

2019 Annual Report



CHUGACH
POWERING ALASKA'S FUTURE

To Our Members

This is a dynamic and challenging time for an electric utility. Changes in technology, energy efficiency initiatives, and renewable resource opportunities are all shaping the future of this industry. Those changes reinforce the importance of a strong board and management team working together to maintain steady footing and meet the challenges ahead. We believe we are doing that at Chugach.

The acquisition of Municipal Light & Power (ML&P) is the largest project Chugach has ever undertaken, and the success of the transaction is an important part of maintaining affordable, reliable power for our members. The conditional approval we received from the Regulatory Commission of Alaska (RCA) allows us to move forward on closing and see the transaction to the finish line.

It will be very important that we focus on keeping rates down while we integrate the two utilities, maximize the efficiencies and savings, and bring the workforces together. The employees are key to the success of this effort, and we appreciate all of the hard work done to get us where we are.

The most important duty of a board member is to represent the community members and to always be looking at ways to make sure rates are where they should be; service is reliable; and keeping the ratepayer perspective on what the strategy should be now and for decades to come to keep the utility healthy.



2019 Chugach Board of Directors L to R: Susan Reeves, Vice Chair; Stuart Parks, Secretary; Harold Hollis, Director; Harry Crawford, Director; Bettina Chastain, Chair; Rachel Morse, Treasurer; Jim Henderson, Director



BETTINA CHASTAIN
Board Chair



LEE THIBERT
CEO

Our Management Team

As a member-owned, not-for-profit cooperative, we never lose sight of our mission to provide safe, reliable, and affordable power to our members. We were continually reminded of that in 2019 as we continued to pursue the acquisition of Municipal Light & Power (ML&P).

A bit of history. It was the April 2018 municipal election where Anchorage voters approved the sale of ML&P to Chugach by more than 65 percent. What followed were several months of negotiation with the Municipality of Anchorage, and Chugach filed for approval of the transaction from the Regulatory Commission of Alaska (RCA) on April 1, 2019. After several weeks of hearings starting in August, a settlement was reached that included a purchase price of \$972.8 million. On May 28, 2020, we received conditional approval from the RCA for the acquisition and plan to move forward on closing later this year.

It has been a long road, with many turns along the way. I appreciate the patience of our members and the hard work of our employees as we have worked through this historical transaction. We know the end result will be a benefit to those we serve. We estimate the combination of the two utilities will lead to lower long-term rates for all utility ratepayers, with an estimated savings of more than \$200 million over the next 15 years.

In addition to the acquisition, we have been working on a number of other projects you will read about in this report. Our industry is going through



L to R: Arthur Miller, Exec. VP Regulatory & External Affairs; Matt Clarkson, Exec. VP General Counsel; Tyler Andrews, Exec. VP Employee Svcs & Communications; Mark Fouts, Exec. VP Fuel & Corporate Planning; Lee Thibert, Chief Executive Officer; Connie Owens, Manager Executive Office; Paul Risse, Exec. VP Production & Engineering; Sherri Highers, CFO & Exec. VP Finance & Administration; Brian Hickey, Chief Operating Officer

many changes, and we will continue to take actions to keep the utility healthy. Reliable, affordable power is key to strong communities, and Chugach is committed to meeting that challenge every day.



Safety milestone at Chugach

2019 was an outstanding safety year at Chugach, with no lost-time injuries reported. In an industry where safety is the #1 priority, this is an outstanding achievement. Chugach's overall injury rate was also improved from the previous year. In 2019 the injury rate was 1.7, compared to 2.4 in 2018. An injury rate of 1.7 reflects the number of injuries for every 200,000 hours worked by Chugach employees. Chugach is proud of its professional team of employees who take safety seriously and who work to make sure everybody stays safe while delivering reliable, affordable power to our members.



In the community

Concern for community is one of the seven principles of a member-owned cooperative. At Chugach, we believe supporting our local non-profits and events is a key part of who we are. Each year, employees donate time and talent to several organizations and participate in community events such as the Alaska Run for Women, the Heart Run, and Cleanup Week. Increasing our commitment to community, Chugach implemented an Employee Volunteer Program where employees are given 16 hours a year to donate their time to local non-profits during the normal workday.



Lessons in light and power

More than 4,200 students from 44 schools across Alaska participated in the 2019 Power Pledge Challenge. Chugach is one of several Alaska utilities and related organizations going into middle school physical science classrooms each year, teaching about energy efficiency and conservation. The program, which started in 2013, includes a hands-on activity to calculate electricity use. Students also conduct an online home energy audit with their families.



Transmission line rebuilt

Nine miles of the 115-kilovolt (kV) transmission line between the Hope Substation and the Summit Lake Substation were rebuilt in 2019. The line capacity was upgraded from 115 kV to 230 kV between mile 46 and mile 55 of the Seward Highway. The existing line had reached the end of its useful life and needed replacing in order to improve reliability and increase the future power transfer capacity from the Kenai Peninsula to Anchorage.



Partnership promotes EV charging stations



Chugach is partnering with four commercial members to be participants in an electric vehicle (EV) charging station research project. The five companies were selected on a competitive basis using criteria such as geographic diversity and activities available while charging. The commercial partners are Alyeska Resort, the Dimond Center, JL Properties, and the Municipality of Anchorage. The goal of the project is to better understand the driving habits and charging needs of EV owners, and to make charging available in more locations. In exchange for data from the commercial partners, Chugach will help with costs to install the charging stations.

Emergency communication enhanced



A mobile communications trailer is the latest addition to Chugach's emergency preparedness. The trailer can be used in emergencies to establish wireless communication with any one of our multiple communication sites. The unit is equipped with a standby generator and a 60-foot

extendable tower. In the event of a major outage after a big storm or natural disaster, it can be used to reestablish critical data and voice communication.

Significant repairs from 2018 earthquake

The November 2018 earthquake damaged equipment at several Chugach facilities. Chugach spent nearly \$2.8M repairing or replacing this equipment in 2019. The Point MacKenzie Substation, only a few miles from the quake's epicenter, sustained significant damage. The substation is an important intersection in our transmission grid connecting Anchorage, Beluga and the Mat-Su Valley. Significant expenditures were also incurred at the Beluga Power Plant where a 138kV transformer failed. It is one of two on the circuit supplying power to the village of Tyonek and the Beluga River Unit gas compressors. Beluga generating Units 1 and 2 were also repaired and returned to service. Repairs continue in 2020, including transformer foundation work at the LaTouche Substation.



Swan Lake wildfire damages transmission line

A major transmission line linking the Bradley Lake Hydroelectric Project near Homer to Chugach and other utilities north of Cooper Landing (including Seward Electric System) was damaged by a wildfire and offline for several months in 2019. The lightning-caused Swan Lake fire burned a total of 167,000 acres, including roughly 15 miles of the 115-kilvolt line which was out of service from June 5 to December 19. When the line was out of service, Chugach and the other utilities were unable to access hydropower from Bradley Lake and had to use more expensive natural gas to make up for the lost hydro power. Chugach members using an average of 600 kwh per month saw an increase of just under \$3.00 on their monthly bill for the months the line was out of service.

Appreciating our members

Wind and rain did not dampen enthusiasm, as more than 300 members turned out for Member Appreciation Day on October 4. We served up 750 hot dogs, gave bucket truck rides, escorted nearly 100 people on a tour of our power plant, and shared safety and energy efficiency tips. Chugach holds a Member Appreciation Day each October in conjunction with National Cooperative/ Energy Awareness Month. We partner with several local agencies and businesses who bring valuable information to the event on everything from energy assistance to emergency preparation and the advantages of battery-powered tools. Member Appreciation Day is one of our favorite times of the year to welcome our members and show them one of the many advantages of being part of a member-owned cooperative.



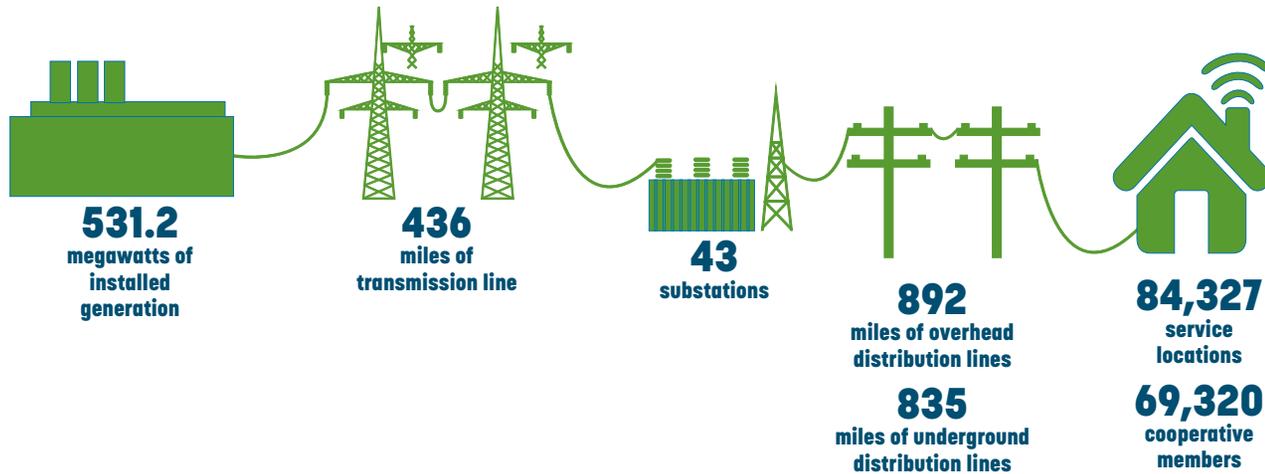
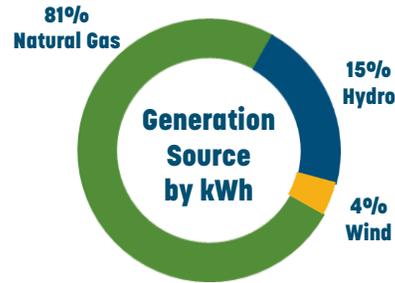
Cooper Lake Power Plant gets major overhaul

The Cooper Lake Power Plant Unit 1 hydroelectric turbine underwent major maintenance during the summer and fall of 2019. This work required the complete disassembly and reassembly of the turbine and generator. The project included the replacement of a damaged runner with a refurbished one. The runner is the portion of the hydro-turbine that water passes through to spin the turbine and generator. An overhaul of this nature takes place approximately every 10-12 years to maintain the equipment in reliable operating condition.



CHUGACH *at a glance*

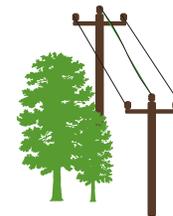
NOT-FOR-PROFIT • MEMBER-OWNED • ELECTRIC COOPERATIVE



Outage statistics

1.79
average outage hours per customer in 2019, down from 3.80 in 2018

2.19
5-year average outage hours per customer, up from 2.00 in 2018



Tree clearing of over
185
miles of line to increase reliability

Incorporation

Chugach Electric Association, Inc. was incorporated in Alaska on March 1, 1948, with funding under the Rural Electrification Act (REA) 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.

Corporate Information

Chugach Electric Association, Inc.
P.O. Box 196300
Anchorage, AK 99519-6300
Tel. (907) 762-4489
www.chugachelectric.com

Investor Information

Chugach Electric Association, Inc.
Chief Financial Officer
P.O. Box 196300
Anchorage, AK 99519-6300
Tel. (907) 762-4511

Independent Auditor

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



Treasurer report

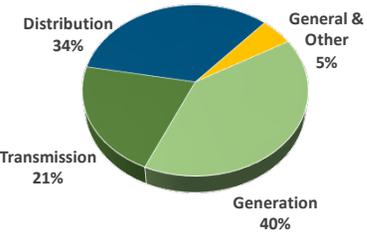
RACHEL MORSE
Treasurer

Looking back at 2019, we are pleased to report that Chugach recorded another year of strong financial performance on behalf of our members. We achieved margins totaling \$5.1M, which for a cooperative is our bottom line, or revenues in excess of current costs. Although 2019 margins were slightly lower than our margin performance of \$5.4M in 2018, and lower than our 2019 budget, these results were acceptable given that certain expenses were higher than projected and total energy sales were slightly lower than expected primarily due to warmer than anticipated weather.

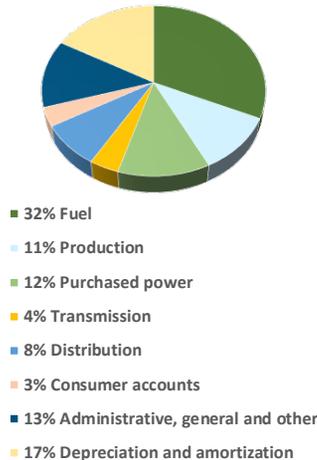
Total energy sales to retail, wholesale and economy customers were 1,112,596 megawatt hours compared to 1,130,814 in 2018. Total revenue was \$212.5M, up from \$202.3M in 2018 and from the 2019 budget of \$208.8M. The increase in revenue compared to prior year and to budget was due in part to higher base rates and higher fuel and purchased power expense collected in revenue due to the Swan Lake fire, which limited our access to Bradley Lake Hydroelectric Project power. During 2019, Chugach invested over \$33M in utility plant while repaying over \$26M in debt. We ended the year with a margins-for-interest-to-interest ratio of 1.23, well above our indenture metric of 1.10 and an equity-to-total-capitalization ratio of 28.9%.

Chugach continued to work with the Federal Emergency Management Agency to secure funds in response to the November 2018 earthquake and continued to prepare for the potential ML&P acquisition. Chugach's credit rating with Standard & Poor's Rating Services remains unchanged at "A" (Stable), however, our credit rating with Fitch Ratings was changed from "A" (Rating Watch Evolving) to "A" (Rating Watch Negative) caused by the expected higher net leverage profile following the pending acquisition. While our equity ratio is expected to decrease initially due to the debt financing associated with the proposed acquisition, we will rebuild equity over time while we achieve the estimated savings from the transaction.

2019 Net Utility Plant
\$703,280 (in thousands)



2019 Total Operating Expenses
\$186,248 (in thousands)



FINANCIAL RESULTS

Consolidated Balance Sheets as of December 31 (in thousands)

Assets	2019	2018
Net Utility Plant	\$ 703,280	\$ 704,836
Other Property & Investments	11,895	10,645
Current Assets	73,530	75,501
Deferred Charges, net	45,880	37,669
Total Assets	\$ 834,585	\$ 828,651
Liabilities, Equities and Margins		
Equities and Margins	\$ 194,467	\$ 194,525
Long-Term Obligations	478,606	429,963
Current Liabilities	96,166	134,847
Long-Term and Deferred Liabilities	65,346	69,316
Total Liabilities, Equities and Margins	\$ 834,585	\$ 828,651

Consolidated Statements of Operations (in thousands)

	2019	2018
Operating revenues	\$ 212,517	\$ 202,253
Fuel	59,039	56,283
Production	20,201	17,798
Purchased power	22,631	19,978
Transmission	7,261	7,361
Distribution	15,222	14,961
Consumer accounts	6,730	6,663
Administrative, general and other	23,864	22,651
Depreciation and amortization	31,300	29,876
Total operating expenses	186,248	175,571
Interest expense, net	22,000	21,858
Net operating margins	4,269	4,824
Total nonoperating margins	851	539
Assignable margins	\$ 5,120	\$ 5,363

Consolidated Statement of Changes in Equities and Margins (in thousands)

Balance, January 1, 2019	\$ 194,525
Assignable margins	5,120
Retirement/net transfer of capital credits	(5,562)
Unclaimed capital credit retirements	(16)
Memberships and donations received	400
Balance, December 31, 2019	\$ 194,467

Consolidated Statements of Cash Flows (in thousands)

	2019	2018
Cash flows from operating activities:		
Assignable margins	\$ 5,120	\$ 5,363
Adjustments to reconcile assignable margins to net cash provided by operating activities:		
Depreciation and amortization	38,701	35,426
Allowance for funds used during construction	(153)	(128)
Other	463	586
(Increase) decrease in assets:	(18,267)	(1,790)
Increase (decrease) in liabilities:	(6,160)	117
Net cash provided by operating activities	\$ 19,704	\$ 39,574
Cash flows from investing activities:		
Investment in marketable securities	(216)	(2,872)
Proceeds from capital grants	6,437	7,666
Extension and replacement of plant	(33,441)	(27,321)
Other	133	105
Net cash used in investing activities	\$ (27,087)	\$ (22,422)
Cash flows from financing activities:		
Net increase (decrease) in short-term obligations	(37,000)	11,000
Proceeds from long-term obligations	75,000	-
Repayments of long-term obligations	(26,609)	(26,609)
Other	(2,813)	(1,316)
Net cash provided by (used in) financing activities	\$ 8,578	\$ (16,925)
Net change in cash and cash equivalents	1,195	227
Cash and cash equivalents at beginning of period	7,429	7,202
Cash and cash equivalents at end of period	\$ 8,624	\$ 7,429