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Via Electronic Mail

November 5, 2007

Mayor Mark Begich
City of Anchorage
632 W. 6th Avenue
Anchorage, AK 99519-6650

Ms. Elizabeth Vazquez
Chair, Board of Directors
Chugach Electric Association
5601 Electron Drive
Anchorage, AK 99519-6300

RE: Phase 1 Draft Report on Cost Savings from Alternative Combinations of Municipal Light & Power and Chugach Electric Association

Dear Mayor Begich and Ms. Vasquez:

Navigant Consulting, Inc. (NCI) has completed its draft of the Phase 1 Report on Cost Savings from Alternative Combinations of Municipal Light & Power (ML&P) and Chugach Electric Association (Chugach). This draft report is being forwarded to you as co-chairs of the Advisory Panel formed in July of this year to help guide this evaluation. This Phase 1 report is a screening assessment of seven alternative forms of combinations of ML&P and Chugach. Although this report represents a screening analysis, the assessment is extensive and reasonably complex. This evaluation estimates the relative savings achievable from combining all or parts of the two utilities compared to estimated average costs of electric service for the continued standalone operation of ML&P and Chugach.

NCI has identified savings from the more promising of the alternatives that range from approximately \$170 million to over \$200 million over the 12-year study period. The more promising combination alternatives include acquisition options where ML&P acquires Chugach and where a third-party governmental entity acquires both ML&P and Chugach to create a new utility organization. However, the combined option of creating a joint operating organization composed largely of existing ML&P and Chugach managers and labor to operate and maintain both utilities with a single work force, along with the joint development of a single major new power plant rather than each utility constructing separate plants is also a highly favored option that could save in excess of \$180 million compared to continuing standalone operations of the two utilities.

We look forward to receiving comments and questions from the Advisory Panel, both utilities and members of the public as the review of this first phase draft report takes place. The report includes recommendations for refining the Phase 1 study results and further legal evaluation of the prospects of using tax-exempt financing which plays a major role in the potential savings from the two utility acquisition cases that are among the preferred alternatives.

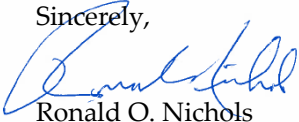
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NCI appreciates the input and guidance it has received from the Advisory Panel as well as from both utilities. We look forward to working with you in the continuing efforts to seek lower cost electric service through prospective combination of ML&P and Chugach in a manner that can save electric service costs, help enhance the local economy, and be implemented. Please feel free to contact me if you have any questions.

Sincerely,



Ronald O. Nichols
Managing Director

Attachment

cc: William Stewart
Fred Boness, Esq.
Robert Ballow
Mke Barry
Assemblyman Chris Birch
Don May
Steven Pratt
Dan Helmick