CHUGACH

Electric Association

Annual Report 2001

Powering Alaska's Future

CONTENTS

CORPORATE MISSION

Chugach's mission is to maximize the value its customers receive by safely providing competitively priced, reliable energy and services through innovation, leadership and prudent management.

CORPORATE VISION

Be the customer-preferred provider of reliable utility services in regulated and competitive Alaskan markets.

INCORPORATION

Chugach Electric Association was incorporated in Alaska, March 1, 1948, with funding under the Rural Electrification Act of 1936, as amended. In 1991 Chugach refinanced and paid off its federal debt, leaving the REA program. Chugach remains a cooperative, and ranks among the largest of the nearly 1,000 electric cooperatives in the nation.

PERSONNEL POLICY

It is a policy of Chugach Electric Association, Inc. to recruit, hire, train, compensate, and promote persons without regard to race, color, religion, national origin, sex, marital status, pregnancy, parenthood, disability, veterans status, age or any other classification protected by applicable federal, state, or local law.

CHUGACH SNAPSHOT

Chugach provides retail service to approximately two-thirds of the homes and businesses in the Municipality of Anchorage and wholesale and economy energy sales to other utilities throughout Alaska's Railbelt region.

Annual Report 2001

THE YEAR IN REVIEW

In 2001 Chugach completed a number of major projects. Chugach finished rebuilding the Cooper Lake hydroelectric plant in March. In addition, throughout the year Chugach completed the repowering of Beluga Unit No. 7 and the rebuilding of the Sand Lake Substation.

Chugach held its Annual Membership Meeting April 26, and 140 members registered for the event. Nearly 14 percent of the 58,148 members of record voted in the election, in which David J. Cottrell and Bruce E. Davison were elected to 3-year terms on the board. Members approved four of the five proposed bylaw changes.

Increased depreciation expenses associated with generation investment, increased labor costs and bond covenants made it necessary for Chugach to request a rate increase from the Regulatory Commission of Alaska in July. While the RCA reviewed the rate case, it approved an interim and refundable retail base rate and demand energy charge increase. It was the first base rate increase for Chugach members since January 1994.

Wholesale rates also increased, which was the first base rate increase seen by wholesale customers since May 1996. By the end of the year the RCA had not yet completed their review of the general rate case, and a decision is not expected until late in 2002.

Chugach prepared one of the generator rotors for shipment to General Electric Co. in Utah. The rotors from both of the Cooper Lake Power Plant units were rewound, returned to the plant and re-installed.

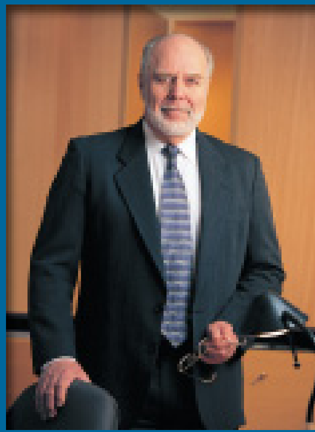
Fluctuating fuel prices and purchased power costs further complicated the rate picture as the fuel surcharge rose and fell throughout the year. In January the fuel surcharge rose from 1.268 cents per kilowatt-hour to 1.586 cents for retail customers. By the end of the year the surcharge was 2.5430 cents.

Chugach continues to be involved in alternative generation projects. This year Chugach became a participant in a BP project on the Kenai Peninsula where a portion of the electrical requirements will be met through using a fuel cell. Chugach secured a grant to help underwrite the cost of the fuel cell. In addition Chugach is involved in a project with Cook Inlet Region to study the feasibility of generating electricity from the wind on Fire Island.

Late in the year Chugach began offering several new online programs to its customers. Members can now request service connects and disconnects online, do a home energy analysis and pay their bills using an electronic check.

Near the end of December, storms dropped hundreds of trees onto power structures, knocking down miles of power lines on the Kenai Peninsula. Chugach assisted Homer Electric Association, one of its wholesale customers, in restoring power to hundreds of their customers.

GENERAL MANAGER'S REPORT



Gene Bjornstad
General Manager

During the year 2001, Chugach accomplished a number of goals which should enhance the long-term reliability of energy delivery and improve service to our customers. In the following pages you will find more details and specifics on the projects and financial events which took place throughout the year. As a member of the cooperative, I believe you should find the efforts of the employees and contractors, together with the policy guidance of the Board of Directors, to be satisfactory and positive. This is particularly so when the negative and truly tragic events of 2001 are reviewed.

Early in the year the unsettled energy crisis in California continued to cast dark shadows over the entire electricity system in the Lower 48. A number of Chugach customers voiced their concerns and worries about their electrical service here in Alaska. At the end of the year, I think it is appropriate to review the differences between the Lower 48 and the electrical system in what is called the Railbelt.

The General Manager's Executive Team. Bottom left to right: Dianne Hillemeyer, Gene Bjornstad and Patti Bogan. Top left to right: Lee Thibert, Joe Griffith, Carol Johnson, Don Edwards, Mary Tesch and Bill Stewart.

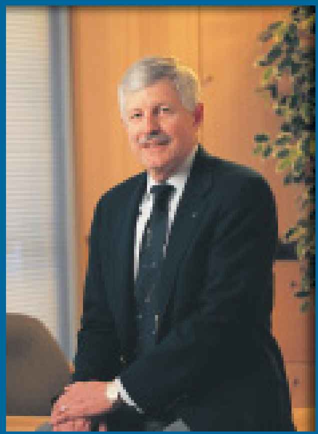
First, Chugach and its generating neighbor utilities have more than sufficient generating capacity to service the projected load growth for a number of years. Secondly, although the natural gas fuel prices did increase during 2001, we are now anticipating a slight decrease in 2002. That means the fuel surcharge as applied to your bills should decrease. Finally, the electrical transmission grid used in the Railbelt, although not connected to either Canada or the Lower 48, is mostly owned either by non-profit utilities or the State of Alaska. There are no plans to sell or lease these systems to for-profit companies. These points and others, such as state-of-the-art control systems and planned additions, all contribute to the long-term stability and security of electrical energy supply.

The events on September 11 and since required Chugach to review and change its security plans. Assessments have been ongoing according to the threat situation and adjustments made as necessary.

The final area I think you will appreciate is Chugach's continuing investigation and research into alternative generation systems such as microturbines, fuel cells, and wind power. Although not really economical on a large scale yet, each of these offer exciting potential for the future.

After 19 years with Chugach Electric and the last eight as the General Manager I would like to thank all the employees, directors, and contractors who have made Chugach a success and ready for the 21st Century.

PRESIDENT'S REPORT



Bruce Davison
President

Chugach faced a challenging year in 2001. While it was not an easy task we continued to provide reliable, reasonably-priced power for our members throughout the Railbelt. Chugach management and staff worked steadily and overcame the challenges presented, and we were able to reach targeted goals.

Increased natural gas prices and warm weather lowered Chugach's kilowatt-hour sales and revenues. Chugach had to reduce costs and worked diligently to refinance debt. These were major efforts that will save Chugach members millions of dollars in the coming years. Notwithstanding our savings and successes in reducing costs, we were compelled to apply to the Regulatory Commission of Alaska for rate increases. The RCA granted a Chugach request for an interim base rate increase while reviewing our request for a permanent increase.

While the financial aspects of the business occupied the minds of many, Chugach completed projects that provide the nearly 100 percent reliability that our members expect. Chugach finished upgrading and overhauling units at its Beluga and Cooper Lake power plants. Within our vast and sometimes isolated system, Chugach installed remote-controlled automated switches and cleared many, many spruce bark beetle-killed trees. These projects are necessary to maintain our world-class reliability.

In addition to Chugach's efforts to keep rates reasonable, and the power flowing, we recognize that service to our members is important. Chugach began offering new benefits including many that can be accessed online. Members have asked Chugach to investigate alternative generation and we initiated baseline studies to collect data on various types of alternative generation, including fuel cells, distributed generation and wind generation. We also retired $3 million in capital credits. These are only a few of the advantages of being a Chugach member. The Chugach board, management and staff will continue to work diligently to provide all of these benefits.

Some of the challenges of 2001 were difficult to overcome, and the events of Sept. 11 raised other questions and hurdles, forcing us to look at how a power utility handles its business under greater needs for security. Addressing those questions and challenges will provide opportunities for Chugach in the future.

Chugach has met the challenges of 2001. We met financial goals, maintenance goals and service goals. Through continued wise and prudent management I am confident that Chugach is ready for new challenges, new goals and a successful new year.

BOARD OF DIRECTORS

BRUCE E. DAVISON, PRESIDENT

Bruce E. Davison is an attorney and professional engineer. He was appointed to the board in June 1997 to fill a vacancy, elected to the board in 1998 and re-elected in 2001.

H.A. "RED" BOUCHER, VICE PRESIDENT

H.A. "Red" Boucher is a communications consultant who owns H.A. "Red" Boucher & Associates. He was elected to the board in 1999.

CHRIS BIRCH, SECRETARY

Chris Birch is a civil engineer and manager of Engineering, Facilities and Environment for the Ted Stevens Anchorage International Airport. He was appointed to the board in 1996 to fill a vacancy, elected to the board in 1997 and re-elected in 2000.

JEFF LIPSCOMB, TREASURER

Jeff Lipscomb is a project management consultant with JWL Engineering. He was elected to the board in 2000.

DAVE COTTRELL, DIRECTOR

Dave Cottrell is the Managing Partner/President of Mikunda, Cottrell & Co., CPAs & Consultants. He was elected to the board in 2001.

PATRICIA JASPER, DIRECTOR

Patricia Jasper is a small-business owner and a former computer programmer and systems analyst. She was first elected to the board in 1995, elected to a 3-year term in 1996 and again in 1999.

PAT KENNEDY, DIRECTOR

Pat Kennedy is an attorney working in Anchorage. She has served on the board since 1993 and was re-elected in 1996 and 1999.

Retail Services is responsible for ensuring that customers receive innovative and responsive services. In addition, it provides credit and collections, marketing, purchasing, contracting, security and information services support to the organization.

Retail Service employees strive to put the customer first. In 2001 innovation, creativity and hard work allowed Chugach to add more services and easier ways for members to do business with their Association through the use of technology.

AMONG OTHER THINGS, RETAIL SERVICES HAS:

- Launched the eValuRater SM online home energy audit.
- Implemented a program that allows new members to sign up online for electric service. The same program also allows current members to request a service connect or disconnect online.
- Implemented a computerized program allowing customers to pay their bills online using electronic checks.
- Performed 64 energy audits for customers.
- Received 137,621 calls through the Member Services Department during normal operations, of which 114,017 were answered within 30 seconds.
- Allocated and sent notices for $9,679,778 in retail and wholesale capital credits for 2000.
- Retired $3 million in retail capital credits from 1985.
- Increased by 51 percent the amount paid by members using Chugach's NetPay option that allows them to pay their bills online with a credit card or by using their checking account.
- Redesigned and updated Chugach's home page.
- Promoted Chugach's online services and showcased a microturbine, a wind turbine and a working residential fuel cell at the 2001 Anchorage Home & Remodeling Show.

Chugach began offering eValuRater SM, an online home energy analysis. Chugach employees promoted the program to members to use as a tool in evaluating their home energy use. While Chugach offers many online options for its members, employees are available to offer face-to-face service to sign up new members and explain Chugach offerings to both new and current members.

Chugach retired more than $3 million in retail capital credits in 2001. The checks were printed and mailed in December to more than 22,700 members of record from 1985. Another 7,700 current members received credits on their accounts.

Chugach showcased its online services and new technology at the 2001 Anchorage Home & Remodeling Show. More than 12,000 people attended the 2001 show.

TRANSMISSION & DISTRIBUTION NETWORK SERVICES

Chugach removed thousands of trees on the Hillside in 2001 that had been killed by spruce beetles. Removing beetle-killed trees will reduce fire danger and help reduce tree-related outages.

Chugach completed rebuilding the Sand Lake Substation in 2001. Chugach installed new metal-clad switchgear and new primary and subtransmission underground cables that tie in to the existing electrical system and increase reliability. The Sand Lake Substation rebuild will enhance reliability to the Dimond Boulevard and Old Seward Highway areas.

Chugach completed a multi-year project to replace Chugach's Supervisory Control and Data Acquisition system. The new SCADA system replaced one that had been in use since the early 1980s. The new SCADA system will help dispatchers operate the system more efficiently and provide them with more information for diagnosing system disturbances.

Chugach also installed SCADA-operated remote control switches as part of an on-going project to automate the subtransmission line system. This project will improve restoration time for system-wide outages.

Transmission & Distribution Network Services is responsible for electronic communications, power control and fuel management. In addition, it is responsible for Chugach's "wires business" and designs, builds, upgrades and maintains the facilities, including substations.

T&D Network Services projects help Chugach maintain excellent reliability and improve operating efficiency. Significant 2001 projects for T&D Network Services included:

- Connected 2,134 new services in an average of 2.5 days per service. The leading national utilities use an average measurement of 5 days per service.
- Achieved revenues of $428,000 for Chugach from selling spare capacity on Chugach's microwave system.
- Developed a new communications site above the Hope Substation.
- Participated in meetings held in Anchorage and Soldotna that allowed the public to review the Environmental Impact Statement for the Southern Intertie.
- Rebuilt the Sand Lake Substation.
- Completed the new 34.5-kilovolt subtransmission line linking the Campbell and Klatt substations.
- Installed seven 34.5-kilovolt automated switches. The switches allow Chugach to isolate a faulted section of line remotely and aid in outage restoration.
- Earned Tree Line USA utility certification from the National Arbor Day Foundation.
- Cleared more than 12,000 trees that were primarily killed by the spruce bark beetle. The trees were adjacent to both transmission and distribution power lines in the Anchorage Bowl and on the Kenai Peninsula.
- Completed a multi-year project to upgrade the Supervisory Control and Data Acquisition system.

FINANCE & ENERGY SUPPLY

Finance & Energy Supply is responsible for Chugach's financial performance and its present and future generation resources. It also manages the corporate analysis function, conducts business planning, manages rates and regulatory issues, wholesale power sales, and fuel supply contracts.

AMONG OTHER THINGS, IN 2001, F&ES:

- Secured "A+", "A2" and "A" ratings from national rating agencies for Chugach bonds.
- Restructured high-interest debt by issuing $150 million in new bonds.
- Worked toward completely refinancing high-interest, long-term debt by planning to issue $180 million in bonds.
- Completed the upgrade of the Cooper Lake Power Plant.
- Completed ahead of schedule a "repowering" of Beluga Unit No. 7.
- Made billing, demand and energy information available online for large commercial customers.
- Installed temporary structures on Fire Island to collect wind and weather information around the clock for up to 18 months in a joint venture with Cook Inlet Region, Inc.
- Secured a grant to participate in a fuel cell project with BP on the Kenai Peninsula.
- Continued investigating alternative generation technologies, including fuel cells, microturbines and wind generation.
- Supported corporate analytical needs for two rate cases and filed one new one.
- Achieved an unqualified financial audit by KPMG LLP.
- Initiated efforts to relicense the Cooper Lake Power Plant.
- Updated the corporate Business Plan.

Chugach completed the major upgrade of the Cooper Lake Power Plant, which sits on the shore of Kenai Lake. Chugach built the plant in the late 1950s and the project — started in April 2000 - was the most significant upgrade at the facility since it began generating electricity in 1960. The Cooper Lake Power Plant houses two turbines and their generators. The units were completely removed, including the rotor shown here, and rebuilt.

Chugach completed the repowering of Beluga Unit No. 7, increasing its life, efficiency and power output. The unit was originally installed in 1978.

GENERATION RESOURCES

This page highlights the generation resources Chugach uses to ensure reliable, affordable power. Chugach has 527.1 megawatts of installed capacity as detailed below. The unit ratings shown are nominal ratings taken at 30 degrees Fahrenheit. Chugach also takes power from the state-owned Bradley Lake hydroelectric project near Homer.

BELUGA

- Located on the west side of Cook Inlet near Tyonek
- Combustion turbines 1–7 fueled by natural gas
- Unit 8 is a steam turbine

Units	Commissioned		Power Rating
No. 1	1968		19.6 megawatts
No. 2	1968		19.6 megawatts
No. 3	1972		64.8 megawatts
No. 5	1975		68.7 megawatts
No. 6	1975		82.5 megawatts
No. 7	1978		71.0 megawatts
No. 8	1981		55.0 megawatts
		Total	381.2 megawatts

BERNICE LAKE

- Located near Nikiski on the Kenai Peninsula
- Natural gas combustion turbines

Units	Commissioned		Power Rating
No. 2	1971		19.0 megawatts
No. 3	1978		26.0 megawatts
No. 4	1981		22.5 megawatts
		Total	67.5 megawatts

COOPER LAKE

- Located near Cooper Landing on the Kenai Peninsula
- Hydro-turbines

Units	Commissioned		Power Rating
No. 1	1960		10.0 megawatts
No. 2	1960		10.0 megawatts
		Total	20.0 megawatts

INTERNATIONAL

- Located off International Airport Road in Anchorage
- Natural gas combustion turbines

Units	Commissioned		Power Rating
No. 1	1964		14.1 megawatts
No. 2	1965		14.1 megawatts
No. 3	1969		18.5 megawatts
		Total	46.7 megawatts

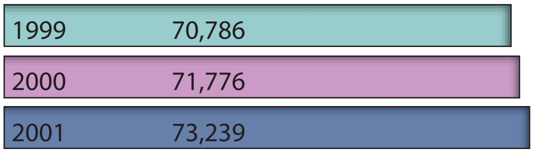
EKLUTNA

- Former federal hydroelectric project along the Knik River
- Jointly owned with Anchorage Municipal Light & Power and Matanuska Electric Association
- Chugach's share is 30%, 11.7 Mw maximum

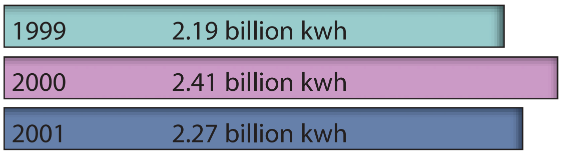
Units	Commissioned		Power Rating
No. 1	1955		23.5 megawatts
No. 2	1955		23.5 megawatts
		Total	47.0 megawatts

KEY COMPARISONS

Services at year end

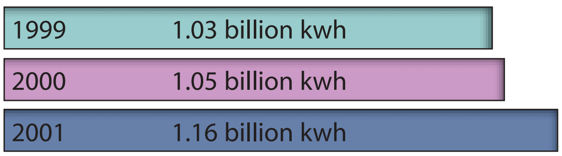


Kilowatt-hours sold

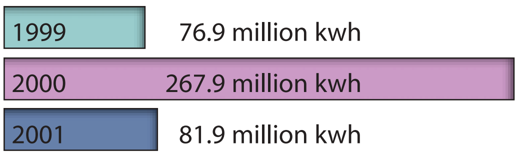


Retail kwh

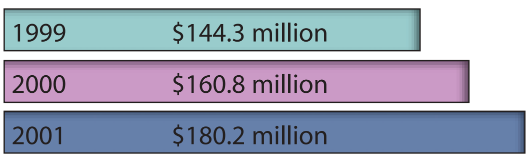
Wholesale kwh



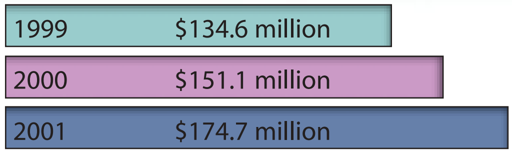
Economy energy kwh



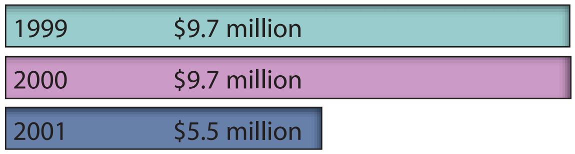
Total revenue



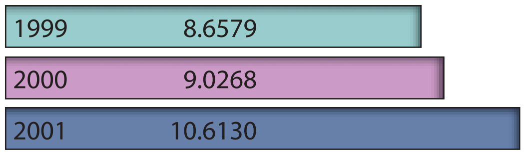
Expenses



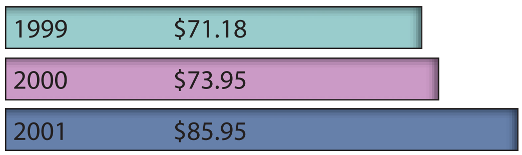
Margins



Cost per residential kwh in December (all "per kwh" charges)



Cost of 750 kwh of residential service in December



Outage Statistics:
Chugach averaged 3.66 outage hours per customer in 2001, up from 2.45 hours in 2000. The 5-year average for customer outage hours increased to 2.17 hours in 2001 from 1.99 hours in 2000.

TREASURER'S REPORT

Jeff Lipscomb
Treasurer

The year 2001 was a challenging and exciting financial experience for Chugach. A rejuvenated Finance Committee commenced a comprehensive program of financial planning and review. One of the first challenges was a reduction of revenue in the first quarter of the year caused by lower kilowatt-hour sales. Working with the general manager and his staff, the Finance Committee developed a new financial plan to reduce interest and operating expenses. In addition, to achieve more independent finance and accounting monitoring, an audit committee made up of member-elected directors was established. In order to sustain the Association's sound financial position and credit ratings, the committee approved a filing with regulators to increase base rates, the first such increase since 1994.

The committee participated in planning and executing a $150 million bond sale to refinance $72.5 million in CoBank debt and extinguish $55 million in short-term debt while adding to the working capital fund. As market conditions were favorable, Chugach replaced $127.5 million of over 8 percent interest rate debt with 6.55 percent debt. That action will save our members nearly $2 million per year.

Chugach then began preparing for the anticipated March 2002 call opportunity for the outstanding 1991 Series A (9.14 percent) Bond. We again took advantage of favorable market conditions and in late January 2002 sold $180 million in bonds at an average rate below 5 percent. These funds will be used to call and retire the remaining 1991 Series A Bond. Our financing efforts, the astute management of our debt portfolio and maintenance of our investment grade bond ratings has saved Chugach more than $20 million since we started the bond buybacks in 1995.

After the 2001 financing, the Finance Committee spent several sessions reviewing and redefining Chugach's financial targets. The committee defined an equity ratio target of 25-30 percent, a margins-for-interest ratio of 1.25 and a reliability statistic (outage time) of not more than three hours per year per member. These targets were used to develop the 2002 budget and will be used as the benchmark for reporting purposes throughout the year. We also developed a work plan for the audit committee.

Total revenues in 2001, which included non-operating margins, were $180.2 million, up from $160.8 million in 2000. Operating expenses were $147.5 million, up from $126.4 million in 2000. Adding interest expense resulted in total costs of $174.7 million, thereby yielding assignable margins of $5.5 million. These margins will be assigned to our current members and eventually become capital credits that are returned to members on a periodic basis.

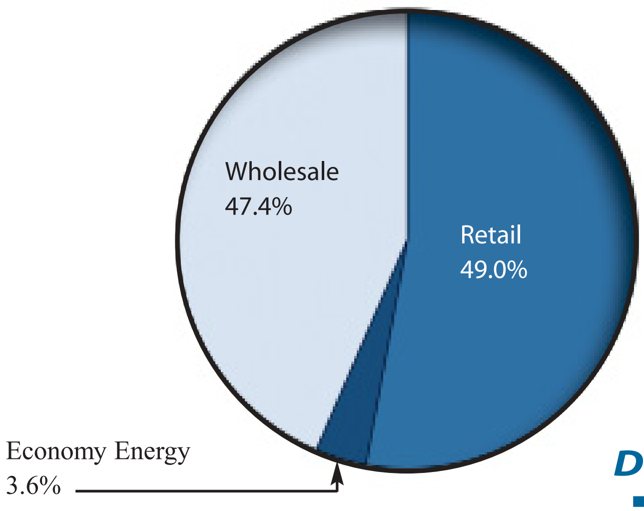
Total assets increased by $35.5 million in 2001 to $575.2 million because of major capital projects that will serve us well for many years to come. Chugach completed several major construction projects during the year that contributed to the increase. Notable changes on the balance sheet include an increase in long-term obligations that offset a decrease in short-term debt because of the April refinancing. In addition, Chugach retired $3 million in capital credits in November.

Chugach continued an active regulatory agenda and filed the 2000TY (test year) rate case that was ordered by the Regulatory Commission of Alaska. The case — filed in July — requested a permanent base rate increase of 6.5 percent and an interim and refundable base rate increase of 4 percent. Chugach anticipates a ruling on the permanent rate increase request by the end of 2002.

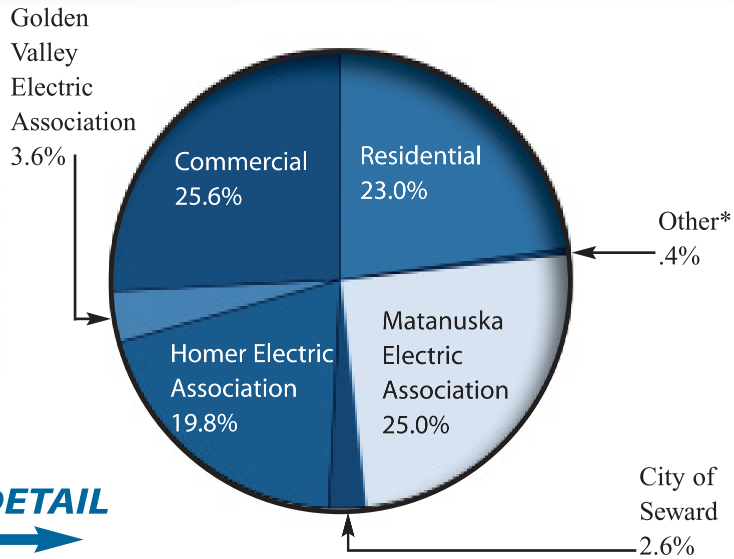
CHUGACH POWER SALES AT A GLANCE

BY KILOWATT-HOURS, TOTAL: 2,269,253,403

OVERVIEW

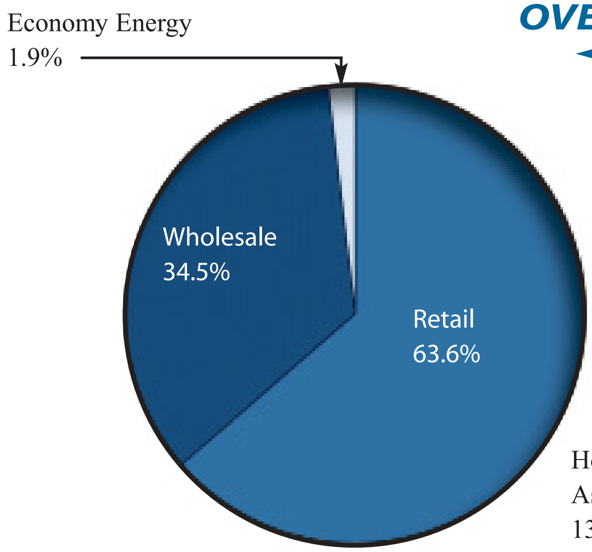


DETAIL

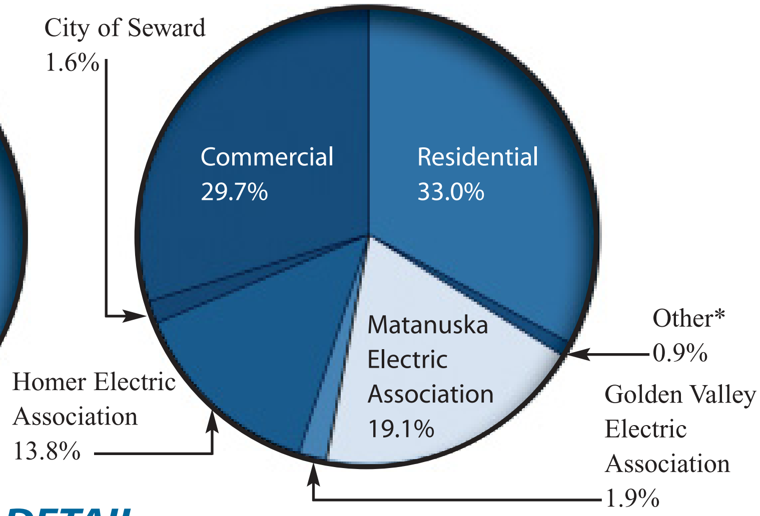


BY OPERATING REVENUES, TOTAL: $176,164,561

OVERVIEW



DETAIL



Note: Amounts may not total 100% due to rounding.

* Other: Streetlighting and Fuel Cell

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Anchorage, AK 99501

Independent Auditors' Report

The Board of Directors
Chugach Electric Association, Inc.

We have audited the accompanying balance sheets of Chugach Electric Association, Inc. (Association) as of December 31, 2001 and 2000, and the related statements of revenues, expenses and patronage capital and cash flows for each of the years in the three-year period ended December 31, 2001. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chugach Electric Association, Inc. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

March 1, 2002
Anchorage, Alaska

ASSETS	2001	2000
Utility plant (notes 2, 6, 12 and 13):		
Electric plant in service	$714,317,863	$687,127,130
Construction work in progress	28,887,008	42,027,617
	743,204,871	729,154,747
Less accumulated depreciation	261,353,177	259,999,872
Net utility plant	481,851,694	469,154,875
Other property and investments, at cost:		
Nonutility property	3,550	443,555
Investments in associated organizations (note 3)	10,485,186	9,857,153
	10,488,736	10,300,708
Current assets:		
Cash and cash equivalents, including repurchase agreements of $5,520,275 in 2001 and $3,905,283 in 2000	3,814,767	1,695,162
Cash-restricted construction funds	517,871	378,848
Special deposits	222,163	212,163
Accounts receivable, less provision for doubtful accounts of $318,757 in 2001 and $441,933 in 2000	22,302,400	19,200,912
Fuel cost recovery	3,591,963	2,915,733
Materials and supplies	22,822,003	15,357,198
Prepayments	627,544	755,276
Other current assets	335,753	332,246
Total current assets	54,234,464	40,847,538
Deferred charges (notes 9 and 14)	28,706,293	19,442,859
	$575,281,187	$539,745,980

Liabilities & Equities	2001	2000
Equities and margins (note 5):		
Memberships	$1,059,098	$1,009,663
Patronage capital (note 4)	125,184,374	122,925,253
Other (note 5)	5,565,234	4,880,424
	131,808,706	128,815,340
Long-term obligations, excluding current installments (notes 6, 7 and 18):		
2001 Series A Bond	150,000,000	0
First Mortgage Bonds (1991 Series A) payable	149,310,000	169,542,000
National Bank for Cooperatives Bonds payable	65,000,000	142,677,945
	364,310,000	312,219,945
Current liabilities:		
Current installments of long-term obligations (notes 6 and 7)	10,409,945	6,430,350
Short-term obligations (note 6)	11,000,000	40,000,000
Accounts payable	11,012,905	9,493,875
Consumer deposits	1,603,691	1,324,213
Accrued interest	7,378,058	5,861,390
Salaries, wages and benefits	4,844,819	4,586,407
Fuel	11,565,117	8,154,559
Other current liabilities	1,900,155	1,434,562
Total current liabilities	59,714,690	77,285,356
Deferred credits (note 11)	19,447,791	21,425,339
	$575,281,187	$539,745,980

See accompanying notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND PATRONAGE CAPITAL DECEMBER 31, 2001, 2000 AND 1999

	2001	2000	1999
Operating revenues	$178,595,214	$158,541,114	$142,644,327
Operating expenses:			
Power production	68,527,902	52,726,374	40,301,607
Purchased power	14,717,318	9,152,248	8,581,979
Transmission	3,545,707	3,828,630	3,813,438
Distribution	10,417,736	9,774,860	9,400,618
Consumer accounts	5,121,394	5,275,455	4,387,421
Sales expense	495,523	1,112,804	1,227,908
Administrative, general and other	19,574,476	21,343,393	22,892,479
Depreciation	25,096,665	23,216,509	19,851,436
Total operating expenses	147,496,721	126,430,273	110,456,886
Interest expense:			
On long-term obligations	27,128,662	24,987,033	24,137,593
Charged to construction – credit	(1,063,643)	(2,178,425)	(1,000,246)
On short-term obligations	1,164,495	1,909,682	998,034
Net interest expense	27,229,514	24,718,290	24,135,381
Net operating margins	3,868,979	7,392,551	8,052,060
Nonoperating margins:			
Interest income	679,640	703,807	592,208
Other	1,236,907	1,615,161	1,003,029
Property gain (loss)	(246,390)	(31,741)	20,137
Assignable margins	5,539,136	9,679,778	9,667,434
Patronage capital at beginning of year	122,925,253	117,335,481	109,622,996
Retirement of capital credits and estate payments (note 4)	(3,280,015)	(4,090,006)	(1,954,949)
Patronage capital at end of year	$125,184,374	$122,925,253	$117,335,481

See accompanying notes to financial statements.

	2001	2000	1999
Operating activities:			
Assignable margins	$5,539,136	$9,679,778	$9,667,434
Adjustments to reconcile assignable margins to net cash provided by operating activities:			
Depreciation and amortization	30,265,821	27,575,408	23,563,805
Capitalization of interest	(1,370,319)	(340,838)	(151,474)
Property (gains) losses, net	(246,390)	(31,741)	20,137
Other	(19,169)	(1,155)	(221)
Changes in assets and liabilities:			
(Increase) decrease in assets:			
Special deposits	(10,000)	(29,999)	(61,000)
Accounts receivable	(3,101,488)	(1,469,918)	(1,049,512)
Fuel cost recovery	(676,230)	(2,734,978)	381,029
Prepayments	127,732	106,671	55,434
Materials and supplies	(7,464,805)	1,822,938	(1,216,702)
Deferred charges	(13,761,107)	(1,231,531)	(14,179,418)
Other assets	(3,507)	9,456	7,328
Increase (decrease) in liabilities:			
Accounts payable	1,519,030	(14,976)	670,093
Accrued interest	1,516,668	(204,724)	(656,211)
Deferred credits	(1,584,906)	(3,638,491)	(2,973,944)
Consumer deposits	279,478	264,536	66,061
Other liabilities	4,134,563	3,213,198	524,833
Total adjustments	9,605,371	23,293,856	5,000,238
Net cash provided by operating activities	15,144,507	32,973,634	14,667,672
Investing activities:			
Extension and replacement of plant	(36,408,253)	(46,730,043)	(41,884,723)
Increase in investments in associated organizations	(608,864)	(909,137)	(590,276)
Net cash used in investing activities	(37,017,117)	(47,639,180)	(42,474,999)
Financing activities:			
Transfer of restricted construction funds	(139,023)	159,556	(361,038)
Proceeds from short-term borrowings, net	(29,000,000)	40,000,000	0
Proceeds from long-term obligations	150,000,000	0	72,500,000
Repayments of long-term obligations	(93,930,350)	(24,872,405)	(40,983,801)
Memberships and donations received	734,245	700,923	788,865
Retirement of patronage capital	(3,280,015)	(4,090,006)	(1,954,949)
Net receipts (refunds) of consumer advances for construction	(392,642)	352,610	(384,294)
Net cash provided by financing activities	23,992,215	12,250,678	29,604,783
Net change in cash and cash equivalents	2,119,605	(2,414,868)	1,797,456
Cash and cash equivalents at beginning of year	$1,695,162	$4,110,030	$2,312,574
Cash and cash equivalents at end of year	$3,814,767	$1,695,162	$4,110,030
Supplemental disclosure of cash flow information			
Interest expense paid, net of amounts capitalized	$25,702,846	$24,917,014	$24,791,592

See accompanying notes to financial statements.

(1) Description of Business and Summary of Significant Accounting Policies

Description of Business

Chugach Electric Association, Inc., (Association or Chugach) is the largest electric utility in Alaska. The Association is engaged in the generation, transmission and distribution of electricity to directly served retail customers in the Anchorage and upper Kenai Peninsula areas. Through an interconnected regional electrical system, Chugach's power flows throughout Alaska's Railbelt, a 400-mile-long area stretching from the coastline of the southern Kenai Peninsula to the interior of the state, including Alaska's largest cities, Anchorage and Fairbanks.

Chugach also supplies much of the power requirements of three wholesale customers, Matanuska Electric Association (MEA), Homer Electric Association (Homer) and the City of Seward (Seward). Our members are the consumers of the electricity sold.

The Association operates on a not-for-profit basis and, accordingly, seeks only to generate revenues sufficient to pay operating and maintenance costs, the cost of purchased power, capital expenditures, depreciation, and principal and interest on all indebtedness and to provide for reasonable margins and reserves. The Association is subject to the regulatory authority of the Regulatory Commission of Alaska (RCA).

Management Estimates

In preparing the financial statements, management of the Association is required to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the balance sheet and revenues and expenses for the reporting period. Actual results could differ from those estimates.

Regulation

The accounting records of the Association conform to the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission. The Association meets the criteria, and accordingly, follows the accounting and reporting requirements of Statement of Financial Accounting Standards 71, *Accounting for the Effects of Certain Types of Regulation (SFAS 71)*. Revenues in excess of current period costs (net operating margins and nonoperating margins) in any year are designated on the Association's statement of revenues and expenses as assignable margins. Retained assignable margins are designated on the Association's balance sheet as patronage capital, which is assigned to members on the basis of patronage. This patronage capital constitutes the principal equity of the Association.

Reclassifications

Certain reclassifications have been made to the 1999 and 2000 financial statements to conform to the 2001 presentation.

Plant Additions and Retirements

Additions to electric plant in service are recorded at original cost of contracted services, direct labor and materials, indirect overhead charges and capitalized interest. For property replaced or retired, the average unit cost of the property unit, plus removal cost, less salvage, is charged to accumulated provision for depreciation. The cost of replacement is added to electric plant. Renewals and betterments are capitalized, while maintenance and repairs are charged to expense as incurred.

Operating Revenues

Operating revenues are based on billing rates authorized by the RCA, which are applied to customers' usage of electricity. Included in operating revenue are billings rendered to customers adjusted for differences in meter read dates from year to year. The Association's tariffs include provisions for the flow through of gas costs according to existing gas supply contracts.

Chugach entered into a settlement agreement with MEA and Homer in 1996. The settlement agreement was designed to resolve a number of ratemaking disputes and assure MEA and Homer that their base rates would be no higher than those based on 1995 costs and would be reduced (and refunds given) if our 1996, 1997 or 1998 test year costs to serve their needs were significantly reduced. The Agreement required Chugach to make filings of Chugach's cost of service to facilitate determination of any refunds owed under the settlement agreement.

Calculations based on 1996 costs indicated that a rate reduction was required and that a refund was owed for the previous periods. Chugach recorded provisions for wholesale rate refunds that totaled $2,651,361 as of December 31, 1999. Early in 2000, refunds of $86,132 were issued to Homer and $1,809,801 to MEA that represented uncontested amounts owed consistent with the 1996 test year filing.

In June 2000, the RCA issued its final order approving the 1996 test year cost of service. As a result of this order, additional refunds were issued to MEA and Homer in the amounts of $332,157 and $503,272, respectively, on July 25, 2000. Consistent with the Settlement Agreement, these refunds were based on demand and energy purchases retroactive to January 1, 1997.

The RCA issued an order for the 1997 test year that did not reduce wholesale rates or require refunds under the Settlement Agreement. The 1998 test year hearing has been completed but an order from the RCA has not yet been issued. Management believes that no rate reduction or refund will be required based on the 1998 test year. No additional test years remain to be reviewed under the Settlement Agreement.

Chugach filed a general rate case 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 increase effective September 14, 2001. We filed a petition for reconsideration and on October 25, 2001, the RCA approved an interim base rate increase of 3.97%. The additional rate increase was implemented on November 1, 2001. The 3.97% interim base rate increase is anticipated to result in approximately $4.1 million additional revenue on an annualized basis. The interim and permanent rate increases are subject to final approval by the RCA after a hearing process. If the RCA does not agree with the interim increase, Chugach may be required to refund a portion of the increase. Management believes it is unlikely any of the interim increase will have to be refunded.

In this filing, Chugach proposed that margins be calculated using a rate base/rate of return methodology rather than the TIER methodology previously used. Under this methodology, we can assign different rates of return to our various business functions, such as generation, transmission and distribution, in order to recover appropriate risk premiums for each individual function. In addition, the change in methodology allows us to more efficiently allocate our cost of funds. The resultant system TIER would be 1.38 based on the proposed capital structure contained in that filing. We do not believe that our request to change from the TIER-based methodology to the return-on-rate-base methodology will have any material adverse effect on future ratemaking or on our ability to service our outstanding indebtedness.

In 1998 a power sales agreement was negotiated between Chugach and Seward. The contract was approved by the RCA on June 14, 1999 for a three-year term, which expired on September 1, 2001. The parties negotiated and executed an Amendment, extending the term of the contract to January 31, 2006, which was approved by the RCA July 9, 2001.

In October 1998 Marathon Oil Company, one of Chugach's natural gas suppliers, notified Chugach that it had reached a settlement with the State of Alaska regarding additional excise and royalty taxes for the period 1989 through 1998. In accordance with the purchase contract, Chugach would be responsible for these additional taxes. The RCA approved Chugach's plan to recover this over 12 months through the Fuel Surcharge mechanism except for the retail portion in the amount of $436,778 that, in accordance with Chugach's request, was written off at December 31, 1998. Recovery of this expense in rates continued from April 1, 1999, through April 1, 2000. Despite RCA approval and subsequent re-confirmation by the RCA, MEA has refused to pay the portion of its monthly bill it considers to be recovery of the Marathon tax. Effective December 20, 2000, by the Superior Court for the State of Alaska, MEA was ordered to pay $298,004, representing the unpaid tax liability and associated litigation costs. MEA has appealed this order to the Alaska Supreme Court.

Investments in Associated Organizations

Investments in associated organizations represent capital requirements as part of financing arrangements. These investments are non-marketable and accounted for at cost.

Deferred Charges and Credits

Deferred charges, representing regulatory assets, are amortized to operating expense over the period allowed for rate-making purposes. In accordance with SFAS 71, the Association's financial statements reflect regulatory assets and liabilities. Continued accounting under SFAS 71 required certain criteria be met. Management believes the Association's operations currently satisfy these criteria. However, if events or circumstances should change so the criteria are not met, the write off of regulatory assets and liabilities could have a material effect on the financial position and results of operations.

Deferred credits, representing regulatory liabilities, are amortized to operating expense over the period allowed for rate-making purposes. It also includes nonrefundable contributions in aid of construction, which are credited to the associated cost of construction of property units. Refundable contributions in aid of construction are held in deferred credits pending their return or other disposition.

Depreciation and Amortization

Depreciation and amortization rates have been applied on a straight-line basis and at December 31, 2001 are as follows:

	Annual Depreciation Rate Ranges		
Steam production plant	2.70	-	2.96
Hydraulic production plant	1.33	-	2.88
Other production plant	3.34	-	6.50
Transmission plant	1.85	-	5.37
Distribution plant	2.10	-	4.55
General plant	2.22	-	20.00
Other	1.88	-	2.75

Chugach uses average service life rates set forth in the most recently approved depreciation study. In 1997 an update of the Depreciation Study was completed utilizing Electric Plant in Service balances as of December 31, 1995. Depreciation rates developed in that study were implemented in January, 1998. In 2000, another update of the study was completed. Depreciation rates determined in that study will be implemented upon approval by the RCA.

Capitalized Interest

Allowance for funds used during construction and interest charged to construction - credit are the estimated costs during the period of construction of equity and borrowed funds used for construction purposes. The Association capitalized such funds at the weighted average rate (adjusted monthly) of 7.5% during 2001, 7.9% during 2000 and 7.4% during 1999.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments with a maturity of three months or less upon acquisition by the Association (excluding restricted cash and investments) to be cash equivalents.

Materials and Supplies

Materials and supplies are stated at the lower of average cost or market.

Fair Value of Financial Instruments

SFAS 107, *Disclosures About the Fair Value of Financial Instruments*, requires disclosure of the fair value of certain on and off balance sheet financial instruments for which it is practicable to estimate that value. The following methods are used to estimate the fair value of financial instruments:

Cash and cash equivalents and restricted cash - the carrying amount approximates fair value because of the short maturity of those instruments.

Investments in associated organizations - the carrying amount approximates fair value because of limited marketability and the nature of the investments.

Consumer deposits - the carrying amount approximates fair value because of the short refunding term.

Long-term obligations - the fair value is estimated based on the quoted market price for same or similar issues (note 7).

Treasury rate lock agreements – the fair value is estimated based on discounted cash flow using current rates.

Financial Instruments and Hedging

The Association uses U.S. Treasury forward rate lock agreements to hedge expected interest rates on probable debt re-financings. 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. The Association adopted SFAS 133 on January 1, 2001. Accordingly, the unrealized gain or loss has not been recorded and will be treated as a regulatory asset or liability upon settlement (note 6).

Income Taxes

The Association is exempt from federal income taxes under the provisions of Section 501(c)(12) of the Internal Revenue Code, except for unrelated business income. For the years ended December 31, 2001, 2000 and 1999 the Association received no unrelated business income.

Environmental Remediation Costs

The Association accrues for losses and establishes a liability associated with environmental remediation obligations when such losses are probable and can be reasonably estimated. Such accruals are adjusted as further information develops or circumstances change. Estimates of future costs for environmental remediation obligations are not discounted to their present value. However, various remediation costs may be recoverable through rates and accounted for as a regulatory asset.

(2) Utility Plant Summary

Major classes of electric plant as of December 31 are as follows:

	2001	2000
Electric plant in service:		
Steam production plant	$60,392,869	$60,392,869
Hydraulic production plant	8,125,226	8,798,695
Other production plant	94,207,814	106,017,802
Transmission plant	206,972,504	211,860,829
Distribution plant	177,457,788	170,378,081
General plant	46,757,035	45,835,618
Unclassified electric plant in service*	111,809,111	77,054,390
Equipment under capital lease	56,323	56,323
Other	8,539,193	6,732,523
Total electric plant in service	714,317,863	687,127,130
Construction work in progress	28,887,008	42,027,617
Total electric plant in service and construction work in progress	$743,204,871	$729,154,747

* Unclassified electric plant in service consists of complete unclassified of general plant, generation, transmission and distribution projects

Depreciation of unclassified electric plant in service has been included in functional plant depreciation accounts in accordance with the anticipated eventual classification of the plant investment.

(3) Investments in Associated Organizations

Investments in associated organizations include the following at December 31:

	2001	2000
National Rural Utilities Cooperative Finance Corporation (NRUCFC)	$6,095,980	$6,095,980
National Bank for Cooperatives (CoBank)	4,216,115	3,600,133
NRUCFC capital term certificates	45,616	33,733
Other	127,475	127,307
	$10,485,186	$9,857,153

The Farm Credit Administration, CoBank's federal regulators, requires minimum capital adequacy standards for all Farm Credit System institutions. CoBank's loan agreements require, as a condition of the extension of credit, that an equity ownership position be established by all borrowers. The Association's investment in NRUCFC similarly was required by its financing arrangements with NRUCFC.

(4) Patronage Capital

The Association has an approved capital credit retirement program, which is contained in the Chugach business plan. This establishes, in general, a plan to return the capital credits of wholesale and retail customers based on the members' proportionate contribution to Association assignable margins on an approximately 15-year rotation. At December 31, 2001, out of the total of $125,184,374 patronage capital, the Association had assigned $122,055,164 of such patronage capital (net of capital credit retirements). Approval of actual capital credit retirements is at the discretion of the Association's Board of Directors.

In November 1999, the Board of Directors authorized the retirement of $1,766,000 of retail patronage for 1984.

In November 2000, the Board of Directors authorized the retirement of $3,750,000 of retail patronage for 1984 and 1985.

In November 2001, the Board of Directors authorized the retirement of $3,000,000 of retail patronage for 1985.

Following is a five-year summary of anticipated capital credit retirements:

Year ending	Wholesale	Retail	Total
2002	$0	$3,500,000	$3,500,000
2003	0	3,500,000	3,500,000
2004	1,359,000	2,141,000	3,500,000
2005	1,109,000	2,391,000	3,500,000
2006	1,671,000	1,829,000	3,500,000

(5) Other Equities

A summary of other equities at December 31 follows:

	2001	2000
Nonoperating margins, prior to 1967	$23,625	$23,625
Donated capital	183,907	183,907
Unredeemed capital credit retirement	5,357,702	4,672,892
	$5,565,234	$4,880,424

(6) Debt

Long-term obligations at December 31 are as follows:	2001	2000
2001 Series A Bond of 6.55% maturing in 2011 with interest payable semi-annually March 15 and September 15:	$150,000,000	$0
First mortgage Bond (1991 Series A) of 8.08% maturing in 2002 and 9.14% maturing in 2022 with interest payable semi-annually March 15 and September 15:		
8.08%	5,232,000	11,329,000
9.14% (refinanced in 2002 by the 2002 Series A and Series B Bond maturing in 2012, see note 18)	149,310,000	164,310,000
CoBank 8.95% bond maturing in 2002, with interest payable monthly and principal due semi-annually	177,945	511,295
CoBank 7.76% bond maturing in 2005, with interest payable monthly	10,000,000	10,000,000
CoBank 5.60% bonds maturing in 2022, with interest payable monthly	45,000,000	45,000,000
CoBank 5.60% bonds maturing in 2002, 2007 and 2012 with interest payable monthly	15,000,000	15,000,000
CoBank, variable interest, with a rate of 8.20% at December 31, 2000, bonds maturing in 2002, with interest payable monthly (refinanced in 2001 by the 2001 Series A Bond maturing in 2011, see note below)	0	42,500,000
CoBank, variable interest, with a rate of 8.20% at December 31, 2000, bonds maturing in 2002, withinterest payable monthly (refinanced in 2001 by the 2001 Series A Bond maturing in 2011, see note below)	0	30,000,000
Total long-term obligations	374,719,945	318,650,295
Less current installments	10,409,945	6,430,350
Long-term obligations, excluding current installments	$364,310,000	$312,219,945

Covenants

Chugach is in compliance with all covenants set forth in the Indenture of Trust, dated September 15, 1991.

Security

Substantially all assets are pledged as collateral for the long-term obligations until retirement of the 1991 Series A Bonds and subsequent institution of the Amended and Restated Indenture. On the release date, the Bonds will become general unsecured and unsubordinated obligations. Under the Amended Indenture, Chugach is prohibited from creating or permitting to exist any mortgage, lien, pledge, security interest or encumbrance on our properties and assets (other than those arising by operation of law) to secure the repayment of borrowed money or the obligation to pay the deferred purchase price of property unless we equally and ratably secure all bonds subject to the Amended Indenture, except that we may incur secured indebtedness in an amount not to exceed $5 million or enter into sale and leaseback or similar agreements.

Rate

The Existing Indenture requires Chugach, subject to any necessary regulatory approval; to establish and collect rates reasonably expected to yield margins for interest equal to at least 1.20 times total interest expense. Margins for interest generally consist of our assignable margins plus total interest expense and income tax accruals. The Amended Indenture will require Chugach, subject to any necessary regulatory approval; to establish and collect rates reasonably expected to yield margins for interest equal to at least 1.10 times total interest expense.

Distribution to Members

The Existing Indenture prohibits Chugach from making any distribution of patronage capital to our customers if an event of default under the Existing Indenture then exists. Otherwise we are permitted to make distributions to our members after December 31, 1990 in the aggregate amount of $7 million plus 35% of the aggregate assignable margins earned after December 31, 1990. This restriction does not apply if, after the distribution, our aggregate equities and margins as of the end of the immediately preceding fiscal quarter would be equal to at least 45% of our total liabilities and equities and margins. The Amended Indenture will prohibit Chugach from making any distribution of patronage capital to our customers if an event of default under the Amended Indenture then exists. Otherwise, we may make distributions to our members in each year equal to the lesser of 5% of our patronage capital or 50% of assignable margins for the prior fiscal year. This restriction will not apply if, after the distribution, our aggregate equities and margins as of the end of the immediately preceding fiscal quarter would be equal to at least 30% of our total liabilities and equities and margins. The Association does not anticipate that this provision will limit the anticipated capital credit retirements described in note 4.

Maturities of Long-term Obligations

Long-term obligations at December 31, 2001, mature as follows:

Year ending December 31	Sinking Fund Requirements	Sinking Fund Requirements	Principal maturities	Total
	2001 Series A Bond	First mortgage Bond	CoBank Mortgage Bonds	
2002	$0	$5,232,000	$5,177,945	$10,409,945
2003	0	0	865,821	865,821
2004	0	0	945,000	945,000
2005	0	0	11,031,393	11,031,393
2006	0	0	1,125,687	1,125,687
Thereafter	150,000,000	149,310,000	51,032,099	350,342,099
	$150,000,000	$154,542,000	$70,177,945	$374,719,945

All the sinking fund requirements for the 1991 Series A Bond due 2022, have been reflected as thereafter due to the refinancing in February 2002 discussed below.

The Association had an annual line of credit of $35,000,000 in 2001 and 2000 available with CoBank. The CoBank line of credit expires August 1, 2002, but carries an annual automatic renewal clause. At December 31, 2001, there was $11 million outstanding on this line of credit, which carried an interest rate of 3.75%. At December 31, 2000, there was $35 million outstanding on this line of credit, which carried an interest rate of 8.20%. In addition, the Association had an annual line of credit of $50,000,000 available at December 31, 2001 and 2000 with NRUCFC. At December 31, 2001, there was no outstanding balance on this line of credit. At December 31, 2000, there was $5 million outstanding on this line of credit, which carried an interest rate of 8.55%. The NRUCFC line of credit expires October 14, 2002.

Refinancing

On April 17, 2001, Chugach issued $150,000,000 of 2001 Series A Bond, for the purpose of retiring indebtedness outstanding under existing lines of credit and outstanding bonds, for capital expenditures and for general working capital. The lines of credit had an aggregate outstanding principal balance of $55,000,000, as of April 17, 2001, were renewable annually and bore interest at variable annual rates ranging from 7.55% to 7.80% at April 17, 2001. The variable-rate bonds retired had an aggregate outstanding principal balance of $72,500,000, as of April 17, 2001, would have matured in 2002 and bore interest at a variable rate that was 7.55% on April 17, 2001.

The 2001 Series A Bond will mature on March 15, 2011, and bear interest at 6.55% per annum. Interest will be paid semi-annually on March 15 and September 15 of each year commencing on September 15, 2001. The 2001 Series A Bond is secured by a first lien on substantially all of Chugach’s assets. The first lien will be automatically released when all bonds issued by Chugach prior to April 1, 2001, cease to be outstanding or their holders consent to conversion to unsecured status. Thereafter, the 2001 Series A Bond will be unsecured obligations, ranking equally with Chugach’s other unsecured and unsubordinated obligations.

On September 19, 1991, Chugach issued $314,000,000 of First Mortgage Bond, 1991 Series A (Bond), for purposes of repaying existing debt to the Federal Financing Bank and the Rural Electrification Administration (now Rural Utilities Services). Pursuant to Section 311 of the Rural Electrification Act, Chugach was permitted to prepay the REA debt at a discounted rate of approximately 9%, resulting in a discount of approximately $45,000,000 (note 12).

The bond maturing in 2002 (1991 Series A 2002 Bond) is subject to annual sinking fund redemption at 100% of the principal amount thereof, which commenced March 15, 1993. The bond maturing in 2022 (1991 Series A 2022 Bond) is subject to annual sinking fund redemption at 100% of the principal amount thereof commencing March 15, 2003. The Series A 2002 Bond is not subject to optional redemption. The Series A 2022 Bond is redeemable at the option of Chugach on any interest payment date at an initial redemption price commencing in 2002 of 109.140 of the principal amount thereof declining ratably to par on March 15, 2012. The Bond is secured by a first lien on substantially all of Chugach's assets. The Indenture prohibits outstanding short-term indebtedness (other than trade payables) in excess of 15% of Chugach's net utility plant and limits certain cash investments to specific securities.

In February 1999, Chugach reacquired $11,000,000 of the 1991 Series A 2022 Bond at a premium of 117.05. Total transaction costs, including accrued interest and premium, were $13,322,344.

In February 1999, Chugach reacquired $14,000,000 of the 1991 Series A 2022 Bond at a premium of 116.25. Total transaction costs, including accrued interest and premium, were $16,868,592.

In February 1999, Chugach reacquired $9,895,000 of the 1991 Series A 2022 Bond at a premium of 116.75. Total transaction costs, including accrued interest and premium, were $11,974,467.

In March 2000, Chugach reacquired $8,500,000 of the 1991 Series A 2022 Bond at a premium of 104.00. Total transaction cost, including accrued interest and premium, were $9,215,502.

In April 2000, Chugach reacquired $10,000,000 of the 1991 Series A 2022 Bond at a premium of 108.875. Total transaction costs, including accrued interest and premium, were $10,953,511.

In May 2001, Chugach reacquired $10,000,000 of its 1991 Series A 2022 Bond at a premium of 111.00. Total transaction costs, including accrued interest and premium, were $11,242,178.

In December 2001, Chugach reacquired $5,000,000 of its 1991 Series A 2022 Bond at a premium of 111.00. Total transaction costs, including accrued interest and premium, were $5,661,711.

The premiums paid are reflected as a regulatory asset and amortized over the life of the 2001 Series A Bond.

Treasury Rate Lock Agreements

On March 17, 1999, Chugach entered into a U.S. Treasury rate lock transaction with Lehman Brothers Financial Products Inc., (Lehman Brothers) for the purpose of taking advantage of favorable market interest rates in anticipation of refinancing Chugach's Series A Bond due 2022 on their optional call date (March 15, 2002). On May 11, 2001, Chugach terminated the $18.7 million 30-year U.S. Treasury portion of the Treasury Rate Lock Agreement in receipt of payment of $10,000 by Lehman. On December 7, 2001, Chugach terminated 50%, or $98.0 million, of the 10-year U.S. Treasury portion of the U.S. Treasury Rate Lock Agreement for a settlement payment of $4 million to Lehman Brothers. Chugach settled the remaining 50% of the 10-year U.S. Treasury portion of the Treasury Rate Lock Agreement for $3 million on December 19, 2001. The settlement payments were accounted for as regulatory assets. Chugach believes the regulatory assets will be recovered through rates, however, if the RCA does not approve this treatment, such amounts that are not deferrable under SFAS 133 would be charged off. As of December 31, 2001, the aggregate principal amount of the 1991 Series A Bond due 2022 was $149,310,000.

(7) Fair Value of Long-Term Obligations

The estimated fair values (in thousands) of the long-term obligations included in the financial statements at December 31 are as follows:

	2001		2000	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term obligations (including current installments)	$374,720	$390,320	$318,650	$335,155

Fair value estimates are dependent upon subjective assumptions and involve significant uncertainties resulting in variability in estimates with changes in assumptions.

(8) Employee Benefits

Employee benefits for substantially all employees are provided through the Alaska Electrical Trust and Alaska Hotel, Restaurant and Camp Employees Health and Welfare Trust Funds (union employees) and the National Rural Electric Cooperative Association (NRECA) Retirement and Security Program (nonunion employees). The Association makes annual contributions to the plans equal to the amounts accrued for pension expense. For the union plans, the Association pays a contractual hourly amount per union employee, which is based on total plan costs for all employees of all employers participating in the plan. In these master, multiple-employer plans, the accumulated benefits and plan assets are not determined or allocated separately to the individual employer. Costs for union plans were approximately $1,990,000 in 2001, $2,017,000 in 2000 and $1,832,000 in 1999. In 2001, 2000 and 1999, the Association contributed $1,397,000, $1,057,000 and $868,000, respectively, to the NRECA plan.

(9) Deferred Charges

Deferred charges consisted of the following at December 31:

	2001	2000
Debt issuance and reacquisition costs	$15,649,174	$5,399,282
Refurbishment of transmission equipment	243,828	253,087
Computer software and conversion	8,161,890	10,672,135
Studies	1,776,576	1,724,936
Business venture studies	531,416	562,435
Fuel supply negotiations	348,986	346,894
Major overhaul of steam generating unit	17,092	222,198
Environmental matters and other	272,899	261,892
Other regulatory deferred charges	1,704,432	0
	$28,706,293	$19,442,859

(10) Employee Representation

Approximately 72% of the Association's employees are represented by the International Brotherhood of Electrical Workers (IBEW). The various IBEW contracts expire on June 30, 2003.

(11) Deferred Credits

Deferred credits at December 31 consisted of the following:

	2001	2000
Regulatory liability – unamortized gain on reacquired debt	$15,629,104	$18,066,673
Refundable consumer advances for construction	2,163,944	1,771,302
Estimated initial installation costs for transformers and meters	447,378	323,821
Post retirement benefit obligation	405,700	286,200
New business venture	30,256	20,254
Other	771,409	957,089
	$19,447,791	$21,425,339

In conjunction with the refinancing described in note 6, the Association had recognized a gain of approximately $45,000,000. The APUC required the Association to pass through the gain to consumers in the form of reduced rates over a period equal to the life of the bonds using the effective interest method; consequently, the gain has been deferred for financial reporting purposes as required by SFAS 71. Approximately $1,231,000 of the deferred gain was amortized in 2001. Approximately $1,553,000 of the deferred gain was amortized in 2000. Approximately $1,215,000 of the deferred gain was amortized in 1999.

(12) Bradley Lake Hydroelectric Project

The Association is a participant in the Bradley Lake Hydroelectric Project (Bradley Lake). Bradley Lake was built and financed by the Alaska Energy Authority (AEA) through State of Alaska grants and $166,000,000 of revenue bonds. The Association and other participating utilities have entered into take-or-pay power sales agreements under which shares of the project capacity have been purchased and the participants have agreed to pay a like percentage of annual costs of the project (including ownership, operation and maintenance costs, debt service costs and amounts required to maintain established reserves). Under these take-or-pay power sales agreements, the participants have agreed to pay all project costs from the date of commercial operation even if no energy is produced. The Association has a 30.4% share of the project's capacity. The share of debt service exclusive of interest, for which the Association has guaranteed, is approximately $44,000,000. Under a worst-case scenario, the Association could be faced with annual expenditures of approximately $4.1 million as a result of its Bradley Lake take-or-pay obligations. Management believes that such expenditures, if any, would be recoverable through the fuel surcharge ratemaking process. Upon the default of a Bradley Lake participant, and subject to certain other conditions, AEA, through Alaska Industrial Development and Export Authority, is entitled to increase each participant's share of costs pro rata, to the extent necessary to compensate for the failure of another participant to pay its share, provided that no participant's percentage share is increased by more than 25%.

On April 6, 1999, AEA issued $59,485,000 of Power Revenue Refunding Bonds, Third Series, for the purpose of refunding $59,110,000 of the First Series Bonds. The refunded First Series Bonds were called on July 1, 1999. The refunding resulted in aggregate debt service payments over the next nineteen years in a total amount approximately $9,500,000 less than the debt service payments, which would be due on the refunded bonds. There was an economic gain of approximately $5,900,000. Economic gain is calculated as the net difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid.

On April 13, 1999, AEA issued $30,640,000 of Power Revenue Refunding Bonds, Fifth Series, for the purpose of refunding $28,910,000 of the First Series Bonds. The refunded First Series Bonds were called on July 1, 1999. The refunding resulted in aggregate debt service payments over the next twenty-three years in a total amount approximately $4,400,000 less than the debt service payments, which would be due on the refunded bonds. There was an economic gain of approximately $2,900,000.

On April 4, 2000, AEA issued $47,710,000 of Power Revenue Refunding Bonds, Fourth Series, for the purpose of refunding $46,235,000 of the Second Series Bonds. The refunded Second Series Bonds were called on July 1, 2000. The refunding resulted in aggregate debt service payments over the next twenty-two years in a total amount approximately $6,400,000 less than the debt service payment, which would be due on the refunded bonds. There was an economic gain of approximately $3,500,000.

The following represents information with respect to Bradley Lake at June 30, 2001 (the most recent date for which information is available). The Association's share of expenses was $3,929,614 in 2001, $3,696,829 in 2000 and $3,902,737 in 1999 and is included in purchased power in the accompanying financial statements.

(In thousands)	Total	Proportionate Share
Plant in service	$ 306,872	$ 93,289
Accumulated depreciation	(67,534)	(20,530)
Interest expense	9,467	2,878

Other electric plant in service represents the Association's share of a Bradley Lake transmission line financed internally and the Association's share of the Eklutna Hydroelectric Project, purchased in 1997 (note 14).

(13) Eklutna Hydroelectric Project

During October 1997, the ownership of the Eklutna Hydroelectric Project formally transferred from the Alaska Power Administration to the participating utilities. This group consists of the Association along with Matanuska Electric Association (MEA) and Municipal Light and Power (AML&P).

Other electric plant in service includes $1,957,742 representing the Association's share of the Eklutna Hydroelectric Plant. This balance will be amortized over the estimated life of the facility. During the transition phase and after the transfer of ownership, Chugach, MEA and AML&P have jointly operated the facility. Each participant contributes their proportionate share for operation, maintenance and capital improvement costs to the plant, as well as to the transmission line between Anchorage and the plant. Under net billing arrangements, Chugach then reimburses MEA for their share of the costs.

(14) Commitments and Contingencies

Contingencies

The Association is a participant in various legal actions, rate disputes, personnel matters and claims both for and against its interests. Management believes that the outcome of any such matters will not materially impact the Association's financial condition, results of operations or liquidity.

Long-Term Fuel Supply Contracts

The Association has entered into long-term fuel supply contracts from various producers at market terms. The current contracts will expire at the end of the currently committed volumes or the contract expiration dates of 2015 and 2025.

Significant Customers

The Association is the principal supplier of power under long-term wholesale power contracts with MEA and HEA. These contracts represented $57.7 million or 32.3% of operating revenues in 2001, $45.2 million or 28.5% in 2000 and $43.4 million or 30.4% in 1999. These contracts will expire in 2014.

Cooper Lake Hydroelectric Plant

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 various agencies and approved by FERC. In 2000, Chugach sampled sediments and fish collected from Kenai Lake and other waters. While extremely low levels of PCBs were found in some sediment samples taken near the plant, no pathway from sediment to fish was established. Additional sediment sampling and analysis in this area is being performed. While the presence of PCBs in fish did not reveal amounts above background levels, Chugach has conducted additional sampling and analysis of fish in Kenai Lake and other waters and is preparing a report to FERC, analyzing the results of the sampling. 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 RCA has issued an order to Chugach allowing prudently incurred remediation costs at Cooper Lake to be recovered through rates, however, the RCA has not approved the final recovery amount in this matter and will review these costs as part of the 2000 test year rate case.

Regulatory Cost Charge

In 1992 the State of Alaska Legislature passed legislation authorizing the Department of Revenue to collect a regulatory cost charge from utilities in order to fund the APUC. The tax is assessed on all retail consumers and is based on kilowatt-hour (kWh) consumption. The Regulatory Cost Charge has decreased since its inception (November 1992) from an initial rate of $.000626 per kWh to the current rate of $.000360, effective October 1, 2001.

Legal Proceedings

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

This action was 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 Company's sale of power to MEA during that time. MEA asserted the Company breached that contract by failing to provide a variety of kinds of information, by failing to properly manage the Company's long-term debt, and by failing to bring its base rate action to the Joint Rates Committee before presentation to the RCA. All of MEA's claims have been dismissed. MEA has indicated that it intends to appeal to the Alaska Supreme Court, at a minimum, the Superior Court's dismissal of its financial mismanagement claim.

(15) Recent Accounting Pronouncements

Chugach was required to adopt SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment of FASB Statement No. 133*, effective January 1, 2001. This new standard requires all derivative financial instruments to be reflected on the balance sheet. The adoption resulted in Chugach establishing a liability for the settlement of U.S. Treasury Rate Lock Agreements.

In July 2001, the Financial Accounting Standards Board issued Statement 141, Business Combinations, and Statement 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated or completed after June 30, 2001. Statement 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually. The provisions of Statement 142 are required to be applied starting with fiscal years beginning after December 15, 2001. Management believes the adoption of Statement 141 and 142 will have no impact on our financial statements.

In August 2001, the Financial Accounting Standards Board issued Statement 143, Accounting for Asset Retirement Obligations. Statement 143 requires an enterprise to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets and an increase to the carrying amount of the related long-lived asset, which is depreciated over the life of the asset. Enterprises are required to adopt Statement 143 for fiscal years beginning after June 15, 2002. Management believes the adoption of Statement 143 will have no impact on our financial statements.

In October 2001, the Financial Accounting Standards Board issued Statement 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Statement 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While Statement 144 supersedes FASB Statement 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, it retains many of the fundamental provisions of that Statement, and broadens the presentation of discontinued operations to include more disposal transactions. Statement 144 also supersedes the accounting and reporting provisions of Accounting Principles Board (APB) Opinion 30, Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business. However, it retains the requirement in Opinion 30 to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. Statement 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. Management believes the adoption of Statement 144 will have no impact on our financial statements.

(16) Segment Reporting

The Association had divided its operations into two reportable segments: Energy and Internet service. The energy segment derives its revenues from sales of electricity to residential, commercial and wholesale customers, while the Internet segment derives its revenues from provision of residential and commercial internet services and products. The reporting segments follow the same accounting policies used for the Association's financial statements and described in the summary of significant accounting policies. Management evaluates a segment's performance based upon profit or loss from operations. Jointly used assets are allocated by percentage of reportable segment usage and centrally incurred costs are allocated using factors developed by the Association, which are patterned upon usage. The following is a tabulation of business segment information for the years ended December 31:

	2001	2000	1999
Operating Revenues			
Internet	$196,051	$1,170,448	$374,296
Energy	178,399,163	157,370,666	142,270,031
Total operating revenues	178,595,214	158,541,114	142,644,327
Assignable Margins			
Internet	(165,273)	(1,505,518)	(1,293,388)
Energy	5,704,409	11,185,296	10,960,822
Total assignable margins	5,539,136	9,679,778	9,667,434
Assets			
Internet	0	550,275	564,477
Energy	572,178,712	539,195,705	517,791,060
Total assets	572,178,712	539,745,980	518,355,537
Capital Expenditures			
Internet	0	163,565	508,082
Energy	36,408,253	46,566,478	41,376,641
Total capital expenditures	36,408,253	46,730,043	41,884,723

As of March 6, 2001, with an effective date of March 20, 2001, Chugach sold the bulk of it's internet service provider assets related to dial-up services (excluding DSL services) to GCI Communication Corporation. The aggregate purchase price was $759,049 at closing, plus an additional amount of $70,075, which was based on number of subscriber accounts retained during the ninety-day transition period following closing. These transactions resulted in a loss of $258,073.

(17) Quarterly Results of Operations (unaudited)

2001 Quarter Ended

	Dec. 31	Sept. 30	June 30	March 31
Operating Revenue	$52,194,258	$42,186,684	$39,018,695	$45,195,577
Operating Expense	43,744,371	35,591,202	32,788,603	35,372,545
Net Interest	6,820,907	6,680,125	7,037,810	6,690,671
Net Operating Margins	1,628,979	(84,643)	(807,718)	3,132,361
Non-Operating Margins	931,967	126,903	222,619	388,668
Assignable Margins	$2,560,946	$42,260	($585,099)	$3,521,029

2000 Quarter Ended

	Dec. 31	Sept. 30	June 30	March 31
Operating Revenue	$44,282,842	$37,201,515	$36,185,683	$40,871,074
Operating Expense	36,351,256	31,192,307	29,183,255	29,703,456
Net Interest	6,384,593	6,078,364	6,114,471	6,140,861
Net Operating Margins	1,546,993	(69,156)	887,957	5,026,757
Non-Operating Margins	1,450,456	220,261	267,174	349,336
Assignable Margins	$2,997,449	$151,105	$1,155,131	$5,376,093

(18) Subsequent Events

Refinancing

On February 1, 2002, Chugach issued $120,000,000 of 2002 Series A Bond and $60,000,000 of 2002 Series B Bond for the purpose of redeeming $149.3 million in principal amount of the 1991 Series A Bond due 2022, to pay the redemption premium on the 1991 Series A Bond due 2022 in the amount of $13.6 million and for general working capital. The 2002 Series A Bond will mature on February 1, 2012, and bear interest at 6.20% per annum. Interest will be paid semi-annually on February 1 and August 1 of each year commencing on August 1, 2002. Chugach may not redeem the 2002 Series A Bond prior to maturity.

The 2002 Series B Bond (the "Auction Rate Bond") will mature on February 1, 2012. The Auction Rate Bond will bear interest from the date of original delivery to and through February 27, 2002, at a rate established by the underwriter prior to their date of delivery and afterwards, will initially bear interest at the rate set for 28-day auction periods. The initial auction date will be February 27, 2002. The applicable interest rate for any 28-day auction period will be the term rate established by the auction agent based on the terms of the auction. The Auction Rate Bond may be converted, in our discretion, to a daily, seven-day, 35-day, three-month or a semi-annual period or a flexible auction period. The Auction Rate Bond is subject to optional and mandatory redemption and to mandatory tender for purchase prior to maturity in the manner and at the times described herein. Bankers Trust Company will act as the auction agent and J.P. Morgan Securities Inc., will act as the initial broker-dealer for the Auction Rate Bond.

Payment of the 2002 Series A Bond and the Auction Rate Bond (collectively the "Bonds") initially will be secured by a first lien on substantially all of Chugach's tangible and some intangible properties. The first lien will be automatically released when all bonds issued by Chugach prior to April 1, 2001, cease to be outstanding or their holders consent to the release of the lien. After that time, the Bonds will be unsecured obligations, ranking equally with our other unsecured and unsubordinated obligations. In addition, we will be limited in our ability to secure obligations for borrowed money or the deferred purchase price of property after that time unless Chugach equally and ratably secures our outstanding indebtedness subject to the Indenture governing the Bonds.

Treasury Rate Lock Agreements

On January 14, 2002, Chugach entered into an 18-day rate lock agreement with JP Morgan on the $120 million 10-year term bond of the proposed 2002 financing based on the 10-year treasury issued August 15, 2001, that was trading at 4.877%. That rate, along with a 0.041% U.S. note fee, set a benchmark rate for the transaction at 4.918%. Chugach terminated the rate lock on February 1, 2002, which generated a payment to Chugach of $1.2 million. The settlement payment will be reflected as an offset to regulatory assets.

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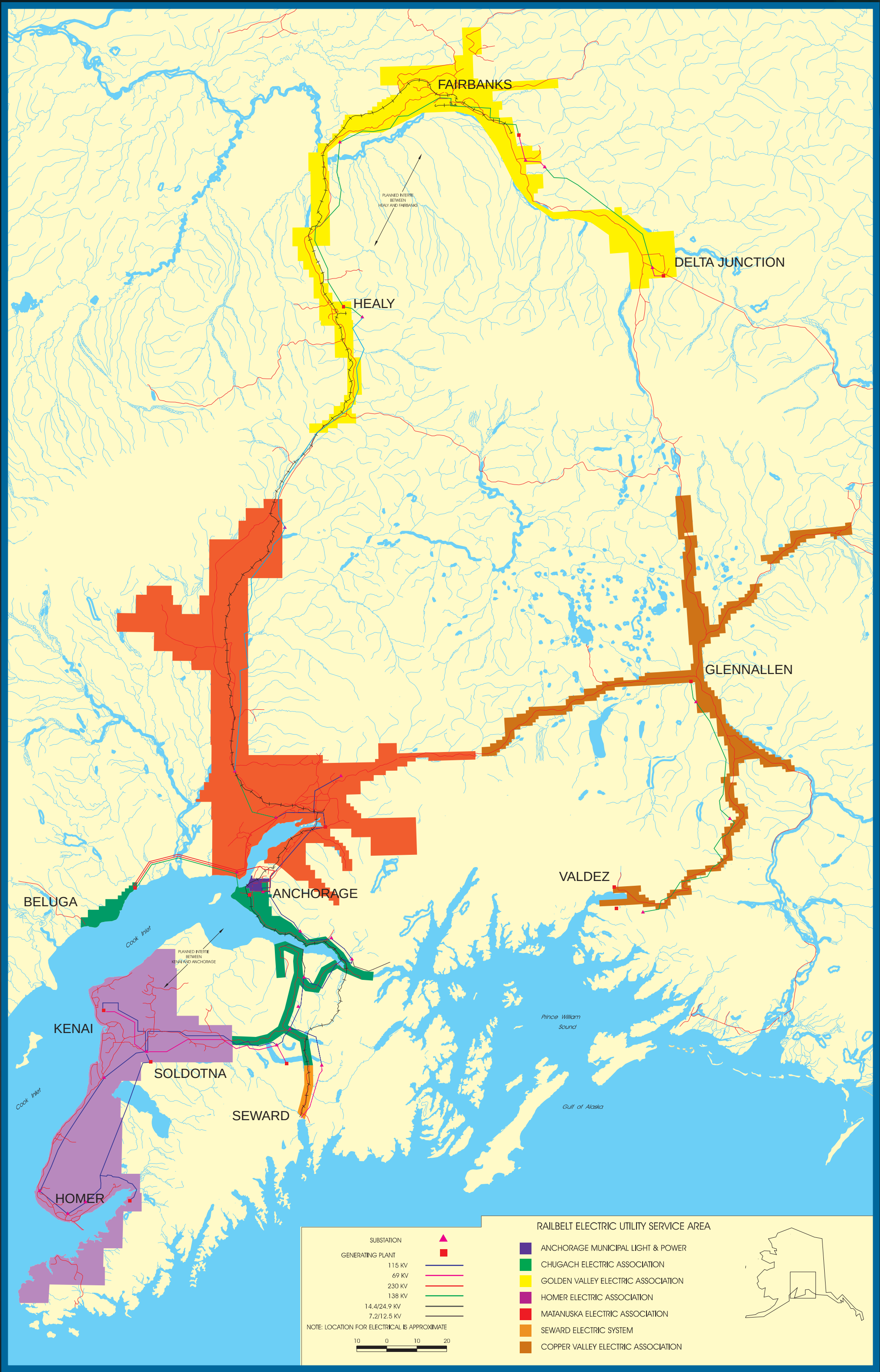
Chugach installed additional equipment to monitor the winds on Fire Island. Three temporary structures will collect wind and weather information around the clock for up to 18 months. Chugach has been investigating the idea of adding wind power to the grid since 1997.

THE RAILBELT SYSTEM



Chugach power flows to nearly three-fourths of Alaska's population. Chugach serves more than 73,000 metered retail locations in a service territory extending from Anchorage to the Northern Kenai Peninsula, and from Whittier on Prince William Sound to Tyonek on the west side of Cook Inlet. Chugach regularly provides power for Alaskans from Homer to Fairbanks through wholesale and economy energy sales to Homer Electric Association, the City of Seward, Matanuska Electric Association and Golden Valley Electric Association. On occasion, Chugach sells or buys economy energy to or from Anchorage Municipal Light & Power.

Chugach has 527.1 megawatts of installed generation capacity at five power plants. Chugach operates 2,012 miles of energized line, made up of 402 miles of transmission line, 930 miles of overhead distribution line and 680 miles of underground distribution line.

Chugach's 2001 system peak load of 452 megawatts occurred between 6 and 7 p.m. on Dec. 17. Power sales for the year totaled 2.27 billion kilowatt-hours. Chugach finished 2001 with total revenues of $180.2 million, expenses of $174.7 million and margins of $5.5 million.