

Treasurer's Report

Chugach continued its rebound from the adverse Regulatory Commission of Alaska (RCA) ruling and subsequent financial results reported in 2002. 2004's year-end "bottom line" or "margins" (as they are referred to in the cooperative world) were \$7.6 million. Chugach earned these margins based on \$189.5 million of direct sales of electricity, \$8.9 million of economy energy sales and \$2.8 million of other revenues, an increase of \$17.2 million from 2003. We sold 2.6 billion kilowatt hours (kWh) of electricity, an increase of 132 million kWh over 2003.

We appealed several decisions of the Regulatory Commission of Alaska (RCA) in our last rate case to the Superior Court. The Superior Court issued its decision November 25, 2004, letting all of the decisions of the RCA stand.

To better track our costs and manage our Association business, Chugach will begin in 2005 to report financial results for the Generation and Transmission (G&T) and the Distribution functions separately. The Generation and Transmission part of the business provides the higher voltage electrical power for both our members and wholesale customers like Homer Electric and Matanuska Electric Associations. The Distribution part of our business is responsible for taking that higher voltage electrical power and sending it to all of our member's homes and businesses. This reporting change is being driven in part by the results of the 2002 rate case before the RCA and a desire to better understand how the different divisions of Chugach perform financially. While Chugach as a whole finished with positive margins in 2003, the G&T division of our business operated at a \$628 thousand loss and we expect final 2004 results for the G&T division to also show a loss. The Distribution side has been healthier and has provided all of the margins for Chugach as well as covering the losses on the G&T side. Due to increased power production forecast and certain allocations, our most recently adopted Business Plan forecasts the G&T Division will begin to generate positive margins in 2006.

Chugach is continually striving to provide reliable, safe and competitively priced power. Over the past ten years, our number of employees has remained constant while the power we produced has increased 23% and the number of Chugach services has increased 19%. Chugach is the most efficient and low cost producer of electrical energy in the Railbelt.

Chugach continued to manage debt to take advantage of historically low interest rates. Our existing variable rate long-term debt priced monthly at a rate of 1.5 percent in 2004. Compared to last year, our total interest expense was reduced by \$1.5 million.

Our bond ratings remained unchanged in 2004 reflecting the rating agencies' confidence in Chugach's ability to meet future operational and financial challenges.

The Finance and Audit Committees continued to be very active in the accounting and financial matters of Chugach. We are confident in the accounting, internal controls and reporting of the finances of our Association. Our external auditor again noted "no exceptions" to our 2004 financial statements, which are contained in this annual report.

Chugach returned patronage capital to our members in 2004 in the amount of \$3.2 million. We have approved a Financial Management Plan that projects our ability to return margins to our members over the next five years at a level equal to 50% of the prior years' margins, an average retirement of \$4.0 million per year.

Chugach continued to operate and maintain the system that provides reliable and cost effective electric energy to our member owners from Homer to Fairbanks within the approved 2004 Operating and Capital Budgets.