

**Chugach Electric Association, Inc.
Anchorage, Alaska**

October 28, 2004

To: Joe Griffith – Chief Executive Officer
Through: Bill Stewart – Senior Vice President, Administration
From: Ron Vecera – Director, Member Services
Subject: Implementation of Capital Credits Discounting

All aspects of this program are complete and outstanding issues emanating from the Private Letter Ruling request have been resolved. Thus, this program will be implemented the first week of November 2004.

Capital credits paid early for an inactive membership will be at present value based on a discount rate equal to the NRUCFC 10 year rate plus 3%. Thus, the current discount rate is 9.2%.

The benefits that Chugach will realize include reduced administrative expense, building permanent equity via donated capital (i.e., the difference between face value and the amount paid), reducing the funds required to retire future years and providing former members an option with respect to when they receive their capital credits.

We have a backlog of approximately 260 estate requests totaling \$245,000. The implementation will begin by sending them letters giving them the option of taking the early payment amount they are quoted or the full face amount over the normal retirement schedule. If all pending estates elected to receive the discounted amount, Chugach will pay approximately 42 cents for each dollar of face value. Specifically, we would pay about \$101,900 to retire the \$245,000.

In addition to realizing financial and other benefits, payments will begin immediately because pending estate claims have been waiting for up to 20 months and there is frustration about the delay and the level of service being provided. Also, another large batch of claims will come in once retirement checks are sent in December. Thus, we are motivated to begin systematically processing the workload in this area.

Once these estate claims have been handled, we will begin processing requests from former members who are interested in getting their capital credits early. These will be handled individually and there is no plan to advertise or otherwise “market” this option at this time.