

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

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.

(Exact name of registrant as specifies in its charter)

State of Alaska

(State or other jurisdiction of incorporation or organization)

5601 Electron Drive, Anchorage, AK

(Address of principal executive offices)

92-0014224

(I.R.S. Employer Identification No.)

99518

(Zip Code)

(907) 563-7494

(Registrant's telephone number, including area code)

None

(Former name, former address, and former fiscal year if changed since last report)

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

(Note: The registrant is a voluntary filer and not subject to the filing requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934. Although not subject to these filing requirements, the registrant has filed all reports that would have been required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months had the registrant been subject to such requirements.)

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

NONE

CHUGACH ELECTRIC ASSOCIATION, INC.
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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. It is suggested that these statements be read in conjunction with the audited financial statements for Chugach Electric Association Inc. (Chugach) for the year ended December 31, 2017, filed as part of Chugach's annual report on Form 10-K. 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 the unaudited financial statements of Chugach as of and for the quarter ended June 30, 2018, follow.

Chugach Electric Association, Inc.
Consolidated Balance Sheets
(Unaudited)

Assets	June 30, 2018	December 31, 2017
Utility plant:		
Electric plant in service	\$ 1,207,649,476	\$ 1,205,092,224
Construction work in progress	16,862,505	17,952,573
Total utility plant	1,224,511,981	1,223,044,797
Less accumulated depreciation	(519,871,345)	(515,496,312)
Net utility plant	704,640,636	707,548,485
Other property and investments, at cost:		
Nonutility property	76,889	76,889
Investments in associated organizations	8,566,395	8,980,410
Special funds	1,843,468	1,466,010
Restricted cash equivalents	748,953	1,028,758
Total other property and investments	11,235,705	11,552,067
Current assets:		
Cash and cash equivalents	4,689,826	5,485,631
Special deposits	54,300	54,300
Restricted cash equivalents	556,783	687,370
Marketable securities	10,990,577	11,420,900
Fuel cost under-recovery	1,670,979	4,921,794
Accounts receivable, net	25,691,910	35,680,680
Materials and supplies	16,152,897	15,291,095
Fuel stock	8,999,951	6,901,994
Prepayments	3,216,623	4,953,170
Other current assets	180,598	257,193
Total current assets	72,204,444	85,654,127
Other non-current assets:		
Deferred charges, net	33,522,024	32,764,065
Total other non-current assets	33,522,024	32,764,065
Total assets	\$ 821,602,809	\$ 837,518,744

Chugach Electric Association, Inc.
Consolidated Balance Sheets (continued)
(Unaudited)

Liabilities, Equities and Margins	June 30, 2018	December 31, 2017
Equities and margins:		
Memberships	\$ 1,732,662	\$ 1,719,154
Patronage capital	174,834,061	172,928,887
Other	14,798,475	14,653,253
Total equities and margins	191,365,198	189,301,294
Long-term obligations, excluding current installments:		
Bonds payable	398,416,664	421,833,331
Notes payable	35,568,000	37,164,000
Less unamortized debt issuance costs	(2,546,476)	(2,669,485)
Total long-term obligations	431,438,188	456,327,846
Current liabilities:		
Current installments of long-term obligations	26,608,667	26,608,667
Commercial paper	53,000,000	50,000,000
Accounts payable	10,003,134	7,420,279
Consumer deposits	5,084,010	5,335,896
Accrued interest	5,683,092	5,991,619
Salaries, wages and benefits	8,004,309	7,017,131
Fuel	7,810,650	9,913,781
Other current liabilities	8,598,707	7,079,821
Total current liabilities	124,792,569	119,367,194
Other non-current liabilities:		
Deferred compensation	1,318,295	1,229,294
Other liabilities, non-current	730,506	531,630
Deferred liabilities	1,214,613	1,249,390
Patronage capital payable	8,798,077	8,798,077
Cost of removal obligation / asset retirement obligation	61,945,363	60,714,019
Total other non-current liabilities	74,006,854	72,522,410
Total liabilities, equities and margins	\$ 821,602,809	\$ 837,518,744

See accompanying notes to financial statements.

Chugach Electric Association, Inc.
Consolidated Statements of Operations
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Operating revenues	\$ 45,988,583	\$ 51,554,650	\$ 102,045,861	\$ 112,348,132
Operating expenses:				
Fuel	12,554,088	17,476,837	31,041,678	38,196,129
Production	4,183,286	4,283,746	8,607,205	8,240,717
Purchased power	4,212,015	4,153,184	8,294,903	8,649,907
Transmission	1,741,184	1,400,259	3,729,188	3,050,058
Distribution	3,885,589	3,246,879	7,621,549	6,287,814
Consumer accounts	1,651,942	1,572,888	3,517,651	3,097,089
Administrative, general and other	5,870,304	6,800,539	11,415,273	13,110,605
Depreciation and amortization	7,394,219	9,431,420	14,737,296	18,956,671
Total operating expenses	\$ 41,492,627	\$ 48,365,752	88,964,743	99,588,990
Interest expense:				
Long-term debt and other	5,501,411	5,565,158	11,116,146	11,116,509
Charged to construction	(67,498)	(30,127)	(124,861)	(60,999)
Interest expense, net	\$ 5,433,913	\$ 5,535,031	10,991,285	11,055,510
Net operating margins	\$ (937,957)	\$ (2,346,133)	2,089,833	1,703,632
Nonoperating margins:				
Interest income	191,113	156,109	350,696	306,831
Allowance for funds used during construction	28,125	12,611	51,998	25,664
Capital credits, patronage dividends and other	(108,815)	33,196	(192,101)	81,298
Total nonoperating margins	\$ 110,423	\$ 201,916	210,593	413,793
Assignable margins	\$ (827,534)	\$ (2,144,217)	\$ 2,300,426	\$ 2,117,425

See accompanying notes to financial statements.

Chugach Electric Association, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

	Six months ended June 30,	
	2018	2017
Cash flows from operating activities:		
Assignable margins	\$ 2,300,426	\$ 2,117,425
Adjustments to reconcile assignable margins to net cash provided by operating activities:		
Depreciation and amortization	14,737,296	18,956,671
Amortization and depreciation cleared to operating expenses	2,517,243	2,262,909
Allowance for funds used during construction	(51,998)	(25,664)
Write off of inventory, deferred charges and projects	127,681	367,217
Other	208,450	(84,353)
(Increase) decrease in assets:		
Accounts receivable, net	9,255,648	4,054,506
Fuel cost under-recovery	3,250,815	(1,973,718)
Materials and supplies	(886,757)	2,267,603
Fuel stock	(2,097,957)	(2,443,387)
Prepayments	1,736,547	(1,571,069)
Other assets	76,595	108,582
Deferred charges	(2,458,074)	(600,451)
Increase (decrease) in liabilities:		
Accounts payable	1,280,213	(507,757)
Consumer deposits	(251,886)	(117,854)
Fuel cost over-recovery	0	(3,824,722)
Accrued interest	(308,527)	110,678
Salaries, wages and benefits	987,178	300,444
Fuel	(2,103,131)	2,695,984
Other current liabilities	(94,221)	27,787
Deferred liabilities	(3,698)	0
Net cash provided by operating activities	28,221,843	22,120,831
Cash flows from investing activities:		
Return of capital from investment in associated organizations	414,012	370,010
Investment in special funds	(296,047)	0
Investment in marketable securities and investments-other	(1,423,399)	(1,156,286)
Proceeds from the sale of marketable securities	1,672,465	0
Extension and replacement of plant	(9,708,321)	(15,383,495)
Net cash used in investing activities	(9,341,290)	(16,169,771)
Cash flows from financing activities:		
Payments for debt issue costs	0	(184,778)
Net increase (decrease) in short-term obligations	3,000,000	(26,200,000)
Proceeds from long-term obligations	0	40,000,000
Repayments of long-term obligations	(25,012,667)	(23,240,667)
Memberships and donations received	158,730	151,663
Retirement of patronage capital and estate payments	(395,252)	(363,758)
Net receipts on consumer advances for construction	2,162,439	2,099,920
Net cash used in financing activities	(20,086,750)	(7,737,620)
Net change in cash, cash equivalents, and restricted cash equivalents	(1,206,197)	(1,786,560)
Cash, cash equivalents, and restricted cash equivalents at beginning of period	7,201,759	6,383,217
Cash, cash equivalents, and restricted cash equivalents at end of period	\$ 5,995,562	\$ 4,596,657
Supplemental disclosure of non-cash investing and financing activities:		
Cost of removal obligation	\$ 1,231,344	\$ 1,486,311
Extension and replacement of plant included in accounts payable	\$ 2,470,626	\$ 1,492,872
Patronage capital retired/net transferred and included in other current liabilities	\$ 2,000,000	\$ 0
Supplemental disclosure of cash flow information - interest expense paid, net of amounts capitalized	\$ 10,725,424	\$ 10,359,194

See accompanying notes to financial statements.

Chugach Electric Association, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

1. PRESENTATION OF FINANCIAL INFORMATION

The accompanying unaudited interim financial statements include the accounts of Chugach Electric Association, Inc. (Chugach) and have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by United States of America generally accepted accounting principles (U.S. GAAP) for complete financial statements. They should be read in conjunction with Chugach's audited financial statements for the year ended December 31, 2017, filed as part of Chugach's annual report on Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for interim periods are not necessarily indicative of the results that may be expected for an entire year or any other period.

2. DESCRIPTION OF BUSINESS

Chugach is one of the largest electric utilities in Alaska. Chugach is engaged in the generation, transmission and distribution of electricity in the Anchorage and upper Kenai Peninsula areas. Chugach is on an interconnected regional electrical system referred to as the Alaska 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's retail and wholesale members are the consumers of the electricity sold. Chugach supplies much of the power requirements of the City of Seward (Seward), as a wholesale customer. Periodically, Chugach sells available generation, in excess of its own needs, to Matanuska Electric Association, Inc. (MEA), Homer Electric Association, Inc. (HEA), Golden Valley Electric Association, Inc. (GVEA) and Anchorage Municipal Light & Power (ML&P).

Chugach was organized as an Alaska electric cooperative in 1948 and 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 reserves. Chugach is subject to the regulatory authority of the Regulatory Commission of Alaska (RCA).

Chugach has three Collective Bargaining Agreements (CBA's) with the International Brotherhood of Electrical Workers (IBEW), representing approximately 70% of its workforce. Chugach also has an agreement with the Hotel Employees and Restaurant Employees (HERE). All three IBEW CBA's are effective through June 30, 2021. The three CBA's provide for wage increases in all years and include health and welfare premium cost sharing provisions. The HERE contract is effective through June 30, 2021, and provides for wage, pension contribution, and health and welfare contribution increases in all years.

Chugach Electric Association, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

3. SIGNIFICANT ACCOUNTING POLICIES

a. Management Estimates

In preparing the financial statements in conformity with U.S. GAAP, the management of Chugach 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. Estimates include allowance for doubtful accounts, workers' compensation liability, deferred charges and liabilities, unbilled revenue, estimated useful life of utility plant, cost of removal and asset retirement obligation (ARO), and remaining proved Beluga River Unit (BRU) reserves. Actual results could differ from those estimates.

b. Regulation

The accounting records of Chugach conform to the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission (FERC). Chugach meets the criteria, and accordingly, follows the accounting and reporting requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, "Topic 980 - Regulated Operations." FASB ASC 980 provides for the recognition of regulatory assets and liabilities as allowed by regulators for costs or credits that are reflected in current rates or are considered probable of being included in future rates. Chugach's regulated rates are established to recover all of the specific costs of providing electric service. In each rate filing, rates are set at levels to recover all of the specific allowable costs and those rates are then collected from retail and wholesale customers. The regulatory assets or liabilities are then reduced as the cost or credit is reflected in earnings and our rates.

c. Income Taxes

Chugach is exempt from federal income taxes under the provisions of Section 501(c)(12) of the Internal Revenue Code and for the six month periods ended June 30, 2018 and 2017 was in compliance with that provision.

Chugach applies a more-likely-than-not recognition threshold for all tax uncertainties. FASB ASC 740, "Topic 740 – Income Taxes," only allows the recognition of those tax benefits that have a greater than 50 percent likelihood of being sustained upon examination by the taxing authorities. Chugach's management reviewed Chugach's tax positions and determined there were no outstanding or retroactive tax positions that were not highly certain of being sustained upon examination by the taxing authorities.

Chugach Electric Association, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

d. Cash, Cash Equivalents, and Restricted Cash Equivalents

The following table provides a reconciliation of cash, cash equivalents, and restricted cash equivalents reported within the Consolidated Balance Sheet that sum to the total of the same such amounts shown in the Consolidated Statements of Cash Flows.

	June 30, 2018	December 31, 2017
Cash and cash equivalents	\$ 4,689,826	\$ 5,485,631
Restricted cash equivalents	556,783	687,370
Restricted cash equivalents included in other property and investments	748,953	1,028,758
Total cash, cash equivalents and restricted cash equivalents shown in the consolidated statements of cash flows	\$ 5,995,562	\$ 7,201,759

Restricted cash equivalents include funds on deposit for future workers' compensation claims.

e. Marketable Securities

Chugach's marketable securities consist of bond mutual funds, corporate bonds, and certificates of deposit with a maturity less than 12 months, classified as trading securities, reported at fair value with gains and losses in earnings. Net gains on marketable securities are included in nonoperating margins – capital credits, patronage dividends and other, and are summarized as follows:

	Six months ended June 30, 2018	Six months ended June 30, 2017
Net gains and (losses) recognized during the period on trading securities	\$ (181,257)	\$ 76,124
Less: Net gains and (losses) recognized during the period on trading securities <i>sold</i> during the period	(77,597)	0
Unrealized gains and (losses) recognized during the reporting period on trading securities <i>still held</i> at the reporting date	\$ (103,660)	\$ 76,124

f. Accounts Receivable

Included in accounts receivable are amounts invoiced to ML&P for their proportionate share of current Southcentral Power Project (SPP) costs, which amounted to \$1.7 million and \$1.3 million at June 30, 2018, and December 31, 2017, respectively. Accounts receivable also included \$1.1 million from BRU operations primarily associated with gas sales to ENSTAR Natural Gas Company (ENSTAR) at December 31, 2017, at which time this contract expired.

Chugach Electric Association, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

g. Fuel Stock

Fuel Stock is the weighted average cost of fuel injected into the Cook Inlet Natural Gas Storage (CINGSA). Chugach's fuel balance in storage amounted to \$9.0 million and \$6.9 million at June 30, 2018, and December 31, 2017, respectively.

h. Investments in Associated Organizations

Chugach's investments in associated organizations are considered equity securities without readily determinable fair values, and as such are measured at cost minus impairment, if any. There were no impairments of these investments recognized during the six months ended June 30, 2018 or 2017.

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

a. Nature of goods and services

The following is a description of the contracts and customer classes from which Chugach generates revenue.

i. Energy Sales

Energy sales revenues are Chugach's primary source of revenue, representing approximately 94.7% and 92.6% of total operating revenue during the six months ended June 30, 2018 and 2017, respectively. Energy sales revenues are recognized upon delivery of electricity, based on billing rates authorized by the RCA, which are applied to customers' usage of electricity. Chugach's rates are established, in part, on test period sales levels that reflect actual operating results. Chugach's tariffs include provisions for the recovery of gas costs according to gas supply contracts and costs associated with the BRU operations, as well as purchased power costs.

Expenses associated with electric services include fuel purchased from others and produced from Chugach's interest in the BRU, both of which are used to generate electricity, as well as power purchased from others. Chugach is authorized by the RCA to recover fuel and purchased power costs through the fuel and purchased power adjustment process, which is adjusted quarterly to reflect increases and decreases of such costs. The amount of fuel and purchased power revenue recognized is equal to actual fuel and purchased power costs. We recognize differences between projected recoverable fuel and purchased power costs and amounts actually recovered through rates. The fuel cost under/over recovery on our Balance Sheet represents the net accumulation of any under- or over-collection of fuel and purchased power costs. Fuel cost under-recovery will appear as an asset on our Balance Sheet and will be collected from our members in subsequent periods. Conversely, fuel cost over-recovery will appear as a liability on our Balance Sheet and will be refunded to our members in subsequent periods.

Chugach Electric Association, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

Customer Class	Nature, timing of satisfaction of performance obligations, and significant payment terms
Retail	Retail energy customers can have up to four components of monthly billing included in revenue – energy, fuel and purchased power, demand and customer charge. The energy rate and fuel and purchased power surcharge are applied by kilowatt hour (kWh) usage. The demand charge is applied by kilowatt (kW). The customer charge is a monthly amount applied by meter.
Wholesale	Classified as firm energy sales. Four components of monthly billing are included in revenue – energy, fuel and purchased power, demand and customer charge. The energy rate and fuel and purchased power surcharge are applied by kWh usage. The demand charge is applied by kW. The customer charge is a monthly amount applied by meter.
Economy	Classified as non-firm energy sales. Three components of monthly billing are included in revenue – fuel, operations and maintenance, and margin. The actual fuel costs are billed per thousand cubic feet (Mcf) used. The operations and maintenance and margin rates are applied by megawatt hour (MWh) usage.

Payment on energy sales invoices to all customer classes above are due within 15 to 30 days.

Chugach calculates unbilled revenue, for residential and commercial customers, at the end of each month to ensure the recognition of a full month of revenue. Chugach accrued \$7,749,823 and \$7,887,991 of unbilled retail revenue at June 30, 2018 and 2017, respectively, which is included in accounts receivable on the Balance Sheet. Revenue derived from wholesale and economy customers is recorded from metered locations on a calendar month basis, so no estimation is required.

The collectability of our energy sales is very high with typically 0.10% written off as bad debt expense, adjusted annually.

There were no costs associated with obtaining any of these contracts, therefore no asset was recognized or recorded associated with obtaining any contract.

ii. Wheeling

Wheeling represented 4.1% and 3.5% of our revenue during the six months ended June 30, 2018 and 2017, respectively. Wheeling was recorded through the wheeling of energy across Chugach’s transmission lines at rates set by utility tariff and approved by the RCA. The rates are applied to MWh of energy wheeled. The collectability of wheeling is very high, with no adjustment required.

Chugach Electric Association, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

iii. Gas Sales

There were no gas sales during the six months ended June 30, 2018. Gas sales represented 2.9% of our revenue during the six months ended June 30, 2017, and were recorded through the transfer of natural gas and billed monthly, using Mcf as the unit of measure, and the RCA approved gas transfer price, revised annually. The collectability of gas sales was very high, with no adjustment required.

iv. Other Miscellaneous Services

Other miscellaneous services consist of various agreements including dispatch service and gas transfer agreements, pole rentals and microwave bandwidth. Revenue from these agreements is billed monthly and represented 1.2% and 1.0% of our total operating revenue during the six months ended June 30, 2018 and 2017, respectively. The revenue recognized from these agreements is recorded as the service is provided over a period of time. The collectability of these agreements is very high, with no adjustment required.

b. Disaggregation of Revenue

The table below details the revenue recognized by customer class and disaggregates base revenue from fuel and purchased power revenue recognized in the Consolidated Statement of Operations for the second quarter of 2018 and 2017 (in millions).

	Base Rate Sales Revenue			Fuel and Purchased Power Revenue			Total Revenue		
	2018	2017	% Variance	2018	2017	% Variance	2018	2017	% Variance
Retail	\$ 27.9	\$ 28.3	(1.4%)	\$ 14.0	\$ 17.0	(17.6%)	\$ 41.9	\$ 45.3	(7.5%)
Wholesale	\$ 0.5	\$ 0.5	0.0 %	\$ 0.8	\$ 0.9	(11.1%)	\$ 1.3	\$ 1.4	(7.1%)
Economy	\$ 0.0	\$ 0.1	(100.0%)	\$ 0.0	\$ 0.4	(100.0%)	\$ 0.0	\$ 0.5	(100.0%)
Total Energy Sales	\$ 28.4	\$ 28.9	(1.7%)	\$ 14.8	\$ 18.3	(19.1%)	\$ 43.2	\$ 47.2	(8.5%)
Wheeling	\$ 0.0	\$ 0.0	0.0 %	\$ 2.2	\$ 2.1	4.8 %	\$ 2.2	\$ 2.1	4.8 %
Gas Sales	\$ 0.0	\$ 0.0	0.0 %	\$ 0.0	\$ 1.7	(100.0%)	0.0	1.7	(100.0%)
Other	\$ 0.6	\$ 0.5	20.0 %	\$ 0.0	\$ 0.0	0.0 %	\$ 0.6	\$ 0.5	20.0 %
Total Miscellaneous	\$ 0.6	\$ 0.5	20.0 %	\$ 2.2	\$ 3.8	(42.1%)	\$ 2.8	\$ 4.3	(34.9%)
Total Revenue	\$ 29.0	\$ 29.4	(1.4%)	\$ 17.0	\$ 22.1	(23.1%)	\$ 46.0	\$ 51.5	(10.7%)

Chugach Electric Association, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

The table below details the revenue recognized by customer class and disaggregates base revenue from fuel and purchased power revenue recognized in the Consolidated Statement of Operations for the six months ended June 30, 2018, and 2017 (in millions).

	Base Rate Sales Revenue			Fuel and Purchased Power Revenue			Total Revenue		
	2018	2017	% Variance	2018	2017	% Variance	2018	2017	% Variance
Retail	\$ 60.2	\$ 62.2	(3.2%)	\$ 33.8	\$ 36.5	(7.4%)	\$ 94.0	\$ 98.7	(4.8%)
Wholesale	\$ 1.0	\$ 1.1	(9.1%)	\$ 1.6	\$ 1.8	(11.1%)	\$ 2.6	\$ 2.9	(10.3%)
Economy	\$ 0.0	\$ 0.2	(100.0%)	\$ 0.0	\$ 2.2	(100.0%)	\$ 0.0	\$ 2.4	(100.0%)
Total Energy Sales	\$ 61.2	\$ 63.5	(3.6%)	\$ 35.4	\$ 40.5	(12.6%)	\$ 96.6	\$ 104.0	(7.1%)
Wheeling	\$ 0.0	\$ 0.0	0.0 %	\$ 4.2	\$ 4.0	5.0 %	\$ 4.2	\$ 4.0	5.0 %
Gas Sales	\$ 0.0	\$ 0.0	0.0 %	\$ 0.0	\$ 3.3	(100.0%)	0.0	3.3	(100.0%)
Other	\$ 1.2	\$ 1.0	20.0 %	\$ 0.0	\$ 0.0	0.0 %	\$ 1.2	\$ 1.0	20.0 %
Total Miscellaneous	\$ 1.2	\$ 1.0	20.0 %	\$ 4.2	\$ 7.3	(42.5%)	\$ 5.4	\$ 8.3	(34.9%)
Total Revenue	\$ 62.4	\$ 64.5	(3.3%)	\$ 39.6	\$ 47.8	(17.2%)	\$ 102.0	\$ 112.3	(9.2%)

c. Contract Balances

The table below provides information about contract receivables, contract assets and contract liabilities.

	June 30, 2018	December 31, 2017
Contract receivables, included in accounts receivable	\$ 23,398,897	\$ 31,215,494
Consumer deposits	3,500,298	3,754,416
Contract asset	1,670,979	4,921,794
Contract liabilities	1,583,712	1,581,481

Contract receivables represent amounts receivable from retail, wholesale, economy, wheeling, and BRU customers. Consumer deposits represent the deposits required of certain customers to receive electric service and are refundable payments not recognized in revenue. When the customer either terminates service or has established a positive payment history, the deposit is either returned to the customer in cash or applied to the customer's account.

The contract asset consists of the fuel cost under-recovery and represents the under-collection of fuel and purchased power costs through the fuel and purchased power adjustment process, which will be collected from customers in the following quarter.

Contract liabilities consist of credit balances and fuel cost over-recovery. Credit balances represent the prepaid accounts of retail customers and are recognized in revenue as the customer uses electric service. Fuel cost over-recovery represents the over-collection of fuel and purchased power costs through the fuel and purchased power adjustment process, which will be refunded to customers through lower rates in the following quarter.

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Significant changes in the contract assets and liabilities balances during the six months ended June 30, 2018, are as follows:

	Contract assets Increase (decrease)	Contract liabilities (Increase) decrease
Revenue recognized that was included in the contract liability balance at the beginning of the period	\$ 0	\$ 1,155,677
Revenue recognized and transferred from contract asset at the beginning of the period	(4,921,794)	0
Cash received, excluding amounts recognized as revenue during the period	1,670,979	(1,157,908)
Net change	\$ (3,250,815)	\$ (2,231)

d. Transaction Price Allocated to Remaining Performance Obligations

The table below includes estimated revenue to be recognized during the remainder of 2018 and in 2019 related to performance obligations that are unsatisfied (or partially unsatisfied) at June 30, 2018.

	2018
Credit balances	\$ 1,583,712

Credit balances are primarily associated with Chugach’s LevelPay program. The program calculates the monthly amount to be collected from customers annually. It is anticipated the balance will be recognized in revenue within the following year as customers consume electricity.

Chugach’s fuel cost over- and under- recovery are adjusted quarterly, therefore, amounts over or under collected will be collected or refunded in the following quarter.

5. REGULATORY MATTERS

Simplified Rate Filing

Chugach is a participant in the Simplified Rate Filing (SRF) process for adjustments to base demand and energy rates for Chugach retail customers and wholesale customer, Seward. Chugach is required to submit filings to the RCA for approval before any rate changes can be implemented. While there is no limitation on decreases, base rate increases under SRF are limited to 8% in a 12-month period and 20% in a 36-month period. SRF is an expedited base rate adjustment process available to electric cooperatives in the State of Alaska, with filings made either on a quarterly or semi-annual basis. Chugach is a participant on a quarterly filing schedule basis. Because the SRF process is completed every three months rates are expected to be more consistent and rate changes are generally small.

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Chugach submitted quarterly SRF filings which resulted in a 3.0% decrease to system demand and energy rates effective July 1, 2017, an increase of 1.9% for rates effective November 1, 2017, and an increase of 0.4 % for rates effective February 1, 2018. Chugach submitted its December 31, 2017 test year SRF with the RCA on March 30, 2018. The RCA approved a system demand and energy rate increase of 0.3%, effective May 1, 2018. Chugach submitted its March 2018 test year SRF with the RCA on May 30, 2018, for rates effective August 1, 2018. Approved by the RCA July 6, 2018, this filing resulted in an increase to demand and energy rates of 1.8 percent and 2.9 percent for retail and wholesale customers, respectively.

Fuel and Purchased Power Rates

Chugach recovers fuel and purchased power costs directly from retail and wholesale customers through the fuel and purchased power rate adjustment process. Changes in fuel and purchased power costs are primarily due to fixed price or fuel price adjustment processes in gas-supply contracts. Other factors, including generation unit availability also impact fuel and purchased power recovery rate levels.

The fuel and purchased power adjustment is approved on a quarterly basis by the RCA. There are no limitations on the number or amount of fuel and purchased power recovery rate changes. Increases in fuel and purchased power costs result in increased revenues while decreases in these costs result in lower revenues. Therefore, revenue from the fuel and purchased power adjustment process does not impact margins. Chugach recognizes differences between projected recoverable fuel and purchased power costs and amounts actually recovered through rates. The fuel cost under/over recovery on the Balance Sheet represents the net accumulation of any under- or over-collection of fuel and purchased power costs. A fuel cost under-recovery will appear as an asset on our Balance Sheet and will be collected from our members in subsequent periods. Conversely, a fuel cost over-recovery will appear as a liability on the Balance Sheet and will be refunded to members in subsequent periods.

Operation and Regulation of the Alaska Railbelt Electric and Transmission System

In June 2016, the RCA opened a docket to “evaluate the reliability and security standards and practices of Alaska Electric Utilities.” In 2017, Chugach and several other Alaska Railbelt utilities entered into a contract with GDS Associates, Inc. (GDS). GDS’s scope is to facilitate discussion between all six Alaska Railbelt utilities and various stakeholders with an end goal of submitting to the RCA a Railbelt Reliability Council (RRC), including a governance structure, that will be responsible for adoption and enforcement of uniform reliability standards and integrated transmission resource planning. GDS presented to the RCA during two technical conferences in January and March of 2018. Chugach and the other utilities provided GDS’s final recommendation of the RRC to the RCA in May 2018. Currently the utilities are finalizing an MOU covering implementation which is expected to be filed with the RCA in the third quarter of 2018 pending review and approval by each of the respective utility’s Board of Directors. While Chugach cannot determine the materiality of any effect on its results of operations, financial condition, and cash flows until a business model and plan are adopted, it anticipates a positive outcome.

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In June 2016, in response to Docket I-16-002, Railbelt Utility Information Technology and Operations Technology, leadership began meeting to discuss Railbelt Cybersecurity. The Railbelt Utilities Managers group designated the Cybersecurity Working Group to review industry standards and provide a statement of work to develop Railbelt Cybersecurity Standards. On June 21, 2018, Chugach posted a Request for Proposal to hire a consultant to write the standards. The final draft is expected to be presented to the Railbelt Utility Managers by the end of 2018.

Cook Inlet Natural Gas Storage Alaska, LLC (CINGSA)

CINGSA filed Tariff Advice Number 32-733 on April 30, 2018, to request adjustments to their base rates for firm natural gas storage service (FSS) and interruptible gas storage service (ISS). Chugach has intervened on this case, and the RCA has suspended this filing into a docket. The RCA is expected to issue a decision by July 24, 2019.

On April 27, 2018, CINGSA filed a request with the RCA for advance determination of decisional prudence and assurance of cost recovery for what has been termed the Redundancy Project. A docket was opened to address this matter. Chugach is participating in this docket. A decision by the RCA is expected by January 4, 2019.

6. DEBT

Lines of Credit

Chugach maintains a \$50.0 million line of credit with National Rural Utilities Cooperative Finance Corporation (NRUCFC). Chugach did not utilize this line of credit in the six months ended June 30, 2018. In addition, Chugach did not utilize this line of credit during 2017 and had no outstanding balance at December 31, 2017. The borrowing rate is calculated using the total rate per annum and may be fixed by NRUCFC. The borrowing rate was 3.50% at June 30, 2018, and 3.00% at December 31, 2017. The NRUCFC Revolving Line Of Credit Agreement requires that Chugach, for each 12-month period, for a period of at least five consecutive days, pay down the entire outstanding principal balance. The NRUCFC line of credit was renewed September 29, 2017, and expires September 29, 2022. This line of credit is immediately available for unconditional borrowing.

Commercial Paper

On June 13, 2016, Chugach entered into a \$150.0 million senior unsecured credit facility, the Credit Agreement, which is used to back Chugach's commercial paper program. The pricing includes an all-in drawn spread of one month London Interbank Offered Rate (LIBOR) plus 90.0 basis points, along with a 10.0 basis points facility fee (based on an A/A2/A unsecured debt rating). The Credit Agreement will expire on June 13, 2021. The participating banks include NRUCFC, KeyBank National Association, Bank of America, N.A., and CoBank, ACB. The commercial paper can be repriced between one day and 270 days.

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Chugach expects to continue issuing commercial paper in 2018, as needed. Chugach had \$53.0 million and \$50.0 million of commercial paper outstanding at June 30, 2018, and December 31, 2017, respectively.

The following table provides information regarding average commercial paper balances outstanding for the quarters ended June 30, 2018, and 2017 (dollars in millions), as well as corresponding weighted average interest rates:

2018		2017	
Average Balance	Weighted Average Interest Rate	Average Balance	Weighted Average Interest Rate
\$56.4	2.26 %	\$42.3	1.19 %

Term Loans

Chugach has a term loan facility with CoBank. Loans made under this facility are evidenced by the 2016 CoBank Note, which is governed by the Amended and Restated Master Loan Agreement dated June 30, 2016, and secured by the Second Amended and Restated Indenture of Trust (Indenture). At June 30, 2018, Chugach had \$38.8 million outstanding with CoBank.

Financing

On March 17, 2017, Chugach issued \$40,000,000 of First Mortgage Bonds, 2017 Series A, due March 15, 2037. The bonds were issued for general corporate purposes. The 2017 Series A Bonds will mature on March 15, 2037, and bear interest at 3.43%. Interest will be paid each March 15 and September 15, commencing on September 15, 2017. The 2017 Series A Bonds require principal payments in equal installments on an annual basis beginning March 15, 2018, resulting in an average life of approximately 10.0 years. The bonds are secured, ranking equally with all other long-term obligations, by a first lien on substantially all of Chugach's assets, pursuant to the Sixth Supplemental Indenture to the Second Amended and Restated Indenture of Trust, which initially became effective on January 20, 2011, as previously amended and supplemented.

Debt Issuance Costs

The following table outlines debt issuance costs associated with long-term obligations, excluding current installments, at June 30, 2018.

	Long-term Obligations	Unamortized Debt Issuance Costs
2011 Series A Bonds	\$ 189,666,664	\$ 1,157,389
2012 Series A Bonds	172,750,000	978,270
2017 Series A Bonds	36,000,000	194,152
2016 CoBank Note	35,568,000	216,665
	\$ 433,984,664	\$ 2,546,476

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The following table outlines debt issuance costs associated with long-term obligations, excluding current installments, at December 31, 2017.

	Long-term Obligations	Unamortized Debt Issuance Costs
2011 Series A Bonds	\$ 200,333,331	\$ 1,218,687
2012 Series A Bonds	183,500,000	1,019,582
2017 Series A Bonds	38,000,000	199,399
2016 CoBank Note	37,164,000	231,817
	\$ 458,997,331	\$ 2,669,485

7. RECENT ACCOUNTING PRONOUNCEMENTS

Issued, and adopted at June 30, 2018:

ASC Update 2014-09 “Revenue from Contracts with Customers (Topic 606)” and Related Updates

In May of 2014, the FASB issued ASC Update (ASU) 2014-09, “Revenue from Contracts with Customers (Topic 606).” ASU 2014-09 provides guidance for the recognition, measurement and disclosure of revenue related to the transfer of promised goods or services to customers. Chugach adopted the standard on January 1, 2018, using the modified retrospective transition method with no cumulative effect adjustment as of adoption.

We evaluated our contracts associated with energy sales, wheeling, gas sales, and other miscellaneous revenue and did not identify any change to the timing or pattern of revenue recognition. The adoption of Topic 606 also included additional disclosure requirements. See “*Note 4 – REVENUE FROM CONTRACTS WITH CUSTOMERS.*”

ASC Update 2016-01 “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities”

In January of 2016, the FASB issued ASU 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” ASU 2016-01 amends guidance related to certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. This update is effective for fiscal years beginning after December 15, 2017, and interim periods within those years, with early adoption not permitted with certain exceptions. Chugach began application of ASU 2016-01 on January 1, 2018. Adoption did not have a material effect on its results of operations, financial position, and cash flows.

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ASC Update 2016-15 “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force)”

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force). ASU 2016-15 clarifies how certain cash payments and cash proceeds should be classified on the statement of cash flows to limit the diversity in practice. This update is effective for fiscal years beginning after December 15, 2017, including interim periods within those years, with early adoption permitted. Chugach began application of ASU 2016-15 on January 1, 2018. Adoption did not have a material effect on its results of operations, financial position, and cash flows.

ASC Update 2016-18 “Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)”

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force).” ASU 2016-18 clarifies how to classify and present changes in restricted cash or cash equivalents that occur when there are transfers between cash, cash equivalents, and restricted cash or restricted cash equivalents and when there are direct cash receipts into or payments made from restricted cash or restricted cash equivalents on the statement of cash flows to limit the diversity in practice. This update is effective for fiscal years beginning after December 15, 2017, including interim periods within those years, with early adoption permitted. Chugach began application of ASU 2016-18 on January 1, 2018. Adoption did not have a material effect on its results of operations, financial position, and cash flows.

While there was not a material impact to the net change in cash flows, the beginning and ending cash balances for the six months ended June 30, 2017, increased \$1,710,282 and \$1,711,643, respectively, to reflect the restricted cash equivalents balances.

ASC Update 2017-01 “Business Combinations (Topic 805): Clarifying the Definition of a Business”

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business.” ASU 2017-01 clarifies the definition of a business by providing a screen to determine when a set of assets and activities acquired or disposed of constitute a business, as well as a framework for evaluating whether all elements of a business are present in the set. This update is effective for fiscal years beginning after December 15, 2017, including interim periods within those years, with early adoption permitted only when the transaction has not been reported in financial statements. Chugach began application of ASU 2017-01 on January 1, 2018. Adoption did not have a material effect on its results of operations, financial position, and cash flows.

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ASC Update 2017-07 “Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost”

In March 2017, the FASB issued ASU 2017-07, “Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.” ASU 2017-07 amends current guidance on the presentation and disclosure of other compensation costs in the income statement. This update is effective for fiscal years beginning after December 15, 2017, including interim periods within those years, with early adoption permitted only for financial statements that have not been issued. Chugach began application of ASU 2017-07 on January 1, 2018. Adoption did not have a material effect on its results of operations, financial position, and cash flows.

Issued, not yet adopted:

ASC Update 2016-02 “Leases (Topic 842): Section A – Leases: Amendments to the FASB Accounting Standards Codification; Section B – Conforming Amendments Related to Leases: Amendments to the FASB Accounting Standards Codification; Section C – Background Information and Basis for Conclusions” and Related Updates

In February of 2016, the FASB issued ASU 2016-02, “Leases (Topic 842): Section A – Leases: Amendments to the FASB Accounting Standards Codification; Section B – Conforming Amendments Related to Leases: Amendments to the FASB Accounting Standards Codification; Section C – Background Information and Basis for Conclusions.” ASU 2016-02 amends guidance related to the recognition, measurement, presentation and disclosure of leases for lessors and lessees. While accounting for lessors remains substantially the same, lessee accounting requires significant changes from current U.S. GAAP. Pursuant to the new standard, lessees will be required to identify all leases, including those embedded in contracts, classify leases as finance or operating, recognize all leases on the Balance Sheet and record corresponding right-of-use assets and lease liabilities. The update requires the recognition of lease assets and liabilities for those leases currently classified as operating leases while also refining the definition of a lease. Operating leases will reflect lease expense on a straight-line basis, while finance leases will result in the separate presentation of interest expense on the lease liability and amortization expense of the right-of-use asset.

In January 2018, the FASB issued ASU 2018-01, “Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842.” ASU 2018-01 amends ASU 2016-02 to provide an optional transition practical expedient allowing entities to not evaluate under Topic 842 existing or expired land easements that were not previously accounted for as leases under the current lease guidance in Topic 840.

Chugach is evaluating the impact of these updates as well as existing land easements to determine if we will elect to use the practical expedient for transition. We will continue to monitor utility industry implementation issues that may change existing and future lease classification.

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These updates are effective for fiscal years beginning after December 15, 2018, including the interim periods within those years, with early adoption permitted. Chugach will begin application of ASU 2016-02 and ASU 2018-01 on January 1, 2019. Chugach expects these updates to increase the recorded amounts of assets and liabilities. We are also evaluating the impact of these updates to our results of operations, financial position, and cash flows.

ASC Update 2016-13 “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” ASU 2016-13 revised the criteria for the measurement, recognition, and reporting of credit losses on financial instruments to be recognized when expected. This update is effective for fiscal years beginning after December 15, 2019, including the interim periods within those years, with early adoption permitted for fiscal years beginning after December 15, 2018, including interim periods within those years. Chugach will begin application of ASU 2016-13 on January 1, 2020. Adoption is not expected to have a material effect on its results of operations, financial position, and cash flows.

8. FAIR VALUES OF ASSETS AND LIABILITIES

Fair Value Hierarchy

In accordance with FASB ASC 820, Chugach groups its financial assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes United States Treasury and federal agency securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect Chugach’s estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

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The table below presents the balance of Chugach’s marketable securities measured at fair value on a recurring basis at June 30, 2018, and December 31, 2017. Chugach’s bond mutual funds, corporate bonds, and marketable certificates of deposit are measured using quoted prices in active markets. Chugach had no other assets or liabilities measured at fair value on a recurring basis at June 30, 2018, or at December 31, 2017.

June 30, 2018	Total	Level 1	Level 2	Level 3
Bond mutual funds	\$ 7,919,754	\$ 7,919,754	\$ 0	\$ 0
Certificates of deposit	\$ 3,070,823	\$ 3,070,823	\$ 0	\$ 0

December 31, 2017	Total	Level 1	Level 2	Level 3
Bond mutual funds	\$ 8,109,242	\$ 8,109,242	\$ 0	\$ 0
Corporate bonds	\$ 248,335	\$ 248,335	\$ 0	\$ 0
Certificates of deposit	\$ 3,063,323	\$ 3,063,323	\$ 0	\$ 0

Fair Value of Financial Instruments

Fair value estimates are dependent upon subjective assumptions and involve significant uncertainties resulting in variability in estimates with changes in assumptions. The fair value of cash and cash equivalents, accounts receivable and payable, and other short-term monetary assets and liabilities approximate carrying value due to their short-term nature.

The estimated fair values (in thousands) of long-term obligations included in the financial statements at June 30, 2018, are as follows:

	Carrying Value	Fair Value Level 2
Long-term obligations (including current installments)	\$ 460,593	\$ 467,210

9. ENVIRONMENTAL MATTERS

Chugach includes costs associated with environmental compliance in both our operating and capital budgets. We accrue for costs associated with environmental remediation obligations when those costs are probable and reasonably estimable. We do not anticipate that environmental related expenditures will have a material effect on our results of operations or financial condition. We cannot, however, predict the nature, extent or cost of new laws or regulations relating to environmental matters.

Since January 1, 2007, transformer manufacturers have been required to meet the DOE efficiency levels as defined by the Energy Act for all “Distribution Transformers.” As of January 1, 2016, the specific efficiency levels increased from the original “TP1” levels to the new “DOE-2016” levels. All new transformers are DOE-2016 compliant. Chugach has experienced a small increase in capital costs along with a reduction in energy losses.

The Clean Air Act and Environmental Protection Agency (EPA) regulations under the Clean Air Act establish ambient air quality standards and limit the emission of many air pollutants. New

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Clean Air Act regulations impacting electric utilities may result from future events or new regulatory programs. On August 3, 2015, the EPA released the final 111(d) regulation language aimed at reducing emissions of carbon dioxide (CO₂) from existing power plants that provide electricity for utility customers. In the final rule, the EPA took the approach of making individual states responsible for the development and implementation of plans to reduce the rate of CO₂ emissions from the power sector. The EPA initially applied the final rule to 47 of the contiguous states. At this time, Alaska, Hawaii, Vermont, Washington District of Columbia (D.C.) and two U.S. territories are not bound by the regulation. Alaska may be required to comply at some future date. On February 9, 2016 the U.S. Supreme Court issued a stay on the proposed EPA 111(d) regulations until the D.C. Circuit decides the case, or until the disposition of a petition to the Supreme Court on the issue. On September 27, 2016, the U.S. Court of Appeals for the D.C. Circuit heard oral arguments challenging the legality of the Clean Power Plan. While awaiting the court decision, an Executive Order promoting energy independence and economic growth was issued March 28, 2017, by the President instructing the EPA to review the Clean Power Plan. The EPA is directed to review the Clean Power Plan rule and either revise or withdraw the proposed rule. On October 10, 2017, the EPA initiated a Proposed Repeal of the Clean Power Plan. The EPA 111(d) regulation, in its current form, is not expected to have a material effect on Chugach's financial condition, results of operations, or cash flows. While Chugach cannot predict the implementation of any additional new law or regulation, or the limitations thereof, it is possible that new laws or regulations could increase capital and operating costs. Chugach has obtained or applied for all Clean Air Act permits currently required for the operation of generating facilities.

Chugach is subject to numerous other environmental statutes including the Clean Water Act, the Resource Conservation and Recovery Act, the Toxic Substances Control Act, the Endangered Species Act, and the Comprehensive Environmental Response, Compensation and Liability Act and to the regulations implementing these statutes. Chugach does not believe that compliance with these statutes and regulations to date has had a material impact on its financial condition, results of operation or cash flows. However, the implementation of any additional new law or regulation, or the limitations thereof, or changes in or new interpretations of laws or regulations could result in significant additional capital or operating expenses. Chugach monitors proposed new regulations and existing regulation changes through industry associations and professional organizations.

10. COMMITMENTS AND CONTINGENCIES

Contingencies

Chugach is a participant in various legal actions, rate disputes, personnel matters and claims both for and against Chugach's interests. Management believes the outcome of any such matters will not materially impact Chugach's financial condition, results of operations or liquidity. Chugach establishes reserves when a particular contingency is probable and calculable. Chugach has not accrued for any contingency at June 30, 2018, as it does not consider any contingency to be probable nor calculable. Chugach faces contingencies that are reasonably possible to occur; however, they cannot currently be estimated.

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Concentrations

Approximately 70% of our employees are members of the IBEW. Chugach has three CBA's with the IBEW. We also have a CBA with the HERE. All three IBEW CBA's and the HERE CBA have been renewed through June 30, 2021.

Commitments

Fuel Supply Contracts

Chugach has fuel supply contracts with various producers at market terms. Chugach entered into a gas contract with Hilcorp effective January 1, 2015, to provide gas through March 31, 2018. After two amendments to the Hilcorp gas purchase agreement, Chugach's needs are filled 100% through March 31, 2023. The total amount of gas under this contract is estimated to be 60 Bcf. All of the production is expected to come from Cook Inlet, Alaska. The terms of the Hilcorp agreement require Chugach to manage the natural gas transportation over the connecting pipeline systems. Chugach has gas transportation agreements with ENSTAR and Harvest Pipeline.

BRU Operations

Chugach and other owners, ML&P and Hilcorp, are operating under an existing Joint Operating Agreement. Hilcorp is the operator for BRU. The owners are considering updating the existing Joint Operating Agreement to better match the new owners' interests.

Patronage Capital

Pursuant to agreements reached with HEA and MEA, patronage capital allocated or retired to HEA or MEA is classified as patronage capital payable on Chugach's Balance Sheet. At June 30, 2018, and December 31, 2017, patronage capital payable to MEA and HEA was \$4.9 million and \$5.9 million, respectively.

Legal Proceedings

Chugach has certain litigation matters and pending claims that arise in the ordinary course of Chugach's business. In the opinion of management, none of these matters, individually or in the aggregate, is or are likely to have a material adverse effect on Chugach's results of operations, financial condition or cash flows.

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.

OVERVIEW

Chugach is one of the largest electric utilities in Alaska, engaged in the generation, transmission and distribution of electricity. Chugach is on an interconnected regional electrical system referred to as Alaska's Railbelt, a 400-mile-long area stretching from the coastline of the southern Kenai Peninsula to the interior of the state which includes Alaska's largest cities, Anchorage and Fairbanks.

Chugach directly serves retail customers in the Anchorage and upper Kenai Peninsula areas and supplies much of the power requirements of the City of Seward, as a wholesale customer. Periodically, Chugach sells available generation in excess of its own needs to MEA, HEA, GVEA and to ML&P.

Chugach is an Alaska electric cooperative operating on a not-for-profit basis and is subject to the regulatory authority of the RCA.

Chugach's customers' requirements for capacity and energy generally increase in fall and winter as home heating and lighting needs increase and decline in spring and summer as the weather becomes milder and daylight hours increase.

Chugach Operations

In the near term, Chugach continues to face the challenges of operating in a flat load growth environment and securing additional revenue sources. These challenges, along with energy issues, plans at the state level, and the potential ML&P acquisition, will shape how Chugach proceeds into the future.

Potential ML&P Acquisition

In December 2017, the Mayor of Anchorage, Alaska, announced plans to place a proposition on the April 3, 2018 municipal ballot allowing the voters to authorize the sale of ML&P to Chugach. The proposition was approved by Anchorage voters 65.08% to 34.92% per the certified election results. Chugach and the Municipality of Anchorage are currently negotiating the terms of an asset purchase agreement. Final agreement and close are conditioned upon the parties receiving necessary approvals from the Anchorage Assembly, the Chugach Board of Directors, and the RCA.

Railbelt Grid Unification

Chugach remains focused on efforts in Alaska's Railbelt to explore the benefits of grid unification. Currently, each of the six electric utilities in Alaska's Railbelt own a portion of the transmission grid, as does the Alaska Energy Authority (AEA). Chugach is a proponent of following other successful business models to effectively unify the grid. Discussions on the issue

led the Alaska State Legislature in 2014 to appropriate \$250,000 to the RCA to explore the issue and report back to legislators. The RCA expects to analyze and review present efforts in order to assess the organizational and governance structure needed for an independent consolidated system operator. Beginning in 2016, progress reports associated with system-wide economic dispatch were required. With the support of the RCA, Chugach and several other Alaska Railbelt utilities began evaluating possible transmission business model opportunities and associated economic dispatch models that Chugach believes may lead to more optimal system-wide operations.

In June 2016, the RCA opened a docket to “evaluate the reliability and security standards and practices of Alaska Electric Utilities.” In 2017, Chugach and several other Alaska Railbelt utilities entered into a contract with GDS Associates, Inc. (GDS). GDS’s scope is to facilitate discussion among all six Alaska Railbelt utilities and various stakeholders with an end goal of submitting to the RCA a proposal for a Railbelt Reliability Council (RRC), including a governance structure, that will be responsible for adoption and enforcement of uniform reliability standards and integrated transmission resource planning. GDS presented to the RCA during technical conferences in January and March 2018. Chugach and the other utilities provided GDS’s final recommendation of the RRC to the RCA in May 2018. Currently the utilities are finalizing an MOU covering implementation which is expected to be filed with the RCA in the third quarter of 2018 pending review and approval by each of the respective utility’s Board of Directors. While Chugach cannot determine the materiality of any effect on its results of operations, financial condition, and cash flows until a business model and plan are adopted, it anticipates a positive outcome.

Fuel Supply

Chugach actively manages its fuel supply needs and currently has contracts in place to meet up to 100% of its anticipated needs through March of 2023. Chugach continues its efforts to secure long-term reliable gas supply solutions and encourages new development and continued investment in Cook Inlet. The State of Alaska’s Department of Natural Resources (DNR) published a study in September 2015, “Updated Engineering Evaluation of Remaining Cook Inlet Gas Reserves,” to provide an estimate of Cook Inlet’s gas supply. The study estimated there are 1,183 Bcf of proved and probable reserves remaining in Cook Inlet’s legacy fields. This is higher than the 2009 DNR study estimate of 1,142 Bcf. Effectively, Cook Inlet gas supply has slightly increased from 2009. The 2015 DNR estimate does not include reserves from a large gas field under development by Furie and another considered for development by BlueCrest Energy, Inc. Furie has constructed an offshore gas production platform and has begun production. The platform and other production facilities are designed for up to 200 million cubic feet (MMcf) per day. Other gas producers are actively developing gas supplies in the Cook Inlet. Chugach is encouraged with these developments but continues to explore other alternatives to diversify its portfolio.

Chugach’s interest in the BRU is to reduce the cost of electric service to its retail and wholesale members by securing an additional long-term supply of natural gas to meet on-going generation requirements. The BRU interest complements existing gas supplies and is expected to provide greater fuel diversity at an effective annual cost that is \$2 million to \$3 million less than alternative sources of gas in the Cook Inlet region. Approximately 80% of Chugach’s current generation requirements are met from natural gas, 16% are met from hydroelectric facilities, and 4% are met from wind.

The BRU is expected to provide gas to meet Chugach’s on-going generation requirements over an approximate 18-year period. Gas associated with the BRU is expected to provide about 15% of Chugach’s gas requirements through 2033, although actual gas quantities produced are expected to vary on a year-by-year basis.

Chugach has a firm gas supply contract with Hilcorp, see “*ITEM 1 – FINANCIAL STATEMENTS – Note 10 – COMMITMENTS AND CONTINGENCIES – Commitments – Fuel Supply Contracts.*” In addition to this firm contract, Chugach has gas supply agreements with AIX Energy LLC through March 31, 2024 (with an option to extend the term an additional 5-year period through March 31, 2029), and with Cook Inlet Energy LLC through March 31, 2023. Collectively, these agreements provide added diversification and optionality for Chugach to minimize costs within its gas supply portfolio.

RESULTS OF OPERATIONS

Current Year Quarter versus Prior Year Quarter

Assignable margins increased \$1.3 million, or 61.4%, during the second quarter of 2018 compared to the second quarter of 2017, primarily due to decreased depreciation expense.

Operating revenues, which include sales of electric energy to retail, wholesale and economy energy customers and other miscellaneous revenues, decreased \$5.5 million, or 10.7%, in the second quarter of 2018 compared to the second quarter of 2017. This decrease was primarily due to lower kWh sales, lower fuel costs recovered in revenue through the fuel and purchased power adjustment process, and the expiration of the gas sales contract with ENSTAR.

Retail revenue decreased \$3.4 million, or 7.5%, in the second quarter of 2018 compared to the second quarter of 2017 primarily due to lower fuel costs recovered through the fuel and purchased power adjustment process.

Wholesale revenue decreased \$0.1 million, or 7.1%, in the second quarter of 2018 compared to the second quarter of 2017, primarily due to lower fuel costs recovered through the fuel and purchased power adjustment process.

Economy revenue decreased \$0.5 million, or 100.0%, in the second quarter of 2018 compared to the second quarter of 2017, due to no economy energy sales in 2018.

Miscellaneous revenue decreased \$1.5 million, or 34.9%, in the second quarter of 2018 compared to the second quarter of 2017, primarily due to the expiration of the ENSTAR gas sales contract.

Based on the results of fixed and variable cost recovery established in Chugach’s last rate case, wholesale sales to Seward contributed approximately \$0.3 million and \$0.3 million to Chugach’s fixed costs for the quarters ended June 30, 2018 and 2017, respectively.

See “ITEM 1 – FINANCIAL STATEMENTS – Note 4 – REVENUE FROM CONTRACTS WITH CUSTOMERS,” for a table showing the base rate sales and fuel and purchased power revenue by customer class that is included in revenue for the quarters ended June 30, 2018 and 2017.

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

Customer	2018 kWh	2017 kWh
Retail	246,904,812	249,229,921
Wholesale	14,706,307	14,379,561
Economy Energy	0	4,529,000
Total	261,611,119	268,138,482

From the second quarter of 2017 to the second quarter of 2018, base demand and energy rates decreased 0.3% to retail and 7.4% to Seward, respectively. The decreases are the result of the net impact associated with final rates from Chugach’s SRF process.

Total operating expenses decreased \$6.9 million, or 14.2%, in the second quarter of 2018 compared to the second quarter of 2017, primarily due to lower fuel and depreciation and amortization expense.

Fuel expense decreased \$4.9 million, or 28.2%, in the second quarter of 2018 compared to the second quarter of 2017, primarily due to less fuel purchased for generation as a result of lower energy sales. In the second quarter of 2018, Chugach purchased 1,412,028 Mcf of fuel at an average effective delivered price of \$7.94 per Mcf. The amount of fuel purchased does not include fuel produced at BRU. In the second quarter of 2018, Chugach used 278,496 Mcf of fuel produced at BRU. In 2017 Chugach reported the amount used, including fuel produced at BRU, of 2,097,584 Mcf of fuel at an average effective delivered price of \$7.44 per Mcf. For comparative purposes, we have recalculated the 2017 average effective delivered price to only reflect the amount purchased. In the second quarter of 2017, Chugach purchased 1,914,731 Mcf of fuel at an average effective delivered price of \$8.15 per Mcf.

Production expense did not materially change in the second quarter of 2018 compared to the second quarter of 2017.

Purchased power expense did not materially change in the second quarter of 2018 compared to the second quarter of 2017. While not a significant difference, increased purchases from Bradley Lake resulted in a lower average effective price per kWh. In the second quarter of 2018, Chugach purchased 51,107 MWh of energy at an average effective price of 6.68 cents per kWh. In the second quarter of 2017, Chugach purchased 44,545 MWh of energy at an average effective price of 7.56 cents per kWh.

Transmission expense increased \$0.3 million, or 24.4%, in the second quarter of 2018 compared to the second quarter of 2017, primarily due to more substation maintenance labor.

Distribution expense increased \$0.6 million, or 19.7%, in the second quarter of 2018 compared to the second quarter of 2017, primarily due to higher expense labor and maintenance costs associated with storm-related damage.

Consumer accounts expense did not materially change in the second quarter of 2018 compared to the second quarter of 2017.

Administrative, general and other expense decreased \$0.9 million, or 13.7%, in the second quarter of 2018 compared to the second quarter of 2017, primarily due to lower labor, legal, and regulatory expenses as well as fewer obsolete inventory write-offs and cancelled projects.

Depreciation and amortization decreased \$2.0 million, or 21.6%, in the second quarter of 2018 compared to the second quarter of 2017, primarily due to the implementation of lower depreciation rates effective July 1, 2017 as well as adjustments from project closeouts.

Interest on long-term and other debt and interest charged to construction did not materially change in the second quarter of 2018 compared to the second quarter of 2017.

Non-operating margins decreased \$0.1 million, or 45.3%, in the second quarter of 2018 compared to the second quarter of 2017, primarily due to the change in market value of marketable securities.

Current Year to Date versus Prior Year to Date

Assignable margins increased \$0.2 million, or 8.6%, in the first half of 2018 compared to the same period of 2017, primarily due to decreased depreciation and administrative and general expense.

Operating revenues, which include sales of electric energy to retail, wholesale and economy energy customers and other miscellaneous revenues, decreased \$10.4 million, or 9.3%, in the first half of 2018 compared to the same period of 2017. This decrease was primarily due to decreased energy sales caused by warmer weather earlier in the year, as well as lower fuel and purchased power costs recovered through the fuel and purchased power adjustment process, decreased economy energy sales to GVEA, HEA, and MEA, and lower BRU fuel sales revenue due to the expiration of the ENSTAR gas sales contract.

Retail revenue decreased \$4.7 million, or 4.8%, in the first half of 2018 compared to the same period of 2017, due to decreased energy sales, as discussed above, and lower fuel and purchased power costs recovered through the fuel and purchased power adjustment process.

Wholesale revenue decreased \$0.3 million, or 10.3%, in the first half of 2018 compared to the same period of 2017, due to decreased fuel and purchased power costs recovered through the fuel and purchased power adjustment process.

Economy revenue decreased \$2.4 million, or 100.0%, in the first half of 2018 compared to the same period of 2017, due to fewer economy energy sales to GVEA, HEA, and MEA.

Miscellaneous revenue decreased \$3.0 million, or 35.7%, in the first half of 2018 compared to the same period of 2017, due to the expiration of the ENSTAR gas sales contract.

Based on the results of fixed and variable cost recovery established in Chugach’s last rate case, wholesale sales to Seward contributed approximately \$0.6 million and \$0.7 million to Chugach’s fixed costs for the six months ended June 30, 2018, and 2017, respectively.

See “ITEM 1 – FINANCIAL STATEMENTS – Note 4 – REVENUE FROM CONTRACTS WITH CUSTOMERS,” for a table showing the base rate sales and fuel and purchased power revenue by customer class that is included in revenue for the six months ending June 30, 2018 and 2017.

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

Customer	2018 kWh	2017 kWh
Retail	540,137,189	555,829,083
Wholesale	29,057,513	29,606,650
Economy Energy	207	20,832,000
Total	569,194,909	606,267,733

In the first half of 2018, base demand and energy rates charged to retail customers increased 0.7%, and 0.08% to the wholesale customer, Seward. The increases are primarily the result of lower system sales levels. Base demand and energy rates charged to retail customers and wholesale customer, Seward, did not change in the first half of 2017.

Total operating expenses decreased \$10.6 million, or 10.7%, in the first half of 2018 compared to the same period of 2017, primarily due to lower fuel, depreciation and amortization, and administrative and general expense.

Fuel expense decreased \$7.2 million, or 18.7%, in the first half of 2018 compared to the same period of 2017, primarily due to less fuel purchased for generation as a result of decreased energy sales. In the first half of 2018, Chugach purchased 3,428,438 Mcf of fuel at an average effective delivered price of \$8.30 per Mcf. The amount of fuel purchased does not include fuel produced at BRU. In the first half of 2018, Chugach used 579,663 Mcf of fuel produced at BRU. In 2017 Chugach reported the amount used, including fuel produced at BRU, of 4,721,720 Mcf of fuel at an average effective delivered price of \$7.35 per Mcf. For comparative purposes, we have recalculated the 2017 average effective delivered price to only reflect the amount purchased. In the first half of 2017, Chugach purchased 4,372,910 Mcf of fuel at an average effective delivered price of \$7.93 per Mcf.

Production expense did not materially change in the first half of 2018 compared to the same period of 2017.

Purchased power expense did not materially change in the first half of 2018 compared to the same period of 2017. While not a significant difference, increased purchases from Bradley Lake resulted in a lower average effective price per kWh. In the first half of 2018, Chugach purchased 104,378 MWh of energy at an average effective price of 6.45 cents per kWh. In the first half of 2017, Chugach purchased 96,152 MWh of energy at an average effective price of 7.43 cents per kWh.

Transmission expense increased \$0.7 million, or 22.3%, in the first half of 2018 compared to the same period of 2017, primarily due to primarily due to more substation maintenance labor.

Distribution expense increased \$1.3 million, or 21.2%, in the first half of 2018 compared to the same period of 2017, primarily due to increased labor, vegetation clearing expense, as well as increased maintenance costs associated with storm damage incurred during the second quarter of 2018.

Consumer accounts expense increased \$0.4 million, or 13.6%, in the first half of 2018 compared to the same period of 2017, primarily due to advertising costs associated with the ML&P acquisition.

Administrative, general and other expense decreased \$1.7 million, or 12.9%, in the first half of 2018 compared to the same period of 2017, primarily due to a decrease in labor as well as lower legal and regulatory professional services.

Depreciation and amortization decreased \$4.2 million, or 22.3 %, in the first half of 2018 compared to the same period of 2017, primarily due to the implementation of lower depreciation rates effective July 1, 2017 as well as higher retirement adjustments from project closeouts.

Interest on long-term and other debt and interest charged to construction did not materially change in the first half of 2018 compared to the same period of 2017.

Non-operating margins decreased \$0.2 million, or 49.1%, in the first half of 2018 compared to the same period of 2017, primarily due to the change in market value of marketable securities.

Financial Condition

Assets

Total assets did not materially change from December 31, 2017, to June 30, 2018. Decreases in net utility plant, fuel cost under-recovery, accounts receivable, and prepayments were somewhat offset by an increase in fuel stock over the same period. Net utility plant decreased \$2.9 million, or 0.4%, due to retirements and depreciation expense in excess of extension and replacement of plant. Fuel cost under-recovery decreased \$3.3 million, or 66.0%, primarily due to cost recovery through the fuel and purchased power adjustment process during the first half of 2018. Accounts receivable decreased \$10.0 million, or 28.0%, primarily due to a decrease in energy sales from winter to spring and the expiration of the gas sales contract with ENSTAR. Prepayments decreased \$1.7 million, or 35.1%, primarily due to recognition of the purchased power expense that had been prepaid for the Bradley Lake Hydroelectric Project during the fourth quarter of 2017. Fuel stock increased \$2.1 million, or 30.4%, due to fuel injections into storage exceeding withdrawals as a result of lower fuel requirements caused by a decrease in energy sales.

Liabilities and Equity

Total liabilities, equities and margins did not materially change from December 31, 2017, to June 30, 2018. Decreases in long-term obligations and fuel were somewhat offset by increases in patronage capital, commercial paper, accounts payable, other liabilities, cost of removal obligation / ARO, and salaries, wages and benefits. Long-term obligations decreased \$24.9 million, or 5.5%, and commercial paper increased \$3.0 million, or 6.0%, primarily due to the payment of principal and accrued interest on long-term obligations in March 2018. Fuel decreased \$2.1 million, or 21.2%, primarily due to lower fuel requirements caused by a decrease in energy sales. Total equities and margins increased \$2.1 million, or 1.1%, due to the margins generated in the first half of 2018. Accounts payable increased \$2.6 million, or 34.8%, due to the timing of cash payments and other current liabilities increased \$1.5 million, or 21.5%, due to an increase in the underground ordinance liability. Cost of removal obligation / ARO increased \$1.2 million, or 2.0%, as a result of removal costs of electric plant in service included in depreciation rates for the first half of 2018.

LIQUIDITY AND CAPITAL RESOURCES

Summary

Chugach ended the second quarter of 2018 with \$6.0 million of cash, cash equivalents, and restricted cash equivalents down from \$7.2 million at December 31, 2017. Chugach also had \$11.0 million and \$11.4 million in marketable securities at June 30, 2018 and December 31, 2017, respectively. Chugach did not utilize its \$50.0 million line of credit maintained with NRUCFC in the second quarter, therefore, this line of credit had no outstanding balance and the available borrowing capacity under this line was \$50.0 million at June 30, 2018. Chugach issued additional commercial paper and ended the second quarter with \$53.0 million of commercial paper outstanding, thus the available borrowing capacity under the commercial paper program at June 30, 2018, was \$97.0 million.

Cash equivalents consist of all highly liquid debt instruments, with a maturity of three months or less when purchased, and a concentration account with First National Bank Alaska (FNBA).

Cash Flows

The following table summarizes Chugach's cash flows from operating, investing and financing activities for the six months ended June 30, 2018 and 2017.

	2018	2017
Total cash provided by (used in):		
Operating activities	\$ 28,221,843	\$ 22,120,831
Investing activities	(9,341,290)	(16,169,771)
Financing activities	(20,086,750)	(7,737,620)
Increase (decrease) in cash and cash equivalents	<u>\$ (1,206,197)</u>	<u>\$ (1,786,560)</u>

Operating Activities

Cash provided by operating activities was \$28.2 million for the six months ended June 30, 2018, compared with \$22.1 million for the six months ended June 30, 2017. The increase in cash provided by operating activities was primarily due to fuel and purchased power recovery, as a result of the under-collection of the prior quarter's fuel and purchased power costs during the first half of 2018 compared with the refunding of the prior quarter's fuel and purchased power costs during the first half of 2017. The collection of receivables and a decrease in prepayments during the first half of 2018 compared to the same period in 2017 also contributed to the increase, as well as less cash used for accounts payable. These were somewhat offset by more cash used for materials and supplies associated with distribution projects and deferred charges associated with ML&P acquisition activities. Additionally, less cash was used for fuel as a result of lower fuel requirements caused by lower energy sales in the first half of 2018 compared with same period in 2017.

Investing Activities

Cash used in investing activities was \$9.3 million for the six months ended June 30, 2018, compared with \$16.2 million for the six months ended June 30, 2017. The change in cash used in investing activities was primarily due to less cash used for extension and replacement of plant primarily due to a decrease in construction activity.

Capital construction through June 30, 2018, was \$9.7 million and is estimated to be \$49.8 million for the full year. Once funding from other sources is collected, the total cash requirement is estimated to be \$41.9 million for 2018. Capital improvement expenditures are expected to increase during the third quarter as the construction season continues.

Financing Activities

Cash used in financing activities was \$20.1 million for the six months ended June 30, 2018, compared with \$7.7 million for the six months ended June 30, 2017. The change in cash used in financing activities was primarily due to the issuance of the 2017 Bonds and payment of commercial paper in the first half of 2017.

Sources of Liquidity

Chugach satisfies its operational and capital cash requirements through internally generated funds, a \$50.0 million line of credit from NRUCFC and a \$150.0 million commercial paper program. At June 30, 2018, there was no outstanding balance on the NRUCFC line of credit and \$53.0 million of outstanding commercial paper. Therefore, at June 30, 2018, the available borrowing capacity under Chugach's line of credit with NRUCFC was \$50.0 million and the available commercial paper capacity was \$97.0 million.

Commercial paper can be repriced between one day and 270 days. The average commercial paper balance for the six months ended June 30, 2018, was \$56.4 million with a corresponding weighted average interest rate of 2.26%. The maximum amount of outstanding commercial paper for the six months ended June 30, 2018, was \$64.0 million.

The following table provides information regarding monthly average commercial paper balances outstanding (dollars in millions), as well as corresponding monthly weighted average interest rates:

Month	Average Balance	Weighted Average Interest Rate
January	\$ 44.7	1.80%
February	\$ 38.1	1.78%
March	\$ 51.8	2.12%
April	\$ 59.5	2.29%
May	\$ 56.4	2.21%
June	\$ 53.3	2.26%

At June 30, 2018, Chugach had a term loan facility with CoBank. Loans made under these facilities are evidenced by the 2016 CoBank Note, which is governed by the Second and Amended and Restated Master Loan Agreement dated June 30, 2016 and secured by the Indenture.

At June 30, 2018, Chugach had the following outstanding with this facility:

	Principal Balance	Interest Rate at June 30, 2018	Maturity Date	Principal Payment Dates
2016 CoBank Note	\$ 38,760,000	2.58%	2031	2018-2031

Under the Indenture, additional obligations may be sold by Chugach upon the basis of bondable additions and the retirement or defeasance of or principal payments on previously outstanding obligations. The principal payment capacity as of March 15, 2018, was \$100.9 million, compared to the previously reported \$63.6 million. This amount has been revised to include the principal paid on the 2011 CoBank Note. Chugach's ability to sell additional debt obligations will be dependent on the market's perception of Chugach's financial condition and Chugach's continuing compliance with financial covenants contained in its debt agreements.

Chugach management continues to expect that cash flows from operations and external funding sources, including additional commercial paper borrowings, will be sufficient to cover operational, financing and capital funding requirements in 2018 and thereafter.

CRITICAL ACCOUNTING POLICIES

As of June 30, 2018, there have been no significant changes in Chugach's critical accounting policies as disclosed in Chugach's 2017 Annual Report on Form 10-K. This includes policies regarding electric utility regulation.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Information required by this Item is contained in Note 7 to the "Notes to Financial Statements" within Part I, Item 1 of this Form 10-Q.

ENVIRONMENTAL MATTERS

Compliance with Environmental Standards

Chugach's operations are subject to certain federal, state and local environmental laws and regulations, which seek to limit air, water and other pollution and regulate hazardous or toxic waste disposal. While we monitor these laws and regulations to ensure compliance, they frequently change and often become more restrictive. When this occurs, the costs of our compliance generally increase.

We include costs associated with environmental compliance in both our operating and capital budgets. We accrue for costs associated with environmental remediation obligations when those costs are probable and reasonably estimable. We do not anticipate that environmental related expenditures will have a material effect on our results of operations or financial condition. We cannot, however, predict the nature, extent or cost of new laws or regulations relating to environmental matters.

Since January 1, 2007, transformer manufacturers have been required to meet the DOE efficiency levels as defined by the Energy Act for all "Distribution Transformers." As of January 1, 2016, the specific efficiency levels increased from the original "TP1" levels to the new "DOE-2016" levels. All new transformers are DOE-2016 compliant. Chugach has experienced a small increase in capital costs along with a reduction in energy losses.

The Clean Air Act and Environmental Protection Agency (EPA) regulations under the Clean Air Act establish ambient air quality standards and limit the emission of many air pollutants. New Clean Air Act regulations impacting electric utilities may result from future events or new regulatory programs. On August 3, 2015, the EPA released the final 111(d) regulation language aimed at reducing emissions of carbon dioxide (CO₂) from existing power plants that provide electricity for utility customers. In the final rule, the EPA took the approach of making individual states responsible for the development and implementation of plans to reduce the rate of CO₂ emissions from the power sector. The EPA initially applied the final rule to 47 of the contiguous states. At this time, Alaska, Hawaii, Vermont, Washington District of Columbia (D.C.) and two U.S. territories are not bound by the regulation. Alaska may be required to comply at some future date. On February 9, 2016 the U.S. Supreme Court issued a stay on the proposed EPA 111(d) regulations until the D.C. Circuit decides the case, or until the disposition of a petition to the Supreme Court on the issue. On September 27, 2016, the U.S. Court of Appeals for the D.C. Circuit heard oral arguments challenging the legality of the Clean Power Plan. While awaiting the court decision, an Executive Order promoting energy independence and economic growth was issued March 28, 2017, by the President instructing the EPA to review the Clean Power Plan. The EPA is directed to review the Clean Power Plan rule and either revise or withdraw the proposed rule. On October 10, 2017, the EPA initiated a Proposed Repeal of the Clean Power Plan. The EPA 111(d) regulation, in its current form, is not expected to have a material effect on Chugach's financial condition, results of operations, or cash flows. While Chugach cannot predict the implementation of any additional new law or regulation, or the limitations thereof, it is possible that new laws or regulations could increase capital and operating costs. Chugach has obtained or applied for all Clean Air Act permits currently required for the operation of generating facilities.

Chugach is subject to numerous other environmental statutes including the Clean Water Act, the Resource Conservation and Recovery Act, the Toxic Substances Control Act, the Endangered

Species Act, and the Comprehensive Environmental Response, Compensation and Liability Act and to the regulations implementing these statutes. Chugach does not believe that compliance with these statutes and regulations to date has had a material impact on its financial condition, results of operation or cash flows. However, the implementation of any additional new law or regulation, or the limitations thereof, or changes in or new interpretations of laws or regulations could result in significant additional capital or operating expenses. Chugach monitors proposed new regulations and existing regulation changes through industry associations and professional organizations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Chugach is exposed to a variety of risks. In the normal course of its business, Chugach manages exposure to these risks as described below. Chugach does not engage in trading market risk-sensitive instruments for speculative purposes.

Interest Rate Risk

At June 30, 2018, short- and long- term debt was comprised of the 2011, 2012, and 2017 Series A Bonds, the 2016 CoBank Note and outstanding commercial paper.

The interest rates of the 2011, 2012, and 2017 Series A Bonds, and 2016 CoBank Note are fixed and set forth in the table below with the carrying value and fair value (dollars in thousands) at June 30, 2018.

	Maturing	Interest Rate	Carrying Value	Fair Value
2011 Series A, Tranche A	2031	4.20 %	\$ 58,500	\$ 58,422
2011 Series A, Tranche B	2041	4.75 %	141,833	149,977
2012 Series A, Tranche A	2032	4.01 %	52,500	51,836
2012 Series A, Tranche B	2042	4.41 %	81,000	82,369
2012 Series A, Tranche C	2042	4.78 %	50,000	52,748
2017 Series A, Tranche A	2037	3.43 %	38,000	35,742
2016 CoBank Note	2031	2.58 %	38,760	36,116
Total			\$ 460,593	\$ 467,210

Chugach is exposed to market risk from changes in interest rates associated with its credit facility. Chugach's credit facilities' interest rates may be reset due to fluctuations in a market-based index, such as the LIBOR. At June 30, 2018, Chugach had \$53.0 million of commercial paper outstanding. A 100 basis-point rise or decline in interest rates would increase or decrease interest expense by approximately \$0.5 million, based on \$53.0 million of variable rate debt outstanding at June 30, 2018.

Commodity Price Risk

Because fuel and purchased power costs are passed directly to wholesale and retail customers through a fuel and purchased power recovery process, fluctuations in the price paid for gas pursuant to gas supply contracts does not normally impact margins.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Controls and Procedures

As of the end of the period covered by this report, under the supervision and with the participation of Chugach management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), Chugach conducted an evaluation of the effectiveness of the design and operation of disclosure controls and procedures, as defined in the Securities Exchange Act of 1934 (“Exchange Act”) Rule 13a-15(e). Based on this evaluation, the CEO and CFO each concluded that as of the end of the period covered by this report, disclosure controls and procedures are effective in timely alerting them to material information required to be disclosed in Chugach’s periodic reports to the Securities and Exchange Commission (SEC), ensures that such information is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and such information is accumulated and communicated to management, including the CEO and CFO, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

Effective January 1, 2018, we adopted Accounting Standards Codification 606, Revenue from Contracts with Customers (Topic 606). Although adoption of Topic 606 had an immaterial impact on our financial statements, we implemented certain changes to our related revenue recognition control activities, including the development of new policies and periodic reviews of revenue transactions, based on the five-step model provided in the new revenue standard.

There have been no changes in Chugach’s internal controls over financial reporting identified in connection with the evaluation that occurred during the second quarter of 2018 that has materially affected, or is reasonably likely to materially affect, internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information required by this Item is contained in Note 10 to the “Notes to Financial Statements” within Part I, Item 1 of this Form 10-Q.

ITEM 1A. RISK FACTORS

Regulatory

Chugach's billing rates are approved by the RCA. Timing of some expenses can impede or delay recovery through the SRF process. Chugach submitted its December 31, 2017 test year SRF with the RCA on March 30, 2018. The RCA approved a demand and energy rate increase of 0.3 percent to retail and a demand and energy rate decrease of 0.2 percent to Seward effective May 1, 2018. Chugach submitted its March 2018 test year SRF with the RCA on May 30, 2018, for rates effective August 1, 2018. Approved by the RCA July 6, 2018, this filing resulted in an increase to demand and energy rates of 1.8 percent and 2.9 percent for retail and wholesale customers, respectively. See "*ITEM 1 FINANCIAL STATEMENTS – Note 5 – REGULATORY MATTERS – Simplified Rate Filing.*"

For information regarding additional risk factors, refer to Item 1A of Chugach's Annual Report on Form 10-K for the year ended December 31, 2017. Except as noted above, these risk factors have not materially changed as of June 30, 2018.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

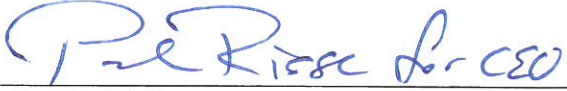
Listed below are the exhibits, which are filed as part of this Report:

<u><i>Exhibit Number</i></u>	<u><i>Description</i></u>
<u>31.1</u>	<u>Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>31.2</u>	<u>Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>32.1</u>	<u>Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
<u>32.2</u>	<u>Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

SIGNATURES

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

CHUGACH ELECTRIC ASSOCIATION, INC.

By:  8-9-2018
Lee D. Thibert
Chief Executive Officer

By: 
Sherri L. Highers
Chief Financial Officer

Date: August 9, 2018

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
Certification Pursuant to 18 U.S.C. Section 1350 (Adopted Pursuant to Section 302
of the Sarbanes-Oxley Act of 2002)

I, Lee D. Thibert, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Chugach Electric Association, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's second fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2018

By: Paul Risse for CEO 8-9-2018
Lee D. Thibert
Chief Executive Officer
Principal Executive Officer

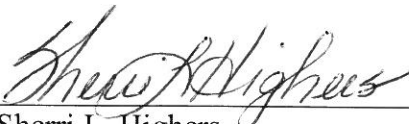
CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
Certification Pursuant to 18 U.S.C. Section 1350 (Adopted Pursuant to Section 302 of
the Sarbanes-Oxley Act of 2002)

I, Sherri L. Highers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Chugach Electric Association, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of Chugach as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's second fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing similar functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2018

By: 

Sherri L. Highers
Chief Financial Officer
Principal Financial Officer

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
Certification Pursuant to 18 U.S.C. Section 1350 (Adopted Pursuant to Section 906
of the Sarbanes-Oxley Act of 2002)

In connection with the quarterly report on Form 10-Q of Chugach Electric Association, Inc. (the "Company") for the quarter ended June 30, 2018, as filed with the Securities and Exchange Commission (the "Report"), I, Lee D. Thibert, Chief Executive Officer and Principal Executive Officer of the Company, hereby certify as the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: August 9, 2018

By: Lee D. Thibert for CEO 8-9-2018

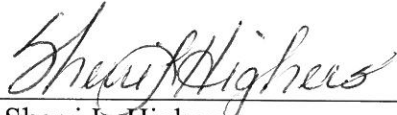
Lee D. Thibert
Chief Executive Officer
Principal Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
Certification Pursuant to 18 U.S.C. Section 1350 (Adopted Pursuant to Section 906
of the Sarbanes-Oxley Act of 2002)

In connection with the quarterly report on Form 10-Q of Chugach Electric Association, Inc. (the "Company") for the quarter ended June 30, 2018, as filed with the Securities and Exchange Commission (the "Report"), I, Sherri L. Highers, Chief Financial Officer and Principal Financial Officer of the Company, hereby certify as the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: August 9, 2018

By: 

Sherri L. Highers
Chief Financial Officer
Principal Financial Officer