

PERSONAL AND CONFIDENTIAL

November 22, 2017

VIA ELECTRONIC DELIVERY

Mark Johnston
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Dear Mr. Johnston,

In response to your request for an indication of interest from Avista Corporation ("Avista") to acquire the assets of Municipal Light & Power (the "Company" or "ML&P") from the Municipality of Anchorage (the "Indication of Interest"), this letter outlines the principal terms and conditions upon which Avista would be willing to acquire all of the assets of ML&P.

Avista has made a commitment in Alaska through our investment in Alaska Electric Light and Power Company ("AEL&P") to serve the City and Borough of Juneau. Now, we are excited to extend our commitment to the region through this opportunity to work together with the Municipality of Anchorage as we believe the assets, operations, and cultures of Avista and ML&P are a very good fit. Both organizations focus on providing reliable services to customers in the most cost-efficient way possible, taking care of employees as well as being involved in, and being supportive of the communities that we serve.

Highlights of our proposal are:

- Purchase of all assets of the utility.
- To extent desirable to the Municipality of Anchorage, provision of long term cash flows through a note payable to the city, secured by the assets of the utility.
- Commitment to maintain core functions of the utility in Anchorage.
- Commitment to provide market compensation and benefit levels to employees.
- Commitment to maintain rates at current levels for three years.

This non-binding Indication of Interest to acquire the assets of the Company is based on preliminary information which has been provided to us, including the information contained in the virtual data room. The details of our proposal are enumerated below:

1. **Indicative value.** Avista's non-binding offer is \$775-825 million for the assets of the Company on a cash-free, debt-free basis. Our proposal is to provide either all cash at closing, or sufficient cash to allow ML&P to satisfy its debt obligations, coupled to the extent desirable with a long term note payable to the Municipality of Anchorage.

The privatization of a municipality results in an entity which is required to pay taxes and incur debt costs which could be higher than tax-exempt municipal debt costs. This valuation is designed to initially insulate customers from these additional expenses which would otherwise be absorbed into customer rates, and creates a sharply lower effective return on equity for the new private owner that would reasonably be expected for investors of this nature.

2. **Buyer Purchase Price Assumptions and Valuation Methodology.** In preparing this Indication of Interest, Avista has assumed the accuracy, completeness and absence of missing material information from the virtual data room. The indication of value expressed above is based on customary industry valuation methodologies. Avista has also assumed that:

- a) The Company's business and assets have been maintained in accordance with customary industry practices, and are in good operating condition;
- b) All of the Company's business can be transferred to Avista by transfer of the assets of the Company and without the need for additional governmental or third-party approvals other than those identified in the Required Approvals section (below);
- c) Nothing restricts the continued operation of the Company's business consistent with past practices;
- d) The Company's accumulated cash at close approximates \$96 million which is used to partially pay off outstanding debt;
- e) Our proposal is based on the inclusion of ML&P's recently added generation assets and assets from the Beluga River Unit acquisition in the rate base;
- f) This proposal is based on fully absorbing any tax consequence of the privatization of the utility by not requesting rate increases for three years that would otherwise be required for these consequences; and
- g) The Company is able to successfully negotiate and hire employees on suitable employment terms and conditions.

- 3. Existing ML&P Employees and Management.** Avista believes that the Company's management and employees are its key assets. We expect that ML&P will continue to operate with all core functions retained in Anchorage for a minimum of two years. We expect to offer market based compensation and benefit levels consistent with the approach taken in our other utilities.
- 4. Community Benefits.** Avista has always engaged deeply with the communities it serves and we remain committed to do so. As examples, Avista's employees last year provided over 50,000 hours of volunteer service to our communities, and the Avista Foundation recently provided a \$250,000 gift to the new Juneau Arts and Culture Center.

This transaction has the potential to provide an additional ongoing benefit to the community. As cited under Indicative Value, Avista is willing to explore an amortizing long term note payable to the Municipality of Anchorage as part of the purchase price. For example, with an estimated Note value of \$315 million, and a nominal annual rate of 4% over 30 years, this note would result in payments to the Municipality of Anchorage totaling \$547 million over the period of the note. This payment stream would provide long term assistance to the operating budget of the Municipality to the benefit of all the citizens of Anchorage. Avista will accommodate the terms in good faith discussion with the Municipality to fit their objectives.

- 5. Consideration and Financing.** Avista's Indication of Interest contemplates an all-cash transaction. As a publicly traded energy company with a \$3.3 billion market capitalization and an investment grade credit rating, Avista has adequate resources and existing relationships which can provide funds from a mix of debt and equity transactions necessary for the acquisition of the Company. As of September 30, 2017, Avista had \$161 million of available liquidity under our committed line of credit.
- 6. Identity of Buyer.** Avista is a publicly traded energy company (NYSE: AVA) engaged in the distribution of natural gas and the generation, transmission and distribution of electric energy, as well as other energy-related businesses. Avista is incorporated in the State of Washington and our headquarters are located in Spokane, Washington.
- 7. Additional Due Diligence and Timeline to Signing.** Avista and its representatives have reviewed the virtual data room and the other publicly available information about the Company. Avista anticipates performing customary additional due diligence on the Company as soon as the remaining transaction process and timeline are confirmed and ML&P is prepared to allow those activities to commence. Avista anticipates additional due diligence will include a review and evaluation of the Company's: operational policies and practices (e.g., customer and field services and human resources, etc.); infrastructure integrity; gas reserves capacity; regulatory strategy and relations; and additional analysis of historical and forecasted financial statements. We will also evaluate relevant accounting, tax and legal matters, as well as any potential environmental issues. Avista will pace its

due diligence to the needs of the sellers and, in any event, anticipates being able to complete its process at or prior to the time any definitive agreements are ready for signature by the parties, which Avista believes can be consummated in a reasonable timeframe.

8. Internal Review and Approvals. This Indication of Interest is endorsed by me as the President of Avista Utilities, with concurrence of the senior officers. Avista's Board of Directors has been advised of and is supportive of our exploration of this transaction.

9. Required Approvals;

- a) **Corporate:** As indicated above, the transaction will require the approval of Avista's Board of Directors. Avista foresees no impediment to calling a special meeting of the Board of Directors as and when necessary to secure their approval of a binding offer to purchase the Company.ⁱ
- b) **Shareholder:** No shareholder approvals are required or contemplated as part of the proposed transaction.
- c) **Regulatory:** Avista will work with the Company to promptly seek all required regulatory approvals for the proposed transaction. Avista anticipates that these regulatory approvals will include the Regulatory Commission of Alaska (and potentially the regulatory commissions of Washington, Oregon, Idaho and Montana), Hart Scott Rodino Act clearance, Federal Energy Regulatory Commission ("FERC") and potentially other federal agency approvals for the transfer of jurisdictional assets. Given Avista's experience and strong regulatory relationships, Avista believes it is in a very good position to complete those approval processes within a reasonable timeline and with acceptable terms and conditions.

10. Transaction Team Contact Information The following are key members of our transaction team who you may contact to discuss this Indication of Interest.

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Senior Vice President, Chief Financial Officer

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Vice President and Chief Strategy Officer

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*Primary transaction contact

Advisors. Avista has engaged BofA Merrill Lynch as financial advisor. Avista will engage additional legal, technical, environmental, financial and regulatory advisors as needed in order to assist in the evaluation of the Company. The contact information for BofA Merrill Lynch is below:

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11. Additional Information. The following is additional information about Avista. To learn more please feel free to contact us or visit www.avistacorp.com.

- a) **Industry Experience:** Avista Corp. is an energy company involved in the production, transmission and distribution of energy as well as other energy-related businesses. Avista Utilities is the operating division that provides electric service to 379,000 customers and natural gas to 343,000 customers. Its service territory covers 30,000 square miles in eastern Washington, northern Idaho and parts of southern and eastern Oregon, with a population of 1.6 million. Alaska Energy and Resources Company is an Avista subsidiary that provides retail electric service in the city and borough of Juneau, Alaska, through its subsidiary Alaska Electric Light and Power Company. In addition to organic growth within its service territory, Avista has a demonstrated record of growth via mutually beneficial utility acquisitions, including that of Citizens Utilities (Idaho), PacifiCorp (Sandpoint, Idaho), Antell Oregon Gas and Alaska Electric Light & Power Company (Alaska). To ensure best practices, Avista stays proactively engaged in industry groups such as Edison Electric Institute, American Gas Association, and Electric Power Research Institute, among others.

- b) **Strong Workforce Relations:** The people who work for Avista truly are our competitive advantage. Avista's long history of favorable employee relations is guided by this simple principle: do what is right in a manner that is fair and worthy of trust. With an emphasis on purpose-driven service and a collaborative work environment, coupled with robust

leadership development and a total rewards philosophy that includes market level compensation and benefits, has resulted in low annual turnover and high employee engagement. In addition, Avista's long-standing labor management committee helps maintain trust and cooperation with the International Brotherhood of Electric Workers, which represents a significant portion of our utility workforce. Also, we assure a full pipeline of skilled and capable employees for succession and business continuity by a combination of robust apprenticeship programs and ongoing support for individual development plans.

- c) **Regulatory Experience.** Avista's electric and natural gas operations are subject to the jurisdiction of the Washington Utilities and Transportation Commission, the Idaho Public Utilities Commission, the Public Utility Commission of Oregon, the Public Service Commission of the State of Montana, the Regulatory Commission of Alaska and FERC. A primary focus of Avista's approach to regulatory filings is to seek a reasonable return for shareholders, while at the same time mitigating the bill impacts to its retail customers and the communities Avista serves.
- d) **Community Investment:** Throughout its over 127 year history, Avista has been active in fostering the prosperity of its utility service areas: from instigating improvements in state-wide support systems for economic development to leading local initiatives and fostering collaborative initiatives to improve community vitality. This commitment to community will be an important part of the value Avista brings to the Anchorage community.
- e) **Strategic Rationale and Plans:** Avista's business strategy is focused on continuously improving core utility operations and services, enhancing community prosperity, and expanding and diversifying our customer and geographic footprint. Avista's approach to the operation and management functions of the Company will closely parallel those currently employed within Avista. Our business has remained sound because we routinely balance the interests of all our stakeholders - customers, employees, communities and investors. Each is as important as the other and all must be considered in our planning and decision-making. As is our practice, Avista will leverage our expertise and leadership, and engage ML&P employees to inform, guide, and grow the Company into the future.

This Indication of Interest is being submitted to you on a confidential basis. It should not be shared by you except with your respective affiliates, advisors and representatives, and then only on a need-to-know basis. This Indication of Interest is intended to be an indication of interest only, and no party will be legally obligated to negotiate or conclude a transaction, unless and until definitive agreements are executed by the parties.

Avista believes that the proposed transaction as described in this Indication of Interest represents excellent value for the Municipality of Anchorage as well as the customers, employees and communities the Company serves. We are confident that having the Company as a part of the Avista enterprise will be optimal for the Company's employees and customers.

We are interested in purchasing the full asset base of ML&P. Should a combination of purchasers appear to be capable of delivering better value to the municipality, please know that we are open to exploring additional options.

We look forward to hearing from you. Thank you for your consideration.

Sincerely,



Dennis Vermillion
President, Avista Utilities
Senior Vice President & Environmental Compliance Officer, Avista Corporation

ⁱ Depending upon the timing of this transaction and the status of our pending transaction with Hydro One, approval by Hydro One will be required. On July 19, 2017, Avista announced its acquisition by HydroOne, Canada's largest electricity transmission and distribution service provider. Avista's shareholders approved the transaction on November 21, 2017, and additional regulatory approvals are anticipated in 2018. Hydro One operates in Ontario, home to 38% of Canada's population. Hydro One is publicly listed on the Toronto Stock Exchange, with a market capitalization of C\$13.4 billion, an investment grade rating and available liquidity of C\$1.9 billion. HydroOne has more than 1.3 million customers and annual revenues of over C\$6.5 billion. Its team of 5,500 employees serves suburban, rural and remote communities across Ontario.