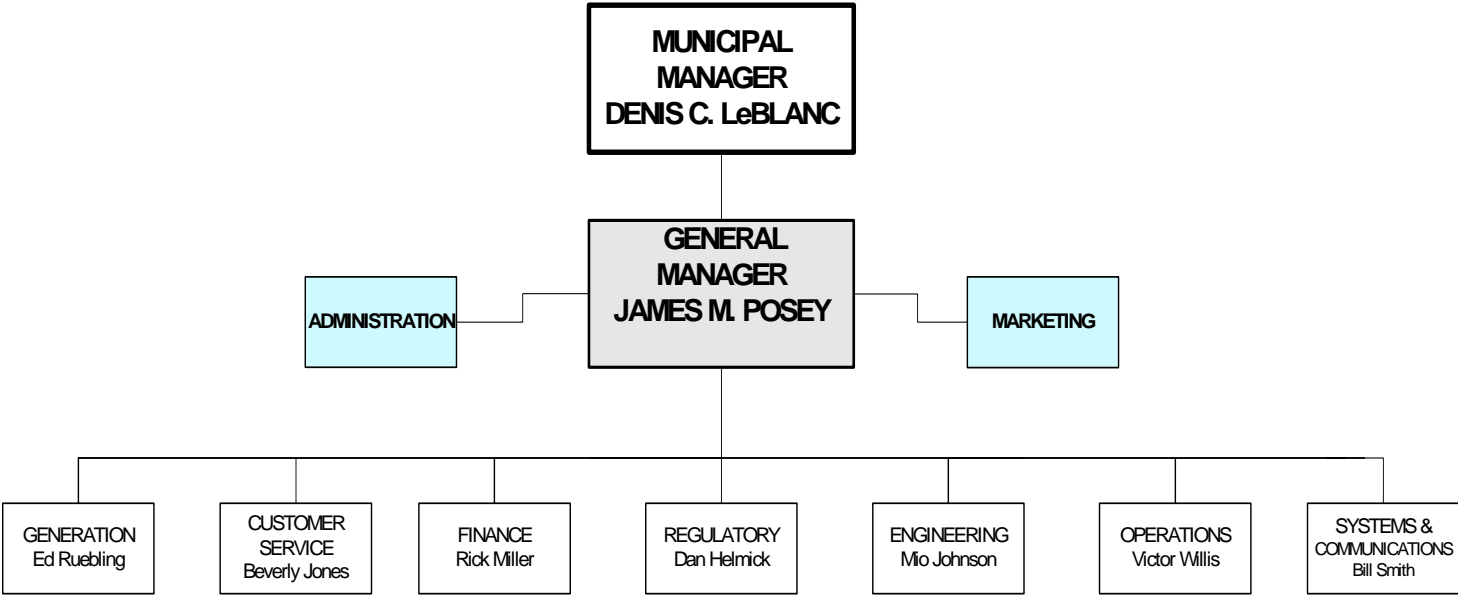


Municipal Light & Power

Corporate Headquarters
Anchorage, AK



fuel prices for years to come. In 1997, ML&P in association with Chugach Electric Association and Matanuska Electric Association purchased the Eklutna Hydroelectric Project from the federal government.

Services

ML&P's service area encompasses 19.9 contiguous square miles including a large portion of the commercial and high-density residential areas of the Municipality. In 2004, the average number of residential and commercial customers was 23,842 and 6,030 respectively. Approximately twenty percent of ML&P's customer base consumes seventy seven percent of its output.

In 2004, electric retail sales totaled 955,267 MWh and earned revenues of \$89,984,415. Total gas operating revenues totaled \$7,921,742. Total electric and gas operating revenues including Miscellaneous Operating Revenue, Sales for Resale, Other Utility Operating Income, and Water Diversion Compensation was \$107,513,001. ML&P also has agreements to supply Fort Richardson Army Base and Elmendorf Air Force Base with firm electrical service.

Regulation

ML&P is subject to economic regulation by the Regulatory Commission of Alaska (RCA), which is composed of five members appointed to six-year staggered terms by the Governor and confirmed by the State Legislature. RCA regulation encompasses service area definition, tariff rules and regulations, service quality criteria and establishment of recurring rates and miscellaneous fees and charges.

The Utility is also advised by the ML&P Electric Commission, which was created in 1963 and is composed of seven members appointed to staggered three-year terms by the Mayor with the approval of the Anchorage Assembly. The General Manager of ML&P serves in an ex officio capacity as Executive Secretary of the Commission.

The Commission reviews electric service policies and practices and reviews the budget and operations of ML&P. From these reviews, the Commission annually submits recommendations to the Mayor. It conducts public hearings on matters pertaining to electric rates, regulations and related matters and makes recommendations to the Mayor and Assembly. It normally holds one meeting per month and calls special meetings as the need arises.

Environmental Mandates

Environmental mandates imposed by the Federal and State Governments will continue to add to the significant cost of environmental compliance. Scoping of environmental alternatives and pre-permitting assessments associated with equipment replacements, new generation, and services expansion will result in cost increases. Recent changes to State air quality regulations will require updating permits and re-evaluation of applicability. New federal oil spill prevention regulations are imposing requirements for secondary

MUNICIPAL LIGHT & POWER

2006 Highlights and Future Events

Joint Action Agency

On Aug. 1, 2005, ML&P, Chugach Electric Association (CEA) and Golden Valley Electric Association (GVEA) of Fairbanks formally formed the Alaska Railbelt Energy Authority (AREA), a joint action agency (JAA) under Alaska statute AS 42.45.300. The JAA structure will enable the utilities to combine their expertise, resources and borrowing power to make major investments in generation and transmission facilities in the Railbelt. Such investments are necessary to meet growing demands for power and to replace aging generation. AREA will ensure the lowest cost power through coordinated planning, more favorable financing and possible joint dispatch of power. In 2006, AREA will explore and begin initiating major investments. These include but are not limited to possible acquisition of state-owned power projects such as the Bradley Lake Hydroelectric Power Plant, the Alaska Intertie (linking Southcentral Alaska and the Interior) and the Healy Clean Coal Project.

IRS Tax Appeal

In November 1997, the IRS challenged the propriety of the Municipality of Anchorage issuing tax exempt bonds to fund the acquisition of the Beluga River Unit gas field. In 2005, ML&P executed a favorable Closing Agreement with the IRS Office of Appeals, which found that 1) bond holders would not be required to include, for income tax reporting purposes, interest on the bonds in their gross income, 2) ML&P was not required to make any payment to the IRS, and 3) no bonds are required to be redeemed absent a change in circumstances.

BRU Production Tax Appeal

For the last six and one half years ML&P has been filing (and paying) ML&P's monthly gas production and conservation tax returns under protest under the premise that AS 29.45.030 and AS 29.71.030 preclude the State from taxing a municipally owned utility. During audit of ML&P's 1999 tax returns, we requested of the Department of Revenue (DOR) a refund of that year's payments. DOR denied our request and we appealed to the Office of Tax Appeals, where we were again denied. We then appealed to Superior Court, wherein Judge Tan ruled in our favor. The State appealed to the Alaska Supreme Court and oral arguments were heard on April 12, 2004. On December 21, 2004, the Alaska Supreme Court ruled in ML&P's favor, resulting in a return of approximately \$4,500,000 of prior year production taxes, including accrued interest. On a forward looking basis, this ruling will save ML&P's ratepayers approximately \$2,500,000 per year.

ML&P Dividend Restriction

In Order No. 8, Docket U-87-84 issued September 9, 1988, the then Alaska Public Utilities Commission (APUC) restricted all dividend and dividend-like payments by ML&P to the Municipality of Anchorage because it found that ML&P's capital structure was impaired. In that same Order, the APUC set a target capital structure for ML&P of 70 percent debt/30 percent equity. In later Orders, the target was changed by the APUC and its successor agency the Regulatory Commission of Alaska (RCA) to 60 percent debt/40 percent equity.

Now that ML&P's capital structure will reach 60/40 by the end of 2005, we will approach the RCA with a request to lift the dividend restriction; a ruling on their request is expected in early 2006.

Replacement of Unit 3

Unit 3 was purchased in 1968, remained in service for 36 years, and was retired in 2004. The replacement of Unit 3 will improve reliability and efficiency, increase ML&P's capacity by 15MW and will be available to help carry the additional load from Elmendorf AFB. The new unit will have a clean burning dry low nox combustion system and will have a thermal efficiency of 36 percent in the simple cycle mode. It will be used for carrying peak loads and will be started and stopped on a daily basis. This will allow us to use our base load machines more effectively and result in lower overall operating costs. The RFP deadline for proposer responses is August 19, 2005, with an anticipated machine online date of April, 2007.

Fort Richardson Army Base

On May 7, 2003 ML&P was notified by Fort Richardson Army Base (FRA) that it was the successful respondent to their RFP for full electric power requirements. The option selected by FRA was a one-year base period to begin October 1, 2003, with two additional one-year renewal options thereafter. On July 29, 2005, ML&P received notice from FRA that the contract will be extended for an additional year to October 1, 2007.

Elmendorf Air Force Base

By amendment P00030 to Contract F65501-80-D-0018 effective June 18, 2004, Elmendorf Air Force Base (EAFB) agreed to purchase, and ML&P agreed to sell, all of EAFB's bulk electric power requirements from ML&P beginning October 1, 2005. The requirements power will be provided under ML&P's Rate Schedule 770. Peak demand is expected to be up to 23 MW and annual energy is expected to be up to 128,000 MWH. Revenue is projected to be approximately \$7.5 million/year.

ML&P Legacy Application Replacement

ML&P currently uses the HP3000 Minicomputer for most business and customer service applications. In November of 2001 Hewlett-Packard (HP) announced they would discontinue support for the HP3000 system in 2006. This will require ML&P to replace or migrate all of its existing applications on the HP3000 to new platforms. We expect this to be accomplished over the next 2 years.

Migration to a windows based server was considered, but it was determined that a replacement with off the shelf products was more cost effective and that very little increased effort was required. This project will involve all divisions both in selection of a replacement system and in testing. It is expected that this replacement can take place without any affect on day-to-day operations.

11-Year Summary	Utility Format - 2006 Operating Budget (in 000's)										
	Actuals				ProForma	Budget	Budget	Forecast			
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Financial Overview:											
Revenues	\$87,430	\$83,300	\$90,868	\$108,670	\$113,122	\$113,002	\$112,417	\$114,130	\$117,858	\$118,086	\$119,355
Expenses	78,735	78,058	83,512	93,064	99,103	95,360	93,799	97,946	102,395	103,119	104,399
Special Item	-	(5,968)	6,695	11,952	19,853	-	-	-	-	-	-
Net Income After Special Item	8,695	(726)	14,051	27,558	33,872	17,642	18,618	16,185	15,462	14,968	14,956
Work Force Authorized per Budget	234	234	236	236	239	244	249	260	270	267	264
Capital Improvements	12,363	12,154	17,385	12,637	45,062	62,502	41,167	54,327	55,739	62,039	38,125
Bond Sales	-	-	-	-	-	39,080	-	47,873	-	46,896	-
Net Non-Contributed Plant (12/31) (REG)	255,022	252,221	260,797	262,599	276,014	293,779	304,972	304,783	301,399	386,253	392,404
Net Contributed Plant (12/31)	12,434	12,344	13,226	13,622	13,762	13,889	14,005	14,109	14,201	14,281	14,349
Net Electric Plant (12/31) (GAAP)	267,455	264,565	274,023	276,221	289,776	307,669	318,978	318,892	315,600	400,533	406,753
Retained Earnings (12/31)	99,611	98,885	112,935	140,493	174,365	186,384	199,384	209,979	219,766	228,871	237,953
General and Restricted Cash	29,180	21,346	14,572	40,823	37,915	52,814	42,898	60,025	27,178	36,198	23,291
Bond Construction Cash	-	-	-	-	-	-	-	-	-	-	-
Bond Redemption Investment	25,125	24,784	24,842	24,785	35,231	35,231	32,047	32,047	31,085	32,609	31,563
Debt Service Account	6,914	6,902	7,110	6,873	6,354	7,429	6,116	6,728	6,788	7,394	7,443
Grant Cash	-	3,861	3,675	2,935	-	-	-	-	-	-	-
Operating Fund Investments/Customer Deposits	6,423	6,467	7,410	9,024	9,618	7,718	7,518	7,918	8,618	8,118	8,718
Total Cash & Investments (12/31)	67,642	63,362	57,609	84,440	89,119	103,192	88,580	106,718	73,669	84,319	71,015
IGC's - General Government	2,637	3,143	3,004	2,830	3,548	3,601	3,781	3,815	3,954	4,023	4,033
Dividend Gross Receipts	-	-	-	-	-	5,623	5,618	5,590	5,676	5,862	5,874
MUSA	2,526	2,080	2,000	2,065	2,157	3,669	3,959	4,226	4,358	4,454	5,639
Total Outstanding Debt	268,525	257,230	245,415	232,585	215,680	234,555	217,140	249,150	232,155	263,365	246,585
Total Annual Debt Service	26,343	25,218	25,239	25,811	25,799	35,232	30,580	32,047	31,085	32,609	31,563
Debt Service Coverage	1.61	1.49	1.52	1.74	1.71	1.67	1.97	1.84	1.82	1.86	1.82
LT Debt/Equity Ratio	72.9/27.1	72.2/27.8	68.5/31.5	62.3/37.7	55.3/44.7	55.7/44.3	52.1/47.9	54.3/45.7	51.4/48.6	53.5/46.5	50.9/49.1
Rate Change Percent	0.00%	4.04%	3.47%	0.00%	0.00%	0.00%	0.00%	0.00%	4.00%	0.00%	2.00%
Electric Statistical/Performance Trends:											
Residential Customer (500 kWh) (1)	\$47.50	\$47.26	\$50.16	\$57.52	\$55.03	\$55.26	\$55.08	\$56.29	\$56.61	\$57.23	\$60.45
Total Residential Sales (kWh)	148,399	148,174	149,024	150,534	147,529	150,680	151,191	151,704	152,219	152,736	153,185
Commercial & Industrial Sales (kWh)	721,040	726,684	723,906	738,579	739,184	748,347	752,736	756,104	756,346	756,507	760,487
Total Kilowatt Hour Sales (kWh)	869,439	874,857	872,930	889,113	886,713	899,027	903,927	907,808	908,565	909,243	913,672
Total Sales Revenue (in Dollars)	\$68,831	\$70,719	\$76,665	\$88,279	\$93,280	\$96,229	\$96,279	\$99,325	\$100,128	\$99,694	\$107,389

NOTE: Rate increases are shown in the out years for purposes of projections only and have not been approved for implementation.

It is intended that they be reviewed closely each year in conjunction with establishing operating budgets. Utilities will continue to strive to find ways to avoid projected rate increases.

MUNICIPAL LIGHT & POWER
2006 Work Force Projections

<u>Division:</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Administration	13	13	13	13	13	13	13
Regulatory	9	9	9	9	9	9	9
Generation	67	67	71	81	91	88	85
Engineering	27	27	27	28	28	28	28
Operations	57	60	60	60	60	60	60
Customer Service	20	22	22	22	22	22	22
Finance	22	22	22	22	22	22	22
Systems & Communications	24	24	25	25	25	25	25
Subtotal	<u>239</u>	<u>244</u>	<u>249</u>	<u>260</u>	<u>270</u>	<u>267</u>	<u>264</u>
Part-Time/Temporary Positions	<u>22</u>	<u>22</u>	<u>22</u>	<u>22</u>	<u>22</u>	<u>22</u>	<u>22</u>
Total	<u>261</u>	<u>266</u>	<u>271</u>	<u>282</u>	<u>292</u>	<u>289</u>	<u>286</u>

MUNICIPAL LIGHT & POWER
2006 Operating Budget
Statement of Revenue and Expenses

	<u>2004</u> <u>Actual</u>	<u>2005</u> <u>Proforma</u>	<u>2006</u> <u>Budget</u>	<u>2007</u> <u>Budget</u>
Non-Operating Revenue				
Interest from Operating Reserve	\$13,377	\$0	\$0	\$0
Interest from Bond Redemption Cash	277,224	665,000	749,000	801,000
Interest from General Cash Pool	395,881	1,387,000	1,073,000	1,175,000
Interest from Debt Service Account	134,923	282,000	295,000	306,000
Miscellaneous Non-Operating Revenue	145,652	23,000	23,000	23,000
Restricted Interest Income	190,011	377,000	380,000	350,000
	<hr/>			
Total Non-Operating Revenue	1,157,068	2,734,000	2,520,000	2,655,000
Non-Operating Expense				
Misc. Non-Operating Expense	406,612	625,000	600,000	600,000
Interest on Bonded Debt	12,981,043	12,489,000	14,107,000	13,165,000
Amortization of Bond Discount/(Premium)	(506,031)	(664,000)	(1,525,000)	(1,430,000)
Amortization of Bond Sale Cost & Insurar	261,092	255,000	352,000	321,000
Amortization of Loss on Refunded Debt	2,272,161	2,129,000	2,361,000	2,138,000
Other Interest Expense	225	-	-	-
Interest During Construction	(213,750)	(396,000)	(491,000)	(360,000)
	<hr/>			
Total Non-Operating Expense	15,201,352	14,438,000	15,404,000	14,434,000
Transfers (MUSA)	2,065,369	2,157,000	3,669,000	3,959,000
	<hr/>			
Net Income -Before Special Item	15,606,322	14,019,000	17,642,000	18,618,000
Special Item	11,951,652	19,853,000	-	-
	<hr/>			
Net Income -After Special Item	<u>27,557,974</u>	<u>33,872,000</u>	<u>17,642,000</u>	<u>18,618,000</u>

MUNICIPAL LIGHT & POWER
2006 Operating Budget
2006 Operating Budget Detail

	2004 <u>Actual</u>	2005 <u>Proforma</u>	2006 <u>Budget</u>	2007 <u>Budget</u>
Labor Expenses				
Personnel Costs	\$10,787,596	\$12,256,000	\$13,620,000	\$14,382,000
Benefit Costs	6,551,247	7,688,000	8,568,000	9,287,000
Subtotal	17,338,843	19,944,000	22,188,000	23,669,000
Intergovernmental Expenses				
Financial Info Systems	292,344	495,000	520,000	544,000
PeopleSoft Services	533,860	312,000	205,000	169,000
Self Insurance-Workers Comp.	419,985	610,000	641,000	671,000
Mayor	212,868	296,000	311,000	326,000
Municipal Manager	88,606	131,000	137,000	144,000
Purchasing	115,781	146,000	153,000	161,000
Accounts Payable	148,578	160,000	167,000	176,000
Office of Emerg Mgmt	205,600	259,000	272,000	285,000
Other Intergovernmental Charges	812,227	1,139,000	1,195,000	1,305,000
Subtotal	2,829,851	3,548,000	3,601,000	3,781,000
Other Expenses				
Depreciation, Depletion & Amortization	16,370,898	17,710,000	27,296,000	28,613,000
Interest on Long-Term Debt	12,981,043	12,489,000	14,107,000	13,165,000
Natural Gas Purchases & Transportation	24,792,077	27,817,000	6,747,000	3,649,000
Electric Operation & Maintenance	7,565,953	6,928,000	7,391,000	7,045,000
Purchased Power	3,920,066	4,307,000	4,300,000	4,300,000
MUSA	2,065,369	2,157,000	3,669,000	3,959,000
Gas Non-Fuel Production Expense	2,181,678	2,322,000	3,383,000	2,625,000
Taxes Other than Income	1,685,506	993,000	1,494,000	1,607,000
Regulatory Compliance	696,451	742,000	833,000	861,000
Professional Services	849,761	542,000	842,000	885,000
Interest During Construction	(213,750)	(396,000)	(491,000)	(360,000)
Subtotal	72,895,053	75,611,000	69,571,000	66,349,000
Total Expenses	<u>\$93,063,746</u>	<u>\$99,103,000</u>	<u>\$95,360,000</u>	<u>\$93,799,000</u>

MUNICIPAL LIGHT & POWER
2006 - 2011 Capital Improvement Budget
(\$000s)

<u>Project Category:</u>	2006	2007	2008	2009	2010	2011	Total
Production	\$19,444	\$20,490	\$34,320	\$35,945	\$40,305	\$18,535	\$169,039
Transmission	2,975	2,635	3,125	3,135	2,085	2,920	16,875
Distribution	9,210	9,250	9,275	9,555	9,815	9,565	56,670
General Plant	9,217	5,347	4,060	3,452	3,369	3,234	28,679
Regulatory Compliance	250	50	50	50	50	50	500
Eklutna Transmission Project	13,000	-	-	-	-	-	13,000
Beluga River Gas Field	8,406	3,395	3,497	3,602	6,415	3,821	29,136
Total Capital Budget	\$62,502	\$41,167	\$54,327	\$55,739	\$62,039	\$38,125	\$313,899

<u>Source of Funding</u>	2006	2007	2008	2009	2010	2011	Total
G.O. Bonds	-	-	-	-	-	-	-
Revenue Bonds	39,080	-	47,873	-	46,896	-	133,849
Loans	-	-	-	-	-	-	-
Equity/Operations	2,016	37,772	2,957	52,137	8,728	34,304	137,914
Beluga Operations	8,406	3,395	3,497	3,602	6,415	3,821	29,136
State Grant	13,000	-	-	-	-	-	13,000
Federal Grant	-	-	-	-	-	-	-
Direct Appropriation	-	-	-	-	-	-	-
Total Capital Budget	\$62,502	\$41,167	\$54,327	\$55,739	\$62,039	\$38,125	\$313,899

*Approximately \$3.6 million in personnel costs will be spent on capital projects during 2006

*Approximately \$3.8 million in personnel costs will be spent on capital projects during 2007