Municipal Light & Power Analysis

Municipality of Anchorage / Municipal Light & Power

August 9, 2017

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On July 6, 2017 Goldman Sachs & Co. LLC (“Goldman Sachs”) entered into a professional services contract with the Municipality of Anchorage ("MOA"). The contract scope provides that in regard to Anchorage Municipal Light & Power (“ML&P”), Goldman Sachs will:

- Provide a preliminary analysis of ML&Ps strategic position and a range of potential market values based on comparable public entities and precedents.
- Identify a possible universe of potential purchasers for all or a portion of the assets of ML&P.
- Assist MOA in its analysis and consideration of financial aspects beneficial terms and conditions to a potential transaction.
- Assist MOA in its analysis and considerations of various strategic alternatives that may be available to MOA with respect to ML&P, including the benefits and considerations of identified alternatives.

The purpose of this memo is to summarize and present Goldman Sachs's analysis and findings in regards to this assignment.

It is important to note that the information contained herein was prepared solely for the information of MOA Assembly and executives of MOA in connection with their analysis and consideration of various strategic alternatives that may be available to MOA with respect to ML&P. The findings and results contained herein should be reviewed in the context of all assumptions and footnotes included herein, and in light of the disclosures included. Analytic results and discussions contained herein should be reviewed and discussed in their entirety and not be presented or reproduced in part.

The balance of this memorandum is organized as follows:

1. Utility Valuation Methodologies
   - Comparable Companies Analysis
   - Precedent Transaction Analysis
   - Discounted Cashflow Analysis
2. ML&P Valuation Analysis
   - Key Assumptions and Drivers of Value
   - Review of Cases and Cashflow Results
   - Potential Valuation Ranges – Continued Ownership
   - Potential Valuation Ranges – Third Party Sale
3. Beluga River Unit Considerations
4. Ratemaking Assumptions
5. Sale Process Considerations
   - Options for Sale of ML&P
   - Potential Buyers
   - Sale Process
   - Other Considerations
   - Potential Timetable
6. Next Steps

1. UTILITY VALUATION METHODOLOGIES

Investors or potential acquirers typically employ a combination of three primary methods to value a utility. These methodologies attempt to perform a comparative analysis using similar companies and similar precedent transactions, as well as a fundamental analysis calculated as the present value of future cashflows. The three methodologies (comparable company trading analysis, precedent transaction analysis, and discounted cashflow (“DCF”) analysis) are laid out in greater detail below, along with relevant supporting market information.

1) **Comparable Company Trading Analysis:** This analysis utilizes publicly available financial metrics from a set of comparable publicly traded companies to generate a potential valuation range.
   - In the case of utility valuation, the most commonly used metric is the “Price to Earnings” ratio, defined as the market value per share of outstanding stock divided by the company’s earnings per outstanding share.
   - This methodology is a way of using publicly available information to value a utility using up-to-date market and trading information for similar companies.

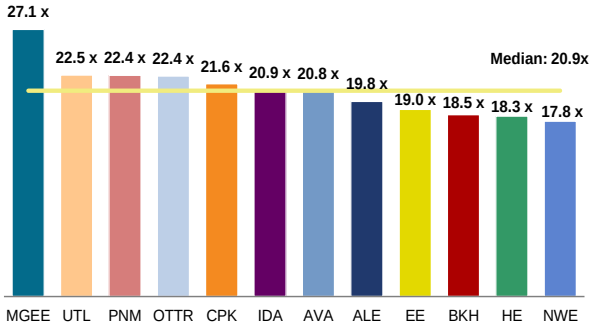
The list below represents a group of smaller sized publicly traded utilities that we utilize to develop public market comparables for ML&P.

Company	Market Cap ($mm)	Enterprise Value ($mm)	2017E P/E	Business Description
ALLETE	$ 3,694	$ 5,147	20.8 x	Electric, gas, water utility; renewables, water services
AVISTA	2,760	4,596	22.0	Electric, gas utility; LNG
Black Hills Corporation	3,714	7,085	19.5	Electric, gas utility
CHESAPEAKE UTILITIES CORPORATION	1,233	1,576	25.3	Gas, electric utility; gas transmission; electric gen; gas G&P, propane; gas marketing
The Electric Company El Paso Electric	2,117	3,525	20.9	Electric utility; electric generation
HEI	3,554	5,175	19.9	Electric utility; financial services
IDACORP	4,370	6,072	21.7	~100% regulated electric utility
MGE ENERGY	2,253	2,532	28.3	Electric, gas utility; contracted generation
NorthWestern Energy Delivering a Bright Future	3,015	5,051	18.3	Electric, gas utility
OTTER TAIL CORPORATION	1,590	2,185	23.7	Electric utility; manufacturing; plastics
PNM Resources	3,126	5,892	21.4	Electric utility
Unitil	685	1,097	23.6	Electric, gas utility; gas transmission; real estate management; energy services

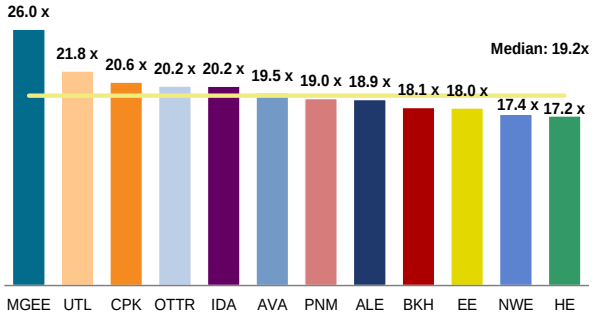
Bloomberg market data as of June 27, 2017

Below are key statistics for these companies, including projected “Price to Earnings” ratios for 2018-2020 and 2016 realized return on equity. The “Price to Earnings” metrics are important for certain valuation methodologies as outlined below, while the return on equity figures help inform the weighted cost of capital used to discount cashflows in a DCF valuation.

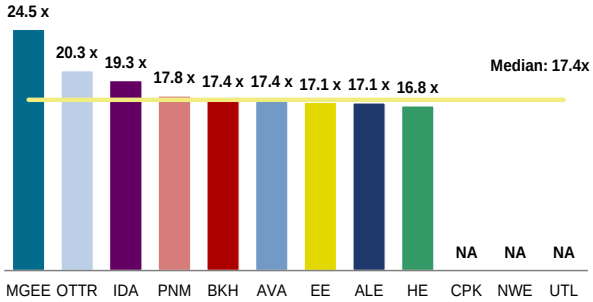
2018 P/E Multiples (Projected)



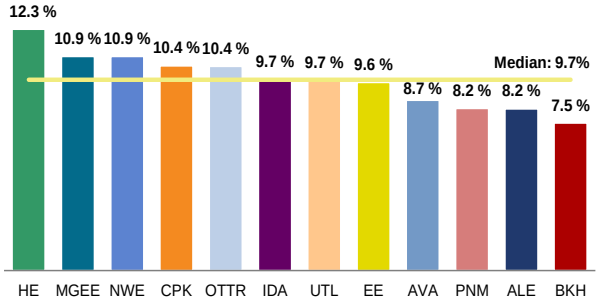
2019 P/E Multiples (Projected)



2020 P/E Multiples (Projected)



2016 Return on Equity (Actual)

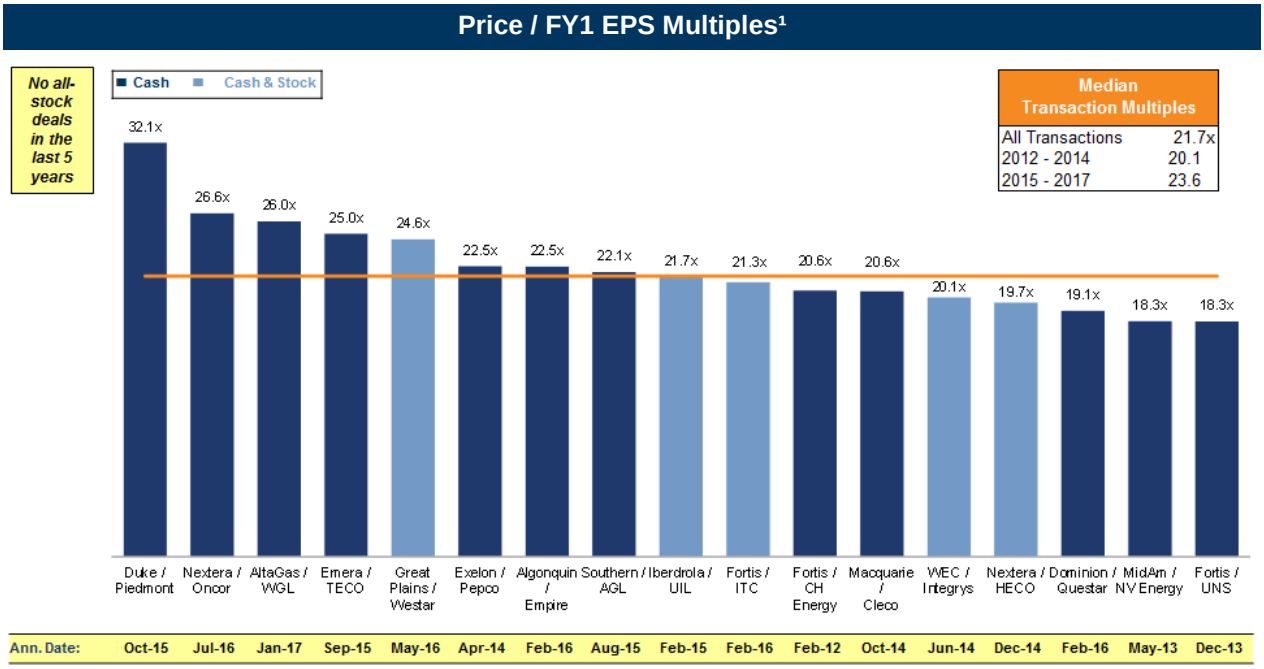


Sources: Bloomberg, Capital IQ and IBES

2) **Precedent Transaction Analysis:** This methodology uses recent utility sales and mergers to derive valuation ranges.

- This methodology analyzes recent utility sales to derive comparisons. Similar to Comparable Company Trading Analysis, this approach typically utilizes the "Price to Earnings" metric for utility valuations.
- One of the key differences of this approach relative to comparable company trading analysis is that it more accurately reflects control premium and synergies, which can increase the value of a company but are typically not reflected in public market trading of individual stocks.
- Typically, companies that trade in public markets have a diverse set of owners, none of whom has complete control over a company.
- On the other hand, potential buyers of a whole company are attempting to gain a larger, controlling stake in their target and as such typically pay a premium above the market value for this stake.

Below is a chart illustrating the "Price to Earnings" metrics for rate regulated transactions that took place over the last five years. As explained in more detail in the "ML&P Valuation Analysis" section, these transactions were used to inform a range of potential values for ML&P.



Source: Company filings, press releases, IBES
Note: 1-Day Prior to Announcement represents premium paid to last undisturbed closing price. The Macquarie / Cleco 1-day premium is disturbed.
1. *Great Plains / Westar premium represents undisturbed premium as of 09-Mar-2016; Fortis / UNS and NextEra / HECO based on FY2 EPS (announced in December); FY1 EPS would imply a P/E multiple paid of 19.7x and 20.6x respectively. Emera / TECO premium represents undisturbed premium as of 15-Jul-2015; "disturbed premium" to 1-day prior to announcement was 30.8% as of 03-Sep-2015. STR premium based on 20-day VWAP was 30%. ITC and Empire premiums based on undisturbed prices. AltaGas / WGL premium represents 30-day VWAP ending 28-Nov-2016 (undisturbed date).*

In addition to the transactions identified in the above chart, Avista's 2014 acquisition of Juneau-based Alaska Electric Light & Power ("AEL&P") could be an informative precedent transaction. Below are some key metrics from the transaction that are of interest.

- *Purchase Price*: $170mm
- *Approximate Rate Base at Time of Sale*: $120mm
  - *Implied Rate Base Multiple*: 1.4x
- *2015 Earnings*: $6.6mm
  - *Implied P/E Multiple: 25x*
- *2015 EBITDA*: $19.2mm
  - *Implied EV / EBITDA Multiple*: 8.9x

Source: Avista press release (July 1, 2014) and AEL&P RCA filings

In this transaction, AEL&P agreed to not seek a rate increase for two years and retain all employees for the same period of time. The regulatory approvals took approximately eight months.

3) **Discounted Cashflow ("DCF") Analysis:** This method uses a utility's projections to arrive at cashflow available for a utility owner. Then it discounts these cashflows to arrive at a valuation range.

- This method attempts to provide an "intrinsic" valuation for the utility independent of other companies and transactions.
  - Because of its focus on the individual utility's future cashflows, a DCF analysis requires thorough vetting of future cashflow assumptions, as these are the primary driver of valuation figures.
- The discount rate used for the calculations is based on the estimated weighted average cost of capital for the utility, which equates to the expected returns for all stakeholders (both debt holders and equity holders). For the purposes of the valuation analysis in this memo, a range of estimates for weighted average cost of capital discount rates is used. These ranges are informed in part by comparable figures for comparable companies in the utility sector.

- The more self-contained approach of a DCF is helpful for a fundamental valuation, but its results are often viewed along with comparable company and precedent transaction data to provide context.

While potential buyers will pay close attention to comparable companies and precedent transactions to inform their views on valuation, they will also be interested in the more granular financial and business picture that informs a DCF projection. As described in more detail in the following section of this report, MOA and ML&P have conducted a detailed evaluation of their current and future outlook to generate defensible projections to inform the projections used in the DCF analysis.

Utility valuation analysis provides a range of potential values using all three of the above methodologies, each of which has its pros and cons. Taken together, the three methodologies should help ML&P arrive at a better understanding of the potential value of the Utility.

2. ML&P VALUATION ANALYSIS

To assist with the valuation analysis, ML&P provided Goldman Sachs with a copy of its latest Equity Management Plan ("EMP") financial model and certain key assumptions. Goldman Sachs reviewed the financial model. ML&P management and MOA worked to refine projections relating to several key items (described in greater detail below) that served as drivers for the income under three possible scenarios: continued MOA ownership of ML&P and two different third-party ownership scenarios (resulting from a sale). Key assumptions and value drivers are summarized below.

Key Assumptions and Drivers of Value

- **Electric Sales**: What trend can we expect for sales going forward?
  - Assumption under all scenarios: Electric sales decline at 0.7% annually, based on the ESS Consulting's *Municipal Light & Power 2016 Load Forecast* report completed on September 21, 2016.
  - The 0.7% annual decline is the average annual growth rate for the "Low Case" in the report, due primarily to a flat population forecast and increasing energy efficiency over the coming years.
- **Non-COPA Costs**: What are reasonable projections for operating expenses of the utility that are not "pass-through" costs to recoup the cost of producing power?
  - Assumption under all scenarios: Growth of 1.9% annually. ML&P and MOA arrived at this assumption based on historical figures for these operating expenses and believes these are reasonable assumptions to use going forward.
- **ML&P Natural Gas Costs**: What are reasonable 10-15 year projections for ML&P fuel costs?
  - Assumption under all scenarios: Based on the EMP, we assumed that BRU would meet all of ML&P's gas usage for 2019-2030. For pricing, we used the EMP forecast for BRU transfer price of gas from 2019-2025. From 2026-2030, we used BRU Operating Expenses divided by the MCFs purchased from BRU as provided in the EMP.
- **Capital Expenditures**: Does ML&P have recent and defensible projections for capital expenditures?
  - Assumption under both scenarios: After thorough analysis of projected capital spending needs, ML&P provided an estimate of average capex of $30.6 million annually from 2019-2030.
- **Cost of Debt**: Interest expense on utility debt
  - Assumption with continued MOA ownership: Cost of debt would vary between 5.19% and 5.41% based on the EMP forecast.
  - Assumption with third party ownership: Based on an analysis of comparable investor-owned utility cost of capital figures, we believe a third party owner could finance the utility's debt at approximately 4.50%.
- **Rate Setting**: How would the utility (under MOA ownership or a potential new owner) approach rate setting in the future?
  - Assumption under all scenarios: Beginning in 2020, the utility will raise rates every two years to achieve a 10.9% Return on Equity ("ROE") target, a threshold agreed upon by ML&P, MOA, and their regulatory counsel.

- Per standard procedure for rate filings with the RCA, the ROE target will be based on a 2-year test case look back.
- Non-COPA rate increases will be capped at 10% annually. In the event that this does not generate enough income to achieve the target ROE, the utility will pursue rate increases in successive years until the target ROE is achieved.

- **Annual Dividend**: The RCA has halted payment of an annual dividend to MOA. What would need to happen in order for the annual dividend payment to be reinstated?
  - Assumption under continued MOA ownership: Per input from MOA, ML&P, and regulatory counsel, the financial model assumes reinstatement of the dividend once the utility is recapitalized to achieve a 40% equity ratio.
  - Assumption with third party ownership: Per input from MOA, ML&P and regulatory counsel, the dividend will be reinstated upon acquisition by a third-party and a concurrent recapitalization. Under both third-party sale scenarios evaluated in this report, ML&P would be recapitalized to achieve at least a 40% equity ratio.

- **Income Taxes**: What assumption should be made for income taxes?
  - Assumption under continued MOA ownership: No income taxes paid
  - Assumption with third party ownership: The utility would be sold to a third-party owner that is subject to corporate income tax. As such, the sale cases assume a 35% effective tax rate (conservative assumption based on highest US corporate tax rate) on the utility's income that is recoverable through electric rates.

- **ML&P Specific Factors:** In any valuation, aspects specific to the targeted utility will influence value. Below represent a summary of some of the issues that may uniquely impact an ML&P valuation. Our valuation analysis does not take these issues into account.
  - *Alaska as an "island":* Alaska is geographically separated from the rest of the United States and is a much large territory with relatively low population density. While certain buyers have demonstrated a willingness to expand out of more conventional markets in the "Lower 48" states, the physical separation and geography/climate of Alaska could pose issues to others.
  - *Significant recent rate increase:* The RCA recently approved a rate increase for ML&P of 32.64% in 2017 and a 4.66% rate increase in 2018. Many of the cashflow scenarios presented below assume consistent rate increases beginning in 2020. Given the proximity to this recent large increase, MOA or a new owner might face difficulty in implementing large rate increases so soon afterward.
  - *Historic under-recovery of ROE:* ML&P has historically achieved ROEs far below the target of 10.9% assumed in many of the cashflow outputs modeled. While the implications of historic under-recovery are briefly addressed in the continued ownership scenarios presented, the third-party sale cases do not take this into account.
  - *Recent dividend suspension:* In 2015, the RCA suspended ML&P's dividend payment indefinitely (effective January 1, 2016), citing its view that ML&P's equity ratio could be impaired in the near future. While the cashflow results presented in this analysis follow MOA and ML&P's regulatory counsel's guidance that the dividend would be reinstated following a recapitalization, some potential buyers may view the prior RCA action as a risk for future dividends.

Review of Cases and Cashflow Results

Based upon discussions with MOA and ML&P, our cashflow analysis focuses on three ownership and capitalization cases outlined below:

1. Continued MOA ownership of ML&P.
   - Retained earnings of the utility would flow into equity until a 40% equity ratio is achieved, after which the dividend would be reinstated. In this analysis, dividend payments would resume in 2021. This is the continued ownership scenario for which comparative results are shown in the side-by-side summary included below.

  - MOA could also recapitalize the utility in 2018 through a one-time infusion of equity. This possibility is discussed further in the "Potential Valuation Ranges – Continued Ownership" section, but the buildup of equity over time is the primary continued MOA ownership scenario discussed.
- Beginning in 2020, non-COPA electric rates to be reset biannually to achieve a target ROE of 10.9% with no year-over-year rate increases above 10%.

2. New ownership and recapitalization to achieve a 40% equity ratio.
   - Sale would close at the end of 2018 and dividend payments would resume in 2019.
   - Beginning in 2020, non-COPA electric rates to be reset biannually to achieve a target ROE of 10.9% with no year-over-year non-COPA rate increases above 10%.
3. New ownership and recapitalization to achieve a 50% equity ratio.
   - Sale would close at the end of 2018 and dividend payments would resume in 2019.
   - Beginning in 2020, non-COPA electric rates to be reset biannually to achieve a target ROE of 10.9% with no year-over-year non-COPA rate increases above 10%

Below is a side-by-side summary of key assumptions, along with key financial takeaways for each of the scenarios.

Summary of Key Assumptions and Financial Results

	Continued MOA Ownership	Third Party Sale: Scenario #1: 40% Equity	Third Party Sale: Scenario #2: 50% Equity
Key Assumptions			
Owner	MOA	Third Party	Third Party
Electric Rate Increases	■ Starting in 2020 ■ Target 10.9% ROE ■ No increases >10% YoY	■ Starting in 2020 ■ Target 10.9% ROE ■ No increases >10% YoY	■ Starting in 2020 ■ Target 10.9% ROE ■ No increases >10% YoY
Dividend	Reinstated at 40% Equity	Reinstated Upon Sale	Reinstated Upon Sale
Financial Takeaways (2019-2030)			
Average Rate (¢/kwh)			
■ Non-COPA	15.3¢	16.5¢	17.1¢
■ All-In	18.7¢	19.9¢	20.5¢
ROE			
■ Average	9.3%	9.4%	9.2%
■ Year Reaches 10%	2024	2022	2023
Dividend			
■ Average	$24.8mm	$28.7mm	$35.2mm
■ Total	$297.2mm	$344.5mm	$422.9.mm

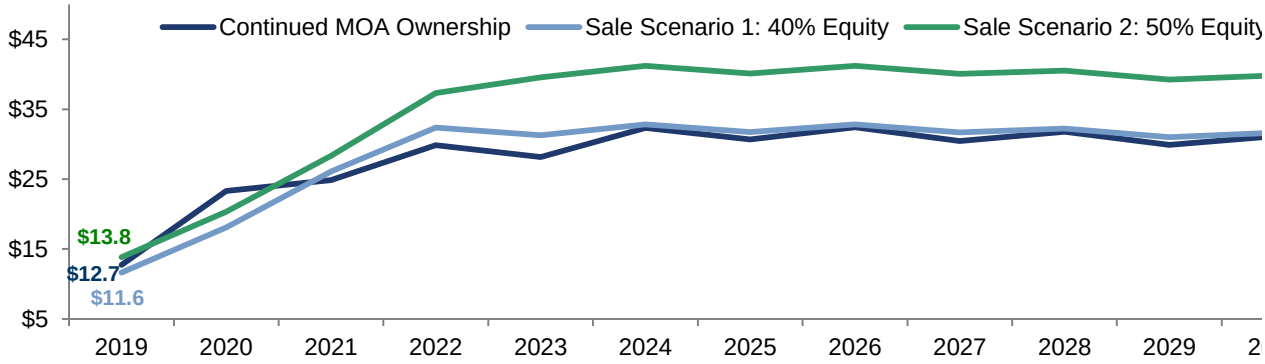
Sources of information described under "Key Assumptions and Drivers"

The dividend payments are higher in the third-party sale scenarios than in the continued ownership scenario. This is because while all three scenarios assume the same total rate base, the third-party sale scenarios assume an instant recapitalization by a third-party owner, while the continued ownership scenario assumes a slower buildup over time. Because rate-setting (and therefore ultimately net income) is tied to the amount needed to achieve a 10.9% return on equity, the scenarios with higher equity will result in both higher electric rates as well as higher dividends.

From a valuation perspective, it is informative to understand the projected cashflows (the primary driver of valuation) from continued ownership and compare these against the third-party sale scenarios. Using the assumptions provided by ML&P that were outlined earlier in this section, the below shows the net income of all three scenarios. As shown in the graph, continued MOA ownership would result in very similar net

income figures over time to Sale Scenario #1, assuming under continued MOA ownership that ML&P maximizes its allowed ROE.

Projected Net Income from 2019-2030 Across Scenarios ($ in millions)



Note: 2019 Net Income numbers vary across sale scenarios due to higher interest expense in Sale Scenario 1 (based on higher debt balance)

The 2019 net income is the main financial metric that will drive the valuation analysis for the comparable companies analysis and the precedent transaction analysis. Projected 2019 Net Income will be multiplied by the Price/Earnings ratio to generate an Equity Value for the utility. But the full amount that would be paid for the utility is Enterprise Value, defined as the Equity Value plus existing utility debt outstanding, less cash and cash equivalents available.

Potential Valuation Ranges – Continued Ownership

MOA can recognize value through retained ownership of ML&P, but this will likely require two key substantive changes to its current ownership.

- Reinstating the dividend. Based on advice from MOA's regulatory counsel, if ML&P was recapitalized to 40% equity, the RCA would likely reinstate the dividend. This could be accomplished in one of two ways described below:
  - A recapitalization in 2018. The amount needed to reach the equity target would be approximately $56mm in 2018 based on EMP continued ownership projections.
  - Through a buildup of equity over time. This buildup would occur through the net income of the utility being invested as equity in the rate base until a 40% equity ratio is achieved. This would allow for the dividend to be reinstated beginning in 2021 based on EMP continued ownership projections.
- A willingness to increase non-COPA electric rates to realize ROE targets
  - A driver of value for the owner of ML&P (whether it is MOA or a third-party) is the dividend paid out by the utility. The main lever that can be adjusted to achieve a dividend payment in line with a >10% ROE target is non-COPA electric rate increases. ML&P has historically undercollected as seen below.

ML&P Realized ROE from 2008-2015							
2008	2009	2010	2011	2012	2013	2014	2015
6.9 %	5.4 %	3.6 %	5.0 %	6.6 %	2.2 %	5.0 %	2.4 %

Source: EMP

One mitigating factor to the rate increases under continued ownership is that ML&P would not be subject to corporate income tax. As a result, it would require lower rate increases than a third party owner in order to achieve the same ROE. One way to think about the cashflow value of ML&P to MOA is through a present value calculation on the dividend income stream produced by ML&P to achieve an ROE target. In light of the historical underperformance from an ROE perspective, it is worth examining a projected dividend income stream under a range of ROE targets.

The following two tables lay out a range of potential values under continued MOA ownership for both an equity buildup scenario and an instant recapitalization scenario.

40% Equity Ratio Buildup Scenario		
ROE Target	Total Dividend Income from 2019-2030 ($mm)	Present Value to 12/31/2018 at 5% ($mm)
5.0%	$107.6	$69.5
7.0%	$173.5	$115.5
9.0%	$238.1	$161.0
10.9%	$202.5	$202.5

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2018 Recapitalization Scenario		
ROE Target	Total Dividend Income from 2019-2030 ($mm)	Present Value to 12/31/2018 at 5% ($mm)
5.0%	$156.6	$111.2
7.0%	$223.3	$159.1
9.0%	$289.9	$206.9
10.9%	$348.1	$247.7

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As demonstrated in the above tables, a 2018 recapitalization would result in a more valuable dividend stream over time. This makes sense, as a recapitalization in 2018 would result in a dividend becoming payable beginning in 2019, whereas the buildup scenario would only begin paying dividends in 2021. However, a key tradeoff to evaluate between these two scenarios is whether the resultant dividend stream from a 2018 recapitalization is enough to offset the initial equity investment required to unlock it.

Potential Valuation Ranges – Third Party Sale

Potential ranges for enterprise value under the sale cases using the three identified valuation methodologies are shown in the bars on the below graphic.

Illustrative ML&P Valuation Analysis for Third-Party Sale Cases as of Year End 2018 ($ in millions)

Financial Analyses	Sale Scenario 1 – 40% Equity, 60% Debt[1]		Sale Scenario 2 – 50% Equity, 50% Debt[2]	
	Illustrative Enterprise Value	Comments	Illustrative Enterprise Value	Comments
Public Company Trading P/E Valuation	$684 – $738	■ High[3]: P/E 21.8x *(UTL 2019E)* ■ Low: P/E 17.2x *(HE 2019E)* ■ 2019 NI of $11.6 mn net of 35% tax ■ Debt of $535 mn, Cash & Cash Equiv. of $51 mn[4]	$722 – $786	■ High[3]: P/E 21.8x *(UTL 2019E)* ■ Low: P/E 17.2x *(HE 2019E)* ■ 2019 NI of $13.8 mn net of 35% tax ■ Debt of $535 mn, Cash & Cash Equiv. of $51 mn[4]
Selected Transactions P/E Valuations	$697 – $794	■ High: P/E 26.6x *(Nextera / Oncor)* ■ Low: P/E 18.3x *(Fortis / UNS)* ■ 2019 NI of $11.6 mn net of 35% tax ■ Debt of $535 mn, Cash & Cash Equiv. of $51 mn[4]	$737 – $852	■ High: P/E 26.6x *(Nextera / Oncor)* ■ Low: P/E 18.3x *(Fortis / UNS)* ■ 2019 NI of $13.8 mn net of 35% tax ■ Debt of $535 mn, Cash & Cash Equiv. of $51 mn[4]
Discounted Cash Flow Valuation	$707 – $1,043	■ 8.0x to 12.0x exit multiple ■ 4.5% to 5.5% WACC ■ Assumes 35% taxes	$773 – $1,142	■ 8.0x to 12.0x exit multiple ■ 4.5% to 5.5% WACC ■ Assumes 35% taxes

Source: Bloomberg and IBES as of 27-June-2017, company projections

1. *Target capitalization of 40% equity, 60% debt. [2] Target capitalization of 50% equity, 50% debt. [3] Excluding MGEE that has a high proportion of non-regulated net income. [4] Debt and cash balance as of year end 2017; net debt calculated by subtracting cash ($27.2mn) and senior lien reserves ($23.8mn) from estimated debt outstanding ($535.0mn).*

Note: Prepared or derived from information that is publicly available (without any independent verification thereof by Goldman Sachs) and information provided to us by MOA and ML&P. Any indications of value set forth herein are based solely on public information, are for illustrative purposes only and do not reflect actual values that may be achieved or realized by MOA / ML&P or any views of Goldman Sachs with respect to any such values.

Because the debt and cash balances are the same across the scenarios, the key metric driving the valuation ranges for comparable companies and precedent transactions is the price to earnings multiple of comparable transactions. The “Comments” section describes the companies and precedent transactions that inform the upper and lower bound multiples for each valuation range.

The third methodology used in the above analysis, DCF valuation, is sensitive to other factors. It attempts a more fundamental valuation based on a present value calculation of cashflow available to the investor. This cashflow metric, referred to as “unlevered free cashflow”, is different from Net Income. It is derived according to the following formula:

Earnings Before Interest after Taxes (EBIAT)
Plus Depreciation/Amortization
Plus Change in Working Capital
Less Total Capital Expenditure

While net income incorporates every revenue item and expense item (including non-operation related items) in a given time period, free cashflow is meant to portray a clearer picture of the utility’s financial performance based solely on its operations and the money needed to maintain its physical assets. While there are multiple ways to arrive at the free cashflow figure for the utility, the unlevered free cashflow methodology described above is the one most often utilized by investors in the utility sector.

According to a DCF, the value of the utility is equivalent to the present value of the utility's future unlevered free cashflows discounted at the weighted average cost of capital (WACC). Typically, a DCF valuation will show unlevered free cashflow projections for approximately 5 or 6 years and then show a "terminal value" for the cashflows afterward, determined as a multiple of the utility's EBITDA in a the projected year.

In addition to being sensitive to operating assumptions (which affect free cashflow), a DCF valuation is also sensitive to the terminal value and the discount rates applied to the cashflows. The illustrative DCF valuation results below for both cases show the valuation assuming the midpoint exit multiple, as highlighted in the middle of each "Enterprise Value Sensitivity" and "Equity Value Sensitivity" table below. The multiples and cost of capital ranges are based on figures for similar utilities.

Below are detailed outputs showing this information for both third party sale cases, as well as sensitivity tables showing a potential range of DCF valuations for the utility under various assumptions within the range of exit multiples and WACC assumptions.

Third Party Sale Scenario 1: Target Capitalization of 40% Equity

Illustrative DCF Valuation at December 31, 2018 ($mm)

	2019E	2020E	2021E	2022E	2023E	2024E	Terminal Year
Unlevered Free Cash Flow	$ 6	$ 10	$ 35	$ 41	$ 41	$ 45	
Terminal EBITDA							97
(x) 10.0x Multiple							10.0 x
Terminal Value							969
Discount Factor	1.02	1.08	1.13	1.19	1.25	1.31	1.34
Discounted Cash Flow	6	9	31	35	33	35	723

Total Enterprise Value	$ 870
(-) Net Debt[1]	(484)
Implied Equity Value to ML&P[2]	$ 386

Sources: Public filings and ML&P projections
Note: Free cashflow discounted to YE 2018 using mid-year convention for cashflows. Terminal value calculated as of 2024. Assumes marginal tax rate of 35%.
1. Estimated net debt at year end 2017. Net Debt calculated as outstanding debt balance less cash balance
2. This represents value to ML&P. Equity injection by buyer would be this amount plus additional equity required to de-lever to target capitalization.

Enterprise Value Sensitivity ($mm)

WACC \ Exit Multiple	8.0 x	9.0 x	10.0 x	11.0 x	12.0 x
5.50%	$ 707	$ 777	$ 847	$ 918	$ 988
5.25%	716	788	859	930	1,001
5.00%	726	798	**870**	943	1,015
4.75%	735	809	882	955	1,029
4.50%	745	820	894	968	1,043

Equity Value Sensitivity ($mm)[3]

WACC \ Exit Multiple	8.0 x	9.0 x	10.0 x	11.0 x	12.0 x
5.50%	$ 223	$ 293	$ 363	$ 434	$ 504
5.25%	232	303	375	446	517
5.00%	242	314	**386**	458	531
4.75%	251	325	398	471	545
4.50%	261	335	410	484	559

3. Equity value equivalent to Enterprise Value less Net Debt

Third Party Sale Scenario 2: Target Capitalization of 50% Equity

Illustrative DCF Valuation at December 31, 2018 ($mm)

	2019E	2020E	2021E	2022E	2023E	2024E	Terminal Year
Unlevered Free Cash Flow	$ 6	$ 10	$ 35	$ 44	$ 47	$ 52	
Terminal EBITDA							106
(x) 10.0x Multiple							10.0 x
Terminal Value							1,063
Discount Factor	1.02	1.08	1.13	1.19	1.25	1.31	1.34
Discounted Cash Flow	6	9	31	37	37	39	793

Total Enterprise Value	$ 953
(-) Net Debt[1]	(484)
Implied Equity Value to ML&P[2]	$ 468

Sources: Public filings and ML&P projections
Note: Free cashflow discounted to YE 2018 using mid-year convention for cashflows. Terminal value calculated as of 2024. Assumes marginal tax rate of 35%.
1. Estimated net debt at year end 2017. Net Debt calculated as outstanding debt balance less cash balance
2. This represents value to ML&P. Equity injection by buyer would be this amount plus additional equity required to de-lever to target capitalization.

Enterprise Value Sensitivity ($mm)

WACC \ Exit Multiple	8.0 x	9.0 x	10.0 x	11.0 x	12.0 x
5.50%	$ 773	$ 850	$ 927	$ 1,005	$ 1,082
5.25%	784	862	940	1,018	1,096
5.00%	794	873	**953**	1,032	1,111
4.75%	805	885	965	1,046	1,126
4.50%	815	897	979	1,060	1,142

Equity Value Sensitivity ($mm)[3]

WACC \ Exit Multiple	8.0 x	9.0 x	10.0 x	11.0 x	12.0 x
5.50%	$ 289	$ 366	$ 443	$ 520	$ 598
5.25%	299	378	456	534	612
5.00%	310	389	**468**	548	627
4.75%	320	401	481	562	642
4.50%	331	413	494	576	658

3. Equity value equivalent to Enterprise Value less Net Debt

Summary

Below is a comparison of the low and high potential enterprise value ranges under both the retained ownership and third party sale scenarios described above.

Potential Enterprise Value Ranges Under Different Scenarios ($mm)

	Retained Ownership		Third-Party Sale	
WACC and Exit Multiple Sensitivity	**Equity Buildup**	**2018 Recapitalization**	**Scenario 1: 40% Equity**	**Scenario 2: 50% Equity**
Low	$ 624	$ 629	$ 707	$ 773
High	888	894	1,043	1,142

Note: Low sensitivities assume Enterprise Value calculated using DCF methodology assuming a 8.0x exit multiple and 5.50% WACC. High Sensitivities assume Enterprise Value calculated using DCF methodology and a 12.0x exit multiple and 4.50% WACC. Retained ownership scenarios assume targeted 10.9% ROE.

3. BELUGA RIVER UNIT CONSIDERATIONS

In 1996, ML&P acquired a 1/3 interest in the Beluga Gas Field, also known as the Beluga Reserve Unit ("BRU"). In 2016, ML&P acquired a 70% interest in ConocoPhillips Alaska, Inc.'s 1/3 interest in BRU, bringing its total ownership to 56.67%.

BRU provides ML&P a secure long-term supply of natural gas at a price below the market. The Ryder Scott report from December 31, 2015 estimated that "Proven Developed Producing" natural gas from BRU for the time period of 2016-2030 to be 128 Bcf with another 77.5 Bcf of "Proved Undeveloped" natural gas. In its entirety, ML&P's share of BRU should be sufficient to meet its natural gas needs through 2030.

Ryder Scott estimates BRU's "Proved Developed Producing" production costs, for all of BRU, as follows:

Ryder Scott "Proved Developing Producing" Production Costs for BRU ($ amounts in mm unless otherwise noted)							
Year	Production (McF)	Production Taxes	Operating Costs	Ad Valorem Taxes	Development Costs	Total	$/McF
2016	17,957	$ 3,775	$ 10,279	$ 3,089	$ 4,576	$ 21,718	$ 1.21
2017	15,579	3,298	9,758	3,089	4,232	20,377	1.31
2018	13,549	2,893	9,312	3,089	-	15,293	1.13
2019	11,813	2,979	8,771	3,089	1,373	16,211	1.37
2020	10,396	3,167	8,195	3,089	-	14,451	1.39
2021	9,231	3,322	7,333	3,089	-	13,743	1.49
2022	8,218	3,898	6,863	3,089	-	13,850	1.69
2023	7,332	3,675	6,437	3,089	-	13,201	1.80
2024	6,556	3,253	6,048	3,089	-	12,390	1.89
2025	5,873	2,889	5,692	3,089	-	11,670	1.99
2026	5,270	2,577	5,366	3,089	-	11,032	2.09
2027	4,736	2,251	5,067	3,089	-	10,406	2.20
2028	4,262	1,887	4,790	3,089	-	9,766	2.29
2029	3,841	1,582	4,535	3,089	-	9,206	2.40
2030	3,449	1,332	4,186	3,089	-	8,606	2.50
Total	**128,061**	**$ 42,780**	**$ 102,633**	**$ 46,328**	**$ 10,181**	**$ 201,921**	**$ 1.58**

Given estimates for future Rail Belt natural gas costs, BRU can be a very valuable resource. Below we provide a comparison of BRU's production costs versus recent contract prices/estimates:

Comparison of BRU Production Costs Vs. Recent Contract Prices and Estimates ($/McF)							
					Difference to BRU Production Cost		
Year	BRU Prod. Cost	CEA/Hilcorp Price Deck	HEA/Furie Contract	Enstar/Hilcorp Contract	CEA/Hilcorp	HEA/Furie	Enstar/HilCorp
2016	$ 1.21	$ 7.42	$ 6.50		$ 6.21	$ 5.29	
2017	1.31	8.03	6.75		6.72	5.44	
2018	1.13	7.70	7.00	$ 7.56	6.57	5.87	$ 6.43
2019	1.37	7.43	7.25	7.68	6.06	5.88	6.31
2020	1.39	7.58	7.50	7.80	6.19	6.11	6.41
2021	1.49	7.73		7.93	6.24		6.44
2022	1.69	7.88		8.06	6.19		6.37
2023	1.80	8.04		8.18	6.24		6.38
2024	1.89	8.20			6.31		
2025	1.99	8.36			6.37		
2026	2.09	8.53			6.44		
2027	2.20	8.70			6.50		
2028	2.29	8.88			6.59		
2029	2.40	9.05			6.65		
2030	2.50	9.24			6.74		

As seen in the table above, BRU's production costs range from $5/Mcf to $6/Mcf below prices in the current market.

For ML&P, the low cost production benefits ratepayers but largely does not impact ML&P's finances. Based on U-96-36(25) and Order U-96-36(26), the RCA sets a debt service coverage ratemaking methodology to "establish the appropriate transfer price for gas from ML&P's Beluga Gas Field." The RCA set the debt service coverage ratio, for ratemaking purposes, at 1.6x. By 2018 with all of the BRU debt repaid, it is unclear how the RCA will allow ML&P to charge for BRU. Based on the existing methodology, ML&P will establish the transfer price at cost as it does not have a mechanism to recover any capital. ML&P is currently seeking, and the RCA is reviewing, a change in the BRU ratemaking treatment once the debt has been repaid.

Given the significant difference between the market price for natural gas in the Rail Belt and BRU's production costs, BRU has value. That said, ML&P's ability to access that value is dependent on regulatory treatment. Based on in-depth discussions with MOA, ML&P, and ML&P's regulatory counsel,

there may be avenues to monetize BRU, such that ML&P is the beneficiary of any receipt above "Contributed Plant". That said, any analysis of BRU monetization assumes: (1) a buyer of BRU will be able to enter into a gas supply contract at market-based prices, which will be significantly higher than the production cost of BRU, (2) the RCA will allow ML&P to enter into a gas supply contract with a new buyer of BRU at gas prices higher than what the RCA or some ratepayers may be expecting to pay, and (3) the RCA will allow ML&P to keep any sale proceeds above the "Contributed Plant". *It should be noted that Goldman Sachs is not an expert in regulatory matters, nor is providing any advice on regulatory matters. Any analysis presented regarding the value available from a BRU sale or restructuring of the reserve is based on the regulatory guidance provided by MOA, ML&P, and ML&P's regulatory counsel.*

Below we outline two ways ML&P could potentially monetize BRU:

- Outright sale. ML&P could sell BRU to a third party investor and simultaneously enter into a gas supply contract to purchase all natural gas coming from the sold share of BRU. The price which an investor would be willing to pay to buy BRU will be highly based on: (1) the price of gas under the gas supply contract, and (2) the investor's desired equity return level.
- Sale to a Municipal Entity Outside of ML&P. The RCA has the ability to regulate the price at which ML&P charges its customers for BRU gas because the gas transfer price is viewed as effectively self-dealing (ML&P owns the natural gas reserve and is setting the rate at which retail customers purchase the natural gas). Some individuals believe that if ML&P sold BRU to a non-Anchorage controlled municipal entity (such as Alaska Energy Authority or a newly created entity), then the RCA regulatory authority would no longer limit the price charged to customers as long as it was "on market". In such a structure, the third party municipal entity would buy BRU from ML&P, issuing debt for the purchase price. ML&P would then enter into an "on-market" take-or-pay gas supply contract that ensured repayment of the third party municipality's debt. For this type of transaction, the purchase price would also be heavily influenced by the pricing of the "on-market" gas supply contract.

In either of these cases, any cash received would be first used to pay off any remaining debt, and then be used to replace ratepayer "Contributed Capital". Based on the EMP, BRU net contributed capital is approximately $130mm. ML&P's regulatory counsel has advised that any funds remaining could be retained by ML&P.

Below we provide a preliminary indication of BRU's value using a 10% discount rate on "Proven Developed Producing" assets as is the industry convention in valuing gas reserves and we use the CEA/Hilcorp price deck from the Petrotechnical Resources of Alaska, LLC report on December 18, 2015 and a sensitivity at $1/Mcf less than the CEA/Hilcorp price deck:

ML&P Share – CEA/HillCorp Curve ($ amounts in mm unless otherwise noted)						
Year	Production	Gas Price ($/Mcf)	Revenue	Costs	Net Income	PV10
2018	7,678	$ 7.70	$ 59,117	$ 8,666	$ 50,451	$ 48,103
2019	6,694	7.43	49,736	9,187	40,550	35,148
2020	5,891	7.58	44,653	8,189	36,464	28,733
2021	5,231	7.73	40,434	7,788	32,646	23,386
2022	4,657	7.88	36,694	7,848	28,846	18,785
2023	4,155	8.04	33,407	7,480	25,926	15,349
2024	3,715	8.20	30,465	7,021	23,444	12,618
2025	3,328	8.36	27,823	6,613	21,210	10,377
2026	2,986	8.53	25,473	6,252	19,222	8,550
2027	2,684	8.70	23,349	5,897	17,452	7,057
2028	2,415	8.88	21,448	5,534	15,913	5,850
2029	2,176	9.05	19,697	5,217	14,480	4,839
2030	1,954	9.24	18,057	4,877	13,180	4,004
Total	**53,564**		**$ 430,353**	**$ 90,569**	**$ 339,784**	**$ 222,799**

ML&P Share – CEA/HillCorp - $1/MCf Lower Cost Sensitivity ($ amounts in mm unless otherwise noted)						
Year	Production	Gas Price ($/Mcf)	Revenue	Costs	Net Income	PV10
2018	7,678	$ 6.70	$ 51,439	$ 8,666	$ 42,773	$ 40,783
2019	6,694	6.43	43,042	9,187	33,856	29,346
2020	5,891	6.58	38,762	8,189	30,573	24,091
2021	5,231	6.73	35,204	7,788	27,416	19,639
2022	4,657	6.88	32,038	7,848	24,189	15,753
2023	4,155	7.04	29,252	7,480	21,771	12,889
2024	3,715	7.20	26,749	7,021	19,729	10,618
2025	3,328	7.36	24,495	6,613	17,882	8,749
2026	2,986	7.53	22,487	6,252	16,236	7,222
2027	2,684	7.70	20,665	5,897	14,768	5,972
2028	2,415	7.88	19,032	5,534	13,498	4,962
2029	2,176	8.05	17,520	5,217	12,303	4,112
2030	1,954	8.24	16,102	4,877	11,225	3,410
Total	**53,564**		**$ 376,788**	**$ 90,569**	**$ 286,219**	**$ 187,545**

If ML&P were to see a sale of BRU, given its size, it will likely be only of interest to a limited group of buyers. We primary buyers we would suggest focusing on include: (1) Furie Operating Alaska, (2) CIRI, (3) Enstar, and (4) other financial interests focused on Alaska investing.

4. RATEMAKING ASSUMPTIONS

Much of ML&P's future cashflow, and therefore its value, is contingent on its ability to consistently raise Non-COPA electric rates in such a way as to achieve a Net Income in line with its allowable ROE of 10.9%. ML&P has not historically operated this way, instead going between three to seven years without seeking a rate increase, then followed by a modest rate hike. In 2016, ML&P secured approval for a large rate increase of 37.3% to be phased over 2017 and 2018. This type of rate setting is not helpful for a valuation perspective as it introduces uncertainty about ML&P's ability to consistently generate earnings. In order to unlock value from the utility, ML&P likely would need to file for rate increases on a more consistent basis to achieve a sustainable ROE target.

With this in mind, MOA, ML&P, and their regulatory counsel provided input regarding key assumptions regarding the rate setting process and other key related issues. Some of the below ideas were also briefly summarized in the "ML&P Valuation" section. All of the below assumptions are subject to final RCA approval.

- **Future rate-setting to achieve an ROE target:** Beginning in 2020, the utility will raise rates every two years to achieve a 10.9% Return on Equity ("ROE") target, a threshold identified and agreed upon by ML&P, MOA, and their regulatory counsel as allowable by the RCA.
  - Given ML&P's history of infrequent rate increases, rate setting to achieve an ROE could potentially result in very large increases that would create "sticker shock" among ML&P's customers.
    - To address this, annual rate increase could be capped at a pre-identified threshold, such as 10% annually (the figure assumed in the financial models used in this memo). In the event that this does not generate enough income to achieve the target ROE, the utility would pursue rate increases in successive years until the target ROE is achieved.
  - The RCA will have final approval over rate case filings. In addition to receiving requests for large rate increases from ML&P, RCA will also be receiving more frequent rate case filings. The difference between ML&P's historical rate case filings and this potential future rate setting mechanism could pose issues for the RCA.
- **Dividend Reinstatement:** The financial analysis in this memo assumes that the RCA will allow the reinstatement of a dividend payment to MOA if ML&P is able to raise its equity ratio to an acceptable threshold for the RCA. Per guidance from MOA, ML&P, and regulatory counsel, a 40% equity ratio has

been assumed as the threshold for reinstatement of dividend payments in the analyses presented in this memo.

- **RCA Approval of Reasonable Third Party Sale:** The RCA will have final authority to approve or reject any sale to a third-party buyer. While the financial model assumes this would occur in anywhere between 9 to 15 months, a sale could be delayed or rejected entirely.

5. SALE PROCESS CONSIDERATIONS

Options for Sale of ML&P

If MOA chooses to move forward with a sale of ML&P, it has two broad options to potentially move forward with:

1. Competitive Process ("Broad Solicitation")
   - This would utilize a two-stage utility sale process whereby a large number of potential bidders are sent a short summary of the deal and asked to make preliminary bids as a first step.
   - MOA would then make a shortlist of potential bidders invited to the second step. The second step would encompass a full data room, a detailed operating modeling, and due diligence with selected bidders. After 1 ½ to 2 months, bidders will provide their final bids.
   - To maximize potential offers, MOA &P will need to have received municipal charter approvals prior to running the sale process.
2. Negotiated Sale (includes "Limited Solicitation" and "One-off Process")
   - A negotiated sale process involves reaching out a targeted group of potential buyers in order to maintain more flexibility and confidentiality than could be achieved with a competitive process
     - A "one-off" process which engages only with one potential buyer would fall under the scope of a negotiated sale
   - MOA and ML&P have identified three candidates below as potential buyers to be approached in a negotiated process:
     - Chugach Electric Association, Inc. ("CEA")
     - Matanuska Electric Association, Inc. ("MEA")
     - Avista Corp. (the owner of AEL&P)
   - Other financing and operating assumptions the same as the ones outlined in the third-party sale cases in the ML&P valuation section

To the extent MOA is interested in pursuing a sale, MOA should carefully evaluate the advantages and disadvantages of competitive and negotiated sale processes. We have laid out below some key considerations for each, along with some key lessons learned from recent utility M&A transactions.

Key Considerations for Utility Sale Process

Alternative	Description	Advantages	Disadvantages	Recent Utility Deals	Lessons from Recent Utility Deals
Broad Solicitation	■ Approach numerous selected buyers; potentially announce plan to pursue strategic alternatives — Inbounds will also be received, can selectively limit process ■ Typically a two-step process — First phase: preliminary indications of interest — Second phase: narrow buyers for binding bids	✓ Creates maximum competitive tension ✓ Maximizes likelihood that all viable partners are contacted ✓ Limits buyer's ability to determine negotiating position of seller	× Most challenging to maintain confidentiality × Most disruption to business, management and employees × Failed auction may create a negative perception of the seller	Westar Energy Empire ITC TECO Energy	■ Several broad solicitations were initiated after a letter was sent to the seller ■ TE's process excluded financial buyers ■ In some processes, the winning bidder was somewhat unexpected (TE, ITC) ■ Broad solicitations have not always generated the highest premiums / P/E's
Limited Solicitation	■ Engage with very limited group of buyers confidentially ■ Provide management meetings early in process ■ Preserves broader public process alternative ■ Can be a one or two-step process	✓ Flexibility in timing and buyer selection ✓ Limited disruption of business and employees ✓ Reduces risk of failed process ✓ Signals credible alternatives to ultimate buyer	× Can be more difficult to create competitive tension × Buyers may be able to ascertain who else is in the process × May omit certain potential buyers	Piedmont Natural Gas QUESTAR	■ With two buyers in PNY process, competitive tension was maintained to achieve industry's highest P/E ■ STR approached a few other buyers before granting exclusivity to D, with confidentiality maintained ■ Materials customized to appeal to specific buyers
One-Off Process	■ Engage with targeted buyer and conduct very customized management meetings ■ Preserves ability to flip to other sale process alternatives	✓ Least disruption to business and employees ✓ Potential to announce a transaction more quickly ✓ Greatest confidentiality ✓ Maximizes future alternatives if not successful	× May not receive highest value × Most difficult to create competitive tension	AGL Resources	■ To ensure full value paid for exclusivity, maintain threat of involving other parties ■ One of the highest premiums in the industry was achieved in AGL deal ■ Materials were customized to appeal to SO

Potential Buyers

In addition to any choice regarding sale process, MOA should also carefully think about potential buyers to whom to market the transaction. In general, utility buyers tend to fall in two buckets: strategic buyers and financial buyers. Strategic buyers are usually industry participants who are interested in buying and operating the utility as an enhancement to their existing business or portfolio of businesses, while financial buyers tend to view utility acquisitions as investments to generate cashflow as well as return from a sale after a holding period.

Both types of buyers are very active in the utility M&A space – we have included below a graphic summarizing our understanding of key characteristics and considerations for various types of buyers within each of these broader categories.

Overview of Buyer Types and Considerations

		Description	Targeted Returns	Considerations: Current Cash Flow / Yield	Considerations: Holding Period	Considerations: Regulatory Risk Tolerance
Strategics	CEA	■ Local utility with existing RCA relationship ■ Greatest potential for synergies ■ Low cost of capital	6-10%	◐	●	◐
Strategics	Avista	■ Local utility with existing, constructive RCA relationship ■ Avista likely wants to grow Alaska presence	9-12%	◕	●	◕
Strategics	Other Alaska Utilities	■ Likely too small / insufficient strategic interest	Unknown	◐	●	◐
Strategics	National Utilities	■ Utilities are seeking to grow revenue ■ Primarily focused on assets > $500mm	9-12%	●	◕	◕
Financials	Infrastructure Funds	■ Stable cashflow oriented investor ■ Primarily focused on assets > $200mm	9-13%	●	◕	◔
Financials	Foreign Buyers	■ Analyzing US infrastructure investments ■ Seeking safe/stable assets	11-15%+	●	◐	◔
Financials	Private Equity	■ Financial willing to invest for stable cashflow or growth opportunities ■ Appetite for risks corresponds with larger fund sizes / equity checks	15%+	●	◐	◔
Financials	Commodity Traders (Gas Assets Only)	■ Companies that trade commodities	15%+	●	○	◔
				● Important	● Longer	● Comfortable

Sale Process

From a general process perspective, it is important to utilize a strategic and transparent approach to maximize investor demand. We have laid out below a roadmap of the phases of a sale process, along with key responsibilities for the parties involved. While this is not an exhaustive or complete list of phases and responsibilities, it can serve as a general framework by which to think about the process-related aspects of a sale.

Phase	Key Steps and Responsibilities
Building the Story	■ Develop key themes and collect supporting data, including: — Growth opportunities — Buyer specific synergies — Contractual support — Regulatory support — Scarcity of opportunity
Refine Projections	■ Credible projections for the utilities future cashflows ■ Appropriate tolling fees, capital expenditure projections, and electric sales outlook ■ Future growth a demonstration of conviction in base business and upside opportunities
Prepare Compelling Marketing Materials	■ Develop marketing materials — Customized teaser and preliminary call script — Offering memorandum — Management presentation
Refine Buyer List	■ Define the final buyer list to be approached — Other Alaska utilities — National utilities — Foreign buyers

	— Strategic buyers ■ Define to market terms for submitting joint offers
Conduct Transparent & Strategic Sale Process	■ Objectives of process are clear ■ Fair and transparent access to data and management ■ Clear legal basis and political support for process and contracts

Other Considerations

In addition to the general objectives laid out above, MOA, ML&P, and their internal and external counsel have identified key considerations specific to the utility that will need to be addressed in order to conduct a successful sale process. Goldman Sachs does not provide legal, regulatory or tax advice. The following items are summaries of information presented by MOA, ML&P, and their counsel.

Regulatory Process Items:

- Any transfer of a "certificate of public convenience and necessity" is subject to RCA review
  - The RCA's review is statutorily limited to no more than 15 months, per Alaska Statute 42.05.175(c)
    - RCA's review of the AEL&P sale to Avista took 8 months
- As the RCA regulates rates, any buyer will be focused on RCA rate setting, and the timetable to begin putting into effect rate increases
  - Although the RCA is allowed to rate base acquisition premium, it rarely does so unless it is proven that doing so serves a public purpose
  - It is likely that any buyer will "pancake" rate cases, reducing impact of rate lag

Electric Rate Setting:

- To obtain sustainable ROEs over 10%, any buyer will need to increase non-COPA rates on a regular basis
  - For ML&P to realize valuations described, potential buyers must believe that sufficient rate increases are possible
  - From a corporate utility perspective, ML&P's historically low ROEs and lack of non-COPA rate increases will be a red flag

MOA Approvals:

- Per the Municipality of Anchorage Charter – Section 16.02 – Disposal of Utilities, any utility system sale must be approved by a 60% affirmative vote of the people
- Given difficulties in prior municipal utility sales (e.g., Philadelphia Gas Works), MOA should hold the vote prior to running a process to maximize investor interest

Potential Timetable

Based on the general utility M&A process items identified above as well as the ML&P specific items detailed by MOA, ML&P, and their counsel, below is a tentative schedule that could help guide the process following MOA assembly approval for a public vote on the ML&P sale.

Descriptions	Timing
MOA Approvals	
■ MOA assembly approves public vote on ML&P sale	Day 0
■ Vote held	+2-3 Months
Sale Process	
■ MOA / ML&P / Goldman Sachs prepare sale materials (teaser, CIM, data room)	During Vote
■ Round 1: Request for qualifications / indicative bid	+1-2 Months
■ MOA / ML&P short list respondents	+1 Month
■ Round 2: Binding efforts	+2-3 Months
Regulatory Approval	
■ RCA regulatory review	+9-15 Months
Closing	
■ Sale closes, funds are transferred	15-24 Months

6. NEXT STEPS

It is clear from this analysis that ML&P can have tremendous value to the MOA, either through retained ownership or through a sale to a third party. The first step forward is determining which path MOA would like to take, knowing that retained ownership does not preclude a future sale and that managing the utility to reinstate the dividend could help third party buyer views of the utility.