

# SEC Form 10Q

For the quarter ended September 30, 2002

# Unaudited Financial Statements

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- Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act
- Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act
- Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act
- Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act

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 September 30, 2002

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

CLASS	OUTSTANDING AT NOVEMBER 1, 2002
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 or the Association) 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 September 30, 2002, follow:

Draft

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

<u>Assets</u>	(Unaudited) <u>September 30, 2002</u>	<u>December 31, 2001</u>
Utility plant:		
Electric plant in service	\$ 732,604,958	\$ 714,317,863
Construction work in progress	<u>22,150,983</u>	<u>28,887,008</u>
	754,755,941	743,204,871
Less accumulated depreciation	<u>(275,048,177)</u>	<u>(261,353,177)</u>
	479,707,764	481,851,694
Other property and investments, at cost:		
Nonutility property	3,550	3,550
Investments in associated organizations	<u>10,544,946</u>	<u>10,485,186</u>
	10,548,496	10,488,736
Current assets:		
Cash and cash equivalents	3,641,752	3,814,767
Cash-restricted construction funds	587,243	517,871
Special deposits	222,163	222,163
Accounts receivable, net	16,027,570	22,302,400
Fuel cost recovery	401,272	3,591,963
Materials and supplies	23,986,827	22,822,003
Prepayments	3,085,380	627,544
Other current assets	<u>346,299</u>	<u>335,753</u>
	48,298,506	54,234,464
Deferred charges	<u>28,762,645</u>	<u>28,706,293</u>
Total Assets	<u>\$ 567,317,411</u>	<u>\$ 575,281,187</u>

See accompanying notes to financial statements.

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

<u>Liabilities and Equities</u>	(Unaudited) <u>September 30, 2002</u>	<u>December 31, 2001</u>
Equities and margins:		
Memberships	\$ 1,095,448	\$ 1,059,098
Patronage capital	128,958,991	125,184,374
Other	<u>5,421,886</u>	<u>5,565,234</u>
	135,476,325	131,808,706
Long-term obligations, excluding current installments:		
First Mortgage (1991 Series A) Bond payable	0	149,310,000
2001 Series A Bond payable	150,000,000	150,000,000
2002 Series A Bond payable	120,000,000	0
2002 Series B Bond payable	60,000,000	0
National Bank for Cooperatives Bonds payable	<u>64,134,179</u>	<u>65,000,000</u>
	394,134,179	364,310,000
Current liabilities:		
Short-term obligations	11,000,000	11,000,000
Current installments of long-term obligations	865,821	10,409,945
Accounts payable	4,738,018	11,012,905
Consumer deposits	1,763,540	1,603,691
Accrued interest	2,059,527	7,378,058
Salaries, wages and benefits	5,027,391	4,844,819
Fuel	7,096,506	11,565,117
Other current liabilities	<u>1,487,602</u>	<u>1,900,155</u>
	34,038,405	59,714,690
Deferred credits	<u>3,668,502</u>	<u>19,447,791</u>
Total Liabilities and Equities	<u>\$ 567,317,411</u>	<u>\$ 575,281,187</u>

See accompanying notes to financial statements.

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

	Three months ended September 30		Nine months ended September 30	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Operating revenues	\$ 41,523,323	\$ 42,186,684	\$ 132,929,592	\$ 126,400,956
Operating expenses:				
Fuel	11,320,700	12,537,245	36,016,679	39,441,150
Power production	3,389,458	2,373,466	10,113,399	8,146,782
Purchased power	4,165,054	5,176,508	14,172,137	9,147,759
Transmission	876,754	860,666	2,871,203	2,731,599
Distribution	2,522,722	2,484,640	7,746,900	7,260,234
Consumer accounts/Information expense	1,478,932	1,424,496	4,373,951	4,042,754
Sales expense	0	130,946	0	352,051
Administrative, general and other	5,496,010	4,229,961	15,470,650	13,951,269
Depreciation and amortization	<u>6,299,242</u>	<u>6,373,276</u>	<u>18,862,947</u>	<u>18,678,752</u>
Total operating expenses	35,548,872	35,591,204	109,627,866	103,752,350
Interest expense:				
On long-term obligations	6,026,315	7,029,623	20,158,954	20,116,937
On short-term obligations	70,644	14,166	229,436	1,105,954
Charged to construction-credit	<u>(102,069)</u>	<u>(363,665)</u>	<u>(358,663)</u>	<u>(814,285)</u>
Net interest expense	<u>5,994,890</u>	<u>6,680,124</u>	<u>20,029,727</u>	<u>20,408,606</u>
Net operating margins	(20,439)	(84,644)	3,271,999	2,240,000
Nonoperating margins:				
Interest income	93,200	156,645	638,401	536,828
Other	(1,827)	162,395	266,709	381,818
Property gain (loss)	<u>3,273</u>	<u>(192,138)</u>	<u>(188,751)</u>	<u>(180,456)</u>
Total nonoperating margins	<u>94,646</u>	<u>126,902</u>	<u>716,359</u>	<u>738,190</u>
Assignable margins	<u>74,207</u>	<u>42,258</u>	<u>3,988,358</u>	<u>2,978,190</u>
Patronage capital at beginning of period	128,955,925	125,743,981	125,184,374	122,925,253
Retirement of capital credits and estate Payments	<u>(71,141)</u>	<u>(115,645)</u>	<u>(213,741)</u>	<u>(232,849)</u>
Patronage capital at end of period	<u>\$ 128,958,991</u>	<u>\$ 125,670,594</u>	<u>\$ 128,958,991</u>	<u>\$ 125,670,594</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 or Association) follows the accounting policies set forth in its audited financial statements included in Form 10-K filed with the Securities and Exchange Commission 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 2001 financial statements to conform to the 2002 presentation.

**2. Lines of credit**

Chugach maintains a line of credit of \$35 million with CoBank, ACB (CoBank). The CoBank line of credit expires February 1, 2003, but is subject to annual renewal. At September 30, 2002, \$11 million was outstanding on this line of credit at an interest rate of 3.24%. In addition, the Association has an annual line of credit of \$50 million available at the National Rural Utilities Cooperative Finance Corporation (NRUCFC). The NRUCFC line of credit expired October 14, 2002, but is pending finalization of a new revolving line of credit agreement, which Chugach expects to occur in November 2002. At September 30, 2002, there was no outstanding balance on this line of credit.

**3. Environmental Matters**

The Association discovered polychlorinated biphenyls (PCBs) in paint, caulk and grease at the Cooper Lake Hydroelectric plant during initial phases of a turbine overhaul. A Federal Energy Regulatory Commission (FERC) approved plan, prepared in consultation with the Environmental Protection Agency (EPA), was implemented to remediate the PCBs in the plant. As a condition of its approval of the license amendment for the overhaul project, FERC required Chugach to also investigate the presence of PCBs in Kenai Lake. A sampling plan was developed by Chugach in consultation with state and federal agencies and approved by FERC. In 2000, Chugach sampled sediments and fish collected from Kenai Lake and other waters. While low levels of PCBs were found in some sediment samples taken near the plant, no pathway from sediment to fish was established. While the levels of PCBs in fish from Kenai Lake were similar to levels found in fish from other lakes within the region, Chugach has conducted additional sampling and analysis of fish in Kenai Lake and other waters and on April 1, 2002, filed its final report to FERC, which analyzed the results of the sampling. Based on these analyses, Chugach concluded that no further PCB sampling and analysis in Kenai Lake was necessary. In a letter dated June 18, 2002, FERC informed

Chugach that its review of the report supported Chugach's conclusions and agreed that Chugach was not required to conduct further PCB sampling and analysis in Kenai Lake. Management believes the costs of this work will be recoverable through rates and therefore will have no material impact on our financial condition or results of operations. The Regulatory Commission of Alaska, (RCA) has issued an order to Chugach allowing Chugach to record its remediation costs as a Financial Accounting Standards Board (FASB) 71 asset, subject to a determination, in the presently ongoing rate case, of the level of prudently-incurred costs that may be recovered through rates.

#### **4. 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 Tripartite Agreement, which is the contract governing the parties' relationship for a 25-year period from 1989 through 2014 and governing the Association's sale of power to Matanuska Electric Association, Inc. (MEA) during that time. MEA asserted the Association breached that contract by failing to provide a variety of kinds of information, by failing to properly manage the Association's long-term debt, and by failing to bring its base rate action to a Joint Committee, a committee defined in the power sales contract consisting of one MEA and two Chugach board members, before presenting it to the RCA. All of MEA's claims have been dismissed. On April 29, 2002, MEA appealed the Superior Court's decisions relating to Chugach's financial management and its failure to bring its base rate action to the joint committee before filing with the RCA to the Alaska Supreme Court. Management is uncertain as to the outcome but will vigorously defend the appeal.

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.

#### **5. Critical Accounting Policies**

The preparation of financial statements in conformity with principles generally accepted in the United States of America (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. The following areas represent those that management believes are particularly important to the financial statements and that require the use of estimates and assumptions to describe matters that are inherently uncertain.

##### **FERC Accounting**

Chugach prepares its financial statements in accordance with GAAP and in conformity with the FERC's uniform system of accounts.

### Cost Basis Regulation

Chugach is subject to regulation by the RCA. The rates that are charged by Chugach to its customers are based upon cost basis regulation reviewed and approved by this regulatory commission. Under the authority of this commission, Chugach has recorded certain regulatory assets in the amount of \$16.2 million as of September 30, 2002. If Chugach's rates were no longer based upon cost or there was no longer the probability of future collection in rates, these assets and liabilities would be written off against assignable margins.

### Financial Instruments and Hedging

Chugach has previously used U.S. Treasury forward rate lock agreements to hedge expected interest rates on debt. The Association accounted for the agreements under 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. If Chugach's rates were no longer based upon cost or there was no longer the probability of future collection in rates, these assets and liabilities would be written off against assignable margins. Based on historical regulatory treatment on previous refinancing, management believes the establishment and recovery of Chugach's regulatory assets and liabilities is appropriate. Accounting for derivatives continues to evolve through guidance issued by the Derivatives Implementation Group (DIG) of the FASB. To the extent that changes by the DIG modify current guidance, the accounting treatment for derivatives may change.

### **6. Recent Accounting Pronouncements**

In April 2002, the FASB issued Statement No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. Statement No. 145 eliminates the treatment of extinguishment of debt as extraordinary and clarifies the accounting for certain sale-leaseback transactions. The provisions of Statement No. 145 are required to be applied starting with fiscal years beginning after May 15, 2002, with early adoption encouraged. The Association believes the adoption of Statement No. 145 will have no impact on its financial statements, as the costs associated with the extinguishment of debt are accounted for under the provisions of Statement No. 71, *Accounting for the Effects of Certain Types of Regulation* and the Association does not engage in sale-leaseback transactions.

In July 2002, the FASB issued Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. Statement No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The provisions of Statement No. 146 are required to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Association believes the adoption of Statement No. 146 will have no impact on its 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.

### **Recent Accounting Pronouncements**

In April 2002, the FASB issued Statement No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. Statement No. 145 eliminates the treatment of extinguishment of debt as extraordinary and clarifies the accounting for certain sale-leaseback transactions. The provisions of Statement No. 145 are required to be applied starting with fiscal years beginning after May 15, 2002, with early adoption encouraged. The Association believes the adoption of Statement No. 145 will have no impact on its financial statements, as the costs associated with the extinguishment of debt are accounted for under the provisions of Statement No. 71, *Accounting for the Effects of Certain Types of Regulation* and the Association does not engage in sale-leaseback transactions.

In July 2002, the FASB issued Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. Statement No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The provisions of Statement No. 146 are required to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Association believes the adoption of Statement No. 146 will have no impact on its financial statements.

### **Regulatory Matters**

#### **Docket U-01-108**

Chugach submitted a general rate case based on the 2000 test year to the RCA on July 10, 2001. The filing requested an overall system base rate increase of 4.0 percent on an interim basis and 6.5 percent on a permanent basis. The Commission opened Docket U-01-108 to address the issues relating to the 2000 test year period rate filing.

On September 5, 2001, the RCA issued Order No. 1 in Docket U-01-108 that authorized an interim base demand and energy rate increase of 1.6 percent for retail and wholesale billings effective September 14, 2001. Chugach retail customers under the small general service and lighting tariffs were exempt from the increase.

On September 25, 2001, Chugach submitted a request for reconsideration to the RCA regarding specific adjustments to Chugach's revenue requirement contained in the Commission order. On October 25, 2001, the Commission ruled on Chugach's request for reconsideration, and granted an interim base demand and energy rate increase of 3.97 percent, or about 2.4 percentage points higher than the initial authorized increase of 1.6

percent. Chugach submitted a compliance filing implementing the Commission's Order on October 30, 2001, and the additional rate increase was effective in November 2001.

The interim rate increase was based on a normalized (adjusted for recurring expenses) test year and a system ratemaking Times Interest Earned Ratio (TIER) of 1.35.

As anticipated in Chugach's July 2001 original filing, 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. The revised filing also reflected an increase in depreciation expense of approximately \$1.5 million due to the completion of the Beluga Unit 7 re-powering project and a reduction in annualized interest expense, due to Chugach's recent refinancing efforts, of \$2.4 million. In this revised filing, Chugach continues to request \$11.9 million in margins. As a result of reduced interest costs, this would yield an equivalent system TIER of 1.47.

Three intervenors filed pre-filed testimony with the Commission in July 2002 opposing various aspects of Chugach's proposal. Chugach filed its reply testimony with the Commission during October 2002. A hearing has been scheduled for November and December 2002 to resolve the outstanding issues associated with the 2000 test year rate case. A final Commission order is expected in 2003.

### Results Of Operations

#### Current Year Quarter Versus Prior Year Quarter

In general, assignable margins did not materially change from the quarter ended September 30, 2002, over the same quarter in 2001.

Operating revenues, which include sales of electric energy to retail, wholesale and economy energy customers and other miscellaneous revenues, decreased by \$663.4 thousand, or 1.6%, for the quarter ended September 30, 2002, over the same quarter in 2001. The decrease in revenues was due to decreased fuel prices, resulting in decreased revenue collected through the fuel surcharge cost recovery mechanism.

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

<b>Customer</b>	<b><u>2002</u> kWh</b>	<b><u>2001</u> KWh</b>
Retail	258,530,607	248,302,947
Wholesale	265,987,798	265,847,324
Economy Energy	<u>34,830,310</u>	<u>32,693,020</u>
Total	<u>559,348,715</u>	<u>546,843,291</u>

Retail demand and energy rates for all rate classes except small commercial and public street and highway lighting increased 3.97% in the third quarter of 2002 compared to the third quarter of 2001. Over this same period, the wholesale demand and energy rates charged to HEA and MEA also increased by 3.97%. These increases reflected the interim rate increase authorized by the RCA in 2001. Wholesale demand and energy rates charged to Seward Electric System (SES) did not change in this quarter compared to the same quarter last year.

Fuel expense decreased by \$1.2 million, or 9.7%, for the quarter ended September 30, 2002, compared to the same period in 2001 due to lower fuel prices. Power production expense increased by \$1.0 million, or 42.8%, due to continued maintenance on Beluga unit 8 and the repair of Cooper Lake unit 2. Purchased power expense decreased by \$1.0 million, or 19.5%, due to a Nikiski maintenance outage in September of 2002. Transmission, distribution and consumer accounts/information expense did not materially change for the three-month period ended September 30, 2002. Administrative, general and other expenses increased by \$1.3 million, or 29.9%, for the three-month period ended September 30, 2002, due to increased insurance costs, increased Information Services, (IS) /garage clearing and increased regulatory costs associated with the current rate case.

Interest on long-term debt decreased by \$1.0 million, or 14.3%, due to lower interest rates. Interest charged to construction decreased by \$261.6 thousand, or 71.9%, in the third quarter of 2002 compared to the same period in 2001 due to less construction activity. Other interest expense increased by \$56.5 thousand, or 398.7%, from the third quarter of 2001 due to a consistent outstanding balance on the CoBank line of credit in the third quarter of 2002.

Other nonoperating margins were \$32.3 thousand, or 25.4%, lower for the quarter ended September 30, 2002, compared to the same period in 2001 due to the abandonment and write off of a web-enabling project.

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

In general, assignable margins increased due to the increase in revenue caused by the interim rate increase implemented during the fourth quarter of 2001 and a decrease in other interest expense. These were offset by an increase in production and administrative, general and other expense.

Operating revenues increased by \$6.5 million, or 5.2%, in the first nine months of 2002, over the same period in 2001. The increase in revenues was due to the interim rate increase of 3.97%, which was approved and implemented during the fourth quarter of 2001. It was also due to a net increase in purchased power and fuel costs, which resulted in increased revenue collected through the fuel and purchased power surcharge mechanism, as well as increased kWh sales.

The following table represents kWh sales for the nine months ended September 30:

<b>Customer</b>	<b><u>2002</u> kWh</b>	<b><u>2001</u> KWh</b>
Retail	831,036,637	806,213,531
Wholesale	828,322,490	757,667,529
Economy Energy	<u>80,537,210</u>	<u>76,785,790</u>
Total	<u>1,739,896,337</u>	<u>1,640,666,850</u>

Fuel expense decreased by \$3.4 million, or 8.7%, for nine months ended September 30, 2002, compared to the same period in 2001 due to lower fuel prices. Power production expense increased by \$2.0 million, or 24.1%, due to increased maintenance on Beluga unit 3 and unit 8, Bernice Lake unit 4 and Cooper Lake unit 2. Purchased power expense increased by \$5.0 million, or 54.9%, due to the new contract with Nikiski, a co-generation power plant owned by Alaska Electric Generation & Transmission (AEG&T) (HEA). Distribution expense increased \$486.7 thousand, or 6.7%, due to a modification in our right-of-way clearing schedule, which does not substantially change the annual expense expected by year-end. In addition, we have experienced a higher level of underground cable failures resulting in higher distribution maintenance expense. Administrative, general and other increased by \$1.5 million, or 10.9%, due to increased labor, information services clearing and insurance costs.

Interest on long-term debt did not materially change from September 30, 2001, to September 30, 2002. Interest charged to construction decreased by \$455.6 thousand, or 56.0%, in the nine months ended September 30, 2002, compared to the same period in 2001 due to lower construction work in progress balances as well as lower overall cost of debt. Other interest expense decreased by \$876.5 thousand, or 79.3%, due to lower outstanding balances on the lines of credit.

Other nonoperating margins did not materially change in the first nine months of 2002 compared to the same period in 2001.

### **Financial Condition**

Total assets decreased \$8.0 million, or 1.4%, from December 31, 2001, to September 30, 2002. The decrease was due in part to a \$2.1 million, or 0.4%, decrease in net plant. The decrease was also due to a \$6.3 million, or 39.2%, decrease in accounts receivable caused by the payment of wholesale power invoices that were accrued but not paid at December 31, 2001; however, that amount was offset by an increase in billings to the state of Alaska for facility relocation construction work performed during the summer. The decrease in total assets was also due to a \$3.2 million, or 88.8%, decrease in fuel cost recovery from the collection of the prior quarter's fuel cost adjustment.

The decrease in total assets was offset by a \$2.5 million, or 391.7%, increase in prepayments caused by the prepayment of generation parts and a \$1.2 million, or 5.1%, increase in materials and supplies.

Notable changes to total liabilities and equities include a \$3.7 million, or 2.8%, increase in patronage capital and a \$29.8 million, or 8.2%, increase in long-term obligations associated with the 2002 refinancing. These increases were offset by a \$9.5 million, or 91.7%, decrease in current installments of long-term obligations due to the final payment of the 1991 Series A Bond due 2002 and the \$5 million payment of the first installment of CoBank 5.

There was a \$6.3 million, or 57.0%, decrease in accounts payable caused by the payment of invoices that were accrued at December 31, 2001. There was also a \$5.3 million, or 72.1%, decrease in accrued interest due to lower interest rates on our debt after the 2002 refinancing, in addition to a semi-annual interest payment of approximately \$4.9 million on the 2001 Series A Bonds in the third quarter. There was also a \$4.5 million, or 38.6%, decrease in fuel payable caused by lower fuel prices in the first nine months of 2002.

Deferred credits decreased \$15.8 million, or 81.1%, due to the premium that offset the gain associated with the 1991 Series A Bond due 2022 that was refinanced in the first quarter of 2002.

**Liquidity and Capital Resources**

Chugach has satisfied its operational and capital cash requirements primarily through internally generated funds, an annual \$50 million line of credit from NRUCFC and a \$35 million line of credit with CoBank. At September 30, 2002, there was no outstanding balance with NRUCFC. At September 30, 2002, there was \$11 million outstanding under the CoBank line of credit, which carried an interest rate of 3.24%.

Chugach also has a term loan facility with CoBank. Loans made under this facility are evidenced by bonds secured by Chugach's existing mortgage indenture. At September 30, 2002, Chugach had the following bonds outstanding under this term loan facility:

Bond	Principal balance	Interest rate at September 30, 2002	Maturity Date	Principal Payment Dates
CoBank 2	\$10,000,000	7.76%	2005	2005
CoBank 3	\$21,500,000	5.60%	2022	2003 – 2022
CoBank 4	\$23,500,000	5.60%	2022	2003 – 2022
CoBank 5	\$10,000,000	5.60%	2012	2002 – 2012
Total	\$65,000,000			

The \$5 million principal payment made in June of 2002 on CoBank 5 is currently being carried on our CoBank line of credit and included in short term debt. Upon completion of the CoBank Master Loan Agreement, that amount will become long-term debt with an expiration date of 2007.

Chugach and CoBank have tentatively agreed on the terms of a new Master Loan Agreement pursuant to which the existing term loan facility will be converted from secured to unsecured debt and the obligations represented by the outstanding bonds held by CoBank will be converted into promissory notes governed by the new Master Loan Agreement. Upon the substitution of promissory notes for the CoBank bonds, Chugach's existing mortgage indenture will be replaced in its entirety by an Amended and Restated Indenture dated April 1, 2001, all liens and security interests imposed under the indenture will be terminated and all outstanding Chugach bonds (including New Bonds of 2001 Series A, 2002 Series A and 2002 Series B) will become unsecured obligations governed by the terms of the Amended and Restated Indenture.

Capital construction in 2002 is estimated at \$29.4 million. At September 30, 2002, approximately \$17.8 million had been expended. Capital improvement expenditures are expected to decrease in the upcoming fourth quarter as the construction season ends.

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 2002 and thereafter.

### **Outlook**

Chugach reorganized in June 2002 when the longstanding Chief Financial Officer, (CFO) accepted the General Manager position. The Association now has four senior vice-president level organizational entities: CFO (Finance and Accounting), Energy Supply, Power Delivery and Administration. A Chief of Staff position was also created and staffed by in-house senior management. We believe this structure will better facilitate the organization's ability to effectively manage future challenges including competition.

### **Environmental Matters**

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

Chugach's operations are subject to certain federal, state and local environmental laws that Chugach monitors to ensure compliance. 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.

### **Environmental Matters**

The Association discovered polychlorinated biphenyls (PCBs) in paint, caulk and grease at the Cooper Lake Hydroelectric plant during initial phases of a turbine overhaul. A Federal Energy Regulatory Commission (FERC) approved plan, prepared in consultation with the Environmental Protection Agency (EPA), was implemented to remediate the PCBs in the plant. As a condition of its approval of the license amendment for the overhaul project, FERC required Chugach to also investigate the presence of PCBs in Kenai Lake. A sampling plan was developed by Chugach in consultation with state and federal agencies and approved by FERC. In 2000, Chugach sampled sediments and fish collected from Kenai Lake and other waters. While low levels of PCBs were found in some sediment samples taken near the plant, no pathway from sediment to fish was established. While the levels of PCBs in fish from Kenai Lake were similar to levels found in fish from other lakes within the region, Chugach has conducted additional sampling and analysis of fish in Kenai Lake and other waters and on April 1, 2002, filed its final report to FERC, which analyzed the results of the sampling. Based on these analyses, Chugach concluded that no further PCB sampling and analysis in Kenai Lake was necessary. In a letter dated June 18, 2002, FERC informed Chugach that its review of the report supported Chugach's conclusions and agreed that Chugach was not required to conduct further PCB sampling and analysis in Kenai Lake. Management believes the costs of this work will be recoverable through rates and therefore will have no material impact on our financial condition or results of operations. The Regulatory Commission of Alaska, (RCA) has issued an order to Chugach allowing Chugach to record its remediation costs as a FASB 71 asset, subject to a determination, in the presently ongoing rate case, of the level of prudently-incurred costs that may 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**

As of September 30, 2002, except for the 2002 Series B Bond, which carries a variable interest rate and is re-priced every 28 days, all of our outstanding long-term obligations were at fixed interest rates with varying maturity dates. The Auction Rate Bond bore interest at 1.97% from the date of original delivery to and through February 27, 2002. The following table provides information regarding subsequent auction dates and rates.

<b>Auction Date</b>	<b>Interest Rate</b>
February 27, 2002	2.00%
March 27, 2002	2.00%
April 27, 2002	1.97%
May 22, 2002	1.97%
June 19, 2002	1.95%
July 17, 2002	1.90%
August 14, 2002	1.84%
September 11, 2002	1.95%
October 9, 2002	1.92%
November 6, 2002	1.75%

The following table provides information regarding cash flows for principal payments on total debt by maturity date (dollars in thousands) as of September 30, 2002.

<b><u>Total Debt*</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>Thereafter</u></b>	<b><u>Total</u></b>	<b><u>Fair Value</u></b>
<b>Fixed rate</b>	\$0	\$866	\$945	\$11,031	\$1,126	\$321,032	\$335,000	\$367,556
<b>Average interest rate</b>	--	5.60%	5.60%	7.56%	5.60%	6.27%	6.30%	
<b>Variable rate</b>	\$11,000	\$0	\$0	\$0	\$0	\$60,000	\$71,000	\$71,000
<b>Average interest rate</b>	3.24%	--	--	--	--	1.75%	1.98%	

\* Includes current portion

### **Commodity Price Risk**

Chugach's gas contracts provide for adjustments to gas prices 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 related to market fluctuations in the price of purchased power.

**Item 4. Controls and Procedures**

The Association's management, including the Principal Executive Officer and the Chief Financial Officer, evaluated the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934) within 90 days prior to the filing date of this quarterly report. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There were no significant changes in the Association's internal controls that could significantly affect its disclosure controls and procedures since the date of the evaluation.

**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 the Association's sale of power to Matanuska Electric Association, Inc. (MEA) during that time. MEA asserted the Association breached that contract by failing to provide a variety of kinds of information, by failing to properly manage the Association's long-term debt, and by failing to bring its base rate action to a Joint Committee, a committee defined in the power sales contract consisting of one MEA and two Chugach board members, before presenting it to the RCA. All of MEA's claims have been dismissed. On April 29, 2002, MEA appealed the Superior Court's decisions relating to Chugach's financial management and its failure to bring its base rate action to the joint committee before filing with the RCA to the Alaska Supreme Court. Management is uncertain as to the outcome but will vigorously defend the appeal.

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**

On August 12, 2002 MEA filed a request with the Regulatory Commission of Alaska asking that Chugach's Certificate of Public Convenience and Necessity (CPCN) be amended to eliminate retail service and requesting that the retail services portion of the CPCN be included in MEA's CPCN. In an order issued August 29, 2002, the Regulatory Commission of Alaska summarily rejected the request.

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

(a) Exhibits:

No exhibits are being filed with this report for the quarter ended September 30, 2002.

(b) Reports on Form 8-K:

No reports on Form 8-K were filed for the quarter ended September 30, 2002.

Draft

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  
General Manager

Date: November 14, 2002

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

Michael R. Cunningham  
Chief Financial Officer

Date: November 14, 2002

Draft

**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-14 and 15d-14) for the registrant and we have:
  - a) Designed such disclosure controls and procedures 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 as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

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Evan J. Griffith  
General Manager and Principal 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-14 and 15d-14) for the registrant and we have:
  - a) Designed such disclosure controls and procedures 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 as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

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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 September 30, 2002, I, Evan J. Griffith, General Manager and Principal 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: November 14, 2002

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Evan J. Griffith  
General Manager and Principal Executive Officer

Draft

**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 September 30, 2002, 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: November 14, 2002

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Michael R. Cunningham  
Chief Financial Officer

Draft