

CHUGACH ELECTRIC ASSOCIATION, INC.
ANCHORAGE, ALASKA

AUDIT AND FINANCE COMMITTEE MEETING

AGENDA

Rachel Morse, Chair
Harold Hollis, Vice Chair

Susan Reeves
Jim Henderson
Bettina Chastain

November 6, 2018

4:00 p.m.

Chugach Board Room

- I. CALL TO ORDER
 - A. *Roll Call*
- II. APPROVAL OF THE AGENDA*
- III. APPROVAL OF THE MINUTES*
 - A. *August 8, 2018 (Quezon-Vicente)*
- IV. PERSONS TO BE HEARD
 - A. *Member Comments*
- V. CEO REPORTS AND CORRESPONDENCE (*scheduled*)
 - A. *3rd Quarter 2018 Financial Statements and Variance Report (Harris/Curran)*
 - B. *3rd Quarter 2018 Operating Budget Status Report (Curran)*
 - C. *3rd Quarter 2018 Capital Tracking Report (Curran)*
 - D. *3rd Quarter 2018 Contract Status Report (Vecera)*
 - E. *Employees 401k Plan Audit (Andrews)*
- VI. NEW BUSINESS* (*scheduled*)
 - A. *Recommendation on Discounting for 2019 Capital Credit Payments* (Highers)*
 - B. *3rd Quarter 2018 Financial Information (Harris)*
- VII. EXECUTIVE SESSION* (*scheduled*)
 - A. *Strategic Planning*
 - 1. *KPMG 3rd Quarter 2018 Review*
 - 2. *Board and Auditor Discussion*
 - 3. *Review Chugach's 2018 Audit Plan*
 - 4. *September 30, 2018, SEC Form 10Q Review*
- VIII. NEW BUSINESS* (*continued*)
 - A. *September 30, 2018, SEC Form 10Q Filing* (Curran)*
- IX. DIRECTOR COMMENTS
- X. ADJOURNMENT*

* *Denotes Action Items*

** *Denotes Possible Action Items*

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CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

August 8, 2018
Wednesday
4:00 p.m.

AUDIT AND FINANCE COMMITTEE MEETING

Recording Secretary: Arden Quezon-Vicente

I. CALL TO ORDER

Chair Morse called the Audit and Finance Committee meeting to order at 4:01 p.m. in the boardroom of Chugach Electric Association, Inc., 5601 Electron Drive, Anchorage, Alaska.

A. Roll Call

Committee Members Present:

Rachel Morse, Chair
Jim Henderson, Director
Susan Reeves, Director
Bettina Chastain, Director (*arrived during Executive Session*)
Harold Hollis, Director

Other Board Member Present:

Harry Crawford, Director

Guests and Staff in Attendance:

Lee Thibert	Andrew Laughlin	Jody Wolfe
Sherri Highers	Connie Owens	Renee Curran
Arthur Miller	Arthur Miller	Dustin Highers
Matthew Clarkson	Ron Vecera	Beth Stuart, KPMG

II. APPROVAL OF THE AGENDA

Chair Morse recommended that VII. Executive Session be moved to III.

Director Reeves moved and Director Hollis seconded the motion to approve the agenda as amended. The motion passed unanimously.

Director Chastain was not present at the time of vote.

III. APPROVAL OF THE MINUTES

Director Reeves moved and Director Chastain seconded the motion to approve the July 25, 2018, Audit and Finance Committee Meeting minutes. The motion passed unanimously.

IV. PERSONS TO BE HEARD

- A. Member Comments*
None

V. CEO REPORTS AND CORRESPONDENCE

- A. *2nd Quarter 2018 Financial Statements and Variance Report (Harris/Curran)*
The 2nd Quarter 2018 Financial Statements and Variance Report were provided in the meeting packet.
- B. *2nd Quarter 2018 Operating Budget Status Report (Curran)*
The 2nd Quarter 2018 Operating Budget Status Report was provided in the meeting packet.
- C. *2nd Quarter 2018 Capital Tracking Report (Curran)*
The 2nd Quarter 2018 Capital Tracking Report was provided in the meeting packet.
- D. *2nd Quarter 2018 Contract Status Report (Vecera)*
The 2nd Quarter 2018 Contract Status Report was provided in the meeting packet.

VI. NEW BUSINESS

- A. *Election of Audit and Finance Committee Vice Chair* (Committee)*
This agenda item took place after Agenda IV.

Chair Morse opened the floor for nomination.

Director Chastain nominated Director Hollis for the Audit and Finance Committee Vice Chair and Director Reeves seconded the nomination.

No other nominations were made.

Director Hollis was appointed as the newly elected Vice Chair of the Audit and Finance Committee.

- B. *2nd Quarter 2018 Financial Information (Harris)*
Jody Wolfe, Controller, discussed the 2nd Quarter 2018 Financial Information.

Mr. Wolfe, Sherri Highers, Chief Financial Officer, VP, Finance and Administration and Arthur Miller, VP, Regulatory and External Affairs responded to questions from the Board.

VII. EXECUTIVE SESSION

- A. *Strategic Planning*
 - 1. *KPMG 2nd Quarter 2018 Review*
 - 2. *June 30, 2018, SEC Form 10Q Review*

At 4:02 p.m., Director Chastain moved and Director Henderson seconded the motion that pursuant to Alaska Statute 10.25.175 (c)(1), the Audit and Finance Committee go into executive session to discuss financial matters, the immediate knowledge of which would clearly have an adverse effect on the finances of the cooperative. The motion passed unanimously.

Director Chastain arrived during Executive Session.

The meeting reconvened in open session at 5:26 p.m.

VIII. NEW BUSINESS

- A. *June 30, 2018, SEC Form 10Q Filing* (Curran)*
This agenda item took place after Agenda VI.A.

Director Reeves moved and Director Chastain seconded the motion that the Audit and Finance Committee recommend management file the Securities and Exchange Commission Form 10Q by the due date incorporating any amendments to the document which will be reviewed and approved by KPMG. Ms. Stuart and Ms. Highers will immediately inform the Board, in writing, of any material or significant changes. The motion passed unanimously.

IX. DIRECTOR COMMENTS

Comments were made at this time.

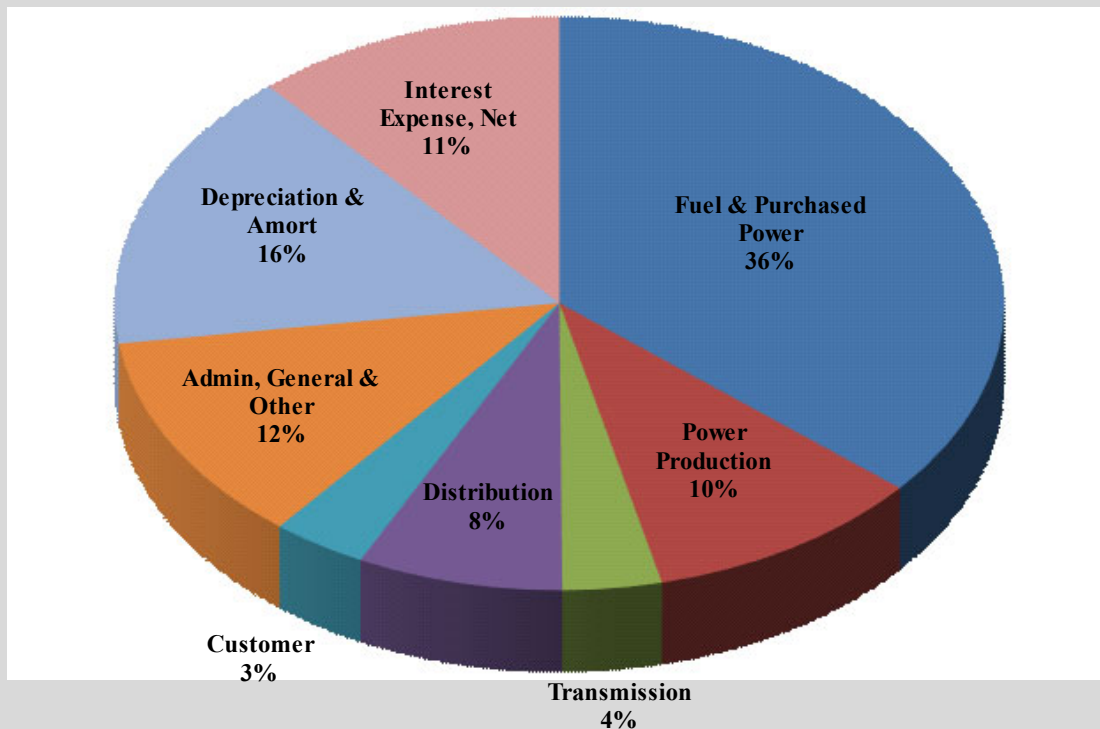
X. ADJOURNMENT

At 6:06 p.m., Director Reeves moved and Director Chastain seconded the motion to adjourn. The motion passed unanimously.

STATEMENT OF OPERATIONS

CATEGORY	2018 MTD ACTUAL	2018 MTD BUDGET	2018 MTD VARIANCE
Operating Revenue and Patronage Capital	\$ 15,378,333	\$ 16,529,492	\$ (1,151,159)
Fuel and Purchased Power Expense	5,729,594	6,556,313	(826,719)
Power Production Expense	1,609,845	1,687,989	(78,144)
Transmission Expense	570,392	544,789	25,603
Distribution Expense	1,184,324	1,152,324	32,000
Customer Expense	546,135	546,895	(760)
Administrative, General and Other	1,889,884	1,711,270	178,614
Depreciation & Amortization Expense	2,520,997	2,728,633	(207,636)
Interest Expense, Net	1,800,856	1,776,758	24,098
Total Cost of Electric Service	\$ 15,852,027	\$ 16,704,971	\$ (852,944)
Patronage Capital & Operating Margins	\$ (473,694)	\$ (175,479)	\$ (298,215)
Non-Operating Margins - Interest	72,453	51,827	20,626
Allowance for Funds Used During Construction	12,836	19,756	(6,920)
Non-Operating Margins - Other	(19,817)	-	(19,817)
Patronage Capital or Margins	\$ (408,222)	\$ (103,896)	\$ (304,326)

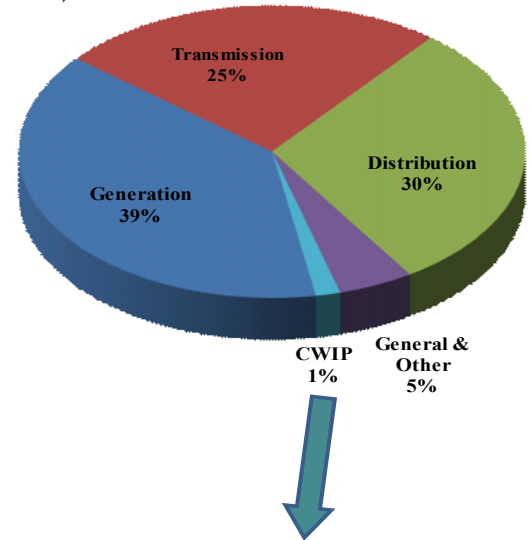
Total Cost of Electric Service (MTD Actual)



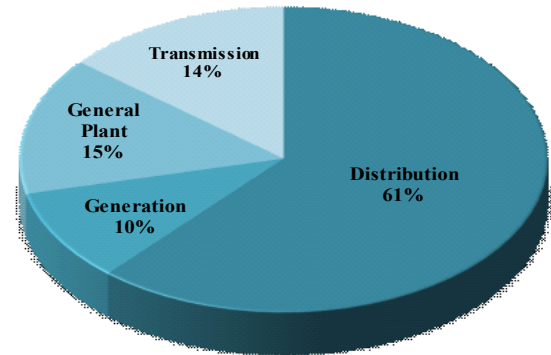
BALANCE SHEET

ASSETS & OTHER DEBITS	09/30/2018	12/31/17
Electric Plant in Service	1,212,367,485	1,205,092,224
Construction Work in Progress	19,235,244	17,952,573
Total Utility Plant	\$ 1,231,602,729	\$ 1,223,044,797
Accum. Prov. for Depreciation/Amortization	(525,130,638)	(515,496,312)
Net Utility Plant	\$ 706,472,091	\$ 707,548,485
Nonutility Property - Net	76,889	76,889
Investment in Assoc. Organizations	8,566,395	8,980,410
Special Funds	1,893,788	1,466,010
Restricted Cash & Other Investments	775,161	1,028,758
Total Other Property & Investments	\$ 11,312,233	\$ 11,552,067
Cash, Marketable Securities & Other	13,931,959	16,906,531
Special Deposits/Restricted Cash	593,288	741,670
Accounts Receivable - Net	26,388,989	35,680,680
Materials and Supplies, Fuel Stock	27,004,321	22,193,089
Prepayments	3,822,752	4,953,170
Other Current & Accrued Assets	292,496	2,490,891
Total Current & Accrued Assets	\$ 72,033,805	\$ 82,966,031
Deferred Debits	37,288,222	32,764,065
Total Assets & Other Debits	\$ 827,106,351	\$ 834,830,648
LIABILITIES & OTHER CREDITS	09/30/2018	12/31/17
Memberships	1,741,307	1,719,154
Pat. Capital, Margins & Equities	188,304,340	187,582,140
Total Margins & Equities	\$ 190,045,647	\$ 189,301,294
Long-Term Debt - Bonds	398,416,664	421,833,331
Long-Term Debt - Other	34,770,000	37,164,000
Unamortized Debt Issuance Costs	(2,485,861)	(2,669,485)
Total Long-Term Debt	\$ 430,700,803	\$ 456,327,846
Notes Payable	88,608,667	76,608,667
Accounts Payable	11,146,309	7,420,279
Consumer Deposits	5,017,975	5,335,896
Other Current & Accrued Liabilities	26,512,402	27,314,256
Total Current & Accrued Liabilities	\$ 131,285,353	\$ 116,679,098
Deferred Compensation	1,366,927	1,229,294
Other Liabilities, Non-Current	927,306	531,630
Deferred Liabilities	1,391,253	1,249,390
Patronage Capital Payable	8,798,077	8,798,077
Cost of Removal Obligation	62,590,985	60,714,019
Total Liabilities & Other Credits	\$ 827,106,351	\$ 834,830,648

2018 Total Utility Plant (YTD)
\$1,231,602,729



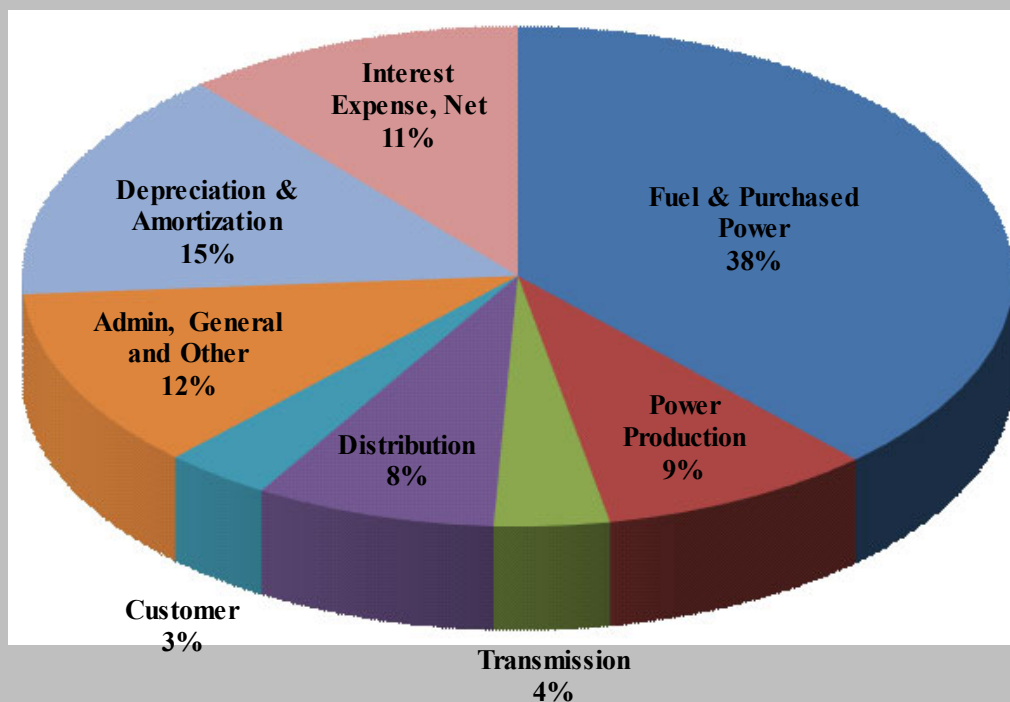
2018 Construction Work in Progress (YTD)
\$19,235,244



**COMPARATIVE FINANCIAL REPORT
STATEMENT OF OPERATIONS
CURRENT YTD ACTUAL TO BUDGET VARIANCE**

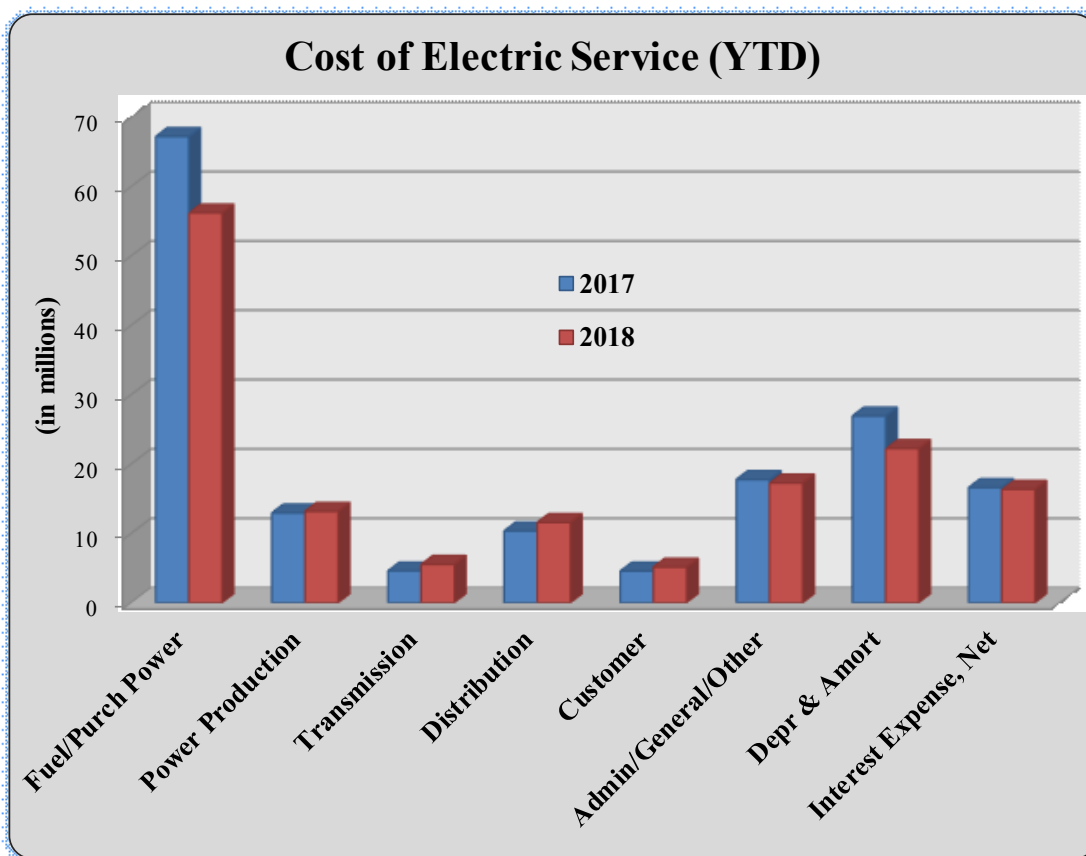
CATEGORY	2018 YTD ACTUAL	2018 YTD BUDGET	2018 YTD VARIANCE
Operating Revenue and Patronage Capital	\$ 148,160,451	\$ 157,111,914	\$ (8,951,463)
Fuel and Purchased Power Expense	56,216,639	62,931,815	(6,715,176)
Power Production Expense	13,184,565	14,235,215	(1,050,650)
Transmission Expense	5,546,054	5,268,158	277,896
Distribution Expense	11,590,360	11,102,339	488,021
Customer Expense	5,150,221	5,040,791	109,430
Administrative, General and Other	17,286,324	16,735,017	551,307
Depreciation & Amortization Expense	22,235,372	24,073,772	(1,838,400)
Interest Expense, Net	16,380,266	16,274,250	106,016
Total Cost of Electric Service	\$ 147,589,801	\$ 155,661,357	\$ (8,071,556)
Patronage Capital & Operating Margins	\$ 570,650	\$ 1,450,557	\$ (879,907)
Non-Operating Margins - Interest	536,905	468,854	68,051
Allowance Funds Used During Const.	86,304	94,544	(8,240)
Non-Operating Margins - Other	(189,843)	-	(189,843)
Patronage Capital or Margins	\$ 1,004,016	\$ 2,013,955	\$ (1,009,939)
MFI/I	1.06	1.12	
TIER	1.06	1.13	

Total Cost of Electric Service (YTD Actual)



**COMPARATIVE FINANCIAL REPORT
STATEMENT OF OPERATIONS
CURRENT TO PRIOR YTD ACTUAL**

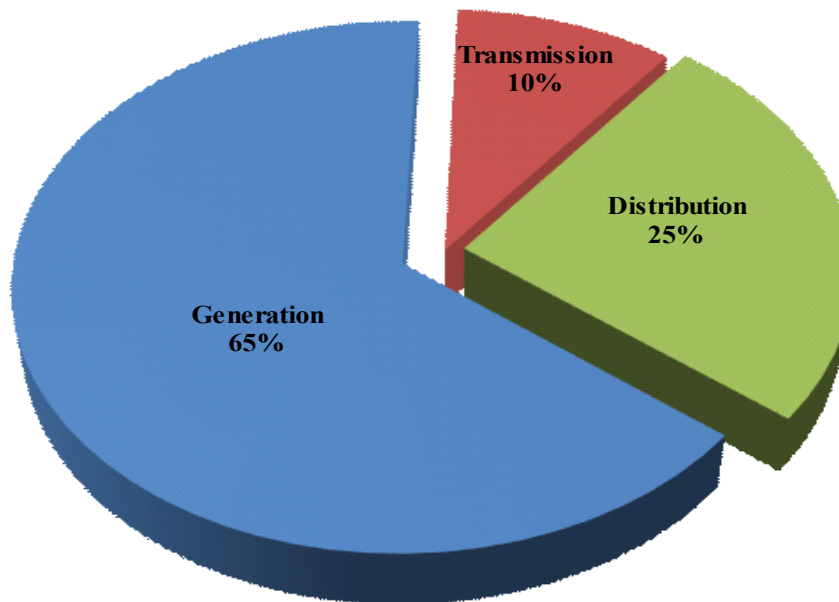
CATEGORY	2018 YTD ACTUAL	2017 YTD ACTUAL
Operating Revenue and Patronage Capital	\$ 148,160,451	\$ 161,753,739
Fuel and Purchased Power Expense	56,216,639	67,226,738
Power Production Expense	13,184,565	12,951,877
Transmission Expense	5,546,054	4,598,273
Distribution Expense	11,590,360	10,368,772
Customer Expense	5,150,221	4,580,216
Administrative, General and Other	17,286,324	17,776,742
Depreciation and Amortization Expense	22,235,372	26,936,964
Interest Expense, Net	16,380,266	16,625,472
Total Cost of Electric Service	\$ 147,589,801	\$ 161,065,054
Patronage Capital & Operating Margins	\$ 570,650	\$ 688,685
Non-Operating Margins - Interest	536,905	471,038
Allowance for Funds Used During Construction	86,304	45,219
Non-Operating Margins - Other	(189,843)	105,049
Patronage Capital or Margins	\$ 1,004,016	\$ 1,309,991
MFI/I	1.06	1.08
TIER	1.06	1.08

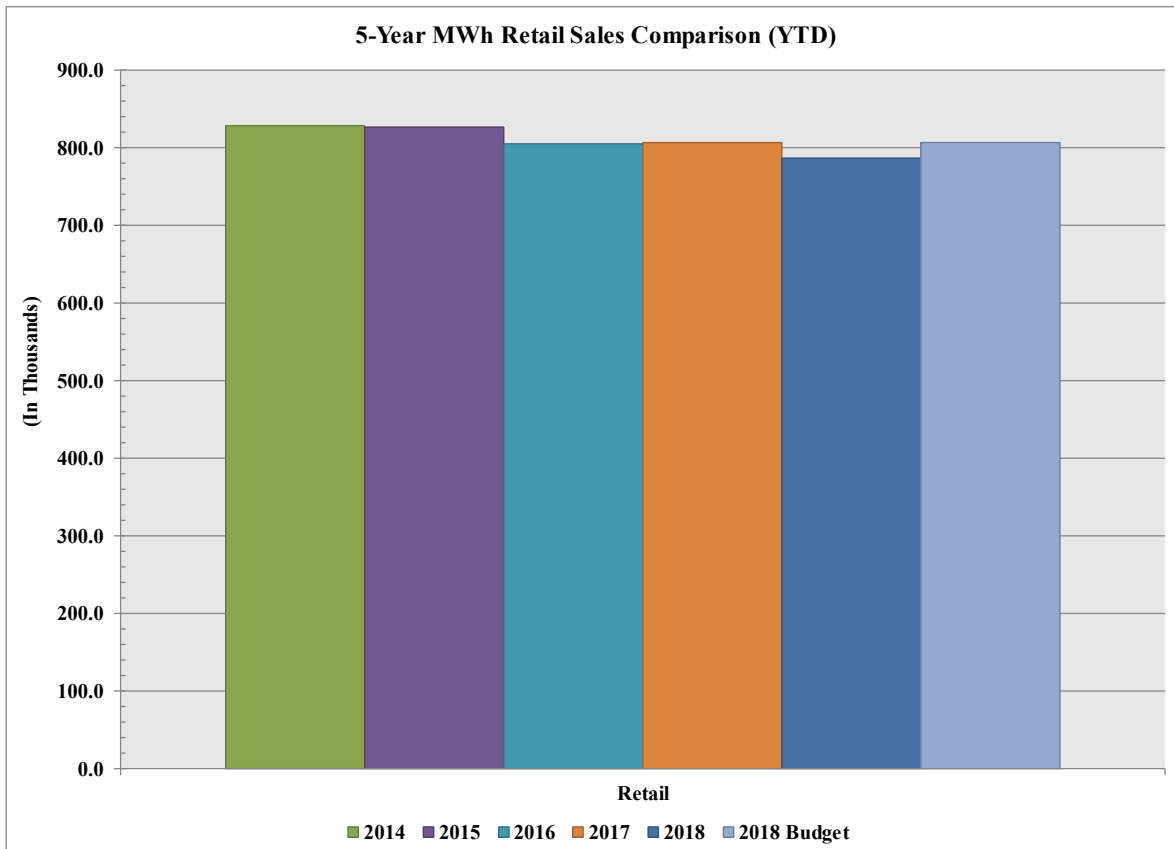
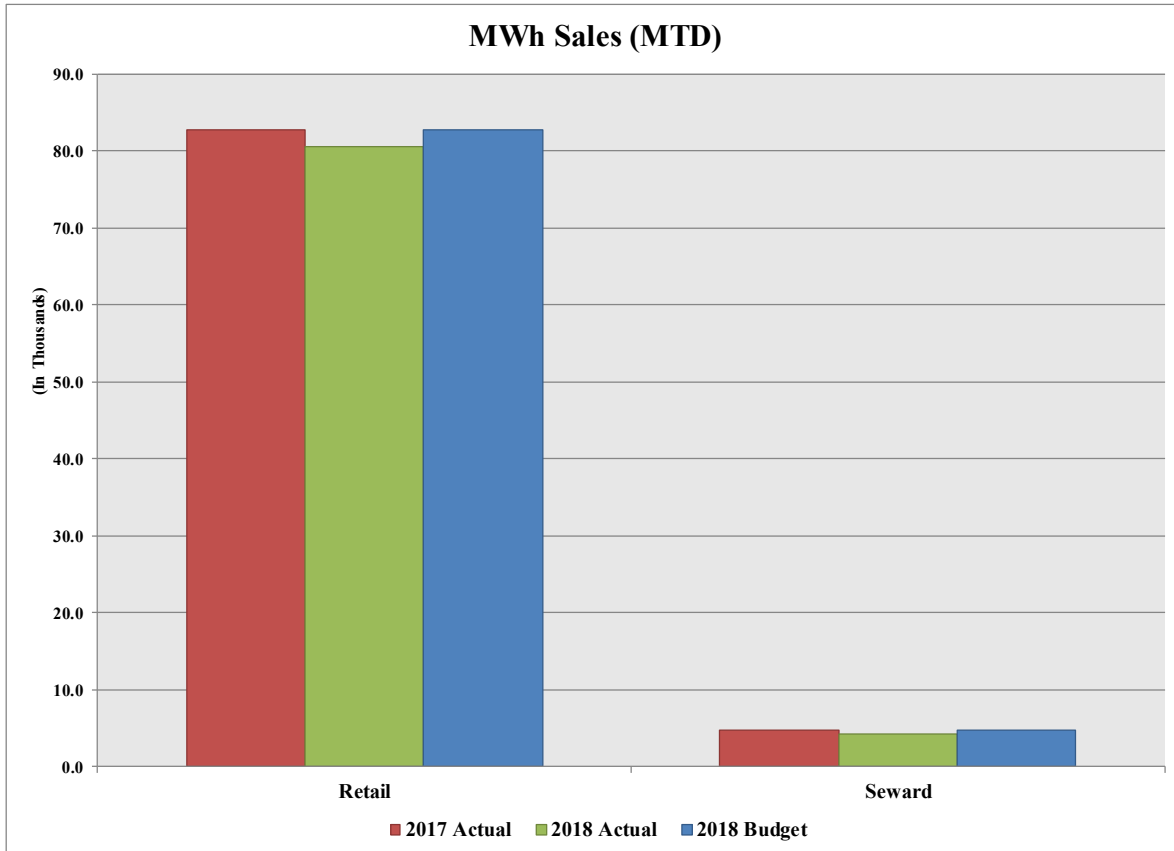


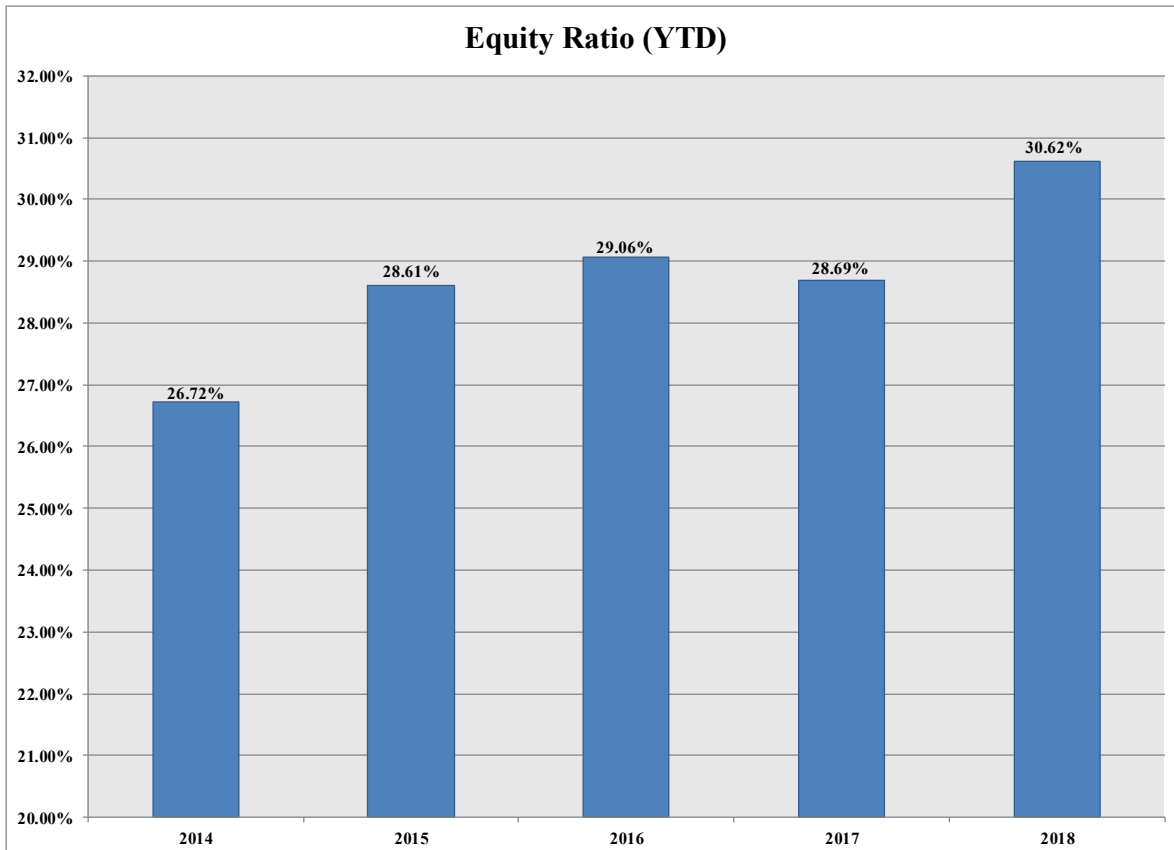
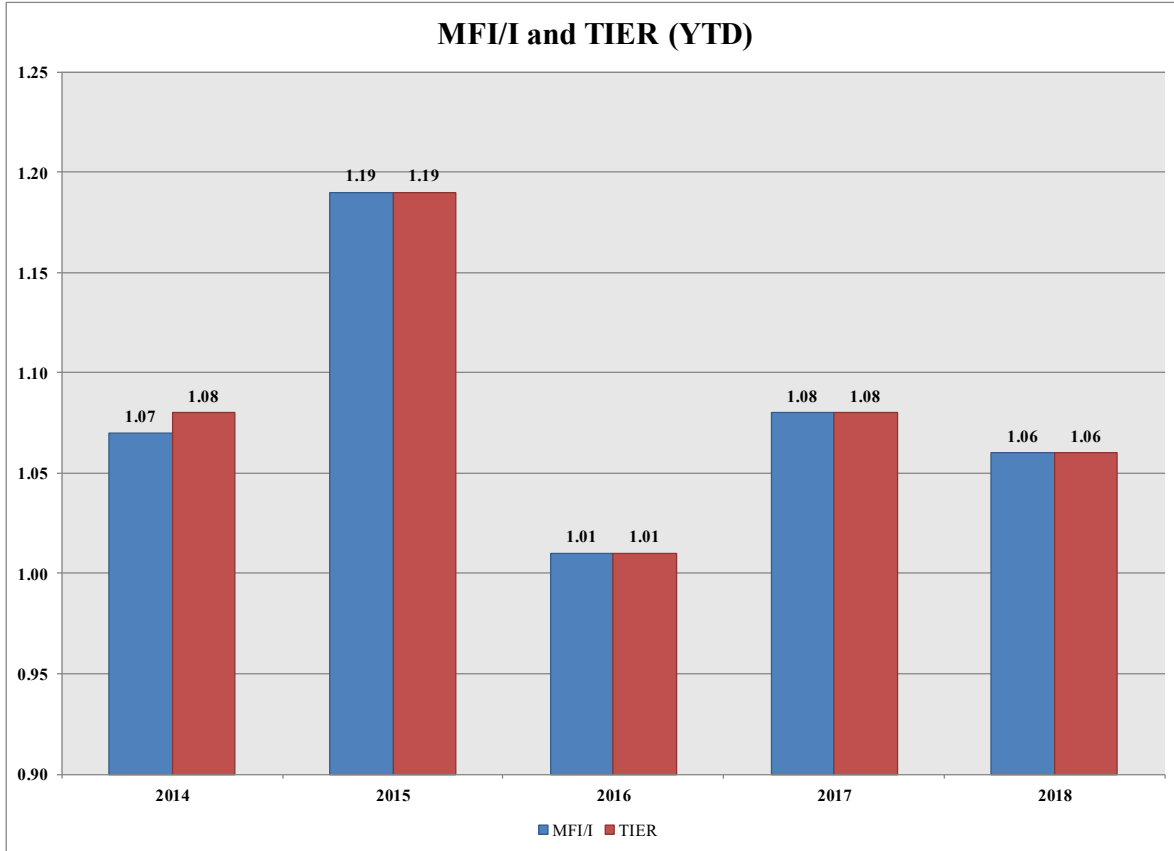
FUNCTIONAL STATEMENT OF OPERATIONS SEPTEMBER 30, 2018

CATEGORY	2018 YTD TOTAL	2018 YTD GEN	2018 YTD TRANS	2018 YTD DIST
Operating Revenue and Patronage Capital	\$ 148,160,451	\$ 95,785,732	\$ 14,630,844	\$ 37,743,875
Fuel and Purchased Power Expense	56,216,639	56,216,639	0	0
Power Production Expense	13,184,565	13,184,565	0	0
Transmission Expense	5,546,054	0	5,546,054	0
Distribution Expense	11,590,360	0	0	11,590,360
Customer Expense	5,150,221	0	0	5,150,221
Administrative, General and Other	17,286,324	5,334,449	2,277,188	9,674,687
Depreciation & Amortization Expense	22,235,372	11,531,226	3,539,551	7,164,595
Interest Expense, Net	16,380,266	\$9,676,789	3,313,369	\$3,390,108
Total Cost of Electric Service	\$ 147,589,801	\$ 95,943,668	\$ 14,676,162	\$ 36,969,971
Patronage Capital & Operating Margins	\$ 570,650	\$ (157,936)	\$ (45,318)	\$ 773,904
Non-Operating Margins - Interest	536,905	\$278,438	\$85,467	\$173,000
Allowance for Funds Used During Construction	86,304	\$4,955	5,219	76,130
Non-Operating Margins - Other	(189,843)	(58,045)	(25,111)	(106,687)
Patronage Capital or Margins	\$ 1,004,016	\$ 67,412	\$ 20,257	\$ 916,347

Total Cost of Electric Service







ENERGY SALES (kWh)

	<u>YTD Actual</u>	<u>YTD Budget</u>
Retail Energy Sales	787,227,397	806,601,249
Wholesale Energy Sales	<u>43,859,191</u>	<u>45,503,490</u>
Total Firm Energy Sales	831,086,588	852,104,739
Economy Energy Sales	<u>207</u>	<u>0</u>
Total Energy Sales	831,086,795	852,104,739

Firm energy sales totaled 831,086,588 kWh, which was a 2.5% unfavorable variance compared to budget. Retail energy sales were under budget 2.4% and wholesale energy sales were under budget by 3.6%, primarily due to warmer than anticipated weather.

ENERGY REVENUE (in millions)

	<u>YTD Actual</u>	<u>YTD Budget</u>
Retail Revenue	\$ 137.0	\$ 145.6
Wholesale Revenue	<u>3.9</u>	<u>4.5</u>
Total Firm Revenue	140.9	150.1
Economy/Other Energy Revenue	0.1	0.0
Other Operating Revenue	<u>7.2</u>	<u>7.0</u>
Total Revenue	\$ 148.2	\$ 157.1

Revenue from firm sales totaled \$140.9 million compared to \$150.1 million in the budget. Firm revenue was lower than expected primarily due to lower than anticipated kWh sales and lower fuel recovered in revenue through the fuel and purchased power adjustment process.

Economy/other energy revenue totaled \$0.1 million due to unanticipated sales to GVEA, MEA, and HEA. Other operating revenue includes late fees, pole rental, wheeling, microwave, BRU royalties, miscellaneous service and other electric revenue. Other operating revenue totaled \$7.2 million compared to \$7.0 million in the budget, primarily due to room & board charged to Hilcorp for Beluga camp use, O&M fees charged to Furie, and higher than anticipated wheeling revenue.

FUEL AND PURCHASED POWER (in millions)

	<u>YTD Actual</u>	<u>YTD Budget</u>
Fuel	\$ 43.5	\$ 50.4
Purchased Power	<u>12.7</u>	<u>12.5</u>
Total	\$ 56.2	\$ 62.9

Fuel expense includes fuel, storage, transportation, and BRU operating costs. Fuel expense was \$43.5 million compared to \$50.4 million projected in the budget. This variance was primarily due to less fuel consumed as a result of lower sales and lower than anticipated BRU operating costs.

Actual fuel purchased for production was 4,861,861 MCF at an average effective delivered price of \$8.17 per MCF, compared to 5,409,975 MCF in the budget at an average effective delivered price of \$8.32 per MCF.

Purchased power expense represents energy purchased from Bradley Lake, Fire Island, and other utilities as needed, as well as costs associated with dispatching. Purchased power expense was \$12.7 million compared to \$12.5 million in the budget with no significant variance.

Actual energy purchased was 156,225 MWh at an average effective price of 6.56 cents per kWh compared to 145,807 MWh budgeted at an average effective price of 6.99 cents per kWh. Higher than anticipated purchases from Bradley Lake resulted in a lower average effective price.

POWER PRODUCTION (in millions)

	<u>YTD Actual</u>	<u>YTD Budget</u>
Total Power Production	\$ 13.2	\$ 14.2

Power production expense was \$13.2 million compared to \$14.2 million in the budget. This favorable variance is primarily due to lower than anticipated labor and maintenance costs at SPP and Beluga, as well as reimbursement from Hilcorp for Beluga camp use. These savings were somewhat offset by costs associated with a maintenance procedures program.

TRANSMISSION OPERATIONS AND MAINTENANCE (in millions)

	<u>YTD Actual</u>	<u>YTD Budget</u>
Total Transmission	\$ 5.5	\$ 5.3

Transmission operations and maintenance expense was \$5.5 million compared to \$5.3 million in the budget, primarily due to higher than anticipated substation and line operations labor.

DISTRIBUTION OPERATIONS AND MAINTENANCE (in millions)

	<u>YTD Actual</u>	<u>YTD Budget</u>
Total Distribution	\$ 11.6	\$ 11.1

Distribution operations and maintenance expense was \$11.6 million compared to \$11.1 million in the budget. This unfavorable variance is primarily due to higher than anticipated labor, vegetation control expenses as well as increased maintenance costs due to storm-related damage.

CONSUMER ACCOUNTS / CUSTOMER INFORMATION (in millions)

	<u>YTD Actual</u>	<u>YTD Budget</u>
Total Consumer / Customer Information	\$ 5.1	\$ 5.0

Consumer accounts and customer information expense was \$5.1 million compared to \$5.0 million in the budget. This variance is primarily due to advertising for the ML&P acquisition which was somewhat offset by lower than anticipated credit card merchant fees.

ADMINISTRATIVE, GENERAL AND OTHER (in millions)

	<u>YTD Actual</u>	<u>YTD Budget</u>
Administrative, General and Other	\$ 17.3	\$ 16.7

Administrative, general and other expense includes tax, donations, other deductions associated with preliminary survey and investigation charges of projects, and obsolete inventory write-offs that are not attributable to operating or maintenance accounts, which was \$17.3 million compared to \$16.7 million in the budget. Increased labor, training, workers compensation, and power pooling expenses were somewhat offset by the deferred classification of costs associated with the ML&P acquisition.

SUMMARY

Depreciation, interest, and interest during construction expense totaled \$38.6 million compared to \$40.3 million in the budget. The favorable variance compared to budget was primarily due to lower than anticipated depreciation expense as a result of retirement adjustments from project closeouts.

All of the foregoing expenses resulted in total cost of electric service of \$147.6 million compared to \$155.7 million in the budget.

Non-operating margins include allowance for funds used during construction (AFUDC), capital credit and patronage capital allocations, extraordinary items, and interest income. Non-operating margins totaled \$0.4 million compared to \$0.6 million in the budget primarily due to the loss in value of marketable securities.

The net result of revenue and expenses was margins of \$1.0 million compared to projected margins of \$2.0 million in the budget. The current forecast projects year-end margins of \$6.1 million, an MFI/I of 1.28, and TIER of 1.30.

COMPARATIVE FINANCIAL REPORT STATEMENT OF OPERATIONS YEAR-END FORECAST

CATEGORY	2018 APPROVED BUDGET	2018 YTD ACTUALS	2018 REVISED FORECAST
Operating Revenue and Patronage Capital	\$ 214,960,079	\$ 148,160,451	\$ 205,086,284 ^{1 2}
Fuel and Purchased Power Expense	85,194,690	56,216,639	78,479,514 ¹
Power Production Expense	18,965,542	13,184,565	17,880,567 ^{1 2}
Transmission Expense	6,915,445	5,546,054	7,130,593 ^{1 2}
Distribution Expense	14,835,722	11,590,360	15,013,381 ^{1 2}
Customer Expense	6,833,267	5,150,221	6,941,947 ^{1 2}
Administrative, General & Other	22,127,986	17,286,324	22,649,316 ^{1 2}
Depreciation and Amortization Expense	32,264,325	22,235,372	29,975,925 ^{1 2}
Interest Expense, Net	21,493,320	16,380,266	21,599,336 ¹
Total Cost of Electric Service	\$ 208,630,297	\$ 147,589,801	\$ 199,670,579
Patronage Capital & Operating Margins	\$ 6,329,782	\$ 570,650	\$ 5,415,705
Non-Operating Margins - Interest	625,941	536,905	693,992 ¹
Allowance for Funds Used During Construction	181,126	86,304	172,886 ¹
Non-Operating Margins - Other	-	(189,843)	(189,843) ¹
Patronage Capital or Margins	\$ 7,136,849	\$ 1,004,016	\$ 6,092,740
MFI/I	1.32	1.06	1.28
TIER	1.35	1.06	1.30

¹ Forecast based on 9 month actual and 3 month forecast

² Forecast has been adjusted to reflect anticipated changes

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

October 31, 2018

TO: Sherri L. Highers, CFO
FROM: Debra Caldwell, Financial Analyst
SUBJECT: 3rd Quarter 2018 Operating Budget Status Report

There were no budget adjustments in the third quarter of 2018. See Operating Budget Status Report on page 2.

**CHUGACH ELECTRIC ASSOCIATION, INC.
OPERATING BUDGET STATUS REPORT
3RD QUARTER 2018**

CATEGORY	2018 APPROVED BUDGET	2018 BUDGET REVISIONS	2018 APPROVED BUDGET
REVENUES:			
TOTAL REVENUE	\$214,960,079	\$0	\$214,960,079
EXPENSES:			
FUEL EXPENSE	67,675,501	0	67,675,501
POWER PRODUCTION EXPENSE	18,965,542	0	18,965,542
COST OF PURCHASED POWER	17,519,189	0	17,519,189
TRANSMISSION EXPENSE	6,915,445	0	6,915,445
DISTRIBUTION EXPENSE-OPERATIONS	6,142,833	0	6,142,833
DISTRIBUTION EXPENSE-MAINTENANCE	8,692,889	0	8,692,889
CONSUMER ACCOUNTS EXPENSE	6,437,520	0	6,437,520
CUSTOMER SERVICE/INFO EXPENSE	395,747	0	395,747
ADMINISTRATIVE/GENERAL EXPENSE	21,490,686	0	21,490,686
TOTAL OPERATIONS/MAINTENANCE EXPENSE	\$154,235,352	\$0	\$154,235,352
DEPRECIATION/AMORTIZATION EXPENSE	32,264,325	0	32,264,325
TAX EXPENSE-OTHER	237,300	0	237,300
INTEREST ON DEBT	22,036,708	0	22,036,708
INTEREST ON CONSTRUCTION-CREDIT	(543,388)	0	(543,388)
OTHER DEDUCTIONS	400,000	0	400,000
TOTAL COST OF ELECTRIC SERVICE	\$208,630,297	\$0	\$208,630,297
PATRONAGE CAPITAL/OPERATING MARGINS	\$6,329,782	\$0	\$6,329,782
NON-OPERATING MARGINS-INTEREST	625,941	0	625,941
ALLOWANCE FUNDS USED DURING CONST.	181,126	0	181,126
NON-OPERATING MARGINS-OTHER	0	0	0
GENER./TRANS. CAPITAL CREDITS	0	0	0
OTHER CAPITAL CREDITS/DIVIDENDS	0	0	0
EXTRAORDINARY ITEMS	0	0	0
PATRONAGE CAPITAL OR MARGINS	\$7,136,849	\$0	\$7,136,849

MFI/I

1.32

1.32

**CHUGACH ELECTRIC ASSOCIATION, INC.
OPERATING BUDGET STATUS REPORT
2ND QUARTER 2018**

CATEGORY	2018 APPROVED BUDGET	2018 BUDGET REVISIONS	2018 APPROVED BUDGET
REVENUES:			
TOTAL REVENUE	\$214,960,079	\$0	\$214,960,079
EXPENSES:			
FUEL EXPENSE	67,675,501	0	67,675,501
POWER PRODUCTION EXPENSE	18,965,542	0	18,965,542
COST OF PURCHASED POWER	17,519,189	0	17,519,189
TRANSMISSION EXPENSE	6,915,445	0	6,915,445
DISTRIBUTION EXPENSE-OPERATIONS	6,142,833	0	6,142,833
DISTRIBUTION EXPENSE-MAINTENANCE	8,692,889	0	8,692,889
CONSUMER ACCOUNTS EXPENSE	6,437,520	0	6,437,520
CUSTOMER SERVICE/INFO EXPENSE	395,747	0	395,747
ADMINISTRATIVE/GENERAL EXPENSE	21,490,686	0	21,490,686
TOTAL OPERATIONS/MAINTENANCE EXPENSE	\$154,235,352	\$0	\$154,235,352
DEPRECIATION/AMORTIZATION EXPENSE	32,264,325	0	32,264,325
TAX EXPENSE-OTHER	237,300	0	237,300
INTEREST ON DEBT	22,036,708	0	22,036,708
INTEREST ON CONSTRUCTION-CREDIT	(543,388)	0	(543,388)
OTHER DEDUCTIONS	400,000	0	400,000
TOTAL COST OF ELECTRIC SERVICE	\$208,630,297	\$0	\$208,630,297
PATRONAGE CAPITAL/OPERATING MARGINS	\$6,329,782	\$0	\$6,329,782
NON-OPERATING MARGINS-INTEREST	625,941	0	625,941
ALLOWANCE FUNDS USED DURING CONST.	181,126	0	181,126
NON-OPERATING MARGINS-OTHER	0	0	0
GENER./TRANS. CAPITAL CREDITS	0	0	0
OTHER CAPITAL CREDITS/DIVIDENDS	0	0	0
EXTRAORDINARY ITEMS	0	0	0
PATRONAGE CAPITAL OR MARGINS	\$7,136,849	\$0	\$7,136,849

MFI/I

1.32

1.32

CHUGACH ELECTRIC ASSOCIATION, INC.
OPERATING BUDGET STATUS REPORT
1ST QUARTER 2018

CATEGORY	2018 APPROVED BUDGET	2018 BUDGET REVISIONS	2018 APPROVED BUDGET
REVENUES:			
TOTAL REVENUE	\$214,960,079	\$0	\$214,960,079
EXPENSES:			
FUEL EXPENSE	67,675,501	0	67,675,501
POWER PRODUCTION EXPENSE	18,965,542	0	18,965,542
COST OF PURCHASED POWER	17,519,189	0	17,519,189
TRANSMISSION EXPENSE	6,915,445	0	6,915,445
DISTRIBUTION EXPENSE-OPERATIONS	6,142,833	0	6,142,833
DISTRIBUTION EXPENSE-MAINTENANCE	8,692,889	0	8,692,889
CONSUMER ACCOUNTS EXPENSE	6,437,520	0	6,437,520
CUSTOMER SERVICE/INFO EXPENSE	395,747	0	395,747
ADMINISTRATIVE/GENERAL EXPENSE	21,490,686	0	21,490,686
TOTAL OPERATIONS/MAINTENANCE EXPENSE	\$154,235,352	\$0	\$154,235,352
DEPRECIATION/AMORTIZATION EXPENSE	32,264,325	0	32,264,325
TAX EXPENSE-OTHER	237,300	0	237,300
INTEREST ON DEBT	22,036,708	0	22,036,708
INTEREST ON CONSTRUCTION-CREDIT	(543,388)	0	(543,388)
OTHER DEDUCTIONS	400,000	0	400,000
TOTAL COST OF ELECTRIC SERVICE	\$208,630,297	\$0	\$208,630,297
PATRONAGE CAPITAL/OPERATING MARGINS	\$6,329,782	\$0	\$6,329,782
NON-OPERATING MARGINS-INTEREST	625,941	0	625,941
ALLOWANCE FUNDS USED DURING CONST.	181,126	0	181,126
NON-OPERATING MARGINS-OTHER	0	0	0
GENER./TRANS. CAPITAL CREDITS	0	0	0
OTHER CAPITAL CREDITS/DIVIDENDS	0	0	0
EXTRAORDINARY ITEMS	0	0	0
PATRONAGE CAPITAL OR MARGINS	\$7,136,849	\$0	\$7,136,849

MFI/I

1.32

1.32

CHUGACH ELECTRIC ASSOCIATION
CAPITAL PROJECT TRACKING REPORT
As of September 30, 2018

CIP Ref #	Project Name ¹	Project Manager	BOD Project Approval Date	Estimate			Actuals			Variance		Project Completion	Comments
				Estimate	Revisions to Estimate	Revised Estimate	Spending to Date	Forecast to Completion	Total Estimated Completion Cost	Total Estimated Cost vs. Revised Estimate			
										Amount	%		
SYSTEM IMPROVEMENT PROJECTS													
Reliability													
20.0303	Beluga U3 Major P1700876	Highers/Love	5/23/2018	\$4,239,012	\$0	\$4,239,012	\$3,176,600	\$634,190	\$3,810,790	(\$428,222)	90%	99%	Project is complete and in closeout pending final vendor invoicing. Revised estimate reflects lower anticipated costs for exhaust components and hot gas path parts.
10.0240	Retire INSS 138kV Facilities E1720055	Laughlin	1/24/2018	\$2,700,000	\$0	\$2,700,000	\$548,551	\$2,151,449	\$2,700,000	\$0	100%	20%	This project will retire existing 138 kV facilities at the International Substation (INSS) and move two power transformers to new foundations with oil containment meeting fire protection and seismic requirements. 90% design has been completed. Equipment procurement packages are under development and will be solicited in the third quarter.
10.0364	115 kV Rebuild - Hope to Summit E1720053	Wendling	2/20/2018	\$9,500,000	\$0	\$9,500,000	\$501,036	\$8,998,964	\$9,500,000	\$0	100%	5%	This project will rebuild an approximate 10 mile section of the 115 kV transmission line between Hope Substation and Summit Lake Substation to 230kV insulation standards. Transmission line design is completed. Steel structure procurement documents finalized and materials have been ordered.
Operating Efficiency													
05.0300	Debarr Substation Rebuild E1620052	Reid	1/26/2017	\$6,000,000	\$0	\$6,000,000	\$4,221,025	\$2,018,975	\$6,240,000	\$240,000	104%	33%	This project will upgrade the existing facilities at Debarr Substation. The scope includes replacement of the existing power transformer, 12.5kV switchgear, 34.5kV circuit switchers, and associated control and power cables. The contractor, Electric Power Constructors (EPC), will be substantially complete by the end of November. The power transformer and switchgear were delivered in the third quarter. Commissioning is expected to last through early 2019. Forecast to completion includes an additional \$240,000 for work to move the substation per the request of the Municipality.
05.0886	Hope Substation Upgrade Hope 25 kV Xfmr Fdn (HMGP) E1613628	Wendling	12/12/2017	\$1,900,000	\$0	\$1,900,000	\$240,909	\$509,091	\$750,000	(\$1,150,000)	39%	99%	This project upgraded several of the existing facilities at Hope Substation. The scope was changed to reuse the existing transformer and install a seismically rated foundation with a membrane type secondary containment, therefore reducing the total estimated cost. Construction is complete and energized. Project is in closeout pending documentation from Northern Powerline Constructors, Inc. (NPC) and final invoicing.
New Business Offering													
20.0310	Community Solar Project P1731026	Highers	10/1/2017	\$2,000,000	\$0	\$2,000,000	\$0	\$2,000,000	\$2,000,000	\$0	100%	0%	Project to install a 500 kW community solar project. Proposals received for engineering, procurement and construction (EPC) work with one apparent successful bidder identified after evaluation. Awaiting RCA approval of the Community Solar program and the achievement of 80% participation before seeking Board approval of contract.
Totals				\$26,339,012	\$0	\$26,339,012	\$8,688,120	\$16,312,670	\$25,000,790	(\$1,338,222)	95%	43%	

¹ Report tracks projects with costs exceeding \$1M.

² Represents Chugach costs only.

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

AUDIT AND FINANCE COMMITTEE MEETING
AGENDA ITEM SUMMARY

November 6, 2018

ACTION REQUIRED

AGENDA ITEM NO. VI.A.

Information Only
 Motion
 Resolution
 Executive Session
 Other

TOPIC

Recommendation on Discounting for 2019 Capital Credit Payments

DISCUSSION

Chugach's Bylaws require Board approval of capital credit payments. This resolution authorizes the payment not to exceed \$300,000 during 2019 to retire early (discounted) capital credits. If the funding and approval of payments is preauthorized, staff can expeditiously process these requests without having to come to the Board for approval prior to making payments throughout the year.

MOTION

Move that the Audit and Finance Committee recommend the Board of Directors approve the attached resolution authorizing early (discounted) capital credit payments for 2019 not to exceed 300,000.

RESOLUTION

Discounting for 2019 Capital Credit Payments

WHEREAS, Chugach Electric Association, Inc. (Chugach) has developed a plan to pay discounted capital credits to former members before normal retirements; and

WHEREAS, Chugach has received a Private Letter Ruling from the Internal Revenue Service stating the discounted capital credits retirement plan does not jeopardize Chugach's tax-exempt status; and

WHEREAS, the plan provides that the amount available for discounted capital credit payments to former members can be increased or decreased at the discretion of the Board of Directors; and

WHEREAS, Chugach's bylaws require Board approval of capital credit retirements; and

WHEREAS, the Board of Directors has determined that a retirement under this early payment plan in 2019 will not impair the financial condition of the Association; and

WHEREAS, early payments of capital credits include payments to estates of deceased patrons; and

WHEREAS, estate and other early payments will be made on a frequent basis and it would delay these payments if Board approval is required for each specific early retirement being paid;

NOW THEREFORE, BE IT RESOLVED, Chugach shall make early payments of capital credits to former members and estates who request early retirements under the plan in the actual discounted amount, not to exceed \$300,000 in cash payments for 2019.

BE IT FURTHER RESOLVED, before receiving a payment under this plan, any member with an outstanding electric debt will be required to first pay the outstanding debt or acknowledge the capital credit payment will be reduced by the amount necessary to satisfy the outstanding debt.

BE IT FURTHER RESOLVED, any payments under the plan for 2019 will be in accordance with Board Policy 304.

CERTIFICATION

I, Stuart Parks, do hereby certify that I am the Secretary of Chugach Electric Association, Inc., an electric non-profit cooperative membership corporation organized and existing under the laws of the State of Alaska; that the foregoing is a complete and correct copy of a resolution adopted at a meeting of the Board of Directors of this corporation, duly and properly called and held on the 6th day of November, 2018; that a quorum was present at the meeting; that the resolution is set forth in the minutes of the meeting and has not been rescinded or modified.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of this corporation the 6th day of November, 2018.

Secretary

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

October 31, 2018

TO: Lee Thibert, Chief Executive Officer

THRU: Arthur Miller, Vice President, Regulatory and External Affairs

FROM: Teresa Kurka, Director, Member Services

SUBJECT: **Discounted Capital Credit Payments**

Chugach Electric Association, Inc. (Chugach) implemented an early payment program for the retirement of capital credits in late 2004. The authority for this program is Board Policy 304 Capital Credit Policy. With this option, former members can receive their capital credits early at a discounted amount. The program was submitted to the Internal Revenue Service and a private letter ruling was received to ensure it did not impact Chugach's tax exempt status.

The goals of the early retirement plan are as follows:

- Reduce administrative expenses by no longer needing to send checks and maintain records for memberships that are "cashed out".
- Build equity by recognizing the difference between the amount paid and the face value of the capital credits retired as donated capital.
- Reduce future funding requirements. When a former member takes an early payment, the amount by which it is discounted (i.e., the donated portion) is also the total of future year's capital credits for the membership that no longer need to be funded.
- Provide a voluntary option to former members to collect capital credits prior to normal retirements.

Only former members are eligible to cash in their capital credits, and any outstanding debts are recovered against payment amounts. Per Board Policy 304, the discount rate for determining payment amounts is Chugach's recent cost of equity filed with the Regulatory Commission of Alaska or, alternatively, the 10-year National Rural Utilities Cooperative Finance Corporation (NRUCFC) borrowing rate plus 3 percent. Chugach's current cost of equity is 3.6 percent and the NRUCFC rate plus 3 percent is 8.05 percent.

Discounted Capital Credit Payments

The current funding level is \$275,000 per year, which was established by Board Resolution Number 11 01 17 on November 29, 2017. This amount can be adjusted at the discretion of the Board. I am recommending the amount for 2019 be raised to \$300,000. This amount recognizes the continued growth in the popularity of the program and the fact that as we reached the 2018 cap of \$275,000.00, we received another \$66,500.00 in additional member requests. Below is a summary of early retirements for 2016, 2017 and 2018, which shows the growth of the program that should be considered when determining funding levels for future years.

Description	2016	2017	2018
Authorized Board Funding Level	\$250,000	\$275,000	\$275,000
Number of Payments Made	210	257	338
Amount paid to Member (Discounted)	\$138,868	\$271,882	\$273,802
Bad debts recovered	\$217	\$1,002	\$775
Donated capital	\$123,320	\$212,426	\$193,364
Capital credits retired	\$262,405	\$485,310	\$467,941

CHUGACH ELECTRIC ASSOCIATION, INC.

September 2018 Financial Information

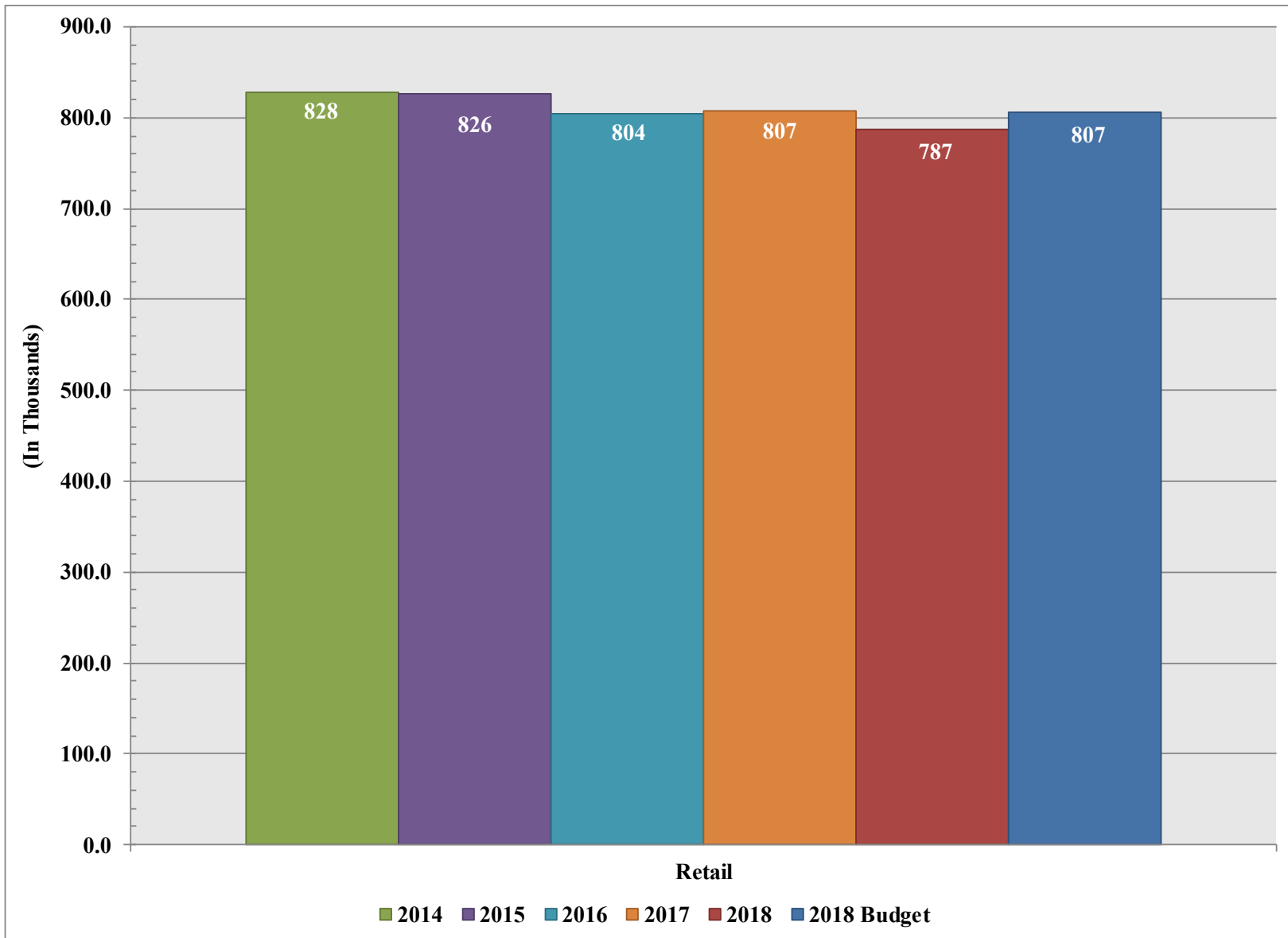
November 6, 2018



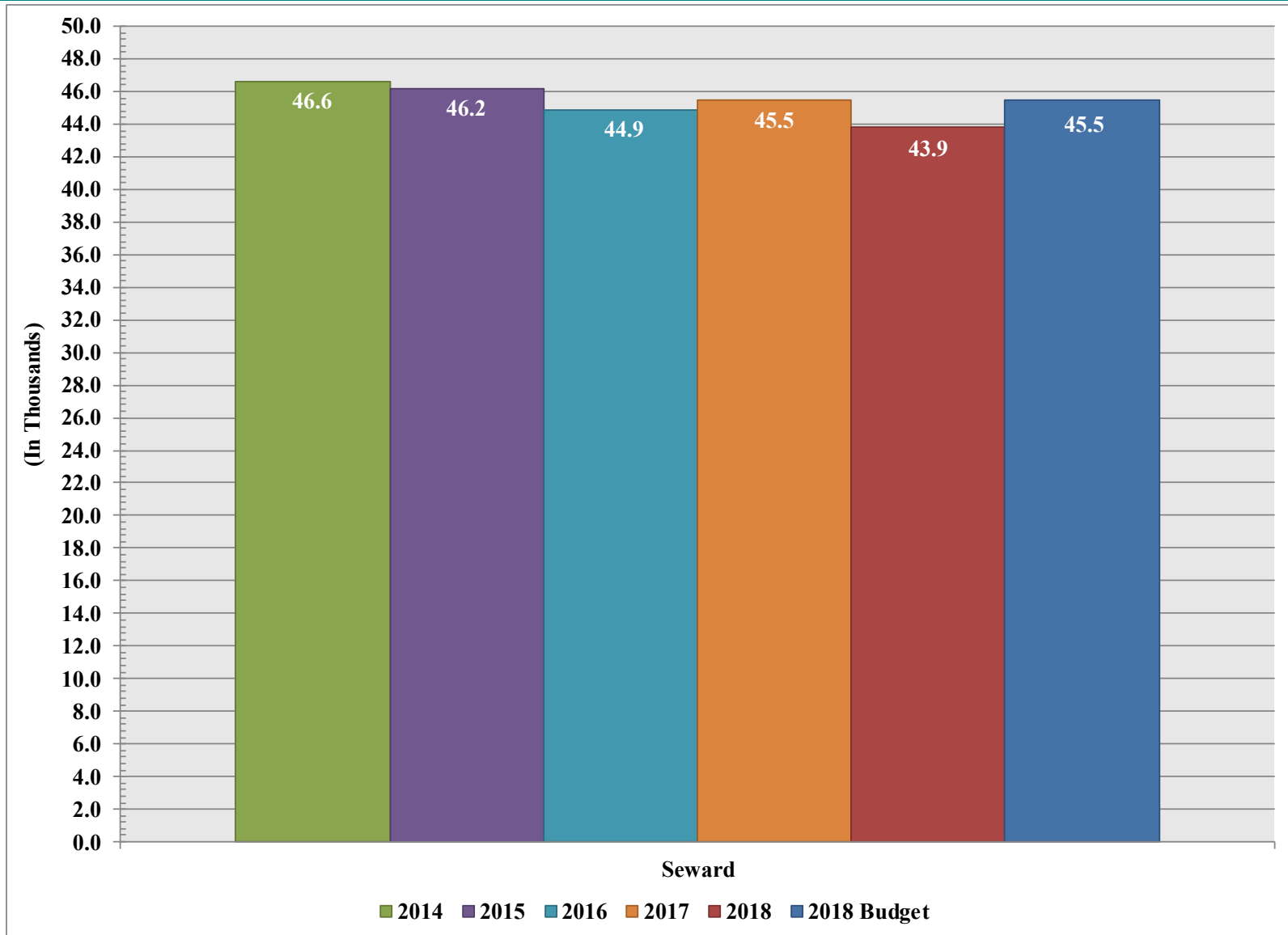
September 2018 Financial Information

- ▶ MWH Sales
- ▶ Statement of Operations
- ▶ Balance Sheet
- ▶ Statements of Cash Flows
- ▶ ASC 842 – Leases Update

5 Year Retail MWh Sales Comparison (September YTD)



5 Year Seward MWh Sales Comparison (September YTD)

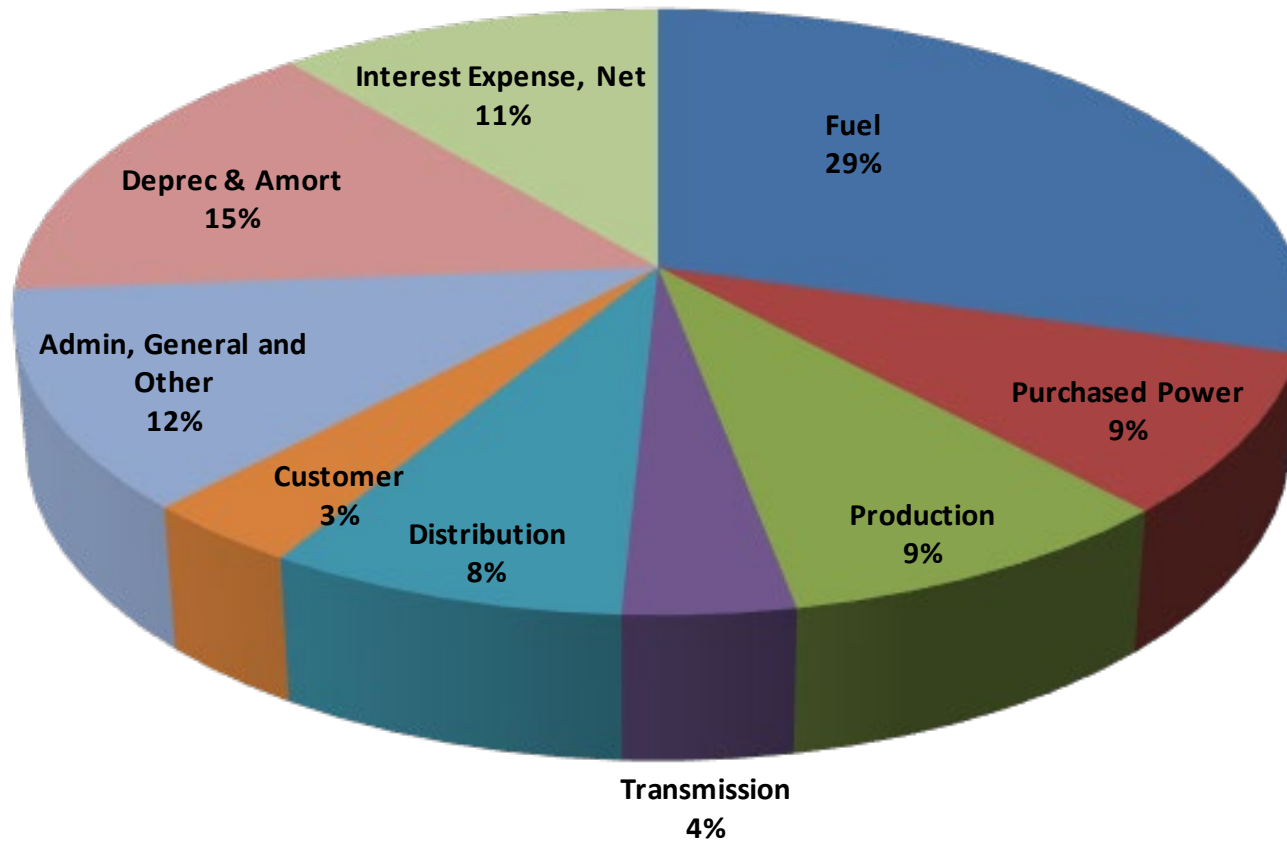


Comparative Statement of Operations

September YTD 2018

CATEGORY	ACTUAL	BUDGET	VARIANCE
Operating Revenues	\$ 148,160,451	\$ 157,111,914	\$ (8,951,463)
Fuel	43,548,282	50,406,613	(6,858,331)
Production	13,184,565	14,235,215	(1,050,650)
Purchased Power	12,668,357	12,525,202	143,155
Transmission	5,546,054	5,268,158	277,896
Distribution	11,590,360	11,102,339	488,021
Consumer Accounts	5,150,221	5,040,791	109,430
Administrative, General and Other	17,286,324	16,735,017	551,307
Depreciation and Amortization	22,235,372	24,073,772	(1,838,400)
Total Operating Expenses	\$ 131,209,535	\$ 139,387,107	\$ (8,177,572)
Interest Expense, Long-Term and Other	16,587,462	16,557,894	29,568
Interest Charged to Construction	(207,196)	(283,644)	76,448
Net Interest Expense	\$ 16,380,266	\$ 16,274,250	\$ 106,016
Net Operating Margins	\$ 570,650	\$ 1,450,557	\$ (879,907)
Interest Income	536,905	468,854	68,051
Allowance Funds Used During Const.	86,304	94,544	(8,240)
Capital Credits, Patronage Dividends, Other	(189,843)	0	(189,843)
Patronage Capital or Margins	\$ 1,004,016	\$ 2,013,955	\$ (1,009,939)
MFI/I	1.06	1.12	
TIER	1.06	1.13	

Total Operating and Interest Expense September YTD 2018



Comparative Balance Sheet, Assets & Other Debits

September 2018 & December 2017

ASSETS & OTHER DEBITS	09/30/18	12/31/17	CHANGE
Electric Plant in Service	1,212,367,485	1,205,092,224	7,275,261
Construction Work in Progress	19,235,244	17,952,573	1,282,671
Total Utility Plant	\$ 1,231,602,729	\$ 1,223,044,797	\$ 8,557,932
Accumulated Depreciation	(525,130,638)	(515,496,312)	(9,634,326)
Net Utility Plant	\$ 706,472,091	\$ 707,548,485	\$ (1,076,394)
Nonutility Property	76,889	76,889	0
Investment in Assoc. Organizations	8,566,395	8,980,410	(414,015)
Special Funds	1,893,788	1,466,010	427,778
Restricted Cash Equivalents & Other	775,161	1,028,758	(253,597)
Total Other Property & Investments	\$ 11,312,233	\$ 11,552,067	\$ (239,834)
Cash, Marketable Securities & Other	13,931,959	16,906,531	(2,974,572)
Special Deposits & Restricted Cash	593,288	741,670	(148,382)
Accounts Receivable - Net	26,388,989	35,680,680	(9,291,691)
Materials and Supplies, Fuel Stock	27,004,321	22,193,089	4,811,232
Prepayments	3,822,752	4,953,170	(1,130,418)
Other Current Assets	292,496	5,178,987	(4,886,491)
Total Current Assets	\$ 72,033,805	\$ 85,654,127	\$ (13,620,322)
Deferred Charges, Net	37,288,222	32,764,065	4,524,157
Total Assets	\$ 827,106,351	\$ 837,518,744	\$ (10,412,393)

Comparative Balance Sheet, Liabilities & Other Credits

September 2018 & December 2017

LIABILITIES & OTHER CREDITS	09/30/18	12/31/17	CHANGE
Memberships	1,741,307	1,719,154	22,153
Patronage Capital	173,484,942	172,928,887	556,055
Other	14,819,398	14,653,253	166,145
Total Equities and Margins	\$ 190,045,647	\$ 189,301,294	\$ 744,353
Bonds Payable	398,416,664	421,833,331	(23,416,667)
National Bank for Cooperatives	34,770,000	37,164,000	(2,394,000)
Unamortized Debt Issuance Costs	(2,485,861)	(2,669,485)	183,624
Total Long-Term Obligations	\$ 430,700,803	\$ 456,327,846	\$ (25,627,043)
Current Installments of Long-Term Obligations	26,608,667	26,608,667	0
Commercial Paper	62,000,000	50,000,000	12,000,000
Accounts Payable	11,146,309	7,420,279	3,726,030
Consumer Deposits	5,017,975	5,335,896	(317,921)
Other Current & Accrued Liabilities	26,512,402	30,002,352	(3,489,950)
Total Current Liabilities	\$ 131,285,353	\$ 119,367,194	\$ 11,918,159
Deferred Compensation	1,366,927	1,229,294	137,633
Other Liabilities, Non-Current	927,306	531,630	395,676
Deferred Liabilities	1,391,253	1,249,390	141,863
Patronage Capital Payable	8,798,077	8,798,077	0
Cost of Removal Obligation / ARO	62,590,985	60,714,019	1,876,966
Total Liabilities, Equities and Margins	\$ 827,106,351	\$ 837,518,744	\$ (10,412,393)

Statements of Cash Flows

September 2018 and September 2017

	09/30/18	09/30/17
1. Cash flows from operating activities:		
Assignable margins	\$ 1,004,016	\$ 1,309,991
Adjustments to reconcile assignable margins to net cash provided (used) by operating activities:		
Depreciation and amortization	26,148,453	30,485,258
Allowance for funds used during construction	(86,304)	(45,219)
Other	386,852	340,559
Net (increase) decrease in assets	1,361,567	(5,703,923)
Net decrease in liabilities	(2,790,159)	(6,530,066)
Net cash provided by operating activities:	\$ 26,024,425	\$ 19,856,600
2. Cash flows from investing activities:		
Return of capital from investment in associated organizations	414,012	370,010
Investment in special funds	(302,152)	0
Investment in marketable securities and investments-other	(2,843,213)	(1,158,521)
Proceeds from the sale of marketable securities	4,707,765	0
Extension and replacement of plant	(18,479,692)	(21,729,462)
Net cash used in investing activities:	\$ (16,503,280)	\$ (22,517,973)
3. Cash flows from financing activities:		
Payments for debt issue costs	0	(208,498)
Net increase (decrease) in short-term obligations	12,000,000	(17,200,000)
Net increase (decrease) in long-term obligations	(25,810,667)	15,961,333
Consumer advances for construction/Other	2,954,790	3,404,892
Net cash provided by financing activities:	\$ (10,855,877)	\$ 1,957,727
Net change in cash, cash equivalents & restricted cash	(1,334,732)	(703,646)
4. Cash, cash equivalents & restricted cash at beginning of period	\$ 7,201,759	\$ 6,383,217
5. Cash, cash equivalents and restricted cash at end of period	\$ 5,867,027	\$ 5,679,571

- ▶ Fire Island
- ▶ Easements
- ▶ Bradley Lake / Eklutna
- ▶ Next Steps

Questions?

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

AUDIT AND FINANCE COMMITTEE MEETING
AGENDA ITEM SUMMARY

November 6, 2018

ACTION REQUIRED

AGENDA ITEM NO. VIII.A.

- Information Only
 - Motion
 - Resolution
 - Executive Session
 - Other
-

TOPIC

September 30, 2018, SEC Form 10Q Filing

DISCUSSION

The Form 10Q as reviewed in executive session.

MOTION

Move that the Audit and Finance Committee recommend management file the Securities and Exchange Commission Form 10Q by the due date incorporating any amendments to the document which will be reviewed and approved by KPMG. Ms. Stuart and Ms. Highers will immediately inform the Board, in writing, of any material or significant changes.