STANDARD & POOR'S

CORPORATE RATINGS

Chugach Electric Association

Corporate Credit Rating

A-/Stable/—

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Major Rating Factors

Strengths:

- A relatively diverse, semi-urban retail service territory near Anchorage, Alaska, that accounted for about 58% of revenues and 100% of net income in 2005;
- Ability to pass through fuel costs each quarter through a fuel cost adjustment charge, which helps offset Chugach's dependence on gas-fired generation;
- Adequate competitive position, given the absence of direct retail competition;
- Strong financial performance, with funds from operations (FFO) interest coverage of 2.7x for the 12-month period ending Sept. 30, 2006; and
- Moderate debt leverage at 71% as of Sept. 30, 2006.

Weaknesses:

- A challenging regulatory environment, as demonstrated by the Regulatory Commission of Alaska's (RCA) decision in 2003 to lower its interest coverage target for setting Chugach's wholesale and retail rates;
- Regulatory, load volatility, stranded cost, and contracting risks related to very high levels of wholesale sales contracted through 2014;
- High capital requirements related to baseload generation as well as long-term gas supply requirements due to anticipated declines in production at the Beluga gas field, which supplies Chugach with more than 60% of its fuel requirement; and
- A high degree of interest rate risk due to Chugach's heavy reliance on nonamortizing debt, with 70% of total outstanding principal due in 2011 and 2012, anticipated construction refinancing requirements in 2010, and floating rate debt at a sizable 25% of total debt.

Rationale

The 'A-' underlying rating (SPUR) on Chugach Electric Association's revenue bonds reflects the integrated electric cooperative's satisfactory business risk profile and intermediate financial risk profile.

As of Sept. 30, 2006, Chugach had approximately $366 million in debt outstanding, including $351 million in senior unsecured notes and bonds.

Anchorage-based electric cooperative Chugach Electric is Alaska's largest vertically integrated electric utility, with around 62,000 retail customers and approximately 50% of the state's total generating capacity in a region with no outside transmission access. Chugach serves a growing service territory, located mainly around Anchorage, the Kenai Peninsula, and, through a member cooperative, north to Fairbanks.

Chugach's business risk profile is revised to '6' from '5' on Standard & Poor's 10-point scale, with '1' representing the lowest risk. The change is due to the increasingly significant risks associated with Chugach's wholesale generation business, high capital requirements and uncertainty regarding long-term natural gas supply. The score reflects the utility's ability to pass through fuel costs, challenging regulatory environment, moderate competitive position, and a semi-urban service territory with low growth rates, moderate wealth indicators and low industrial concentration.

Chugach serves much of the population residing outside the city limits of Anchorage, on the Kenai Peninsula, and north to Fairbanks. Chugach's sales are divided between its retail system and contract wholesale sales to four wholesale customers, composed of three distribution cooperatives and a single municipal electric utility, all located in the Railbelt region. Retail sales accounted for 59% of revenues in 2005, while wholesale sales accounted for balance. Chugach's own service territory is semi-urban with modest growth rates, moderate wealth indicators, and low industrial concentration. Retail sales growth averaged 2.8% from 2002-2005, while wholesale sales growth averaged 4.0% over the same period.

Chugach's wholesale business weakens the utility's business risk profile because of additional regulatory risks associated with the RCA's oversight of wholesale contract rates, sales volatility risks associated with requirement contracts and stranded cost risks related to expiring contracts that may or may not be extended. Under its all- or partial-requirements contracts for its two largest wholesale customers, Chugach must adequately size its generation fleet and natural gas supplies to meet its customer's load requirements. In the event that those customers do not extend their contracts, Chugach bears the risk of stranded asset costs that must be borne by a smaller customer base. Intervention by the RCA to compel service to former wholesale customers could pose yet another risk. Additionally, Chugach's wholesale sales are significantly more volatile than its retail sales, as evidenced by swings in wholesale sales of negative 18% and positive 19% in 1998 and 2000, respectively.

Both retail and wholesale contract rates are regulated by the RCA, which in its last rate proceeding retroactively reduced Chugach's times-interest-earned ratio (TIER) target for both its integrated system (to 1.30x from 1.35x) and its wholesale system (to 1.10x from 1.15x). In its latest general rate case, filed in Sept. 2006, Chugach has requested a 3% overall rate increase as well adjustment in rate design to correct cost allocations issues between the generation and transmission (G&T) and distribution segments. Chugach has a fuel cost adjustment surcharge, adjusted quarterly, that has insulated the utility from fuel price volatility since its implementation in the early 1990s.

Chugach's operating profile is challenged by heavy reliance on gas-fired generation, the need for high reserve margins in a transmission-remote region, future generating resource needs, and uncertainty regarding the availability of long-term natural gas supplies to offset declining production at the Beluga gas field, Chugach's primary source of purchased gas supply. Chugach has secured gas supply arrangements that it expects will satisfy system requirements through 2018, assuming it no longer is required to serve its two major wholesale customers after their contracts expire in 2014. Since the agreements do not guarantee deliveries, Chugach will remain exposed to the production risks, which are significant. Demand for natural gas could exceed supplies of Cook Inlet gas as early as 2010 according to a 2006 study sponsored by the U.S. Department of Energy.

Capital requirements are high over the near term due to the anticipated acquisition of a major generation facility. Capital needs could increase further if Chugach participates in infrastructure projects to import natural gas to the Cook Inlet region either by pipeline from the immense but remote natural gas fields in Alaska's Prudhoe Bay or by ships specially designed to transport liquefied natural gas (LNG).

Competitive pressures are limited for the retail system but present for Chugach's wholesale business. Chugach's wholesale customers have announced that they do not plan to renew their contracts when they expire by 2015. Chugach's only meaningful competitor is Anchorage Municipal Light & Power (MLP), whose retail system is adjacent to Chugach's. Although neither utility is subject to direct retail competition, MLP and Chugach do compete to attract and retain large commercial and industrial loads and, as a result, have similar commercial and industrial retail rates. Anchorage has recently reduced its retail rates, putting itself at a significant advantage relative to other Railbelt utilities, including Chugach.

Chugach's financial policy is considered by Standard & Poor's to be aggressive due primarily to Chugach's debt structure. In 2001 and 2002, the utility restructured much of its debt into floating rate debt or bullet debt that is exceptionally concentrated in two consecutive maturities. Of the $372 million in total debt outstanding as of Dec. 31, 2005, approximately $295 million, or 78%, was carried in the form of non-amortizing debt due in 2011 and 2012 and $99 million, or 26%, in variable-rate mode. Chugach does not have any immediate plans to hedge against the interest rate and rollover risks related to the concentration of bullet debt maturities in 2011 and 2012.

Chugach has improved its financial metrics to levels consistent with its rating and business risk profile. For the 12 months ended Sept. 30, 2006, the utility achieved FFO interest coverage of about 2.8x, debt service coverage of 1.8x and TIER coverage slightly below the RCA's allowed TIER of 1.3x. Debt leverage is moderate at about 71% as of Sept. 30, 2006, or $689 per installed kilowatt of capacity. However, debt per retail customer is very high at about $4,629, signifying the very high relative fixed costs that will need to be distributed over a much smaller base of energy volumes if Chugach's wholesale customers follow through on their announced intention to cease deliveries of wholesale power upon expiration of their contracts in 2014.

Liquidity

Liquidity is adequate, with cash and undrawn credit lines at $62.7 million, or 58 days' cash, as of Sept. 30, 2006. Unrestricted cash and investments totaled $5.2 million, or five days of unrestricted cash and investments. Chugach has access to $57.5 million in untapped lines of credit, including a five-year, $50 million line of credit with National Rural Utilities Co-op Finance Corp that expires on Oct. 15, 2007, and $7.5 million line of credit with CoBank ACB (CoBank) that expires on Oct. 31, 2007, with an option for annual renewal subject to lender approval. In comparison, debt maturities and capital requirements in 2006 are projected to be about $6 million and $29 million, respectively. Liquidity requirements will likely escalate along with financing requirements related to Chugach's next-generation acquisition and as Chugach approaches the 2010-2012 time frame, during which the utility will need to refinance about $486 million, or about 93% of its anticipated debt burden, subjecting it to potentially serious interest risk. Chugach's maximum bullet maturity is $150 million, due in 2011.

Outlook

The stable outlook reflects our expectation that the RCA will favorably address Chugach's request for ratemaking to allow the utility to fully recover costs associated with its wholesale generation business and earn a sufficient margin to support adequate cash flow measures, particularly in light of its unique and increasingly significant business risks, particularly with respect to contract sales. With rational rate design and adequate rates, Chugach may be able to maintain adequate financial metrics, even as it incurs debt to finance its next major plant acquisition. Chugach's ability to pass through changes in fuel costs also contributes to ratings stability. The outlook assumes finalization of new gas supply contracts to meet requirements through at least 2018, sound debt management, and adequate regulatory support for any plant or fuel supply acquisitions or arrangements. The outlook also assumes that the RCA cannot compel Chugach to serve its wholesale contract customers after the expiration of their purchase contracts with Chugach in 2014.

Rating improvement is unlikely, given the uncertainty regarding future resource acquisitions and adequacy of long-term future natural gas supplies in the Cook Inlet region.

In contrast, several factors could result in a negative outlook or even a lowered rating. Rating pressure could result from materially adverse regulatory action related to the company's current general rate case or indications that the RCA could compel Chugach to serve its wholesale customers even after expiration of their contracts. Other factors include difficulties ensuring adequate long-term gas supplies, significant increases in capital and financing requirements, or failure to provide for adequate liquidity resources or rate making mechanisms to abate Chugach's increasingly significant interest rate risks. Achievement of the RCA's target TIER of 1.3x does not preclude adverse rating action, as cash flow measures of the past may no longer be sufficient to offset the weakening of Chugach's business risk profile.

Accounting

Chugach reports its financial statements in accordance with U.S. GAAP. These statements received an unqualified opinion by Chugach's independent auditor, KPMG LLP, in the most recent annual audited period.

Chugach, a nonprofit entity and voluntary registrant with the SEC, has voluntarily begun implementing the requirements of Section 404 of the Sarbanes-Oxley Act. In its 2005 10-K filing, Chugach management certified that it has identified no material weakness in its internal controls over financial reporting as of Dec. 31, 2005. Since Chugach is no longer a borrower of the USDA Rural Utilities Service (RUS), it is not subject to accounting guidelines of the RUS.

Chugach does not enter into energy trading contracts, and as a result, applicable accounting pronouncements do not have a material effect on its financial results.

Standard & Poor's has made several adjustments to Chugach's reported financial information to reflect off- balance sheet (OBS) obligations, such as operating leases. For each OBS obligation, we calculate an amount for debt, interest expense, and depreciation and include these amounts in the calculation of its adjusted ratios. We have imputed a modest amount of debt related to Chugach's operating leases, primarily the lease of transmission assets from wholesale customer Homer Electric Association. At this time, we do not impute debt related purchased power obligations for cooperatives. However, we do impute debt with respect to jointly owned generation projects. As of Dec. 31, 2006, Chugach had approximately $39.9 million of OBS debt related to its proportionate share of Bradley Lake hydroelectric project.

Table 1

Chugach Electric Association — Peer Comparison

Issuer	***Chugach Electric Assn***	***Anchorage Muni Lt & Pwr***	***Vermont Electric Coop.***
Rating	A-/Stable	A+/Stable	BBB-/Negative
Business Profile	6	4	6
Period	3 yr avg, 2003-2005	2004 only	3 yr avg, 2003-2005
Financial statistics ($000s)			
Total revenues	203,659	108,480	42,042
Net available	57,394	47,027	6,336
Debt service coverage	1.9	1.9	1.6
Fixed charge coverage	1.8	1.3	1.1
Total on-balance sheet debt	380,660	209,691	39,376
Total debt/total capital (%)	73	60	64
Total debt/peak ($/MW)	849	1,371	1,125
Total debt/customer($)	4,869	7,019	2,047
Unrestricted days' cash	27	171	20
Days' cash + credit lines	194	171	41
Operating Statistics			
Customers	77,298	29,875	30,166
Sales to serve native load (gigawatt-hours)	1,213	1,186	455

Table 1

Chugach Electric Association — Peer Comparison (cont.'d)			
Peak demand (MW)	442	153	98
System load factor %	66	88	53
Customer mix as % of total revenues			
Residential revenues (%)	33	16	54
Commercial revenues (%)	28	63	11

Table 2

Chugach Electric Association — Financial Summary					
	—Fiscal year ended Dec. 31—				
	2005	2004	2003	2002	2001
Rating History	A-/Stable	A-/Stable	A-/Negative	A/Stable	A/Stable
$000s					
Total revenues	225,697	201,247	184,032	171,944	178,596
Net available	59,683	56,352	56,148	50,999	56,876
Debt service coverage (x)	2.01	1.74	1.96	1.56	1.53
Total on-balance sheet debt	372,858	379,289	389,834	401,081	385,719
Total debt/total capital (%)	74	75	76	78	77
Equity/assets (%)	26	25	24	22	23
Debt to plant (%)	80	81	83	85	80
Total debt/capacity ($/MW)	704	812	835	859	826
Total debt/customer($)	4,728	4,893	5,119	—	—
Unrestricted days' cash	23	26	32	22	11
Unrestricted days' cash plus bank lines	149	202	231	214	232

Ratings Detail (As Of 19-Mar-2007)*	
Chugach Elec Assoc	
Corporate Credit Rating	A-/Stable/—
Senior Unsecured	
Local Currency	A-
Corporate Credit Ratings History	
23-Dec-2005	A-/Stable/—
21-Jan-2005	A-/Negative/—
Business Risk Profile	1 2 3 4 5 $\boxed{6}$ 7 8 9 10
Financial Risk Profile	Intermediate
Debt Maturities	
Debt Maturities ($000s) (as of Dec. 31, 2005) 2006 8,326 2007 13,729	

Ratings Detail (As Of 19-Mar-2007)* (cont.'d)
2008 9,241
2009 9,763
2010 9,797
Thereafter 322,002
Total 372,858

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor’s credit ratings on the global scale are comparable across countries. Standard & Poor’s credit ratings on a national scale are relative to obligors or obligations within that specific country.