

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

November 29, 2006

Early (Discounted) Capital Credits Payments

Chugach implemented an early payment plan for capital credits in late 2004. With this option, a former member can receive their capital credits early at a discounted amount. The plan was submitted to the Internal Revenue Service and a private letter ruling was received to ensure it did not impact Chugach's tax exempt status.

The authority for this program is Board Policy 126 (Business Planning and Financial Management). Excerpts from the Patronage Capital portion of this policy state:

“At the Board’s option, early retirements of capital credits may be discounted to approximate the Association’s current cost of equity capital”.

“...the Board will look to the most recent cost of equity capital set by the RCA...Alternatively, the Board may use the 10 Year NRUCFC borrowing rate plus 3%, if the resulting rate is higher...”

The goals of the early retirement plan are as follows:

- Reduce administrative expenses by no longer needing to send checks and maintain records for memberships that are “cashed out”.
- Build equity by recognizing the difference between the amount paid and the face value of the capital credits retired as donated capital.
- Reduce future funding requirements. When a former member takes an early payment, the amount by which it is discounted (i.e., the donated portion) is also the total of future year’s capital credits for the membership that no longer need to be funded.
- Provide a voluntary option to former patrons to collect capital credits prior to normal retirements.

Specifics of the early retirement plan include:

- The funding level is \$500,000 per year, which can be decreased or increased at the discretion of the Board.

- Only former members can cash in their capital credits and outstanding debts will be recovered against any payments.
- The discount rate will be per Board Policy 126. Since the cost of equity granted by the RCA in the last rate case is very low, the applicable discount rate is the NRUCFC rate plus 3%. The discount rate for 2006 was 9.75% and the rate for 2007 is expected to be approximately 10.0%.
- Payment will be at present value and the member will be clearly informed of amounts to be paid and donated. The member signs off on an authorization form that presents this information.

This program has been used extensively and effectively since it was implemented. Results for the past two years are as follows:

	<u>2005</u>	<u>2006</u>
Payments	662	804
Discounted amount paid (net)	\$397,376	\$471,681
Bad debts recovered	1,533	10,254
Donated capital	<u>282,517</u>	<u>346,821</u>
Capital credits retired	\$681,426	\$828,756

To continue this program in 2007, an action item and the attached resolution will be brought to the Board at the December Board Meeting.

RESOLUTION

WHEREAS, Chugach Electric Association, Inc. (Chugach) has developed a plan to pay discounted capital credits to former members before normal retirements; and

WHEREAS, Chugach has received a Private Letter Ruling from the Internal Revenue Service stating the discounted capital credits retirement plan does not jeopardize Chugach's tax-exempt status; and

WHEREAS, the plan provides that the amount available for discounted capital credit payments to former members should be limited to \$500,000 per year to ensure funds are available for normal capital credit retirements; and

WHEREAS, Chugach's bylaws require Board approval of capital credit retirements; and

WHEREAS, the Board of Directors has determined that a retirement under this early payment plan in 2007 will not impair the financial condition of the Association; and

WHEREAS, early payments of capital credits include payments to estates of deceased patrons; and

WHEREAS, estate and other early payments will be made on a frequent basis and it would delay these payments if Board approval is required for each specific early retirement being paid;

NOW THEREFORE, BE IT RESOLVED, Chugach shall make early payments of capital credits to former members and estates who request early retirements under the plan in the actual discounted amount, not to exceed \$500,000 in cash payments for 2007.

BE IT FURTHER RESOLVED, before receiving a payment under this plan, any member with an outstanding electric debt will be required to first pay the outstanding debt or acknowledge the capital credit payment will be reduced by the amount necessary to satisfy the outstanding debt.

BE IT FURTHER RESOLVED, any payments under the plan for 2007 will be at the present value based on a discount rate derived generally using the NRUCFC 10-year long-term fixed borrowing rate plus 3%.

CERTIFICATION

I, _____, do hereby certify that I am _____ Secretary of Chugach Electric Association, Inc., an electric non-profit cooperative membership corporation organized and existing under the laws of the State of Alaska: that the foregoing is a complete and correct copy of a resolution adopted at a meeting of the Board of Directors of this corporation, duly and properly called and held on the _____ day of _____, 20____; that a quorum was present at the meeting; that the resolution is set forth in the minutes of the meeting and has not been rescinded or modified.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of this corporation the _____ day of _____, 20____.

(Seal)

Secretary