



# ANNUAL REPORT 2020





## To Our Members

In the years ahead, when we look back at the history of Chugach Electric Association, 2020 will certainly go down as one of the most momentous. After years of planning and hard work, Chugach closed on the acquisition of Municipal Light & Power (ML&P) on Oct. 30, 2020. The two utilities are now combined, resulting in a larger and more diverse company, well-positioned to serve residents and businesses under a more efficient structure.

What makes the consolidation even more remarkable, is the fact that it was accomplished at the same time we faced the worldwide pandemic brought about by COVID-19. The collective efforts of the two workforces, adjusting to ever-changing health and safety protocols, meeting remotely, and still performing normal job duties while planning an integration, were key to the success of the consolidation.

We recognize it will take several years to fully integrate the two organizations into a single, unified system. The role of the Board of Directors will be to continue to oversee that integration and help ensure the efficiencies and cost savings outlined in the plans for the acquisition are realized, measured, and made meaningful to the members in terms of lower, long-term electric rates.

The primary duty of a board member is to look out for the best interests of the members.



2020 Chugach Board of Directors L to R: Sam Cason, Director; Harold Hollis, Treasurer; Jim Henderson, Secretary; Bettina Chastain, Chair; Stuart Parks, Director; Rachel Morse, Vice Chair; Mark Wiggin, Director

With every decision we make, we have to keep the members in mind, and we need to make sure members are receiving the best quality, the most reliable service, at the lowest rates.



**BETTINA CHASTAIN**  
Board Chair



**LEE THIBERT**  
CEO

## Our Management Team



This is a time of great opportunity in the electric utility industry. Advances in technology, energy efficiency initiatives, and heightened social awareness regarding renewable energy are shaping the future of our industry. Recognizing all of that, the consolidation of Chugach and ML&P came at a good time. A larger utility with the experience and expertise of the combined workforce is better able to navigate the changes on the horizon.

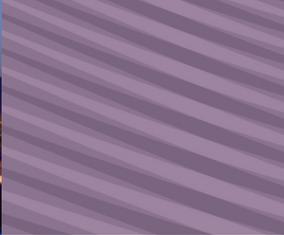
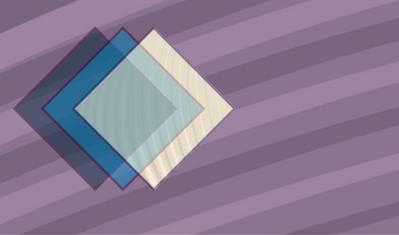
I want to recognize the amount of work every employee did to realize what many had talked about for decades. Facing the first global pandemic in 100 years, together we planned a historic integration, continued to run two utilities, and adjusted to the restrictions brought on by COVID-19. We did not just acquire the power plants, poles, and wires; it's the people who make the difference. It is the knowledge, resilience, and dedication to customer service that will provide our members the greatest value in the years ahead.

In addition to the integration of the two utilities, this annual report highlights some of the other key accomplishments from 2020, including another important safety record. While the acquisition took great time and attention, many other exciting initiatives are underway at Chugach.

We remain committed to our mission of providing safe, reliable, and affordable power to our members. Guided by our values of safety, accountability, and sustainability, we look forward to delivering on the commitments of one utility providing greater efficiencies and lower long-term rates.



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



## Safety record achieved

Chugach set a safety record in 2020, closing out the year with no lost time injuries. It was the second year in a row the cooperative achieved the safety milestone, as 2019 also ended without an employee injury serious enough to result in days away from work. Additionally, for the first time ever, Chugach achieved an injury rate under 1.0 (0.92). Injury rate reflects the number of injuries for every 200,000 hours worked by Chugach employees. With a global pandemic and the acquisition of a new utility, the importance of safety took on even more significance in 2020 and Chugach employees remained focused on keeping themselves and each other safe at work.



## Employees plan integration

As part of the acquisition, employees from Chugach and ML&P spent thousands of hours planning how to consolidate the two utilities into one. From what programs to keep and how to train on one another's systems, to determining best practices and how to integrate shared values and culture, the integration planning was key to success. More than 60 employees across all departments met weekly, sometimes multiple times a week, comparing milestones, risks, and dependencies. This effort was guided by principles of safe and reliable operations, teamwork and transparency, achieving synergies and efficiencies, and satisfaction for employees, members, and the community.



## Members offered electric vehicle incentives

As the use of electric vehicles (EV) continues to grow in Alaska, Chugach announced several incentives to make it easier for members to own and drive EVs. In 2020, Chugach expanded its charging research program by partnering with additional commercial members who installed EV charging stations. The Rustic Goat restaurant, Dimond Center, South Anchorage Mall, and Alyeska Resort all have charging facilities as part of the Chugach research program. Chugach reimbursed up to \$7,500 in upfront costs for the chargers in exchange for three years of charging data. Chugach has a number of EV incentive programs including ones aimed at residential and workplace charging. Details are available on the Chugach website [www.chugachelectric.com](http://www.chugachelectric.com).



## In the community

Chugach continues to promote volunteerism among its employees with the Employee Volunteer Program (EVP). Employees are given 16 hours a year of normal work hours to donate their time with local non-profits. Even with the pandemic in 2020, employees found opportunities to safely volunteer following health and safety protocols. Since the EVP's launch in mid-2019, Chugach employees have donated more than 100 hours with several local organizations. Concern for community is one of the seven principles of a member-owned cooperative.



## Mobile radio system upgraded

Working with RACOM Emergency Response Systems, Chugach began a project to replace the Ultra High Frequency Mobile Radio System for better overall communication across the Chugach service territory. The new system is a current vendor-supported platform that complies with Federal Communications Commission mandates, provides improved coverage, and offers features that allow dispatchers and field employees to increase situational awareness. The project, which will be completed in two phases, will first replace 325 radios and base stations at 14 communications sites from Wasilla to the Kenai Peninsula. The second phase will include verifying coverage of the new system in Chugach's newly acquired North District of Anchorage.

## Earthquake repairs at Pt. MacKenzie Substation

Repairs continued in 2020 at the Point MacKenzie Substation, which suffered significant damage in the November 2018 earthquake. The substation, near the quake's epicenter, is an important intersection in the Chugach transmission grid connecting Anchorage, Beluga, and Wasilla. Chugach spent \$1.68M on the Point MacKenzie repair work in 2020 which included installation of high voltage switches, supports and bus with seismic-rated replacements, the change out of bus insulators and removal of temporary infrastructure installed immediately following the earthquake. Of the \$2.25M total in earthquake damages at the substation, \$2.16M was recouped in federal disaster assistance funds.



## Managing COVID-19

Like businesses everywhere, Chugach took many precautions in 2020 to help employees and members stay safe from COVID-19. As the virus came to Alaska in early spring, Chugach closed its lobby for several weeks, encouraging members to do business over the phone and online. Eventually, the lobby was able to reopen with restrictions on the number of people allowed inside, mandates for face coverings, social distancing, and more. We also suspended disconnects for non-payment and offered members the opportunity to fill out a financial hardship form if they were financially impacted by COVID-19. Across the organization many employees worked from home, groups such as linemen reported to work at locations away from the main campus, and meetings were held in virtual platforms. Additionally, the Chugach annual membership meeting was held online, announcing the results of a successful annual election.

## Muldoon overhead to underground conversion

Chugach completed a major overhead to underground conversion project in 2020. The Muldoon project undergrounded approximately one mile of primary overhead distribution line on the west side of Muldoon from Island Drive to Northern Lights Blvd. The conversion was funded through collection of Title 21 undergrounding fees. The effort included retiring approximately one mile of three-phase primary on the west side of Muldoon from Creekside to Northern Lights, and the trenching, boring, duct, vault, and conductor installation for a new underground distribution system. The project was finished in 2020 and landscaping will be completed in 2021.



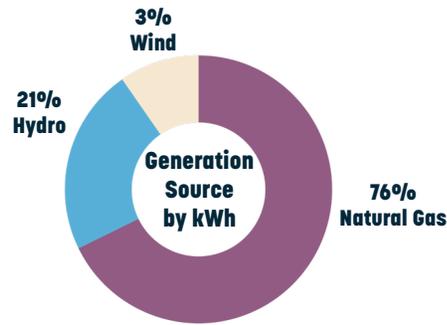
## Transmission line relocated

As part of a State of Alaska road improvement project, Chugach moved about one mile of transmission line adjacent to the Placer River. The road work included smoothing out the radius of the curve and putting in a new bridge over the Placer River from Milepost 78 to 79 on the Seward Highway. Working with Northern Powerline Constructors, Chugach moved the transmission line that was next to the road, relocating it away from the roadway. The work included installing four new structures and modifying three other structures. With an eye toward safety, Chugach worked with a variety of stakeholders to minimize interactions between those working on the transmission line project and people recreating in the area.



# CHUGACH *at a glance*

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



Chugach maintains **3,000 miles** of transmission and distribution lines. That's the same distance as flying from Anchorage to Dallas.

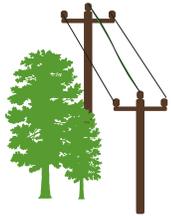
Anchorage, AK

Dallas, TX

## Outage statistics

**1.68**  
average outage hours per customer in 2020, down from 1.79 in 2019

**2.16**  
5-year average outage hours per customer, down from 2.19 in 2019



Tree clearing of over **223** miles of line to increase reliability

**937.2**  
megawatts of installed generation

**464**  
miles of transmission line

**61**  
substations

**2,536**  
miles of distribution lines

**115,255**  
service locations  
**92,667**  
cooperative members

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

### Investor Information

Chugach Electric Association  
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

Follow us on



@chugachelectric



## Treasurer report

**HAROLD HOLLIS**  
Treasurer

Looking back at 2020, we are pleased to report that Chugach achieved margins totaling \$5.0M, which for a cooperative is our bottom line, or revenues in excess of current costs. Margins did not materially change in 2020 from 2019 as Chugach successfully managed both the impact of the COVID-19 pandemic environment and the acquisition of ML&P.

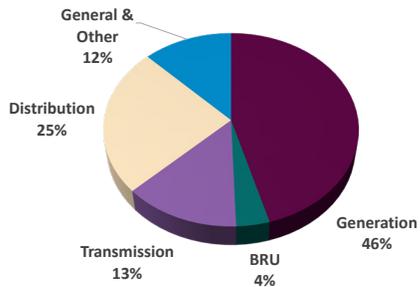
Total energy sales to retail, wholesale and economy customers were 1.3B kWh hours compared to 1.1B kWh hours in 2019. Overall sales were higher in 2020 compared to 2019, due to two months of activity from the legacy ML&P service territory. The COVID-19 pandemic environment caused an increase in sales from residential customers who were working more from home and a decrease in sales from commercial customers. Total revenue was \$237.4M, up from \$212.5M in 2019. Overall revenue was higher in 2020 compared to 2019 due to the acquisition. However, in the last two months of 2020, revenue was significantly affected by the impact of the higher concentration of commercial members in the legacy ML&P service territory, coupled with the dated structure of ML&P's current rates.

In addition to investing over \$27M in utility plant and repaying over \$26M in long-term debt during 2020, Chugach issued \$800M of additional debt at a very favorable weighted average interest rate of 2.73% to fund the acquisition of ML&P's assets and related transaction costs. Despite the current revenue environment just mentioned, this low interest rate will have positive long-term benefits to member's rates.

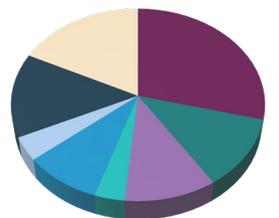
Chugach ended the year with a margins-for-interest-to-interest ratio of 1.20, above our indenture metric of 1.10 and an equity-to-total-capitalization ratio of 13.9%. The decrease in equity-to-total-capitalization ratio from 2019 was due to the additional debt related to the acquisition of ML&P's assets.

Chugach's credit rating with Standard & Poor's Rating Services remains unchanged at "A" (Stable). Our credit rating with Fitch Ratings was just slightly downgraded to "A-" (Stable) caused by the higher net leverage profile following the acquisition. It is expected that our equity ratio will rebuild over time as we achieve the estimated savings from the acquisition.

**2020 Net Utility Plant**  
\$1,397,649 (in thousands)



**2020 Total Operating Expenses**  
\$207,772 (in thousands)



## FINANCIAL RESULTS

### Consolidated Balance Sheets as of December 31 (in thousands)

Assets	2020	2019
Net Utility Plant	\$1,397,649	\$ 703,280
Other Property & Investments	32,124	11,895
Current Assets	181,475	73,530
Deferred Charges, net	110,489	45,880
<b>Total Assets</b>	<b>\$1,721,737</b>	<b>\$ 834,585</b>

Liabilities, Equities and Margins	2020	2019
Equities and Margins	\$198,850	\$ 194,467
Long-Term Obligations	1,236,281	478,606
Current Liabilities	130,229	96,166
Long-Term and Deferred Liabilities	156,377	65,346
<b>Total Liabilities, Equities and Margins</b>	<b>\$1,721,737</b>	<b>\$ 834,585</b>

### Consolidated Statements of Operations (in thousands)

	2020	2019
Operating revenues	\$ 237,429	\$ 212,517
Fuel	60,123	59,039
Production	24,557	20,201
Purchased power	22,380	22,631
Transmission	7,324	7,261
Distribution	18,914	15,222
Consumer accounts	8,200	6,730
Administrative, general and other	29,399	23,864
Depreciation and amortization	36,875	31,300
Total operating expenses	207,772	186,248
Interest expense, net	25,174	22,000
Net operating margins	4,483	4,269
Total nonoperating margins	514	851
<b>Assignable margins</b>	<b>\$ 4,997</b>	<b>\$ 5,120</b>

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

Balance, January 1, 2020	\$ 194,467
Assignable margins	4,997
Retirement/net transfer of capital credits	(813)
Unclaimed capital credit retirements	(42)
Memberships and donations received	241
Balance, December 31, 2020	<b>\$ 198,850</b>

### Consolidated Statements of Cash Flows (in thousands)

	2020	2019
Cash flows from operating activities:		
Assignable margins	\$ 4,997	\$ 5,120
Adjustments to reconcile assignable margins to net cash provided by operating activities:		
Depreciation and amortization	44,848	38,701
Allowance for funds used during construction	(147)	(153)
Other	1,218	463
(Increase) decrease in assets:	(42,879)	(18,267)
Increase (decrease) in liabilities:	9,557	(6,160)
<b>Net cash provided by operating activities</b>	<b>\$ 17,594</b>	<b>\$ 19,704</b>
Cash flows from investing activities:		
Investment in ML&P Acquisition	(699,528)	-
Investment in special funds/marketable securities	(1,087)	(505)
Proceeds from special funds/marketable securities	1,379	6,437
Extension and replacement of plant	(27,107)	(33,441)
Other/proceeds from capital grants	558	422
<b>Net cash used in investing activities</b>	<b>\$(725,785)</b>	<b>\$(27,087)</b>
Cash flows from financing activities:		
Net increase (decrease) in short-term obligations	(14,000)	(37,000)
Proceeds from long-term obligations	800,000	75,000
Repayments of long-term obligations	(26,837)	(26,609)
Other	860	(2,813)
<b>Net cash provided by financing activities</b>	<b>\$ 760,023</b>	<b>\$ 8,578</b>
Net change in cash and cash equivalents	51,832	1,195
Cash* at beginning of period	8,624	7,429
<b>Cash* at end of period</b>	<b>\$ 60,456</b>	<b>\$ 8,624</b>

\*Cash includes cash, cash equivalents and restricted cash