DRAFT

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXHANGE ACT OF 1934**

For the quarterly period ended March 31, 2003

OR

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

Commission file number 33-42125

CHUGACH ELECTRIC ASSOCIATION, INC.

Incorporated pursuant to the Laws of Alaska State

Internal Revenue Service – Employer Identification No. 92-0014224

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

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 MAY 1, 2003
NONE	NONE

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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 March 31, 2003, follow:

CHUGACH ELECTRIC ASSOCIATION, INC.
BALANCE SHEETS

Assets	(Unaudited) March 31, 2003	December 31, 2002
Utility plant:		
Electric plant in service	$ 736,732,136	$ 730,439,297
Construction work in progress	17,068,171	20,224,302
	753,800,307	750,663,599
Less accumulated depreciation	(286,207,945)	(279,958,912)
	467,592,362	470,704,687
Other property and investments, at cost:		
Nonutility property	3,550	3,550
Investments in associated organizations	10,999,073	10,963,715
	11,002,623	10,967,265
Current assets:		
Cash and cash equivalents	4,616,336	7,284,292
Cash-restricted construction funds	580,542	598,864
Special deposits	222,163	222,163
Accounts receivable, net	17,415,049	26,410,264
Fuel cost recovery	0	0
Materials and supplies	23,760,532	23,747,590
Prepayments	3,343,058	1,953,350
Other current assets	477,312	336,798
	50,414,992	60,553,321
Deferred charges	26,918,597	27,989,601
Total Assets	$ 555,928,574	$ 570,214,874

See accompanying notes to financial statements.

CHUGACH ELECTRIC ASSOCIATION, INC.
BALANCE SHEETS
(Continued)

Liabilities and Equities	(Unaudited) March 31, 2003	December 31, 2002
Equities and margins:		
Memberships	$ 1,118,278	$ 1,108,243
Patronage capital	129,614,518	120,148,502
Other	6,177,878	6,221,150
	136,910,674	127,477,895
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	51,100,000	55,700,000
National Bank for Cooperatives Bonds payable	63,682,679	64,134,179
	384,782,679	389,834,179
Current liabilities:		
Short-term obligations	0	6,081,250
Current installments of long-term obligations	5,503,651	5,165,821
Accounts payable	4,240,039	7,719,974
Provision for rate refund	1,932,552	7,050,000
Consumer deposits	1,808,514	1,826,265
Fuel cost payable	1,476,935	363,862
Accrued interest	1,995,582	6,381,106
Salaries, wages and benefits	5,119,435	4,977,594
Fuel	6,817,941	7,095,402
Other current liabilities	1,457,889	2,027,938
	30,352,538	48,689,212
Deferred credits	3,882,683	4,213,588
Total Liabilities and Equities	$ 555,928,574	$ 570,214,874

See accompanying notes to financial statements.

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

	Three months ended March 31	
	2003	2002
Operating revenues	$ 50,239,007	$ 48,568,542
Operating expenses:		
Fuel	11,403,893	12,959,289
Power production	2,724,933	3,218,313
Purchased power	3,337,477	5,194,540
Transmission	1,194,608	876,117
Distribution	2,827,302	2,628,113
Consumer accounts/Information expense	1,401,666	1,423,679
Administrative, general and other	5,249,227	4,949,319
Depreciation and amortization	7,014,978	6,240,618
Total operating expenses	35,154,084	37,489,988
Interest expense:		
On long-term obligations	5,880,594	8,042,244
On short-term obligations	11,901	103,248
Charged to construction-credit	(107,879)	(149,706)
Net interest expense	5,784,616	7,995,786
Net operating margins	9,300,307	3,082,768
Nonoperating margins:		
Interest income	86,563	444,912
Other	68,135	247,367
Property gain (loss)	71,219	(193,189)
Total nonoperating margins	225,917	499,090
Assignable margins	9,526,224	3,581,858
Patronage capital at beginning of period	120,148,502	125,184,374
Retirement of capital credits and estate Payments	(60,208)	(97,026)
Patronage capital at end of period	$ 129,614,518	$ 128,669,206

See accompanying notes to financial statements.

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

	Three months ended March 31 2003	2002
Cash flows from operating activities:		
Assignable margins	$9,526,224	$3,581,858
Adjustments to reconcile assignable margins to net cash provided (used) by operating activities:		
Provision for rate refund	(5,117,448)	0
Depreciation and amortization	8,377,586	6,240,618
Capitalization of interest	(122,881)	(173,131)
Property gains, net	71,219	(193,189)
Other	54	970
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Special deposits	0	0
Fuel cost recovery	0	(162,458)
Accounts receivable	8,995,215	3,833,288
Prepayments	(1,389,708)	(2,308,616)
Materials and supplies	(12,942)	2,006,507
Deferred charges	(291,603)	(1,260,649)
Other	(140,513)	(133,078)
Increase (decrease) in liabilities:		
Accounts payable	(3,479,935)	(4,211,665)
Fuel payable	1,113,073	0
Consumer deposits	(17,751)	55,360
Accrued interest	(4,385,524)	(5,192,242)
Deferred credits	(638,160)	(15,666,447)
Other	(705,670)	(4,069,436)
Net cash (used) provided by operating activities	11,781,236	(17,652,310)
Cash flows from investing activities:		
Extension and replacement of plant	(3,850,991)	(3,628,304)
Investments in associated organizations	(35,413)	(65,436)
Net cash used in investing activities	(3,886,404)	(3,693,740)
Cash flows from financing activities:		
Short-term obligations	(6,081,250)	0
Proceeds from long-term obligations	0	180,000,000
Repayments of long-term obligations	(4,713,670)	(154,719,945)
Retirement of patronage capital	(60,208)	(97,026)
Other	292,340	11,539
Net cash provided by financing activities	(10,562,788)	25,194,568
Net increase (decrease) in cash and cash equivalents	(2,667,956)	3,848,518
Cash and cash equivalents at beginning of period	$7,284,292	$3,814,767
Cash and cash equivalents at end of period	$4,616,336	$7,663,285
Supplemental disclosure of cash flow information – interest expense paid, net of amounts capitalized	10,170,140	13,188,028

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 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 2002 financial statements to conform to the 2003 presentation.

2. Lines of credit

Chugach maintains a line of credit of $20 million with CoBank, ACB (CoBank). The CoBank line of credit expires July 31, 2003, subject to renewal at the discretion of the parties. At March 31, 2003, 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 March 31, 2003, there was no outstanding balance on this line of credit. The NRUCFC line of credit expires October 15, 2007.

3. *Environmental Matters*

Chugach 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 us in consultation with state and federal agencies and approved by FERC. In 2000, we 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, we conducted additional sampling and analysis of fish in Kenai Lake and other waters and filed our final report dated April 1, 2002, with FERC, which analyzed the results of the sampling. Based on these analyses, we concluded that no further PCB sampling and analysis in Kenai Lake was necessary. In a letter dated June 13, 2002, FERC informed us that its review of the report supported our conclusions and agreed we were not required to conduct further PCB sampling and analysis in Kenai Lake. In its recent order in our general rate case, Order U-01-108(26), the Regulatory Commission of Alaska (RCA), permitted the costs associated with the overhaul and the PCB remediation to be recovered through rates. Consequently, management believes the costs of the PCB remediation and studies will have no material impact on our financial condition or results of operations. We will be filing a request in 2003 with the RCA to allow us to recover through rates the costs we incurred to investigate the presence of PCBs in Kenai Lake.

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 our sale of power to Matanuska Electric Association, Inc., (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 have been dismissed. 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 heard by the Supreme Court on April 15, 2003. Management is uncertain as to the outcome and expects a decision within six to twelve months.

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-based regulation reviewed and approved by this regulatory commission. Under the authority of this commission, Chugach has recorded certain regulatory assets in the amount of $19.2 million as of March 31, 2003. 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 based forward rate lock agreements to hedge expected interest rates on debt. Chugach 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 Financial Accounting Standards Board (FASB). To the extent that changes by the DIG modify current guidance, the accounting treatment for derivatives may change.

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.

Regulatory Matters

Docket U-01-108

Chugach filed a general rate case, Docket U-01-108, on July 10, 2001, based on the 2000 test year, requesting a permanent base rate increase of 6.5%, and an interim base rate increase of 4.0%. On September 5, 2001, the RCA granted a 1.6% interim demand and energy rate increase effective September 14, 2001. Chugach filed a petition for reconsideration and on October 25, 2001, the RCA revised its Interim Approval to permit Chugach to collect an interim base rate increase of 3.97%. The additional rate increase was implemented on November 1, 2001. 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 of $2.4 million due to Chugach's recent refinancings. In this revised filing, Chugach continued to request $11.9 million in margins. As a result of reduced interest costs, Chugach's supplemental filing would have yielded an equivalent system Times Interest Earned Ratio (TIER) of 1.47.

Docket U-01-108, Order No. 26

The RCA issued Order No. 26 in Docket U-01-108 on February 6, 2003.

Order 26 resolved several issues in Chugach's favor:

- The RCA rejected intervenor mismanagement allegations regarding re-powering of Beluga Units 6, 7 and Cooper Lake Power Plant (CLPP) overhaul and PCB remediation.
- The RCA accepted Chugach's rate lock cost amortization and did not question other refinancing activities.
- The RCA approved the 1999 depreciation study, in part, and allowed implementation of remaining life depreciation methodology.
- The RCA approved recovery of rate lock and CLPP PCB remediation expenses.

Order 26 contained several adjustments not in Chugach's favor:

- The RCA required Chugach to continue using TIER in calculating return levels instead of converting to a return on rate-base methodology.

- The RCA adjusted Chugach's system overall TIER downwards from 1.35 to 1.30, a difference of approximately $1.3 million in margins based on the 2000 test year and would have similar impacts in subsequent years. As Chugach had requested that its permanent rates in this case be established with an effective TIER of 1.47, this was a difference of approximately $4 million in margins based on the 2000 test year between the now-authorized TIER of 1.30.

- The RCA required Chugach to treat Allowance for Funds Used During Construction/Interest During Construction (AFUDC / IDC) as a reduction to long-term interest expense, which reduces the revenue requirement by approximately $1.2 million, excluding TIER. With the required AFUDC/IDC adjustment alone, Chugach's effective TIER would be below a 1.30.

- The RCA required a 1.8 percentage point interest rate reduction (from 3.8% to 2%) on Chugach's $60.0 million of variable debt, which equates to a revenue requirement reduction of approximately $1.1 million, excluding TIER.

- Chugach's overall Depreciation Study was approved, although the RCA did require approximately $0.7 million in downward adjustments, primarily related to Bernice Lake Units 2 – 4 and Chugach's North Submarine Cable field. This reduction in the revenue requirement will match Chugach's reduction in depreciation expense, resulting in a net effect of zero to margins in subsequent years.

The impact of Order 26 required the following:

- Based on the final rates ordered, a refund of revenues collected in 2001 of approximately $1.1 million and in revenues collected in 2002 of approximately $6.0 million, which resulted in a net operating loss of $2 million in 2002. Under the Order, Chugach's financial performance for 2002 fell below the 1.10 level contained in the Rate Covenants in its currently effective indenture, the Amended and Restated Indenture, the CoBank Master Loan Agreement and the MBIA Reimbursement and Indemnity Agreement.

- A reduction in estimated 2003 revenues of approximately $6.0 million. Based on the budgeted revenues and expenditures, under Order 26, Chugach may have insufficient margins over interest in 2003 to comply with the requirements of the Rate Covenants in the agreements described above.

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

Docket U-01-108, Order No. 30

On April 15, 2003, the RCA issued Order No. 30 in Docket U-01-108, revising its earlier ruling by:

- Reversing its AFUDC/IDC offset decision and agreeing with Chugach that the offset of AFUDC and IDC against long-term interest expense in the test year is not appropriate. Language in Order 30 may limit its ruling to projects commenced and concluded within the test year.

- Allowing most of the legal expenses cut or amortized from the revenue requirement to be added back.

- Establishing a normalized interest rate of 3.8% on our $60 million in variable rate debt.

- Clarifying that it intended to set a floating TIER of 1.64 for Distribution.

- Clarifying, as requested by Chugach, that the refund cannot go below the “floor” of the rates that were in place prior to Chugach’s interim increase.

- Clarifying that interest expense should be allocated based on net plant.

- Authorizing Chugach to use the higher interest rate existing in January and February of 2002 (before the March refinancing reduced interest expense) in calculating any refunds.

In Order 30 the RCA also:

- Declined to change its ruling continuing the split TIER.

- Declined to change its ruling reducing overall TIER to 1.30 and reducing Generation and Transmission (G&T) TIER to 1.10.

- Declined to change its ruling that rate case costs cannot be amortized and recovered in rates.

The net impact of Order 30, as it modified Order 26, requires the following:

- A refund of approximately $435 thousand in revenues collected in 2001.

- A refund of approximately $1.1 million in revenues collected in 2002. The resulting provision for rate refund adjustment adjusts revenue positively by $5.45 million in 2003.

- A refund of approximately $377 thousand in revenues collected in 2003.

- Chugach calculates, that based on the budgeted revenues and expenditures, under Order 30, Chugach will have sufficient margins over interest in 2003 to comply with the requirements of the Rate Covenants in the Amended and Restated Indenture, the CoBank Master Loan Agreement and the MBIA Reimbursement Agreement.

Docket U-01-108, Order No. 30 Appeal

On April 29, 2003, Chugach filed an appeal in Alaska Superior Court on two issues. In Order No. 30 of this docket, the RCA reconsidered and reversed its earlier decision and agreed with Chugach that requiring AFUDC/IDC as an offset to long-term interest expense would cause under-recovery and should, therefore, not be required. However, the specific language of the RCA's order on reconsideration may limit its ruling to projects commenced and concluded within the test year. This could cause under-recovery of project costs over the life of the asset resulting in a confiscatory rate. Chugach has filed an appeal as to this portion of the RCA's decision on reconsideration in Order No. 30. In its compliance filing with the RCA, Chugach revised the calculations used to develop rates and calculating refunds in compliance with the RCA's orders. Chugach proposed rate and refund calculations consistent with the rationale approved by the Commission in Order 30, which if allowed by the RCA, would alleviate this defect and moot the issue on appeal. If the RCA accepts Chugach's compliance filing, Chugach will withdraw the appeal on this issue.

Chugach has also appealed the RCA's decision from Order No. 26, which the RCA declined to reconsider, to modify Chugach's TIER of 1.10, from the previously effective 1.15, for generation and transmission service and a TIER of approximately 1.6 for distribution service. Chugach asserts that such a disparity in TIER violates the requirements of AS 42.05.141(a)(3) and AS 42.05.391 (a) in that the resulting rates are not just, fair and reasonable and yield an unreasonable difference as to rates between Chugach's retail and wholesale customers. Chugach further asserts that the resulting rates grant an unreasonable preference or advantage to Chugach's wholesale customers by creating an unreasonable prejudice or disadvantage to its retail customers.

Results Of Operations

Current Year Quarter Versus Prior Year Quarter

Assignable margins increased by $5.9 million, or 166%, for the quarter ended March 30, 2003, over the same quarter in 2002 primarily due to the provision for rate refund adjustment that was made in March of 2003. That increase to revenue was offset by a decrease to revenue due to lower kWh sales in the first quarter of 2003. It was also offset by a decrease in fuel expense, purchased power and interest expense, which is described below.

Operating revenues, which include sales of electric energy to retail, wholesale and economy energy customers and other miscellaneous revenues, increased by $1.7 million, or 3.4%, for the quarter ended March 31, 2003, over the same quarter in 2002. The increase in revenues was due to a provision for rate refund adjustment that was made in March of 2003. That increase was offset by lower kWh sales and a decrease in fuel prices, resulting in decreased revenue collected through the fuel surcharge cost recovery mechanism.

The following table represents kWh sales for the quarter ended March 31:

Customer	2003 kWh	2002 KWh
Retail	310,612,397	313,327,560
Wholesale	291,100,159	298,440,519
Economy Energy	59,193,690	3,304,890
Total	660,906,246	615,072,969

Retail demand and energy rates and wholesale demand and energy rates charged to HEA and MEA did not change in the first quarter of 2003 compared to the first quarter of 2002. The interim rate increase authorized by the RCA for all rate classes except small commercial and public street and highway lighting in November 2001 was still in affect, awaiting the RCA's approval of our Compliance Filing for the 2000 Test Year rate case. 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 $1.6 million, or 12.0%, for the quarter ended March 31, 2003, compared to the same period in 2002 due to lower fuel prices. Purchased power expense decreased by $1.9 million, or 35.8%, due to a six-week outage of the Nikiski power plant, which received a controls upgrade. Transmission expense increased by $318.5 thousand, or 36.4%, due primarily to additional maintenance. Distribution, consumer accounts/information and administrative, general and other expenses did not materially change for the three-month period ended March 31, 2003.

Interest on long-term debt decreased by $2.2 million, or 26.9%, due to lower interest rates. Interest charged to construction decreased by $41.8 thousand, or 27.9%, in the first quarter of 2003 compared to the same period in 2002 due to less construction activity and lower interest rates. Other interest expense decreased by $91.3 thousand, or 88.5%, from the first quarter of 2002 due to decreased borrowing on the CoBank line of credit in the first quarter of 2003.

Other nonoperating margins decreased by $273.2 thousand, or 54.7%, for the quarter ended March 31, 2003, compared to the same period in 2002, due primarily to the decrease in interest income due to funds received and invested for a month as a result of the refinancing in the first quarter of 2002.

Financial Condition

Total assets decreased $14.3 million, or 2.5%, from December 31, 2002, to March 31, 2003. The decrease was due in part to a $3.1 million, or 0.7% decrease in net plant, caused primarily by the increase in accumulated depreciation due to plant closed in prior periods. The decrease was also due to an $8.9 million, or 34.1% decrease in accounts receivable caused by the payment of wholesale power invoices and the state of Alaska relocation invoices that were accrued but not paid at December 31, 2002. The decrease in total assets was also due to a $2.7 million, or 36.6% decrease in cash and cash equivalents and a $1.1 million, or 3.8% decrease in deferred charges caused by the first quarter's amortization of deferred projects.

The decrease in total assets was offset by a $1.4 million, or 71.1% increase in prepayments caused by increased insurance renewals.

Notable changes to total liabilities and equities include a $9.4 million, or 7.4% increase in patronage capital due to the margin impact of the provision for rate refund adjustment to revenue. There was also an increase of $1.1 million, or 3.1% in fuel cost payable caused by the over-collection of the prior quarter's fuel cost adjustment.

These increases were offset by a $5.1 million, or 1.3% decrease in long-term obligations due to an installment payment of the 2002 Series B Bond and an installment payment of CoBank 3. There was a $6.1 million, or 100.0% decrease in short-term obligations caused by the collection of outstanding accounts receivable that was collected and used to pay off the line of credit. There was also a $3.5 million, or 45.1% decrease of accounts payable caused by the payment of invoices that were accrued at December 31, 2002. There was also a $5.1 million, or 72.6% decrease in the provision for rate refund caused by the adjustment calculated by RCA Order 30. There was also a $4.4 million, or 68.7% decrease in accrued interest due to the semi-annual interest payment on the 2001 Series A Bonds and the 2002 Series A Bonds in the first quarter. Other current liabilities decreased $570.0 thousand, or 28.1% due to the payment of the annual gross receipts tax and the quarterly RCA tax.

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 $20 million line of credit with CoBank. At March 31, 2003, 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 March 31, 2003, Chugach had the following promissory notes outstanding under this facility:

Promissory Note	Principal balance	Interest rate at March 31, 2003	Maturity Date	Principal Payment Dates
CoBank 2	$10,000,000	7.76%	2005	2005
CoBank 3	$21,086,330	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	$64,586,330			

On January 22, 2003, Chugach and CoBank finalized a new Master Loan Agreement pursuant to the existing term loan facility that was converted from secured to unsecured debt and the obligations represented by the outstanding bonds held by CoBank were converted into promissory notes governed by the new Master Loan Agreement. Chugach's existing 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 2003 is estimated at $31.1 million. At March 31, 2003, approximately $3.9 million had been expended. Capital improvement expenditures are expected to increase in the upcoming second quarter as the construction season begins.

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 2003 and thereafter.

Outlook

Chugach reorganized its management and structure in June 2002 when the longstanding Chief Financial Officer (CFO), Evan J. Griffith, 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.

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

Chugach 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 us in consultation with state and federal agencies and approved by FERC. In 2000, we 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, we conducted additional sampling and analysis of fish in Kenai Lake and other waters and filed our final report dated April 1, 2002, with FERC, which analyzed the results of the sampling. Based on these analyses, we concluded that no further PCB sampling and analysis in Kenai Lake was necessary. In a letter dated June 13, 2002, FERC informed us that its review of the report supported our conclusions and agreed we were not required to conduct further PCB sampling and analysis in Kenai Lake. In its recent order in our general rate case, Order U-01-108(26), the Regulatory Commission of Alaska (RCA), permitted the costs associated with the overhaul and the PCB remediation to be recovered through rates. Consequently, management believes the costs of the PCB remediation and studies will have no material impact on our financial condition or results of operations. We will be filing a request in 2003 with the RCA to allow us to recover through rates the costs we incurred to investigate the presence of PCBs in Kenai Lake.

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 March 31, 2003, 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 following table provides information regarding auction dates and rates in 2003.

Auction Date	Interest Rate
January 29, 2003	1.40%
February 26, 2003	1.35%
March 26, 2003	1.32%
April 23, 2003	1.33%

The following table provides information regarding cash flows for principal payments on total debt by maturity date (dollars in thousands) as of March 31, 2003.

Total Debt*	2003	2004	2005	2006	2007	Thereafter	Total	Fair Value
Fixed rate	$452	$945	$11,031	$1,126	$1,229	$319,804	$335,000	$366,488
Average interest rate	5.60%	5.60%	7.56%	5.60%	5.60%	6.27%	6.31%	
Variable rate	$0	$4,600	$4,900	$5,200	$5,500	$35,500	$55,700	$55,700
Average interest rate	--	1.33%	1.33%	1.33%	1.33%	1.33%	1.33%	

*** 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 Chief 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 our sale of power to Matanuska Electric Association, Inc. (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 have been dismissed. 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 heard by the Supreme Court on April 15, 2003. Management is uncertain as to the outcome and expects a decision within six to twelve months.

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

At the Chugach annual membership meeting held on April 24, 2003, the following amendments to the Bylaws were passed:

Title: The titles of Board officers and the General Manager were changed to reflect the actual functional duties and responsibilities of those individuals.

Bonds of Officers: Chugach can cover the Board Treasurer as well as any other officer or agent of Chugach responsible for the custody of its funds or property by insurance, as well as, or in lieu of, a bond.

Compensation: Directors shall receive a fee and expenses, to include travel expenses, for each day of attendance at any meeting representing Chugach in an official capacity. The Board of Directors will have the authority to set the fee amount.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Bylaws of the Registrant (as amended April 24, 2003).

Amendment to Line of Credit Agreement between the Registrant and CoBank, ACB dated December 27, 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:

Reference is made to the January 22, 2003, 8K, which discussed a Master Loan Agreement that Chugach and CoBank entered into dated December 27, 2002.

Reference is made to the January 31, 2003, 8K, which discussed Order No. 26 that Chugach received from the RCA on February 6, 2003, concerning Chugach's 2000 Test Year rate case.

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: May 14, 2003

By: ______________________________

Michael R. Cunningham
Chief Financial Officer

Date: May 14, 2003

EXHIBITS

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

Exhibit Number	Description
3.2	Bylaws of the Registrant (as amended April 24, 2003)
10.44.8	Amendment to Line of Credit Agreement between the Registrant and CoBank, ACB dated December 27, 2002.

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: May 14, 2003

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-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: May 14, 2003

Michael R. Cunningham
Chief Financial Officer