

ML&P, Providence Hospital and UAA Central Heat and Power Plant
Aug 28, 2008

Resolution to Work Together

Anchorage Municipal Light & Power, Providence Hospital and University of Alaska Anchorage are preparing to develop a combined heat and power project for the benefit of the three organizations. To start the project, the three parties need to:

- Affirm their reasons to participate in the effort.
- Contribute toward the cost of developing the project.
- Select a single leader to represent the group and facilitate decision making in the best interest of all three parties.

Overview

Combined heat and power production offers the possibility of improving the fuel efficiency of an electric generating process by more than 100% when compared to conventional electric plants and by more than 70% when compared to combined-cycle electric generating plants.

The University of Alaska Anchorage and Providence Hospital are two large institutional customers served by Anchorage Municipal Light and Power. Anchorage Municipal Light and Power is a regulated utility. The University and the Hospital fall within its exclusive service territory. Together the two customers make up about 4% of the utility's sales.

ML&P is currently updating its resource plan and will replace some of its generating equipment. The University has a number of boilers that are near the end of their useful life and will soon be developing the south side of Providence Drive. Providence continues to grow to meet the needs of the community and is faced with capital investment for infrastructure to meet its growth. It is a favorable time to develop a single project to meet the three organizations overarching goals.

Nearly all power and heat in the Anchorage area is produced by combusting natural gas and it is in the public's best interest to use this fuel efficiently. All parties expect the cost of natural gas to remain high.

The Project

An opportunity exists to develop a project to meet the three organization's goals:

- Locate on University Land
- Locate adjacent to the Hospital
- Use ML&P generating assets
- Use ML&P natural gas
- Install heat recovery boilers
- Use fuel more efficiently with fewer emissions
- Reduce operating costs

- Avoid major infrastructure replacement/upgrade

The proposed project will locate ML&P generating assets near the two institutions, where heat, that is normally wasted when making electricity, is recovered to meet the thermal energy needs of the University and the Hospital.

For the project to move forward, the institutions will continue to rely upon ML&P as an electric service provider and must realize economic benefit to the institutions by meeting their thermal energy requirements with low-cost, waste-heat. The project's economics improve as the thermal loads increase.

Independent, preliminary studies have been completed by all three parties. Each believes that a project can be developed that serves their best interest and that greater benefit. Developing the project requires the cooperation of all three parties to plan, finance and operate the facility.

Hammel, Green and Abrahamson, Inc. (HGA) has been recommended by the University to the group to provide program management services for the project. Program management may include:

- Assistance to the ownership group in developing their working relationship
- Assistance to the ownership group in their development of a business plan
- Organization of the project
- Assistance of the ownership group in selecting professional service firms to develop plans and specifications and apply for permits
- Assistance to the ownership group in selecting construction services providers.
- Periodic observe of construction
- Commissioning services
- Review payment requests.

The cost of these services is estimated to be in the range of 1-2 percent of the construction costs for planning plus approximately one percent for commissioning services. The project cost is estimated to be \$40 million and the schedule is estimated to be 36 months. The fee range for all program management services may be as low as \$250,000 and as much as \$1.2 million, depending upon how the project is phased, scoped and executed.

The three parties:

- Will choose a lead organization to manage the project.
- Have reached agreement that they will engage HGA for initial Program Management services during 2008.
- Will commit \$100,000 each for a total \$300,000, toward the compensation of HGA for Services.

Upon agreement of the three parties to this resolution, the next steps that are immediate and pressing include:

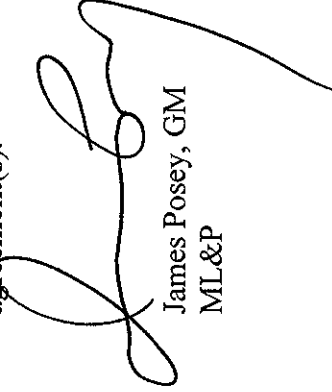
- Development of a project scope that combines the thermal requirements of the university and the hospital.

- Identification of and planning for environmental and infrastructure requirements.
- Preparation of a construction cost estimate.
- Development of a working strategy for financing and operating the project.
- Estimate of operating costs and financial performance.
- Preparation of a project schedule.
- Application for grant funding from the State of Alaska by November 1, 2008.

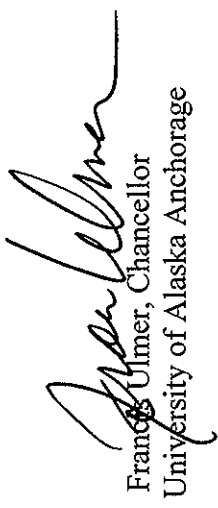
Legal, permitting and financial services may also be required. By signing this form, the parties commit to organizing themselves into a working group, select a lead organization that is responsible for directing various consultants to perform in the best interest of the joint project and contribute one third of the cost of management services and all of the cost of the construction of their portion of the project.

In the event that the project is terminated before a detailed cost sharing plan is developed, the parties agree that they will fully participate in the project as described above, through the successful close-out of the project.

Please sign the document where provided below and in response the University will proceed with bringing the three parties together to develop a working group and joint project detailed agreement(s).


 James Posey, GM
 ML&P


 Al Parrish, CEO
 Providence Alaska


 Francis Ulmer, Chancellor
 University of Alaska Anchorage

