

250 West 57th Street
Suite 1420
New York, New York 10107
212.642.4350 Direct
212.642.4357 Fax

Randall L. Finken
Senior Vice President

randy.finken@firstsw.com

January 6, 2011

Board of Directors
Kirkwood Meadows Public Utility District
P.O. Box 247
Kirkwood, CA 95646

Re: FirstSouthwest's Commitment to KMPUD and Interest in Serving as Bond Underwriter/Placement Agent

Dear Members of the Board:

Introduction to Kirkwood and KMPUD. In the 1st quarter of 2009, before the KMPUD/KMR asset purchase agreement became stalled I was introduced to Tom Henie and Standish O'Grady by East Meadows resident, Bill Buckingham. Bill and I (formerly) were both working at Goldman Sachs in 2008. Bill recommended that Standish reach out to me based on my 25+ years experience working on municipal electric system bond issues.

Understanding of KMPUD and Contributions to Financial Planning. Since my introduction, I have remained consistently in touch and involved with matters pertaining to financing reliable long-term power supply alternatives for the residents of Kirkwood. In the Fall of 2009, the Bodington Company's report on the interconnection alternatives prompted First Southwest Company ("FirstSouthwest") to deliver a comprehensive "Plan of Finance" proposal January 13th, 2010 for financing the acquisition of Mountain Utilities ("MU") and the development of an interconnection to the PG&E grid (copy attached).

The fire which destroyed the MU powerhouse over New Year's weekend 2010 changed the course of decision-making on long-term power supply options. KMPUD appears to be taking a sound course with outsourcing power supply management to PowerSecure, Inc. and minimizing additional capital expenditures after rebuilding the powerhouse. This maintains the option to pursue the interconnect transmission line while minimizing capital costs associated with back-up generation in the powerhouse.

In early January, 2010, I met with Tom Henie, Eric Richert and Standish O'Grady in San Francisco to discuss FirstSouthwest's financing strategy proposal. An Executive Summary of this proposal was utilized by Tom Henie at a January, 2010 KMPUD Board Meeting. It provided Phase 1 financing for the MU acquisition in 2010 and Phase 2 financing of the interconnect in 2011.

Over the course of 2010, I have provided Standish O'Grady and more recently, Bob Epstein, detailed advice on how KMPUD could obtain the best possible credit ratings in an effort to reduce borrowing costs. Recently we discussed the positive impact of dedicating a portion of Kirkwood's current tax revenue to utility debt repayment. I also shared my concerns about the challenges that KMPUD would face based on its small customer base and exposure to "event risk" of Kirkwood Mountain Resort facing financial stress or operating in under bankruptcy protection.

In July, 2010, my team presented a detailed package to FirstSouthwest's "Risk Committee" to gain pre-approval to serve KMPUD as underwriter/placement agent for tax-exempt and taxable revenue bonds. At the time, we were expecting an RFP to be issued for these services. This package was used by me to

educate the Committee on KMPUD and get it comfortable with the unique financing needs of KMPUD which would be the smallest rated municipal utility in the U.S. with the highest debt per electric customer if in-valley backup and the interconnect project was financed 100% with debt. The Committee package also included: (i) KMPUD's utility development strategy (life after Cat-in-a-Boxes with lower costs accomplished by connecting to the grid); (ii) an examination of BBB- and non-investment grade municipal electric revenue bonds; (iii) history and impact of [ten] U.S. ski resort bankruptcies or severe financial stress; (iv) feasibility of the transmission line Interconnect to the PG&E grid compared to cost of power from Kirkwood in-valley diesel generation; and (v) past debt issuances of KMPUD/Kirkwood. The Risk Committee approved moving forward in an effort to serve KMPUD's capital raising needs as bond underwriter/placement agent.

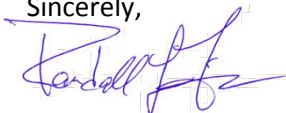
FirstSouthwest has an intimate understanding of KMPUD's unique and substantial financing needs. We also understand the risks associated with Kirkwood Mountain Resort as the economic driver in the valley and dominant consumer of electricity balanced against the intrinsic credit quality associated with an essential service electric utility revenue pledge and the broad based support of Kirkwood residents. KMPUD will have difficulty obtaining an investment grade credit rating because rating agencies will recognize "single event risk" that could result in a failure to make timely debt service payments. That single event would be a KMR bankruptcy, and the resulting uncertainty about whether it would be operational in the following ski season.

About FirstSouthwest. FirstSouthwest was founded in 1946 and employs 360 people across 23 offices nationwide, including Santa Monica, CA. FirstSouthwest is a wholly owned investment banking subsidiary of PlainsCapital Corporation, a Dallas headquartered commercial bank with assets exceeding \$5 billion. FirstSouthwest is a middle market municipal bond underwriter serving as senior manager on \$3-\$4 billion/year of municipal bonds over the past five years. I am Manager of the Firm's Public Power Group. One of the Firm's specialties is underwriting public power electric revenue bonds. FirstSouthwest ranked as the 11th leading underwriter nationally having served as senior or co-managing underwriter on over \$7.8 billion of electric revenue bonds in 2010. Our most recent senior managed municipal electric bond transaction was Lubbock, Texas' \$73.3 million bond issue in October 2010.

I personally have experience serving as senior manager, co-manager or financial advisor on over \$25 billion of municipal electric revenue bonds. Prior to joining FirstSouthwest, I worked 25 years for PaineWebber, UBS and Goldman Sachs. This experience includes working for utilities large and small, with the smallest, Sam Rayburn Municipal Power Agency, serving less than 9,000 customers, having been rated below investment grade in the "BB" category and having one of the highest debt/capita statistics in the U.S. We have worked closely with KMPUD on debt structuring alternatives and credit rating perspectives, and look forward to responding to an RFP and earn the opportunity to assist KMPUD raise the capital necessary to repay maturing debt and finance new capital expenditures.

FirstSouthwest, the Firm, and me, personally, look forward to earning the opportunity to work as KMPUD's bond underwriter/placement agent and develop and execute the optimal financing solution for Kirkwood's long-term power supply needs.

Sincerely,



Randall L. Finken
Senior Vice President

cc: Robert M. Haight