

**Term Sheet
Chugach/ML&P
September 28, 2018**

**PRELIMINARY NON-BINDING EXPRESSION OF INTENT -- SUBJECT TO
FURTHER NEGOTIATION**

Disclaimer:	DELIVERY, DISCUSSION OR EXECUTION OF THIS TERM SHEET SHOULD NOT BE CONSTRUED AS AN OFFER OR COMMITMENT WITH RESPECT TO THE PROPOSED TRANSACTION TO WHICH THIS TERM SHEET PERTAINS. SEE "LEGAL RELATIONSHIP" BELOW.
Seller:	Municipality of Anchorage, AK ("Seller" or "MOA")
Purchaser:	Chugach Electric Association, Inc. ("Purchaser" or "Chugach," and collectively with MOA the "Parties")
Proposed Transaction:	<ul style="list-style-type: none">■ Purchase of all assets of MOA's Municipal Light & Power Department ("ML&P"), including but not limited to MOA's interest in the Beluga River Unit ("BRU") (collectively, the "Purchased Assets") but excluding MOA's interest in the Eklutna Hydroelectric Project generation assets and certain other property retained by MOA (collectively, the "Excluded Assets"), in exchange for the consideration set forth herein (the "Transaction").■ The Purchased Assets include (a) (except as otherwise determined by the Parties) all ML&P buildings, fixtures, easements, and other real property, equipment, contracts (including leases), power supply agreements, books and records, and (b) customer deposit cash or cash accounts, cash, cash equivalents and securities (in each case to the extent constituting restricted assets and to the extent not to be used by MOA to defease or repay the ML&P Debt), including, without limitation, any such assets held under or pursuant to ML&P's debt documents or representing the proceeds of bonds, deferred regulatory liability for gas sales funds, underlift accounts and ARO funds managed by ML&P or MOA, any decommissioning funds, and any other cash collected from ratepayers for obligations assumed by Chugach, as of the closing of the Transaction (the "Closing"), together with any other assets agreed by the Parties.■ Chugach will assume all ML&P obligations, leases, contracts, service obligations, work in progress, power purchase agreements, power pooling agreements, fuel purchase agreements, fuel storage agreements, including all agreements and obligations related to BRU as of Closing, all liabilities in respect of the assumed contracts and other Purchased Assets that accrue or arise or are to be performed after the Closing, and all liabilities arising out of or relating to Chugach's ownership or operation of the Purchased Assets on or after the Closing (the "Assumed Liabilities"). MOA will retain, among other obligations, all obligations relating to accounts payable as of the date of Closing, COBRA or other compensation obligations to employees who do not join Chugach as employees, fines/penalties owing to any governmental authority for events prior to the Closing, pension obligations, debt obligations and any liabilities related to taxes payable with respect to any period prior to the Closing and litigation for events prior to the Closing, any liability of ML&P accruing or arising and to be performed prior to the Closing, and any liability of ML&P arising from the violation, breach or default by ML&P, prior to the Closing, of any assumed contract or intellectual property assets

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	<p>included in the Purchased Assets (the "Excluded Liabilities"). Additionally, the Excluded Liabilities include any and all obligations incurred under the IBEW Collective Bargaining Agreement prior to the date of the Closing, including but not limited to pension/retirement obligations under the Alaska Public Employee Retirement System and the Alaska Electrical Pension Fund and any payroll or other compensation obligations incurred and required to be paid prior to the Closing. Chugach has represented to MOA that the Transition Agreement negates Chugach's assumption of the ML&P/IBEW Collective Bargaining Agreement. Chugach is working to provide to MOA, initially, a joint letter with IBEW addressed to MOA which expresses the conclusion that based on the current state of negotiations between Chugach and IBEW, the employment requirements of AO No. 2018-1(S) will be satisfied and then, when it is made public, a copy of the Transition Agreement.</p> <ul style="list-style-type: none"> ■ The Assumed Liabilities will include all environmental liabilities related to the Purchased Assets (subject to the indemnification provisions described below) and the Excluded Liabilities will include all environmental liabilities related to the Excluded Assets. ■ In addition to those Excluded Assets noted above, the Purchased Assets do not include: <ul style="list-style-type: none"> Unrestricted cash or cash equivalents at Closing and accounts receivable as of the date of Closing. Real property, easements and other assets that the Parties have determined are not part of the Purchased Assets. <p>The Parties may determine that certain real property or other assets that are excluded from the Purchased Assets will be leased by Chugach from MOA after the Closing. If MOA agrees to retain such property and lease such property to Chugach, the portion of the consideration to be paid by Chugach in cash at the Closing (the "Upfront Payment") shall be reduced by the amount of the net book value thereof. For example, the Parties may consider for exclusion from the Purchased Assets the ML&P campus south and possibly a portion north of First Avenue (the "Campus"), <i>provided</i> that Plant 1 and related switchyard shall be included in the Purchased Assets.</p> <p>For any equipment or real property leased by ML&P as of the Closing that Chugach seeks to use going forward, Chugach will make any payments required to terminate, assign, or sublease any such ML&P equipment or real property lease and shall be responsible for obtaining any required lessor consents to such termination, assignment, or sublease.</p> <p>If Chugach determines that it requires the use of any intellectual property that is deemed important by MOA to its other business units, MOA will, subject to obtaining any required licensor consent, license use of the property to Chugach upon terms satisfactory to the Parties; <i>provided</i> that Chugach shall be responsible for obtaining any required licensor consent.</p> <p>With respect to assets jointly used by ML&P and MOA (e.g., communication equipment or facilities and joint easements), ML&P will, subject to obtaining any required third party consents, cause arrangements to be entered into that provide Chugach with the right to use such assets upon terms satisfactory to the Parties.</p>
<p>Upfront Payment:</p>	<ul style="list-style-type: none"> ■ Chugach will make the Upfront Payment of seven hundred sixty seven point eight million (\$767.8 million) at Closing. ■ At Closing, MOA will transfer the Purchased Assets to Purchaser free of ML&P Debt and any other outstanding bonds or debt of MOA ("MOA Debt"). MOA/ML&P shall

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	<p>use the Upfront Payment and, if necessary, other funds of MOA to defease or repay (as applicable) the ML&P Debt within sixty (60) days after the Closing.</p>
<p>Payments in Lieu of Taxes</p>	<ul style="list-style-type: none"> ■ Consistent with the determination in the RCA ML&P rate case Order regarding the MOA's Municipal Utility Services Assessment ("MUSA"), Chugach will make payments, designated as Payments in Lieu of Taxes, annually for 50 years, in an amount equal to the following formula: Actual net book value of ML&P net plant in service located within each district in the ML&P legacy service territory as of Closing multiplied by the cumulative Overall Plant in Service Change as of January 1 each year to yield the Adjusted Net Book Value for each district. The Adjusted Net Book Value of assets within each district shall then be multiplied by the effective mill rate in that district. <p>The Overall Plant in Service Change is equal to a fraction (a) where the numerator is the net book value for plant in service for all Chugach assets located in the MOA (i.e., assets located in the ML&P legacy service area and Chugach assets) as of January 1 of each year, and (b) the denominator is equal to the sum of (x) the net book value of ML&P plant in service located within MOA at Closing plus (y) the net book value of Chugach net plant in service located within MOA at Closing.</p> <p>Each year, the annual payment shall be computed as the summation of the Adjusted Net Book Value for each district within the ML&P legacy service area multiplied by the applicable mill rate, commencing with the calendar year following ML&P's last MUSA payment under AMC 26.10.025 ("PILT Payments").</p> <ul style="list-style-type: none"> ■ The aggregate amount of the PILT Payments is estimated to equal \$166.8 million on a NPV basis using current mill rates, assumptions about plant in service, and a 5% discount rate. ■ PILT Payments shall be paid annually on or before July 15 of each year. PILT Payments will be collected solely from retail customers of Chugach in the legacy ML&P service area until December 31, 2033 (the first date specified in the section of this Term Sheet headed "Cost of Fuel and ML&P's BRU Share").
<p>Eklutna PPA</p>	<ul style="list-style-type: none"> ■ As referenced in accompanying term sheet for the Eklutna Power Purchase Agreement (the "Eklutna PPA") with an estimated net present value of \$75 million if Chugach receives all of the energy, capacity and environmental attributes associated with ML&P's interest in Eklutna or \$48.8 million if Chugach receives only 64.29% of the energy, capacity and environmental attributes associated with ML&P's interest.
<p>Capital Credit Allocations and Retirements</p>	<ul style="list-style-type: none"> ■ As a cooperative member, Seller will receive annual capital credit allocations in accordance with Purchaser's bylaws. Chugach will exercise its best efforts to pursue alternative capital credit retirement methods, to include hybrid last in, first out (LIFO), first in, first out (FIFO) methods to recognize new members.
<p>RCA Approval For Transaction Including PILT Payments:</p>	<ul style="list-style-type: none"> ■ The Parties will work together using commercially reasonable efforts to obtain an order from the Regulatory Commission of Alaska ("RCA") approving, as part of the Transaction, the amendment of the certificate of public convenience and necessity of each of MOA and Chugach to reflect the Transaction, which order includes approval of (a) recovery by Chugach in future rates of: (i) the Upfront Payment, all of any acquisition adjustment contained therein and the financing costs related to the Upfront Payment; (ii) the PILT Payments; (iii) payments made as part of the Eklutna PPA (both

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	<p>the PILT Payments and payments under the Eklutna PPA to be recovered as Chugach operating expenses (with no margin added to the payment amount) and in the manner described in the sections of this Term Sheet headed “Payment in Lieu of Taxes” and “Cost of Fuel and ML&P’s BRU Share”), (iv) the costs associated with consummating the Transaction as well as the integration costs after Closing and (v) any other mutually agreeable item set forth in the Definitive Agreement and (b) the Eklutna PPA itself; and does not contain any conditions materially adverse to either Party, as determined by such Party in good faith and in the exercise of its commercially reasonable business judgment (“RCA Approval”). As part of the filings needed to obtain RCA Approval, Chugach will share with MOA/ML&P the details of the financing plan for Chugach’s acquisition of the ML&P Assets.</p>
<p>Utility Rates:</p>	<ul style="list-style-type: none"> ■ Non-COPA rates (a/k/a base rates) for existing ML&P and Chugach ratepayers will not increase, as a result of the Transaction. The Parties will develop balancing accounts or other procedures for customer bills for the month of the Closing so that customers will not be double billed for any charges (including, without limitation, customer fees or demand charges).
<p>ML&P Employees:</p>	<ul style="list-style-type: none"> ■ Purchaser agrees to offer, in writing employment as of 12:01 AM of the date of Closing to all current non-temporary full-time employees of ML&P in accordance with, as applicable, the Transition Agreement between the IBEW and Chugach (“Transition Agreement”). For those non-temporary full-time employees not covered by the Transition Agreement, Chugach will offer full time employment in comparable positions as determined by Chugach and set forth in a written notice to MOA delivered at least 30 days prior to Closing. For each individual non-temporary full-time employee not covered by the Transition Agreement, Chugach will maintain a salary (excluding overtime) and retirement contribution combined total value that is at least equal to the amount incurred by ML&P at the time of Closing; all other compensation and benefits will be consistent with the Chugach policies in place at the time of closing. Chugach will not lay off any Chugach employees, including former ML&P employees as a result of this Transaction. With respect to any employee benefit plan maintained by Chugach in which any former ML&P employees not covered by the Transition Agreement will participate effective as of the date of Closing, Chugach will recognize all service of such employees with ML&P as if such service were with Chugach, for purposes of determining vacation or eligibility and vesting in any benefit plan in which such employees may be eligible to participate after the Closing.
<p>Cost of Fuel and ML&P’s BRU Share:</p>	<ul style="list-style-type: none"> ■ For the acquired share of BRU, the ML&P BRU gas transfer price will equal ML&P’s share of the cost of production, which will be passed on solely to retail customers of Chugach within the ML&P legacy service area through December 31, 2033. Beginning January 1, 2034, all BRU costs of production will be recovered from all customers on the system at the same rate. In addition, from the date of Closing through December 31, 2033, Chugach may use any excess gas production from the acquired share of BRU, after meeting ML&P’s retail load requirement, to serve other Chugach customers at the ML&P BRU gas transfer price.
<p>Post-Closing Operating and Investment Plan:</p>	<ul style="list-style-type: none"> ■ Chugach’s acquisition plan should include its anticipated plan for consolidation, combination and operation of aggregated system assets and for future capital investment in the system in accordance with prudent utility practices.

<p>Definitive Agreement and Reps and Warranties:</p>	<ul style="list-style-type: none"> ■ Customary reps and warranties ■ The Parties will also agree in the Definitive Agreement to mutually acceptable Closing adjustments. The Parties will work together to develop a sample Closing schedule to the Definitive Agreement for the Closing adjustments. ■ The Definitive Agreement will address completion of any open due diligence as of the date of execution and delivery of the Definitive Agreement.
<p>Pre-Closing Covenants:</p>	<ul style="list-style-type: none"> ■ ML&P will be subject to ordinary course of business covenants and Purchaser approval rights, including a specified list of precluded activities, including incurrence of additional debt and limits to increases in compensation to non-union salaried employees. Notwithstanding the foregoing, ML&P will be entitled, during the period prior to the Closing, to negotiate with its real property lessors and easement grantors, including the Alaska Railroad, with respect to ML&P's rights and obligations as lessee or easement holder with respect to such properties, but will advise Chugach of the nature of such negotiations. ■ Seller and Purchaser will work jointly to gain regulatory approvals, including RCA Approval. ■ Either Party may terminate the Definitive Agreement and the Transaction, without liability for or as a result of such termination, by notice to the other Party if RCA Approval has not been obtained by January 31, 2020.
<p>Closing Conditions:</p>	<ul style="list-style-type: none"> ■ RCA Approval. ■ Other customary closing conditions.
<p>Timing</p>	<ul style="list-style-type: none"> ■ The Parties shall use commercially reasonable efforts to meet the following dates: December 1, 2018: Approval by the MOA Assembly and the Chugach Board of Directors of the execution and delivery of the Definitive Agreement Within 60 days following approval by both the MOA Assembly and the Chugach Board of Directors of the execution and delivery of the Definitive Agreement: Submission to RCA of joint petition for RCA Approval Within 120 days after RCA Approval: Closing
<p>Indemnity and Survival:</p>	<ul style="list-style-type: none"> ■ Post-closing indemnities from Purchaser, reasonably acceptable to Seller, for representation and covenant breaches, Assumed Liabilities, ownership and operation of the Purchased Assets following the Closing, and other customary items. ■ Post-closing indemnities from Seller and/or a representations and warranties indemnification insurance policy (at the expense of Seller), in either case reasonably acceptable to Purchaser, for representation and covenant breaches, Excluded Liabilities and other customary items. ■ Representations and warranties shall survive for three (3) years after the Closing for indemnification purposes, subject to customary exceptions; covenants shall survive until performed or for the terms specified in the Definitive Agreement. ■ Seller shall indemnify Purchaser, for a mutually acceptable period following the Closing, for the amount, if any, by which the losses incurred by Purchaser with respect to certain identified environmental liabilities (which will not in any event include any asset retirement obligations) included among the Assumed Liabilities exceed a mutually

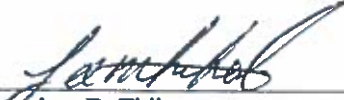
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	<p>acceptable dollar threshold set forth in the Definitive Agreement.</p> <ul style="list-style-type: none"> ■ The Parties indemnification obligations will be subject to limitations of liability, including thresholds and caps, if any, as set forth in the Definitive Agreement.
Confidentiality:	<ul style="list-style-type: none"> ■ This Term Sheet will, as of the date of execution of this Term Sheet, no longer be subject to the terms of any confidentiality agreement between Seller and Purchaser, and neither this Term Sheet nor any of its contents will be considered confidential information for purposes of any such confidentiality agreement.
Legal Relationship:	<ul style="list-style-type: none"> ■ This Term Sheet is preliminary and is intended to set forth certain basic terms and to serve as a basis for further discussion and negotiations between the Parties with respect to the Transaction. This Term Sheet does not contain all matters upon which agreement must be reached in order for the transaction to be completed. Except as expressly provided in the preceding paragraph entitled "Confidentiality", the matters set forth in this Term Sheet are not intended to and do not constitute a binding agreement of the Parties or establish any obligation of the Parties with respect to the Transaction, and this Term Sheet may not be relied upon by a Party as the basis for a contract by estoppel or otherwise. A binding agreement will arise only upon the negotiation, execution and delivery of a mutually satisfactory definitive asset purchase agreement (the "Definitive Agreement") and the satisfaction of the conditions set forth therein, including completion of due diligence (which may lead to price, terms or conditions changes) and the approval of such agreements and the Transaction by the respective governing body(ies) and management of each Party, which approval shall be in the sole and absolute subjective discretion of the respective governing body(ies) and management.

Agreed to and accepted by:

CHUGACH ELECTRIC ASSOCIATION, INC.

MUNICIPALITY OF ANCHORAGE

By: 
 Name: Lee D. Thibert
 Title: Chief Executive Officer
 Dated: 9/28/18

By: 
 Name: William D. Falsey
 Title: Municipal Manager
 Dated: 9/28/18