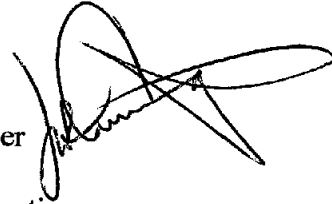


CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

March 14, 2006

TO: Bill Stewart, Interim Chief Executive Officer
FROM: Michael R. Cunningham, Chief Financial Officer
SUBJECT: Footnote 4 – Investments In Associated Organizations



At the February 22, 2006 Audit Committee meeting Director Cottrell posed a question concerning footnote 4 of the 2005 audited financial statements. This footnote discloses Chugach's "Investments in Associated Organizations". These investments comprise, for the most part, our required equity investment with a prior (National Rural Cooperative Finance Corporation (NRUCFC)) and a current lender – CoBank.

As part of the lending agreements with each, the borrower (Chugach) was and is currently required to provide capital to the lender that will be returned over time to the borrower. The lender agrees to pay interest or return patronage capital to the borrower during either the life of the loan or the life of the "certificate" we purchased.

The majority of the balance in this footnote (\$6,095,980) is represented by "Capital Term Certificates" (CTC's) we purchased from NRUCFC during the time we were a Rural Electrification Administration (REA) borrower. I have attached a schedule of these CTC's showing when each was acquired, the interest rate we earn on them and the total amount of interest we annually receive (\$146,848.20 in 2005).

I also attached a recent NRUCFC "Solutions" publication containing an article "CFC Owners to Receive \$22 million Interest on CTC's" that details the purpose of the CTC's, and the amortization periods (50 or 100 years, depending on date of issuance) for the certificates.

The other large balance in this footnote (\$5,628,192) represents Chugach's investment in the National Bank for Cooperatives (CoBank). CoBank is one of Chugach's main lenders and served as our supplemental lender during the last years of our association with REA. CoBank has a capital plan that returns patronage capital to its borrowers each year in the form of stock and cash. Over the year's, Chugach's stock position in CoBank has grown to the current balance reflected in the footnote. We have also received cash payments each year – in 2005 we received 80% of our patronage capital in the form of cash (\$460,000) and 20% of the patronage dividend was added to our stock balance (\$115,000). The cash payment of patronage effectively reduces Chugach's interest rate on all our CoBank debt by .8% (80 basis points).

We have an additional investment in CFC certificates that is amortizing. This is the \$41,677 for 2005, down from \$46,662 at the end of 2004.

The "Other" balance of \$117,204 represent capital credits assigned by other utilities for our purchases of utility services.

Attachments

Chugach Electric Association, Inc.
Notes to Financial Statements
December 31, 2005 and 2004

(3) Utility Plant

Major classes of electric plant as of December 31 are as follows:

	<u>2005</u>	<u>2004</u>
Electric plant in service:		
Steam production plant	\$60,462,671	\$60,462,671
Hydraulic production plant	20,241,725	18,180,685
Other production plant	132,990,991	134,495,475
Transmission plant	226,544,759	222,483,924
Distribution plant	219,597,822	213,119,035
General plant	52,606,167	53,678,686
Unclassified electric plant in service	43,651,171	39,300,159
Other	<u>6,763,892</u>	<u>6,763,892</u>
Total electric plant in service	762,859,198	748,484,527
Construction work in progress	<u>32,505,401</u>	<u>25,278,388</u>
Total electric plant in service and construction work in progress	<u>\$795,364,599</u>	<u>\$773,762,915</u>

Unclassified electric plant in service consists of complete unclassified of general plant, generation, transmission and distribution projects. Depreciation of unclassified electric plant in service has been included in functional plant depreciation accounts in accordance with the anticipated eventual classification of the plant investment.

(4) Investments in Associated Organizations

Investments in associated organizations, which are non-marketable and accounted for at cost, include the following at December 31:

	<u>2005</u>	<u>2004</u>
National Rural Utilities Cooperative Finance Corporation (NRUCFC)	\$6,095,980	\$6,095,980
National Bank for Cooperatives (CoBank)	5,628,192	5,513,192
NRUCFC capital term certificates	41,677	42,662
Other	<u>117,204</u>	<u>116,623</u>
Total Investments in Associated Organizations	<u>\$11,883,053</u>	<u>\$11,768,457</u>

Chugach Electric Association, Inc.
Notes to Financial Statements
December 31, 2005 and 2004

(4) Investments in Associated Organizations (continued)

The Farm Credit Administration, CoBank's federal regulators, requires minimum capital adequacy standards for all Farm Credit System institutions. CoBank's loan agreements require, as a condition of the extension of credit, that an equity ownership position be established by all borrowers. Chugach's investment in NRUCFC similarly was required by Chugach's financing arrangements with NRUCFC.

(5) Deferred Charges and Credits

Deferred Charges

Deferred charges, or regulatory assets, net of amortization, consisted of the following at December 31:

	2005	2004
Debt issuance and reacquisition costs	\$9,392,807	\$10,981,260
Refurbishment of transmission equipment	206,791	216,050
Computer software and conversion	330,946	740,771
Studies	5,758,382	4,646,181
Business venture studies	171,378	172,578
Fuel supply negotiations	233,314	256,030
Major overhaul of steam generating unit	1,503,192	1,895,329
Environmental matters and other	149,879	74,304
Other regulatory deferred charges	<u>1,523,029</u>	<u>1,568,380</u>
Total deferred charges	<u>\$19,269,718</u>	<u>\$20,550,883</u>

At December 31, 2005 and 2004, \$6.4 million and \$5.6 million, respectively, of total deferred charges represent regulatory assets in progress and are not currently being amortized, however, Chugach expects recovery, as well as a recovery period determination in the future. The majority of these charges represent costs associated with the Cooper Lake Power Plant FERC re-licensing effort. Over/under recovered fuel costs is not included in Deferred Charges or Deferred Credits.

CFC INTEREST ON CAPITAL TERM CERTIFICATES 2005

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION (CFC)
 CAPITAL TERM CERTIFICATES a/c 12322000002101
 DEBIT ACCOUNT 17100102002101 "INTEREST & DIVIDENDS RECEIVABLE"
 CREDIT ACCOUNT 41900102002101 "INTEREST & DIVIDEND INCOME"

DATE	SERIE	CERTIFICA	INTERES	AMOUNT	ACCRUAL SEPTEMBER	SEMIANNUAL ACCRUED	SEMIANNUAL PAYMENT	ADJUSTMENT TO
	NUMBER		RATE	12322000002101	30	9/30/05	RECEIVED	ACTUAL
01-Oct-73	2020	L-0705	3.0000%	13,100.00	32.30	197.04	197.04	0.00
01-Apr-74	2020	L-0933	3.0000%	46,050.00	113.55	692.64	692.64	0.00
01-Apr-75	2020	L-1307	3.0000%	134,600.00	331.89	2,024.52	2,024.52	0.00
01-Oct-76	2025	L-2359	3.0000%	116,750.00	287.88	1,756.05	1,756.05	0.00
01-Oct-78	2025	L-2877	3.0000%	45,850.00	113.05	689.61	689.61	0.00
01-Oct-81	2030	L-4355	3.0000%	238,900.00	589.07	3,593.31	3,593.31	0.00
01-Oct-70	2020	725	5.0000%	203,059.00	834.49	5,090.40	5,090.40	0.00
01-Oct-71	2020	804	5.0000%	203,059.00	834.49	5,090.40	5,090.40	0.00
01-Oct-72	2020	2309	5.0000%	203,058.00	834.48	5,090.34	5,090.34	0.00
01-Oct-73	2020	3173	5.0000%	133,828.00	549.98	3,354.87	3,354.87	0.00
01-Oct-74	2020	4106	5.0000%	146,122.00	600.50	3,663.06	3,663.06	0.00
01-Oct-75	2025	5821	5.0000%	150,627.00	619.02	3,776.01	3,776.01	0.00
01-Oct-76	2025	6681	5.0000%	205,502.00	844.53	5,151.63	5,151.63	0.00
01-Oct-77	2025	7508	5.0000%	282,707.00	1,161.81	7,087.05	7,087.05	0.00
01-Oct-78	2025	8345	5.0000%	332,477.00	1,366.34	8,334.69	8,334.69	0.00
01-Oct-79	2025	9115	5.0000%	413,458.00	1,699.14	10,364.76	10,364.76	0.00
01-Oct-80	2030	10743	5.0000%	441,213.00	1,813.20	11,060.52	11,060.52	0.00
01-Oct-81	2030	11591	5.0000%	461,529.00	1,896.69	11,569.83	11,569.83	0.00
01-Oct-82	2030	12442	5.0000%	491,989.00	2,021.87	12,333.42	12,333.42	0.00
01-Oct-83	2030	13296	5.0000%	731,493.00	3,006.14	18,337.44	18,337.44	0.00
01-Oct-84	2030	14153	5.0000%	1,100,609.00	4,523.05	27,590.61	27,590.61	0.00
TOTALS				6,095,980.00	24,073.47	146,848.20	146,848.20	0.00
YEAR-TO-DATE					146,848.20			146,848.20

Solutions

Service Integrity Excellence

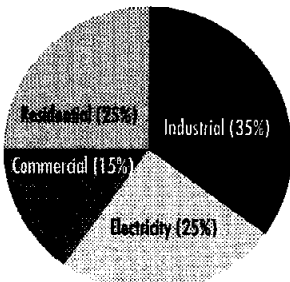
MARCH 3, 2006 | VOL. 8, NO. 7

Why Natural Gas Prices Are So High

Gas prices have increased to record levels—December prices “topped \$15 per million BTUs, more than double prices seen last summer and seven times the prices common during the 1990s,” according to a report issued in February by The U.S. Government Accountability Office (GAO) titled “Natural Gas: Factors Affecting Prices and Potential Impacts on Consumers.” For the current heating season, consumers are paying 35 percent more than they paid last winter.

The substantial price increases are having a major impact on all consumers of natural gas, including families, manufacturers, commercial users and electric utilities. A significant share of the increased gas demand is due to higher reliance on this fuel for electricity generation. Use of natural gas by the electric generating sector increased by 79 percent from 1987-2004. Gas now accounts for nearly

CHART 1
Gas Consumption



Source: Energy Information Administration

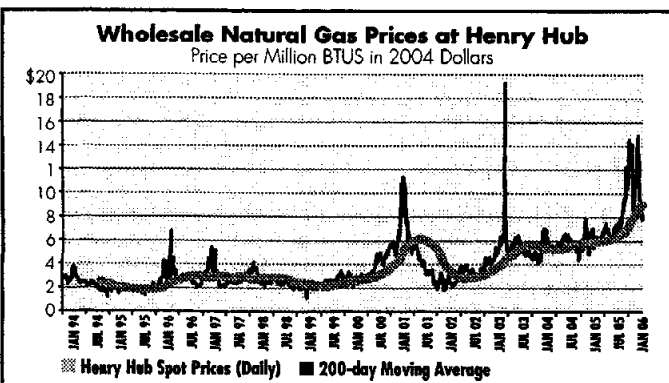
20 percent of electric generation, up from 15 percent in 1999.

One-fourth of all gas is used for generating electricity. (See Chart 1.) For G&T cooperatives, gas supplies only 6.7 percent of electricity generation, although 80 percent of generating G&Ts own some gas generation, used primarily for peaking. Since 1999, demand for natural gas has exceeded supply, resulting in a very tight market and an upward

trend in prices. The GAO also said market manipulation may be a factor increasing prices and the federal agency is investigating further.

Unlike electricity prices, which are relatively stable, natural gas prices are volatile and experience massive price spikes.

CHART 2



Source: GAO analysis of data provided by Global Insight, Inc.

(See Chart 2.) Prices spiked late last year when two hurricanes hit the Gulf Coast region, disrupting a substantial portion of U.S. natural gas supply.

In recent years, domestic gas production has held steady at about 19 trillion cubic feet. Imports, largely from Canada, have provided the growth in use and account for about 15 percent of U.S. gas consumption.

The GAO concludes that as higher gas prices persist, natural gas markets could pose significant challenges for the country. Many households will have to pay a higher percentage of their income for home heating and other uses of natural gas, including electricity, for many years to come.

CFC Owners to Receive \$22 Million Interest on CTCs

Over the next 30 days, CFC will distribute nearly \$22 million in interest earnings and \$9.5 million in amortization to member-owners. The payments are based on the Capital Term Certificates that CFC borrowers purchased either as a result of membership in CFC or loans from CFC.

“This is one of the many ways electric cooperatives earn a return on their investment in CFC,” CFC Governor and CEO Sheldon C. Petersen said. “During the last five years, CFC has returned more than \$220 million to the electric cooperative network in CTC interest payments.”

As a cooperative lender, CFC calls upon its owner-borrowers to help capitalize the organization. Such investments by its owners give CFC a stronger equity base, which in turn allows CFC to obtain more favorable rates in the capital markets and to pass savings on to cooperative borrowers through lower interest rates.

Subscription Capital Term Certificates (SCTCs)—referred to as membership certificates—serve as the long-term base equity at CFC for issuance of debt in the capital markets. SCTCs were originally issued for a term of 50 years. In 1983 CFC requested that the borrower’s extend their SCTC terms to 100 years and, in return, increased the interest rate paid on SCTCs from 3 percent to 5 percent. Interest on the SCTCs is paid semi-annually in April and October.

Loan Capital Term Certificates (LCTCs) are generally required in amounts based on loan size and the borrower’s ratio of CFC debt to equity. Depending upon the date the loans were approved, LCTCs may or may not be interest bearing and may or may not amortize. For LCTCs that are interest bearing, interest is paid semi-annually in April and October. For LCTCs that amortize, the amortization is paid annually in March.

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CoBank, ACB Capital System
Statement of Account Activity from 01/01/2004 to 12/31/2004

Customer Number: 22020105

CHUGACH ELECTRIC ASSOCIATION, INC.
P O BOX 196300
ANCHORAGE, AK 99519-6300

<u>Effective Date</u>	<u>Entry Date</u>	<u>Transaction Description</u>	<u>Amount</u>
E-Stock:			
1/1/2004		Beginning Balance	\$5,132,821.94
12/31/2004	2/22/2005	Qualified Patronage Allocation - ACH	\$380,370.02
<i>Total for E-Stock</i>			\$5,513,191.96
Grand Total for CHUGACH ELECTRIC ASSOCIATION, INC.			<u>\$5,513,191.96</u>

Karen Merkle

From: Jody Wolfe
Sent: Tuesday, January 10, 2006 8:32 AM
To: Karen Merkle
Subject: FW: 2005 Patronage

Go ahead and write up this entry..See me if you need a little assistance...!!! We might as well get some of them out of the way!! Note the cash portion ie...14300 is 80% or 460K..thxx

-----Original Message-----

From: McFarlane, John. [mailto:MCFARLJ@cobank.com]
Sent: Tuesday, January 10, 2006 8:27 AM
To: Mike Cunningham
Cc: Jody Wolfe
Subject: RE: 2005 Patronage

Based on projected loan volume of \$57.5 million and a 1% patronage rate, your total patronage should be about \$575,000. Your equity is now over 7% so the cash portion should be 80% or about \$460,000, leaving \$115,000 in stock. Major bucks!! Major benefit!!

From: Mike Cunningham [mailto:Mike_Cunningham@chugachelectric.com]
Sent: Tuesday, January 03, 2006 4:13 PM
To: McFarlane, John.
Cc: WOLFE, JODY
Subject: 2005 Patronage

John,

I know it is early, but wanted to get my request in for our 2005 CoBank patronage as soon as possible. We are on a tight timeline for closing the books this time.

Thanks.

Mike Cunningham

Senior Vice President,
Chief Financial Officer
Chugach Electric Association, Inc.
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907-762-4514 (fax)
907-230-9478 (cell)
mike_cunningham@chugachelectric.com