



CHUGACH ELECTRIC ASSOCIATION, INC.

Letter to the Audit Committee of
the Board of Directors

November 3, 2003



701 West Eighth Avenue
Suite 600
Anchorage, AK 99501

November 3, 2003

The Audit Committee of the Board of Directors
Chugach Electric Association, Inc.

Dear Members:

We have reviewed the interim financial information included in the Form 10-Q filed by Chugach Electric Association, Inc. (Association) as of and for the three and nine months ended September 30, 2003. We have not issued a report in connection with our limited review. Under generally accepted auditing standards applicable to a review of interim financial information, we are providing you with the following information related to the conduct of our review.

Our Responsibility Under Generally Accepted Auditing Standards Applicable to a Review of Interim Financial Information

We conducted our review in accordance with the professional standards set forth in Statement on Auditing Standards No. 100, *Interim Financial Information*, issued by the American Institute of Certified Public Accountants. Management of the Association is responsible for the Association's interim financial information. Our responsibility is to conduct our review.

A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. Our procedures were substantially less in scope than an audit of financial statements performed in accordance with generally accepted auditing standards, and accordingly, we do not express an opinion on the Association's quarterly financial information.

A review does not contemplate tests of controls or accounting records, tests of responses to inquiries by obtaining corroborating evidential matter, and certain other procedures ordinarily performed during an audit. Thus, a review does not provide assurance that we will become aware of all significant matters that would be disclosed in an audit.

Significant Accounting Policies

Significant accounting policies are described in Note 5 to the condensed financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the three months ended September 30, 2003.

As described in Note 7, in May 2003 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. The Association is required to implement the statement effective January 1, 2004. This statement impacts classification and measurement of certain financial instruments with characteristics of both





The Audit Committee of the Board of Directors
Chugach Electric Association, Inc.
November 3, 2003
Page 2

liabilities and equity. This statement may require the Association to reclassify its capital credits, previously classified as equity, as liabilities. The Association is currently assessing the impact of the statement on its financial statements.

Significant Transactions

We noted no significant transactions entered into by the Association during the quarter ended September 30, 2003 that were both significant and unusual, and of which, under professional standards we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus

Quality of Accounting Principles

We have discussed with the audit committee and management our judgments about the quality, not just the acceptability of the Association's accounting principles as applied in its interim financial information. As the objective of a review of interim financial information differs significantly from that of an audit, our judgments on the quality of accounting principles is limited to the impact of significant events, transactions, and changes in accounting estimates considered in performing our review procedures. Further, such interim review procedures do not provide assurance that we will become aware of all matters affecting our judgments about the quality of the Association's accounting principles that would be identified as a result of an audit.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the interim financial information prepared by management and are based on management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the interim financial information and because of the possibility that future events affecting them may differ markedly from management's current judgments.

- The Association is a participant in various legal actions, claims and unasserted claims. It is management's judgment that the disposition of these matters will not materially impact the Association's financial condition and results of operations because the amounts would not be significant or, if significant, would be recoverable through the rate-making process. We discussed the status of asserted and unasserted claims with management and in-house counsel.
- The Association provides for an allowance for doubtful receivables based on an analysis of the aging of the accounts, historical trends and the nature of other receivables such as claims. Management believes the allowance is adequate.
- The Association records regulatory assets to reflect amounts that are expected to be recovered from rate-payers in the future.

Certain of our analytical procedures and inquiries were performed to provide us with a basis for concluding as to whether we are aware of any material modifications that should be made to the estimates described above, in relation to the interim financial information taken as a whole.



The Audit Committee of the Board of Directors
Chugach Electric Association, Inc.
November 3, 2003
Page 3

Review Adjustments

In connection with our review of the Association's interim financial information, we have not discussed with management any significant misstatements in the interim financial information that have not been accounted for in the Association's books and records as of and for the quarter ended September 30, 2003.

Other Information in Documents Containing Reviewed Interim Financial Information

Management of the Association is responsible for the interim financial information and for other information in documents containing the Association's interim financial information. We have no obligation to perform any procedures to corroborate other information contained in these documents. We have, however, read the other information included in the Association's Form 10-Q to consider whether such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the interim financial information.

Difficulties Encountered in Performing the Review

We encountered no serious difficulties in dealing with management in performing our review.

This report is intended solely for the information and use of the Audit Committee and Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP