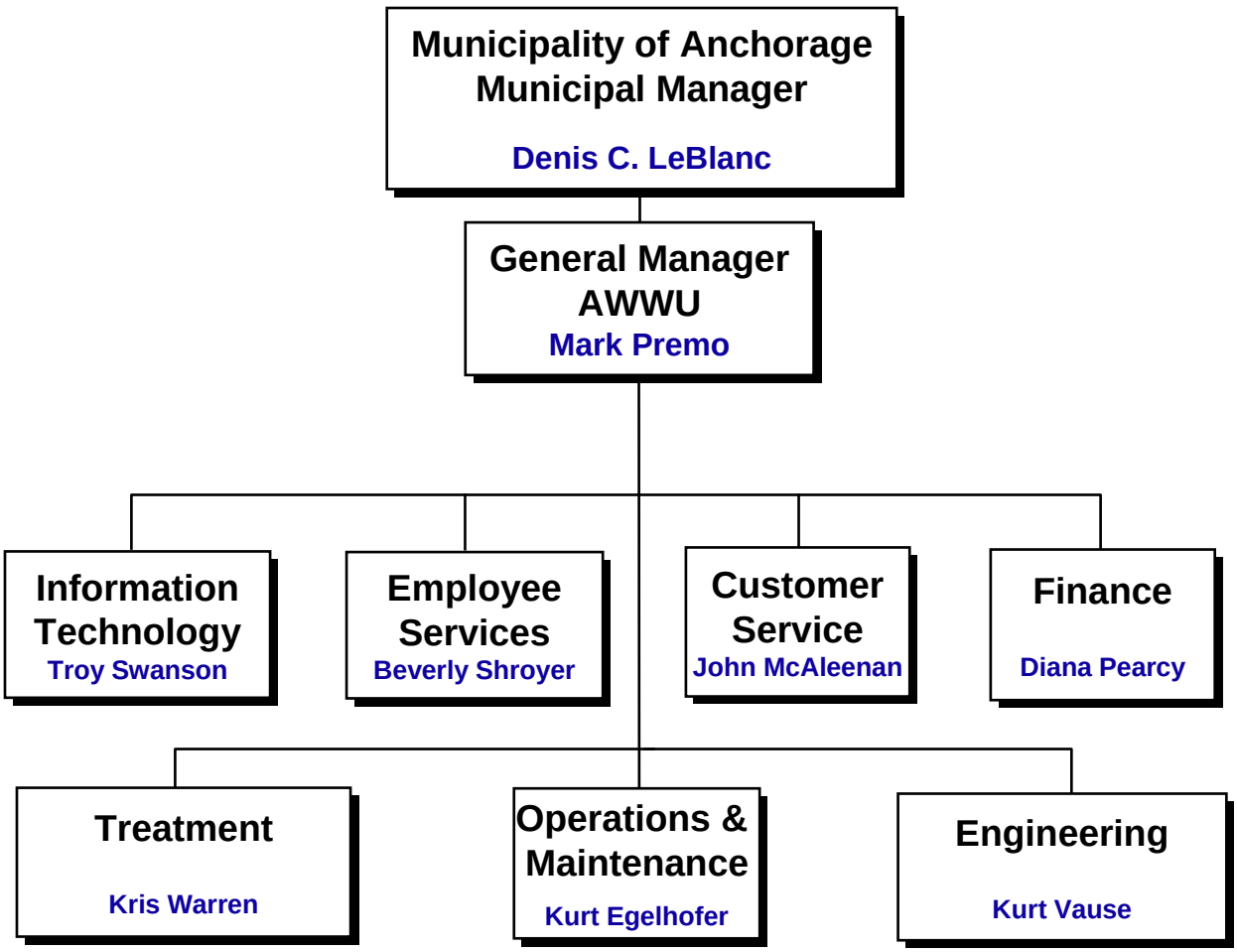
ANCHORAGE WATER & WASTEWATER UTILITY

ORGANIZATION CHART



ANCHORAGE WATER & WASTEWATER UTILITY PROFILE

ORGANIZATION: Anchorage Water and Wastewater Utility (AWWU) is the largest water and wastewater utility in the State of Alaska. The service area equals 125 square miles of metropolitan Anchorage, from Eklutna to Girdwood. The Utility collects water from two major surface watersheds and many deep underground wells. The Utility distributes water to approximately 52,600 residential, commercial, military, and industrial accounts throughout the urban areas of Anchorage. The Utility's wastewater facilities serve approximately 52,900 residential, commercial and military accounts. This represents an estimated population base of 216,800 residents who receive water service and 226,670 residents who receive sewer service. AWWU's treatment plants operate 24 hours per day, discharging treated wastewater into Cook Inlet, Eagle River and Glacier Creek. The public investment in these systems, treatment plants, mains and sewers, laboratories, and reservoirs, totals approximately $900 million. AWWU employs 266 people and spends approximately $60 million annually to operate the water and wastewater systems. Through education, training, certification programs, field experience and longevity of service, AWWU's employees are a dedicated team. Treatment plant operators, engineers, laboratory technicians, maintenance craftsmen, accountants, customer service representatives and field personnel all working together to ensure Anchorage's water and wastewater systems perform efficiently.

Although they share one workforce, the utilities are separate economic and regulated entities. A profile of each utility is shown below:

ANCHORAGE WATER UTILITY

HISTORY: From the first intake of water at Lower Ship Creek, and a few miles of woodstave water lines downtown more than 75 years ago, Anchorage's public water utility has grown into a third-of-a-billion-dollar enterprise that delivers nearly 27 million gallons of water to customers each day, for less than $1 per household. The original water system for Anchorage was installed by the Alaska Railroad in 1917. In 1921, the City purchased the water system and associated water rights from the Alaska Engineering Commission. As the City expanded by annexation, the water system was extended into new areas and independent water systems previously serving the annexed areas were acquired by the City. The entire service area is now governed by the Municipality of Anchorage as a result of unification of the City of Anchorage and the Greater Anchorage Area Borough on September 15, 1975.

SERVICE: Anchorage's water supply is dominated by two surface watershed, Eklutna Lake and Ship Creek. Several deep wells provide the Utility with supplementary sources of water. Until 2000, Ship Creek Water Treatment Plant was the main water production facility. With the shift of 24-hour operations to the Eklutna Water Treatment Facility, AWWU has realized better use of higher-pressure water and better use of personnel. The Eklutna water supply originates at Eklutna Lake, a drought-resistant natural reservoir. Fed by runoff

from Eklutna Glacier and snow-pack from the Chugach Mountains, the eight-mile long lake can supply up to 100 million gallons of water each day.

Ship Creek remains an important water source for Anchorage with the Ship Creek STP in standby mode. From spring through fall, the waters of Ship Creek are able to provide up to 24 million gallons of water per day.

The Girdwood community is served from a system of wells.

AWWU's construction program emphasizes repair and rehabilitation of its existing system and resources, and continues plans to deliver greater quantities of water to South and West Anchorage. The Utility's largest ongoing project is the construction of the Anchorage Loop Water Transmission Main. Completion of Phase IV will connect the Loop to the new Service High Reservoir and represent the final phase of the Loop project. This project began in 2001 with the formation of a Mayor appointed Task Force to gather public input and select a final route. AWWU also completed an $8 million expansion of the water system in Eagle River. This new three million gallon reservoir, two new booster stations, and new transmission main provide improved water service and fire protection to the residents of lower Eagle River Valley.

AWWU also plans to expand its service area in Girdwood Valley and is in the process of filing an application to expand the Utility's service throughout Girdwood Valley, including the Old Girdwood Townsite.

REGULATION: Since December 1970, AWU has been regulated by the Alaska Public Utilities Commission (APUC), which was renamed the Regulatory Commission of Alaska (RCA) on July 1, 1999. AWU holds a Certificate of Convenience and Necessity for serving portions of the Anchorage Bowl, Eagle River and Girdwood. This commission, prior to implementation, must approve all rates and tariffs. They also regulate service areas and service quality. The RCA is composed of five members appointed to six-year staggered terms by the Governor of the State of Alaska and confirmed by the State Legislature.

In addition to the RCA, the Anchorage Water and Wastewater Utility Advisory Commission acts as an oversight body to advise the Mayor and Assembly on Utility matters. The seven members of this Commission are appointed to staggered three-year terms by the Mayor and approved by the Assembly. Commission members annually elect a Chair and Vice-Chair. AWWU's General Manager serves as the Commission's Executive Secretary.

The Commission meets once a month to review service policies and practices and reviews the budgets and operations of AWWU and reports to the Mayor on an annual basis.

ENVIRONMENTAL MANDATES: In recent years, several federally mandated programs have directly impacted the Utility's water operating costs. The Safe Drinking Water Act, Americans with Disabilities Act, and Community Right-to-Know are some of the current and ongoing laws that impact the Utility.

PHYSICAL PLANT: AWU operates two treatment plants and operates 17 wells on an as-needed basis. Average daily water production is 22,597,170 gallons per day (gpd). AWU has the capacity to provide up to 59 million gpd. Average well production is 4,764,033 gpd. The distribution transmission system equals approximately 815 miles of waterline and 6,235 fire hydrants. Plant in Service, at cost as of December 2002: $504 million.

ANCHORAGE WASTEWATER UTILITY

HISTORY: The Alaska Engineering Commission first installed sewers in downtown Anchorage in 1916 along the lower bluff near the Alaska Railroad Depot. As Anchorage grew, construction of sewers continued and by the end of World War II, sewers were available to much of the area between Ship Creek and Chester Creek, west of Cordova Street. The Greater Anchorage Area Borough (GAAB) was created in 1964, and was granted as the area wide sewer authority. The last major private sewer utility was acquired by the GAAB in 1972. The Utility is now owned and governed by the Municipality of Anchorage as a result of unification of the City of Anchorage and the Greater Anchorage Area Borough on September 15, 1975.

SERVICE: Anchorage's enjoyment of drinking water is just one part of the AWWU system. After the day's water is used, it must be treated before it is returned to the environment. The creeks and inlets downstream from Anchorage's wastewater treatment plants are not adversely impacted by treated effluent, which is AWWU's principal measure of success. The Anchorage community benefits from the superior operation of the three wastewater treatment plants that serve its growing population.

For every contaminant that finds its way into the water from the activities of man or natural forces, there is a process to remove it, although some processes are so costly that the contaminants must be controlled at the source. Toxic chemical compounds, floating sediments and particles, human waste, grease and oils, bacteria and other debris; none of these are acceptable in public waters.

Like thousands of utilities across the nation, Anchorage Wastewater Utility is achieving higher levels of treatment more efficiently and more effectively than was possible even 10 years ago. While the technology of screening the waste, employing "specialized" bacteria to absorb dissolved solids, and disinfecting the "final product" remains the same, treatment standards have become more stringent.

REGULATION: Since 1971, the Anchorage Wastewater Utility has been regulated by the Alaska Public Utilities Commission (APUC), which was renamed the Regulatory Commission of Alaska (RCA) on July 1, 1999. The Utility holds a Certificate of Convenience and Necessity for serving the Anchorage Bowl, Eagle River, and Girdwood. This commission, prior to implementation, must approve all rates and tariffs. They also regulate service areas and service quality. The RCA is composed of five members appointed to six-year staggered terms by the Governor and confirmed by the State Legislature.

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The Commission meets once a month to review service policies and practices and reviews the budgets and operations of AWWU and reports to the Mayor on an annual basis.

ENVIRONMENTAL MANDATES: In recent years there have been several federally mandated programs that directly impact the Wastewater Utility's operating costs. The Clean Water Act, Americans with Disabilities Act, Community Right-to-Know and the Clean Air Act are some of the current and on going laws that impact the Utility.

The Asplund Wastewater Treatment Facility uses primary treatment techniques. Extreme tides and natural water flow of Cook Inlet enable these wastewater discharges to be diluted with no adverse effect to the environment. The dynamics of Cook Inlet's currents and tides -- coupled with primary treatment and chlorination -- have enabled Anchorage to receive a waiver from secondary treatment standards from the U.S. Environmental Protection Agency (EPA). To continue operating under the waiver, AWWU maintains an extensive marine monitoring program that verifies there are no negative environmental impacts to the receiving waters of Cook Inlet. The Utility was granted renewed discharge permits for all three of its wastewater treatment facilities.

PHYSICAL PLANT: The Wastewater Utility operates three treatment plants. In 2002, the Asplund Wastewater Treatment Facility treated an average 29.3 million gallons per day (mgd). Eagle River Wastewater Treatment Facility treated an average 1.49 mgd and the Girdwood Wastewater Treatment Facility treated .49 mgd. In Girdwood and Eagle River, the wastewater utility's plants are modern, tertiary (three-stage) plants that discharge effluent of virtual drinking water quality into Glacier Creek and Eagle River. The facilities have a capacity of 61.5 mgd. Plant in Service, at cost as of December 2002: $397 million.

The collection system has approximately 713 miles of lines. With its expansion in 1991, the Eagle River Plant has the capacity to provide for growth to the year 2010. The Girdwood Plant upgrades were completed in 1998, which provide an additional 20 years of sufficient capacity for the resort community.

The Asplund Facility, built in 1972, is Alaska's largest wastewater treatment plant. As wastewater treatment technology and the demands of community growth have developed over the last two decades, utility operators and engineers have kept pace. The Asplund plant was upgraded in 1982, and expanded and upgraded again in 1989. Ingenuity and vigilant maintenance have consistently enabled the Utility to operate this facility at its optimum level.

In conjunction with the permit renewal process, a facilities plan update was prepared in 1999. The facilities plan evaluated the existing condition of the facilities and improvements to meet treatment facility capacity requirements. The facilities plan

identified $15 million worth of improvements to the solids handling, headworks, administration, incineration, and thickening process areas of the facility. Construction of new solids handling improvements including sludge dewatering, storage and load out facilities was completed in 2001. Design of headworks improvements began in September 2002 with construction during 2003 & 2004. Future projects to complete the work identified in the 1999 Facilities Plan are listed in AWWU's 6-year Capital Improvement Program.

ANCHORAGE WATER & WASTEWATER
2004
OPERATING & CAPITAL BUDGET ASSUMPTIONS

Below are the general budget assumptions provided by the Office of Management and Budget, plus specific AWWU assumptions, used in the preparation of the Anchorage Water Utility and Anchorage Wastewater Utility 2004 Operating and Capital Budgets.

REGULATION
Assume continued economic regulation by the Regulatory Commission of Alaska (RCA).

UTILITY OWNERSHIP
Assume continued Municipal ownership in 2004.

RATE INCREASES
No rate increases should be proposed in 2004 unless all possible budget reductions have been first fully considered and if one or more of the following conditions can be demonstrated:

- Debt service coverage not adequate.
- Projected cash reserves for working capital not adequate on a sustained basis to cover operating costs during 2003/04. (NOTE: a 45-day reserve of working capital should not be a deciding factor in judging the adequacy of the reserve cash since the Utility may temporarily borrow from the general fund cash pool for unforeseen events.)
- Debt/equity ratio projected to fall below criteria established by the regulatory body authorized to oversee the utility.
- Increased rate revenue is determined to be the most prudent funding source for maintaining the utility's plant in a cost-effective working condition.

MUNICIPAL UTILITY SERVICE ASSESSMENT (MUSA)
Assume mill rates for MUSA/MESA to be the same as 2003 mill rates.

REVENUE DISTRIBUTIONS
None.

INTEREST
Assume debt service for new insured 20-year GO bonds as well as new insured revenue bonds to be 5.0% - 5.50%. Short-term interest income should be calculated assuming a rate of 1.00% - 1.5%.

INTRAGOVERNMENTAL CHARGES (IGCs)
Assume no change in IGCs from General Government over that level contained in the Revised 2003 General Government Operating Budget. The timeframe from OMB to provide utilities with General Government IGC information is "subject to change," as noted on the budget schedule. OMB intends to finalize 2004 IGC methodologies and rates by

late September. Utilities should expect to develop their 2004 budgets without the benefit of 2004 IGC information from General Government.

The only IGC *increases* which utilities may budget in 2004 are those that relate to special projects or other work engagements specifically requested (or known) by the utility to occur in 2004. Any IGC *increases* proposed by utilities must be tangible and justified.

POPULATION

Assume that Anchorage's population will be approximately 269,070 in 2003 and 273,779 in 2004.

INFLATION

In general, inflation (CPI – all urban consumers) is anticipated to approximate 2.0% in 2004. Each utility, however, may apply applicable inflation rates to particular commodities purchased, if necessary.

COMPENSATION COSTS (Salaries and Benefits)

For budgetary purposes assume increases for JCC, IBEW and AMEA per contract requirements. Non-Reps, assume the same as for AMEA and Execs, assume no increase.

2004 BUDGET IMPACTS/ASSUMPTIONS SPECIFIC TO AWWU

- AWWU will request that the RCA imposed dividend restrictions from AWWU to MOA be lifted. If approved by the RCA, AWWU will pay the 1.25% gross receipts portion of MUSA, per AMC 26.10.025(C), beginning in 2004.

- MOA will request Assembly approval of an amendment to AMC 26.10.025(C) in 4th quarter 2003 so that MUSA will be calculated on net plant, including both non-contributed and contributed plant (phased in over two years; 35% in 2004 and 65% in 2005). AWWU will pay an additional annual $6.1 million in MUSA when this is fully implemented.

- AWU will implement an interim, refundable rate increase of 12.5%, effective 1st quarter 2004. ASU will implement an interim, refundable rate increase of 4.5%, also effective 1st quarter 2004. The increase in rates will be necessary to fund the Utilities capital programs, to pay for increases in operating expenses, including the new MUSA calculation and to generate Net Income to pay dividends to the MOA. Rate increases will also be necessary in 2005 as a result of the increased MUSA payments.

- The Utility will sell revenue bonds in 4th quarter 2003, or 1st quarter 2004 of approximately $35,000,000. Debt service on the wastewater revenue bonds will be deferred for three years.

ANCHORAGE WATER AND WASTEWATER UTILITY
HIGHLIGHTS AND FUTURE EVENTS

AWWU Continuous Improvement

AWWU has a mature continuous improvement program that was initiated in 1998 as the Excellence Adventure. A ten member employee team, the Continuous Improvement Team, guides the process under the vision of the AWWU Leadership Team. Working together successfully with ten Utility-wide reengineering teams and seven Division Level of Service-Performance Measurement teams, the employees and managers of AWWU are developing a more efficient and competitive business operation.

The original goal was to reduce operating costs $2.016 million by December 31, 2002 through a process of employee involvement and continuous improvement. The process has proven successful in increasing employee involvement and combined water and sewer operating cost reductions saved a cumulative $7,262,000 from 1999 thru 2002. Many of the cost reductions are recurring and will continue long into the future.

Anchorage Loop Water Transmission Main

The “Loop” will supply water from the Eklutna Water Treatment Facility through a system of large diameter, high-pressure water transmission mains constructed in the Anchorage Bowl. When complete, the Loop will eliminate areas without water or with low water pressure during periods of high water demand within the bowl. The Loop is an eight phase project, with all phases complete except one, Phase IV. The need to complete this phase is critical for AWWU to meet its customer’s water supply needs in southeast and southwest Anchorage. With necessary permits now in hand, the final phase is moving forward.

Phase IV will extend from the Tudor Reservoir Tanks, near Campbell Airstrip Road, west along the south side of Tudor Road to Bragaw Street. Construction is planned to begin late in 2004 after contracts have been awarded and material purchased with completion in 2005. From Bragaw northward, the 48-inch water line will be built in combination with the State of Alaska Department of Transportation Bragaw Street extension, Tudor Road to Abbott Loop Road. Phase IV will most likely be completed in sections, as it parallels the road project, and will cost an estimated $30 million when complete.

The Loop Project began prior to 1996 when Phase VIII was completed. A transmission main was extended along the eastern boundary of International Airport Road from west Turnagain to Sand Lake, where the 5 million gallon Kincaid Reservoir was built. The project cost for Phase VIII was $9 million.

Phases I – III, from the Ship Creek Water Treatment Facility to the Tudor Reservoir Tanks, was completed in 1997 at a cost of $21 million. Approximately 60% of the financing for these phases came from State of Alaska grants.

Phase V, from Abbott Loop Road to 88th Avenue and the 10 million gallon Service Reservoir, was completed and placed on-line in October 2001. The total project cost for Phase V and the reservoir was approximately $10 million.

Phase VII connects new water lines in Sand Lake to the existing system. Surface restoration was finished in summer 2000. Total project cost for Phase VII was $7 million.

Phase VI of the Loop, connects Phase VII to a transmission main at Dimond Boulevard. Total cost of this phase was $5 million and completed in fall 2001.

System Expansions – Northern Communities and Girdwood

Expansion of the existing AWWU water system in the South Chugiak area is underway, with route selection and preliminary design already initiated. Sewer improvements are also planned for portions of North Eagle River, north of Fire Lake, and South Chugiak also.

These improvements will be coordinated with large water and sewer improvement districts created in 2003 to serve a portion of South Chugiak between the New and Old Glenn Highways. This project also includes coordination of sewer improvements to Chugiak High and Birchwood Elementary Schools. Construction is anticipated to start in 2004, which will include multiple construction projects, and is anticipated to be complete by the end of 2005.

In Eagle River, AWWU will be work cooperatively with the Anchorage School District (ASD) to extend public facilities to the new Eagle River High School. AWWU will be involved in extending water transmission and sewer mains so the new school is afforded public services when needed. This project was started in 2003 and will be complete by 2005.

In addition, water system improvements in Girdwood are underway and include expansion of a transmission main to extend service to the New Girdwood Townsite area. This project began with design in 2001. Construction to the new Townsite area and Girdwood School is anticipated to be complete by 2004. Subsequent phases of the water system expansion beyond the School are to be performed in later years to complete a looped water system for the upper Girdwood Valley.

Inclusive of local match, total funding for these projects is nearly $11 million for the Northern Communities projects, $1.9 million for the extensions near Eagle River High School, and over $8 million in the Girdwood Valley. Federal grants, ASD funds and assessments to benefited property owners provide a majority of these project's funds.

Asplund Wastewater Treatment Facility Modifications

Working to implement the results of an earlier Wastewater Facilities Plan effort, AWWU is undertaking a phased upgrade to the J.M. Asplund Wastewater Treatment Facility. The Asplund facility is the wastewater plant serving the Anchorage Bowl and also processes concentrated wastewater solids trucked from AWWU's other treatment facilities in Eagle River and Girdwood. The current phases of work include renovation of the Headworks area, and will be followed by process improvements to its sludge, scum

handling and chemical feed systems. In addition, AWWU will undertake control modifications to its multiple-hearth incinerator. Work which had begun in 2003 will result in the construction of headworks improvements in 2004-2005. In addition, AWWU is planning to begin design of the sludge, scum and chemical feed systems in 2004, leading to construction in 2005-06. Finally, Incinerator controls will be upgraded in 2004 and work will begin on modifications and upgrades to the incinerator shell.

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Water Treatment Facility Disinfection Improvements

Starting in 1999, AWWU undertook a comprehensive evaluation of its disinfection methods for Anchorage's municipal water supply. Based on life-cycle comparisons, AWWU decided to implement process improvements at its two Surface Water Treatment Facilities, the Eklutna and Ship Creek Water Treatment Facilities. The new disinfection process selected for both facilities employs on-site generation of sodium hypochlorite disinfectant solution using a salt as feedstock, which replaces hazardous gaseous chlorine. The new processes will provide long-term savings over the existing systems and eliminate the potential dangers associated with chlorine gas.

The projects completed in 2001 - installing new on-site generation equipment; new salt storage facilities; and removal of existing gaseous chlorine feed equipment at both facilities; have met all expectations in the two years this equipment has been in operational. These facilities will also serve as suppliers of sodium hypochlorite solution for several small wells operated by the Utility. The larger wells will be equipped with on-site generation systems similar to those installed at the two treatment facilities, only considerably smaller. Over the next five years, all of the gaseous chlorine used by AWWU for disinfecting drinking water will be replaced by sodium hypochlorite disinfectant.

Information Technology

The IT Division will continue to integrate the implementation of the Utility's Relational Database Management System (RDBMS) and other relational databases with the MOA People Soft modules in 2003/2004. The RDBMS conceptual design model will be used to provide a basic data structure and document the actual implementation of integrated systems.

The IT Division will promote the use of Internet technology within the Utility in the continued development and implementation of Intranet/Internet applications along with Geospatial enabling technologies through 2004. These applications and data will be used to enhance communication and electronic reporting by allowing real-time access to dynamic data through the use of browser technology, creating an Intranet/Internet portal to the Utility's electronic information. This will reduce training time due to the ability to access data from different systems and present it in a straightforward manner through easy to use browser screens.

The Treatment Division will continue a series of projects that will replace several aging Supervisory Control and Data Acquisition (SCADA) systems originally installed in the late 1980s. The project to develop a design specification base was awarded in 2001. Construction and implementation of replacement SCADA and telemetry systems began in 2002 and will continue through 2005. Construction and implementation of a replacement SCADA system for the water distribution system is a Utility priority.

The AWWU IT Master Plan is updated annually to reassess priorities and evaluate the applicability of technological advances to AWWU's business. The purpose of the Utility's information technology strategic plan is to provide a long-range strategy and a six-year planning horizon to incorporate information technologies into the Utility's business processes in a cost-effective manner. The objective is to provide a strategy to transform AWWU into a Utility whose information technologies are seamlessly integrated and maintain the most appropriate level of information technology utilization within the Utility. The ultimate goal is to provide effective information management services and facilities that provide a long-term benefit to our customers at the most reasonable cost.

Utility Network Enhancements

AWWU will upgrade its email, servers and network services to better serve the rate-payer. AWWU has worked with the MOA Information Technology Department (ITD) on the planned changes. AWWU Email and the Microsoft Servers will be transitioned to a new private AWWU network and domain such that they can be configured to engage in a Business-to-Business (B2B) relationship with the MOA, our vendors and directly service the rate-payer. The AWWU network will also be reconfigured to be directly connected to the Internet through the appropriate application of security to provide the rate-payer with an enriched set of services to include bill presentment and payment, the ability to publicly participate in capital projects, and otherwise communicate with the Utility in an interactive electronic manner.

Electronic Timecards

AWWU will be implementing a new pre-payroll timecard system that reduces paper processes, provides for the single entry of data and affords the Utility the opportunity to enhance significantly the ability to track labor by activity. Specifically, the Utility currently enters labor data into the Maximo product, a Work Management System, as well as the PeopleSoft payroll system. The new timecard system will permit employees to enter detailed labor data once centrally, populating Maximo and PeopleSoft systems through electronic workflow. The new electronic timecard system will allow the Utility to truly capture the labor detail necessary to fully realize the power of tracking operational and

maintenance activities and employing activity based costing (ABC) financial reporting. This project will be substantially completed by the end of the fourth quarter 2003.

Software Application Services

The Utility will initiate a professional services contract with one or more vendors to provide the necessary support to implement the Utility's various IT related projects. This contract vehicle will provide the necessary contract skills to implement the Utility's IT Master Plan initiatives in the next twelve months. Projects include major upgrades, enhancements and new interfaces to AWWU's automated tools such as; Locates, Connections, Geospatial Portal, Complaint Tracking, and Intranet/Internet Websites. These have been planned through the IT planning effort and are expenditures of capital funds to implement new systems or enhance and upgrade existing applications.

Maximo Software Upgrade

The Operations & Maintenance Division is the primary sponsor for the Utility's Work Management System (WMS) from MRO with the product name of Maximo. Maximo is a full-featured maintenance management software product, and a major AWWU system that became fully operational in the year 2001. In 2004 AWWU will initiate a professional services contract with a vendor to support the upgrade of Maximo to its new version. This is a major upgrade that must be accomplished in an orderly and timely manner to maintain and retain the service license and support. The current Client/Server system will be upgraded to a Java based Web Client that will require reconfiguring screens, some updating of report tools and a moderate amount of database work.

Customer Service

The Customer Service Division began the process to replace its Customer Information and Billing System (CIS) in 2003. The current system and the technology used to administer and maintain is old and out of date. Not only is the existing system using older technology that is not compatible with the Utility's other systems, it has become expensive to operate with regard to service charges, contract support and internal labor. AWWU has selected a vendor for the new multi-million dollar CIS who will start the implementation process during the fourth quarter of 2003. The goal is to have a new operational system by the end of 2004. The new system will provide a tremendous number of opportunities in areas such as bill presentment on the Internet, integration with other Utility applications and current technology user interfaces.

The Customer Service Division started the implementation of the two-year Automated Meter Reading project in June 2002. AWWU is on schedule to acquire and install 8,000 new meter remotes for customers using radio technology and the mobile receiving equipment to "read" the meters in a "drive-by" environment. This will allow the Utility to read meters more efficiently and provide the metered customer with a more timely and accurate billing account.

ANCHORAGE WATER UTILITY

11-YEAR SUMMARY

UTILITY FORMAT - 2004 OPERATING BUDGET ($ in Thousand's)

	Actual				Proforma	Budget	Forecast				
Financial Overview	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Revenues	30,382	31,068	30,725	31,159	31,180	**35,488**	38,695	42,316	43,835	46,150	47,402
Expenses	26,101	25,097	25,489	27,238	28,968	**31,974**	34,629	36,361	37,346	38,422	39,684
Net Income (Regulatory)	4,281	5,971	5,236	3,921	2,212	**3,514**	4,066	5,955	6,489	7,728	7,718
Dividends to General Government	0	0	0	0	0	**383**	435	475	513	531	566
Workforce Authorized per Budget	269.5	265.5	265.5	266.5	267.0	**270.5**	270.5	266.5	266.5	266.5	266.5
Capital Improvement Program*	13,717	17,661	12,593	12,629	15,223	**27,518**	20,503	18,912	18,834	32,524	28,004
New Debt	15,000	8,402	5,007	1,603	21,676	**5,000**	17,500	40,000	15,500	21,500	25,000
Net Plant (12/31)	327,999	332,615	347,645	344,790	343,562	**336,834**	339,140	350,523	341,019	350,285	358,468
Retained Earnings (12/31)	41,245	47,216	52,453	56,374	58,586	**62,100**	66,166	72,121	78,610	86,338	94,056
Operating Cash	12,624	9,778	10,109	12,613	5,557	**5,733**	4,995	4,854	5,797	6,782	6,615
Construction Cash Pool	5,500	296	158	(7,992)	9,738	**(69)**	(161)	764	(86)	842	(185)
Restricted Cash	8,751	10,000	10,913	7,880	7,880	**8,280**	8,980	9,680	10,380	10,980	11,580
Total Cash	26,875	20,312	21,179	12,501	23,175	**13,943**	13,813	15,298	16,090	18,604	18,010
IGC's - General Government	1,400	1,447	1,487	1,717	1,921	**1,921**	1,940	1,940	1,960	1,960	1,979
MUSA	1,561	1,568	1,644	1,912	1,920	**3,137**	5,378	5,432	5,541	5,651	5,765
Total Outstanding Debt	113,865	112,098	112,903	109,606	126,066	**125,388**	136,254	168,256	176,280	189,111	204,306
Total Annual Debt Service	11,644	19,464	9,859	10,666	11,079	**11,623**	13,056	15,720	15,821	17,836	19,808
Debt Service Coverage (overall)	1.33	1.00	1.70	1.42	1.21	**1.30**	1.22	1.22	1.29	1.26	1.18
Debt/Equity Ratio	73 / 27	70 / 30	68 / 32	66 / 34	68 / 32	**67 / 33**	67 / 33	70 / 30	69 / 31	69 / 31	68 / 32
Rate Change Percent						**12.50%**	7.00%	9.00%		5.00%	
Single Family Rate	$25.80	$25.80	$25.80	$25.80	$25.80	**$29.03**	$31.06	$33.85	$33.85	$35.54	$35.54
Statistical/Performance Trends:											
Number of Customers	50,257	50,952	51,847	52,620	53,404	**54,200**	55,008	55,828	56,600	57,504	58,366
Average Treatment (GPD) (000)	26,100	25,900	26,608	27,000	27,500	**28,000**	28,500	29,000	29,500	30,000	30,500
Miles of Water Lines	791	802	811	815	830	**836**	844	850	856	860	865
Number of Hydrants	5,907	5,963	6,024	6,087	6,162	**6,209**	6,271	6,319	6,370	6,404	6,436

*1999-2003 reflect actual capital expenditures. 2004-09 is Capital Improvement Program.

NOTE: Rate increases shown in the out years are projections, and have not been approved for implementation. The need for rate increases will be reviewed each year in conjunction with annual operating budgets.

ANCHORAGE WASTEWATER UTILITY

11-YEAR SUMMARY

UTILITY FORMAT - 2004 OPERATING BUDGET ($ in Thousand's)

	Actual				Proforma	Budget	Forecast				
Financial Overview	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Revenues	25,450	25,720	24,848	25,594	25,564	27,025	29,826	31,686	32,330	33,513	34,274
Expenses	21,390	21,012	21,285	20,190	22,544	26,627	28,605	29,213	29,975	30,892	32,007
Net Income (Regulatory)	4,060	4,707	3,563	5,404	3,020	398	1,221	2,473	2,355	2,621	2,267
Dividend to General Government	0	0	0	0	0	317	335	370	400	410	422
Workforce Authorized per Budget	269.5	265.5	265.5	266.5	267.0	270.5	271	267	267	266.5	266.5
Capital Improvement Program*	4,368	7,143	10,451	12,152	12,816	16,553	18,208	21,557	18,254	16,044	23,009
New Debt (Bonds, Loan Fund)	5,286	1,138	6,044	1,850	26,931	11,000	15,500	16,000	14,500	15,500	17,500
Net Plant (12/31)	242,701	238	245	243,287	240,124	233,169	225,381	216,692	207,032	196,323	184,484
Retained Earnings (12/31)	22,806	27,513	31,076	36,480	39,500	39,897	41,118	43,591	45,946	48,567	50,834
Operating Cash	5,978	7,164	9,629	11,184	11,777	9,851	8,418	5,896	5,655	5,265	4,803
Construction Cash Pool	3,851	152	(4,183)	(13,042)	3,652	104	293	297	35	(77)	474
Restricted Cash	445	386	744	460	660	860	1,060	1,260	1,560	1,760	2,060
Total Cash	10,174	7,702	6,190	(1,397)	16,090	10,816	9,772	7,454	7,251	6,949	7,338
IGC's - General Government	1,056	998	1,532	1,673	2,132	2,132	2,153	2,153	2,175	2,175	2,196
MUSA	1,120	1,085	1,113	1,191	1,224	2,198	3,997	4,037	4,118	4,200	4,284
Total Outstanding Debt	57,206	52,203	52,188	47,828	67,937	72,067	80,160	88,390	98,084	107,970	119,593
Total Annual Debt Service	9,249	9,293	8,669	8,911	8,502	8,338	9,093	11,130	8,585	9,997	10,305
Debt Service Coverage (overall)	1.26	1.37	1.35	1.31	1.22	1.00	1.01	1.00	1.28	1.18	1.17
Debt/Equity Ratio	66 / 34	60 / 40	58 / 42	52 / 48	59 / 41	61 / 39	63 / 37	64 / 36	65 / 35	66 / 34	67 / 33
Rate Change Percent		-2.75%				4.50%	11.00%	3.00%		3.00%	
Single Family Rate	$21.80	$21.20	$21.20	$21.20	$21.20	$22.15	$24.59	$25.33	$25.33	$26.09	$26.09
Statistical/Performance Trends:											
Number of Customers	50,560	51,343	52,087	52,889	53,703	54,530	55,370	56,223	57,089	57,968	58,837
Average Treatment (GPD) (000)	30,400	31,350	29,800	31,500	32,000	32,500	33,000	33,500	34,000	34,500	35,000
Miles of Wastewater Lines	700	702	707	713	719	724	731	737	742	746	750

*1999-2003 reflect actual capital expenditures. 2004-09 is Capital Improvement Program.

NOTE: Rate increases shown in the out years are projections, and have not been approved for implementation. The need for rate increases will be reviewed each year in conjunction with annual operating budgets.

ANCHORAGE WATER & WASTEWATER UTILITY
WORK FORCE PROJECTIONS

DIVISIONS	2001	2002	2003	2004	2005	2006	2007	2008
MANAGER	5	5	5	5	5	5	5	5
EMPLOYEE SERVICES	7	7	7.5	7.5	7.5	7.5	7.5	7.5
INFORMATION TECH	16	16	16	16	16	16	16	16
OP & MAINTENANCE	81	82	82	81.5	81.5	81.5	81.5	81.5
TREATMENT	59	59	59	59	59	59	59	59
FINANCE	18	18	18	18	18	18	18	18
ENGINEERING	31	31	31	31	31	31	31	31
CUSTOMER SERVICE	43	43	43	47 *	47 *	43	43	43
TOTAL FULL TIME	260	261	261.5	265	265	261	261	261
TEMPORARY FTE'S	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
TOTAL FTE'S	265.5	266.5	267	270.5	271	267	266.5	266.5

* 4 Positions to backfill staff working on CIS project

ANCHORAGE WATER UTILITY
STATEMENT OF REVENUE AND EXPENSES

	2002 ACTUAL	2003 PROFORMA	2004 BUDGET
OPERATING REVENUE			
RESIDENTIAL SALES	20,295,245	20,536,000	23,458,000
COMMERCIAL SALES	6,377,958	6,412,000	7,324,000
PUBLIC FIRE PROTECTION	2,475,000	2,475,000	2,758,000
HYDRANT USE CHARGE	177,781	162,000	181,000
MISCELLANEOUS	1,040,180	1,065,000	1,187,000
TOTAL OPERATING REVENUE	30,366,164	30,650,000	34,908,000
OPERATING EXPENSES			
SOURCE OF SUPPLY	2,458,444	1,992,000	2,390,000
TREATMENT	2,812,015	3,404,000	3,014,000
TRANSMISSION	3,517,259	3,579,000	4,232,000
CUSTOMER ACCOUNTS	1,743,769	1,945,000	2,041,000
GENERAL & ADMINISTRATIVE	4,897,421	6,142,000	6,842,000
DEPRECIATION *	4,008,342	3,900,000	3,939,000
MUSA	1,911,709	1,920,000	3,137,000
TOTAL OPERATING EXPENSE	21,348,959	22,882,000	25,595,000
OPERATING INCOME	9,017,205	7,768,000	9,313,000

* Depreciation of contributed plant not included.

ANCHORAGE WATER UTILITY
STATEMENT OF REVENUE AND EXPENSES

NON-OPERATING REVENUE	2002 ACTUAL	2003 PROFORMA	2004 BUDGET
RENTAL INCOME	30,951	0	0
INTEREST - INCOME	762,000	530,000	580,000
MISC INCOME	0	0	0
TOTAL NON-OPERATING REVENUE	792,812	530,000	580,000
NON-OPERATING EXPENSE			
AMORT DEFERRED DEBITS/DISCOUNTS	850,401	850,000	850,000
INTEREST - BOND	5,313,770	5,435,000	5,524,000
INTEREST - SRF LOANS	362,709	451,000	654,000
CAPITALIZED INTEREST	(638,201)	(650,000)	(650,000)
TOTAL NON-OPERATING EXPENSE	5,888,679	6,086,000	6,378,000
NON-OPERATING INCOME	(5,095,867)	(5,556,000)	(5,798,000)
NET INCOME (REGULATORY)	3,921,338	2,212,000	3,515,000
ADJUSTMENT FOR GAAP	5,269,376	5,223,000	5,275,000
NET INCOME (LOSS) GAAP	(1,348,038)	(3,011,000)	(1,760,000)

ANCHORAGE WATER UTILITY
STATEMENT OF SOURCES AND USES OF CASH

	2002 ACTUAL	2003 PROFORMA	2004 BUDGET
SOURCES OF CASH:			
NET INCOME (LOSS) GAAP	(1,348,038)	(3,011,000)	(1,761,000)
DEPRECIATION	9,277,718	9,123,000	9,214,000
BOND PROCEEDS	0	13,200,000	0
STATE LOANS	1,603,257	8,476,000	5,000,000
AMORT/DEFERRED DEBITS/DISCOUNTS	850,401	850,000	850,000
GRANTS	1,789,582	1,852,000	5,674,000
CONTRIBUTIONS FROM OTHERS	637,981	600,000	600,000
OTHER	(3,960,137)	23,000	(150,000)
TOTAL SOURCES OF CASH FUNDS	8,850,764	31,113,000	19,427,000
USES OF CASH:			
ADDITIONS TO PLANT	12,629,219	15,223,000	22,981,000
DEBT PRINCIPAL PAYMENT	4,900,215	5,216,000	5,678,000
TOTAL USES OF CASH FUNDS	17,529,434	20,439,000	28,659,000
NET INCREASE(DECREASE) IN CASH FUNDS	(8,678,670)	10,674,000	(9,232,000)
CASH BALANCE JANUARY 1	21,179,266	12,501,000	23,175,000
CASH BALANCE DECEMBER 31	12,500,596	23,175,000	13,943,000
DETAIL OF CASH BALANCE:			
EQUITY IN CAPITAL ACQUISITION ACCT	(7,992,426)	9,738,000	(69,000)
RESTRICTED CASH ACCOUNTS	7,880,139	7,880,000	8,280,000
EQUITY IN GENERAL CASH POOL	12,612,883	5,557,000	5,733,000
TOTAL CASH DECEMBER 31	12,501,000	23,175,000	13,943,000

ANCHORAGE WATER UTILITY
2004 OPERATING BUDGET DETAIL

	2002 ACTUAL	2003 PROFORMA	2004 BUDGET
LABOR			
Wages	6,390,000	6,805,000	7,158,000
Benefits	2,126,000	2,917,000	3,525,000
Subtotal	8,516,000	9,722,000	10,683,000
SUPPLIES			
Chemicals	307,000	286,000	356,000
Plant, Shop, & Office Expense	1,065,000	1,236,000	1,223,000
Subtotal	1,372,000	1,522,000	1,579,000
INTRAGOVERNMENTAL CHARGES			
Finance Dept	510,000	651,000	651,000
Information Technology Dept	522,000	560,000	560,000
Employee Relations Dept	162,000	178,000	178,000
Other	523,000	532,000	532,000
Subtotal	1,717,000	1,921,000	1,921,000
OTHER SERVICES			
Contingency	0	350,000	350,000
Professional Services	282,000	350,000	370,000
Rent/Leases	779,000	720,000	700,000
Utilities	1,495,000	1,800,000	1,900,000
Contracted Mtnce/Repair	996,000	715,000	730,000
Operating Expense Transfer to CWIP	(366,000)	(370,000)	(390,000)
Other	638,000	332,000	676,000
Subtotal	3,824,000	3,897,000	4,336,000
OTHER EXPENSES			
Depreciation & Amortization	9,278,000	9,123,000	9,214,000
MUSA	1,912,000	1,920,000	3,137,000
Interest on Long-Term Debt	5,676,000	5,886,000	6,179,000
Capitalized Interest	(638,000)	(650,000)	(650,000)
Amort Deferred Debits/Discounts	850,000	850,000	850,000
Subtotal	17,078,000	17,129,000	18,730,000
TOTAL EXPENSES	32,507,000	34,191,000	37,249,000

ANCHORAGE WASTEWATER UTILITY
STATEMENT OF REVENUE AND EXPENSES

	2002 ACTUAL	2003 PROFORMA	2004 BUDGET
OPERATING REVENUES			
RESIDENTIAL SALES	18,677,415	18,570,000	19,673,000
COMMERCIAL SALES	4,638,256	4,913,000	5,204,000
PUBLIC AUTHORITIES	955,930	794,000	827,000
MISCELLANEOUS	1,098,350	1,077,000	1,121,000
TOTAL OPERATING REVENUE	25,369,951	25,354,000	26,825,000
OPERATING EXPENSES			
COLLECTION	2,379,848	2,641,000	2,952,000
TREATMENT	5,464,933	5,758,000	6,659,000
CUSTOMER ACCOUNTS	1,401,627	1,648,000	1,715,000
GENERAL & ADMINISTRATIVE	4,943,237	5,398,000	7,002,000
DEPRECIATION *	3,586,282	3,900,000	3,939,000
MUSA	1,191,166	1,224,000	2,198,000
TOTAL OPERATING EXPENSES	18,967,093	20,569,000	24,465,000
OPERATING INCOME	6,402,858	4,785,000	2,360,000

* Depreciation of contributed plant not included.

ANCHORAGE WASTEWATER UTILITY
STATEMENT OF REVENUE AND EXPENSES

NON-OPERATING REVENUE	2002 ACTUAL	2003 PROFORMA	2004 BUDGET
RENTAL INCOME	0	0	0
INTEREST - GENERAL CASH POOL	65,079	60,000	50,000
INTEREST - CAPITAL ACQUISITION ACCOUNT	0	0	0
INTEREST & PENALTY ON ASSESSMENTS	158,906	150,000	150,000
MISC INCOME	0	0	0
TOTAL NON-OPERATING REVENUE	223,985	210,000	200,000
NON-OPERATING EXPENSE			
AMORT DEFERRED DEBITS/DISCOUNTS	447,809	450,000	450,000
INTEREST - LONG TERM DEBT	1,318,515	1,484,000	1,558,000
INTEREST - OTHER	(35,480)	576,000	904,000
CAPITALIZED INTEREST	(507,880)	(535,000)	(750,000)
TOTAL NON-OPERATING EXPENSE	1,222,964	1,975,000	2,162,000
NON-OPERATING INCOME	(998,979)	(1,765,000)	(1,962,000)
NET INCOME (REGULATORY)	5,403,879	3,020,000	398,000
ADJUSTMENT FOR GAAP	5,123,591	5,063,000	5,114,000
NET INCOME (LOSS) GAAP	280,288	(2,043,000)	(4,716,000)

ANCHORAGE WASTEWATER UTILITY
STATEMENT OF SOURCES AND USES OF CASH

	2002 ACTUAL	2003 PROFORMA	2004 BUDGET
SOURCES OF CASH:			
NET INCOME (LOSS) GAAP	280,288	(2,043,000)	(4,717,000)
DEPRECIATION	8,709,873	8,963,000	9,053,000
BOND PROCEEDS	0	16,000,000	0
STATE LOANS	1,849,869	10,931,000	11,000,000
AMORT/DEFERRED DEBITS/DISCOUNTS	447,809	450,000	450,000
GRANTS	931,529	1,494,000	5,458,000
CONTRIBUTIONS FROM OTHERS	960,745	950,000	900,000
OTHER	(2,070,308)	380,000	677,000
TOTAL SOURCES OF CASH FUNDS	11,109,805	37,125,000	22,821,000
USES OF CASH:			
ADDITIONS TO PLANT	12,152,227	12,816,000	21,226,000
DEBT PRINCIPAL PAYMENT	6,545,065	6,822,000	6,870,000
TOTAL USES OF CASH FUNDS	18,697,292	19,638,000	28,096,000
NET INCREASE(DECREASE) IN CASH FUNDS	(7,587,487)	17,487,000	(5,274,000)
CASH BALANCE JANUARY 1	6,190,511	(1,397,000)	16,090,000
CASH BALANCE DECEMBER 31	(1,396,976)	16,090,000	10,816,000
DETAIL OF CASH BALANCE:			
EQUITY IN CAPITAL ACQUISITION ACCT	(13,041,612)	3,652,000	104,000
RESTRICTED CASH ACCOUNTS	460,384	660,000	860,000
EQUITY IN GENERAL CASH POOL	11,184,252	11,777,000	9,851,000
TOTAL CASH DECEMBER 31	(1,396,976)	16,090,000	10,816,000

ANCHORAGE WASTEWATER UTILITY
2004 OPERATING BUDGET DETAIL

	2002 ACTUAL	2003 PROFORMA	2004 BUDGET
LABOR			
Wages	6,190,000	6,034,000	7,111,000
Benefits	2,072,000	2,595,000	3,503,000
Subtotal	8,262,000	8,629,000	10,614,000
SUPPLIES			
Chemicals	397,000	367,000	420,000
Plant, Shop, & Office Expense	964,000	1,213,000	1,305,000
Subtotal	1,361,000	1,580,000	1,725,000
INTRAGOVERNMENTAL CHARGES			
Finance Dept	343,000	651,000	651,000
Information Technology Dept	517,000	560,000	560,000
Employee Relations Dept	143,000	174,000	174,000
Other	670,000	747,000	747,000
Subtotal	1,673,000	2,132,000	2,132,000
OTHER SERVICES			
Contingency	0	350,000	350,000
Professional Services	425,000	373,000	531,000
Rent/Leases	618,000	620,000	610,000
Utilities	1,215,000	1,413,000	1,595,000
Contracted Mtnce/Repair	459,000	337,000	353,000
Operating Expense Transfer to CWIP	(452,000)	(400,000)	(405,000)
Other	628,000	410,000	824,000
Subtotal	2,893,000	3,103,000	3,858,000
OTHER EXPENSES			
Depreciation & Amortization	8,710,000	8,963,000	9,053,000
MUSA	1,191,000	1,224,000	2,198,000
Interest on Long-Term Debt	1,283,000	2,060,000	2,462,000
Capitalized Interest	(508,000)	(535,000)	(750,000)
Amort Deferred Debits/Discounts	448,000	450,000	450,000
Subtotal	11,124,000	12,162,000	13,413,000
TOTAL EXPENSES	25,313,000	27,606,000	31,742,000

ANCHORAGE WATER UTILITY
2004-2009 CAPITAL IMPROVEMENT PROGRAM
FINANCIAL SUMMARY

($$ x 1000)

PROJECT CATEGORY	2004	2005	2006	2007	2008	2009	Six Year Total
GENERAL PLANT	5,968	9,878	7,237	5,809	12,349	7,504	48,745
REPAIR & REHABILITATION	3,000	7,775	7,375	6,595	6,325	10,450	41,520
TRANSMISSION/DISTRIBUTION	15,150	2,650	4,100	6,230	13,650	9,850	51,630
IMPROVEMENT DISTRICTS	1,900	200	200	200	200	200	2,900
INTERGOV AGREEMENTS	1,500	0	0	0	0	0	1,500
TOTAL	27,518	20,503	18,912	18,834	32,524	28,004	146,295

SOURCE OF FUNDING	2004	2005	2006	2007	2008	2009	Six Year Total
DEBT	23,143	18,003	16,412	16,334	30,024	25,504	129,420
EQUITY	2,500	2,500	2,500	2,500	2,500	2,500	15,000
FED/STATE GRANT	1,875						1,875
TOTAL	27,518	20,503	18,912	18,834	32,524	28,004	146,295

ANCHORAGE WASTEWATER UTILITY
2004-2009 CAPITAL IMPROVEMENT PROGRAM
FINANCIAL SUMMARY

($$ x 1000)

PROJECT CATEGORY	2004	2005	2006	2007	2008	2009	Six Year Total
GENERAL PLANT	8,498	8,148	10,757	9,329	8,419	7,109	52,260
REPAIR & REHABILITATION	3,455	7,010	7,500	5,625	4,325	12,600	40,515
TRUNK/INTERCEPTOR	2,300	2,850	3,100	3,100	3,100	3,100	17,550
IMPROVEMENT DISTRICTS	1,900	200	200	200	200	200	2,900
INTERGOV AGREEMENTS	400	0	0	0	0	0	400
TOTAL	16,553	18,208	21,557	18,254	16,044	23,009	113,625

SOURCE OF FUNDING	2004	2005	2006	2007	2008	2009	Six Year Total
DEBT	14,933	17,238	20,012	16,294	14,474	21,439	104,390
EQUITY	1,220	970	1,545	1,960	1,570	1,570	8,835
FED/STATE GRANT	400	0	0	0	0	0	400
TOTAL	16,553	18,208	21,557	18,254	16,044	23,009	113,625