

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2004

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

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Commission file number 33-42125

CHUGACH ELECTRIC ASSOCIATION, INC.

Incorporated pursuant to the Laws of Alaska State

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Internal Revenue Service – Employer Identification No. 92-0014224

5601 Minnesota Drive, Anchorage, AK 99518  
(907) 563-7494

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act)

Yes  No

Indicate the number of shares outstanding of each of the issuer's class of common stock, as of the latest practicable date.

CLASS

OUTSTANDING AT AUGUST 1, 2004

NONE

NONE

**CAUTION REGARDING FORWARD-LOOKING STATEMENTS**

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**CAUTION REGARDING FORWARD-LOOKING STATEMENTS**

*Statements in this report that do not relate to historical facts, including statements relating to future plans, events or performance, are forward-looking statements that involve risks and uncertainties. Actual results, events or performance may differ materially. Readers are cautioned not to place undue reliance on these forward-looking statements, that speak only as of the date of this report and the accuracy of which is subject to inherent uncertainty. Chugach Electric Association, Inc. (Chugach) undertakes no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances that may occur after the date of this report or the effect of those events or circumstances on any of the forward-looking statements contained in this report, except as required by law.*

**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements**

The unaudited financial statements and notes to financial statements of Chugach for the quarter ended June 30, 2004, follow:

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**CHUGACH ELECTRIC ASSOCIATION, INC.**  
**BALANCE SHEETS**

<u>Assets</u>	(Unaudited) <u>June 30, 2004</u>	<u>December 31, 2003</u>
Utility plant:		
Electric plant in service	\$ 738,257,811	\$ 744,260,390
Construction work in progress	<u>20,450,643</u> 758,708,454	<u>16,560,438</u> 760,820,828
Less accumulated depreciation	<u>(296,665,279)</u> 462,043,175	<u>(293,371,966)</u> 467,448,862
Other property and investments, at cost:		
Nonutility property	3,550	3,550
Investments in associated organizations	<u>11,389,124</u> 11,392,674	<u>11,381,796</u> 11,385,346
Current assets:		
Cash and cash equivalents	17,180,003	11,185,086
Cash-restricted construction funds	491,450	488,846
Special deposits	222,163	222,163
Accounts receivable, net	17,169,375	18,812,199
Fuel cost recovery	0	2,032,730
Materials and supplies	24,581,307	21,888,794
Prepayments	1,126,770	1,458,649
Other current assets	<u>346,025</u> 61,117,093	<u>357,265</u> 56,445,732
Deferred charges	<u>20,770,849</u>	<u>23,511,563</u>
Total Assets	<u>\$ 555,323,791</u>	<u>\$ 558,791,503</u>

**CHUGACH ELECTRIC ASSOCIATION, INC.**  
**BALANCE SHEETS**  
*(Continued)*

<u>Liabilities and Equities</u>	(Unaudited) <u>June 30, 2004</u>	<u>December 31, 2003</u>
Equities and margins:		
Memberships	\$ 1,176,963	\$ 1,155,818
Patronage capital	130,453,423	126,341,413
Other	<u>6,701,308</u>	<u>6,718,891</u>
	138,331,694	134,216,122
Long-term obligations, excluding current installments:		
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	46,200,000	51,100,000
National Bank for Cooperatives Bonds payable	<u>62,157,786</u>	<u>63,189,179</u>
	378,357,786	384,289,179
Current liabilities:		
Current installments of long-term obligations	5,931,393	5,545,000
Accounts payable	4,332,980	7,676,906
Provision for rate refund	0	671,071
Consumer deposits	1,900,006	1,834,752
Fuel cost payable	874,034	0
Accrued interest	6,173,832	6,165,790
Salaries, wages and benefits	5,320,721	4,886,600
Fuel	10,056,317	9,006,758
Other current liabilities	<u>837,802</u>	<u>785,760</u>
	35,427,085	36,572,637
Deferred credits	<u>3,207,226</u>	<u>3,713,565</u>
Total Liabilities and Equities	<u>\$ 555,323,791</u>	<u>\$ 558,791,503</u>

See accompanying notes to financial statements.

**CHUGACH ELECTRIC ASSOCIATION, INC.**  
**Statements of Revenues, Expenses and Patronage Capital**  
**(Unaudited)**

	Three months ended June 30		Six months ended June 30	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Operating revenues	\$ 46,388,411	\$ 41,689,671	\$ 98,033,352	\$ 91,928,678
Operating expenses:				
Fuel	14,560,068	10,449,494	30,949,650	21,853,386
Power production	3,378,311	3,398,259	6,820,512	6,123,192
Purchased power	5,538,343	4,694,759	9,491,833	8,032,237
Transmission	1,432,161	920,130	3,172,722	2,114,738
Distribution	2,852,655	2,450,195	5,431,190	5,277,497
Consumer accounts/Information expense	1,267,904	1,413,773	2,695,263	2,815,438
Administrative, general and other	5,325,992	8,036,378	10,858,262	13,285,605
Depreciation and amortization	<u>7,085,627</u>	<u>6,957,600</u>	<u>14,132,319</u>	<u>13,972,578</u>
Total operating expenses	41,441,061	38,320,588	83,551,751	73,474,671
Interest expense:				
On long-term obligations	5,411,791	5,863,975	10,853,444	11,744,569
On short-term obligations	(48,179)	0	(48,179)	11,901
Charged to construction-credit	<u>(109,520)</u>	<u>6,194</u>	<u>(198,952)</u>	<u>(101,684)</u>
Net interest expense	<u>5,254,092</u>	<u>5,870,169</u>	<u>10,606,313</u>	<u>11,654,786</u>
Net operating margins	(306,742)	(2,501,086)	3,875,288	6,799,221
Nonoperating margins:				
Interest income	104,993	95,520	194,026	182,083
Other	17,795	(4,420)	42,695	63,715
Property gain	<u>0</u>	<u>0</u>	<u>0</u>	<u>71,219</u>
Total nonoperating margins	<u>122,788</u>	<u>91,100</u>	<u>236,721</u>	<u>317,017</u>
Assignable margins	<u>(183,954)</u>	<u>(2,409,986)</u>	<u>4,112,010</u>	<u>7,116,238</u>
Patronage capital at beginning of period	130,637,377	129,614,518	126,341,413	120,148,502
Retirement of capital credits and estate Payments	(0)	(0)	(0)	(60,208)
Patronage capital at end of period	<u>\$ 130,453,423</u>	<u>\$ 127,204,532</u>	<u>\$ 130,453,423</u>	<u>\$ 127,204,532</u>

See accompanying notes to financial statements.

**CHUGACH ELECTRIC ASSOCIATION, INC.**  
**Statements of Cash Flows**  
**(Unaudited)**

	Six months ended June 30	
	<u>2004</u>	<u>2003</u>
<u>Cash flows from operating activities:</u>		
Assignable margins	\$4,112,010	\$7,116,238
Adjustments to reconcile assignable margins to net cash (used in) provided by operating activities:		
Provision for rate refund	0	(4,790,712)
Depreciation and amortization	15,929,027	16,700,183
Capitalization of interest	(231,159)	(112,266)
Property gains	0	(71,219)
Impairment of long-lived asset	0	1,846,816
Other	(30)	54
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Fuel cost recovery	2,032,730	0
Accounts receivable	1,642,824	13,501,548
Prepayments	331,879	(928,731)
Materials and supplies	(2,692,513)	(1,682,533)
Deferred charges, net	(1,873,975)	(429,586)
Other	11,239	109,607
Increase (decrease) in liabilities:		
Accounts payable	(3,343,926)	(2,980,332)
Provision for rate refund	(671,071)	0
Fuel payable	874,034	682,089
Consumer deposits	65,254	1,434
Accrued interest	8,042	(70,424)
Deferred credits	(920,669)	(1,221,591)
Other	<u>1,535,722</u>	<u>582,511</u>
<b>Net cash provided by operating activities</b>	<b>16,809,418</b>	<b>28,253,086</b>
<u>Cash flows from investing activities:</u>		
Extension and replacement of plant	(5,677,492)	(9,926,020)
Investments in associated organizations	<u>(7,298)</u>	<u>(34,226)</u>
<b>Net cash used in investing activities</b>	<b>(5,684,790)</b>	<b>(9,960,246)</b>
<u>Cash flows from financing activities:</u>		
Short-term obligations	0	(6,081,250)
Repayments of long-term obligations	(5,545,000)	(5,165,821)
Retirement of patronage capital	0	(60,208)
Other	<u>415,289</u>	<u>641,551</u>
<b>Net cash used in financing activities</b>	<b>(5,129,711)</b>	<b>(10,665,728)</b>
Net increase in cash and cash equivalents	5,994,917	7,627,112
<u>Cash and cash equivalents at beginning of period</u>	<u>\$11,185,086</u>	<u>\$7,284,292</u>
<u>Cash and cash equivalents at end of period</u>	<u>\$17,180,003</u>	<u>\$14,911,404</u>
Supplemental disclosure of cash flow information – interest expense paid, net of amounts capitalized	<u>10,598,271</u>	<u>11,725,209</u>

See accompanying notes to financial statements.

*CHUGACH ELECTRIC ASSOCIATION, INC.*  
*Notes to Financial Statements*  
*(Unaudited)*

**1. Presentation of Financial Information**

During interim periods, Chugach Electric Association, Inc. (Chugach) follows the accounting policies set forth in its audited financial statements included in Form 10-K filed with the Securities and Exchange Commission (SEC) unless otherwise noted. Users of interim financial information are encouraged to refer to the footnotes contained in Chugach's Form 10-K when reviewing interim financial results. The accompanying unaudited interim financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented.

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 presentation.

**2. Lines of credit**

Chugach maintains a line of credit of \$20 million with CoBank, ACB (CoBank). The CoBank line of credit expires December 31, 2004, subject to renewal at the discretion of the parties. At June 30, 2004, there was no outstanding balance on this line of credit. In addition, Chugach has an annual line of credit of \$50 million available at the National Rural Utilities Cooperative Finance Corporation (NRUCFC). At June 30, 2004, there was no outstanding balance on this line of credit. The NRUCFC line of credit expires October 15, 2007.

**3. Legal Proceeding**

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

This action is a claim for a breach of the 25-year all requirements contract for power sales to Matanuska Electric Association, Inc. (MEA) through 2014. MEA asserted Chugach breached that contract by failing to provide information, by failing to properly manage our long-term debt, and by failing to bring our base rate action to a joint committee before presenting it to the Regulatory Commission of Alaska (RCA). The joint committee is defined in the power sales contract and consists of one MEA and two Chugach board members. All of MEA's claims were dismissed in Superior Court.

On April 29, 2002, MEA appealed the Superior Court's decisions relating to our financial management and our failure to bring our base rate action to the joint committee before filing with the RCA to the Alaska Supreme Court. Chugach cross-appealed the Superior Court's decision not to dismiss the financial management claim on jurisdictional and res judicata grounds. Oral argument was held April 15, 2003, before the Alaska Supreme Court. Management is uncertain as to the outcome and expects a decision very soon.

*CHUGACH ELECTRIC ASSOCIATION, INC.*  
*Notes to Financial Statements*  
*(Unaudited)*

**4. Critical Accounting Policies**

Our accounting and reporting policies comply with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires that management apply accounting policies and make estimates and assumptions that affect results of operations and reported amounts of assets and liabilities in the financial statements. Critical accounting policies are those policies that management believes are the most important to the portrayal of Chugach's financial condition and results of its operations, and require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about matters that are inherently uncertain. Most accounting policies are not considered by management to be critical accounting policies. Several factors are considered in determining whether or not a policy is critical in the preparation of financial statements. These factors include, among other things, whether the estimates are material to the financial statements, the nature of the estimates, the ability to readily validate the estimates with other information including third parties or available prices, and sensitivity of the estimates to changes in economic conditions and whether alternative accounting methods may be utilized under accounting principles generally accepted in the United States of America. For all of these policies management cautions that future events rarely develop exactly as forecast, and the best estimates routinely require adjustment. Management has discussed the development and the selection of critical accounting policies with the Chugach Audit Committee.

The following policies are considered to be critical accounting policies for the quarter ending June 30, 2004.

**Electric Utility Regulation**

Chugach is subject to regulation by the RCA. The RCA sets the rates Chugach is permitted to charge customers based on allowable costs. As a result, Chugach applies Financial Accounting Standards Board (FASB) Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*. Through the ratemaking process, the regulators may require the inclusion of costs or revenues in periods different than when they would be recognized by a non-regulated company. This treatment may result in the deferral of expenses and the recording of related regulatory assets based on anticipated future recovery through rates or the deferral of gains or creation of liabilities and the recording of related regulatory liabilities. The application of Statement No. 71 has a further effect on Chugach's financial statements as a result of the estimates of allowable costs used in the ratemaking process. These estimates may differ from those actually incurred by the Company; therefore, the accounting estimates inherent in specific costs such as depreciation and pension and post-retirement benefits have less of a direct impact on Chugach's results of operations than they would on a non-regulated company. Management reviews the ultimate recoverability of these regulatory assets and liabilities based on applicable regulatory guidelines. However, adverse legislation and judicial or regulatory actions could materially impact the amounts of such regulatory assets and liabilities and could adversely impact Chugach's financial statements.

*CHUGACH ELECTRIC ASSOCIATION, INC.*  
*Notes to Financial Statements*  
*(Unaudited)*

*Financial Instruments and Hedging*

Chugach used U.S. Treasury forward rate lock agreements to hedge expected interest rates on debt. We accounted for the agreements under Statement of Financial Accounting Standards (SFAS) 80 and 71 through December 31, 2000, and SFAS 133, 138 and 71 subsequent to that date. Gains or losses are treated as regulatory assets or liabilities upon settlement, based on authorization by the RCA in Order U-01-108(26) to recover these gains and losses.

Critical estimates also include provision for rate refunds and allowance for doubtful accounts. Actual results could differ from those estimates.

**5. *New Accounting Standards***

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. This Statement established 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 No. 150 effective January 1, 2004, and there was not any material impact to the financial statements.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Reference is made to the information contained under the caption "CAUTION REGARDING FORWARD-LOOKING STATEMENTS" at the beginning of this Report.

### Docket U-01-108

Chugach filed a general rate case on July 10, 2001, based on the 2000 test year expenses. On April 15, 2002, Chugach submitted a filing with the RCA to update certain known and measurable costs and savings that had occurred outside the 2000 Test Year. In the updated filing, Chugach reduced its base rate increase request from 6.5% to 5.7%, or approximately \$0.9 million in the revenue requirement on a system basis. Three wholesale customers and the Public Advocacy Staff of the RCA participated in the rate case. A hearing was held in November and December of 2002.

Between February 6, 2003, and May 12, 2004, the RCA issued Order Nos. 26 through 39 containing various rulings on Chugach's rate case.

As compared to prior-approved permanent rates, Chugach's final approved rates on a system basis increased 0.07 percent, consisting of an increase of 3.5 percent to retail customers and a decrease of 7.9 percent to wholesale customers. These results were implemented on November 10, 2003. On June 30, 2004, the RCA issued Order No. 40, acknowledging receipt of compliance filings and closed the docket.

### Appeal of RCA Orders

Chugach filed timely appeals of RCA Orders 26, 30 and 33. In its Appellant's brief dated February 18, 2004, Chugach asserted that the RCA's orders contained three errors:

- The split TIER decision unduly discriminates against retail customers;
- Interest expense was allocated on the basis of plant associated with G&T and Distribution rather than on the basis of debt associated with each function; and
- Chugach is entitled to include all of its interest expense in rates and the RCA's offset for Interest During Construction (IDC) was not justified because nearly all of the plant that produced the IDC was in service by the time the new rate went into effect.

The resolution of the first two issues will not change the total amount Chugach can recover through rates. If Chugach prevails on the last issue, it will be authorized to recover approximately \$1,000,000 more each year in rates.

One of Chugach's wholesale customers, MEA, also appealed the RCA's orders. In its Appellant's brief, MEA argued that the RCA's decision to normalize Chugach's variable rate debt at 3.8 percent and to authorize the corresponding interest expense constitutes error based on

the historic rates prevailing for Chugach's variable rate debt. If MEA prevails on its argument, Chugach's authorized rates would be reduced by approximately \$1,000,000 each year.

The Alaska Superior Court heard oral argument on July 13, 2004. The Court took the matter under advisement. Management is uncertain as to the outcome but expects a decision in 2004.

### **Results Of Operations**

#### **Current Year Quarter Versus Prior Year Quarter**

Assignable margins increased by \$2.2 million for the quarter ended June 30, 2004, over the same quarter in 2003 due to a decrease in administrative, general and other expense and a decrease in net interest expense. These decreases were slightly offset by an increase in transmission and distribution expenses.

Operating revenues, which include sales of electric energy to retail, wholesale and economy energy customers and other miscellaneous revenues, increased by \$4.7 million, or 11.3%, for the quarter ended June 30, 2004, over the same quarter in 2003. The increase in revenues was due to an increase in revenue collected through the fuel surcharge mechanism due to higher fuel prices, as well as increased kWh sales to both residential and wholesale customers. These increases were offset by decreased economy energy sales to Golden Valley Electric Association (GVEA). GVEA purchased less from Chugach in the second quarter of 2004 as compared to the same quarter last year.

The following table represents kWh sales for the quarter ended June 30:

<b>Customer</b>	<b><u>2004</u></b> <b>KWh</b>	<b><u>2003</u></b> <b>kWh</b>
Retail	274,343,704	264,341,691
Wholesale	276,596,824	259,493,952
Economy Energy	<u>39,417,482</u>	<u>58,899,440</u>
Total	<u>590,358,010</u>	<u>582,735,083</u>

Retail demand and energy rates and wholesale demand and energy rates charged to HEA, MEA and SES did not change in the second quarter of 2004 compared to the second quarter of 2003. The RCA issued a final order May 12, 2004, on remaining interest rate issues affecting refunds. By order issued June 30, 2004, the RCA acknowledged receipt of filings from Chugach demonstrating compliance with its earlier orders and closed the docket. All rates currently in effect are final.

Fuel expense increased by \$4.1 million, or 39.3%, for the quarter ended June 30, 2004, compared to the same period in 2003 primarily due to higher fuel prices. Purchased power also increased \$843.6 thousand, or 18.0%, due to higher fuel prices. Fuel and purchased power is collected through the fuel surcharge mechanism. Transmission expense increased by \$512.0 thousand, or 55.6%, due to increased substation maintenance. Distribution expense increased by \$402.5 thousand, or 16.4%, due to lower distribution expense in 2003.

This was caused by increased professional services related to the timing of facility locate invoices and the accrual of a Federal Emergency Management Agency (FEMA) reimbursement of \$250,000 for wind storm damage in the second quarter of 2003. Consumer Accounts/Information expense decreased \$145.9 thousand, or 10.3%, due to lower information services and garage allocated costs. Administrative, general and other expense decreased by \$2.7 million, or 33.7%, due to write offs in 2003 that Chugach did not have in 2004. The write offs included several study projects, obsolete inventory and the write down of an impaired asset of \$1.8 million in 2003. Power production and depreciation and amortization expense did not materially change for the three-month period ended June 30, 2004.

Interest on long-term debt decreased by \$452.2 thousand, or 7.7%, due to lower long-term debt balances and lower interest rates on the CoBank bonds. Interest charged to construction increased by \$115.7 thousand in the second quarter of 2004 compared to the same period in 2003 due to an adjustment that was made to a completed project in 2003. Other interest expense decreased by \$48.2 thousand, or 100%, from the second quarter of 2003 due to an adjustment to interest associated with the provision for rate refunds that was made earlier in the year.

Other nonoperating margins increased \$31.7 thousand, or 34.8%, for the three-month period ended June 30, 2004, compared to the same period in 2003 due to an increase in interest income caused by higher cash balances and higher Allowance for Funds Used During Construction (AFUDC) due to the same adjustment made to a completed project in 2003 discussed above.

#### Current Year to Date Versus Prior Year to Date

Assignable margins decreased by \$3.0 million, or 42.2%, in the first six months of 2004, over the same period in 2003, primarily due to a \$5.2 million reversal recorded to revenue in March of 2003 of a \$7.1 million provision for rate refund recorded in 2002. This variance was offset by a decrease in interest expense and a decrease in administrative, general and other expense.

Operating revenues increased \$6.1 million, or 6.6%, due to an increase in revenue collected through the fuel surcharge mechanism due to higher fuel prices and due to the provision for rate refund reversal discussed above. The increase was offset by decreased economy energy sales to GVEA.

The following table represents kWh sales for the six months ended June 30:

<b>Customer</b>	<b><u>2004</u> kWh</b>	<b><u>2003</u> KWh</b>
Retail	607,297,828	574,954,088
Wholesale	587,363,615	550,594,111
Economy Energy	<u>31,262,141</u>	<u>118,093,130</u>
Total	<u>1,225,923,584</u>	<u>1,243,641,329</u>

Fuel expense increased by \$9.1 million, or 41.6%, for the first six months of 2004, compared to the same period in 2003 due to higher fuel prices. Fuel expense is collected through the fuel surcharge mechanism. Power production expense increased by \$697.3 thousand, or 11.4%, due to the timing of generation projects. In 2003, the annual maintenance projects started later in the year than in 2004. Purchased power expense increased by \$1.5 million, or 18.7%, also due to higher fuel prices and is also collected through the fuel surcharge mechanism. Transmission expense increased \$1.1 million, or 52%, due to increased substation maintenance. Administrative, general and other expense decreased by \$2.4 million, or 18.3%, due primarily to a \$1.8 million write down of an impaired asset in 2003, as well as higher write offs of study projects and obsolete inventory in 2003. Distribution, consumer accounts/information and depreciation and amortization expense did not materially change for the six-month period ended June 30, 2004, compared to the same period in 2003.

Interest on long-term debt decreased by \$891.1 thousand, or 7.6%, due to lower debt balances and lower interest rates. Interest charged to construction increased by \$97.3 thousand, or 95.7%, in the first six months of 2004 compared to the same period in 2003, due to an adjustment that was made to a completed project in 2003. Other interest expense decreased by \$60.1 thousand, or 504.8%, during the same period in 2004 compared to the same period in 2003 due to an adjustment to interest associated with our provision for rate refunds that were made earlier in the year.

Other non-operating margins decreased by \$80.3 thousand, or 25.2%, for the six-month period ended June 30, 2004, compared to the same period in 2003, due to a decrease in the gain associated with the disposal of property caused by the sale of a crane in 2003.

### **Financial Condition**

Total assets decreased \$3.5 million, or 0.62%, from December 31, 2003, to June 30, 2004. The decrease was due in part to a \$5.4 million, or 1.2%, decrease in net plant, primarily due to depreciation expense in excess of extension and replacement of plant. The decrease in total assets was also due to a \$1.6 million, or 8.7%, decrease in accounts receivable caused by the collection of receivables that were accrued but not received at December 31, 2003. The decrease in total assets was also due to a \$2.0 million, or 100.0%, decrease in fuel cost recovery caused by the collection of the previous quarter fuel cost through the fuel surcharge mechanism. There was also a decrease of \$2.7 million, or 11.7%, in deferred charges caused by the amortization of deferred projects.

These decreases were offset by a \$6.0 million, or 53.6%, increase in cash and cash equivalents due to less than anticipated construction spending and a \$2.7 million, or 12.3%, increase in materials and supplies caused by the purchase of generation inventory items in preparation for scheduled maintenance projects.

Notable changes to total liabilities and equities include a \$5.9 million, or 1.5%, decrease in long-term obligations caused by the installment payments of the 2002 Series B bond and the CoBank 3 and 4 bonds. Accounts payable also decreased \$3.3 million, or 43.6%, caused by

the payment of invoices that were accrued but not paid at December 31, 2003. There was also a \$671.1 thousand, or 100.0%, decrease in provision for rate refund due to the payment of rate refunds since December 31, 2003. Deferred credits also decreased \$506.3 thousand, or 13.6%, due to reduced refundable deposits.

These decreases were offset by a \$4.1 million, or 3.1%, increase in patronage capital due to the margins generated in the first two quarters of 2004 and an \$874.0 thousand, or 100.0%, increase in fuel cost payable due to the over-collection of the previous quarter fuel cost through the fuel surcharge mechanism. The decreases were also offset by an increase of \$386.4 thousand, or 7.0%, in current installments of long-term debt. Salaries, wages and benefits also increased \$434.1 thousand, or 8.9%, due to higher accruals caused by the timing of pay dates. Fuel cost also increased \$1.0 million, or 11.7%, due to higher fuel prices.

**Liquidity and Capital Resources**

Chugach has satisfied its operational and capital cash requirements primarily through internally-generated funds, an annual \$20 million line of credit with CoBank and a \$50 million line of credit from NRUCFC. At June 30, 2004, there was no outstanding balance with NRUCFC or CoBank.

Chugach also has a term loan facility with CoBank. Loans made under this facility are evidenced by promissory notes governed by the Master Loan Agreement, which became effective on January 22, 2003. At June 30, 2004, Chugach had the following promissory notes outstanding under this facility:

<u>Promissory Note</u>	<u>Principal balance</u>	<u>Interest rate at June 30, 2004</u>	<u>Maturity Date</u>	<u>Principal Payment Dates</u>
CoBank 2	\$10,000,000	7.76%	2005	2005
CoBank 3	\$20,634,830	2.71%	2022	2003 – 2022
CoBank 4	\$22,554,349	2.71%	2022	2003 – 2022
CoBank 5	\$10,000,000	2.71%	2012	2002 – 2012
Total	\$63,189,179			

On January 22, 2003, Chugach and CoBank finalized a new Master Loan Agreement pursuant to which the CoBank term loan facility was converted from secured to unsecured debt and the obligations represented by the outstanding bonds then held by CoBank were converted into promissory notes governed by the new Master Loan Agreement. Chugach's mortgage indenture was replaced in its entirety by an Amended and Restated Indenture dated April 1, 2001. All liens and security interests imposed under the indenture were terminated and all outstanding Chugach bonds (including New Bonds of 2001 Series A, 2002 Series A and 2002 Series B) became unsecured obligations governed by the terms of the Amended and Restated Indenture.

Capital construction in 2004 is estimated at \$28.2 million. At June 30, 2004, approximately \$5.7 million had been expended. Capital improvement expenditures are expected to increase in the third quarter of 2004 as the construction season begins in April and extends into October.

Chugach management continues to expect that cash flows from operations and external funding sources will be sufficient to cover operational and capital funding requirements in 2004 and thereafter.

### **Outlook**

Chugach is currently planning for future resource needs. An Integrated Resource Plan (IRP) is in progress. This effort studies several possible future scenarios for power sales.

On March 17, 2004, the Chugach Board of Directors authorized the Chief Executive Officer (CEO) or his designee to enter into an agreement to form a Joint Action Agency (JAA) that, if implemented, could provide a structure with which Chugach and other eligible Alaska utilities might jointly acquire, own and operate certain generation and transmission facilities.

### **Environmental Matters**

#### **Compliance with Environmental Standards**

Chugach's operations are subject to certain federal, state and local environmental laws. The costs associated with environmental compliance are included as a component of both the operating and capital budget processes. Chugach accrues for costs associated with environmental remediation obligations when such costs are probable and reasonably estimable.

#### **Cooper Lake**

Chugach discovered polychlorinated biphenyls (PCBs) in paint, caulk and grease at the Cooper Lake Hydroelectric plant during initial phases of a turbine overhaul. 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.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Chugach is exposed to a variety of risks, including changes in interest rates and changes in commodity prices due to repricing mechanisms inherent in gas supply contracts. In the normal course of our business, we manage our exposure to these risks as described below. Chugach does not engage in trading market risk-sensitive instruments for speculative purposes.

### Interest Rate Risk

The following table provides information regarding auction dates and rates in 2004.

<u>Auction Date</u>	<u>Interest Rate</u>
January 28, 2004	1.12%
February 25, 2004	1.09%
March 24, 2004	1.10%
April 21, 2004	1.11%
May 19, 2004	1.20%
June 16, 2004	1.40%
July 14, 2004	1.55%
August 11, 2004	To be determined

The following table provides information regarding cash flows for principal payments on total debt by maturity date (dollars in thousands) as of June 30, 2004.

<u>Total Debt*</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Value</u>
Fixed rate	\$10,000	\$0	\$0	\$0	\$270,000	\$280,000	\$304,765
Average interest rate	7.76%	-	-	-	6.39%	6.44%	
Variable rate	\$5,931	\$6,326	\$6,729	\$7,241	\$78,063	\$104,289	\$104,289
Average interest rate	1.76%	1.76%	1.76%	1.76%	2.27%	2.14%	

\* Includes current portion

### Commodity Price Risk

Chugach's gas contracts provide for adjustments to gas costs based on fluctuations of certain commodity prices and indices. Because purchased power costs are passed directly to our wholesale and retail customers through a fuel surcharge, fluctuations in the price paid for gas pursuant to long-term gas supply contracts do not normally impact margins. The fuel surcharge mechanism mitigates the commodity price risk of market fluctuations in the price of purchased power.

#### **Item 4. Controls and Procedures**

As of the end of the period covered by this report, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Our principal executive officer (CEO) and principal financial officer (CFO) supervised and participated in this evaluation. Based on this evaluation, our CEO and CFO each concluded that our disclosure controls and procedures are effective and timely in alerting them to material information required to be included in our periodic reports to the Securities and Exchange Commission. The design of any system of controls is based in part upon various assumptions about the likelihood of future events and there can be no assurance that any of our plans, products, services or procedures will succeed in achieving their intended goals under future conditions. In addition, there have been no significant changes in our internal controls or in other factors known to management that could significantly affect our internal controls subsequent to our most recent evaluation. We have found no facts that would require us to take any corrective actions with regard to significant deficiencies or material weaknesses.

### **PART II OTHER INFORMATION**

#### **Item 1. Legal Proceedings**

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

This action is a claim for a breach of the Tripartite Agreement, which is the contract governing the parties' relationship for a 25-year period from 1989 through 2014 and governing our sale of power to MEA during that time. MEA asserted we breached that contract by failing to provide information, by failing to properly manage our long-term debt, and by failing to bring our base rate action to a Joint Committee before presenting it to the RCA. The committee is defined in the power sales contract and consists of one MEA and two Chugach board members. All of MEA's claims were dismissed in Superior Court.

On April 29, 2002, MEA appealed the Superior Court's decisions relating to our financial management and our failure to bring our base rate action to the joint committee before filing with the RCA to the Alaska Supreme Court. We cross-appealed the Superior Court's decision not to dismiss the financial management claim on jurisdictional and res judicata grounds. Oral argument was held April 15, 2003, before the Alaska Supreme Court. Management is uncertain as to the outcome and expects a decision very soon.

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

#### **Item 2. Changes in Securities and Use of Proceeds**

Not applicable

**Item 3. Defaults Upon Senior Securities**

Not applicable

**Item 4. Submission of Matters to a Vote of Security Holders**

Not applicable

**Item 5. Other Information**

Not applicable

**Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits:

Code of Ethics for Senior Financial Officers of the Registrant dated effective June 16, 2004.

Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

No reports on Form 8-K were filed for the quarter ended June 30, 2004.

Signatures

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**CHUGACH ELECTRIC ASSOCIATION, INC.**

**By:** \_\_\_\_\_

*Evan J. Griffith*  
*Chief Executive Officer*

**Date:** August 13, 2004

**By:** \_\_\_\_\_

*Michael R. Cunningham*  
*Chief Financial Officer*

**Date:** August 13, 2004

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## ***EXHIBITS***

Listed below are the exhibits, which are filed as part of this Report:

<u><i>Exhibit Number</i></u>	<u><i>Description</i></u>
3.3	Code of Ethics for Senior Financial Officers of the Registrant dated effective June 16, 2004
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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**CODE OF ETHICS  
FOR SENIOR FINANCIAL OFFICERS  
OF  
CHUGACH ELECTRIC ASSOCIATION, INC.**

This Code of Ethics is promulgated by the Board of Directors of Chugach Electric Association, Inc. (Association) under Section 406 of the Sarbanes-Oxley Act of 2002 and the rules of the SEC promulgated thereunder and applies to the Senior Financial Officers of the Association. For this purpose, Senior Financial Officers means the Chief Executive Officer, the Chief Financial Officer and the Chief Accounting Officer. This Code contains standards reasonably necessary to promote: honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; full, fair, accurate, timely, and understandable disclosure in the periodic reports required to be filed by the Association and in other public communications; and compliance with applicable governmental laws, rules and regulations. It should be read in conjunction with the Association's Conflict of Interest policies.

Senior Financial Officers of the Association must:

1. Act with honesty and integrity, ethically handling actual or apparent conflicts of interest in personal and professional relationships. They should recognize that even the appearance of a conflict of interest can damage the Association. A conflict of interest may exist because of a relationship of theirs or of a family member that is inconsistent with the Association's best interests or could cause a conflict with their ability to perform their job responsibilities.
2. Report to the Chairman of the Finance Committee any transaction that reasonably could be expected to give rise to a conflict of interest.
3. Produce, or cause to be produced, full, fair, accurate, timely, and understandable disclosure in reports and documents that the Association files with or submits to the Securities and Exchange Commission and in other public communications.
4. Comply with applicable governmental laws, rules and regulations.
5. Promptly report any violation of this Code of Ethics to the Chairman of the Finance Committee.

The Association reserves the right to determine when actual or potential conflicts of interest exist, and then to take any action, which in the sole judgment of the Association, is needed to prevent the conflict from continuing.

Senior Financial Officers will be held accountable for their adherence to this Code of Ethics. Their failure to observe the terms of this Code of Ethics may result in disciplinary action, up to and including immediate termination of your employment.

Any request by a Senior Financial Officer for a waiver of any provision of this Code of Ethics must be in writing and addressed to the Chairman of the Finance Committee. The



Board will have the sole and absolute discretionary authority, acting upon such recommendation as may be made by the Finance Committee, to approve any waiver from this Code of Ethics. Any waiver for this Code of Ethics for Senior Financial Officers will be disclosed promptly on Form 8-K or any other means approved by applicable SEC rules or listing standards.

Nothing contained in this Code of Ethics is intended by the Company to be, nor shall it be construed as, an employment agreement.

This Code of Ethics was approved by the Board of Directors at its regular board meeting on 16 June, 2004.

Date: 16 June '04

By Pat Joseph  
Secretary of the Board



**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Evan J. Griffith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Chugach Electric Association, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2004

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*Evan J. Griffith*  
*Chief Executive Officer*



***CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002***

I, Michael R. Cunningham, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Chugach Electric Association, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

*Date: August 13, 2004*

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*Michael R. Cunningham*  
*Chief Financial Officer*



***CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002***

In connection with this quarterly report of Chugach Electric Association, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2004, I, Evan J. Griffith, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (a) This quarterly report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) The information contained in this quarterly report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*Date: August 13, 2004*

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*Evan J. Griffith*  
*Chief Executive Officer*

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***CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002***

In connection with this quarterly report of Chugach Electric Association, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2004, I, Michael R. Cunningham, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (a) This quarterly report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) The information contained in this quarterly report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*Date: August 13, 2004*

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*Michael R. Cunningham*  
*Chief Financial Officer*

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