

CHUGACH ELECTRIC ASSOCIATION

Letter to the Audit Committee of
the Board of Directors

February 10, 2006

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The Audit Committee of the Board of Directors
Chugach Electric Association, Inc.

Dear Members:

We have audited the financial statements of Chugach Electric Association, Inc. (the Company) as of December 31, 2005 and have issued our report thereon under date of February 10, 2006. Under our professional standards, we are providing you with the attached information related to the conduct of our audits.

Our Responsibility Under Professional Standards

We have a responsibility to conduct our audit of the financial statements in accordance with professional standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected.

In addition, in planning and performing our audit of the financial statements, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit of the financial statements does not include examining the effectiveness of internal control and does not provide assurance on internal control.

Accounting Policies and Alternative Treatments

Significant Accounting Policies

The significant accounting policies used by the Company are described in Note 1 to the financial statements.

In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47), an interpretation of FASB Statement No. 143, *Accounting for Asset Retirement Obligations* (Statement 143). FIN 47 clarifies that conditional obligations meet the definition of an asset-retirement obligation in Statement 143 and therefore should be recognized if their fair value is reasonably estimable. It also provides additional guidance to evaluate whether fair value is reasonably estimable. FIN 47 is effective for fiscal years ending after December 15, 2005. Chugach evaluated the provisions of FIN 47 and implemented the Interpretation effective January 1, 2005. Implementation of the statement did not have a significant impact on the financial statements.

Unusual Transactions

We noted no transactions entered into by the Company during the year ended that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Critical Accounting Policies and Practices

The critical accounting policies and practices used by the Company are described in the Company's Management's Discussion and Analysis of the annual report filed on Form 10-K. These policies and practices are considered both most important to the portrayal of the Company's financial condition and results of operations, and require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about matters that are inherently uncertain.

Alternative Accounting Treatments Within U.S. Generally Accepted Accounting Principles

Management has not used any alternative accounting treatments or disclosures for accounting policies and practices related to material items, including recognition, measurement, presentation, and disclosure alternatives. Alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items are defined to include both those accounting principles for which different accounting policies and practices are generally accepted, and those for which no authoritative accounting literature exist.

Quality of Accounting Principles

We have discussed with the audit committee and management our judgments about the quality, not just the acceptability, of the Company's accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of the Company's accounting policies and their application, and the understandability and completeness of the Company's financial statements, which include related disclosures. The accounting policies and their application and related disclosures are in accordance with accounting principles generally accepted in the United States of America.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The Company records regulatory assets to reflect amounts that are expected to be recovered from ratepayers in the future. These amounts approximate \$19.3 million at December 31, 2005, approximately 50% of which relates to deferred financing costs. The Regulatory Commission of Alaska did not challenge recovery of these deferred items in the Company's most recent rate case.

The Company records revenue based upon billings rendered to customers adjusted for differences in meter read dates from year to year. The Company has determined that unbilled revenue from the December meter read dates through December 31, and changes therein, does not have a significant impact on the financial position or operating results of the Company.

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The Company is a participant in various legal actions, claims and unasserted claims. It is management's judgment that the disposition of these matters will not materially impact the Company's financial condition and results of operations because the amounts would not be significant or, if significant, would be recoverable through the rate-making process. We discussed the status of asserted and unasserted claims with management and in-house counsel and obtained letters from outside legal counsel.

The Company provides for an allowance for doubtful receivables based on an analysis of the aging of the accounts, historical trends and the nature of other receivables such as claims. We reviewed management's analysis of the adequacy of the allowance.

Significant Audit Adjustments and Uncorrected Misstatements

In connection with our audit of the Company's financial statements, we have not identified any significant financial statement misstatements that have not been corrected for in the Company's books and records as of and for the year ended December 31, 2005. There were no audit adjustments.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the Company's financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents. We will, however, read the other information included in the Company's annual report and Form 10-K, and will communicate to management and, if necessary, the Audit Committee any items that cause us to believe that such information, or its manner of presentation, is materially inconsistent with information, or manner of its presentation, appearing in the financial statements.

Disagreements with Management

There were no disagreements with management on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our auditors' report on the Company's financial statements

Consultation with Other Accountants

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the past year that were subject to the requirements of Statement on Auditing Standards No. 50, *Reports on the Application of Accounting Principles*.

Major Issues Discussed with the Audit Committee and Management Prior to Retention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention each year as the Company's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

Material Written Communications

In accordance with the communication requirements of SAS No. 61, attached to our letter please find the representation letter, which represents the only material written communications between management and us.

Independence

Our professional standards and other regulatory requirements require that we communicate to you in writing, at least annually, all relationships between our firm and the Company that, in our professional judgment, may reasonably be thought to bear on our independence.

We have summarized the fees paid to the firm by the Company for significant professional services for the period January 1, 2005 through December 31, 2005.

<i>Audit:</i>	
Financial statement audit and quarterly reviews	\$ 104,753
<i>Audit-related services:</i>	
2004 benefit plan audit	\$ 9,500
Federal single audit	\$ 8,550
<i>Tax services:</i>	
Tax return preparation and related matters	\$ 2,375

Confirmation of Audit Independence

We hereby confirm that as of February 10, 2006, we are independent accountants with respect to the Company under all relevant professional and regulatory standards.

Fees Received for Management Advisory Services

As a member of the SEC Practice Section of the AICPA Division of CPA Firms, we are required to inform the Audit Committee of the total fees received from the Company for management advisory services during 2005 and provide a description of such services. We performed no such services in 2005 for the Company.

Other Matters

KPMG's information risk management professionals performed certain procedures relative to the Company's information technology environment. Since the Company will be required to comply with provisions of the Sarbanes/Oxley Act that require audit of its internal control systems, we offer the following recommendations to assist you in identifying issues that may need to be addressed prior to that time.

Change Control

Through interviews with the Company's Information Systems (IS) personnel, KPMG determined that, during the first ten months of the year, there was not adequate segregation of functions in the maintenance of systems and application software. IS developers had update access to production files for the software and applications they support, which presents the risk that unauthorized or erroneous changes may be

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introduced into the information systems environment. The Company resolved the matter in November 2005 by putting into a place an audit log which captures system changes. In the event that an unauthorized change should occur, the audit log can be used to identify what was changed and who made the change.

User Access

KPMG noted that Customer Service managers have access and often change application level access in the Company's information system. Annual review of user access may not be sufficient to detect individuals with inappropriate access. Inappropriate access may result in inaccurate or invalid transactions by error or omission. We recommend that Customer Service managers work together with the IS group to ensure that access to the Customer Information System is granted by appropriate members of the IS group, and that business level approvals are logged and maintained.

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This report to the Audit Committee is intended solely for the information and use of the audit committee, the board of directors and management, and is not intended to be and should not be used by anyone other than these specified parties. This report is not intended for general use, circulation or publication and should not to be published, circulated, reproduced or used for any purpose without our prior written permission in each specific instance.

Very truly yours,