

FITCH AFFIRMS CHUGACH ELECTRIC ASSOCIATION \$270MM SERIES A AT 'A-'; OUTLOOK STABLE

Fitch Ratings-New York-07 January 2010: Fitch Ratings affirms its 'A-' rating to the Chugach Electric Association, Inc.'s (Chugach), \$270 million in outstanding senior unsecured Series A bonds. The Rating Outlook is Stable.

The rating affirmation takes into account Chugach's \$300 million tax-exempt commercial paper program (not rated by Fitch), of which, \$55 million is currently drawn upon. In addition, the rating considers \$37.6 million of privately held (not rated) long-term obligations from Cobank ACB (rated 'AA-/F1+' by Fitch).

RATING RATIONALE:

--The rating affirmation reflects Chugach's solid financial performance measures, constructive regulatory treatment by the state's Regulatory Commission of Alaska (RCA) since 2003, competitive retail rates, and diversified customer base.

--Chugach favorably maintains a quarterly adjustable fuel and purchased power charge which helps stabilize cash flow and mitigate fuel commodity exposure (Chugach's fuel mix is 91% natural gas driven).

--Chugach's relationship with its two largest wholesale power customers (Matanuska Electric Association [MEA] and Homer Electric Association [HEA]) has been less litigious as both utilities have noted their intent not to extend their existing purchased power contracts with Chugach beyond the 2014 termination dates. Chugach's remaining customers would require a notable, but not unmanageable, rate increase of approximately 10% in 2015, to maintain adequate financial metrics in light of the loss of load (MEA and HEA represent 49% of Chugach's total sales).

--Chugach has a sizeable capital expenditure plan through 2014, totaling \$374 million, which includes the construction of a new, natural gas-fired generation project (Southcentral Power Project [SPP]). The SPP is a jointly owned project with Anchorage's Municipal Light & Power (rated 'A+', with a Stable Outlook). The new power resource will replace older, less efficient generation. While the RCA has yet to approve the project and its cost recovery in utility rates, the SPP has the support of the state government and is in-line with legislators' desire for utilities to take more of a regional, cost effective approach to major capital investments.

--Chugach's debt structure is unique in comparison to most other electric cooperatives as it has the added risk of refinancing the predominantly non-amortizing bullet maturities (\$150 million due in 2011 and \$120 million in 2012). While the credit markets seemed to be improving in the latter half of 2009, the refinancing risk remains a concern given Chugach's need to also debt finance 60% of its capital program.

--Longer term natural gas supply in Alaska is an issue for all the state's utilities. Natural gas supply from the Cook Inlet, which provides natural gas to state's utilities, is declining. It is estimated approximately 20% of the gas reserves' original capacity remains (10 years' gas supply to 2015). Chugach recently entered into a gas supply contract with Conoco-Phillips which locks in Chugach's remaining gas needs through most of 2011, and physically hedges 50% of gas requirements through 2015. Beyond 2015, Chugach has an open gas position of 75% which will need to be contracted for.

--The rating takes into account the state electricity grid's isolation from Canada and the lower 48 U.S. states, which exposes the Alaskan utilities to potentially more frequent service disruptions associated with extreme weather and/or unexpected plant outages.

Key Rating Drivers:

--Continued adequate cost recovery and/or other regulatory treatment by the RCA. Chugach has a pending request for approximately a 6% rate increase for review by the RCA.

--Ability to maintain adequate financial protection measures, particularly as Chugach funds its capital program and refinances two bullet maturities.

--Longer term (post 2015) gas supply options for Chugach and its counterpart utilities in Alaska.

SECURITY:

The bonds are secured by a net revenue pledge of the Chugach electric system.

CREDIT SUMMARY:

Chugach is the largest electricity provider in Alaska, serving roughly two-thirds of the state's electric users (including the customers of its wholesale users: MEA, HEA, the City of Seward and Golden Valley Electric Cooperative). Given that a large portion of its customers are located in or around the more populated cities of Anchorage and Fairbanks, Chugach benefits from a denser customer base, which lowers unit cost of electricity, and results in a better than average customer per distribution mile ratio of 40:1.

While Chugach is a not-for-profit generation and transmission cooperative, it largely provides electricity on a retail basis to native load (more than 66,600 retail accounts). The user mix is well-diversified, with residential and commercial users representing 55% of total operating revenues for fiscal 2008. Electric sales growth flattened out in 2009 due in part to economic recessionary impact and customers conserving electricity. Sales are reasonably projected to return to modest growth of 0.50% in 2010 and thereafter.

Finally, Chugach is performing well financially, with coverage ratios and equity capitalization in-line with 'A' rated cooperative counterparts in the U.S. Debt service coverage has averaged 1.8 times (x) over the past five years, and cash flow coverage of interest has averaged 2.5x. Equity to total capitalization is at 30% for fiscal year-end 2008, which is consistent with higher rated generation and transmission cooperatives. However, regulatory uncertainty combined with upcoming refinancing risk (bullet maturities) and financing needs for capital plan bring Chugach's rating down to the 'A-' level.

Applicable criteria available on Fitch's website at www.fitchratings.com:

--'Public Power Rating Guidelines' (June 11, 2009).

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