

# CHUGACH

*POWERING ALASKA'S FUTURE*



ANNUAL 2007 REPORT



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Back Generation Resources

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## CORPORATE MISSION

Through superior service, safely provide reliable and competitively priced energy.

## CORPORATE VISION

Powering Alaska's future.

## INCORPORATION

Chugach Electric Association was incorporated in Alaska, March 1, 1948, with funding under the Rural Electrification Act of 1936, as amended. In 1991 Chugach refinanced and paid off its federal debt, leaving the REA program. Chugach remains a cooperative and ranks among the largest of the more than 900 electric cooperatives in the nation.

## EQUAL EMPLOYMENT OPPORTUNITY

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

Above left: Chugach has partnered with the Anchorage Fire Department to remove thousands of dead and dying trees near power lines in the Municipality of Anchorage.

Above right: Water from Cooper Lake enters the intake structure for the Cooper Lake Power Plant. It flows 10,500 feet and drops 750 feet in elevation on its journey toward making electricity.

**CHUGACH**  
POWERING ALASKA'S FUTURE



# 2007 YEAR IN REVIEW

Chugach set an all-time system peak load of 478.7 megawatts Jan. 9 between 6 and 7 p.m. when the temperature at its International Station was minus 7 degrees.

Chugach renamed its newest transmission substation after Robert W. Retherford at a ceremony March 16. Retherford was a former Chief Engineer of Chugach and long-time Alaskan electrical engineer. The substation was commissioned in 2006, and is one of three projects known as the South Anchorage Loop that, when completed, will significantly improve the regional transmission system.

Chugach completed a project in March to replace structures at Dynamite Slough that had been damaged during flooding of the Susitna River in August 2006. Chugach filed a \$5.3 million claim with the Federal Emergency Management Agency for the damage.

The Board approved a 3-year labor contract with its Generation Plant personnel in April. The contract covers approximately 80 regular employees who work in a variety of technical jobs. It is one of three contracts the utility has with workers represented by Local 1547 of the International Brotherhood of Electrical Workers.

Chugach held its 2007 Annual Membership Meeting on April 26. Two hundred thirty-nine members registered for the event. Nearly 23 percent of the 64,348 members of record voted in the election. Alex Gimarc and P.J. Hill were elected to 3-year terms on the Board of Directors. Members approved two proposed bylaw amendments. One amendment standardized the dates for annual meeting committee appointments. The second clarified that the Board is not restricted to appointing only a Chief Executive Officer and a Financial Advisor.

In June, the Board appointed five community executives to a Blue Ribbon Panel. The panel was tasked with evaluating Chugach's overall performance, strategic planning, benchmarking and future needs.

Chugach and Anchorage Municipal Light & Power (ML&P) signed an agreement in June to explore a potential merger, consolidation or other relationship. Chugach Board Chair Elizabeth Vazquez and Mayor Mark Begich were named co-chairs of a panel to help analyze the possibilities.

In October, the Board appointed Rebecca Logan to fill a vacancy created by the resignation of Director Alan Christopherson.

In November, the Board approved a 3-year contract with the Office & Engineering employees. The contract covers about 90 employees.

In the fall, Chugach accepted the conditions from the Federal Energy Regulatory Commission for a new 50-year license for the Cooper Lake Hydroelectric Project on the Kenai Peninsula. The project operated under an initial 50-year license that had been due to expire in 2007.

In November, the consolidation project study showed potential savings for Chugach and ML&P consumers. The report identified alternatives including working together to achieve joint operation and construction of a new power plant and eliminating duplicate services.

In December, the Regulatory Commission of Alaska voted to delay a request from Chugach to lower retail rates as part of an ongoing action before the Commission. Chugach filed the rate case in 2006 asking to adjust rates so that generation & transmission, and distribution charges are fair and appropriate.

Brad Evans was appointed Acting Chief Executive Officer in December. Evans replaced former CEO Bill Stewart.

In December, the Board approved a 3-year contract with the UNITE Hotel Employees & Restaurant Employees Union, Local 878. The contract covers about six food and housekeeping services employees at the Beluga Power Plant.

Chugach returned nearly \$5 million in retail capital credits to thousands of past and long-term Chugach members in December. The Board approved the retirement for members of record in 1988 and 1989. The Board also approved a capital credit retirement to Chugach's three wholesale customers pursuant to a prior settlement agreement.

▶ Chugach constructed a new communications tower at the Point MacKenzie Substation in April 2007.



# CHAIRMAN'S REPORT



**Elizabeth Vazquez**  
*Board Chair*

Dramatic change is underway at Chugach. We are pursuing many initiatives intended to lead us into a future where reliable electric power is sold to you at the lowest possible cost.

Chugach is a cooperative owned by you, its consumers and members. Your Board of Directors understands that to best serve you, we must strive to deliver the best value in the electricity you purchase from us. This means that we should always continually evaluate our business processes by comparing (benchmarking) ourselves to industry best practices and changing to be more efficient. This is especially true with the significant increase in the price of electric service in recent years with rising natural gas prices.

About 90 percent of the kilowatt-hours Chugach sells each year are made from natural gas fired turbine-generators. Our gas contracts, which have provided a reliable, relatively reasonably priced supply of fuel for the past two decades, will expire in the next few years. Our management team is negotiating with the gas producers and is committed to represent your best interest, but until new contracts are approved, the price of future fuel will be uncertain.

In the past year we undertook an unprecedented effort to examine our organization and consider the best way forward. In June, the Board appointed a Blue Ribbon Panel of successful local business leaders and asked them to take a hard look at Chugach. While the Panel's report lauded us for reliability, it pointed out that many Chugach costs are substantially higher than similar systems.

The Panel noted that in keeping with the principle of transparency, benchmarking results should be made public in an ongoing effort to maximize efficiency and control costs. The Panel made many recommendations that will be pursued by the Board and our management team.

Running a tighter ship requires leadership, courage and vision. Bradley Evans, one of

Alaska's most experienced utility managers, has been appointed Interim Chief Executive Officer.

We are also undertaking many other initiatives to bring you better value. Cooperation is one of our major cost cutting strategies. Chugach has taken a leadership role in pursuing several avenues of joint undertakings to lower costs with no sacrifice to our excellent record of reliability.

We teamed with Anchorage Mayor Mark Begich and Anchorage Municipal Light & Power (ML&P) to explore the possibility of consolidated operations between our two utilities. The Mayor and I chaired an advisory panel of local community leaders and a national firm led the study effort that examined a range of options - from various forms of mergers to joint venturing on our next power plant.

This Chugach-ML&P consolidation study identified potential savings of up to \$200 million over a 12-year period by undertaking joint activities. The study has provided us with much to consider and helped illustrate the savings and wisdom of working together whenever possible to serve our customers.

In February 2008, Chugach, Homer Electric Association and ML&P announced a plan to join together to build a power plant. The plant, envisioned as an efficient 260-megawatt gas-fired combined cycle project will be built near our Anchorage headquarters and is planned to be in operation by 2012. New generation is 30 to 40 percent more efficient and will save tens of millions of dollars per year in gas purchases. In addition, by working together, the utilities can gain economies of scale and efficiency.



▶ Chugach Chair Elizabeth Vazquez and David Gottstein discussed the Blue Ribbon Panel Report at a press conference in December.



▲ Chugach Board Chair Elizabeth Vazquez, along with board members and staff from GVEA, HEA and ML&P, announced plans in February to pursue developing a joint generation project.

We are also considering what the next major generation project might be. It is not wise to remain 90 percent dependent upon Cook Inlet natural gas. Our hydroelectric projects are great resources and very economical - yet they can only meet about 10 percent of our annual power requirements. The time is overdue for the state to take a fresh look at the potential for hydro projects in the Southcentral region. Specifically, we are spearheading and actively supporting pending legislation that would authorize updating the studies for the Susitna Hydroelectric Project.

For much of the past year, Chugach has been actively engaged with the Alaska Energy Authority, other utilities and consultants in a study of our Railbelt electric grid. Chugach, Golden Valley Electric Association and Homer Electric Association are cooperating with the state to explore the costs and benefits of creating a Unified Power Provider (UPP). The entity would be responsible for providing generation and transmission services for the Railbelt area, and could become the single power provider for distribution utilities over time.

The reality is that new generation and transmission projects are expensive (especially a major new hydro facility). The best way to plan, finance and build these

projects in the future may be through an organization comprised of utilities and the state. The UPP would unify the Railbelt and could provide reliable electric service at the lowest cost possible. We will continue to work with others to investigate the benefits of a Unified Power Provider.

The Board voted on and passed changes to bring more transparency. Specifically, cameras are now allowed in the Board room and all executive sessions are recorded. In addition, the Board has extensively discussed the necessity for Chugach to have a records retention and release policy and intends to pursue this matter further.

The Board has changed the charitable contribution policy of the Association. Instead of donating to specific charities, a fund was established to provide assistance to Chugach members that are disabled or over 65 years of age who because of various hardship situations are unable to pay their electric bill.

The Board is also very interested in conservation efforts in order to save you money and lower the carbon footprint. We have become a Utility Partner with Green Star in their Lighting Energy Efficiency Pledge. We have directed the management team to place more emphasis on informing

our membership of conservation efforts they can undertake, including the review of other utility Sustainable Natural Alternative Power (SNAP) programs in order to determine the feasibility of developing a program for our members.

The Board is committed to improving communications with you, the member-owner. To assist with this goal, the Outlet newsletter was reinvented, with new graphics, colors and content. Each month the accomplishments of the Board of Directors are now included.

In summary, in the past year your Chugach Board, management team and employees have been very busy in actively seeking new ways to improve communication, cut expenses and improve efficiency in order to continue to provide reliable electricity at the lowest cost for you.

The road ahead is clear - major reforms leading to greater cooperation, transparency and adoption of best practices are required to bring better value to you.

*Elizabeth Vazquez*



**Bradley Evans**  
*Interim CEO*

Chugach and the Railbelt are at a key point in time. For decades, our region has reaped the economic benefits that flowed from plentiful supplies of reasonably priced natural gas. But times are changing.

We are now approaching the end of the contracts signed in the late 1980s that have provided a steady supply of gas for our power plants on both sides of Cook Inlet. Chugach currently buys natural gas from four separate suppliers under four different contracts. Three of the producers (ConocoPhillips, Chevron and Anchorage Municipal Light & Power) supply gas from the Beluga River Field to our Beluga Power Plant. Our fourth supplier, Marathon, provides gas from wells in the inlet to our generation resources at Beluga, Nikiski and Anchorage.

All four of our fuel contracts have similarities. Each is for a volume of gas, not a set period of time. Therefore, the length of the contract depends upon the rate at which we draw fuel. Our current projections are that we will run out of gas under our Marathon contract in 2010, and from our Beluga field contracts in 2011. We are currently negotiating with all producers for new gas supplies and have taken the attitude that price matters. You will be reading and hearing more as Chugach takes a firm stance in negotiating with the producers.

Chugach is heavily dependent upon natural gas as a generation fuel. Every year, approximately

90 percent of the kilowatt-hours we generate comes from burning gas in our combustion turbines. The other 10 percent comes from our hydroelectric projects. In a low-water year like 2007, that ratio gets even more lopsided. Last year, when the reservoirs at the Bradley Lake and Cooper Lake hydroelectric projects received less snowmelt and rainfall than normal, we produced 93 percent of our power with gas-fired turbine-generators and only 7 percent from hydro projects.

Currently we are taking several steps to diversify from an over reliance on Cook Inlet natural gas.

Chugach believes the state should take a fresh look at the idea of a new hydroelectric project on the Susitna River. However, unlike the very large project the state considered in the early 1980s, we think the key is to look at a project appropriately sized for the Railbelt. If an updated study (drawing on the Susitna studies done years ago) determines a project would be feasible, it would still be years away. Further, developing a major new regional hydro project would require the participation and support of multiple utilities and the State of Alaska.

The state and utilities could also join together to create an organization that would become the primary - and possibly the sole - power supplier for distribution utilities throughout the Railbelt. This idea of a Unified Power Provider is one that Chugach and other utilities have been discussing with representatives of the Alaska Energy Authority in a review of the Railbelt grid. Once again, this is an idea that warrants further study. A Unified Power Provider would not be an overnight solution. However, it could provide an organization to transition to over time as generation facilities of individual utilities are retired and new resources are developed for replacements.

While both a major new hydro project for the Railbelt and a Unified Power Provider

are ideas worth studying for the long haul, we cannot ignore the needs of our system today and for the next several years. The fact is that we have a number of gas-fired turbine-generators on the system today that are approaching the projected end of their time in service - and money spent to extend their lives may not be a wise investment. We must take prudent steps now to replace old generation equipment with new to ensure we will be able to keep the lights on in the coming years. Toward that end - and in keeping with the Integrated Resources Plan and the Generation Plan we developed in recent years - we are planning for a new 260-megawatt, combined cycle, gas-fired power plant.

The plant will be built near our Anchorage headquarters and is planned to be online by 2012. We have known for some time that the most economical project would be one built with partners to supply the needs of multiple utilities. We are happy that both Homer Electric Association and Anchorage Municipal Light & Power have indicated their interest in partnering with Chugach on the new plant. The new, efficient plant will save Chugach tens of millions of dollars a year on fuel, while stretching our available supplies of natural gas to provide a bridge to longer-term solutions.

Decisions made long ago have allowed Chugach members to benefit from plentiful supplies of inexpensive natural gas in the Cook Inlet Basin. As we near the end of that era, it is our responsibility to make equally wise decisions about how to provide reliable, affordable power for the next generations of Chugach customers.

# 2007 BOARD OF DIRECTORS

## **Elizabeth Vazquez, Board Chair**

Elizabeth Vazquez is an attorney with the State of Alaska and has a Master of Business Administration. She was elected to the board in 2005 and elected Board Chair in 2007. Vazquez also chairs the board's Operations Committee and serves on the Finance and Audit committees. She is a National Rural Electric Cooperative Association Credentialed Cooperative Director.

## **Uwe Kalenka, Vice Chairman**

Uwe Kalenka is a self-employed property manager. He was elected to the board in 2005. He serves on the board's Audit, Finance and Operations committees. Kalenka also serves as Chugach's Alaska Power Association representative and is the board liaison for MEA, HEA and the City of Seward. He is a National Rural Electric Cooperative Association Credentialed Cooperative Director and has received his Board Leadership Certificate.

## **Alex Gimarc, Secretary**

Alex Gimarc is a systems analyst with the Municipality of Anchorage. He was elected to the board in 2007. Gimarc currently serves on the board's Operations Committee and is also Chugach's Joint Action Agency representative.

## **P.J. Hill, Treasurer**

P.J. Hill is an Associate Professor of Economics at the University of Alaska Anchorage and commercial fisherman. He was elected to the board in 2007. Hill chairs the board's Finance and Audit committees and serves on the Operations Committee.

## **Jeff Lipscomb, Director**

Jeff Lipscomb is a project management consultant with JWL Engineering. He was elected to the board in 2000 and re-elected in 2003 and 2006. Lipscomb currently serves on the board's Finance and Audit committees. He also serves on the Northwest Public Power Association's board of trustees and chairs their Audit Committee and is a National Rural Electric Cooperative Association Credentialed Cooperative Director.

## **Rebecca Logan, Director**

Rebecca Logan is president and chief executive officer for the Associated Builders and Contractors, Alaska Chapter. She was appointed to fill a board vacancy in 2007. Logan serves as Chugach's Alaska Power Association Resolutions/Government Affairs Committee representative.

## **Jim Nordlund, Director**

Jim Nordlund is a self-employed homebuilder and general contractor with Nordlund Carpentry, LLC. He was elected to the board in 2006. Nordlund is a former legislator and state Director of Public Assistance. He currently serves on the board's Operations Committee and is a National Rural Electric Cooperative Association Credentialed Cooperative Director.



STANDING FROM LEFT TO RIGHT:

**Jim Nordlund**  
*Director*

**Jeff Lipscomb**  
*Director*

**Rebecca Logan**  
*Director*

**Alex Gimarc**  
*Secretary*

SEATED FROM LEFT TO RIGHT:

**Uwe Kalenka**  
*Vice Chairman*

**Elizabeth Vazquez**  
*Board Chair*

**P.J. Hill**  
*Treasurer*

# 2007 BOARD OF DIRECTORS

## YOUR BOARD OF DIRECTORS AT WORK

Pursuant to the Bylaws of Chugach Electric Association, your Board of Directors (Board) is charged with the management of the business and affairs of the Association. Your Board has been very active and has accomplished much during the past year. The following is a summary of some of these accomplishments:

### COOPERATION WITH OTHER UTILITIES

The Board improved cooperation with other Railbelt utilities to bring more value to you, the member-owner. These efforts included authorizing and actively supporting the following:

- Planning for a new efficient generation plant with two other utilities, Homer Electric Association and Municipal Light & Power. A study identified potential savings of \$86 million dollars over 12 years in just this initiative.
- Exploring the benefits of consolidating operations with Municipal Light & Power. A study identified potential savings of almost \$97 million dollars over a 12-year period by undertaking joint operating activities.
- Participating in the study of the Railbelt grid, including the costs and benefits of creating a Unified Power Provider (UPP).

### BLUE RIBBON PANEL

The Board appointed five successful, long-time Alaskan business executives to a Blue Ribbon Panel (Panel) and requested them to take a hard look at Chugach - to complete a high-level, independent review of overall past performance. The Panel hired the UMS Group, a major worldwide leader in utility operational benchmarking and operational analysis, to assist in the review. "Benchmarking" is a process of evaluating how a business compares with other similar businesses (its peer group).

The Blue Ribbon Panel Report praised us for reliability but pointed out that many Chugach costs are higher than in similar systems. The Panel reported that the UMS analysis indicated that Chugach may have been charging its ratepayers more for non-fuel electric distribution than other similar utility systems.

The Panel made many recommendations that will be considered and pursued by the Board and management team. The Panel's report was released at a press conference and is posted on Chugach's Website. The following listed recommendations are being aggressively pursued by the Board:

- Take all steps necessary to deliver the lowest possible long-term cost and rate structure for Chugach members.
- Immediately engage in an all-out effort to rationalize the Railbelt utilities, considering whatever form or combination of forms benefit the ratepayers the most. Rationalization means to align and deploy assets in the most economic and efficient manner.
- Undertake and update comprehensive benchmarking activities. A major benchmarking study should be conducted every five years and updated on an annual basis. The Panel report states, "Benchmarking is a powerful tool to identify areas of strength and, more importantly, opportunities for improvement."
- Increase transparency, including making benchmarking results public in an ongoing effort to maximize efficiency and control costs.
- Improve internal and external communication.

### CONSERVATION EFFORTS

The Board is interested in conservation efforts to save you money and lower our carbon footprint. The following was initiated:

- Partnered with Green Star in their Lighting Energy Efficiency Pledge.
- Directed management team to place more emphasis on informing our membership of conservation efforts they can undertake.
- Requested management to review other utility Sustainable Natural Alternative Power (SNAP) programs in order to determine the feasibility of developing a program for our members.

## RENEWABLE ENERGY

Spearheaded and testified to support legislative efforts to update the study of the Susitna Hydroelectric Project as one of the long-term solutions to decrease reliance on depleting Cook Inlet natural gas fueled generation.

## TRANSPARENCY

The Board is committed to improving transparency. For example, it released the Blue Ribbon Panel report and accompanying performance benchmarking. The Board also voted on and passed the following changes to bring more transparency:

- Cameras are now allowed in the Board room.
- All executive sessions are recorded.
- Discussed and are in the process of developing a records retention and release policy.

## IMPROVING COMMUNICATIONS

The Board is committed to improving communications with you, the member-owner. To accomplish this, the following was done:

- The Outlet monthly newsletter was reinvented, with new graphics, colors and content. In addition, it now includes each month the accomplishments of the Board.
- For the first time in 20 years, held two news press conferences.

## CHARITABLE CONTRIBUTION POLICY

Changed the charitable contribution policy. Instead of donating to specific charities and non-profit organizations a fund was established to provide assistance to Chugach members that are disabled or over 65 years of age who because of various hardship situations are unable to pay their electric bill.

## IMPROVE ELECTION PROCEDURES

The Board voted to make the following changes to the annual election procedures in order to minimize invalidated ballots:

- Starting with this annual election, Chugach members will be informed as soon as possible if their ballot envelope was invalidated. The ballot envelope will be immediately returned and the reason for the invalidation (e.g., no signature) will be provided. Most members will have time to submit a corrected ballot envelope before the results of the election are announced at the annual meeting. Before this change, many members were informed of their invalidated ballot only after the election.
- Also starting this annual election, non-natural members (organizations, businesses, corporations) now have an extended opportunity to designate or update their designated authorized voter after the March 12 record date but by April 14 to accommodate personnel changes. They may also vote at Chugach's annual meeting on April 24 by submitting an affidavit. This change provides more flexibility for non-natural members to designate their authorized voter.

## CHANGED CHIEF EXECUTIVE OFFICER

Running a tighter ship requires leadership, courage and vision. Bradley Evans, one of Alaska's most experienced utility managers has been appointed Interim Chief Executive Officer.

# TREASURER'S REPORT



**P.J. Hill**  
*Treasurer*

In 2007, many events impacted Chugach's financial performance. Our year-end "bottom line" or "margins" (as they are referred to in the cooperative world) were \$2.9 million. This compared to \$6.6 million as projected in the 2007 revised budget and \$10 million for 2006.

Notable expenses in 2007 that impacted our annual performance included increased activities associated with the Sarbanes-Oxley Act of 2002 (SOX) compliance requirements, professional services associated with a business combination study and increased benchmarking activities. Transmission and distribution maintenance activities increased due to the Dynamite Slough transmission tower repairs and outages on the Hope distribution line. Other expenses included the recognition of costs associated with a gas compression unit coming online to assure sufficient gas pressure at our Beluga generation facility and the recognition of the relicensing fee for the Cooper Lake Hydroelectric Project.

▶ Chugach returned nearly \$5 million in retail capital credits to thousands of past and long-term members in December. While some current members received credits on their accounts, others received a check. Chugach also retired \$79,079 in wholesale capital credits for 1997. Since 1985, Chugach has retired (paid) more than \$63 million of patronage capital, including estate payments and discounted capital credits.

We also experienced labor increases due to administrative labor cost adjustments, as well as the successful conclusion of contract negotiations for our four labor agreements and other administrative labor expenses. Some of these costs were included for recovery in our 2005 Test Year Rate Case currently before the Regulatory Commission of Alaska. A final decision on that case was expected to be rendered in late 2007, however, it was delayed until the first quarter of 2008.

While total firm kilowatt-hour sales to retail and wholesale customers exceeded the budget by 1 percent, retail revenues lagged the budget by 4 percent due to decreased sales in the large commercial sector, lower than projected residential consumer growth and lower fuel expense recovered through a surcharge mechanism.

Wholesale revenues increased 0.3 percent due to increased sales to Homer Electric Association in spite of a decrease in the fuel expense recovered through a surcharge mechanism caused by tax credits received by Chugach from the gas producers in 2007 and applied as credits to the fuel surcharge.

Actual margin results were less than budgeted, however, Chugach still exceeded its Indenture of Trust financial performance target of a 1.10 Margins for Interest/Interest (MFI/I) ratio. We achieved a 1.12 MFI/I for 2007.

We also achieved a landmark Equity to Total Capitalization ratio (Equity Ratio) of above 30 percent, ending the year at 30.2 percent. Our member-owners "own" more of the assets of the cooperative than ever before. Reaching and maintaining this Equity Ratio will allow greater future flexibility in capital credit rotations back to our member-owners. It also demonstrates financial health as compared to other Generation & Transmission and Distribution cooperatives.

Chugach updated the three bond rating agencies - Moody's Investment Service, Fitch Ratings, and Standard and Poor's on our financial and operational performance and projections and all of our ratings remain in the "A2" and "A-" investment grade ranges.



*"Our member-owners 'own'  
more of the assets of the  
cooperative than ever before."*

The Finance and Audit committees continued to be very active in the accounting and financial matters of the Association. Emphasis was placed on identification, documentation and testing of key internal controls in preparation for the required certification and independent audit of the effectiveness of these internal controls as required by the SOX Act of 2002.

Chugach is subject to many of the requirements of SOX as we have issued long-term debt in the public market. Certification by the Chief Executive Officer and Chief Financial Officer is required for the 2007 financial statements, however, the independent audit requirement has been delayed until year-end 2009 by the Securities and Exchange Commission.

Chugach continued to manage its debt portfolio in an economic manner and did not obligate itself to additional debt in 2007. We paid down \$9 million of long-term debt during the year. We funded our operations and capital expansion programs through internal cash flow supplemented when necessary with short-term line of credit funds.

In recognizing the value to Chugach, and to the electric consumers of the

Railbelt as a whole, Chugach took the first steps in exploring with other Railbelt utilities the potential creation of a public corporation, organized for the purpose of providing for the unified generation and transmission needs in the Alaska Railbelt.

Chugach's existing generation is aging and new generation is more efficient, using substantially less fuel. Jointly building a new generation unit offers economies of scale that cannot be gained through individual utility efforts. Chugach is in the process of developing a gas-fired generation plant in the South Anchorage area and has offered Alaska Electric & Energy Cooperative and Anchorage Municipal Light & Power the opportunity to participate in the project in order to partially satisfy their power requirements.

For the future, we have several challenges on the financial front: financing a new generation facility to come online in 2012, refinancing our 2011 and 2012 maturing bonds, evaluating and implementing as necessary the finance-related recommendations of the Chugach Blue Ribbon Panel in addition to ensuring continued financial strength. Our 2008 Operating and Capital Budget anticipates margins of \$9.1 million, rebounding from the relatively low margin production we experienced in 2007.



▲ Chugach crews moved the generator rotor into the building where it was reinstalled into Unit No. 5 during its inspection and rebuild.

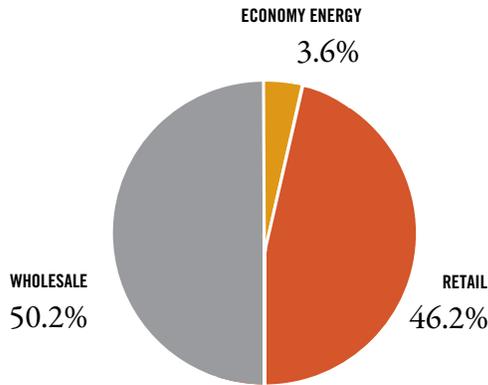
Chugach continued to operate and maintain the system that provides reliable and cost-effective power to our member-owners from Homer to Fairbanks. In furtherance of this effort, we adopted a 2007-2011 Financial Management Plan, which includes a 5-year business plan, equity management plan and debt management plan. This planning document is updated each year to ensure we have incorporated the most recent information into our planning efforts.

# POWER SALES AT A GLANCE

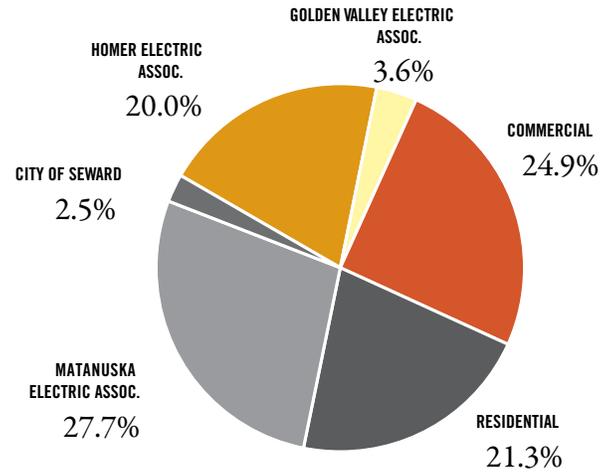
## By Kilowatt-hours

Total: 2,611,097,000

OVERVIEW



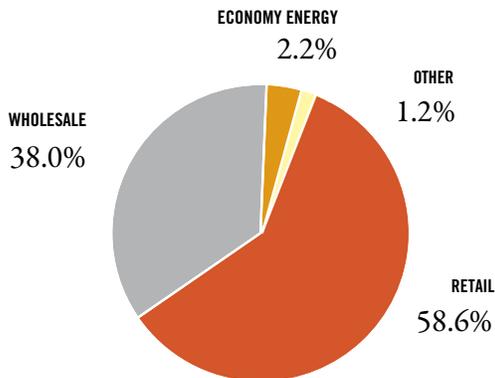
DETAIL



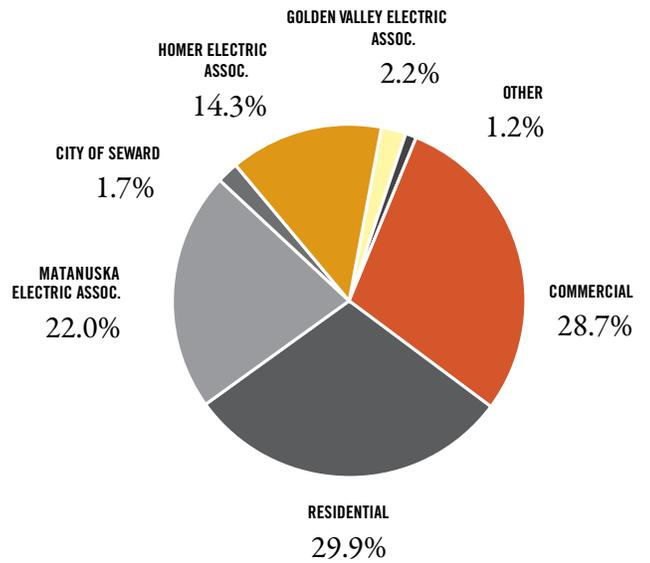
## By Operating Revenues

Total: \$257,443,919

OVERVIEW



DETAIL



# KEY COMPARISONS

## Kilowatt-hours Sold



## Retail KWH



## Wholesale KWH



## Economy Energy KWH



## Cost Per Residential KWH in December\*



\*NOT INCLUDING THE CUSTOMER CHARGE AND THE 2 PERCENT MOA UNDERGROUND CHARGE

## Cost of 700 KWH of Residential Service in December\*



\*INCLUDES CUSTOMER AND ENERGY CHARGES, FUEL SURCHARGE AND REGULATORY COST CHARGE. DOES NOT INCLUDE 2 PERCENT MOA UNDERGROUND CHARGE

## Total Revenue/Non-Operating Margins



## Expenses



## Services at Year-end



## Fuel Costs



## Margins



## Generation Sources for KWH Generated



## OUTAGE STATISTICS

Chugach averaged 2.04 outage hours per customer in 2007, lower than 3.03 hours in 2006. The 5-year average for customer outage hours decreased to 2.24 hours in 2007, down from 2.33 hours in 2006.

# POWER SUPPLY DIVISION

Power Supply is responsible for operating and maintaining Chugach's power plants, its power control center, SCADA and communication infrastructure.

Beluga Unit No. 5 was taken out of service in July for a complete hot gas path and generator inspection. Chugach crews removed the 43,000-pound generator rotor and fabricated a special skid to transport it to Anchorage via aircraft. It was then trucked to Wisconsin for rewinding. The generator stator section was inspected and old damaged wedges subsequently replaced by the rebuild contractor. The unit was reassembled, tested and put back into service in September.

Beluga crews achieved a milestone of no lost-time accidents for 365 consecutive days on July 28. A total of 94,349 heavy industrial maintenance man hours were worked to reach the new record.

Chugach hit an all time system peak of 478.7 megawatts on Jan. 9, when customers drew a record amount of power from the Chugach system. The peak came during the hour ending at 7 p.m. when the temperature at Chugach's International Station was

minus 7 degrees. The system peak reflects sales to Chugach retail customers, as well as wholesale sales to Matanuska and Homer electric associations and the City of Seward.

In August 2007, the Federal Energy Regulatory Commission approved a new 50-year license for the Cooper Lake Hydroelectric Project on the Kenai Peninsula. Chugach began the relicensing process several years ago and had made a decision to identify and try to work with as many stakeholders as possible. The goal was to discuss ideas and concerns and work them out before taking the formal application to federal regulators. The process proved

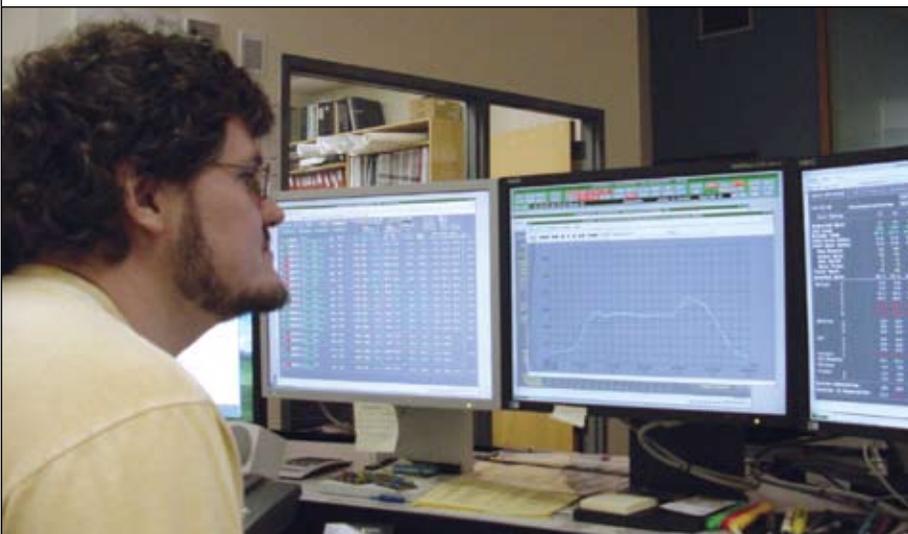
successful as the key stakeholders achieved many of their goals and Chugach received support in its request for a longer license. The new 50-year license is a major benefit at a time when it is common for existing projects to be granted 30-year licenses. The project had been operating under an initial 50-year license that had been due to expire in 2007.

Chugach completed the fifth of six major gas turbine control upgrades at the Beluga Power Plant. The work to upgrade Unit No. 1's controls took several months and was completed in June.

▶ In August, the Federal Energy Regulatory Commission notified Chugach it had approved a new 50-year license for its Cooper Lake Hydroelectric Project.



▼ Beluga Unit No. 5 was taken out of service for a complete hot gas path and generator inspection.



▲ Chugach dispatches power up and down the Railbelt from its Power Control Center.



# POWER DELIVERY DIVISION

Power Delivery is responsible for delivering safe and reliable power through its Operations, Engineering and Technical Services functions.

Chugach completed several overhead-to-underground projects in 2007. The largest project replaced approximately three-quarters of a mile of older overhead line with new buried cable along and adjacent to Johns Road between Klatt and Huffman roads. The \$1.7 million project also included a section of new line extending east along Huffman Road to the Alaska Railroad tracks. Projects such as these are funded with money collected from customers within the municipality who pay a 2 percent surcharge on monthly bills to fund overhead-to-underground conversions per a municipal ordinance.

Chugach and the Anchorage Fire Department continued a partnership to remove dead and dying trees in the Municipality of Anchorage. The work in 2007 in the Bird and Indian areas followed similar efforts by the two organizations over the past two years to remove trees considered a danger if they have the potential to fall on a power line and cause an outage. Removing the trees also helps to provide a clear, defensible space in the event of a fire. The Municipality of Anchorage funds the program.

In 2007, Chugach completed the replacement of the 230-kilovolt circuit breakers at its Point MacKenzie Substation. These breakers are part of the main transmission system that transfers power from the Beluga Power Plant to Anchorage. After workers discovered failures of internal parts during a routine maintenance check, Chugach made a decision to replace the breakers over a staged time frame.

Chugach has replaced 17 of the breakers with the remaining two located at a jointly-owned ML&P Substation.

Chugach installed 782 residential services in 2007, down from 1,141 in 2006. Chugach's in-house service crew completed 712 installations, with the balance completed by Chugach contractors. The average installation time for Chugach's in-house crew was 3.44 days, well below the 5-day customer service goal. The average cost of an installed residential service was \$546 in 2007, down from \$558 in 2006. In addition, Chugach installed 170 commercial services.

Flooding of the Susitna River in August 2006 downed transmission towers on lines that carry power from the Beluga Power Plant. To fix the problem, Chugach installed six towers at Dynamite Slough, a side channel of the Susitna River in late 2006 and early 2007. The new towers were designed to better withstand future flooding and shifting river channels. The Federal Emergency Management Agency approved the rebuild and mitigation project and is reimbursing Chugach more than \$5 million to offset the cost of the project.



▲ Chugach installed new towers at Dynamite Slough, a side channel of the Susitna River, after flooding in 2006.

Chugach completed construction and in October energized its new Postmark Substation located on airport property off Point Woronzof Road. The substation will serve the growing demand for power at the Ted Stevens Anchorage International Airport. Construction started in 2006.

▼ Chugach partners with the Anchorage Fire Department to remove dead and dying trees in the Municipality of Anchorage.



▶ The John's Road overhead-to-underground conversion project was one of several done in compliance with a MOA ordinance.



# ADMINISTRATION DIVISION

Administration is responsible for Chugach's Administrative Services, Information Services, Member Services and Safety functions.

Administrative Services, Information Services and Member Services completed all of the



▲ Information Services Help Desk employees field an average of more than 800 service calls a month for all kinds of computer requests and problems.

Sarbanes-Oxley compliance work in areas that include procurement, contracting, computer security and access.

Chugach works hard to read meters in a timely manner. In 2007, Chugach read 99.1 percent of its retail meters within an interval of 29 to 32 days. Only 0.3 percent of the bills issued were based on estimated meter reads.

Uncollectible electric account write-offs - also known as bad debts were limited to 0.28 percent of retail revenue. Chugach aggressively pursues the collection of bad debts in-house, as well as through a collection agency. Chugach benchmarks itself to other electric utilities in the industry. The average account write-off benchmark for the comparison group was 0.38 percent.

Chugach strives to provide the best customer service for its members. In the 2007 Member Attitude Survey, 92 percent of the residential customers surveyed reported they were satisfied with the customer service they had received.

Chugach continues to emphasize the importance of safety for its employees and the community. During this last year the Power Generation Division achieved a milestone in safety by exceeding one year without a lost time injury. Additionally, there was a decrease in the severity of injuries. Employees are trained throughout the year in safety procedures and practices that apply to their specific job functions. Safety City presentations are given throughout the community to help children and others understand how to be safe around electricity.

# FINANCE DIVISION

Finance is responsible for Chugach's Accounting, Finance and Regulatory Affairs functions.

Chugach has continued to commit to meeting its Sarbanes-Oxley compliance requirements. In 2007, Chugach completed an evaluation of the effectiveness of its internal control systems, which govern the preparation and accuracy of the financial statements. Chugach is required to attest to the effectiveness of the internal control systems in the Securities and Exchange Commission year-end 10-K filing.

In December, the Regulatory Commission of Alaska voted to delay a request for Chugach to lower its rates. The proposed rate changes are on hold pending Commission action,

which is expected by the end of March 2008. Chugach filed the rate case with the RCA in September 2006 seeking to adjust rates for both the generation & transmission, and distribution functions so that each fairly recovered their respective expenses.

The rate case, based on a 2005 test year, has required Chugach to provide extensive discovery documentation and testimony. Chugach held settlement discussions with the interveners in the case and reached a settlement with Homer Electric Association, the City of Seward and the Attorney General's Office in July 2007.

Chugach made presentations to its three bond rating agencies. As a result, Chugach has been rated as 'A2 Stable' by Moody's



▲ Most of the meters Chugach installs are automated meter reading devices. The AMRs can be read via radio signals sent to computers in a vehicle, allowing meter readers to read routes more quickly.

Investment Service and "A- Stable" by both Standard and Poor's and Fitch Ratings.

A number of accounting and finance work processes were benchmarked against other utilities to determine where Chugach could improve efficiencies. Several of the recommendations were implemented in 2007 with more to come in 2008.

# FINANCIALS

The following contains the unaudited balance sheets of Chugach Electric Association, Inc. as of December 31, 2007 and 2006, and the related unaudited statements of operations, unaudited changes in equities and margins and unaudited cash flows for each of the years in the three-year period ended December 31, 2007. The audited financial statements will be available on the Chugach Website at [www.chugachelectric.com](http://www.chugachelectric.com) after March 31, 2008. Hard copies will be available upon request by contacting Chugach's Public Relations department at (907) 762-4736.

# FINANCIALS: BALANCE SHEETS

**Chugach Electric Association, Inc.**  
**Balance Sheets**  
**December 31, 2007 and 2006**  
**(Unaudited)**

<u>Assets</u>	<u>2007</u>	<u>2006</u>
Utility Plant:		
Electric plant in service	\$805,631,207	\$787,005,028
Construction work in progress	17,712,884	20,683,335
Total utility plant	823,344,091	807,688,363
Less accumulated depreciation	(367,391,921)	(347,736,514)
Net utility plant	455,952,170	459,951,849
Other property and investments, at cost:		
Nonutility property	24,461	24,461
Special Funds	768,041	645,582
Investments in associated organizations	11,993,378	11,888,530
Total other property and investments	12,785,880	12,558,573
Current assets:		
Cash and cash equivalents, including repurchase agreements of \$9,730,078 in 2007 and \$10,496,037 in 2006	6,209,936	9,844,914
Special deposits	125,117	206,191
Accounts receivable, less provision for doubtful accounts of \$541,368 in 2007 and \$586,221 in 2006	31,355,481	32,899,571
Materials and supplies	28,422,088	25,424,493
Prepayments	1,357,980	1,487,966
Other current assets	264,501	280,562
Total current assets	67,735,103	70,143,697
Deferred charges, net	21,252,965	21,031,611
Total assets	\$557,726,118	\$563,685,730

**Chugach Electric Association, Inc.**  
**Balance Sheets (continued)**  
**December 31, 2007 and 2006**  
**(Unaudited)**

<u>Liabilities, Equities and Margins</u>	<u>2007</u>	<u>2006</u>
Equities and margins:		
Memberships	\$1,345,013	\$1,297,633
Patronage capital	138,713,338	141,117,620
Other	9,252,085	8,300,847
Total equities and margins	<u>149,310,436</u>	<u>150,716,100</u>
Long-term obligations, excluding current installments:		
Bonds payable	299,600,000	305,500,000
National Bank for Cooperatives promissory notes payable	45,823,500	45,303,530
Total long-term obligations	<u>345,423,500</u>	<u>350,803,530</u>
Current liabilities:		
Current installments of long-term obligations	10,106,804	13,728,569
Accounts payable	7,935,566	10,308,668
Consumer deposits	2,403,051	2,217,613
Fuel cost over-recovery	1,596,010	300,567
Accrued interest	6,304,609	6,364,100
Salaries, wages and benefits	5,953,873	6,021,473
Fuel	22,337,653	16,158,783
Other current liabilities	3,680,212	4,112,020
Total current liabilities	<u>60,317,778</u>	<u>59,211,793</u>
Deferred compensation	768,041	645,582
Deferred credits	<u>1,906,363</u>	<u>2,308,725</u>
Total liabilities, equities and margins	<u><u>\$557,726,118</u></u>	<u><u>\$563,685,730</u></u>

# FINANCIALS: STATEMENTS OF OPERATIONS

**Chugach Electric Association, Inc.**  
**Statements of Operations**  
**Years Ended December 31, 2007, 2006 and 2005**  
**(Unaudited)**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues	\$257,443,919	\$267,542,713	\$225,697,349
Operating expenses:			
Fuel	106,023,734	120,280,509	84,776,131
Power production	16,171,717	15,050,338	15,005,786
Purchased power	33,947,828	25,979,919	23,664,412
Transmission	6,781,166	6,283,845	5,847,648
Distribution	13,716,105	12,134,087	11,780,502
Consumer accounts	4,899,878	4,982,313	5,227,478
Administrative, general and other charges	21,776,968	21,728,555	20,272,291
Depreciation	<u>29,049,627</u>	<u>28,529,763</u>	<u>28,249,717</u>
Total operating expenses	232,367,023	234,969,329	194,823,965
Interest expense:			
On long-term obligations	24,239,343	24,459,852	23,384,316
On short-term obligations	90,648	0	46,649
Charged to construction-credit	<u>(617,194)</u>	<u>(448,978)</u>	<u>(844,911)</u>
Net interest expense	<u>23,712,797</u>	<u>24,010,874</u>	<u>22,586,054</u>
Net operating margins	1,364,099	8,562,510	8,287,330
Nonoperating margins:			
Interest income	710,480	879,481	560,418
Capital credits, patronage dividends and other	<u>810,677</u>	<u>597,068</u>	<u>666,983</u>
Total nonoperating margins	<u>1,521,157</u>	<u>1,476,549</u>	<u>1,227,401</u>
Assignable margins	<u><u>\$2,885,256</u></u>	<u><u>\$10,039,059</u></u>	<u><u>\$9,514,731</u></u>

# FINANCIALS: EQUITIES AND MARGINS

**Chugach Electric Association, Inc.**  
**Statements of Changes in Equities and Margins**  
**Years Ended December 31, 2007, 2006 and 2005**  
**(Unaudited)**

	<u>Memberships</u>	<u>Other Equities and Margins</u>	<u>Patronage Capital</u>	<u>Total</u>
Balance, January 1, 2005	\$1,202,538	\$7,045,992	\$130,750,269	\$138,998,799
Assignable margins	0	0	9,514,731	9,514,731
Retirement of capital credits	0	0	(4,079,622)	(4,079,622)
Unclaimed capital credit retirements	0	282,479	0	282,479
Memberships and donations received	47,860	274,905	0	322,765
Balance, December 31, 2005	<u>1,250,398</u>	<u>7,603,376</u>	<u>136,185,378</u>	<u>145,039,152</u>
Assignable margins	0	0	10,039,059	10,039,059
Retirement of capital credits	0	0	(5,106,817)	(5,106,817)
Unclaimed capital credit retirements	0	346,821	0	346,821
Memberships and donations received	47,235	350,650	0	397,885
Balance, December 31, 2006	<u>1,297,633</u>	<u>8,300,847</u>	<u>141,117,620</u>	<u>150,716,100</u>
Assignable margins	0	0	2,885,256	2,885,256
Retirement of capital credits	0	0	(5,289,538)	(5,289,538)
Unclaimed capital credit retirements	0	681,254	0	681,254
Memberships and donations received	47,380	269,984	0	317,364
Balance, December 31, 2007	<u>\$1,345,013</u>	<u>\$9,252,085</u>	<u>\$138,713,338</u>	<u>\$149,310,436</u>

# FINANCIALS: STATEMENT OF CASH FLOWS

**Chugach Electric Association, Inc.**  
**Statement of Cash Flows**  
**Years Ended December 31, 2007, 2006 and 2005**  
**(Unaudited)**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<u>Cash flows from operating activities:</u>			
Assignable margins	\$2,885,256	\$10,039,059	\$9,514,731
Adjustments to reconcile assignable margins to net cash provided by operating activities:			
Depreciation and amortization	32,426,335	31,494,702	30,341,574
Capitalized interest	(891,443)	(1,328,459)	(993,499)
Property (gains) losses, net	16,748	(13,919)	57,202
Write-off of deferred charges	4,439	406,239	0
Investments in associated organizations	(105,872)	(108,989)	(114,596)
Changes in assets and liabilities:			
(Increase) decrease in assets:			
Accounts receivable	1,544,090	(5,463,293)	(3,695,895)
Fuel cost under-recovery	0	1,781,833	(1,781,833)
Materials and supplies	(2,997,595)	(1,614,802)	(118,182)
Prepayments	129,986	313,138	(995,434)
Special deposits/other	98,159	115,889	(21,824)
Deferred charges	(2,773,198)	(4,873,727)	(810,692)
Increase (decrease) in liabilities:			
Accounts payable	(124,362)	276,837	1,071,321
Consumer deposits	185,438	237,328	32,774
Fuel cost over-recovery	1,295,443	300,567	(2,714,345)
Accrued interest	(59,491)	3,448	158,883
Salaries, wages and benefits	(67,600)	647,977	(157,244)
Fuel	6,178,870	(1,964,356)	5,203,516
Other liabilities	(1,525,783)	947,674	1,688,402
Deferred credits	16,646	(264,655)	(143,138)
<b>Net cash provided by operating activities</b>	<b>36,236,066</b>	<b>30,932,491</b>	<b>36,521,721</b>
<u>Investing activities:</u>			
Extension and replacement of plant	(27,253,296)	(18,986,067)	(27,418,656)
<b>Net cash used in investing activities</b>	<b>(27,253,296)</b>	<b>(18,986,067)</b>	<b>(27,418,656)</b>
<u>Financing activities:</u>			
Repayments of long-term obligations	(9,001,795)	(8,325,687)	(6,431,393)
Memberships and donations received	998,618	744,706	605,244
Retirement of patronage capital and estate payments	(4,195,563)	(4,978,386)	(3,554,532)
Net receipts of consumer advances for construction	(419,008)	(192,737)	463,206
<b>Net cash used in financing activities</b>	<b>(12,617,748)</b>	<b>(12,752,104)</b>	<b>(8,917,475)</b>
Net changes in cash and cash equivalents	(3,634,978)	(805,680)	185,590
Cash and cash equivalents at beginning of period	\$9,844,914	\$10,650,594	\$10,465,004
Cash and cash equivalents at end of period	<u>\$6,209,936</u>	<u>\$9,844,914</u>	<u>\$10,650,594</u>
Supplemental disclosure of non-cash investing and financing activities			
Retirement of plant	\$9,473,461	\$8,240,458	\$6,980,227
Extension and replacement of plant included in accounts payable	\$2,084,120	\$3,503,009	\$3,562,685
Retirement and patronage capital estate payments included in other current liabilities	\$2,416,552	\$1,322,577	\$1,194,146
Change in Special Funds/Deferred Compensation	\$122,459	\$361,658	\$60,740
Supplemental disclosure of cash flow information – interest expense paid, excluding amounts capitalized	<u>\$23,772,288</u>	<u>\$24,086,565</u>	<u>\$22,427,171</u>

# GENERATION RESOURCES

Chugach uses various generation resources to ensure reliable, affordable power. Chugach has 530.1 megawatts of installed capacity at Chugach-owned facilities. The unit ratings shown are taken at 30 degrees Fahrenheit. Chugach also takes power from the state-owned Bradley Lake hydroelectric project near Homer. In 2007, 93 percent of the kilowatt-hours Chugach generated came from natural gas units and the other 7 percent from hydroelectric resources.

## Beluga

Located on the west side of Cook Inlet near Tyonek, combustion turbines; unit Nos. 1-3 and 5-7 are fueled by natural gas; Unit 8 is a steam turbine.

Units	Commissioned	Power Rating (megawatts)
No. 1	1968	19.6
No. 2	1968	19.6
No. 3	1972	64.8
No. 5	1975	68.7
No. 6	1975	79.2
No. 7	1978	80.1
No. 8	1981	53.0
<b>Total</b>		<b>385.0</b>

## Bernice Lake

Located near Nikiski on the Kenai Peninsula; units are natural gas combustion turbines.

Units	Commissioned	Power Rating (megawatts)
No. 2	1971	19.0
No. 3	1978	26.0
No. 4	1981	22.5
<b>Total</b>		<b>67.5</b>

## International

Located off International Airport Road in Anchorage; units are natural gas combustion turbines.

Units	Commissioned	Power Rating (megawatts)
No. 1	1964	14.1
No. 2	1965	14.1
No. 3	1969	18.5

**Total 46.7**

## Eklutna

Former federal hydroelectric project along the Knik River, jointly owned with Anchorage Municipal Light & Power and Matanuska Electric Association. Chugach's share is 30 percent, an 11.7 megawatt maximum.

Units	Commissioned	Power Rating (megawatts)
No. 1	1955	23.5
No. 2	1955	23.5

**Total 47.0**

## Cooper Lake

Located near Cooper Landing on the Kenai Peninsula; units are hydro-turbines.

Units	Commissioned	Power Rating (megawatts)
No. 1	1960	9.6
No. 2	1960	9.6

**Total 19.2**

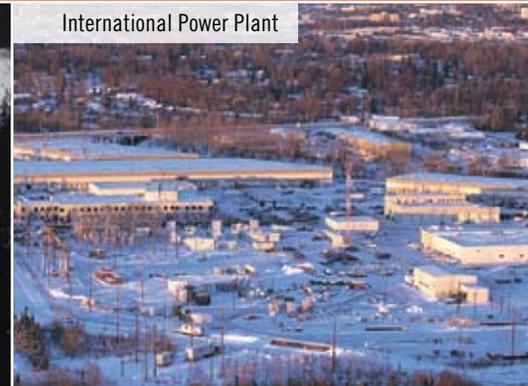
Beluga Power Plant



Bernice Lake Power Plant



International Power Plant



Eklutna Power Plant



Cooper Lake Power Plant



## RAILBELT MAP

Chugach power flows throughout the Railbelt, home to nearly three-fourths of Alaska's population. Chugach serves approximately 80,300 metered retail locations in a service territory extending from Anchorage to the Northern Kenai Peninsula, and from Whittier on Prince William Sound to Tyonek on the west side of Cook Inlet. Chugach provides power for Alaskans from Homer to Fairbanks through wholesale and economy energy sales to Homer Electric Association, the City of Seward, Matanuska Electric Association and Golden Valley Electric Association. On occasion, Chugach sells to or buys energy from Anchorage Municipal Light & Power.

Chugach has 530.1 megawatts of installed generation capacity at five power plants. Chugach operates 2,206 miles of energized line, made up of 533 miles of transmission line—which includes 128 miles of leased transmission lines and Chugach's share of the Eklutna transmission line—918 miles of overhead distribution line and 755 miles of underground distribution line.

Chugach recorded an all-time system peak load of 478.7 megawatts between 6 and 7 p.m. on Jan. 9. Power sales for the year totaled 2.6 billion kilowatt-hours.

## CONTACT INFORMATION

### INDEPENDENT AUDITOR

KPMG LLP  
701 West Eighth Avenue, Suite 600  
Anchorage, Alaska 99501

### CORPORATE INFORMATION

Chugach Electric Association, Inc.  
Public Relations Department  
P.O. Box 196300  
Anchorage, Alaska 99519-6300  
(907) 762-4736  
FAX (907) 562-0027

### INVESTOR INFORMATION

Chugach Electric Association, Inc.  
Chief Financial Officer  
P.O. Box 196300  
Anchorage, Alaska 99519-6300  
(907) 762-4778  
FAX (907) 562-0027

