

PERSONAL AND CONFIDENTIAL

December 12, 2017

VIA ELECTRONIC DELIVERY

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Dear Mr. Johnston,

Thank you for your feedback on our preliminary indication of interest dated November 22, 2017 to acquire the assets of Municipal Light & Power (the "Company" or "ML&P") from the Municipality of Anchorage (the "Preliminary Indication of Interest"). Based on our discussion, this letter provides additional clarification regarding that letter.

We continue to be excited by this opportunity and reiterate our belief that 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.

As previously stated, the 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 for a minimum of three years.
- Commitment to provide market compensation and benefit levels to employees.
- Commitment to maintain rates at current levels for three years.

Below, we provide additional detail to clarify our Preliminary Indication of Interest as it relates to its value to the Municipality of Anchorage and its customers, and additional background to convey the unique qualifications of Avista and its affiliates as a desirable partner for the Municipality of Anchorage:

Indicative Value

Total Value to the Municipality of Anchorage and Customers of \$1,299 - \$1,349 million

Value to the Municipality of Anchorage: \$1,089 million - \$1,139 million

Avista's non-binding offer is \$775-825 million for the assets of the Company on a cash-free, debt-free basis. Our proposal therefore also enables ML&P to pay a one-time special dividend to the Municipality of Anchorage of approximately \$98 million from the estimated cash-on-hand at close. The Municipality of Anchorage further benefits from receipt of property taxes from Avista, a perpetual payment which we estimate to be valued at approximately \$216 million.¹

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.

Value to Customers: \$210 million

In addition to the value provided to the Municipality of Anchorage, we believe our utility experience and ability to share in best practices could result in as much as \$7 million in annual operating efficiencies, resulting in a perpetuity which we estimate to be valued at approximately \$210 million and would flow through directly to customers.²

Further, customers will benefit from a three year period where rates will not be increased to accommodate the income tax implications of privatization of the utility. Potential decrease in corporate tax rates due to tax reform would benefit customers over the longer term.

Avista Qualifications

Our previous submittal explained our background as an energy company with experience in production, transmission and distribution of energy. We have a 128 year history in the Northwest of delivering these services with impressive records for safety, reliability and customer satisfaction. Avista's cost per kilowatt-hour is among the lowest of investor owned utilities in the United States. Our annual capital investment of over \$400 million demonstrates our desire and ability to invest in utility infrastructure to ensure reliability and customer service quality is maintained. And unique among utilities, we operate a training facility to equip both electric and gas system workers to work safely and efficiently. We even allow others to be trained here to assist the industry with talent development.

¹ Pre-tax value based on annual property taxes estimated to be \$6 million, 5% discount rate and 2% annual inflation. For additional details, please refer to Attachment 1.

² Pre-tax value based on operating efficiencies estimated to be \$7 million, 5% discount rate and 2% annual inflation. Discounted starting in Year 4. For additional details, please refer to Attachment 1.

We recognize our utility will be healthy only when the communities we serve are healthy. As a result, we continue to be a strong partner in our communities, both through financial contributions as well as encouraging our employees to volunteer—last year totaling over 50,000 hours.

Finally, we envision Alaska as part of the area we already serve in several ways. First, when we invested in AEL&P as the utility serving Juneau, we saw we were combining with a utility with a heritage much like ours: nearly 125 years of strong community participation, and a focus on operating efficiency. AEL&P's rates are among the lowest of any regulated utility in Alaska, and with emphasis on reliability, has reduced outages by over 50% since 2002. AEL&P is 100% hydro generation 99% of the time, and like Avista, their employees are quite active in Juneau.

AEL&P is not the only investment we have explored in Alaska. Since 2012, we have been active in the state and are mindful of energy issues affecting the region. Most recently, our subsidiary Salix was selected as the top solution out of 16 solutions submitted by RFP respondents to work with AIDEA's Interior Energy Project in providing natural gas to Fairbanks. AIDEA ultimately selected a self-build solution.

Summary

We believe our proposal would deliver exceptional value to the citizens of Anchorage as well as the customers of ML&P. For us, an investment in ML&P is consistent with our work to partner with communities in delivering safe, reliable, and affordable energy.

This information 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. The Preliminary Indication of Interest, in conjunction with the clarifications included in this letter, are 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.

Thank you for this opportunity to clarify our Preliminary Indication of Interest. We are happy to visit in person if it will be helpful in your decision-making process, and look forward to our next discussion.

Please let us know what next steps will be most helpful for you.

Sincerely,



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

Attachment 1: Value to Stakeholders

A transaction with Avista delivers value to the Anchorage community in the following ways

Value to Municipality

Value to Customers

Value to Municipality

A \$775-825m purchase price, reflecting ~1.0x rate base of ML&P

B A special dividend to the municipality of all unrestricted cash on ML&P's books at year-end 2018 (estimated to be \$98m based on public disclosure).

	2017	2018
Beginning Cash	47 ⁽¹⁾	87
Cash Flow from Operations	65	78
Cash Flow from Investing	(21)	(57)
Cash Flow from Financing	(5)	(5)
Special Dividend	0	(98)
Minimum Cash	(5)	(5)
Change in Cash	39	(82)
Ending Cash	87	5

C A new ongoing payment stream to the municipality in the form of Property Taxes. This benefit is unique to a transaction with a taxable entity like Avista

Property Tax Value to Municipality	Rate Base	Assessed Value: 80% of Rate Base	Property Tax @ 1% of Assessed Value	NPV at 5% Discount Rate ⁽³⁾
	811	649	6	\$216

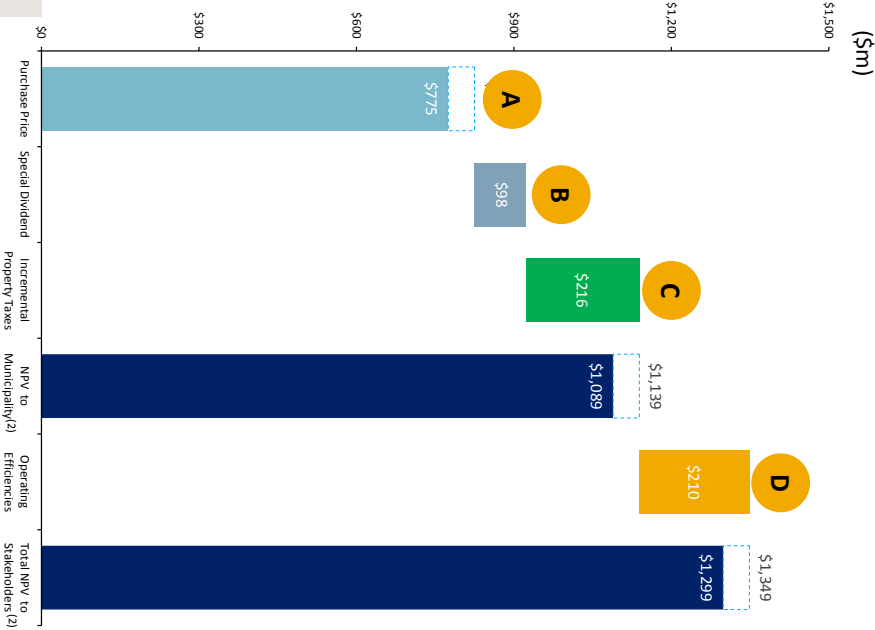
Value to Customers

D Operating efficiencies of potentially as much as \$7m would accrue to the benefit of customers

Operating Efficiencies to Customers	Annual Operating Efficiencies	NPV at 5% Discount Rate ⁽³⁾
	7	\$210

E Proposed transaction is structured to remain rate-neutral to ML&P customers for a 3-year period following closing

Potential decrease in corporate tax rates due to tax reform would benefit customers over the longer term



(1) Represents 2016 year-end Equity in General Cash Pool line item disclosed in 2016 Audited Financials.
 (2) Assumes discount rate of 5% and annual inflation of 2%; represents pre-tax value.
 (3) Assumes discount rate of 5% and annual inflation of 2%; represents pre-tax value. Discounted starting in Year 4.