

**STATEMENT OF PRINCIPLES  
CONCERNING THE POTENTIAL MERGER  
OR OTHER RELATIONSHIP  
BETWEEN  
CHUGACH ELECTRIC ASSOCIATION  
AND MUNICIPAL LIGHT AND POWER**

For decades, leaders of the Municipality of Anchorage and of Chugach Electric Association (“Chugach”) have recognized the potential benefits of merging Chugach with Municipal Light and Power (ML&P), or forming some other relationship, so that all electricity ratepayers in the Anchorage Bowl would be served by a single utility. The concept never developed from idea to reality, however, because of institutional barriers, the greatest of which has been the reluctance of leaders on either side to make this a priority.

That reluctance has changed. As Mayor of Anchorage and as Chairman of the Chugach Electric Board of Directors, we have established common interests in pursuing a merger of electrical utility assets into a single entity or forming some other form of relationship to accomplish these goals. We anticipate significant benefits to Anchorage ratepayers and taxpayers. We are committed to exploring the merger opportunity in depth. Although our study of this issue is at the formative stages, we anticipate exerting joint efforts sufficient to quantify the benefits of a merger or some other form of relationship, to find a legal and regulatory path, and to design the ideal form and ownership structure for the resulting entity or entities.

**Our intent is to work collaboratively** through a process designed to represent equally the needs and points of view of the Municipality and of Chugach. Answers from this process are not pre-determined. Instead, we intend to maintain maximum flexibility in the study and decision phases to reach an outcome optimized for the ratepayers and taxpayers, without regard to “turf” or the understandable pride and tradition of either utility. Specifically, we have not determined as yet which utility should be the survivor of a merger, if that is the course selected, or if neither should exist after the blending of both into a new entity. We remain open to any of these potential outcomes.

**The purpose of this document is to set out broad principles** to guide our work and to communicate our intent to the public, to utility employees, to ratepayers, and to other community leaders. Within the scope of these principles, we anticipate consideration of various merger or alternative relationship approaches. Here are the five principles we share in advancing this proposal:

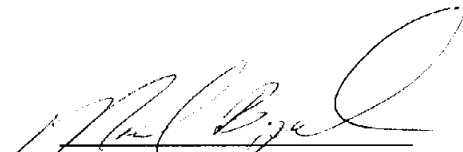
**1. Ensure the greatest benefit for the existing ratepayers of the two utilities.** The interests of the people and businesses of Anchorage should take priority in all decisions concerning a potential merger or other form of relationship and the structure of the final entity. Other important interests to be valued and balanced as well include those of the utilities’ owners (as taxpayers and/or as co-op members), and of the employees of the two utilities.

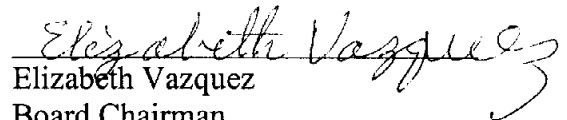
**2. Eliminate duplication of services.** The existing organization of electric utilities in Anchorage developed at a time when ML&P served urban consumers and Chugach served rural consumers. In today's Anchorage, the distinction between the two service areas is no longer meaningful. However, the duplicated structure of the two utilities remains. A primary goal of a merger or other form of relationship is to eliminate this duplication and serve all of Anchorage with a single, rationally integrated company.

**3. Increase efficiency of services.** We believe that the unification of ownership and direction of electric utility assets in Anchorage will likely create new managerial, financial and operational efficiencies which will maximize the future organization's ability to implement the most efficient solutions for electricity users in Anchorage as a whole.

**4. Create rate stability for current and future ratepayers.** Low, stable electrical rates are a key component of economic growth. This benefit may outweigh all other benefits attained by the citizen-owners of our utilities. A merger or other form of relationship should be designed to keep rates as low and as stable as possible.

**5. Maximize asset value for owners of both companies.** ML&P and Chugach represent decades of investment by residents of Anchorage in the utility companies they own. The value of these investments must be recognized.

  
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Mark Begich  
Mayor  
Municipality of Anchorage

  
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Elizabeth Vazquez  
Board Chairman  
Chugach Electric Association

Dated: June 15, 2007