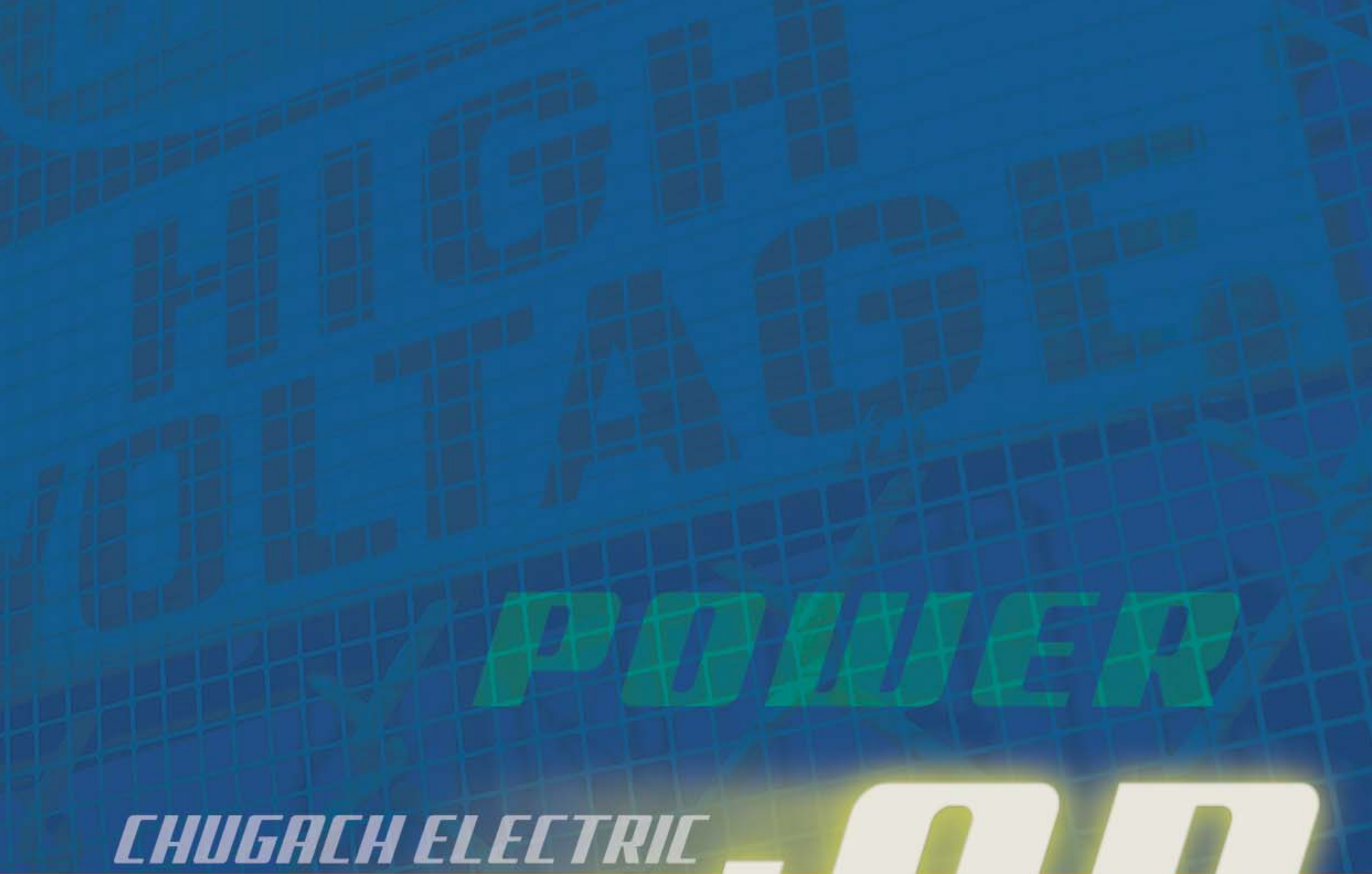


POWER :ON

CHUGACH ELECTRIC ASSOCIATION

annual report 2005

CONTENTS

CHUGACH DISPATCHERS MONITOR THE POWER SYSTEM THROUGH HOURLY, DAILY AND MONTHLY SCHEDULING TO ASSURE THE MOST ECONOMIC MIX OF GENERATION.

CORPORATE MISSION

Through superior service, safely provide reliable and competitively priced energy.

CORPORATE VISION

Powering Alaska's future.

INCORPORATION

Chugach Electric Association was incorporated in Alaska March 1, 1948, with funding under the Rural Electrification Act of 1936, as amended. In 1991 Chugach refinanced and paid off its federal debt, leaving the REA program. Chugach remains a cooperative and ranks among the largest of the more than 900 electric cooperatives in the nation.

PERSONNEL POLICY

It is a policy of Chugach Electric Association, Inc., to recruit, hire, train, compensate and promote persons without regard to race, color, religion, national origin, sex, marital status, pregnancy, parenthood, disability, veterans status, age or any other classification protected by applicable federal, state, or local law.

CHUGACH SNAPSHOT

Chugach provides retail service to more than 50 percent of the homes and businesses in the Municipality of Anchorage, and wholesale and economy energy services to other utilities throughout Alaska's Railbelt region from Fairbanks to Homer.

CHUGACH

POWERING ALASKA'S FUTURE

2005 Year in Review

In 2005 new challenges and priorities came on the heels of rapidly rising costs for fuel and purchased power. The cost of the fuel surcharge to a retail member in January was 1.043 cents per kilowatt-hour; by the fourth quarter it was 2.046 cents per kwh and for the first quarter in 2006 it had jumped to 3.082 cents per kwh.

In January contractor crews completed a 3-mile transmission line that is one of a trio of projects that will improve reliability for the regional transmission system and help ensure an adequate power supply for South Anchorage. A final project is the construction of a transmission line to link the South Anchorage and University substations. Chugach expects to begin construction in 2007.

In March the Anchorage Assembly approved an ordinance change that required Chugach to spend 2 percent of its retail revenues annually, to convert existing overhead distribution lines to underground lines. On June 1, Chugach began assessing customers in the Municipality of Anchorage to cover the work involved.

In March Chugach had a booth focused on energy efficiency at the 45th Anchorage Home & Remodeling Show. More than 10,600 people attended the event.

After years of studies and public process, Chugach filed a Final License Application for a new 50-year license for its Cooper Lake hydroelectric project with the Federal Energy Regulatory Commission (FERC) in April. A comprehensive settlement agreement with state and federal resource agencies and others was filed with FERC in August and further required documentation in October. This new license would replace the initial 50-year license issued to Chugach, which expires April 30, 2007.

Chugach held its 2005 Annual Membership Meeting April 28. Two hundred fourteen members registered for the event. More than 15 percent of the 62,380 members of record voted in the election. Alan Christopherson, Uwe Kalenka and Elizabeth Vazquez were elected to 3-year terms on the board of directors. Members did not approve the three proposed bylaw amendments on the ballot.

In June Chugach used newspaper inserts to try and locate about 23,000 members who had unclaimed capital credits from 1985.

In July Ray Kreig was appointed to the board to fill a vacancy created by the resignation of Director Chris Birch after he was elected to the Anchorage Assembly.

Chief Executive Officer Joe Griffith stepped down from his position effective Sept. 2 and Bill Stewart, General Manager of Corporate Services, was named Interim CEO.

Later in September, Chugach, Matanuska Electric Association, Homer Electric Association and the Alaska Industrial Development & Export Authority reached an agreement on a prospective disbursement of the $68.5 million Railbelt Energy Fund. The organizations agreed to work together to promote the plan with legislators and the governor in 2006.

Chugach recorded an all-time system peak load of 462 megawatts between 5 and 6 p.m. on Dec. 4. when the temperature at Chugach's International Station was 6 degrees.

In November the board approved a $3.8 million capital credits retirement, and in December Chugach mailed checks and credited accounts of current and former members for credits earned for portions of 1986 and 1987.

By late December construction of the new South Anchorage Substation on 94th Avenue was nearly complete. Chugach expects to commission the facility by May 2006.

Throughout the year Chugach aired both radio and television ads in an effort to heighten awareness of safety and electricity. As members expressed concerns of higher costs for electricity, Chugach also aired radio ads offering energy conservation tips and provided energy saving information in its monthly newsletter, the "Outlet," and on its Web site.

CHAIRMAN/ CEO REPORT

ALAN CHRISTOPHERSON, CHAIRMAN OF THE BOARD, AND BILL STEWART, INTERIM CHIEF EXECUTIVE OFFICER.

As 2005 progressed, the board and management focused on three key areas: maintaining reliability, improving relationships and reducing controllable costs.

Chugach historically has had excellent reliability statistics. Despite the vagaries of weather, the utility works hard to monitor and identify activities that keep the power on for more than 99.9 percent of the hours in a year for the average customer. We know from our research that customers place a high value on reliability, and the board and management will continue to support projects that ensure a reliable electric system.

Chugach is one of six electric utilities that provide retail service in Alaska's Railbelt region. On behalf of the Alaskans we serve, it's important for us to work together on areas of common interest. In 2005, we worked hard to improve our working relationships with wholesale customers Matanuska Electric Association and Homer Electric Association. Together these two organizations buy more than 40 percent of the kilowatt-hours Chugach generates each year. In September, Chugach, MEA, HEA and the Alaska Industrial Development & Export Authority agreed upon a proposal to divide the remainder of the Railbelt Energy Fund for a series of regional projects. We committed to work together in Juneau in 2006 toward this distribution.

Fuel continues to be the single most significant expense for the cooperative. If you look at the average customer's bill over the past 10 years or so, you'll find that the portion of a bill that covers all other expenses has remained relatively flat, while the portion of a bill that goes toward the natural gas that fuels our power plants has risen steadily. Unfortunately, we expect more of the same in 2006. Consequently, the board and management put renewed emphasis on controlling

CHUGACH EXECUTIVE STAFF, STANDING, VICE PRESIDENT, HUMAN RESOURCES, MARY TESCH; INTERIM CHIEF EXECUTIVE OFFICER, BILL STEWART; CHIEF FINANCIAL OFFICER, MIKE CUNNINGHAM; GENERAL COUNSEL CAROL JOHNSON, AND SEATED, GENERAL MANAGER, DISTRIBUTION DIVISION, LEE THIBERT AND GENERAL MANAGER, G&T DIVISION BRAD EVANS.

discretionary spending where possible in 2005. In the fall, after management conducted a review and recommended another series of cuts, the board approved a $1.5 million reduction of the 2005 budget.

Today about 85 percent of the kilowatt-hours Chugach generates each year comes from gas-fired power plants. The other 15 percent comes from our hydroelectric resources. Given our significant investment in gas turbine-generators, a steady, affordable supply of natural gas is very important to Chugach. As we near the end of our current contracts, we are working with gas suppliers to try to ensure a source of fuel for the coming years.

While natural gas and hydro will probably remain our generation mix for some years to come, we are not ignoring other options. For some years now Chugach has been investigating the potential for wind power in our area. In the past year we took a serious look at the possibility of adding a coal-fired power plant to our system. We are also interested in whether we could add more hydropower in the future – or even the possibility of geothermal generation someday. Any of these options will need to make economic sense for our customers, and no firm decisions have yet been made on any of these alternatives. We feel it is prudent to remain open to all generation options while working to secure natural gas for the coming years.

Managing costs – and the rates that are driven by them – will be an ongoing challenge as natural gas prices continue to rise. Your board and management team will continue to work together to meet the needs of our customers by delivering safe, reliable electric service at reasonable rates.

2005 BOARD OF DIRECTORS

ALAN CHRISTOPHERSON,
CHAIRMAN
Alan Christopherson, P.E., is a principal civil engineer, senior partner and treasurer with the consulting civil engineering firm, PND Engineers, Inc. He was elected to the board in 2005. He is also chair of the Operations Committee and serves on the Finance and Audit committees.

DAVE COTTRELL,
SECRETARY
Dave Cottrell is a founding member and past managing partner of Mikunda, Cottrell & Co., Certified Public Accountants. Currently he is the president and managing director of Mikunda, Cottrell, Accountants and Consultants. He was elected to the board in 2001 and re-elected in 2004. Cottrell chairs the board's Audit Committee and serves on the Finance Committee.

ELIZABETH VAZQUEZ,
TREASURER
Elizabeth Vazquez is an attorney with the State of Alaska. She was elected to the board in 2005. She chairs the board's Finance Committee and serves on the Audit Committee.

BRUCE DAVISON,
DIRECTOR
Bruce Davison is an attorney and professional engineer. He was appointed to the board in June 1997 to fill a vacancy, elected to the board in 1998 and re-elected in 2001 and 2004. Davison serves on the board's Operations, Finance, and Audit committees.

UWE KALENKA,
DIRECTOR
Uwe Kalenka is a self-employed property manager. He was elected to the board in 2005 and serves on the board's Operations Committee.

RAY KREIG,
DIRECTOR
Ray Kreig is a professional civil engineer, geologist and land consultant. He is president of R.A. Kreig & Associates. He served on the board from 1994 to 2000. He was appointed to the board in July 2005 and serves on the board's Operations Committee.

JEFF LIPSCOMB,
DIRECTOR
Jeff Lipscomb is a professional mechanical engineer and project management consultant. He is the principal and owner of JWL Engineering. He is currently a Trustee and Chair of the Audit Committee of the Northwest Public Power Association. He was elected to the board in 2000 and re-elected in 2003.

CORPORATE SERVICES DIVISION

Corporate Services is responsible for Chugach's administrative functions, including purchasing, environmental issues, information services, safety and industrial health and regulatory affairs and pricing.

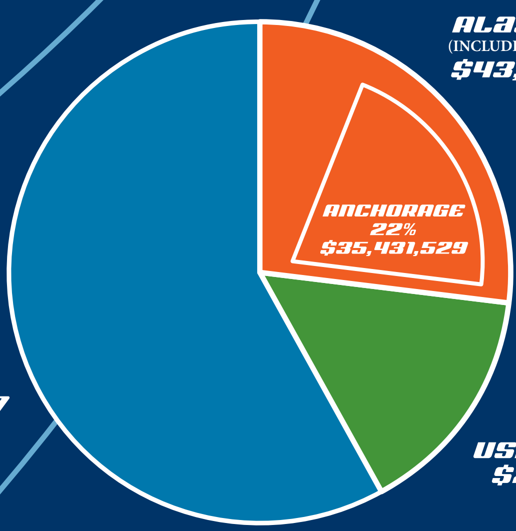
Information Services has begun a redesign of Chugach's Web site. The site will have an updated look and include more information for members on energy conservation and costs. In addition, it will require fewer "clicks" to access information.

Information Services, Fleet Services and the Operations departments began work on a mobile mapping system. Chugach is testing the system and it has been installed in three trucks as part of a pilot project. The system includes a GPS unit, a monitor and a computer containing Chugach's geographic information system (GIS) and customer information system (CIS) data. As the vehicle travels, the display centers on the truck's location and allows the crew to click on a location and bring up data useful in the performance of their work, including fuse and transformer sizes, the meter number, customer contact information and the next work location.

The first priority at Chugach is safety, and the safety of our employees and the public is paramount. In 2005, Chugach conducted more than 140 safety classes for employees, 33 Safety City presentations in the schools and 11 electrical safety presentations in industrial settings, including the Alaska Railroad and the Anchorage Police Department. Chugach completed more than 500 facility inspections and hazard assessments to ensure the safety of its workers, facilities and equipment. Chugach had 174 lost workdays in 2005, which is the least number of lost days in seven years.

Chugach's 2005 annual goods and services spending totaled $161.3 million. Of that, $93.5 million – about 58 percent of the total spent – was fuel for power production (both Nikiski No. 1 and all Chugach gas-fired units). Of the remaining $67.9 million, Chugach spent $43 million in Alaska, with $35.4 million being spent within the local Anchorage economy. Goods and services include the cost of utilities, professional services, materials and supplies for routine O&M, major maintenance and capital projects.

CHUGACH DEVELOPED AND IS PERFORMING PILOT TESTING FOR A MOBILE MAPPING SYSTEM USING A GPS, A MONITOR AND A COMPUTER.



*Includes approximately $9 million for fuel used to run Nikiski No. 1

CHUGACH BOARD OF DIRECTORS, SEATED, DAVID COTTRELL, ALAN CHRISTOPHERSON AND ELIZABETH VAZQUEZ, AND STANDING, RAY KREIG, UWE KALENKA, BRUCE DAVISON AND JEFF LIPSCOMB.

DISTRIBUTION DIVISION

CHUGACH MAILED CHECKS OR GAVE CREDITS TO FORMER AND CURRENT MEMBERS AS PART OF A $3.8 MILLION RETAIL CAPITAL CREDITS RETIREMENT APPROVED BY THE CHUGACH BOARD.

The Distribution Division is responsible for delivering safe, reliable power to Chugach's retail members. The distribution division is also responsible for member services and member and community relations.

In 2005, Chugach cleared 153 miles of distribution right of way and removed 8,033 danger trees located outside of the rights of way on private property, with the owner's permission. Chugach also cleared nearly 23 miles along each of the three transmission lines between Point MacKenzie and the Susitna River. The three transmission lines carry the largest amount of electric power in the Railbelt power grid from the Beluga Power Plant, Chugach's largest generating facility.

In a joint effort with the Anchorage Fire Department, Chugach removed an additional 2,822 danger trees along its distribution right of way in the Anchorage Hillside Wildfire Zone. Danger trees grow outside of Chugach's right of way and present a threat to overhead power lines because of their size, age, health, physical damage or proximity to the lines. The trees removed were in addition to Chugach's own danger tree removal program. This program was possible because of the $300,000 the Anchorage Fire Department received in federal grant money.

The National Arbor Day Foundation and National Association of State Foresters recognized Chugach as a Tree Line USA Utility. Chugach has been recognized for seven consecutive years for its outstanding Vegetation Management Program.

In August we completed the 2005 wholesale metering annual audits. Each metering point throughout the Chugach system is audited to measure the accuracy of the metering devices that provide the measurement of power sold or purchased between adjoining utilities.

In 2005 Chugach installed 1,534 residential services and 245 commercial services. Residential services declined by 15 percent while commercial services increased 13 percent from 2004. The average installation time for a residential service was 3.17 business days from the time the order was received in the Operations Department, and is well below Chugach's customer satisfaction target of five business days. 2005 was the first year since 2000 that Chugach did not install more than 2,000 new customer services.

Chugach continued to inform its members and the public about electrical safety through the use of radio, television and print advertising. While safety is often thought of in relationship to a corporation's employees, Chugach has decided to provide a year-round presence to raise awareness in the community for safety issues including powerline safety, home generator safety and downed powerlines.

CHUGACH CREWS ARE REGULARLY DISPATCHED TO MAINTAIN, REPAIR AND RESTORE POWER ON REMOTE TRANSMISSION STRUCTURES. OPERATIONS REPAIRED INSULATOR DAMAGE TO A STRUCTURE IN THE SUSITNA RIVER IN THE WINTER OF 2005 TO RE-ENERGIZE THE TRANSMISSION LINE WHICH IS ONE OF THREE THAT CARRIES POWER FROM CHUGACH'S BELUGA POWER PLANT.

CHUGACH CONTINUES TO PROVIDE A HIGH LEVEL OF CUSTOMER SERVICE WHILE DELIVERING RELIABLE AND COMPETITIVELY PRICED ENERGY.

Generation & Transmission Division

The Generation & Transmission Division is responsible for operating, maintaining, generating and transmitting the power from Chugach's power plants. In addition, the division manages Chugach's participation in other power projects.

In January Chugach completed a 3-mile transmission line that was started in late 2004. The 138-kilovolt transmission line links Chugach's International Substation with its new South Anchorage Substation, located on 94th Avenue, west of the Old Seward Highway. Construction included installing 31 drilled concrete pier foundations that are up to 8 feet wide and 42 feet deep. The transmission structures themselves range from 60 to 110 feet in height. Crews used equipment to pull the conductor up onto the transmission structures and then used a special line to pull the conductor back through "stringing sheaves." The conductor was then lifted from the sheaves and attached to the insulators on the transmission structures.

The $5 million transmission project was one of three that will form the South Anchorage transmission loop, which also includes the South Anchorage Substation. In late December construction of the new South Anchorage Substation was nearly complete; Chugach expects to complete the commissioning by May 2006. The project will be completed once a second transmission link between the South Anchorage and University Substation is constructed. The loop will ultimately provide increased strength, reliability and operating flexibility to the regional transmission system.

In March Chugach replaced a structure that was threatened by erosion near Glacier Creek along Turnagain Arm. Crews used a composite mat system to access the structure, allowing the use of equipment weighing up to 160,000 pounds while minimizing damage to the ground. One new steel H-frame structure was installed in two erosion-resistant pile foundations, which were driven approximately 43 feet deep into the ground.

In 2005, the Generation Division continued to make significant strides in the operating and maintenance of Chugach's generating units. Energy production at the Beluga Power Plant increased from 2,047,938 megawatt-hours in 2004, to 2,231,229 mwh in 2005. Reliability increased to 99.8 percent and availability was also higher at 89.4 percent. These numbers are a direct result of control system upgrades, improved planning and timely execution of maintenance activities.

Chugach performed a major inspection of the Beluga Unit No. 5 gas turbine. The turbine and compressor casings were opened up and internal components thoroughly inspected. The rotor was removed from the unit and the turbine section was de-bladed, re-shimmed and balanced on-site. The Row No. 1 nozzle and first-stage shroud blocks were replaced.

Chugach expanded the scope of work on the annual inspection of Beluga Unit No. 3 to include replacing the Row No. 1 nozzle and installing an improved turning gear system. This mechanical work was scheduled to coincide with the controls upgrade project that was completed successfully ahead of schedule.

Chugach performed annual inspections on all of its other generating units.

CHUGACH INSTALLED TWO TRANSFORMERS AT THE NEW SOUTH ANCHORAGE SUBSTATION, WHICH IS EXPECTED TO BE COMPLETELY COMMISSIONED BY MAY 2006.

Generation Resources

Chugach uses various generation resources to ensure reliable, affordable power. Chugach has 530.10 megawatts of installed capacity. The unit ratings shown are taken at 30 degrees Fahrenheit. Chugach also takes power from the state-owned Bradley Lake hydroelectric project near Homer.

1 Beluga

UNITS	COMMISSIONED	POWER RATING (MEGAWATTS)
NO. 1	1968	19.6
NO. 2	1968	19.6
NO. 3	1972	64.8
NO. 5	1975	68.7
NO. 6	1975	79.2
NO. 7	1978	80.1
NO. 8	1981	53.0
	TOTAL	385.0

2 Cooper Lake

UNITS	COMMISSIONED	POWER RATING (MEGAWATTS)
NO. 1	1960	9.6
NO. 2	1960	9.6
	TOTAL	19.2

3 Bernice Lake

UNITS	COMMISSIONED	POWER RATING (MEGAWATTS)
NO. 2	1971	19.0
NO. 3	1978	26.0
NO. 4	1981	22.5
	TOTAL	67.5

4 International

UNITS	COMMISSIONED	POWER RATING (MEGAWATTS)
NO. 1	1964	14.1
NO. 2	1965	14.1
NO. 3	1969	18.5
	TOTAL	46.7

5 Eklutna

UNITS	COMMISSIONED	POWER RATING (MEGAWATTS)
NO. 1	1955	23.5
NO. 2	1955	23.5
	TOTAL	47.0

Cooper Lake 2

Located near Cooper Landing on the Kenai Peninsula
Hydro-turbines

Eklutna 5

Former federal hydroelectric project along the Knik River
Jointly owned with Anchorage Municipal Light & Power and Matanuska Electric Association
Chugach's share is 30%, 11.7 megawatt maximum

Bernice Lake 3

Located near Nikiski on the Kenai Peninsula
Natural gas combustion turbines

Beluga 1

Located on the west side of Cook Inlet near Tyonek
Combustion turbines 1-3 and 5-7 fueled by natural gas
Unit 8 is a steam turbine

International 4

Located off International Airport Road in Anchorage
Natural gas combustion turbines

Key Comparisons

SERVICES AT YEAR-END

2003	76,159
2004	77,520
2005	78,856

KILOWATT-HOURS SOLD

2003	2.5 BILLION kwh
2004	2.63 BILLION kwh
2005	2.76 BILLION kwh

RETAIL KWH

2003	1.18 BILLION kwh
2004	1.22 BILLION kwh
2005	1.22 BILLION kwh

WHOLESALE KWH

2003	1.13 BILLION kwh
2004	1.20 BILLION kwh
2005	1.25 BILLION kwh

ECONOMY ENERGY KWH

2003	191.6 MILLION kwh
2004	206.8 MILLION kwh
2005	294.1 MILLION kwh

TOTAL REVENUE/NON-OPERATING MARGINS

2003	$185.1 MILLION
2004	$202.4 MILLION
2005	$226.9 MILLION

EXPENSES

2003	$178.8 MILLION
2004	$194.8 MILLION
2005	$217.4 MILLION

MARGINS

2003	$6.3 MILLION
2004	$7.6 MILLION
2005	$9.5 MILLION

COST PER RESIDENTIAL KWH IN DECEMBER

(NOT INCLUDING THE CUSTOMER CHARGE AND THE 2 PERCENT MOA UNDERGROUND CHARGE)

2003	9.907 CENTS/kwh
2004	10.746 CENTS/kwh
2005	11.371 CENTS/kwh

COST OF 700 KWH OF RESIDENTIAL SERVICE IN DECEMBER*

2003	$77.77
2004	$83.64
2005	$88.02

*INCLUDES CUSTOMER AND ENERGY CHARGES, FUEL SURCHARGE AND REGULATORY COST CHARGE. DOES NOT INCLUDE 2 PERCENT MOA UNDERGROUND CHARGE.

CHUGACH CREWS INSTALLED BUSHINGS ON TWO NEW TRANSFORMERS AT THE SOUTH ANCHORAGE SUBSTATION.

OUTAGE STATISTICS

CHUGACH AVERAGED 2.01 OUTAGE HOURS PER CUSTOMER IN 2005, DOWN FROM THE 2.12 HOURS IN 2004. THE 5-YEAR AVERAGE FOR CUSTOMER OUTAGE HOURS DECREASED TO 2.28 IN 2005, FROM 2.36 HOURS IN 2004.

TREASURER'S REPORT

In 2005, Chugach continued to realize strong financial performance on a consolidated basis. 2005's year end "bottom line" or "margins" (as they are referred to in the cooperative world) were $9.5 million. Actual results were greater than last year's margins by approximately $1.9 million. Chugach earned these margins based on $208.6 million of firm energy sales, $14.1 million of economy energy sales and $3.0 million of other revenues, an increase of $24.5 million from 2004. We sold 2.8 billion kilowatt hours (kwh) of electricity, an increase of 133 million kwh over 2004.

To better track our costs and manage our Association's business, we began reporting financial results for the Generation and Transmission (G&T) and the Distribution functions separately (called "unbundled financial statements"). The G&T division of the business provides the higher voltage electrical power for both our members and our wholesale customers Homer Electric Association, Inc., Matanuska Electric Association, Inc. and the City of Seward. The Distribution division of our business is responsible for taking that higher voltage electrical power and sending it to all of our members' homes and businesses. This reporting change is being driven by our desire to better understand how the different divisions of Chugach perform financially. Chugach as a whole finished with positive margins in 2005. However, the G&T division of our business operated at a loss of $598,000. The Distribution division was financially healthier and continued to provide all of the margins for Chugach as well as recovering the G&T loss. We have provided the final 2005 unbundled financial statements in this report for your information.

Chugach is continually striving to provide reliable, safe and low-cost power to our members. In 2005 we took steps to reduce our operating budget by nearly $1.5 million and our projected 2006 budget in the amount of $2.6 million. This was done to ensure we continued to meet our goal of being a low-cost power provider.

Chugach continued to manage its debt portfolio in an economic manner and did not obligate itself to new additional debt that would increase our debt level. While short-term variable interest rates rose during 2005, they were still lower than most fixed interest rates. Chugach has approximately 25 percent of its long-term debt in variable interest rate instruments. In August 2005 we refinanced a portion of our long-term fixed rate debt from an interest rate near 8 percent to a 5.5 percent fixed rate note. This debt will be paid in monthy intallments over the next five years.

We updated the three credit rating agencies on our financial and operation performance and projections. As a result of these updates, one of our credit ratings was upgraded from "A- with a negative outlook" to "A- with a stable outlook." This revision reflected our "satisfactory business profile as a vertically integrated utility with a sizeable and growing residential and commercial retail base, a favorable fuel adjustment mechanism and market position as the largest wholesale supplier in the Anchorage/Railbelt region of Alaska, improved financial performance and declining debt leverage." Our other two ratings remained in the "A2" and "A-" investment grade ranges.

The Finance and Audit committees continued to be very active in the accounting and financial matters of the Association. We are confident in the accounting, internal controls and reporting of finances of our Association. Our external auditor issued an unqualified opinion to our 2005 financial statements, which are presented in this annual report along with footnotes containing important financial information.

Chugach returned patronage capital to our members in 2005 in the amount of $4.1 million including estate payments and discounted capital credits returned to inactive members. We operated under the 2005 – 2009 approved Financial Management Plan that projects our ability to return margins to our members over the next five years at a level equal to 50 percent of the prior year's margins.

Chugach continued to operate and maintain the system that provides reliable and cost-effective electric energy to our member-owners from Homer to Fairbanks within the revised 2005 Operating and Capital Budgets.

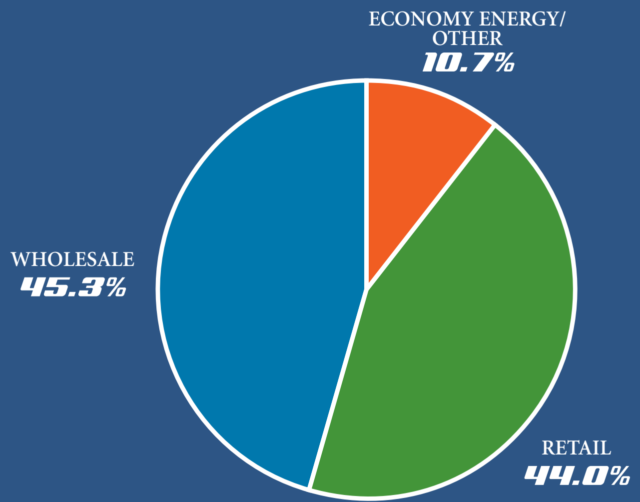
Elizabeth Vazquez

POWER SALES AT A GLANCE

BY KILOWATT-HOURS

TOTAL: 2,762,684,749

OVERVIEW



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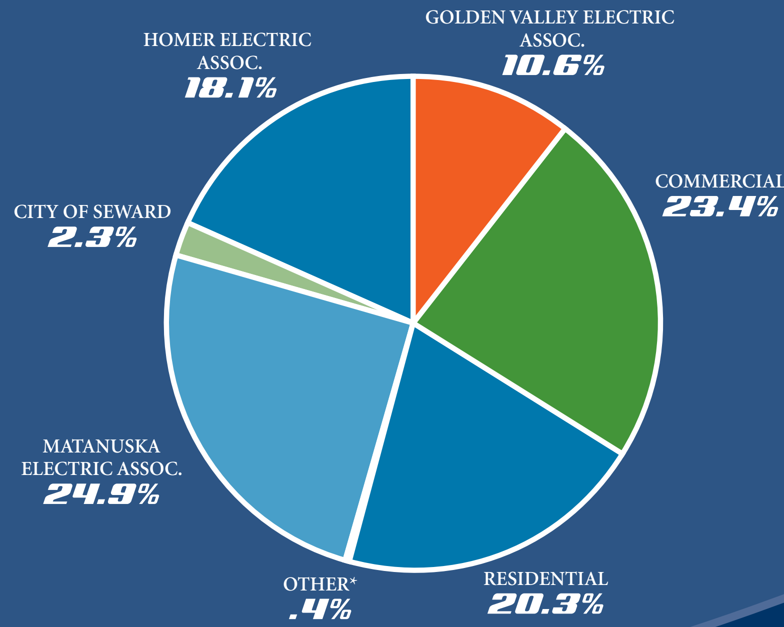
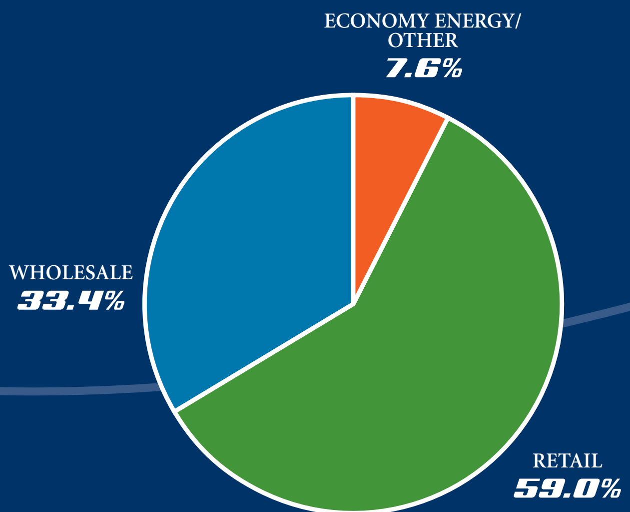


BY OPERATING REVENUES

TOTAL: $225,697,349

OVERVIEW



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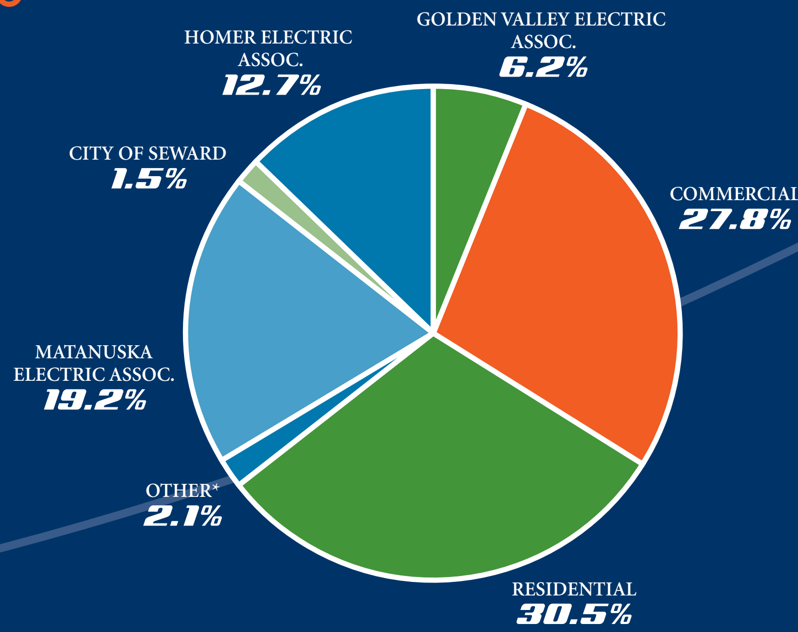


* STREETLIGHTING AND OTHERS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Chugach Electric Association, Inc.

We have audited the accompanying balance sheets of Chugach Electric Association, Inc. (the Company) as of December 31, 2005 and 2004, and the related statements of revenue, expenses and patronage capital, and cash flows for each of the years in the three-year period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chugach Electric Association, Inc. as of December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

February 27, 2006
Anchorage, AK

BALANCE SHEETS

Years ended December 31,

ASSETS	2005	2004
Utility Plant:		
Electric plant in service (notes 1d, 3, 11 and 12)	$ 762,859,198	$ 748,484,527
Construction work in progress	32,505,401	25,278,388
Total utility plant	795,364,599	773,762,915
Less accumulated depreciation	(327,384,961)	(305,932,001)
Net utility plant	467,979,638	467,830,914
Other property and investments, at cost:		
Nonutility property	24,461	24,461
Investments in associated organizations (note 4)	11,883,053	11,768,457
Total other property and investments	11,907,514	11,792,918
Current assets:		
Cash and cash equivalents, including repurchase agreements of $11,446,907 in 2005 and $12,826,644 in 2004	10,650,594	10,465,004
Special deposits	216,191	217,191
Fuel cost under-recovery (note 1o)	1,781,833	0
Accounts receivable, less provision for doubtful accounts of $398,321 in 2005 and $364,261 in 2004	27,436,278	23,740,383
Materials and supplies	23,809,691	23,691,509
Prepayments	1,801,104	805,670
Other current assets	282,939	260,115
Total current assets	65,978,630	59,179,872
Deferred charges, net (notes 5 and 13)	19,269,718	20,550,883
Total assets	$ 565,135,500	$ 559,354,587

LIABILITIES AND EQUITIES	2005	2004
Equities and margins (notes 6 and 7):		
Memberships	$ 1,250,398	$ 1,202,538
Patronage capital	136,185,378	130,750,269
Other	7,603,376	7,045,992
Total equities and margins	145,039,152	138,998,799
Long-term obligations, excluding current installments (notes 8 and 9):		
2001 Series A Bond payable	150,000,000	150,000,000
2002 Series A Bond payable	120,000,000	120,000,000
2002 Series B Bond payable	41,000,000	46,200,000
National Bank for Cooperatives promissory notes payable	53,532,099	47,157,786
Total long-term obligations	364,532,099	363,357,786
Current liabilities:		
Current installments of long-term obligations (notes 8 and 9)	8,325,687	15,931,393
Accounts payable	9,598,958	7,890,172
Consumer deposits	1,980,285	1,947,511
Fuel cost over-recovery (note 1o)	0	2,714,345
Accrued interest	6,360,652	6,201,769
Salaries, wages and benefits	5,373,496	5,530,740
Fuel	18,123,139	12,919,623
Other current liabilities	3,035,915	1,416,400
Total current liabilities	52,798,132	54,551,953
Deferred credits (note 5)	2,766,117	2,446,049
Total liabilities and equities	$ 565,135,500	$ 559,354,587

See accompanying notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND PATRONAGE CAPITAL

Years ended December 31,

	2005	2004	2003
Operating revenues (notes 1n, 2 and 13)	$ 225,697,349	$ 201,246,615	$ 184,032,413
Operating expenses:			
Fuel (note 13)	84,776,131	64,113,474	48,667,262
Power production	15,005,786	15,378,858	13,961,565
Purchased power	23,664,412	20,579,992	18,244,921
Transmission	5,847,648	6,526,684	4,511,002
Distribution	11,780,502	11,723,316	10,866,251
Consumer accounts	5,227,478	5,308,353	5,589,788
Administrative, general and other	20,272,291	21,719,908	26,520,189
Depreciation	28,249,717	27,989,452	27,792,051
Total operating expenses	194,823,965	173,340,037	156,153,029
Interest expense:			
On long-term obligations	23,384,316	21,984,371	23,110,239
On short-term obligations	46,649	0	11,901
Charged to construction-credit	(844,911)	(492,506)	(411,312)
Net interest expense	22,586,054	21,491,865	22,710,828
Net operating margins	8,287,330	6,414,713	5,168,556
Nonoperating margins:			
Interest income	560,418	453,606	325,324
Capital credits, patronage dividends and other	666,983	734,137	759,240
Total nonoperating margins	1,227,401	1,187,743	1,084,564
Assignable margins	9,514,731	7,602,456	6,253,120
Patronage capital at beginning of period	130,750,269	126,341,413	120,148,502
Retirement of capital credits and estate payments, including discounted capital credits transferred to other equities and margins (note 6)	(4,079,622)	(3,193,600)	(60,209)
Patronage capital at end of period	$ 136,185,378	$ 130,750,269	$ 126,341,413

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

Years ended December 31,

	2005	2004	2003
Cash flows from operating activities:			
Assignable margins	$ 9,514,731	$ 7,602,456	$ 6,253,120
Adjustments to reconcile assignable margins to net cash provided by operating activities:			
Provision for rate refund	0	0	(1,400,000)
Depreciation and amortization	30,341,574	31,586,948	33,780,103
Capitalized interest	(993,499)	(571,013)	(487,359)
Impairment of long-lived asset	0	0	1,846,816
Property (gains) losses, net	57,202	(11,190)	(80,061)
Write-off of deferred charges	0	217,665	1,088,260
Investments in associated organizations	(114,596)	(386,661)	(418,081)
Changes in assets and liabilities:			
(Increase) decrease in assets:			
Accounts receivable	(3,695,895)	(4,928,184)	7,598,064
Fuel cost under-recovery	(1,781,833)	2,032,730	(2,032,730)
Materials and supplies	(118,182)	(1,802,715)	1,858,796
Prepayments	(995,434)	652,979	494,702
Special deposits/other	(21,824)	102,122	(20,468)
Deferred charges	(810,692)	(854,481)	(1,887,037)
Increase (decrease) in liabilities:			
Accounts payable	1,114,809	213,266	(43,068)
Provision for rate refund	0	(671,071)	(4,978,929)
Consumer deposits	32,774	112,759	8,487
Fuel cost over-recovery	(2,714,345)	2,714,345	(363,862)
Accrued interest	158,883	35,979	(215,316)
Salaries, wages and benefits	(157,244)	644,140	(90,994)
Fuel	5,203,516	3,912,865	1,911,356
Other liabilities	2,213,492	630,640	(1,242,178)
Deferred credits	(143,138)	(92,314)	(210,681)
Net cash provided by operating activities	37,090,299	41,141,265	41,368,940
Investing activities:			
Extension and replacement of plant	(27,462,144)	(27,810,212)	(26,526,858)
Net cash used in investing activities	(27,462,144)	(27,810,212)	(26,526,858)
Financing activities:			
Net transfer of restricted construction funds	0	488,846	110,018
Repayments of long-term obligations	(6,431,393)	(10,545,000)	(5,165,821)
Repayments of short-term borrowings	0	0	(6,081,250)
Memberships and donations received	605,244	373,821	545,316
Retirement of patronage capital and estate payments, including discounted capital credits transferred to other equities and margins	(4,079,622)	(3,193,600)	(60,209)
Net receipts of consumer advances for construction	463,206	(1,175,202)	(289,342)
Net cash used in financing activities	(9,442,565)	(14,051,135)	(10,941,288)
Net changes in cash and cash equivalents	185,590	(720,082)	3,900,794
Cash and cash equivalents at beginning of period	$ 10,465,004	$ 11,185,086	$ 7,284,292
Cash and cash equivalents at end of period	$ 10,650,594	$ 10,465,004	$ 11,185,086
Supplemental disclosure of cash flow information – interest expense paid, excluding amounts capitalized	$ 22,427,171	$ 21,354,036	$ 23,076,144

See accompanying notes to financial statements.

(1) DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF BUSINESS

Chugach Electric Association, Inc., (Chugach) is the largest electric utility in Alaska. Chugach is engaged in the generation, transmission and distribution of electricity to directly serve retail customers in the Anchorage and upper Kenai Peninsula areas. Through an interconnected regional electrical system, Chugach's power flows throughout Alaska's Railbelt, a 400-mile-long area stretching from the coastline of the southern Kenai Peninsula to the interior of the state, including Alaska's largest cities, Anchorage and Fairbanks.

Chugach also supplies much of the power requirements of three wholesale customers, Matanuska Electric Association, Inc. (MEA), Homer Electric Association, Inc. (HEA) and the City of Seward (Seward). Chugach's members are the consumers of the electricity sold.

Chugach operates on a not-for-profit basis and, accordingly, seeks only to generate revenues sufficient to pay operating and maintenance costs, the cost of purchased power, capital expenditures, depreciation, and principal and interest on all indebtedness and to provide for reasonable margins and reserves. Chugach is subject to the regulatory authority of the Regulatory Commission of Alaska (RCA).

B. MANAGEMENT ESTIMATES

In preparing the financial statements, management of Chugach is required to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the balance sheet and revenues and expenses for the reporting period. Critical estimates include the provision for rate refund and allowance for doubtful accounts. Actual results could differ from those estimates.

C. REGULATION

The accounting records of Chugach conform to the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission (FERC). Chugach meets the criteria, and accordingly, follows the accounting and reporting requirements of Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation (SFAS 71).*

D. UTILITY PLANT AND DEPRECIATION

Additions to electric plant in service are recorded at original cost of contracted services, direct labor and materials, indirect overhead charges and capitalized interest. For property replaced or retired, the average unit cost of the property unit, plus removal cost, less salvage, is charged to accumulated provision for depreciation. The cost of replacement is added to electric plant. Renewals and betterments are capitalized, while maintenance and repairs are charged to expense as incurred. In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144)*, utility plant is reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale are presented separately in the appropriate asset and liability section of the balance sheet. During the second quarter of 2003, Chugach entered into a plan to take a generation asset out of service. The asset was physically abandoned in September of 2003. In accordance with SFAS 144, paragraph 28, Chugach adjusted the remaining depreciable life of the asset. Chugach determined the depreciation that would have been recorded in the third quarter of 2003 was immaterial, therefore Chugach committed to a plan to abandon the asset. The value of that asset was reduced by $1,846,816 to its estimated salvage value. This amount is included in the 2003 Statement of Revenues, Expenses and Patronage Capital, "Administrative, general and other," category.

Depreciation and amortization rates have been applied on a straight-line basis and at December 31 are as follows:

	ANNUAL DEPRECIATION RATE RANGES					
	2005			2002 - 2004		
Steam production plant	2.55%	-	3.24%	2.55%	-	2.80%
Hydraulic production plant	1.63%	-	2.94%	0.04%	-	1.56%
Other production plant	3.32%	-	9.81%	2.67%	-	7.62%
Transmission plant	1.72%	-	5.26%	1.50%	-	4.24%
Distribution plant	2.10%	-	9.98%	2.13%	-	9.22%
General plant	2.23%	-	27.25%	2.21%	-	20.40%
Other	2.75%	-	2.75%	2.35%	-	2.75%

Chugach uses remaining life rates set forth in the most recent depreciation study. In 2003 an update of the 1999 Depreciation Study was completed utilizing Electric Plant in Service balances as of December 31, 2002. In an order dated January 10, 2006, the RCA approved the study with certain changes to the proposed depreciation rates and allowed Chugach to revise its depreciation rates effective January 1, 2005 to reflect the new depreciation rates. The impact on Chugach's financial statements to depreciation expense was a decrease of $1.0 million.

E. CAPITALIZED INTEREST

Allowance for funds used during construction (AFUDC) and interest charged to construction - credit (IDC) are the estimated costs during the period of construction of equity and borrowed funds. Chugach capitalized such funds at the weighted average rate (adjusted monthly) of 5.0% during 2005, 4.6% during 2004 and 4.8% during 2003.

F. INVESTMENTS IN ASSOCIATED ORGANIZATIONS
Investments in associated organizations represent capital requirements as part of financing arrangements. These investments are non-marketable and accounted for at cost.

G. FAIR VALUE OF FINANCIAL INSTRUMENTS
SFAS No. 107, *Disclosures About the Fair Value of Financial Instruments (SFAS 107)*, requires disclosure of the fair value of certain on and off balance sheet financial instruments for which it is practicable to estimate that value. The following methods are used to estimate the fair value of financial instruments:

Cash and cash equivalents and restricted cash - the carrying amount approximates fair value because of the short maturity of those instruments.

Investments in associated organizations - the carrying amount approximates fair value because of limited marketability and the nature of the investments.

Consumer deposits - the carrying amount approximates fair value because of the short refunding term.

Long-term obligations - the fair value is estimated based on the quoted market price for same or similar issues (notes 8 and 9).

H. FINANCIAL INSTRUMENTS AND HEDGING
Chugach used U.S. Treasury forward rate lock agreements to hedge expected interest rates on the February 2002 debt re-financings. Chugach accounted for the agreements under SFAS 133. For rate-making purposes, Chugach did not adjust rates for gains and losses prior to settlement, and the loss on settlement will be an adjustment to rates over the lives of the associated debt. This rate-making treatment was approved by the RCA in Order U-01-108(26). See note 2, "Regulatory Matters." Accordingly, the unrealized loss was not recorded and was treated as a regulatory asset upon settlement (note 5). At December 31, 2005, the regulatory asset associated with the rate lock agreements was $3.4 million.

I. CASH AND CASH EQUIVALENTS
For purposes of the statement of cash flows, Chugach considers all highly liquid debt instruments with a maturity of three months or less upon acquisition by Chugach (excluding restricted cash and investments) to be cash equivalents.

J. ACCOUNTS RECEIVABLE
Trade accounts receivable are recorded at the invoiced amount. The allowance for doubtful accounts is management's best estimate of the amount of probable credit losses in existing accounts receivable. Chugach determines the allowance based on its historical write-off experience and current economic conditions. Chugach reviews its allowance for doubtful accounts monthly. Past due balances over 90 days in a specified amount are reviewed individually for collectibility. All other balances are reviewed in aggregate. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Chugach does not have any off–balance-sheet credit exposure related to its customers.

K. MATERIALS AND SUPPLIES
Materials and supplies are stated at average cost.

L. DEFERRED CHARGES AND CREDITS
In accordance with SFAS 71, Chugach's financial statements reflect regulatory assets and liabilities. Continued accounting under SFAS 71 requires that certain criteria be met. Management believes Chugach's operations currently satisfy these criteria. However, if events or circumstances should change so the criteria are not met, the write off of regulatory assets and liabilities could have a material effect on the financial position and results of operations. Deferred charges, representing regulatory assets, are amortized to operating expense over the period allowed for rate-making purposes.

Deferred credits, representing regulatory liabilities, are amortized to operating expense over the period allowed for rate-making purposes. It also includes nonrefundable contributions in aid of construction, which are credited to the associated cost of construction of property units. Refundable contributions in aid of construction are held in deferred credits pending their return or other disposition.

M. PATRONAGE CAPITAL
Revenues in excess of current period costs (net operating margins and nonoperating margins) in any year are designated on Chugach's statement of revenues and expenses as assignable margins. These excess amounts (i.e. assignable margins) are considered capital furnished by the members, and are credited to their accounts and held by Chugach until such future time as they are retired and returned without interest at the discretion of the Board of Directors. Retained assignable margins are designated on Chugach's balance sheet as patronage capital. This patronage capital constitutes the principal equity of Chugach. The Board of Directors may also return capital credits to former members and estates who request early retirements at discounted rates under a discounted capital credits retirement plan authorized by the Board in September 2002.

N. OPERATING REVENUES
Revenues are recognized upon delivery of electricity. Operating revenues are based on billing rates authorized by the RCA, which are applied to customers' usage of electricity. Chugach's rates are established, in part, on test period sales levels that reflect actual operating results. Included in operating revenue are billings rendered to customers adjusted for differences in meter read dates from year to year to insure the recognition of a full year's revenue. Chugach accrued $6,231,072 and $5,675,996 of unbilled retail revenue at December 31, 2005 and 2004, respectively. Wholesale revenue is recorded from metered locations, so no accrual is made. Chugach's tariffs include provisions for the flow through of gas costs according to existing gas supply contracts, as well as purchased power costs.

O. FUEL AND PURCHASED POWER COSTS
The expenses associated with electric services include fuel used to generate electricity and power purchased from others. These costs are recognized in the month incurred, both on an expense and revenue basis. Actual fuel and purchased power used is included in

revenue to directly offset the actual fuel expense in the month it was incurred. Chugach is authorized by the RCA to recover fuel and purchased power costs through the fuel surcharge mechanism, which is adjusted quarterly to reflect increases and decreases of such costs. Revenues are adjusted for differences between recoverable fuel costs and amounts actually recovered through rates. Fuel costs were under-recovered by $1.8 million in 2005, over-recovered by $2.7 million in 2004 and under-recovered by $2.0 million in 2003. Total fuel and purchased power costs in 2005, 2004 and 2003 were approximately $108 million, $85 and $67 million, respectively.

P. ENVIRONMENTAL REMEDIATION COSTS
Chugach accrues for losses and establishes a liability associated with environmental remediation obligations when such losses are probable and can be reasonably estimated. Such accruals are adjusted as further information develops or circumstances change. Estimates of future costs for environmental remediation obligations are not discounted to their present value. However, various remediation costs may be recoverable through rates and accounted for as a regulatory asset.

Q. INCOME TAXES
Chugach is exempt from federal income taxes under the provisions of Section 501(c)(12) of the Internal Revenue Code, except for unrelated business income. For the years ended December 31, 2005, 2004 and 2003, Chugach received no unrelated business income.

R. RECLASSIFICATIONS
Certain reclassifications, which have no affect on assignable margins, have been made to the 2003 and 2004 financial statements to conform to the 2005 presentation.

S. NEW ACCOUNTING PRONOUNCEMENTS
FASB Interpretation No. 47 (FIN 47) "Accounting for Conditional Asset Retirement Obligations"

In March, 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). FIN 47, effective for fiscal years ending after December 15, 2005, is an interpretation of FASB Statement No. 143, *Accounting for Asset Retirement Obligations (Statement 143).* FIN 47 Interpretation clarifies that conditional obligations meet the definition of an asset-retirement obligation in Statement 143 and therefore should be recognized if their fair value is reasonably estimable. It also provides additional guidance to evaluate whether fair value is reasonably estimable. Chugach evaluated the provisions of FIN 47 and implemented the Interpretation effective January 1, 2005. The implementation of the statement had no significant impact on the financial statements.

SFAS 154 *"ACCOUNTING CHANGES AND ERROR CORRECTIONS"*
This statement replaces Accounting Principles Board (APB) Opinion No. 20, *"Accounting Changes"* and FASB Statement No. 3, *"Reporting Changes in Interim Financial Statements,"* and establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. It applies to all voluntary changes in accounting principle, and to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. This Statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Chugach will implement the Statement effective January 1, 2006.

SFAS 153 *"EXCHANGES OF NONMONETARY ASSETS"*
This Statement addresses the measurement of exchanges of nonmonetary assets. It eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in APB Opinion No. 29, *"Accounting for Nonmonetary Transactions,"* and replaces it with an exception for exchanges that do not have commercial substance. This Statement specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of this Statement are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Chugach implemented the statement effective July 1, 2005. The implementation of the statement had no significant impact on the financial statements.

SFAS 150 *"ACCOUNTING FOR CERTAIN FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF BOTH LIABILITIES AND EQUITY"*
In May 2003, the Financial Accounting Standards Board (FASB) issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150).* This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. Many of those instruments were previously classified as equity. Some of the provisions of this Statement are consistent with the current definition of liabilities in FASB Concepts Statement No. 6, *Elements of Financial Statements.* The remaining provisions of this Statement are consistent with FASB's proposal to revise that definition to encompass certain obligations that a reporting entity can or must settle by issuing its own equity shares depending on the nature of the relationship established between the holder and the issuer. While FASB still plans to revise that definition through an amendment to Concepts Statement 6, FASB decided to defer issuing that amendment until it has concluded its deliberations on the next phase of this project. That next phase will deal with certain compound financial instruments including puttable shares, convertible bonds, and dual-indexed financial instruments. Chugach implemented SFAS 150 effective January 1, 2004. The impact of this statement on its financial statements was immaterial.

[2] REGULATORY MATTERS

DOCKET U-01-108
Chugach filed a general rate case on July 10, 2001, based on the 2000 test year and subsequently implemented interim and refundable rate increases as approved by the RCA. In an updated filing on April 15, 2002, Chugach reduced its base rate increase request from 6.5% to 5.7%. Three wholesale customers and the Public Advocacy staff of the RCA participated in the rate case.

ORDER NO. 26
On February 6, 2003, Chugach received Order U-01-108(26) (Order 26) from the RCA, which required a refund of revenues collected in 2001 and 2002 of approximately $7.1 million, which resulted in a net operating loss of approximately $2 million in 2002. Under

the Order, Chugach's financial performance for 2002 fell below the 1.10 level contained in the Rate Covenants in its currently effective indenture, the Amended and Restated Indenture, the CoBank Master Loan Agreement and the MBIA Insurance Corporation's (MBIA) Reimbursement and Indemnity Agreement. (note 8)

In accordance with the Rate Covenant in the Amended and Restated Indenture, on February 13, 2003, Chugach filed a Motion with the RCA asking the RCA to stay the effect of Order 26 until after the RCA considered Chugach's Petition for Reconsideration. On February 18, 2003, the RCA granted, in part, Chugach's motion for stay. Chugach filed the Petition for Reconsideration with the RCA on February 28, 2003.

ORDER NO. 30

On April 14, 2003, the RCA issued Order No. 30 in Docket U-01-108, significantly revising its earlier ruling. On April 28, 2003, Chugach submitted a revised revenue requirement and cost of service study in compliance with RCA Order No. 30. This order increased Chugach's revenue requirement by $3.1 million and adjusted the required refund from $7.1 million to $1.9 million.

ORDER NO. 33

On August 26, 2003, the RCA issued Order No. 33 and accepted, in part, Chugach's April 28, 2003, compliance filing.

ORDER NO. 36

Effective November 7, 2003, the RCA approved Chugach's compliance filing to Order 33 and final rates in this docket. As a result, and in relation to prior-approved permanent rates, Chugach's rates on a system basis increased 0.07 percent, or an increase of 3.5 percent to retail customers and a decrease of 7.9 percent to wholesale customers.

The results of the RCA's decision on final rates were implemented on November 10, 2003.

APPEAL OF RCA ORDERS

Chugach filed a timely appeal of RCA Orders Nos. 26, 30 and 33 to the Alaska Superior Court. In a November 25, 2004, decision, the Alaska Superior Court upheld all decisions of the RCA.

PROVISION FOR RATE REFUND

At December 31, 2002, Chugach recorded a provision for rate refund of $7.1 million. On April 15, 2003, the RCA issued Order No. 30 in Docket U-01-108, significantly revising its earlier ruling in which $5.2 million of that provision was reversed. Between March and November of 2003, additional provisions were recorded in the amount of $3.8 million reflecting RCA decisions through Order No. 30, in addition to RCA orders that continued through the period. In October and November of 2003, Chugach's wholesale customers were refunded $5.0 million. Between March 19 and April 19, 2004, Chugach issued refunds totaling $0.6 million to its Small General Service class for customer bills rendered between January 31 and November 10, 2003.

DOCKET NO. U-04-102 (REVISION TO CURRENT DEPRECIATION RATES)

In 2004, Chugach implemented new depreciation rates based on an update of the 1999 Depreciation Study utilizing Electric Plant in Service balances as of December 31, 2002. The 2002 Depreciation Study resulted in a net impact on 2004 depreciation expense of approximately $259 thousand, which, in aggregate, was not material to the financial statements. The 2002 Depreciation Study was submitted to the RCA for approval on November 19, 2004, resulting in the RCA opening a docket to review the proposed new rates, however, Chugach implemented the new rates effective January 1, 2004. Chugach did not request a change in electric rates charged to customers based on the proposed revisions to depreciation rates.

ORDER NO. 2

On March 9, 2005, the RCA ruled in Order No. 2 that depreciation rates may not be implemented without prior approval of the RCA. On August 8, 2005, Chugach filed a motion proposing an alternate implementation plan.

ORDER NO. 8

On September 21, 2005, the RCA issued Order No. 8 denying our motion and granting a motion filed by a wholesale customer of Chugach to enforce Order No. 2. Order No. 8 required that Chugach adjust its underlying 2004 financial records to reflect the results as if Chugach had not implemented unapproved rates. In November of 2005, Chugach reversed the 2004 depreciation expense and depreciation reserves that were previously recorded using the 2002 Depreciation Study rates and calculated 2004 depreciation expense for all categories of plant using the 1999 Depreciation Study rates as approved by the RCA in Docket U-01-108. The adjustment was not material to Chugach's financial statements.

ORDER NO. 9

In Order No. 9 dated January 10, 2006, the RCA ruled substantially in Chugach's favor approving the 2002 Depreciation Study with certain changes to the proposed depreciation rates. The main effect of this decision is to allow Chugach to revise its depreciation rates effective as of January 1, 2005, to reflect new depreciation rates. In comparison to the old depreciation rates resulting from the last rate case (U-01-108), implementation of Order No. 9 increased depreciation expense for Generation & Transmission (G&T) plant of approximately $2.2 million, decreased depreciation expense for Distribution plant of approximately $1.2 million and decreased depreciation expense for General Plant of approximately $2.0 million. The overall impact to Chugach is an estimated decrease in annual depreciation expense of $1.0 million. No issues were raised in relation to the proposed Distribution depreciation adjustments. Because Chugach did not request changes to the electric rates charged to our customers based on the proposed new depreciation rates, there is no immediate electric rate impact. Wholesale customers MEA and HEA were active in the proceeding. MEA filed a motion for reconsideration of the effective date of January 1, 2005, for the changes to depreciation rates based on the RCA's ruling. Management is uncertain of the outcome of the reconsideration.

[3] UTILITY PLANT

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

	2005	2004
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	6,763,892	6,763,892
Total electric plant in service	762,859,198	748,484,527
Construction work in progress	32,505,401	25,278,388
Total electric plant in service and construction work in progress	$ 795,364,599	$ 773,762,915

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:

	2005	2004
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	117,204	116,623
Total Investments in Associated Organizations	$ 11,883,053	$ 11,768,457

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	1,523,029	1,568,380
Total deferred charges	$ 19,269,718	$ 20,550,883

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.

DEFERRED CREDITS

Deferred credits, or regulatory liabilities, at December 31 consisted of the following:

	2005	2004
Refundable consumer advances for construction	$ 1,816,275	$ 1,353,069
Estimated initial installation costs for transformers and meters	436,786	387,336
Post retirement benefit obligation	480,900	480,900
Other	32,156	224,744
Total deferred credits	$ 2,766,117	$ 2,446,049

[6] PATRONAGE CAPITAL

Chugach has an approved capital credit retirement policy, which is contained in the Chugach Financial Management Plan. This establishes, in general, a plan to return the capital credits of wholesale and retail customers based on the members' proportionate contribution to Chugach's assignable margins on an approximately 15-year rotation. At December 31, 2005, Chugach had assigned $120,255,933 of patronage capital (net of capital credit retirements). Approval of actual capital credit retirements is at the discretion of Chugach's Board of Directors. Chugach records a liability when the retirements are approved by the Board of Directors. The Amended and Restated Indenture prohibits Chugach from making any distribution of patronage capital to Chugach's customers if an event of default under the Amended and Restated Indenture exists. (note 8)

In 2003, the Board of Directors was unable to authorize a capital credit retirement due to covenant restrictions contained in the Amended and Restated Indenture of Trust. (note 8)

In November 2004, the Board of Directors authorized the retirement of $3,126,560 of retail patronage for 1985 and 1986.

In December 2004, the Board of Directors authorized $125,000 for capital credit payments to those former members and estates who have requested early retirements at discounted rates under the discounted capital credit retirement plan authorized by the Board in September 2002.

In December 2004, the Board of Directors authorized $500,000 for capital credit payments to be distributed during 2005 under the discounted capital credit retirement plan.

In November 2005, the Board of Directors authorized the retirement of $3,801,228 of retail patronage for 1986 and 1987.

In 2005, the retirement of $3,801,228 included discounted estate payments in the amount of $394,520. In addition, Chugach retained $282,479, which represented discounted capital credits transferred to other equities and margins under the discounted capital credit retirement program.

In 2004, the retirement of $3,126,560 included discounted estate payments in the amount of $55,639. In addition, Chugach retained $65,990, which represented discounted capital credits transferred to other equities and margins under the discounted capital credit retirement program.

Estate payments in the amount of $60,209 were made in 2003.

The discount rate for discounted payments, including discounted estate payments in 2005 and 2004 was 9.20%.

Following is a five-year summary of anticipated capital credit retirements:

YEAR ENDING DECEMBER 31,	TOTAL
2006	$ 3,900,000
2007	$ 6,000,000
2008	$ 5,500,000
2009	$ 5,000,000
2010	$ 3,500,000

[7] OTHER EQUITIES

A summary of other equities at December 31 follows:

	2005	2004
Nonoperating margins, prior to 1967	$ 23,625	$ 23,625
Donated capital	532,103	249,624
Unclaimed capital credit retirement*	7,047,648	6,772,743
Total other equities	$ 7,603,376	$ 7,045,992

* Represents unclaimed capital credits that have met all requirements of section 34.45.200 of Alaska's unclaimed property law and has therefore reverted to Chugach

[8] DEBT

Long-term obligations at December 31 are as follows:

	2005	2004
CoBank 7.76% fixed rate note maturing in 2005, with interest payable monthly; unsecured	$ 0	$ 10,000,000
CoBank 5.50% fixed rate note maturing in 2010, with interest payable monthly; unsecured	9,500,000	0
CoBank 5.96% variable rate notes maturing in 2022, with interest payable monthly and principal due annually beginning in 2003; unsecured	42,157,786	43,189,179
CoBank 5.96% variable rate note, with interest payable monthly and principal due in 2007; unsecured	5,000,000	5,000,000
2001 Series A Bond of 6.55%, maturing in 2011, with interest payable semi-annually March 15 and September 15; unsecured	150,000,000	150,000,000

CONTINUES

	2005	2004
2002 Series A Bond of 6.20%, maturing in 2012, with interest payable semi-annually February 1 and August 1; unsecured	$ 120,000,000	$ 120,000,000
2002 Series B Bond of a rate set for 28-day auction periods, maturing in 2012, with interest payable monthly and principal due annually; unsecured	46,200,000	51,100,000
Total long-term obligations	372,857,786	379,289,179
Less current installments	8,325,687	15,931,393
Long-term obligations, excluding current installments	$ 364,532,099	$ 363,357,786

COVENANTS

Chugach is required to comply with all covenants set forth in the Amended and Restated Indenture, dated April 1, 2001, which became effective January 22, 2003. The indenture initially governing the outstanding bonds of Chugach, 2001 Series A, 2002 Series A and 2002 Series B, provided that the bonds were secured by a mortgage on substantially all of Chugach's assets so long as any amounts remained outstanding to CoBank on bonds issued under the indenture. Upon the retirement of the bonds issued to CoBank, Chugach's outstanding bonds became subject to the Amended and Restated Indenture pursuant to which the bonds became unsecured obligations of Chugach.

Chugach is also required to comply with the Master Loan Agreement between Chugach and CoBank dated December 27, 2002, pursuant to which CoBank and Chugach replaced the bonds issued to CoBank with unsecured promissory notes not governed by the indenture. CoBank returned the old CoBank bonds to Chugach on January 22, 2003. The CoBank Master Loan Agreement requires Chugach to establish and collect rates reasonably expected to yield margins for interest equal to at least 1.10 times interest expense.

SECURITY

Substantially all assets were pledged as collateral for the long-term obligations until retirement of the 1991 Series A Bonds and subsequent institution of the Amended and Restated Indenture. On January 22, 2003, the Bonds became general unsecured and unsubordinated obligations. Under the Amended and Restated Indenture, Chugach is prohibited from creating or permitting to exist any mortgage, lien, pledge, security interest or encumbrance on Chugach's properties and assets (other than those arising by operation of law) to secure the repayment of borrowed money or the obligation to pay the deferred purchase price of property unless Chugach equally and ratably secure all bonds subject to the Amended and Restated Indenture, except that Chugach may incur secured indebtedness in an amount not to exceed $5 million or enter into sale and leaseback or similar agreements.

RATE

The Amended and Restated Indenture requires Chugach, subject to any necessary regulatory approval, to establish and collect rates reasonably expected to yield margins for interest equal to at least 1.10 times total interest expense. The CoBank Master Loan Agreement also requires Chugach to establish and collect rates reasonably expected to yield margins for interest equal to at least 1.10 times interest expense. Margins for interest generally consist of Chugach's assignable margins plus total interest expense. If there occurs any material change in the circumstances contemplated at the time rates were most recently reviewed, the Amended and Restated Indenture requires Chugach to seek appropriate adjustments to those rates so that they would generate revenues reasonably expected to yield margins for interest equal to at least 1.10 times interest charges.

DISTRIBUTIONS TO MEMBERS

The Amended and Restated Indenture prohibits Chugach from making any distribution of patronage capital to Chugach's customers if an event of default under the Amended and Restated Indenture exists. Otherwise, Chugach may make distributions to Chugach's members in each year equal to the lesser of 5% of Chugach's patronage capital or 50% of assignable margins for the prior fiscal year. This restriction does not apply if, after the distribution, Chugach's aggregate equities and margins as of the end of the immediately preceding fiscal quarter are equal to at least 30% of Chugach's total liabilities and equities and margins.

MATURITIES OF LONG-TERM OBLIGATIONS

Long-term obligations at December 31, 2005, mature as follows:

YEAR ENDING DECEMBER 31	SINKING FUND REQUIREMENTS 2001 SERIES A BONDS	SINKING FUND REQUIREMENTS 2002 SERIES A BONDS	SINKING FUND REQUIREMENTS 2002 SERIES B BONDS	PRINCIPAL MATURITIES COBANK PROMISSORY NOTES	TOTAL
2006	0	0	5,200,000	3,125,687	8,325,687
2007	0	0	5,500,000	8,228,569	13,728,569
2008	0	0	5,900,000	3,340,725	9,240,725
2009	0	0	6,300,000	3,463,358	9,763,358
2010	0	0	6,700,000	3,097,157	9,797,157
Thereafter	150,000,000	120,000,000	16,600,000	35,402,290	322,002,290
	$150,000,000	$120,000,000	$46,200,000	$56,657,786	$372,857,786

SHORT-TERM OBLIGATIONS

Chugach had maintained a $20 million line of credit with CoBank, ACB (CoBank). On October 27, 2005, Chugach reduced the line of credit to $7.5 million due to a decrease in short-term borrowing projections. The CoBank line of credit expires October 31, 2006, subject to annual renewal at the discretion of the parties. Chugach utilized this line of credit in March of 2005, however, the balance was subsequently paid back in the same month. Chugach had an annual line of credit of $20,000,000 available at December 31, 2004, with CoBank. Chugach did not utilize this line of credit in 2004. At December 31, 2005 and 2004, there was no outstanding balance on this line of credit. At December 31, 2005 and 2004, the borrowing rate would have been 5.95% and 3.80%, respectively. In addition, Chugach had an annual line of credit of $50,000,000 available at December 31, 2005 and 2004, with NRUCFC. Chugach did not utilize this line of credit in 2005. At December 31, 2005 and 2004, there was no outstanding balance on this line of credit. At December 31, 2005 and 2004, the borrowing rate would have been 6.10% and 4.05%, respectively. The NRUCFC line of credit expires October 15, 2007.

REFINANCING

On August 31, 2005, Chugach refinanced its $10 million promissory note with CoBank. The new $10 million, 5.50% fixed rate promissory note will mature September 20, 2010 and contains consecutive monthly installment payments commencing October 20, 2005.

2002 SERIES B BONDS

The 2002 Series B Bonds (the "Auction Rate Bonds") will mature on February 1, 2012. The applicable interest rate for any 28-day auction period is the term rate established by the auction agent based on the terms of the auction. The Auction Rate Bonds may be converted, in Chugach's discretion, to a daily, seven-day, 35-day, three-month or a semi-annual period or a flexible auction period. The Auction Rate Bonds are not subject to redemption at the option of the bondholders under any circumstances. Chugach may elect to redeem the bonds and Chugach is required to redeem the bonds in pre-established incremental amounts over time through a sinking fund. The Auction Rate Bonds are subject to a remarketing agreement on a best efforts basis, however in the event of unsuccessful remarketing, the bonds are returned to the bondholders and continue as auction rate bonds subject to a maximum auction rate (15%). Under no circumstances would Chugach be obligated to pay off the Bonds in the event of an unsuccessful remarketing effort. Chugach has not provided any protection to the bondholders in the event of an unsuccessful remarketing, therefore, Chugach has classified the Bonds as long-term, with the exception of the mandatory sinking fund payment due in 2006.

The 2002 Series A Bond and the Auction Rate Bonds (collectively the "Bonds") are unsecured obligations, ranking equally with Chugach's other unsecured and unsubordinated obligations. In addition, Chugach's ability is limited to secure obligations for borrowed money or the deferred purchase price of property unless Chugach equally and ratably secures Chugach's outstanding indebtedness subject to the Amended and Restated Indenture governing the Bonds.

The following table provides information regarding auction dates and rates in 2005.

AUCTION DATE	INTEREST RATE
January 26, 2005	2.50%
February 23, 2005	2.62%
March 23, 2005	3.00%
April 20, 2005	3.05%
May 18, 2005	3.09%
June 15, 2005	3.22%
July 13, 2005	3.38%
August 10, 2005	3.56%
September 7, 2005	3.65%
October 5, 2005	3.74%
November 2, 2005	4.04%
December 28, 2005	4.40%

TREASURY RATE LOCK AGREEMENTS

On March 17, 1999, Chugach entered into a U.S.Treasury rate lock transaction with Lehman Brothers Financial Products Inc., (Lehman Brothers) for the purpose of taking advantage of favorable market interest rates in anticipation of refinancing Chugach's Series A Bond due 2022 on their optional call date (March 15, 2002). On May 11, 2001, Chugach terminated the $18.7 million 30-year U.S. Treasury portion of the Treasury Rate Lock Agreement in receipt of payment of $10,000 by Lehman. On December 7, 2001, Chugach terminated 50%, or $98.0 million, of the 10-year U.S. Treasury portion of the U.S. Treasury Rate Lock Agreement for a settlement payment of $4 million to Lehman Brothers. Chugach settled the remaining 50% of the 10-year U.S. Treasury portion of the Treasury Rate Lock Agreement for $3 million on December 19, 2001. On January 14, 2002, Chugach entered into an 18-day rate lock agreement with JP Morgan on the 2002 refinancing. Chugach terminated the rate lock on February 1, 2002, which generated a payment to Chugach of $1.2 million. The settlement payments were accounted for as regulatory assets and amortized over the life of the corresponding debt, which was authorized by the RCA in Order U-01-108(26).

[9] FAIR VALUE OF LONG-TERM OBLIGATIONS

The estimated fair values (in thousands) of the long-term obligations included in the financial statements at December 31 are as follows:

	2005		2004	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Long-term obligations (including current installments)	$372,858	$390,927	$379,289	$408,791

Fair value estimates are dependent upon subjective assumptions and involve significant uncertainties resulting in variability in estimates with changes in assumptions.

[10] EMPLOYEE BENEFIT PLANS

PENSION PLANS

Pension benefits for substantially all union employees are provided through the Alaska Electrical Pension Trust Fund and the Alaska Hotel, Restaurant and Camp Employees Health and Welfare and Pension Trust Fund, multi-employer plans. Chugach pays an hourly amount per eligible union employee pursuant to the collective bargaining unit agreements. In these master, multi-employer plans, the accumulated benefits and plan assets are not determined or allocated separately to the individual employer. The costs for the union plans were approximately $2.4 million, $2.5 million and $2.4 million in 2005, 2004 and 2003, respectively. The Company has no responsibility for any unfunded benefit obligation of the Plan at this time.

Pension benefits for non-union employees are provided by the National Rural Electric Cooperative Association (NRECA) Retirement and Security Program, a multi-employer plan. Chugach makes annual contributions to the pension plan equal to the amounts accrued for pension expense. Chugach contributed $1.8 million, $1.6 million and $1.5 million in 2005, 2004 and 2003, respectively, to the NRECA plan. The Company has no responsibility for any unfunded benefit obligation of the Plan at this time.

HEALTH AND WELFARE PLANS

Health and welfare benefits for union employees are provided through the Alaska Electrical Health and Welfare Trust and the Alaska Hotel, Restaurant and Camp Employees Health and Welfare and Pension Trust Fund. Chugach participates in multi-employer plans that provide substantially all union workers with health care and other welfare benefits during their employment with Chugach. Chugach pays a defined amount per union employee pursuant to collective bargaining unit agreements. Amounts charged to benefit costs and contributed to the health and welfare plans for these benefits for the years ending December 31, 2005, 2004 and 2003 totaled $3.0 million, $2.9 million and $2.9 million respectively.

Chugach participates in a multi-employer plan through the Group Benefits Program of NRECA for non-union employees. Amounts charged to benefit cost and contributed to this Plan for those benefits for the years ended December 31, 2005, 2004 and 2003 totaled $2.0 million, $2.0 million and $1.7 million, respectively.

MONEY PURCHASE PENSION PLAN

Chugach participates in a multi-employer defined contribution money purchase pension plan covering some employees who are covered by a collective bargaining agreement. Contributions to the Plan are made based on a percentage of each employee's compensation. Contributions to the money purchase pension plan for the years ending December 31, 2005, 2004 and 2003 were $80.7 thousand, $90.1 thousand and $82.2 thousand, respectively.

401(K) PLAN

Effective March 1, 1988, Chugach has a defined contribution 401(k) retirement plan which covers substantially all employees who have completed ninety days of continuous service during a twelve month period. Employees who elect to participate may contribute up to the Internal Revenue Service's maximum of $14,000, $13,000 and $12,000 in 2005, 2004 and 2003, respectively.

[11] BRADLEY LAKE HYDROELECTRIC PROJECT

Chugach is a participant in the Bradley Lake Hydroelectric Project (Bradley Lake). Bradley Lake was built and financed by the Alaska Energy Authority (AEA) through State of Alaska grants and $166,000,000 of revenue bonds. Chugach and other participating utilities have entered into take-or-pay power sales agreements under which shares of the project capacity have been purchased and the participants have agreed to pay a like percentage of annual costs of the project (including ownership, operation and maintenance costs, debt service costs and amounts required to maintain established reserves). Under these take-or-pay power sales agreements, the participants have agreed to pay all project costs from the date of commercial operation even if no energy is produced. Chugach has a 30.4% share of the project's capacity. The share of debt service exclusive of interest, for which Chugach has guaranteed, is approximately $40,000,000. Under a worst-case scenario, Chugach could be faced with annual expenditures of approximately $4.7 million as a result of Chugach's Bradley Lake take-or-pay obligations. Management believes that such expenditures, if any, would be recoverable through the fuel surcharge ratemaking process. Upon the default of a Bradley Lake participant, and subject to certain other conditions, AEA, through Alaska Industrial Development and Export Authority, is entitled to increase each participant's share of costs pro rata, to the extent necessary to compensate for the failure of another participant to pay its share, provided that no participant's percentage share is increased by more than 25%.

The following represents information with respect to Bradley Lake at June 30, 2005 (the most recent date for which information is available). Chugach's share of expenses was $4,993,670 in 2005, $4,205,657 in 2004 and $4,212,072 in 2003 and is included in purchased power in the accompanying financial statements.

(In thousands)	TOTAL	PROPORTIONATE SHARE
Plant in service	$ 310,463	$ 94,381
Accumulated depreciation	(94,990)	(28,877)
Long-term debt	125,485	129,205
Interest expense	8,553	2,600

Other electric plant represents Chugach's share of a Bradley Lake transmission line financed internally and Electric Plant Held for Future Use.

[12] EKLUTNA HYDROELECTRIC PROJECT

During October 1997, the ownership of the Eklutna Hydroelectric Project formally transferred from the Alaska Power Administration to the participating utilities. This group, including their corresponding interest in the project, consists of Chugach (30%), MEA (16.7%) and Anchorage Municipal Light & Power (AML&P) (53.3%).

Plant in service in 2005 includes $2,616,854, net of accumulated depreciation of $525,457, which represents Chugach's share of the Eklutna Hydroelectric Plant. In 2004 plant in service included $2,469,350, net of accumulated depreciation of $432,654. Chugach and AML&P jointly operate the facility. Each participant contributes their proportionate share for operation, maintenance and capital improvement costs to the plant, as well as to the transmission line between Anchorage and the plant. Under net billing arrangements, Chugach then reimburses MEA for their share of the costs. Chugach's share of expenses was $476,739, $784,264 and $490,338 in 2005, 2004 and 2003, respectively and is included in power production and depreciation in the accompanying financial statements.

Chugach provides personnel for the daily operation and maintenance of the power plant. ML&P performs major maintenance at the plant. Chugach personnel perform daily plant inspections, meter reading, monthly report preparation, and other activities as required.

[13] COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS

CONTINGENCIES

Chugach is a participant in various legal actions, rate disputes, personnel matters and claims both for and against Chugach's interests. Management believes the outcome of any such matters will not materially impact Chugach's financial condition, results of operations or liquidity.

LONG-TERM FUEL SUPPLY CONTRACTS

Chugach has entered into long-term fuel supply contracts from various producers at market terms. The current contracts will expire at the end of the currently committed volumes or the contract expiration dates of 2015 and 2025. The committed volumes for the 2015 contract should be used by early 2011. The currently priced volumes for the 2025 contract should also be used by early 2011, however, there is an additional 120 BCF reserved if satisfactory terms and conditions can be negotiated. In 2005, 88% of our power was generated from gas, while in 2004 and 2003, 86% of our power was generated from gas. Of that gas-fired generation, in 2005 and 2004, 86% took place at Beluga, while in 2003 85% of gas-fired generation took place at Beluga.

CONCENTRATIONS

Approximately 70% of Chugach's employees are represented by the International Brotherhood of Electrical Workers (IBEW). Chugach has three Collective Bargaining Unit Agreements (CBA) with the IBEW, which expire on June 30, 2006. The CBA's are under review at this time.

Chugach is the principal supplier of power under long-term wholesale power contracts with MEA and HEA. These contracts represented $72.1 million or 32.4% of operating revenues in 2005, $62.0 million or 31.2% in 2004 and $55.8 million or 30.8% in 2003. The HEA contract expires January 1, 2014, and the MEA contract expires December 31, 2014.

Fuel is purchased directly from Marathon Oil Company, ChevronTexaco, ML&P and ConocoPhillips. The following represents the cost of fuel purchased from these vendors as a percentage of total fuel costs for the years ended December 31:

	2005	2004	2003
Marathon Oil Company	48.8%	48.8%	47.4%
Chevron Texaco	19.5%	19.5%	20.0%
Municipal Light & Power (ML&P)	15.8%	15.8%	16.2%
ConocoPhillips	15.8%	15.8%	16.2%

COOPER LAKE HYDROELECTRIC PLANT

Chugach discovered polychlorinated biphenyls (PCBs) in paint, caulk and grease at the Cooper Lake Hydroelectric plant during initial phases of a turbine overhaul in 2000. A FERC approved plan, prepared in consultation with the Environmental Protection Agency (EPA), was implemented to remediate the PCBs in the plant. In an order in Chugach's general rate case, Order U-01-108(26), the RCA permitted the costs associated with the overhaul and the PCB remediation to be recovered through rates. The costs of PCB sampling and analysis in Kenai Lake were accounted for as an expense.

LEGAL PROCEEDINGS

Matanuska Electric Association, Inc., v. Chugach Electric Association, Inc., Superior Court Case No. 3AN-99-8152 Civil

In this action filed in 1999, Matanuska Electric Association, Inc. (MEA) alleged that Chugach breached the Power Sales Agreement under which Chugach is obligated to sell MEA power for 25 years, from 1989 through 2014. MEA asserted that Chugach failed to provide it certain information, failed to properly manage Chugach's long-term debt, and failed to bring Chugach's base rate action to a Joint Committee before presenting it to the Regulatory Commission of Alaska (RCA). All of MEA's claims were dismissed by the Superior Court.

On April 29, 2002, MEA appealed to the Alaska Supreme Court the Superior Court's dismissal of its claims related to Chugach's financial management and Chugach's decision not to bring its base rate action to the Joint Committee before filing with the RCA. Chugach cross-appealed the Superior Court's decision not to also dismiss the financial management claim on jurisprudential and res judicata grounds. The Alaska Supreme Court, on October 8, 2004, issued an order upholding Chugach's right to not bring its base rate action to the Joint Committee before filing with the RCA. But the Court rejected Chugach's cross-appeal and reversed the Superior Court's decision dismissing MEA's financial management claim. The Supreme Court remanded that claim to the Superior Court for further proceedings.

On January 24, 2005, Chugach filed for summary judgment on that claim asserting that in the 2000 Test Year rate case the RCA had fully reviewed and decided the prudency of Chugach's financial management. In a decision dated August 22, 2005, the Superior Court granted Chugach's summary judgment motion, finding that the RCA had adjudicated the question of Chugach's financial management and that its decision should be given res judicata effect. The Superior Court also found that the RCA had exercised its primary jurisdiction in reviewing Chugach's financial management, and that its decision should be given deference.

The Superior Court entered final judgment on November 10, 2005, after which Chugach sought its costs and fees. On December 14, 2005, the Superior Court entered judgment awarding Chugach fees and costs from MEA in the amount of $104,732, which has not been recorded in the financial statements.

On December 9, 2005, however, MEA appealed to the Alaska Supreme Court the Superior Court's grant of summary judgment. On December 23, 2005, Chugach cross-appealed the Superior Court's failure to also grant summary judgment based on the doctrine of collateral estoppel. This appeal is pending. Management is uncertain of the outcome of the proceeding before the Supreme Court. No reserves have been established for this matter.

Matanuska Electric Association, Inc. v. Chugach Electric Association, Inc. Superior Court Case No. 3AN-04-11776 Civil

On October 12, 2004, MEA filed suit in Superior Court alleging that Chugach had violated its bylaws in allocating margins (capital credits) during the years 1998 through 2003. The margins Chugach earns each year are allocated to the customers who contributed them and are booked as capital credits to those customers' accounts. Capital credits are eventually repatriated to customers at the discretion of the board of directors, typically many years after the margins are earned.

In this suit, MEA asks the Court to hold that Chugach breached its bylaws in the manner in which it allocated capital credits in 1998 through 2003. MEA also asks the court to enjoin Chugach to re-calculate MEA's capital credits applying MEA's interpretation of Chugach's bylaws and in accordance with what MEA refers to as "generally accepted accounting practices for nonprofit cooperatives and cooperative principles". The suit also seeks damages in an unspecified amount to compensate MEA for the alleged breach of contract. This matter currently is scheduled for a five-day trial beginning October 9, 2006. Management is vigorously defending against the claim. The ultimate resolution of this matter is not currently determinable.

Chugach has certain additional litigation matters and pending claims that arise in the ordinary course of Chugach's business. In the opinion of management, no individual matter or the matters in the aggregate is likely to have a material adverse effect on Chugach's results of operations, financial condition or liquidity.

REGULATORY COST CHARGE

In 1992 the State of Alaska Legislature passed legislation authorizing the Department of Revenue to collect a Regulatory Cost Charge from utilities in order to fund the governing regulatory commission, which is currently the RCA. The tax is assessed on all retail consumers and is based on kilowatt-hour (kWh) consumption. The tax is collected monthly and remitted to the State of Alaska quarterly. The Regulatory Cost Charge has changed since its inception (November 1992) from an initial rate of $0.000626 per kWh to the current rate of $0.000433, effective July 1, 2005. The tax is reported on a net basis and the tax is not included in revenue or expense.

SALES TAX

Chugach collects sales tax on retail electricity sold to Kenai and Whittier consumers. The tax is collected monthly and remitted to the Kenai Peninsula Borough quarterly. Sales tax is reported on a net basis and the tax is not included in revenue or expense.

GROSS RECEIPTS TAX

Chugach pays to the State of Alaska a gross receipts tax in lieu of state and local ad valorem, income and excise taxes on electricity sold in the retail market. The tax is accrued monthly and remitted annually. The tax is reported on a net basis and the tax is not included in revenue.

EXCISE TAXES

Excise taxes on Chugach fuel purchases are paid directly to our gas producers and are recorded under "Fuel" in Chugach's financial statements and are not directly passed through to our consumers.

UNDERGROUND COMPLIANCE CHARGE

In 2005 the Anchorage Municipal Assembly adopted an ordinance to require utilities to convert overhead distribution lines to underground. To comply with the ordinance, Chugach must invest two percent of gross retail revenue in the Municipality of Anchorage annually in moving existing distribution overhead lines underground. Consistent with a State of Alaska undergrounding requirement, Chugach is permitted to amend its rates by adding a 2% surcharge to its member's bills to recover the actual costs of the program. The rate amendments are not subject to RCA review or approval. Chugach implemented the surcharge in June 2005. At December 31, 2005, Chugach had collected $1,064,058 from its retail members for this surcharge.

(14) QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

	2005 QUARTER ENDED			
	DEC. 31	SEPT. 30	JUNE 30	MARCH 31
Operating Revenue	$ 63,847,123	$ 54,323,791	$ 50,314,401	$ 57,212,034
Operating Expense	53,773,333	49,766,632	44,308,718	46,975,282
Net Interest	5,753,831	5,748,482	5,597,536	5,486,205
Net Operating Margins	4,319,959	(1,191,323)	408,147	4,750,547
Non-Operating Margins	706,961	196,363	166,942	157,135
Assignable Margins	$ 5,026,920	$ (994,960)	$ 575,089	$ 4,907,682

	2004 QUARTER ENDED			
	DEC. 31	SEPT. 30	JUNE 30	MARCH 31
Operating Revenue	$ 55,221,563	$ 47,991,700	$ 46,388,411	$ 51,644,941
Operating Expense	46,010,061	43,778,224	41,441,061	42,110,691
Net Interest	5,512,148	5,373,404	5,254,092	5,352,221
Net Operating Margins	3,699,354	(1,159,928)	(306,742)	4,182,029
Non-Operating Margins	805,322	145,698	122,788	113,935
Assignable Margins	$ 4,504,676	$ (1,014,230)	$ (183,954)	$ 4,295,964

UNBUNDLED BALANCE SHEET

As of December 31, 2005 (Unaudited)

ASSETS	TOTAL	G & T	DISTRIBUTION
Total Utility Plant In Service	$ 762,859,198	$ 466,148,245	$ 296,710,953
Construction Work In Progress	32,505,401	19,964,637	12,540,764
Total Utility Plant	795,364,599	486,112,882	309,251,717
Accumulated Depreciation	(327,384,961)	(217,850,605)	(109,534,356)
Net Utility Plant	467,979,638	268,262,277	199,717,361
Nonutility Property	24,461	0	24,461
Investments in Associated Organization	11,883,053	5,279,678	6,603,375
Total Other Property and Investments	11,907,514	5,279,678	6,627,836
Cash and Cash Equivalents	10,650,594	0	10,650,594
Special Deposits	216,191	75,357	140,834
Accounts Receivable - Net Sales of Energy and Other	27,436,278	17,690,554	9,745,724
Due to Distribution from G&T	0	(47,394,616)	47,394,616
Materials and Supplies - Electric and Other	23,809,691	20,904,332	2,905,359
Prepayments	1,801,104	1,007,100	794,004
Other Current Assets	2,064,772	1,144,564	920,208
Total Current Assets	65,978,630	(6,572,709)	72,551,339
Deferred Debits	19,269,718	15,054,371	4,215,347
Total Assets	$ 565,135,500	$ 282,023,617	$ 283,111,883

LIABILITIES AND EQUITIES	TOTAL	G & T	DISTRIBUTION
Memberships	$ 1,250,398	$ 261,238	$ 989,160
Patronage Capital	136,185,378	34,556,368	101,652,635
Other Margins and Equities	7,603,376	1,583,595	5,996,156
Total Margins and Equities	145,039,152	36,401,201	108,637,951
Long-Term Debt - Bonds	311,000,000	179,941,587	131,058,413
Long-Term Debt - Other	53,532,099	30,973,154	22,558,945
Total Long-Term Debt	364,532,099	210,914,741	153,617,358
Notes Payable	8,325,687	4,817,162	3,508,525
Accounts Payable	9,004,981	3,936,373	5,068,608
Consumer Deposits	1,980,286	0	1,980,286
Other Current Liabilities	33,487,178	25,683,837	7,803,341
Total Current Liabilities	52,798,132	34,437,372	18,360,760
Deferred Credits	2,766,117	270,303	2,495,814
Total Liabilities and Equities	$ 565,135,500	$ 282,023,617	$ 283,111,883

UNBUNDLED STATEMENT OF REVENUES, EXPENSES AND PATRONAGE CAPITAL

Year ended December 31, 2005 (Unaudited)

	TOTAL	G & T	DISTRIBUTION
Operating Revenue	$ 225,697,349	$ 170,766,245	$ 54,931,104
Fuel Expense	84,776,131	84,776,131	0
Power Production Expense	15,037,499	15,032,838	4,661
Purchased Power Expense	23,664,412	23,664,412	0
Transmission Expense	5,847,648	5,847,648	0
Distribution Expense	11,758,711	0	11,758,711
Customer Expense	5,227,478	0	5,227,478
General and Administrative Expense	19,010,714	10,906,588	8,104,126
Total Operations and Maintenenace Expense	165,322,593	140,227,617	25,094,976
Depreciation and Amortization Expense	27,994,939	18,123,007	9,871,932
Tax Expense	812,174	115,477	696,697
Interest Expense (Net)	22,586,054	13,060,922	9,525,132
Other Deductions	449,403	278,120	171,283
Total Cost of Electric Service	217,165,163	171,805,143	45,360,020
Patronage Capital and Operating Margins	8,532,186	(1,038,898)	9,571,084
Non-Operating Margins	1,227,401	441,310	786,091
Patronage Capital and Margins	$ 9,759,587	$ (597,588)	$ 10,357,175

The 2005 year-end margins differ from the audited financial statements in the amount of $244,856 due to RCA Order No. 8. Order No. 8 required Chugach to adjust its financial records for 2004, however, in accordance with Generally Accepted Acounting Principles (GAAP), the audited financial statements were not restated.

UNBUNDLED STATEMENT OF CASH FLOW

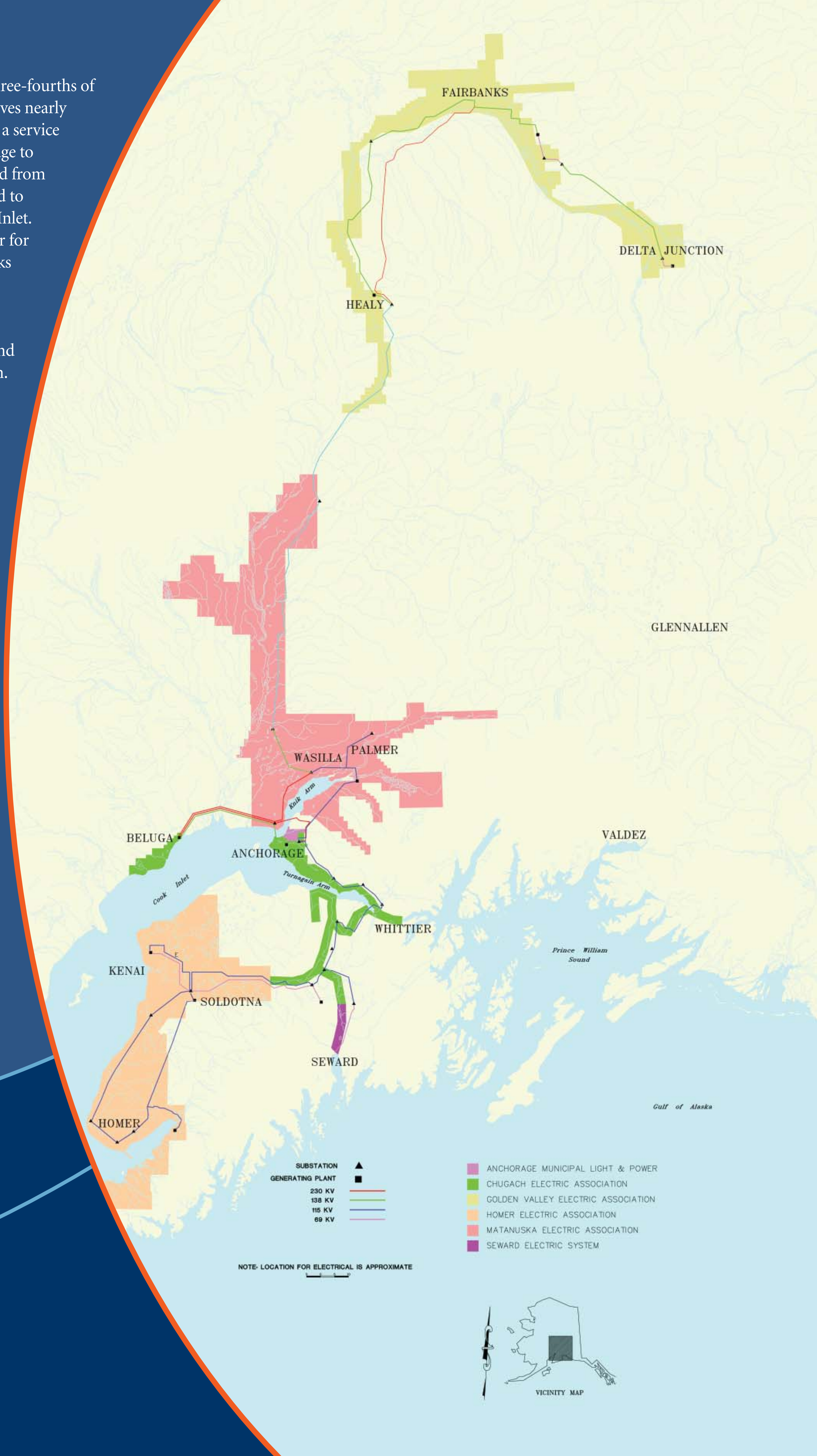
Year ended December 31, 2005 (Unaudited)

	TOTAL	G & T	DISTRIBUTION
Cash flows from Operating Activities:			
Assignable Margins	$ 9,759,585	$ (597,590)	$ 10,357,175
Adjustments to reconcile assignable margins to net cash provided (used) by operating activities:			
Depreciation and Amortization	27,994,939	18,123,007	9,871,932
Capitalization of Interest	(993,499)	(623,062)	(370,437)
Investments in associated organizations	(115,000)	(66,538)	(48,462)
Other	404	(274)	678
Changes in Assets and Liabilities:			
(Increase) decrease in Assets:	(5,332,003)	(2,930,507)	(2,401,496)
Increase (decrease) in Liabilities:	6,171,954	2,638,253	3,533,701
Net cash provided by Operating Activities:	37,486,380	16,543,289	20,943,091
Cash flows from Investing Activities:			
Extension and replacement of plant	(27,395,021)	(15,794,973)	(11,600,048)
Net cash used for Investing Activities	(27,395,021)	(15,794,973)	(11,600,048)
Cash flows from Financing Activities:			
Repayments of long term obligations	(6,431,393)	(3,721,142)	(2,710,251)
Loan to G&T from Distribution	0	1,930,760	(1,930,760)
Patronage Capital and other	(3,474,376)	1,042,066	(4,516,442)
Net cash used for Financing Activities	(9,905,769)	(748,316)	(9,157,453)
Net increase in cash and cash equivalents	185,590	0	185,590
Cash and cash equivalents at beginning of year	10,465,004	-	10,465,004
Cash and cash equivalents at end of period	$ 10,650,594	$ 0	$ 10,650,594

Chugach power flows to nearly three-fourths of Alaska's population. Chugach serves nearly 79,000 metered retail locations in a service territory extending from Anchorage to the Northern Kenai Peninsula, and from Whittier on Prince William Sound to Tyonek on the west side of Cook Inlet. Chugach regularly provides power for Alaskans from Homer to Fairbanks through wholesale and economy energy sales to Homer Electric Association, the City of Seward, Matanuska Electric Association and Golden Valley Electric Association. On occasion, Chugach sells to or buys energy from Anchorage Municipal Light & Power.

Chugach has 530.10 megawatts of installed generation capacity at five power plants. Chugach operates 2,056 miles of energized line, made up of 402 miles of transmission line, 925 miles of overhead distribution line and 729 miles of underground distribution line.

Chugach's 2005 system peak load of 462 megawatts occurred between 5 and 6 p.m. on Dec. 4. Power sales for the year totaled 2.8 billion kilowatt-hours. Chugach finished 2005 with total revenues and non-operating margins of $226.9 million, expenses of $217.4 million and margins of $9.5 million.



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COMMUNITY INVOLVEMENT

Chugach and its employees are involved in the community through donating and volunteering. Some of the organizations Chugach and its employees have had the opportunity to work with in 2005 include:

- Alaska Center for the Blind and Visually Impaired
- Alaska Community Services
- Alaska Dance Theatre
- Alaska Junior Theatre
- Alaska Native Heritage Center
- Alaska Public Telecommunications
- Alaska Radio Reading Service
- Alaska Raptor Center
- Alaska Run for Women
- Alaska Science & Engineering Fair
- Alaska Theatre of Youth
- Alaska Women's Resource Center
- American Lung Association of Anchorage
- American Red Cross
- Anchorage ATHENA Society
- Anchorage Chamber of Commerce Clean Up Day
- Anchorage Gospel Rescue Mission
- Anchorage Home Builders Association Shoebox Project
- Anchorage Literacy Project
- Anchorage Museum of History and Art
- Anchorage Neighborhood Housing Services
- Anchorage Opera
- Anchorage Police Department Search and Rescue Team
- Anchorage Symphony Orchestra
- Anchorage Waterways Council
- Anchorage Youth Symphony
- 2nd Annual Alaska Women's Summit
- AWAIC – Abused Women's Aid in Crisis
- Bean's Cafe
- Bird Treatment & Learning Center
- Blood Bank of Alaska, donated 58 usable units of blood, helped to save 174 lives.
- Camp Startup (Anchorage Chamber of Commerce/ATHENA Society)
- CASA Alaska
- Cook Inlet Tribal Council
- Crimestopper Celebrity All-Star Charity Event
- Food Bank of Alaska
- Friends of the Library
- Habitat for Humanity
- Healing Racism in Anchorage
- Hope Community Resources
- Hospice of Anchorage
- Ikenobo Ikebana Society
- Junior Achievement
- Kids' Kitchen
- Mabel T. Caverly Senior Center
- Mother Lawrence Foundation
- NAMI Alaska Walk Committee
- National Youth Service Day
- PARENTS, Inc.
- Partners in Homeless Education
- Partners in Justice
- Safe Harbor Inn
- The Salvation Army
- Soroptimist International of Anchorage, Booth Memorial Home holiday stockings
- Special Olympics
- Theatre for Young People
- United Way
- Western Council Boy Scouts

CHUGACH DONATED MORE THAN 400 TURKEYS DURING THE HOLIDAYS TO ORGANIZATIONS THAT INCLUDED MABEL T. CAVERLY SENIOR CENTER, BROTHER FRANCIS SHELTER AND AWAIC. CHUGACH COURIER JERRY HELTON DELIVERED AND HELPED UNLOAD TURKEYS AT THE ORGANIZATIONS.

CHUGACH
POWERING ALASKA'S FUTURE

CHUGACH PARTICIPATED IN THE ANCHORAGE CHAMBER OF COMMERCE CLEAN UP DAY AND CLEANED ALONG MINNESOTA BYPASS.