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August 1, 2005

PRIVATE

Mr. Dave Cottrell
Chair of the Audit Committee
Chugach Electric Association, Inc.
5601 Minnesota Drive
Anchorage, Alaska 99503

Dear Mr. Cottrell:

This letter will confirm our understanding of our engagement to report upon our audit of the Chugach Electric Association, Inc. (the Association) financial statements as of and for the year ended December 31, 2005.

Objectives and limitations of services

Audit Services

We will issue a written report upon our audit of the balance sheets of the Association as of December 31, 2005 and 2004, the related statements of revenues, expenses and patronage capital, and cash flows for each of the years in the three-year period ended December 31, 2005, and schedules supporting such financial statements, all of which are to be included in the Association's Annual Report (Form 10-K) proposed to be filed by the Association under the Securities Exchange Act of 1934.

We have a responsibility to conduct and will conduct the audit in accordance with audit standards generally accepted in the United States of America and the standards for financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States, and conduct the audit of the financial statements in accordance the standards of the Public Company Accounting Oversight Board (PCAOB), with the objective of expressing an opinion as to whether the presentation of the financial statements and schedules, taken as a whole, conforms with accounting principles generally accepted in the United States of America. It should be understood that our report and the financial statements and schedules may be subject to review by the Securities and Exchange Commission (SEC) staff and to the application by them of their interpretation of the relevant rules and regulations.

It is important to note that the PCAOB, created as a result of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act), has the authority to establish auditing, quality control, ethics,



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independence and other standards relating to the preparation of audit reports for issuers, as that term is defined in the Sarbanes-Oxley Act, subject to oversight by the SEC.

In conducting the audit, we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances, to provide a reasonable basis for our opinion on the financial statements. We also will assess the accounting principles used and significant estimates made by management, and evaluate the overall financial statement presentation.

Our audit of the financial statements is planned and performed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, there is a risk that material errors, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements performed in accordance with the standards of the PCAOB. Also, an audit is not designed to detect matters that are immaterial to the financial statements.

Our report will be addressed to the board of directors of the Association and will be in a form that is in accordance with the published rules and regulations of the SEC. We cannot provide assurance that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement.

As part of our audit, we will read the other information in your annual report (Form 10-K) and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. However, our audit does not include the performance of procedures to corroborate such other information (including forward-looking statements).

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we will consider the Association's internal control in order to determine the nature, timing, and extent of our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

The objective of our audit of the financial statements is not to report on the Association's internal control and we are not obligated to search for reportable conditions as part of our audit of the consolidated financial statements.



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Quarterly Review Services

We will review the condensed balance sheets of the Association as of March 31, June 30, and September 30, 2005, and the related condensed statements of revenues, expenses and patronage capital, and cash flows for the quarterly and year-to-date periods then ended, which are to be included in the quarterly reports (Form 10-Q) proposed to be filed by the Association under the Securities Exchange Act of 1934. We will also review the selected quarterly financial data specified by Item 302 of Regulation S-K, which is required to be included in the annual report (Form 10-K) proposed to be filed by the Association under the Securities Exchange Act of 1934.

We have a responsibility to conduct our reviews in accordance with the provisions of Statement on Auditing Standards No. 100, *Interim Financial Information*, issued by the American Institute of Certified Public Accountants, and adopted as an interim standard of the PCAOB. The objective of a review of interim financial information is to provide us with a basis for communicating whether we are aware of any material modifications that should be made to such interim financial information for it to conform with accounting principles generally accepted in the United States of America. Our procedures will be substantially less in scope than an audit of financial statements performed in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we will not express an opinion on the Association's interim financial information. Our review reports will contain a statement to that effect.

Our reviews will consist principally of performing analytical procedures applied to financial data and making inquiries of the Association personnel responsible for financial and accounting matters. Our reviews will include obtaining sufficient knowledge of the Association's business and its internal control as it relates to the preparation of both annual and interim financial information to (a) identify the types of potential material misstatements in the interim financial information and consider the likelihood of their occurrence, and (b) select the inquiries and analytical procedures that will provide us with a basis for communicating whether we are aware of any material modifications that should be made to the interim financial information for it to conform with accounting principles generally accepted in the United States of America.

A review does not contemplate tests of internal controls or accounting records, tests of responses to inquiries by obtaining corroborating evidential matter, and certain other procedures ordinarily performed during an audit. Thus, a review does not provide assurance that we will become aware of all significant matters that would be disclosed in an audit. Further, a review is not designed to provide assurance on internal control or to identify reportable conditions and can not be relied on to detect errors, fraud or illegal acts.



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As agreed, we will not issue a written report upon completion of each review. The Association understands that any reference to interim financial information as reviewed by us when such information is included in documents issued to stockholders or third parties (including the SEC) will necessitate the issuance of a written review report, which must accompany the interim financial information in the document.

State of Alaska Regulation 2 AAC 45.010

We will also perform auditing procedures on the Association's State award programs in accordance with the provisions of State of Alaska Regulation 2 AAC 45.010. State of Alaska Regulation 2 AAC 45.010 includes specific audit requirements, mainly in the areas of internal control and compliance with laws and regulations.

As part of our auditing procedures performed in accordance with the provisions of State of Alaska Regulation 2 AAC 45.01, we will perform the tests to evaluate the effectiveness of the design and operation of internal control that we consider relevant to preventing or detecting material noncompliance with laws and regulations applicable to each of the Association's major programs. The tests of internal control performed in accordance with State of Alaska Regulation 2 AAC 45.01 are less in scope than would be necessary to render an opinion on internal control.

Compliance with laws, regulations, contracts and grants that govern State award programs is the responsibility of management. We will perform the tests of the Association's compliance with certain specific provisions of laws, regulations, contracts and grants we determine to be necessary based on the *Audit Guide and Compliance Supplement for State Single Audits (State Compliance Supplement)*. The procedures outlined in the *State Compliance Supplement* are those suggested by each State agency and do not cover all areas of regulations governing each program. Program reviews by State agencies may identify additional instances of noncompliance.

As required by the State of Alaska Regulation 2 AAC 45.01, we will issue a report to the board of directors of the Association which (1) provides our opinion on the schedule of State financial assistance in relation to the financial statements taken as a whole, (2) provides our opinion on the Association's compliance with laws, regulations, contracts and grant agreements that have a direct and material effect on a major State award program and (3) communicates our consideration of internal control over State award programs.

OMB Circular A-133

We will also perform audit procedures, if required, with respect to OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133). OMB Circular A-133 includes specific audit requirements, mainly in the areas of internal control and



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compliance with laws and regulations, that exceed those required by *Government Auditing Standards*.

As part of our audit procedures performed in accordance with the provisions of OMB Circular A-133, we will perform tests to evaluate the effectiveness of the design and operation of internal control that we consider relevant to preventing or detecting material noncompliance with laws, regulations, contracts and grants applicable to the Association's major program. The tests of internal control performed in accordance with OMB Circular A-133 are less in scope than would be necessary to render an opinion on internal control.

Compliance with laws, regulations, contracts and grants that govern Federal programs is the responsibility of management. We will perform the tests of the Association's compliance with certain specific provisions of laws, regulations, contracts and grants we determine to be necessary based on OMB's *Compliance Supplement (Compliance Supplement)*. The procedures outlined in the *Compliance Supplement* are those suggested by each Federal agency and do not cover all areas of regulations governing each program. Program reviews by Federal agencies may identify additional instances of noncompliance.

As required by OMB Circular A-133, we will prepare a written report which (1) provides our opinion on the schedule of expenditures of Federal awards in relation to the Association's financial statements taken as a whole, (2) provides our opinion on compliance with laws, regulations, contracts and grants that could have a direct and material effect on a major Federal program and (3) communicates our consideration of internal control over major Federal programs.

In addition to the OMB Circular A-133 requirements to maintain internal control and comply with laws, regulations, contracts and grants applicable to Federal Programs as discussed above, OMB Circular A-133 also requires the Association to prepare a:

- Schedule of expenditures of Federal awards,
- Summary schedule of prior audit findings,
- Corrective action plan, and
- Data collection form (Part I).

While we may be separately engaged to assist you in the preparation of these items, preparation is, and must remain, the responsibility of the Association.

Certain provisions of OMB Circular A-133 allow a granting agency to request that a specific program be selected as a major program provided that the Federal granting agency is willing to pay the incremental cost of such a selection. The Association agrees to notify KPMG LLP



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(KPMG) of any such request by a granting agency and to work with KPMG to modify the terms of this letter as necessary to accommodate such requests.

Registration Statements and Other Offering Documents

Should the Association wish to include or incorporate by reference these financial statements and our audit report(s) thereon into a future filing under the Securities Act of 1933, or an exempt offering, prior to our consenting to include or incorporate by reference our report(s) on such financial statements, we would consider our consent to the inclusion of our report and the terms thereof at that time. We will be required to perform procedures as required by the standards of the PCAOB (United States), including, but not limited to, reading other information incorporated by reference in the registration statement or other offering document and performing subsequent event procedures. Our reading of the other information included or incorporated by reference in the offering document will consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. However, we will not perform procedures to corroborate such other information (including forward-looking statements). The specific terms of our future services with respect to future filings or other offering documents will be determined at the time the services are to be performed.

Comfort Letters

Should a comfort letter be requested in connection with a future filing under the Securities Act of 1933, or an exempt offering, the specific terms of our services will be determined at that time. Prior to our issuance of a comfort letter, management of the Association agrees to supply us with a representation letter that will, among other things, confirm that no events have occurred that would require adjustments to (or additional disclosures in) the audited financial statements referred to above and confirm the Association's responses to certain inquiries made in connection with our issuance of the comfort letter.

Our responsibility to communicate with the Audit Committee

While the objective of our audit of the financial statements is not to report on the Association's internal control and we are not obligated to search for significant deficiencies or material weaknesses as part of our audit of the consolidated financial statements, we will communicate significant deficiencies or material weaknesses to you to the extent they come to our attention. Similarly, we will communicate significant deficiencies and material weaknesses to you to the extent they come to our attention in performance of quarterly review services.

We will report to you, in writing, the following matters prior to the filing of our audit report with the SEC:



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- Audit adjustments arising from the audit that could, in our judgment, either individually or in aggregate, have a significant effect on the Association's financial reporting process. In this context, audit adjustments, whether or not recorded by the entity, are proposed corrections of the financial statements that, in our judgment, may not have been detected except through the auditing procedures performed.
- Uncorrected misstatements aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in aggregate.
- All relationships between KPMG and its related entities and the Association and its related entities that, in our judgment, may reasonably be thought to bear on independence.
- Alternative treatments within GAAP for accounting policies and practices related to material items that have been discussed with management during the current audit period, including i) ramifications of the use of such alternative disclosures and treatments and the treatment preferred by us and ii) the process used by management in formulating particularly sensitive accounting estimates.
- Disagreements with management or other serious difficulties encountered in performance of our audit or review services.
- Critical accounting policies and practices applied in the financial statements and our assessment of management's disclosures regarding such policies and practices, including why certain policies and practices are or are not considered critical, and how current and anticipated future events impact those determinations.
- Other matters required to be communicated by Statement on Auditing Standards No. 61, *Communications with Audit Committees*, and adopted as an interim standard of the PCAOB.

We will also read minutes, if any, of audit committee meetings for consistency with our understanding of the communications made to you and determine that you have received copies of all material written communications between ourselves and management. We will also determine that you have been informed of i) the initial selection of, or the reasons for any change in, significant accounting policies or their application during the period under audit, ii) the methods used by management to account for significant unusual transactions and iii) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.



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To the extent that they come to our attention, we will inform the audit committee about any material errors and any instances of fraud or illegal acts. Further, to the extent they come to our attention we will also communicate to you fraud that involves senior management or that, in our judgment, causes a material misstatement of the financial statements and illegal acts that come to our attention, unless they are clearly inconsequential. In the case of illegal acts which, in our judgment, would have a material effect on the financial statements of the Association, we are also required to follow the procedures set forth in the Private Securities Litigation Reform Act of 1995, which under certain circumstances requires us to communicate our conclusions to the SEC.

If, in performance of our audit procedures, circumstances arise which make it necessary to modify our report or withdraw from the engagement, we will communicate to you our reasons for withdrawal. Similarly, if during performance of our quarterly review services we become aware of matters that cause us to believe the interim information filed, or to be filed, with the SEC (or other specified regulatory agency), is probably materially misstated as a result of a departure from U.S. GAAP, we will discuss such matters with management and, if appropriate, communicate such matters to you.

In addition, if we become aware of information that relates to the consolidated financial statements after we have issued our report(s) or completed our interim review procedures, but which was not known to us at the date of our report(s) or completion of our interim review procedures, and which is of such a nature and from such a source that we would have investigated that information had it come to our attention during the course of our audit and/or interim review procedures, we will, as soon as practicable; (1) communicate such an occurrence to you; and (2) undertake an investigation to determine whether the information is reliable and whether the facts existed at the date of our report(s) or completion of our interim review procedures. In conducting that investigation, we will have the full cooperation of the Association's personnel. If the subsequently discovered information is found to be of such a nature that (a) our report(s) or completion of our interim review procedures would have been affected if the information had been known as of the date of our report(s) or completion of our interim review procedures and (b) we believe that the report(s) or interim review procedures are currently being relied upon or are likely to be relied upon by someone who would attach importance to the information, appropriate steps will be taken to prevent further reliance on our report(s) or interim review procedures. Such steps include appropriate disclosures by the Association of the newly discovered facts and the impact to the financial statements.

Audit committee responsibilities

The audit committee is directly responsible for the appointment of KPMG as independent auditor, determining our compensation, and oversight of our audit work, including resolution of disagreements between management and us regarding financial reporting. We understand



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that we report directly to the audit committee. The audit committee is responsible for preapproval of all audit and nonaudit services provided by us.

Management responsibilities

The management of the Association is responsible for the fair presentation, in accordance with accounting principles generally accepted in the United States of America, of the financial statements, schedules, and interim financial information and all representations contained therein. Management also is responsible for identifying and ensuring that the Association complies with laws and regulations applicable to its activities, and for informing us of any known material violations of such laws and regulations. Management also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for establishing and maintaining effective internal controls and procedures for financial reporting to maintain the reliability of the financial statements or interim financial information and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements or interim financial information. Management is also responsible for informing us, of which it has knowledge, of all reportable conditions in the design or operation of such controls.

Management of the Association also agrees that all records, documentation, and information we request in connection with our audit will be made available to us, that all material information will be disclosed to us, and that we will have the full cooperation of the Association's personnel. As required by the standards of the PCAOB, we will make specific inquiries of management about the representations embodied in the financial statements or interim financial information and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests, among other things, comprise the evidential matter we will rely upon in forming an opinion on the financial statements.

Management is responsible for adjusting the annual financial statements and interim financial information to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon, or the interim information being reviewed, taken as a whole.

Dispute Resolution

Any dispute or claim arising out of or relating to the engagement letter between the parties, the services provided thereunder, or any other services provided by or on behalf of KPMG or any of its subcontractors or agents to the Association or at its request (including any dispute or



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claim involving any person or entity for whose benefit the services in question are or were provided) shall be resolved in accordance with the dispute resolution procedures set forth in Appendix II, which constitute the sole methodologies for the resolution of all such disputes. By operation of this provision, the parties agree to forego litigation over such disputes in any court of competent jurisdiction. Mediation, if selected, may take place at a place to be designated by the parties. Arbitration shall take place in Anchorage, Alaska. Either party may seek to enforce any written agreement reached by the parties during mediation, or to confirm and enforce any final award entered in arbitration, in any court of competent jurisdiction.

Notwithstanding the agreement to such procedures, either party may seek injunctive relief to enforce its rights with respect to the use or protection of (i) its confidential or proprietary information or material or (ii) its names, trademarks, service marks or logos, solely in the courts of the State of Alaska or in the courts of the United States located in the State of Alaska. The parties consent to the personal jurisdiction thereof and to sole venue therein only for such purposes.

Other matters

This letter shall serve as the Association's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between KPMG and the Association and between KPMG and outside specialists or other entities engaged by either KPMG or the Association. The Association acknowledges that e-mail travels over the public Internet, which is not a secure means of communication and, thus, confidentiality of the transmitted information could be compromised through no fault of KPMG. KPMG will employ commercially reasonable efforts and take appropriate precautions to protect the privacy and confidentiality of transmitted information.

Further, for purposes of the services described in this letter only, the Association hereby grants to KPMG a limited, revocable, non-exclusive, non-transferable, paid up and royalty-free license, without right of sublicense, to use all names, logos, trademarks and service marks of the Association solely for presentations or reports to the Association or for internal KPMG presentations and intranet sites.

KPMG is a limited liability partnership comprising both certified public accountants and certain principals who are not licensed as certified public accountants. Such principals may participate in the engagements to provide the services described in this letter.

Without our prior written approval, the Association will not solicit for employment, nor will the Association hire, any current or former partner or any professional employee of KPMG or any of its affiliated member firms, in a financial reporting oversight role (as defined in the SEC independence rules) if such partner or professional employee previously participated in the audit of the Association's consolidated financial statements or quarterly review procedures



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until the applicable "cooling off" period under the SEC independence rules has expired. That period would commence with the latest date on which the individual participated in the annual audit or quarterly review procedures and would expire upon the filing by the Association of its Form 10-K for the succeeding fiscal year.

Work Paper Access By Regulators and Others

The work papers for this engagement are the property of KPMG. In the event KPMG is requested pursuant to subpoena or other legal process to produce its documents relating to this engagement for the Association in judicial or administrative proceedings to which KPMG is not a party, the Association shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such requests.

However, we may be requested to make certain work papers available to the PCAOB or other regulatory agencies pursuant to authority given to it by law or regulation. If requested, access to such work papers will be provided under the supervision of KPMG personnel. Furthermore, upon request, we may provide photocopies of selected work papers to PCAOB or other regulatory agencies. The PCAOB or other regulatory agencies may intend, or decide, to distribute the photocopies or information contained therein to others, including the SEC and other government agencies. We agree to communicate to you on a timely basis any requests by the PCAOB for direct contact with members of the Audit Committee.

However, pursuant to SEC rules and regulations, we may be requested to make certain work papers available to the PCAOB or other regulatory agencies pursuant to authority given to it by law or regulation. If requested, access to such work papers will be provided under the supervision of KPMG personnel. Furthermore, upon request, we may provide photocopies of selected work papers to PCAOB or other regulatory agencies. PCAOB or other regulatory agencies may intend, or decide, to distribute the photocopies or information contained therein to others, including the SEC or governmental agencies. We will bill the Association at standard billing rates plus expenses to comply with any such requests.

Fees for Services

We estimate that our fees for these services, including expenses, will be as indicated on the attached Appendix I.

Circumstances encountered during the performance of these services that warrant additional time or expense could cause us to be unable to deliver them within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed. This fee estimate does not include time and expenses for registration statements, bond offerings, accounting



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assistance, nonrecurring services or special projects. Such services, if any, will be billed at separately negotiated rates plus expenses.

While the audit report may be sent to the Association, Inc. electronically by the KPMG engagement partner for the Association's convenience, only the signed (electronically or manually) report constitutes the Association's record copy.

As required by *Government Auditing Standards*, we have attached a copy of KPMG's most recent peer review report.

We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign and return it to us.

Very truly yours,

KPMG LLP

A handwritten signature in black ink, appearing to read 'Kathleen Porterfield', written in a cursive style.

Kathleen A. Porterfield
Managing Partner

KAP:ph

Enclosures



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ACCEPTED:

Chugach Electric Association, Inc.

Chair of the Audit Committee

Title

Date

Pricewaterhouse Coopers LLP
500 Campus Drive
P.O. Box 805
Florham Park NJ 07932
Telephone (973) 236 7000
Facsimile (973) 236 7200

To the Partners of KPMG LLP
and the SEC Practice Section Peer Review Committee:

We have reviewed the system of quality control for the accounting and auditing practice of KPMG LLP (the firm) in effect for the year ended March 31, 2002. A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of complying with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (the AICPA). The design of the system, and compliance with it, are the responsibilities of the firm. In addition, the firm has agreed to comply with the membership requirements of the SEC Practice Section of the AICPA Division for CPA Firms (the Section). Our responsibility is to express an opinion on the design of the system, and the firm's compliance with that system and the Section's membership requirements based on our review.

Our review was conducted in accordance with standards established by the Peer Review Committee of the Section and included procedures to plan and perform the review that are summarized in the attached description of the peer review process. Our review would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it or with the membership requirements of the Section since it was based on selective tests. Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice of KPMG LLP in effect for the year ended March 31, 2002, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA, and was complied with during the year then ended to provide the firm with reasonable assurance of complying with professional standards. Also, in our opinion, the firm complied during that year with the membership requirements of the Section in all material respects.

As is customary in a peer review, we have issued a letter under the date that sets forth comments relating to certain policies and procedures or compliance with them. The matters described in the letter were not considered to be of sufficient significance to affect the opinion expressed in this report.

PricewaterhouseCoopers LLP

October 28, 2002

October 28, 2002

To the Partners of KPMG LLP
and the SEC Practice Section Peer Review Committee:

We have reviewed the system of quality control for the accounting and auditing practice of KPMG LLP (the firm) in effect for the year ended March 31, 2002, and have issued our report thereon dated October 28, 2002. The matters described below were not considered to be sufficient significance to affect the opinion expressed in that report, which should be read in conjunction with this letter.

Engagement Performance

Comment – The firm has comprehensive policies and procedures regarding the supervision of engagement personnel and review of their work, including assuring that procedures performed and findings and conclusions have been adequately documented. It was noted in our review, as well as in the firm's internal inspection, that the review and supervision process on some engagements did not identify instances where (i) the audit work performed and the related conclusions were not fully documented, (ii) minor financial statement disclosures were overlooked. There were certain areas in which these observations were more prevalent than others, including income taxes (principally the consideration of key accounting issues and the testing of certain tax-related items), analytical procedures (principally the development and documentation of expectations), and the qualifications of external experts. Through discussion with firm personnel and the review of documentation on the engagements that led to this comment, we were satisfied that the nature and significance of each instance would not have altered the conclusions reached or impacted the financial statements taken as a whole.

Recommendation – We recommend that the firm reinforce its review and supervision policies and procedures through enhanced training and coaching, and consider other practices aimed at continually improving the consistency of their performance. Particular emphasis should be placed on the specific areas described above.

Personnel Management

Comment – The firm's policies for performance management include processes for goal setting, individual evaluation and interim and annual assessments. Our testing identified instances where these processes were not documented in a timely manner, including instances where annual evaluations were not on file prior to announcing promotions.

Recommendation – We recommend formal communications to all professional staff emphasizing the importance of timely and meaningful feedback to the development of personnel, and more rigorous monitoring and follow-up on untimely or missing documentation.

PricewaterhouseCoopers LLP



757 Third Avenue
New York, NY 10017

Telephone 212 758 9700
Fax 212 872 3001

October 28, 2002

SECPS Peer Review Committee
c/o American Institute of Certified Public Accountants
Practice Monitoring Department
Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311-3881

Ladies and Gentlemen:

This letter represents our response to the letter of comments issued in connection with our firm's peer review for the year ended March 31, 2002, and should be read in conjunction with that letter.

The firm will issue a communication to all professionals to focus their attention on the matters noted during the peer review. Peer review results and action steps will be discussed at the Firm's annual partners' meeting in November and at its meeting of SEC Reviewing Partners in December. In addition, training will be conducted before December 31 for all audit personnel, at which the matters set out in the letter of comments will be specifically addressed.

Engagement Performance

The aforementioned communications and training will highlight the firm's requirements pertaining to supervision of engagement personnel and review of their work, including assuring the documentation of procedures performed, findings and conclusions, particularly for income tax accounts, analytical procedures, and assessment of the qualifications of external experts.

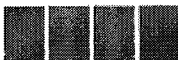
Personnel Management

The firm has strengthened its follow-up procedures for performance evaluations, and is currently following up on evaluations that were not on file. This matter will be reemphasized in communications to all personnel.

* * * * *

Implementation of the actions set out in this letter will be closely monitored by risk management and professional practice partners, and will be given special emphasis during our annual Quality Performance Review Program.

KPMG LLP



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

Appendix I

<u>Classification</u>	<u>Hours</u>	<u>Rates</u>	<u>Fees</u>
Audit			
Partner	30	\$ 350	\$ 10,500
Manager	60	200	12,000
Senior Associate	170	130	22,100
Associate	160	100	16,000
Total	420		\$ 60,600
Quarterly Reviews – 3 Quarters			
Partner	24	\$ 350	\$ 8,400
Manager	45	200	9,000
Senior Associate	120	130	15,600
Associate	0	100	0
Total	189		\$ 33,000
Grand Total	609		\$ 93,600
State single audit (if required)			
Partner	5	\$ 350	\$ 1,750
Manager	10	200	2,000
Senior Associate	40	130	5,200
Associate	0	100	0
Total	55		\$ 8,950
Federal single audit (if required)			
Partner	5	\$ 350	\$ 1,750
Manager	10	200	2,000
Senior Associate	40	130	5,200
Associate	0	100	0
Total	55		\$ 8,950
Other Matters			
Partner	50	\$ 350	\$ 17,500
Manager	100	200	20,000
Senior Associate	50	130	6,500
Associate	0	100	0
Total	200		\$ 44,000

Appendix I cont.

Where KPMG is reimbursed for expenses, it is KPMG's policy to bill clients the amount incurred at the time the good or service is purchased. If KPMG subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, KPMG does not credit such payment to the client. Instead, KPMG applies such payments to reduce its overhead costs, which costs are taken into account in determining KPMG's standard billing rates and certain transaction charges which may be charged to clients.

Dispute Resolution Procedures

The following procedures are the sole methodologies to be used to resolve any controversy or claim ("dispute"). If any of these provisions are determined to be invalid or unenforceable, the remaining provisions shall remain in effect and binding on the parties to the fullest extent permitted by law.

Mediation

Any party may request mediation of a dispute by providing a written Request for Mediation to the other party or parties. The mediator, as well as the time and place of the mediation, shall be selected by agreement of the parties. Absent any other agreement to the contrary, the parties agree to proceed in mediation using the CPR Mediation Procedures (effective April 1, 1998) issued by the Center for Public Resources, with the exception of paragraph 2 which shall not apply to any mediation conducted pursuant to this agreement. As provided in the CPR Mediation Procedures, the mediation shall be conducted as specified by the mediator and as agreed upon by the parties. The parties agree to discuss their differences in good faith and to attempt, with facilitation by the mediator, to reach a consensual resolution of the dispute. The mediation shall be treated as a settlement discussion and shall be confidential. The mediator may not testify for any party in any later proceeding related to the dispute. No recording or transcript shall be made of the mediation proceeding. Each party shall bear its own costs in the mediation. Absent an agreement to the contrary, the fees and expenses of the mediator shall be shared equally by the parties.

Arbitration

Arbitration shall be used to settle the following disputes: (1) any dispute not resolved by mediation 90 days after the issuance by one of the parties of a written Request for Mediation (or, if the parties have agreed to enter or extend the mediation, for such longer period as the parties may agree) or (2) any dispute in which a party declares, more than 30 days after receipt of a written Request for Mediation, mediation to be inappropriate to resolve that dispute and initiates a Request for Arbitration. Once commenced, the arbitration will be conducted either (1) in accordance with the procedures in this document and the Rules for Non-Administered Arbitration of the CPR Institute for Dispute Resolution ("CPR Arbitration Rules") as in effect on the date of the engagement letter or contract between the parties, or (2) in accordance with other rules and procedures as the parties may designate by mutual agreement. In the event of a conflict, the provisions of this document and the CPR Arbitration Rules will control.

The arbitration will be conducted before a panel of three arbitrators, two of whom may be designated by the parties using either the CPR Panels of Distinguished Neutrals or the Arbitration Rosters maintained by any United States office of the Judicial Arbitration and

Appendix II cont.

Mediation Service (JAMS). If the parties are unable to agree on the composition of the arbitration panel, the parties shall follow the screened selection process provided in Section B, Rules 5, 6, 7, and 8 of the CPR Arbitration Rules. Any issue concerning the extent to which any dispute is subject to arbitration, or any dispute concerning the applicability, interpretation, or enforceability of these procedures, including any contention that all or part of these procedures are invalid or unenforceable, shall be governed by the Federal Arbitration Act and resolved by the arbitrators. No potential arbitrator shall be appointed unless he or she has agreed in writing to abide and be bound by these procedures.

The arbitration panel shall issue its final award in writing. The panel shall have no power to award non-monetary or equitable relief of any sort. Damages that are inconsistent with any applicable agreement between the parties, that are punitive in nature, or that are not measured by the prevailing party's actual damages, shall be unavailable in arbitration or any other forum. In no event, even if any other portion of these provisions is held to be invalid or unenforceable, shall the arbitration panel have power to make an award or impose a remedy that could not be made or imposed by a court deciding the matter in the same jurisdiction.

Discovery shall be permitted in connection with the arbitration only to the extent, if any, expressly authorized by the arbitration panel upon a showing of substantial need by the party seeking discovery.

All aspects of the arbitration shall be treated as confidential. The parties and the arbitration panel may disclose the existence, content or results of the arbitration only as provided in the CPR Arbitration Rules. Before making any such disclosure, a party shall give written notice to all other parties and shall afford such parties a reasonable opportunity to protect their interests.

The award reached as a result of the arbitration will be binding on the parties, and confirmation of the arbitration award may be sought in any court having jurisdiction.