CHUGACH ELECTRIC ASSOCIATION, INC.
ANCHORAGE, ALASKA

January 29, 2003

To: Board of Directors

From: Evan J. Griffith, General Manager

Subject: 2002 Preliminary and Unaudited Financial Results

Chugach closed 2002 with preliminary Operating Revenues of $179.0 million, margins of $8.2 million, a 1.31 Margins for Interest/Interest (MFI/I), current ratio of 1.50:1 and an equity to total capitalization ratio of 26%. The equity to total capitalization target as presented in the 2002 budget was 26%. The budget comparisons discussed below are based on the 2002 budget as revised throughout the year.

kWh Sales

	2002 Actual	2002 Budget	2001 Actual
Retail kWh Sales	1,141,045,775	1,131,662,308	1,112,183,033
Wholesale kWh Sales	1,126,865,530	1,128,346,811	1,075,185,919
Economy Energy kWh Sales	125,784,220	166,837,000	81,884,450
Total	2,393,695,525	2,426,846,119	2,269,253,402

The preliminary kWh sales totaled 2,393,695,525, which were 1.4% under budget and 5.5% over 2001. The budget variance is due to a lower level of economy energy sales than was projected. The uncertainty of the 54-megawatt Healy Clean Coal Project (HCCP) and fuel oil prices makes it difficult to forecast sales to Golden Valley Electric Association (GVEA).

Retail kWh sales were over budget by 0.8%, while wholesale kWh sales were 0.1% less than budgeted.

Retail and wholesale kWh sales for 2002 increased over 2001 by 2.6% and 4.8% respectively. Economy energy sales increased by 53.6% from 2001, which is attributable to lower fuel oil prices in 2001 and warmer weather in 2002. The warmer weather and higher fuel prices in 2002 made it more economical for GVEA to purchase power from Chugach, rather than generate its own.

Energy Revenue (in millions)

	2002 Actual	2002 Budget	2001 Actual
Retail Revenue	$ 112.1	$ 111.8	$ 112.0
Wholesale Revenue	59.7	59.9	60.8
Economy Energy Revenue	4.6	6.7	3.4
Total	$ 176.4	$ 178.4	$ 176.2

Revenue from sales totaled $176.4 million in 2002 compared to $178.4 in the 2002 budget and $176.2 in 2001. Retail and wholesale revenue decreased from budget due to lower recoverable fuel and purchased power expenses than projected. This was due to lower fuel prices and increased purchases from Bradley Lake.

The variance from the prior year is the net result of lower recoverable fuel and purchased power expenses in 2002 and an increase in base rates of 3.97% in November 2001 as a result of an interim, refundable rate increase granted by the Regulatory Commission of Alaska (RCA).

Other Operating Revenue (in millions)

	2002 Actual	2002 Budget	2001 Actual
Other Operating Revenue	$ 2.5	$ 2.2	$ 2.4

Other operating revenue for 2002 totaled $2.5 million compared to $2.2 million in the 2002 budget and $2.4 million in 2001. The variance from the budget is due to higher than anticipated miscellaneous revenue from wheeling, damage claims and pole rental.

The variance from 2001 is not significant.

Power Production (in millions)

	2002 Actual	2002 Budget	2001 Actual
Operating & Maintenance	$ 13.5	$ 13.4	$ 12.4
Fuel	46.8	49.0	56.2
Total	$ 60.3	$ 62.4	$ 68.6

Actual power production operating and maintenance expense for 2002 was $13.5 million compared to a budget of $13.4 million. There was no significant variance in this category.

Fuel expense in 2002 was $46.8 million compared to $49.0 million projected in the budget. This variance is due to lower fuel prices during the year than those anticipated in the budget, as well as lower volume purchases.

The increase in power production operating and maintenance expense from 2001 to 2002 was due to scheduled maintenance and inspections on multiple units at Beluga and Bernice Lake in 2002. In addition, an insurance claim for costs incurred for the repair of the electrical breakdown of the generator at CLPP in 2001 was settled in 2002. As a result of that claim, our insurance deductible of $250,000 was recorded and a check for $102,234 was received from Factory Mutual Insurance Company to offset the total repair cost of $352,234.

The decrease in fuel expense from $56.2 million in 2001 to $46.9 million in 2002 is also a result of lower fuel prices and lower volume purchases, as mentioned earlier.

Purchased Power (in millions)

	2002 Actual	2002 Budget	2001 Actual
Total Purchased Power	$ 13.5	$ 13.4	$ 12.4

Purchased power cost for 2002 totaled $13.5 million compared to $13.4 million in the 2002 budget. This variance is not significant.

The increase of $1.1 million from 2001 was a result of the new contract with AEG&T/HEA regarding Nikiski Unit #1 that requires Chugach base load that unit and a slight increase in the cost of power from Bradley Lake.

Transmission Operations and Maintenance (in millions)

	2002 Actual	2002 Budget	2001 Actual
Total Transmission	$ 3.9	$ 4.1	$ 3.6

Transmission operations and maintenance expense totaled $3.9 million in 2002 compared to $4.1 million in the 2002 budget and $3.6 million in 2001. The variance from the budget is due to less transmission substation maintenance being performed than was expected as a result of not being able to schedule the necessary outages to perform the maintenance. In addition, transmission right of way clearing was less than anticipated as a result of permitting issues that delayed some projects. This decrease is slightly offset by an increase in patrolling of the 138kV and 230kV lines, bird nest removals and supporting rod replacements.

The primary reasons for the increase from 2001 are the abovementioned expenses associated with patrolling and the inspection of the 115kV Hope to Summit line in 2002.

Distribution Operations and Maintenance (in millions)

	2002 Actual	2002 Budget	2001 Actual
Total Distribution	$ 10.9	$ 10.3	$ 10.4

Distribution operations and maintenance expenses totaled $10.9 million compared to $10.3 million in the 2002 budget and $10.4 million in 2001. The variance from the 2002 budget and 2001 is primarily due to increase trouble calls in the Operations area relating to outages and damage claims. In addition, right of way clearing has increased as a result of a major hydro-axe project in the Beluga/Tyonek area and locate activity has also increased. Additionally, distribution substation maintenance also increased due to problems discovered utilizing the new predictive maintenance technology at multiple substations including Baxter, Boniface, Dowling, Girdwood, Hillside, Jewel Lake, and Spenard.

Consumer Accounts (in millions)

	2002 Actual	2002 Budget	2001 Actual
Total Consumer Accounts	$ 4.7	$ 4.9	$ 4.4

Consumer accounts expense totaled $4.9 million compared to $4.7 million in the budget. This budget variance is primarily due to lower than anticipated uncollectible accounts expense as a result of recovery of some retail bad debt through the capital credit retirement.

The $0.4 million increase in the consumer accounts expense category from 2001 is due to increased costs associated with billing and remittance processing as well as increased bank and credit card fees.

Customer Information (in millions)

	2002 Actual	2002 Budget	2001 Actual
Total Customer Information	$ 0.9	$ 1.4	$ 0.7

Customer information expense totaled $0.9 million compared to $1.4 million in the 2002 budget. The variance is due primarily to lower than anticipated expenses associated with customer mailings and safety advertising and the elimination of the Marketing department in mid 2002.

The $0.2 million variance in customer information expense from 2001 to 2002 is a result of a shift in the activities of the Marketing department. The focus of their efforts was shifted in late 2001 from sales activities to customer information activities.

Sales (in millions)

	2002 Actual	2002 Budget	2001 Actual
Total Sales	$ 0.0	$ 0.0	$ 0.5

There was no Sales expense budgeted nor recorded in 2002. This is a result of the abovementioned shift in focus and elimination of the Marketing department.

The $0.5 million decrease from 2001 is also a result of Marketing's shift in focus, as well as the sale of the ISP business in March 2001.

Administrative and General (in millions)

	2002 Actual	2002 Budget	2001 Actual
Total Administrative and General	$ 20.2	$ 18.9	$ 18.2

Administrative and general expenses totaled $20.2 million for 2002 compared to $18.9 million in the 2002 budget. The $1.3 million variance from budget and the $2.0 million variance from 2001 are primarily due to increased consulting and outside counsel expenses related to the 2000 Test Year rate case. In addition, insurance costs were higher in 2002 than estimated in the budget and recorded in 2001.

The summary of all the above preliminary 2002 operations and maintenance expenses total $119.6 million compared to $120.7 million in the revised 2002 budget and $121.0 million in 2001.

Depreciation expense totaled $25.2 million for 2002 compared to $25.6 in the revised 2002 budget and $25.1 million in 2001. The budget variance is due to some projects not being completed and closed to plant as early as expected in the budget.

Tax expense for 2002 totaled $0.8 million compared to $0.7 million in both the 2002 budget and 2001. There were no significant changes or variances from the 2002 budget or 2001 actual expenses.

Long-term interest expense totaled $26.1 million compared to $26.4 million in the 2002 budget and $27.1 million in 2001. The decrease from the 2002 budget is the result of lower variable interest rates than anticipated. The decrease from 2001 is due to the refinancing completed in early 2002 and lower variable interest rates.

Interest during construction totaled $0.4 million compared to $1.1 million in the budget and $1.1 million in 2001. The budget variance, as well as the variance from 2001, is due to a lower average balance in Construction Work in Progress than anticipated in the budget in addition to lower variable interest rates.

Other interest expense totaled $0.3 million compared to $0.1 million in the budget and $1.2 million in 2001. The variance from the budget is due to higher short term borrowing than anticipated associated with the refinancing in early 2002. The decrease from 2001 is a result of decreased short term borrowing, as well as a decrease in interest rates.

Other deductions include donations, preliminary survey and investigation charges of abandoned projects and obsolete inventory write-offs which are not properly attributable to operating or maintenance accounts. In 2002, other deductions totaled $0.6 million compared to $0.1 million in the budget and $0.7 million in 2001. The variance is the result of the write-off in 2002 of abandoned study projects including studies of web-enabling the customer information system, the Northern Intertie owner costs, the expansion of the Cooper Lake spillway and the replacement of the Tyonek substation.

All of the foregoing expenses result in total cost of electric service of $172.3 million compared to $172.5 million in the budget and $174.7 in 2001.

Non-operating margins include interest income, allowance for funds used during construction, capital credit and patronage capital allocations and extraordinary items. In 2002, non-operating margins totaled $1.5 million compared to $0.9 million in the budget and $1.7 million in 2001. The increase from the budget is due to higher than anticipated patronage capital and interest earnings. This increase was offset by the write-off of the loss on the sale of an inner liner to Dow Chemical. The decrease from 2001 is a result of lower patronage capital earnings from CoBank.

The net result of revenue and expenses is preliminary margins which totaled $8.2 million compared to $9.0 million in the 2002 revised budget and $5.5 million in 2001. These results give Chugach an MFI/I of 1.31 and an equity-to-total-capitalization ratio of 26%. The Amended and Restated Indenture of Trust has certain covenants related to establishing electricity rates that are reasonably expected to yield an MFI/I of 1.10 in any 12 month period. This compares to a revised budgeted MFI/I of 1.34 and an equity-to total-capitalization ratio of 26%. The year-end current ratio (current assets divided by current liabilities) is 1.50:1.