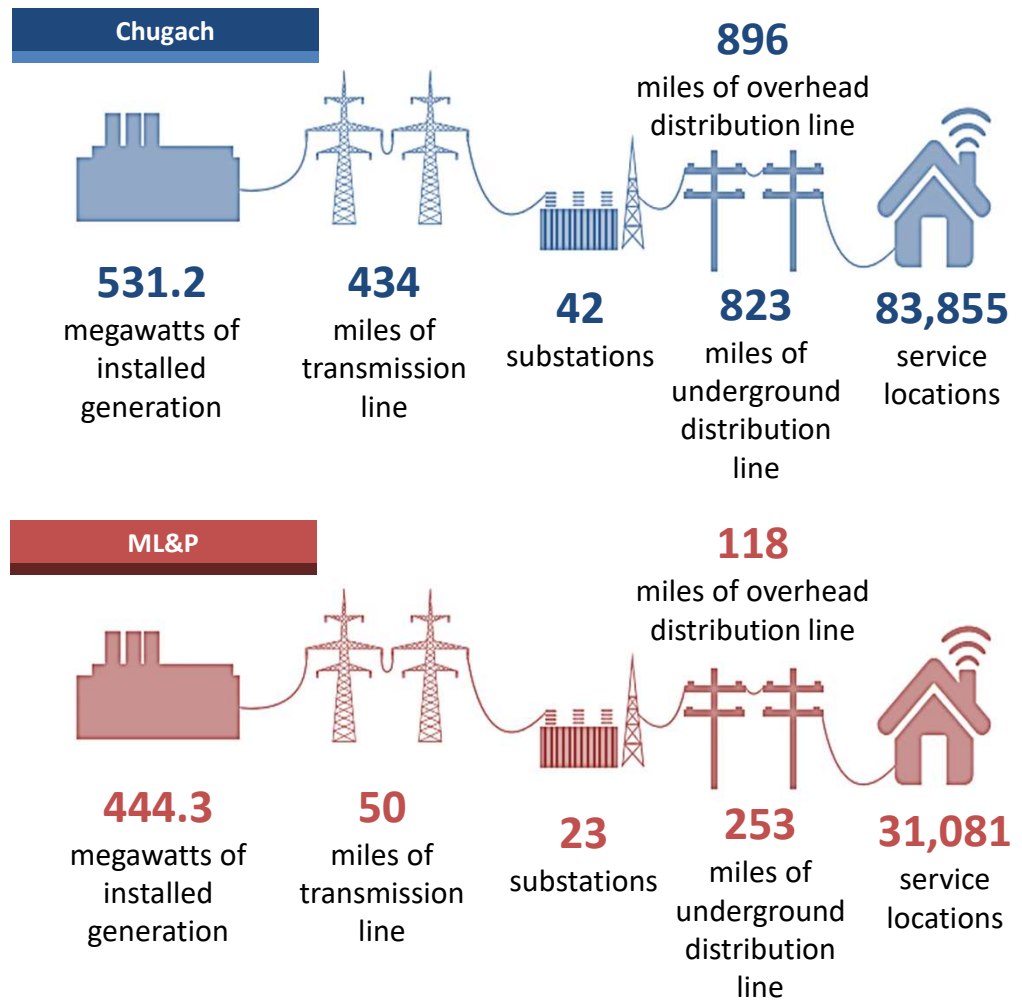
2017 Applied Leadership Development Program Participants



# Timing is Favorable



# Chugach and ML&P: at a Glance





# Where do O&M savings come from?



## Duplication of services

- Facilities consolidation
- Generation reserves
- Technology adoption



## Resource Management

- Contract Administration – fuels, purchased power, gas storage
- Project oversight – Bradley Lake, Eklutna, Intertie Management
- Agency coordination – RCA, AEA, DNR



## Efficiency

- Training & development
- Engineering & project management
- Billing, call center, accounting, HR, fleet, warehouse, O&M



# Where do fuel & capacity savings come from?



## Hydro-wind coordination

- Less curtailment of Fire Island Wind
- Greater opportunities for additional wind



## Avoided capacity

- Chugach future looked at Watana hydro
- Combined Chugach & ML&P load diversifies peak



## Operating efficiencies

- Enhanced power pooling
- Single control area & operations
- Hydro-thermal coordination

# Where do cost of capital savings come from?



ML&P weighted cost of capital (7.15%) is higher than Chugach's cost of the acquisition (6.75%)

- No change to regulatory status
  - Chugach and ML&P are regulated by the Regulatory Commission of Alaska (RCA)
  - Chugach will continue to be regulated by the RCA
- Acquisition is subject to approval by the RCA
  - Six month review process
- Significant regulatory benefits
  - One general rate case rather than two equals less cost
  - Simplified Rate Filings vs. general rate cases
  - Provides rate and tariff continuity across service areas for all consumers in Anchorage (through time)
- Reductions in cost will be passed directly to the consumer

## NERA ECONOMIC CONSULTING



Website: <http://www.nera.com>

- Verified value of transaction
- Identified O&M savings of 8% to 12%
- Provided due diligence on the regulatory economics of the transaction

### Background

- New York-based financial and economic consultancy group, with practice areas including securities and finance and risk management.
- Focused on strategies, studies, reports, expert testimony, and policy recommendations for government authorities and leading law firms and corporations. Consulting experts are dedicated to applying economic, finance, and quantitative principles to complex business and legal challenges.



# Chugach Offer

- Majority of Chugach’s acquisition cost is already reflected in ML&P rates
- Incremental costs from acquisition will be offset by long-term savings

Acquisition			Currently included in ML&P Customer Rates
ML&P Debt	\$524,000,000		Yes
Debt Defeasance	\$18,000,000		No
ML&P Equity	\$170,000,000		Yes
Subtotal	\$712,000,000		
Annual Acquisition Payments (NPV) <sup>1</sup>	\$170,300,000		No
Chugach Cost of Acquisition <sup>2</sup>	\$882,300,000		
Payments in Lieu of Taxes (NPV) <sup>1</sup>	\$142,000,000		Yes (as MUSA)
Total MOA Receipts	\$1,024,300,000		

<sup>1</sup> Net present value based on 5% discount rate, 30 years.

<sup>2</sup> Does not include estimated transaction costs, which are also incremental (i.e., not currently in ML&P’s rates).

## Key Components of Transaction

### Cost of Capital

(Expected financing cost below ML&P's weighted cost of capital)

### Annual Acquisition Payments

(More than offset by O&M savings)

### Payments in Lieu of Taxes

(Already being recovered in rates)

# Cost of capital: Chugach vs ML&P

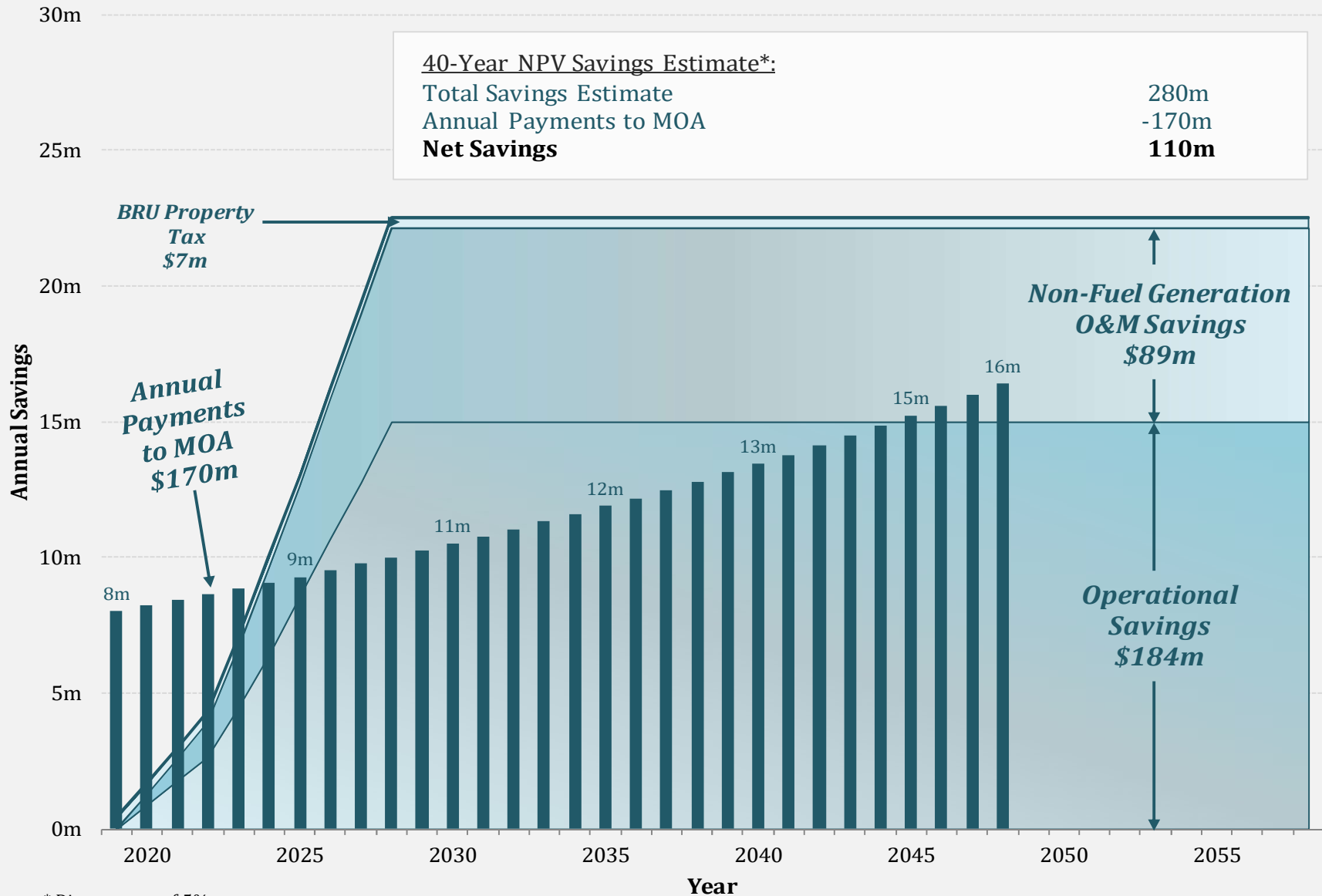
Company	Capital Component	Capital Structure	Cost in Rates	WACC	Rate Base vs TIER (\$m)	Requirement (\$m)
<b>ML&amp;P</b>	Debt	64.6%	3.93%	2.54%		
	Equity	35.4%	13.00%	4.61%		
	Weighted Average Cost of Capital			<b>7.15%</b>	\$694	\$50
<b>Chugach</b> (on acquisition purchase price)	Debt	100%	5.00%	5.00%		
	Equity		0.35 TIER	1.75%		
	Weighted Average Cost of Capital			<b>6.75%</b>	\$722	\$49
Difference						(\$1)

- 40 basis point advantage
- Chugach returns capital credits to its members

# O&M Savings and Acquisition Payments

40-Year NPV Savings Estimate\*:

Total Savings Estimate	280m
Annual Payments to MOA	-170m
<b>Net Savings</b>	<b>110m</b>



\* Discount rate of 5%



- Payments in lieu of taxes are already being paid by ML&P customers through Municipal Utility Services Assessment (MUSA)
- Transaction maintains this payment for 30 years

- 25 years experience in capital markets
- Strong credit ratings
  - Fitch Ratings: “A”
  - S&P: “A” and “A-1” CP rating
  - Moody’s: “P-2” CP rating
- Strong Liquidity
  - \$150M CP Backstop Facility
  - \$50M Line of Credit
- Equity
  - Current equity ratio at 29%
  - Initial combined equity ratio expected to be 14%
- Other electric cooperatives have financed in the capital markets with equity ratios ranging from 9.5% to 20% on issuances in excess of \$1.0 billion
- Chugach is expected to utilize its historical funding sources which have included the capital markets and cooperative lenders

## Cooperative Members:

Rates will not increase as a result of the transaction

## Employees:

No job layoffs; workers will be protected

## Community:

Provides revenue to deliver critical services for the community

Unique **opportunity** to combine two utilities that have adjacent service territories and natural synergies

Permanent **cost savings** will be realized through time and reflected in electric rates