


**CHUGACH ELECTRIC ASSOCIATION, INC.**  
**Anchorage, Alaska**

**December 2, 2008**

**To:** Brad Evans, CEO  
Mike Cunningham, CFO

**From:**  Dave Smith, Sr. Vice President Administration  
Jody Wolfe, Controller

**Subject:** SOX testing for 2008

As was the case with testing for 2007, Chugach is not required to include an attestation report by our independent registered public accounting firm, KPMG LLP, regarding internal control over financial reporting at December 31, 2008. Once again, pursuant to temporary rules of the Securities and Exchange Commission, we are permitted to provide only management's certification as to the existence and effectiveness of internal controls in the annual 10K filing.

To prepare for this year's testing, we have been working with KPMG LLP to determine what testing is required. The threshold for determining materiality is \$1.2m based on our projected 2008 revenues. In our initial development during 2007 with our outside consulting group, we performed over 180 tests. After further evaluation and discussions with KPMG LLP, we have pared this down to 88 by combining tests, concentrating on the key controls and reducing redundant controls. When we met with KPMG LLP to define this year's testing, they agreed that a risk based approach on SOX testing would be appropriate based on SEC and PCAOB guidance. Based on our analysis of the risks regarding financial reporting, we will test controls in the following areas:

- Revenue cycle
- Supply Chain cycle
- Payroll cycle
- Plant Accounting cycle
- General Accounting cycle
- Financial Reporting cycle
- Treasury and Cash Management cycle
- Equity cycle
- Entity level documentation

We will perform the tests "in house" using a methodology where every test is verified independently. During their annual financial statement audit, KPMG LLP will randomly perform selected tests to verify our results as considered necessary to support their opinion on the financial statements. However, they are not required to conclude on our internal controls over financial reporting for 2008.

All testing will be complete by the end of the annual audit in February.