



CHUGACH ELECTRIC ASSOCIATION, INC.

Financial Statements

December 31, 2021 and 2020

(With Report of Independent Registered Accounting Firm Thereon)



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

Independent Auditors' Report

The Board of Directors
Chugach Electric Association, Inc.:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Chugach Electric Association and its subsidiary (the Association), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, changes in equities and margins, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2021 in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material



misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2022 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

KPMG LLP

Anchorage, Alaska
April 5, 2022

Chugach Electric Association, Inc.
Consolidated Balance Sheets
As of December 31, 2021 and 2020

Assets	December 31, 2021	December 31, 2020
Utility plant:		
Electric plant in service	\$ 2,085,567,712	\$ 2,057,989,048
Construction work in progress	34,253,304	38,075,575
Total utility plant	2,119,821,016	2,096,064,623
Less accumulated depreciation	(640,729,478)	(582,887,734)
Net utility plant	1,479,091,538	1,513,176,889
Other property and investments, at cost:		
Nonutility property	76,889	76,889
Operating lease right-of-use assets	4,109,694	4,093,510
Financing lease right-of-use assets	17,273	8,818
Investments in associated organizations	7,280,936	7,595,197
Special funds	43,016,636	19,862,119
Restricted cash equivalents	64,310	64,310
Long-term prepayments	291,846	423,404
Total other property and investments	54,857,584	32,124,247
Current assets:		
Cash and cash equivalents	12,489,780	23,891,715
Special deposits	58,300	58,300
Restricted cash equivalents	25,100,943	36,500,393
Accounts receivable, less provision for doubtful accounts of \$1,269,080 in 2021 and \$881,164 in 2020	47,186,182	53,679,921
Materials and supplies	45,283,376	46,030,317
Fuel stock	14,087,849	16,399,692
Prepayments	4,917,095	4,672,489
Other current assets	942,497	241,983
Total current assets	150,066,022	181,474,810
Other non-current assets:		
Deferred charges, net	112,348,138	110,489,123
Total other non-current assets	112,348,138	110,489,123
Total assets	\$ 1,796,363,282	\$ 1,837,265,069

(Continued)

Chugach Electric Association, Inc.
Consolidated Balance Sheets (continued)
As of December 31, 2021 and 2020

Liabilities, Equities and Margins	December 31, 2021	December 31, 2020
Equities and margins:		
Memberships	\$ 1,949,262	\$ 1,908,432
Patronage capital	188,573,753	181,564,419
Other	15,477,923	15,376,562
Total equities and margins	206,000,938	198,849,413
Long-term obligations, excluding current installments:		
Bonds payable	1,173,366,663	1,211,683,330
Notes payable	23,028,000	26,904,000
Less unamortized debt issuance costs	(6,072,373)	(6,179,476)
Operating lease liabilities	3,835,282	3,866,092
Financing lease liabilities	13,667	7,302
Total long-term obligations	1,194,171,239	1,236,281,248
Current liabilities:		
Current installments of long-term obligations	42,473,838	42,197,115
Commercial paper	22,000,000	10,000,000
Accounts payable	14,878,065	19,170,493
Consumer deposits	5,663,067	5,249,272
Fuel cost over-recovery	1,281,307	1,049,622
Accrued interest	8,752,021	9,148,690
Salaries, wages, and benefits	13,030,034	14,423,252
Fuel	6,259,917	5,561,956
Undergrounding ordinance liability	9,477,892	10,553,288
Settlement obligation	12,003,853	12,000,286
Other current liabilities	1,431,478	875,160
Total current liabilities	137,251,472	130,229,134
Other non-current liabilities:		
Deferred compensation	2,115,229	1,821,222
Other liabilities, non-current	741,387	548,570
Deferred liabilities	12,724,119	12,899,176
Settlement obligation	12,000,000	24,000,000
BRU Regulatory Liability	107,364,906	115,528,122
Cost of removal obligation / asset retirement obligation	123,993,992	117,108,184
Total other non-current liabilities	258,939,633	271,905,274
Total liabilities, equities, and margins	\$ 1,796,363,282	\$ 1,837,265,069

See accompanying notes to consolidated financial statements.

Chugach Electric Association, Inc.
Consolidated Statements of Operations
Years Ended December 31, 2021, 2020, and 2019

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating revenues	\$ 354,458,456	\$ 237,428,680	\$ 212,516,561
Operating expenses:			
Fuel	86,561,826	60,122,978	59,038,626
Production	36,640,560	24,556,922	20,201,534
Purchased power	23,129,060	22,380,419	22,630,765
Transmission	9,313,578	7,323,776	7,260,615
Distribution	26,798,579	18,914,383	15,222,079
Consumer accounts	10,554,469	8,199,828	6,730,109
Administrative, general, and other	51,871,897	29,398,871	23,864,202
Depreciation and amortization	60,465,653	36,874,892	31,299,685
Total operating expenses	\$ 305,335,622	\$ 207,772,069	\$ 186,247,615
Interest expense:			
Long-term debt and other	42,625,653	25,546,831	22,338,868
Charged to construction	(2,641,159)	(373,098)	(338,904)
Interest expense, net	\$ 39,984,494	\$ 25,173,733	\$ 21,999,964
Net operating margins	\$ 9,138,340	\$ 4,482,878	\$ 4,268,982
Nonoperating margins:			
Interest income	294,670	369,386	585,039
Allowance for funds used during construction	112,157	147,223	152,930
Capital credits, patronage dividends and other	33,312	(2,606)	112,676
Total nonoperating margins	\$ 440,139	\$ 514,003	\$ 850,645
Assignable margins	<u>\$ 9,578,479</u>	<u>\$ 4,996,881</u>	<u>\$ 5,119,627</u>

See accompanying notes to consolidated financial statements.

Chugach Electric Association, Inc.
Consolidated Statements of Changes in Equities and Margins
Years Ended December 31, 2021, 2020, and 2019

	2021	2020	2019
Memberships:			
Balance at beginning of period	\$ 1,908,432	\$ 1,776,592	\$ 1,748,172
Memberships and donations received	40,830	131,840	28,420
Balance at end of period	\$ 1,949,262	\$ 1,908,432	\$ 1,776,592
Other equities and margins:			
Balance at beginning of period	15,376,562	15,309,357	14,952,925
Unclaimed capital credits retired	(25,706)	(42,164)	(15,935)
Memberships and donations received	127,067	109,369	372,367
Balance at end of period	\$ 15,477,923	\$ 15,376,562	\$ 15,309,357
Patronage capital:			
Balance at beginning of period	181,564,419	177,380,964	177,823,597
Assignable margins	9,578,479	4,996,881	5,119,627
Retirement/net transfer of capital credits	(2,569,145)	(813,426)	(5,562,260)
Balance at end of period	\$ 188,573,753	\$ 181,564,419	\$ 177,380,964
Total equities and margins	\$ 206,000,938	\$ 198,849,413	\$ 194,466,913

See accompanying notes to consolidated financial statements.

Chugach Electric Association, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2021, 2020, and 2019

	2021	2020	2019
Cash flows from operating activities:			
Assignable margins	\$ 9,578,479	\$ 4,996,881	\$ 5,119,627
Adjustments to reconcile assignable margins to net cash provided by operating activities:			
Depreciation and amortization	60,465,653	36,874,892	31,299,685
Amortization and depreciation cleared to operating expenses	13,232,954	7,973,036	7,401,527
Allowance for funds used during construction	(112,157)	(147,223)	(152,930)
Write off of inventory, deferred charges and projects	246,258	567,040	571,067
Other	304,438	651,355	(107,769)
(Increase) decrease in assets:			
Accounts receivable, net	6,728,760	(17,048,090)	(544,554)
Fuel cost under-recovery	0	1,445,753	(1,445,753)
Materials and supplies	708,802	81,372	(1,812,024)
Fuel stock	2,311,843	(3,110,337)	(298,481)
Prepayments	(113,048)	(713,087)	(472,191)
Other assets	487,473	(10,018)	6,147
Deferred charges	(12,455,252)	(23,524,240)	(13,699,839)
Increase (decrease) in liabilities:			
Accounts payable	(5,332,594)	4,051,713	(421,479)
Consumer deposits	413,795	(363,107)	(550,841)
Fuel cost over-recovery	231,685	392,249	(3,388,295)
Accrued interest	(396,669)	3,430,931	45,919
Salaries, wages and benefits	(1,393,218)	4,003,779	(475,366)
Fuel	697,961	(1,203,925)	921,025
Other current liabilities	749,134	(1,600,576)	(2,303,287)
Deferred liabilities	(10,578,181)	846,475	11,813
Net cash provided by operating activities	65,776,116	17,594,873	19,704,001
Cash flows from investing activities:			
Return of capital from investment in associated organizations	316,274	557,852	421,899
Investment in special funds	(22,860,509)	(1,080,198)	(288,568)
Investment in marketable securities and investments-other	0	(6,600)	(216,453)
Investment in ML&P acquisition	0	(699,527,862)	0
Proceeds from the sale of marketable securities	0	205,408	6,437,508
Proceeds from special funds	0	1,173,591	0
Proceeds from capital grants	2,773,224	0	0
Proceeds from sale of property and equipment	51,885	0	0
Extension and replacement of plant	(43,929,316)	(27,107,529)	(33,441,408)
Net cash used in investing activities	(63,648,442)	(725,785,338)	(27,087,022)
Cash flows from financing activities:			
Payments for debt issue costs	(136,354)	(3,761,491)	(515,455)
Net increase (decrease) in short-term obligations	12,000,000	(14,000,000)	(37,000,000)
Proceeds from long-term obligations	0	800,000,000	75,000,000
Repayments of long-term obligations	(41,964,667)	(26,837,667)	(26,608,667)
Memberships and donations received	142,191	199,045	384,852
Retirement of patronage capital and estate payments	(2,569,145)	(813,426)	(7,024,218)
Proceeds from consumer advances for construction	7,598,916	5,235,447	4,342,627
Repayments of consumer advances for construction	0	0	(1,112)
Net cash (used in) provided by financing activities	(24,929,059)	760,022,908	8,578,027
Net change in cash, cash equivalents, and restricted cash equivalents	(22,801,385)	51,832,443	1,195,006
Cash, cash equivalents, and restricted cash equivalents at beginning of period	\$ 60,456,418	\$ 8,623,975	\$ 7,428,969
Cash, cash equivalents, and restricted cash equivalents at end of period	\$ 37,655,033	\$ 60,456,418	\$ 8,623,975
Supplemental disclosure of non-cash investing and financing activities:			
Cost of removal obligation / ARO	\$ 6,885,808	\$ 4,278,545	\$ (948,823)
Extension and replacement of plant included in accounts payable	\$ 2,172,436	\$ 1,132,270	\$ 1,365,948
Patronage capital retired/net transferred and included in other current liabilities	\$ 0	\$ 0	\$ 1,931,295
Supplemental disclosure of cash flow information - interest expense paid, net of amounts capitalized	\$ 39,104,950	\$ 20,669,620	\$ 21,008,829

See accompanying notes to consolidated financial statements.

Chugach Electric Association, Inc.
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(1) Description of Business and Presentation of Financial Information

Description of Business

Chugach Electric Association, Inc. (“Chugach”) is the largest electric utility in Alaska engaged in the generation, transmission, and distribution of electricity in Anchorage and the upper Kenai Peninsula area. Chugach is on an interconnected regional electrical system referred to as the Alaska Railbelt, a 400-mile-long area stretching from the coastline of the southern Kenai Peninsula to the interior of the state, including Alaska's largest cities, Anchorage and Fairbanks.

Chugach’s retail and wholesale members are the consumers of the electricity sold. Chugach supplies much of the power requirements to the City of Seward (“Seward”), as a wholesale customer. Occasionally, Chugach sells available generation, in excess of its own needs, to Matanuska Electric Association, Inc. (“MEA”), Homer Electric Association, Inc. (“HEA”), Golden Valley Electric Association, Inc. (“GVEA”), and prior to October 30, 2020, Anchorage Municipal Light & Power (“ML&P”). Power pool sales to MEA began in April 2021. The power pool is operating under an eighteen-month implementation period to develop dispatch and pricing settlement processes.

Chugach was organized as an Alaska electric cooperative in 1948 and operates on a not-for-profit basis and, accordingly, seeks only to generate revenues sufficient to pay operating and maintenance costs, the cost of purchased power, capital expenditures, depreciation, and principal and interest on all indebtedness and to provide for reserves. Chugach is subject to the authority of the Regulatory Commission of Alaska (“RCA”).

On October 30, 2020, Chugach acquired substantially all of the assets of Municipal Light & Power (“ML&P”) from the Municipality of Anchorage, Alaska (“MOA”).

The consolidated financial statements include the activity of Chugach and the activity of the Beluga River Unit (“BRU”). Chugach accounts for its share of BRU activity using proportional consolidation (see Note 15 – “Beluga River Unit”). Intercompany activity has been eliminated for presentation of the consolidated financial statements.

Presentation of Financial Information

On October 31, 2020, Chugach recorded the ML&P acquisition in accordance with ASC 805, “Business Combinations,” with identifiable assets acquired and liabilities assumed recorded at their estimated fair values on the acquisition date. The purchase price was allocated to the assets acquired and the liabilities assumed based on their fair value. The allocation of the purchase price included the fair value of BRU reserves, which was recorded net of a regulatory offset equal to the value of the reserves and was considered preliminary pending receipt of the final valuation report, which was received and recorded in June 2021. For presentation purposes, for the year ended December 31, 2020, an adjustment was added to reclassify the regulatory offset of \$115,528,122 as a separate regulatory liability, due to the application of regulatory accounting, to be consistent with current year presentation. This reclassification also increased Electric Plant in Service by \$116,908,985 and Accumulated Depreciation by \$1,380,861.

Chugach Electric Association, Inc.
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(2) Significant Accounting Policies

a. Management Estimates

In preparing the financial statements in conformity with United States generally accepted accounting principles (“GAAP”), the management of Chugach is required to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the balance sheet and revenues and expenses for the reporting period. Estimates include the fair value of assets acquired and liabilities assumed, allowance for doubtful accounts, workers’ compensation liability, deferred charges and liabilities, unbilled revenue, estimated useful life of utility plant, cost of removal and asset retirement obligation (“ARO”), and remaining proved BRU reserves. Actual results could differ from those estimates.

b. Regulation

The accounting records of Chugach conform to the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission (“FERC”). Chugach meets the criteria, and accordingly, follows the accounting and reporting requirements of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 980, “Topic 980 - Regulated Operations.” FASB ASC 980 provides for the recognition of regulatory assets and liabilities as allowed by regulators for costs or credits that are reflected in current rates or are considered probable of being included in future rates. Our regulated rates are established to recover all our specific costs of providing electric service. In each rate filing, rates are set at levels to recover all our specific allowable costs and those rates are then collected from our retail and wholesale customers. The regulatory assets or liabilities are then reduced as the cost or credit is reflected in earnings and our rates, see *Note (2n) – “Deferred Charges and Liabilities.”*

c. Utility Plant and Depreciation

Additions to electric plant in service are recorded at original cost of contracted services, direct labor and materials, indirect overhead charges, and capitalized interest less contributions in aid of construction (“CIAC”). As an electric utility, Chugach follows the FERC system of accounts which recommends that CIAC be recorded as a reduction to utility property plant and equipment. FASB ASC 210-10-S99, “Section S99 – SEC Materials,” requires the utility plant of a public utility company to present the cost and adjustments thereto as required by the system of accounts prescribed by the applicable regulatory authorities.

For property replaced or retired, the book value of the property, removal cost, less salvage, is charged to accumulated depreciation. Renewals and betterments are capitalized, while maintenance and repairs are normally charged to expense as incurred.

In accordance with FASB ASC 360, “Topic 360 – Property, Plant, and Equipment,” certain asset groups are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset group may not be recoverable in rates. Recoverability of asset groups to be held and used is measured by a comparison of the carrying amount of an asset group to estimated undiscounted future cash flows expected to be generated by the asset group. If the carrying amount of an asset group exceeds its estimated future cash flows, an impairment charge

Chugach Electric Association, Inc.
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

is recognized by the amount by which the carrying amount of the asset group exceeds the fair value of the asset.

Depreciation and amortization rates have been applied on a straight-line basis and at December 31, 2021 are as follows:

Annual Depreciation Rate Ranges

	South District	North District
Steam production plant	3.03% - 3.26%	2.70% - 11.97%
Hydroelectric production plant	0.88% - 2.71%	2.09% - 2.79%
Other production plant	2.18% - 3.46%	2.90% - 4.52%
Transmission plant	1.01% - 10.50%	1.68% - 2.45%
Distribution plant	1.40% - 10.00%	1.61% - 5.09%
General plant	1.95% - 33.33%	1.66% - 14.87%
Other	2.75% - 2.75%	3.33% - 18.54%

On March 23, 2017, the RCA approved revised depreciation rates effective July 1, 2017 in Docket U-16-081(2) for the South District assets. The North District assets are those acquired in the ML&P acquisition and are depreciated at rates effective at acquisition. Chugach’s depreciation rates include a provision for cost of removal. Chugach records a separate liability for the estimated obligation related to the cost of removal.

Chugach records Depreciation, Depletion and Amortization (“DD&A”) expense on the BRU assets based on units of production using the following formula: 67% of the total production from the BRU as provided by the operator divided by 67% of the estimated remaining proved reserves (in thousand cubic feet (Mcf)) in the field multiplied by Chugach’s total assets in the BRU. Prior to the ML&P acquisition, Chugach’s formula used Chugach’s 10% ownership interest in the BRU. Effective October 30, 2020, the formula was adjusted to reflect Chugach’s 67% ownership interest.

d. Full Cost Method

Chugach has elected the Full Cost method to account for exploration and development costs of gas reserves.

e. Asset Retirement Obligation (“ARO”)

Chugach calculates and records Asset Retirement Obligations associated with the BRU. Chugach uses certain financing rates as its credit adjusted risk free rate and the expected cash flow approach to calculate the fair value of the ARO liability. The ARO asset is depreciated using the DD&A formula previously discussed. The ARO liability is accreted using the interest method of allocation. The depreciation expense and accretion expense related to the ARO are reclassified from the income statement to the ARO surcharge deferred account, where the costs are recovered on a levelized dollar-per-Mcf basis calculated by using the remaining volumes of BRU production until field abandonment. The ARO surcharge methodology used by ML&P was adopted by Chugach effective January 1, 2021 and approved by the RCA on December 29, 2021.

Chugach Electric Association, Inc.
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

f. Investments in Associated Organizations

The loan agreement with National Rural Utilities Cooperative Finance Corporation (“NRUCFC”) requires as a condition of the extension of credit, that an equity ownership position be established by all borrowers. Chugach’s equity ownership in this organization is less than one percent. Chugach also has an equity ownership in CoBank, ACB (“CoBank”) acquired in connection with prior loan agreements, which have since been repaid. Although we no longer have a patronage earning loan with CoBank, there remains an existing equity investment balance in this organization.

These equity investments do not have readily determinable fair values and are accounted for at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. No impairment or observable price changes were recorded during 2021, 2020, or 2019. Investments in associated organizations was \$7.3 million and \$7.6 million at December 31, 2021 and 2020, respectively.

g. Special Funds

Special funds include deposits associated with the deferred compensation plan and investments associated with the BRU. Once the BRU becomes no longer economically feasible for the production of hydrocarbons, the BRU owners will cease operations and remove facilities and abandon the field based on estimates prepared by an engineering team. Chugach collects and sets aside funds for this liability. The BRU Asset Retirement Obligation (ARO) investment fund was established pursuant to an agreement with the State of Alaska.

The BRU ARO investment fund is a separately managed investment portfolio specifically for the purpose of dismantling the field. These funds are not expected to be used until approximately 2037 when the BRU owners retire the BRU gas field, therefore, the portfolio of funds benefit from being in a separate investment portfolio with separate, distinct, and broad investment criteria that is consistent with the timing of when the funds are expected to be utilized. The investment portfolio is managed to maximize capital appreciation with a long-term rate of return. The portfolio has specific investment guidelines approved by the Board to accomplish the purpose of the ARO fund.

Chugach Electric Association, Inc.
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Investment Allocations

Investment Type	Target	Min	Max	At December 31, 2021
Equity	47%			48%
U.S. Large-Cap Equity	22%	12%	32%	23%
U.S. Mid-Cap Equity	10%	5%	15%	10%
U.S. Small-Cap Equity	5%	0%	10%	5%
International Developed Equity	6%	0%	12%	6%
Emerging Markets Equity	4%	0%	8%	4%
Alternatives	21%			21%
Real Estate	3%	0%	6%	3%
Infrastructure	5%	0%	10%	5%
Commodities	3%	0%	6%	3%
Alternative Beta	10%	0%	15%	10%
Fixed Income	32%			31%
U.S. Fixed Income	18%	8%	28%	15%
U.S. High Yield Credit	5%	0%	10%	5%
TIPS	2%	0%	10%	2%
International Fixed Income	5%	0%	10%	4%
Cash	2%	0%	10%	5%

As part of the ML&P acquisition, we acquired ML&P's BRU ARO, in-kind, of approximately \$17.3 million. The combined BRU ARO was \$21.4 million and \$19.2 million as of December 31, 2021 and December 31, 2020, respectively.

Additional funds associated with the BRU for which the RCA has specified the use were \$19.5 million at December 31, 2021. Currently, its use is for fuel price volatility in future periods.

h. Cash, Cash Equivalents, and Restricted Cash Equivalents

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

Chugach Electric Association, Inc.
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

	December 31, 2021	December 31, 2020
Cash and cash equivalents	\$ 12,489,780	\$ 23,891,715
Restricted cash equivalents	25,100,943	36,500,393
Restricted cash equivalents included in other property and investments	64,310	64,310
Total cash, cash equivalents and restricted cash equivalents shown in the consolidated statements of cash flows	\$ 37,655,033	\$ 60,456,418

Restricted cash equivalents include funds on deposit for future workers' compensation claims and funds from the MOA to be used for a rate reduction refund to the North District members as ordered by the RCA, which was \$24 million at December 31, 2021. Restricted assets, including cash equivalents, are recognized on Chugach's Consolidated Balance Sheet when they are restricted as to withdrawal or usage.

i. Marketable Securities

Chugach's marketable securities consist of bond mutual funds, corporate bonds, and certificates of deposit with a maturity less than 12 months, classified as trading securities, reported at fair value with interest and dividend income and gains and losses in earnings. Chugach sold the balance of marketable securities at the end of December 2020. Interest and dividend income is included in nonoperating margins – interest income, and was \$0 and \$52 thousand at December 31, 2021 and 2020, respectively. Net gains and losses on marketable securities are included in nonoperating margins – capital credits, patronage dividends and other, and for the twelve months ended December 31 are summarized as follows:

	2021	2020
Net gains and (losses) recognized during the period on trading securities	\$ 0	\$ 4,625
Less: Net gains and (losses) recognized during the period on trading securities <i>sold</i> during the period	0	(4,625)
Unrealized gains and (losses) recognized during the reporting period on trading securities <i>still held</i> at the reporting date	\$ 0	\$ 0

j. Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount. The allowance for doubtful accounts is management's best estimate of the amount of probable credit losses in existing accounts receivable. Chugach determines the allowance based on its historical write-off experience and current economic conditions. Chugach reviews its allowance for doubtful accounts monthly. Past due balances over 90 days in a specified amount are reviewed individually for collectability. All other balances are reviewed in aggregate. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Chugach does not have any off-balance-sheet credit exposure related to its customers.

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k. Materials and Supplies

Materials and supplies are stated at average cost.

l. Fuel Stock

Fuel Stock is the weighted average cost of fuel injected into Cook Inlet Natural Gas Storage Alaska (“CINGSA”). Chugach’s fuel balance in storage for the years ended December 31, 2021 and 2020 amounted to \$14.1 million and \$16.4 million, respectively.

m. Fuel and Purchased Power Cost Recovery

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

n. Deferred Charges and Liabilities

Included in deferred charges and liabilities on Chugach’s financial statements are regulatory assets and liabilities recorded in accordance with FASB ASC 980. See *Note 8 – Deferred Charges and Liabilities*. Continued accounting under FASB ASC 980 requires that certain criteria be met. We capitalize all or part of costs that would otherwise be charged to expense if it is probable that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for ratemaking purposes and future revenue will be provided to permit recovery of the previously incurred cost. Management believes Chugach’s operations currently satisfy these criteria.

Chugach’s regulatory asset recoveries are embedded in base rates approved by the RCA. Specific costs incurred and recorded as Regulatory Assets, including the amortization period for recovery, are approved by the RCA either in standard Simplified Rate Filings (“SRF”), general rate case filings, or specified independent requests or filings. The rates approved related to the regulatory assets are matched to the amortization of actual expenses recognized. The regulatory assets are amortized and collected through rates over differing periods depending upon the period of benefit as established by the RCA. Deferred liabilities include refundable contributions in aid of construction, which are credited to the associated cost of construction of property units. Refundable contributions in aid of construction are held in deferred liabilities pending their return or other disposition. If events or circumstances should change so the criteria are not met, the write off of regulatory assets and liabilities could have a material effect on Chugach’s financial position, results of operations or cash flows.

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o. Patronage Capital

Revenues in excess of current period costs (net operating margins and nonoperating margins) in any year are designated on Chugach's statement of operations as assignable margins. These excess amounts (i.e. assignable margins) are considered capital furnished by the members, and are credited to their accounts and held by Chugach until such future time as they are retired and returned without interest at the discretion of the Board of Directors ("Board"). Retained assignable margins are designated on Chugach's balance sheet as patronage capital. This patronage capital constitutes the principal equity of Chugach. The Board may also approve the return of capital to former members and estates who request early retirements at discounted rates under a discounted capital credits retirement plan authorized by the Board in September of 2002.

p. Consumer Deposits

Consumer deposits include amounts certain customers are required to deposit to receive electric service. Consumer deposits at December 31, 2021 and 2020, totaled \$2.3 million and \$2.9 million, respectively. Consumer deposits also represent customer credit balances from prepaid accounts. Credit balances at December 31, 2021 and 2020, totaled \$3.4 million and \$2.3 million, respectively.

q. Fair Value of Financial Instruments

FASB ASC 825, "Topic 825 – Financial Instruments," requires disclosure of the fair value of certain on and off-balance sheet financial instruments for which it is practicable to estimate that value. The following methods are used to estimate the fair value of financial instruments:

Cash, cash equivalents, and restricted cash equivalents – the carrying amount approximates fair value because of the short maturity of those instruments.

Marketable securities – the carrying amount approximates fair value as changes in the market value are recorded monthly and gains or losses are reported in earnings (see Note 2i and Note 4).

Long-term obligations – the fair value estimate is based on the quoted market price for same or similar issues (see Note 11).

Consumer deposits – the carrying amount approximates fair value because of the short refunding term.

The fair value of accounts receivable and payable, and other short-term monetary assets and liabilities approximate carrying value due to their short-term nature.

r. Operating Revenues

Revenues are recognized upon delivery of electricity and services. Energy sales revenues are Chugach's primary source of revenue and are recognized upon delivery of electricity. Wheeling revenue is recognized when energy is wheeled across Chugach's transmission lines. Other miscellaneous services are billed monthly as provided. Operating revenues are based on billing rates authorized by the RCA, which are applied to customers' usage of electricity. Chugach's rates

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are established, in part, on test period sales levels that reflect actual operating results. Chugach's tariffs include provisions for the recovery of gas costs according to gas supply contracts, as well as certain purchased power costs. For more information, see “*Note 17– Revenue From Contracts with Customers.*”

s. Capitalized Interest

Allowance for funds used during construction (“AFUDC”) and interest charged to construction - credit (“IDC”) are the estimated costs of the funds used during the period of construction from both equity and borrowed funds. AFUDC and IDC are applied to specific projects during construction. AFUDC and IDC calculations use the net cost of borrowed funds when used and is recovered through RCA approved rates as utility plant is depreciated. For all projects Chugach capitalized such funds at the weighted average rate of 4.2%, 4.2%, and 4.0% during 2021, 2020, and 2019, respectively.

t. Environmental Remediation Costs

Chugach accrues for losses and establishes a liability associated with environmental remediation obligations when such losses are probable and can be reasonably estimated. Such accruals are adjusted as further information develops or circumstances change. Estimates of future costs for environmental remediation obligations are not discounted to their present value. However, various remediation costs may be recoverable through rates and accounted for as a regulatory asset.

u. Income Taxes

Chugach is exempt from federal income taxes under the provisions of Section 501(c)(12) of the Internal Revenue Code and for the years ended December 31, 2021, 2020, and 2019 was in compliance with that provision. In addition, as described in *Note 19 – “Commitments and Contingencies,”* Chugach collects sales tax and is assessed gross revenue and excise taxes which are presented on a net basis in accordance with FASB ASC 606-10-65, “Topic 606 - Revenue from Contracts with Customers.”

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

Management has concluded that there are no significant tax positions requiring recognition in its financial statements for all periods presented. Chugach’s evaluation was performed for the tax periods ended December 31, 2018 through December 31, 2021 for United States Federal Income Tax, the tax years which remain subject to examination by major tax jurisdictions as of December 31, 2021.

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(3) Accounting Pronouncements

Issued, and adopted:

ASC Update 2018-14 “Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans”

In August 2018, the FASB issued ASU 2018-14, “Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans.” ASU 2018-14 modifies ASC 715-20 to improve disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The ASU is effective for fiscal years ending after December 15, 2020, for public companies. Early adoption is permitted. Chugach began application of ASU 2018-14 on January 1, 2021. Adoption did not have a material effect on our results of operations, financial position, and cash flows.

Issued, not yet adopted:

ASC Update 2021-05 “Leases (Topic 842) – Lessors-Certain Leases with Variable Lease Payments”

In July 2021, the FASB issued ASU 2021-05 “Leases (Topic 842) – Lessors – Certain Leases with Variable Lease Payments”. ASU 2021-05 requires a lessor to classify a lease with variable lease payments that do not depend on an index or rate (hereafter referred to as “variable payments”) as an operating lease on the commencement date of the lease if specified criteria are met.

The amendments in ASU 2021-05 should be applied by using either of the following approaches:

1. Retrospective application to leases that commence or are modified on or after the adoption of ASC 842.
2. Prospective application to leases that commence or are modified on or after the date on which a lessor first applies the amendments in ASU 2021-05.

Lessors that have adopted ASC 842 as of July 2021, should apply the transition requirements for fiscal years beginning after December 15, 2021. Chugach began application of ASC 842 on January 1, 2019. See “Note 8 – LEASES.” Early adoption of ASU 2021-05 is permitted. Chugach began application of ASU 2021-05 on January 1, 2022. Adoption did not have a material effect on our results of operations, financial position, and cash flows.

ASC Update 2021-09 “Leases (Topic 842)—Discount Rate for Lessees That Are Not Public Business Entities”

In November 2021, the FASB issued ASU 2021-09 “Leases (Topic 842)—Discount Rate for Lessees That Are Not Public Business Entities”. ASU 2021-09 allows lessee’s that are not a public business entity to use a risk-free rate as its discount rate by class of underlying asset rather than an entity-wide level. The amendments in this Update also require that when the rate implicit in the lease is readily determinable for any individual lease, the lessee would use that rate (rather than a

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risk-free rate or an incremental borrowing rate), regardless of whether it has made the risk-free rate election.

The amendments in this update are effective for fiscal years beginning after December 15, 2021. Chugach began application of ASU 2021-09 on January 1, 2022. Adoption did not have a material effect on our results of operations, financial position, and cash flows.

ASC Update 2021-10 “Government Assistance (Topic 832)—Disclosures by Business Entities about Government Assistance”

The amendments in this update require disclosures about transactions with a government that have been accounted for by analogizing to a grant or contribution accounting model to increase transparency about (1) the types of transactions, (2) the accounting for the transactions, and (3) the effect of the transactions on an entity’s financial statements.

The amendments in this Update are effective for all entities within their scope for financial statements issued for annual periods beginning after December 15, 2021. Early application of the amendments is permitted. Chugach began application of ASU 2021-10 on January 1, 2022. Adoption did not have a material effect on our disclosures.

(4) Fair Value of Assets and Liabilities

Fair Value Hierarchy

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

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

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

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

The table below presents the balance of Chugach’s investment accounts associated with the BRU ARO, which is comprised of bond and equity securities. Chugach had no other assets or liabilities measured at fair value on a recurring basis at December 31, 2021, or December 31, 2020.

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December 31, 2021	Total	Level 1	Level 2	Level 3
BRU ARO Fund	\$ 21,441,165	\$ 19,154,277	\$ 2,286,888	\$ 0
RRR Fund	\$ 24,000,943	\$ 24,000,943	\$ 0	\$ 0
Future Natural Gas Purchases Fund	\$ 19,437,450	\$ 19,437,450	\$ 0	\$ 0

December 31, 2020	Total	Level 1	Level 2	Level 3
BRU ARO Fund	\$ 18,040,897	\$ 10,448,488	\$ 7,592,409	\$ 0
RRR Fund	\$ 36,000,286	\$ 36,000,286	\$ 0	\$ 0

Fair Value of Financial Instruments

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

The estimated fair values of long-term obligations included in the financial statements at December 31, 2021, are as follows (dollars in thousands):

	Carrying Value	Fair Value Level 2
Long-term obligations (including current installments)	\$ 1,238,587	\$ 1,259,154

(5) Regulatory Matters

Gas Dispatch Agreement

In 2016, Chugach and MEA entered into an agreement entitled, “Gas Dispatch Agreement” in which Chugach provides gas scheduling and dispatch services to MEA. On January 24, 2022, MEA provided notice that it was terminating the Gas Dispatch Agreement, effective August 1, 2022. Termination of the agreement will reduce annual revenues by approximately \$0.2 million.

Simplified Rate Filing

For the first half of calendar year 2020, Chugach participated in the Simplified Rate Filing (“SRF”) process for adjustments to base demand and energy rates for Chugach retail customers and wholesale customer, Seward. SRF is an expedited base rate adjustment process available to electric cooperatives in the State of Alaska, with filings made either on a quarterly or semi-annual basis. Chugach participated on a quarterly filing schedule basis. Chugach is required to submit filings to the RCA for approval before any rate changes can be implemented. While there is no limitation on base rate decreases, increases under SRF are limited to 8% in a 12-month period and 20% in a 36-month period.

Chugach submitted quarterly SRFs which resulted in a system demand and energy rate increase of 3.8% effective November 1, 2019; increase of 0.4% effective February 1, 2020; increase of 1.1%

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effective May 1, 2020; and a decrease of 0.4% effective August 1, 2020. The SRF based on the June 30, 2020 test year was informational only and did not result in any base rate adjustments.

As a result of Chugach's acquisition of the Municipality of Anchorage d/b/a Municipal Light & Power on October 30, 2020, Chugach will not have a representative test period for the determination of base rate changes to continue under the SRF process. Therefore, on September 30, 2020, Chugach submitted a request to the RCA to temporarily suspend its participation in the SRF process pending the completion of a general rate case following its acquisition of ML&P, which will be filed by December 31, 2023. Chugach is planning to request RCA approval to re-enter the SRF process after completion of the rate case. On November 20, 2020, the RCA approved Chugach's request to the RCA to suspend participation in the SRF process.

Operation and Regulation of the Alaska Railbelt Electric and Transmission System

In June 2016, the RCA opened a docket to "evaluate the reliability and security standards and practices of Alaska Electric Utilities." In 2017, Chugach and several other Alaska Railbelt utilities entered into a contract with GDS Associates, Inc. ("GDS"). GDS's role was to facilitate discussions between all six Alaska Railbelt utilities and various stakeholders with a goal of submitting to the RCA organizational plans for a Railbelt Reliability Council ("RRC"), including a governance structure, that will be responsible for adoption and enforcement of uniform reliability standards and integrated transmission resource planning. GDS presented to the RCA during two technical conferences in January and March of 2018. Chugach and the other utilities provided GDS's final recommendation of the RRC to the RCA in May 2018. During the fourth quarter of 2018, the utilities reviewed and adopted the memorandum of understanding with GDS ("GDS MOU") and during 2019, the utilities engaged non-utility stakeholders in the GDS MOU process and revised the GDS MOU to take into account non-utility stakeholder concerns. In December 2019, the utilities submitted this revised GDS MOU detailing the formation of an RRC to the RCA.

On March 15, 2019, the RCA issued an order requesting comments on proposed legislative language which would authorize the RCA to designate or develop an Electric Reliability Organization ("ERO"). Chugach submitted comments seeking to delay adoption until the RRC Governance Board could be formed but continued to work with the RCA, Railbelt utilities and stakeholders to draft acceptable legislation. This legislation took form in Alaska Senate Bill 123 ("SB 123"). SB 123 provides for the creation and regulation of an ERO. On April 29, 2020, the Governor of Alaska signed the bill, with the section requiring the RCA to adopt regulations taking effect immediately.

In June 2020, the RCA opened three regulatory dockets (R-20-001, 002, 003) to address ERO regulations. The RCA held three workshops and requested informal comments on draft language presented at a series of public meetings. A final order with draft regulations was issued on April 29, 2021. The publishing of the draft regulations initiated a 30-day window for final comments, which were due June 1, 2021. The utilities worked on both joint and separate comment filings to meet the deadline.

Chugach, in coordination with the other utilities and some non-utility stakeholders, participated in each of these dockets, and in a parallel effort, continued formation of the RRC. The RRC Implementation Committee ("IC") is now nearly fully formed and consists of representatives of the now five Railbelt utilities, Alaska Energy Authority ("AEA"), two independent power provider

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representatives, a consumer advocacy seat, a large commercial consumer representative, two non-affiliated members with the Chair of the RCA and a representative from the Regulatory Affairs and Public Advocacy Office (“RAPA”) of the Attorney General. This group is working to develop the foundational documents for the RRC, e.g., Articles of Incorporation, Bylaws, Code of Conduct, etc.

On July 1, 2021, the RCA issued final regulations as required by SB 123. The final regulations went into effect on February 11, 2022 and the RRC filed to be the Railbelt ERO on March 25, 2022.

Railbelt Reliability Standards

In March 2018, the Alaska Intertie Management Committee (“IMC”) completed the development of the Railbelt Reliability Standards and submitted them to the RCA on April 5, 2018. These reliability standards are based on North American Electric Reliability Corporation (“NERC”) standards, modified to meet the unique circumstances of the relatively small and islanded Railbelt Grid. The standards govern the secure operation of the Railbelt Electric Grid and will be adopted for the further development, administration, and enforcement of the ERO.

In June 2016, in response to RCA Docket I-16-002, Railbelt Utility Information Technology and Operations Technology leadership began meeting to discuss Railbelt Cybersecurity. The Railbelt Utilities Managers group designated the Cybersecurity Working Group to review industry standards and provide a statement of work to develop Railbelt Cybersecurity Standards. On June 21, 2018, Chugach posted a Request for Proposal to hire a consultant to draft the standards. The final draft was presented to the Railbelt Utility Managers on February 15, 2019. On July 10, 2019, a status update was provided to the RCA by the Railbelt Utility Managers announcing the completion of Alaska Critical Infrastructure Protection (“AKCIP”) Cybersecurity Standards and a collective agreement for adoption effective January 1, 2020. Implementation schedules are contained in the specific standards.

ML&P Acquisition

On April 3, 2018, the Municipality of Anchorage (“MOA”) voters approved a proposition authorizing the sale of ML&P to Chugach. Chugach and the MOA executed final sales agreements and associated documents approved by the Anchorage Assembly and the Chugach Board of Directors in 2018. Pursuant to these agreements and associated documents, on April 1, 2019, Chugach submitted required filings to the RCA with the RCA accepting the filing as complete on April 18, 2019. In addition, the RCA granted petitions to intervene by several parties. One of the parties was GVEA, who withdrew its petition to intervene after Chugach entered into a Memorandum of Understanding (“MOU”) in which Chugach agreed to provide GVEA non-firm energy, wheeling and ancillary services for a 3-year period under terms and conditions consistent with its operating tariff, and will make available 5 MW of Bradley Lake capacity to GVEA for a 5-year period. Hearings on the acquisition were held in August and September 2019.

On October 28, 2019, Chugach and the intervening parties filed a stipulation with the RCA resolving all disputed issues. The State of Alaska Office of the Attorney General, Regulatory Affairs and Public Advocacy Section was not a party to the Stipulation.

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The RCA issued an order on May 28, 2020, accepting the Stipulations and approved the acquisition of ML&P subject to certain conditions. The conditions included the formation of a tight power pool with MEA and the filing of a general rate case by December 31, 2023 that contains unified base demand and energy rates. Additional conditions included required filings within 90 days of the Order date for: 1) unified fuel and purchased power rates, and 2) the gas transfer price for natural gas from the BRU. These filings were submitted to the RCA November 17, 2020, and approved for rates effective January 1, 2021

There were several amendments to the agreements, the last of which to incorporate changes reflecting accepted settlements and/or the result of the May 28, 2020 RCA order, in addition to the termination of the BRU Fuel Agreement, given the conditions relating to the pricing of BRU gas, certain procedural matters related to closing and other matters related to the Eklutna PPA.

Concerning the requirement to form a tight power pool with MEA, Chugach and MEA submitted the Amended and Restated Operations Agreement for Power Pooling and Joint Dispatch (“Amended Pooling Agreement”) with the RCA on August 7, 2020. On November 2, 2020, the RCA approved the Amended Pooling Agreement, allowing Chugach to close on the acquisition.

On November 20, 2020, the RCA approved Chugach’s request to temporarily suspend its participation in the SRF process pending the completion of a general rate case. Chugach committed and the RCA affirmed that Chugach will file its first general rate case following the acquisition of ML&P by December 31, 2023. Chugach is planning to request RCA approval to re-enter the SRF process after completion of the rate case.

The transaction to acquire ML&P closed on October 30, 2020. For more information, see “Note 16 – ML&P Acquisition.”

Senate Bill 241

The Alaska House and Senate approved a bill designed to address several impacts resulting from the COVID-19 pandemic in the State of Alaska. Alaska Governor Dunleavy signed the bill into law on April 9, 2020. Three sections of Senate Bill 241 (“SB 241”) affect utility operations in Alaska. A section on “tolling” allows the RCA to exceed normal decision-making deadlines. Another section prohibits disconnection of utility service for residential customers agreeing to a payment plan who provide a sworn statement they are unable to pay because of COVID-19 issues. This section also makes it clear that customers are not relieved of their obligation to pay for utility service. The final utility section deals with the creation of “regulatory assets” for unpaid accounts and other COVID-19 related unusual expenses. SB 241 also extended the date of the coronavirus emergency to November 15, 2020, unless lifted earlier. Alaska’s legislature did not extend the emergency order and the provisions prohibiting disconnection of utility service expired with the order on November 15, 2020. On March 16, 2020, Chugach notified the RCA that it was temporarily ceasing service disconnections in recognition of the State of Alaska and Municipality of Anchorage (MOA) emergency orders and health declarations. In recognition of the expiration of the State of Alaska emergency order declaration on COVID-19, on April 30, 2021, Chugach ended its practice of allowing members who are experiencing financial difficulty as a result of the COVID-19 pandemic to defer payments for electric service provided they sign a statement of

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financial hardship and enter into a deferred payment agreement. Chugach has lifted its moratorium on disconnects and has begun collecting under the deferred payment agreements.

COVID-19 Relief Funds to Members

Through December 31, 2021, Chugach has received over \$5 million in federal grants that has been provided to members experiencing financial hardship as a result of COVID-19. Chugach is continuing to monitor opportunities for additional funding. All Chugach residential amounts due under the COVID-19 deferred payment agreements have been paid in full. For commercial accounts, the outstanding amount due is \$169,325.

Potential Margin Shortfalls Due to Lower Sales

On July 1, 2021, Chugach submitted a petition to the RCA requesting approval to modify the Stipulation Resolving All Issues (as approved in Order No. U-18-102(44)/U-19-020(39)/U-19-021(39)), in response to reductions in sales due, in part, to the COVID-19 pandemic. In the petition, Chugach requested approval to modify the amortization amounts for the Secondary Regulatory Asset and the Eklutna PPA payments, as and if needed, that would allow Chugach to achieve a Margins for Interest (“MFI/I”) of 1.20 for 2021, 2022 and 2023. On July 30, 2021, the RCA issued Order No. U-19-020(47)/U-19-021(47) partially denying the petition, and opening Docket U-21-059 for investigation of Chugach’s projected margin shortfall. In Order No. 1, the RCA indicated that a decision would be issued by July 29, 2022. On August 10, 2021, Chugach requested expedited consideration requesting that a decision be issued by the RCA by November 12, 2021. A hearing was held on September 23, 2021, to address Chugach’s request to modify the Stipulation.

On November 9, 2021, the RCA issued an order authorizing Chugach to modify the amortization of its Secondary Regulatory asset and defer the Eklutna PPA payments, if needed, to achieve a MFI/I of not more than 1.20 for 2021. Additionally, the RCA required Chugach to submit a filing to propose an alternative solution for years 2022 and 2023. Chugach submitted the proposed alternative solution; however, in response to issues raised by its members, withdrew this filing on January 20, 2022. On February 28, 2022, Chugach submitted a petition to the RCA requesting approval to defer up to \$8.8 million of the secondary regulatory asset and Eklutna PPA payments that were approved for deferral in 2021 by the RCA in Order No. U-19-020(47)/U-19-021(47). Since Chugach did not defer any amounts in 2021, the petition requests RCA approval to defer up to the \$8.8 million as previously authorized for 2021 in calendar-years 2022 and 2023, if needed.

BRU

On May 28, 2021, Chugach provided the RCA with a copy of its executed Beluga River Unit Farmout Agreement (“Agreement”) between Chugach and Hilcorp Alaska, LLC (“Hilcorp”). Chugach did not request approval of this Agreement as Chugach does not believe approval is required. The purpose of the filing was to keep the RCA informed of certain proposed transactions regarding the BRU and to give the RCA the opportunity to respond in advance of the Agreement becoming effective should the RCA disagree with Chugach’s assessment of the requirement for regulatory approval.

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Ownership of the BRU working interest is divided differently above and below 7,000 feet total vertical depth (“TVD”). Chugach currently holds a two-thirds working interest ownership (“WIO”) in those BRU formations above 7,000 feet TVD (“Shallow Formations”) and a 100 percent WIO in those BRU formations below 7,000 feet TVD (“Deep Formations”). Conversely, Hilcorp holds a one-third WIO in only the Shallow Formations. This misalignment of interests has caused some difficulty in planning for future development of the BRU Deep Formations. The Agreement is an attempt to resolve that issue by giving Hilcorp an opportunity to earn a one-third WIO in the Deep Formations through the conduct of certain drilling and exploration activities at its sole cost, risk, and expense. To the extent Hilcorp successfully earns the proposed one-third interest in the Deep Formations, the WIO percentages would then be uniform throughout the BRU.

In exchange for the drill-to-earn rights described above, Hilcorp has agreed to (1) drill five new development wells by 2023; (2) drill three new exploration tails either collaboratively with Chugach or as sole benefit wells on Chugach’s behalf; (3) backstop Chugach’s gas supply with the right for Chugach to overlift up to one billion cubic feet (Bcf) of gas within a 12-month period; and (4) produce all gas discovered in commercial quantities whether in the Deep or Shallow Formations. These obligations become binding on the effective date of the Agreement and are not contingent upon Hilcorp’s success or failure in earning an interest in the Deep Formations. Chugach expects that this multi-year development plan for both the Shallow and Deep Formations will increase production from an otherwise aging and declining resource thereby significantly lowering fuel costs for ratepayers over the next several years.

Before the Agreement became effective, Chugach requested the RCA notify Chugach of any objections or intent to assert pre-approval authority over the transactions contemplated by the Agreement by June 30, 2021. Chugach did not receive a response from the RCA so Chugach and Hilcorp have deemed their agreement effective and intend to proceed with drilling the first Deep Formation exploration tail during the 2021 drilling season.

Seward

On August 23, 2021, Chugach filed a 2022 Wholesale Power Contract (“2022 Agreement”) between Chugach and Seward with the RCA. On September 30, 2021, the RCA approved the 2022 Agreement. The 2022 Agreement provides for an initial three-year term, with two subsequent three-year automatic extensions unless terminated by either party with a one-year’s advance notice. The 2022 Agreement also provides for the continuation of generation interruptibility if power supplies are not available from the Chugach system in addition to no generation reserve assignment. It also provides significant opportunity for mutual benefit in key areas of operations, including employee training, electric vehicle charging infrastructure, renewable generation, dispatch and engineering services, cyber security, and Advanced Metering Infrastructure. The 2022 Agreement is expected to provide \$2.3 million in base rate fixed-cost contribution to the Chugach system. In addition to simplifying fuel and purchased power cost recovery, it also provides for the optionality of Seward to purchase natural gas to meet all or portions of the energy requirements and to meet a portion of its power supply needs through economy energy purchases subject to Chugach approval based on operational or economic conditions.

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Furie Operating Alaska LLC Gas Sales and Purchase Agreement

Chugach entered into a new Gas Sales and Purchase Agreement (“Furie Agreement”) with Furie Operating Alaska, LLC (Furie) for firm and non-firm natural gas purchases. The previous agreement was terminated because Furie informed Chugach that they could not produce sufficient gas volumes to meet the firm supply commitment of 5,000 Mcf per day in contract years 7 through 16 (4/1/2023 – 3/31/2033). To replace these firm gas volumes Chugach has exercised an additional purchase option under its firm contract with Hilcorp Alaska, LLC (Hilcorp Agreement). The Hilcorp Agreement, including the additional purchase option, provides firm gas supply through March 31, 2028.

Under the Furie agreement, quantities of gas are subject to availability and prices are subject to negotiation. The agreement provides Chugach the option to purchase supplemental gas to meet firm load requirements, if economically advantageous and if operational conditions warrant such purchases. Additionally, this agreement provides Chugach with an additional gas supply option for generation of energy for economy sales, which reduces the underlying cost to provide electric service to members. The RCA approved the Furie Agreement effective November 1, 2021.

(6) Utility Plant

Major classes of utility plant, net of contributions in aid of construction, as of December 31 are as follows:

Electric plant in service:	2021	2020
Steam production plant	\$ 308,652,600	\$ 308,652,600
Hydroelectric production plant	34,422,805	34,414,925
Other production plant	494,269,738	494,119,198
Transmission plant	346,398,832	353,242,733
Distribution plant	496,019,140	495,385,923
General plant	78,873,995	76,273,775
Unclassified electric plant in service ¹	128,891,974	105,881,169
Intangible plant ¹	9,306,358	8,460,377
Beluga River Natural Gas Field (BRU Asset & ARO Asset)	186,903,860	62,820,953
Other ¹	1,828,410	1,828,410
Total electric plant in service	2,085,567,712	1,941,080,063
Construction work in progress	34,253,304	38,075,575
Total electric plant in service and construction work in progress	<u>\$ 2,119,821,016</u>	<u>\$ 1,979,155,638</u>

¹ Unclassified electric plant in service consists of complete unclassified general plant, generation plant, transmission plant and distribution plant. Depreciation of unclassified electric plant in service has been included in functional plant depreciation accounts in accordance with the anticipated eventual classification of the plant investment. Intangible plant represents Chugach's share of a Bradley Lake transmission line financed internally. Other represents Electric Plant Held for Future Use.

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(7) Investments in Associated Organizations

Investments in associated organizations include the following at December 31:

	2021	2020
NRUCFC Capital Term Certificates	\$ 5,902,230	\$ 5,902,230
CoBank	1,327,159	1,633,792
Other	51,547	59,175
Total investments in associated organizations	<u>\$ 7,280,936</u>	<u>\$ 7,595,197</u>

(8) Deferred Charges and Liabilities

Deferred Charges

Regulatory assets and deferred charges, net of amortization, consisted of the following at December 31:

	2021	2020
Regulatory assets and deferred charges:		
Short-term debt issuance and reacquisition costs	\$ 310,867	\$ 489,871
Refurbishment of transmission equipment	58,642	67,901
Feasibility studies	1,483,976	165,539
Cooper Lake relicensing / projects	4,629,492	4,759,595
Fuel supply	1,450,138	1,536,875
Other regulatory deferred charges	717,806	521,695
Bond interest - market risk management	3,214,814	3,595,750
Environmental matters	797,417	842,768
Beluga parts and materials	5,529,115	6,757,808
NRECA pension plan prepayment	4,322,754	5,043,214
ML&P acquisition, integration, & consolidation	42,530,884	35,812,317
ML&P regulatory assets acquired	2,676,661	4,095,163
ML&P acquisition price premium	26,727,306	25,422,071
ML&P acquisition secondary regulatory asset	11,611,111	17,944,444
Incremental COVID-19 costs	6,287,155	3,434,111
Total regulatory assets and deferred charges	<u>\$ 112,348,138</u>	<u>\$ 110,489,122</u>

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Regulatory assets and deferred charges, not currently being recovered in rates charged to consumers, consisted of the following at December 31:

	2021	2020
Regulatory assets and deferred charges		
Regulatory studies and other	\$ 1,842,144	\$ 300,074
ML&P acquisition, integration, & consolidation	42,530,882	35,812,317
ML&P acquisition price premium	26,727,661	25,422,071
Incremental COVID-19 costs	6,287,155	3,434,111
Total regulatory assets and deferred charges	<u>\$ 77,387,842</u>	<u>\$ 64,968,573</u>

We believe all regulatory assets and deferred charges not currently being recovered in rates charged to consumers are probable of recovery in the future based upon prior recovery of similar costs allowed by our regulator or rate orders currently approved by the RCA. The recovery of regulatory assets and deferred charges is approved by the RCA either in standard SRFs, general rate case filings or specified independent requests or filings. In most cases, deferred charges are recovered over the life of the underlying asset.

Deferred Liabilities

Deferred liabilities, at December 31 consisted of the following:

	2021	2020
Refundable consumer advances for construction	\$ 359,497	\$ 579,585
Estimated initial installation costs for meters	0	103,586
Post retirement benefit obligation	448,372	448,372
Regulatory liability – gas sales	22,791	7,169
Future gas purchases	7,809,040	7,806,831
ARO surcharge deferred liability	4,093,502	3,953,633
Eklutna clearing	(9,083)	0
Total deferred liabilities	<u>\$ 12,724,119</u>	<u>\$ 12,899,176</u>

Future gas purchases represent funds that ML&P received for BRU underlift for which the RCA has specified the use.

(9) Patronage Capital

Chugach has a Board-approved capital credit retirement policy, which is contained in Chugach’s financial forecast. This establishes, in general, a plan to return the capital credits of wholesale and retail customers based on the members’ proportionate contribution to Chugach’s assignable margins. At December 31, 2021, Chugach had \$188,573,753 of patronage capital (net of capital credits retired in 2021), which included \$178,995,274 of patronage capital that had been assigned and \$9,578,479 of patronage capital to be assigned to its members. At December 31, 2020, Chugach had \$181,564,419 of patronage capital (net of capital credits retired in 2020), which included \$176,567,538 of patronage capital that had been assigned and \$4,996,881 of patronage capital to be assigned to its members. Approval of actual capital credit retirements is at the

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discretion of the Chugach Board of Directors (“Board”). Chugach records a liability when the retirements are approved by the Board.

The Second Amended and Restated Indenture of Trust (“Indenture”) and the CoBank Second Amended and Restated Master Loan Agreement, as amended, prohibit Chugach from making any distribution of patronage capital to Chugach’s customers if an event of default under the Indenture or debt agreements exists. Otherwise, Chugach may make distributions to Chugach’s members in each year equal to the lesser of 5% of Chugach’s patronage capital or 50% of assignable margins for the prior fiscal year. This restriction does not apply if, after the distribution, Chugach’s aggregate equities and margins as of the end of the immediately preceding fiscal quarter are equal to at least 30% of Chugach’s total long-term debt and equities and margins. In November 2021, the Board authorized payments to MEA and Seward of approximately \$2.1 million and \$110 thousand, respectively. In May 2020, the Board authorized payments to MEA and Seward of approximately \$520 thousand and \$31 thousand, respectively. In November 2021, the Board authorized payments to MEA and Seward of approximately \$2.1 million and \$110 thousand, respectively.

(10) Other Equities

A summary of other equities at December 31 follows:

	2021	2020
Nonoperating margins, prior to 1967	\$ 23,625	\$ 23,625
Donated capital	3,016,702	2,889,635
Unclaimed capital credit retirement ¹	12,437,596	12,463,302
Total other equities	<u>\$ 15,477,923</u>	<u>\$ 15,376,562</u>

¹Represents unclaimed capital credits that have met all requirements of Alaska Statute section 34.45.200 regarding Alaska’s unclaimed property law and have therefore reverted to Chugach.

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(11) Debt

Long-term obligations at December 31 are as follows:	2021	2020
2011 Series A Bond of 4.20%, maturing in 2031, with interest payable semi-annually March 15 and September 15 and principal due annually beginning in 2012	45,000,000	49,500,000
2011 Series A Bond of 4.75%, maturing in 2041, with interest payable semi-annually March 15 and September 15 and principal due annually beginning in 2012	123,333,330	129,499,997
2012 Series A Bond of 4.01%, maturing in 2032, with interest payable semi-annually March 15 and September 15 and principal due annually beginning in 2013	41,250,000	45,000,000
2012 Series A Bond of 4.41%, maturing in 2042, with interest payable semi-annually March 15 and September 15 and principal due annually between 2013 and 2020 and between 2032 and 2042	67,000,000	67,000,000
2012 Series A Bond of 4.78%, maturing in 2042, with interest payable semi-annually March 15 and September 15 and principal due annually beginning in 2023	50,000,000	50,000,000
2017 Series A Bond of 3.43%, maturing in 2037, with interest payable semi-annually March 15 and September 15 and principal due annually beginning in 2018	32,000,000	34,000,000
2019 Series A Bond of 3.86%, maturing in 2049, with interest payable semi-annually May 15 and November 15 and principal due annually beginning in 2021	71,100,000	75,000,000
2020 Series A Bond of 2.38%, maturing in 2039, with interest payable semi-annually April 30 and October 30 and principal payments beginning in 2025	275,000,000	275,000,000
2020 Series A Bond of 2.91%, maturing in 2050, with interest payable semi-annually April 30 and October 30 and principal payments beginning in 2021	507,000,000	525,000,000
2016 CoBank Note, 2.58% fixed rate note maturing in 2031, with interest and principal due quarterly beginning in 2016	26,904,000	30,552,000
Total long-term obligations	<u>\$ 1,238,587,330</u>	<u>\$ 1,280,551,997</u>
Less current installments	42,192,667	41,964,667
Less unamortized debt issuance costs	6,072,373	6,179,476
Long-term debt, excluding current installments	<u>\$ 1,190,322,290</u>	<u>\$ 1,232,407,854</u>

Covenants

Chugach is required to comply with all covenants set forth in the Indenture that secures the 2011, 2012, 2017, 2019 and 2020 Series A Bonds, and the 2016 CoBank Note. The CoBank Note is governed by the Second Amended and Restated Master Loan Agreement, as amended, which is secured by the Indenture dated January 20, 2011.

Chugach is also required to comply with the 2016 Credit Agreement, as amended between Chugach and NRUCFC, KeyBank National Association, Bank of America, N.A., Wells Fargo Bank N.A., and CoBank, ACB dated July 30, 2019, governing loans and extensions of credit

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associated with Chugach's commercial paper program, in an aggregate principal amount not exceeding \$300.0 million at any one time outstanding.

Chugach is also required to comply with other covenants set forth in the Revolving Line of Credit Agreement with NRUCFC.

Security

The Indenture, which became effective on January 20, 2011, imposes a lien on substantially all of Chugach's assets to secure Chugach's long-term debt obligations. On October 30, 2020, a lien was granted on certain ML&P acquired assets to secure the debt associated with the acquisition. Assets that are generally not subject to the lien of the Indenture include cash (other than cash deposited with the indenture trustee); instruments and securities; patents, trademarks, licenses and other intellectual property; vehicles and other movable equipment; inventory and consumable materials and supplies; office furniture, equipment and supplies; computer equipment and software; office leases; other leasehold interests for an original term of less than five years; contracts (other than power sales agreements with members having an original term exceeding three years, certain contracts specifically identified in the indenture, and other contracts relating to the ownership, operation or maintenance of generation, transmission or distribution facilities); non-assignable permits, licenses and other contract rights; timber and minerals separated from land; electricity, gas, steam, water and other products generated, produced or purchased; other property in which a security interest cannot legally be perfected by the filing of a Uniform Commercial Code financing statement, and certain parcels of real property specifically excepted from the lien of the Indenture. The lien of the Indenture may be subject to various permitted encumbrances that include matters existing on the date of the Indenture or the date on which property is later acquired; reservations in United States patents; non-delinquent or contested taxes, assessments and contractors' liens; and various leases, rights-of-way, easements, covenants, conditions, restrictions, reservations, licenses and permits that do not materially impair Chugach's use of the mortgaged property in the conduct of Chugach's business.

Rates

The Indenture also requires Chugach, subject to any necessary regulatory approval, to establish and collect rates reasonably expected to yield margins for interest equal to at least 1.10 times total interest expense. If any material change occurs in the circumstances contemplated at the time rates were most recently reviewed, the Indenture requires Chugach to seek appropriate adjustment to those rates so that they would generate revenues reasonably expected to yield margins for interest equal to at least 1.10 times interest charges, provided, however, upon review of rates based on a material change in circumstances, rates are required to be revised in order to comply and there are less than six calendar months remaining in the current fiscal year, Chugach can revise its rates so as to reasonably expect to meet the covenant for the next succeeding 12-month period after the date of any such revision.

The Second Amended and Restated Master Loan Agreement with CoBank, which became effective on June 30, 2016, as amended November 26, 2019, also requires Chugach to establish and collect rates reasonably expected to yield margins for interest equal to at least 1.10 times interest expense.

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The 2016 Credit Agreement governing the unsecured facility providing liquidity for Chugach’s commercial paper program requires Chugach to maintain minimum margins for interest of at least 1.10 times interest charges for each fiscal year. Margins for interest generally consist of Chugach’s assignable margins plus total interest expense, excluding amounts capitalized. Additionally, Chugach must maintain a minimum Consolidated Margins and Equities balance of \$150 million, excluding any unrealized gain or loss on any Hedging Agreement, for each fiscal quarter and fiscal year-end.

Distributions to Members

Under the Indenture and debt agreements, Chugach is prohibited from making any distribution of patronage capital to Chugach’s customers if an event of default under the Indenture or debt agreements exists. Otherwise, Chugach may make distributions to Chugach’s members in each year equal to the lesser of 5% of Chugach’s patronage capital or 50% of assignable margins for the prior fiscal year. This restriction does not apply if, after the distribution, Chugach’s aggregate equities and margins as of the end of the immediately preceding fiscal quarter are equal to at least 30% of Chugach’s total long-term debt and equities and margins.

Maturities of Long-term Obligations

Long-term obligations at December 31, 2021, mature as follows (dollars in thousands):

Year ending	2011 Series A Bonds	2012 Series A Bonds	2016 CoBank	2017 Series A Bonds	2019 Series A Bonds	2020 Series A Bonds	Total
2022	10,667	3,750	3,876	2,000	3,900	18,000	42,193
2023	10,667	6,250	4,104	2,000	3,900	22,000	48,921
2024	10,667	6,250	4,104	2,000	3,900	22,000	48,921
2025	10,667	6,250	3,876	2,000	3,900	22,000	48,693
2026	10,667	6,250	3,192	2,000	3,900	28,000	54,009
Thereafter	114,998	129,500	7,752	22,000	51,600	670,000	995,850
	<u>\$ 168,333</u>	<u>\$ 158,250</u>	<u>\$ 26,904</u>	<u>\$ 32,000</u>	<u>\$ 71,100</u>	<u>\$ 782,000</u>	<u>\$ 1,238,587</u>

Lines of credit

Chugach maintains a \$50.0 million line of credit with NRUCFC. There was no outstanding balance on this line of credit at December 31, 2021. On March 16, 2020, Chugach drew \$41.0 million on this line of credit to pay the balance of commercial paper. The balance on this line of credit was subsequently paid using the senior unsecured credit facility backstopping our commercial paper program; therefore, there was no outstanding balance on this line of credit at December 31, 2020. The borrowing rate is calculated using the total rate per annum and may be fixed by NRUCFC. The borrowing rate was 2.45% at December 31, 2021 and 2020.

The NRUCFC Revolving Line of Credit Agreement requires that Chugach, for each 12-month period, for a period of at least five consecutive days, pay down the entire outstanding principal balance. The NRUCFC line of credit was renewed December 15, 2021 and expires December 21, 2026. This line of credit is immediately available for unconditional borrowing.

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Commercial Paper

Chugach maintains a \$300.0 million senior unsecured credit facility, as amended June 2019, (“Credit Agreement”), which is used to back Chugach’s commercial paper program. The pricing includes an all-in drawn spread of one-month LIBOR plus 90.0 basis points, along with a 10.0 basis points facility fee (based on an A/A2/A unsecured debt rating), as well as provisions for calculating the interest on loans in ways other than the LIBOR. Therefore, any transition away from using LIBOR is not expected to have a material impact on Chugach. The Credit Agreement expires on July 30, 2024. The participating banks include NRUCFC, Bank of America, N.A., KeyBank National Association, Wells Fargo Bank N.A., and CoBank, ACB.

Our commercial paper can be repriced between one day and 397 days. Chugach is expected to continue to issue commercial paper in 2022, as needed.

On March 16, 2020, Chugach attempted to reprice its outstanding commercial paper. Due to volatility in the markets caused by the pandemic, the demand for cash pushed treasuries into the negative, seizing up the commercial paper market. The lack of overall liquidity resulted in Chugach having to utilize other pre-existing credit facilities. The balance of commercial paper was initially paid using the NRUCFC line of credit, which was subsequently rolled over to the senior unsecured credit facility used to back the commercial paper program. The balance outstanding on our senior unsecured credit facility was \$41.0 million bearing interest at 1.85% when it was paid using commercial paper on April 27, 2020.

Chugach had \$22.0 million and \$10.0 million of commercial paper outstanding at December 31, 2021 and 2020, respectively.

The following table provides information regarding 2021 monthly average commercial paper balances outstanding (dollars in millions), as well as corresponding weighted average interest rates:

Month	Average Balance	Weighted Average Interest Rate	Month	Average Balance	Weighted Average Interest Rate
January	\$ 4.5	0.22%	July	\$ 15.9	0.18%
February	\$ 0.0	N/A	August	\$ 12.6	0.19%
March	\$ 7.1	0.20%	September	\$ 14.1	0.19%
April	\$ 7.9	0.20%	October	\$ 14.3	0.19%
May	\$ 13.7	0.18%	November	\$ 26.0	0.20%
June	\$ 13.1	0.18%	December	\$ 24.7	0.25%

Financing

In January 2011, Chugach issued \$275.0 million of First Mortgage Bonds, 2011 Series A, in two tranches, Tranche A and Tranche B, for the purpose of refinancing the 2001 and 2002 Series A Bonds in 2011 and 2012, and for general corporate purposes. Interest is paid semi-annually on March 15 and September 15 commencing on September 15, 2011. Principal on the 2011 Series A Bonds is paid in equal annual installments beginning March 15, 2012.

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In January 2012, Chugach issued \$250.0 million of First Mortgage Bonds, 2012 Series A, in three tranches, Tranche A, Tranche B and Tranche C, for the purpose of repaying outstanding commercial paper used to finance SPP construction and for general corporate purposes. Interest is paid semi-annually March 15 and September 15 commencing on September 15, 2012. The 2012 Series A Bonds, Tranche A and Tranche C, pay principal in equal installments on an annual basis beginning March 15, 2013, and 2023, respectively. The 2012 Series A Bonds, Tranche B, pay principal beginning March 15, 2013, through 2020, and on March 15, 2032, through 2042.

In June 2016, Chugach entered into a term loan facility with CoBank, evidenced by the 2016 CoBank Note, which is governed by the Second Amended and Restated Master Loan Agreement dated June 30, 2016, amended November 26, 2019, and secured by the Indenture.

In March 2017, Chugach issued \$40.0 million of First Mortgage Bonds, 2017 Series A for general corporate purposes. Interest is paid semi-annually on March 15 and September 15, commencing on September 15, 2017. The 2017 Series A Bonds pay principal in equal installments on an annual basis beginning March 15, 2018.

In May 2019, Chugach issued \$75.0 million of First Mortgage Bonds, 2019 Series A, for the purpose of repaying outstanding commercial paper used to finance Chugach's capital improvement program and for general corporate purposes. Interest is paid semi-annually on May 15 and November 15, commencing on November 15, 2019. The 2019 Series A Bonds pay principal in equal installments on an annual basis beginning on May 15, 2021.

On October 26, 2020, Chugach issued \$800.0 million of First Mortgage Bonds, 2020 Series A, in two tranches, Tranche A and Tranche B, for the purpose of funding the acquisition of certain assets of ML&P and related transaction costs. Interest is paid semi-annually April 30 and October 30 commencing April 30, 2021. The 2020 Series A Bonds, Tranche A, pay principal semi-annually beginning April 30, 2025. The 2020 Series A Bonds, Tranche B pay principal beginning April 30, 2021.

The bonds and all other long-term debt obligations are secured by a lien on substantially all of Chugach's assets, pursuant to the Indenture, which became effective on January 20, 2011, as previously amended and supplemented. On October 30, 2020, a lien was granted on certain ML&P acquired assets to secure the debt associated with the acquisition.

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The following table provides additional information regarding the bonds and the CoBank note at December 31, 2021 (dollars in thousands):

	Maturing	Average Life (Years)	Interest Rate	Issue Amount	Carrying Value
2011 Series A, Tranche A	2031	4.7	4.20 %	\$ 90,000	\$ 45,000
2011 Series A, Tranche B	2041	9.7	4.75 %	185,000	123,333
2012 Series A, Tranche A	2032	5.2	4.01 %	75,000	41,250
2012 Series A, Tranche B	2042	15.3	4.41 %	125,000	67,000
2012 Series A, Tranche C	2042	10.7	4.78 %	50,000	50,000
2017 Series A, Tranche A	2037	7.7	3.43 %	40,000	32,000
2019 Series A, Tranche A	2049	9.9	3.86 %	75,000	71,100
2020 Series A, Tranche A	2039	9.5	2.38 %	275,000	275,000
2020 Series A, Tranche B	2050	18.3	2.91 %	525,000	507,000
2016 CoBank Note	2031	3.6	2.58 %	45,600	26,904
Total				\$ 1,485,600	\$ 1,238,587

(12) Employee Benefit Plans

Pension Plans

Pension benefits for substantially all of Chugach’s union employees are provided through the Alaska Electrical Pension Trust Fund and the UNITE HERE National Retirement Fund, multiemployer plans. Chugach pays an hourly amount per eligible union employee pursuant to the collective bargaining unit agreements. In these master, multiemployer plans, the accumulated benefits, and plan assets are not determined or allocated separately to the individual employer.

Pension benefits for non-union employees are provided by the National Rural Electric Cooperative Association (“NRECA”) Retirement and Security Plan (“RS Plan”). The RS Plan is a defined benefit pension plan qualified under Section 413(c) and tax-exempt under Section 501(a) of the Internal Revenue Code. Under ASC 960, “Topic 960 – Plan Accounting – Defined Benefit Pension Plans,” the RS Plan is a multiemployer plan, in which the accumulated benefits and plan assets are not determined or allocated separately to individual employers. Chugach makes annual contributions to the RS Plan equal to the amounts accrued for pension expense.

Chugach made contributions to all significant pension plans for the years ended December 31, 2021, 2020, and 2019 of \$11.8 million, \$8.0 million, and \$6.7 million, respectively. As part of the ML&P acquisition, we acquired 201 employees, however, the rates in all significant pension plans did not materially change for the years ended December 31, 2021, 2020, or 2019.

In December 2012, a committee of the NRECA Board of Directors approved an option to allow participating cooperatives in the Retirement Security (“RS”) Plan (a defined benefit multiemployer pension plan) to make a prepayment and reduce future required contributions. The prepayment amount is a cooperative’s share, as of January 1, 2013, of future contributions required to fund the RS Plan’s unfunded value of benefits earned to date using Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative’s annual RS

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Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to January 1 of the year in which the amount is paid to the RS Plan. The 25% differential in billing rates is expected to continue for approximately 15 years from January 1, 2013. However unexpected changes in interest rates, asset returns and other plan experience, plan assumption changes, and other factors may have an impact on the differential in billing rates and the 15-year period.

On December 29, 2016, Chugach made a prepayment of \$7.9 million to the NRECA RS Plan, which is included in deferred charges. Chugach recorded the long-term repayment in deferred charges and is amortizing the deferred charge to administrative, general, and other expense, over 11 years, which represents the difference between the normal retirement age of 62 and the average age of Chugach’s employees in the RS Plan. The balance of the prepayment in deferred charges at December 31, 2021 and 2020 was \$4.3 million and \$5.0 million, respectively.

The following table provides information regarding pension plans which Chugach considers individually significant:

	Alaska Electrical Pension Plan ³			NRECA Retirement Security Plan ³		
Employer Identification Number	92-6005171			53-0116145		
Plan Number	001			333		
Year-end Date	December 31			December 31		
Expiration Date of CBA's	June 30, 2025			N/A ²		
Subject to Funding Improvement Plan	No			No ⁴		
Surcharge Paid	N/A			N/A ⁴		
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Zone Status	Green	Green	Green	N/A ¹	N/A ¹	N/A ¹
Required minimum contributions	None	None	None	N/A	N/A	N/A
Contributions (in millions)	\$7.1	\$4.4	\$3.5	\$4.7	\$3.6	\$3.2
Contributions > 5% of total plan contributions	Yes	Yes	Yes	No	No	No

¹ A “zone status” determination is not required, and therefore not determined under the Pension Protection Act (PPA) of 2006.

² The CEO and COO are the only participants in the NRECA RS Plan who are subject to employment agreements. The CEO’s employment agreement is effective through April 30, 2024. The COO’s employment agreement is effective through January 1, 2025.

³ The Alaska Electrical Pension Plan financial statements are publicly available. The NRECA RS Plan financial statements are available on Chugach’s website at www.chugachelectric.com.

⁴ The provisions of the PPA do not apply to the RS Plan, therefore, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the RS Plan and may change as a result of plan experience.

Health and Welfare Plans

Health and welfare benefits for union employees are provided through the Alaska Electrical Health and Welfare Trust and the Alaska Hotel, Restaurant and Camp Employees Health and Welfare and Pension Trust Fund. Chugach participates in multiemployer plans that provide substantially all union workers with health care and other welfare benefits during their employment with Chugach. Chugach pays a defined amount per union employee pursuant to collective bargaining unit agreements. Amounts charged to benefit costs and contributed to the health and welfare plans for

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these benefits for the years ending December 31, 2021, 2020, and 2019 were \$9.3 million, \$6.4 million, and \$5.2 million, respectively.

Chugach participates in a multi-employer plan through the Group Benefits Program of NRECA for non-union employees. Amounts charged to benefit cost and contributed to this plan for those benefits for the years ended December 31, 2021, 2020, and 2019 totaled \$3.7 million, \$2.9 million, and \$2.8 million, respectively.

Money Purchase Pension Plan

Chugach participates in a multiemployer defined contribution money purchase pension plan covering some employees who are covered by a collective bargaining agreement. Contributions to this plan are made based on a percentage of each employee's compensation. Contributions to the money purchase pension plan for the years ending December 31, 2021, 2020, and 2019 were \$295.9 thousand, \$196.5 thousand, and \$148.1 thousand, respectively.

401(k) Plan

Chugach has a defined contribution 401(k) retirement plan which covers substantially all employees who, effective January 1, 2008, can participate immediately. Employees who elect to participate may contribute up to the Internal Revenue Service's maximum of \$19,500 in 2021, \$19,500 in 2020, \$19,000 in 2019, and allowed catch-up contributions for those over 50 years of age of \$6,500 in 2021 and 2020 and \$6,000 in 2019. Chugach does not make contributions to the plan.

Deferred Compensation

Effective January 1, 2011, Chugach participates in Vanguard's unfunded Deferred Compensation Program (the Program) to allow highly compensated employees who elect to participate in the Program to defer a portion of their current compensation and avoid paying tax on the deferrals until received. The program is a non-qualified plan under Internal Revenue Code 457(b).

Deferred compensation accounts are established for the individual employees, however, they are considered to be owned by Chugach until a distribution is made. The amounts credited to the deferred compensation account, including gains or losses, are retained by Chugach until the entire amount credited to the account has been distributed to the participant or to the participant's beneficiary. The balance of the Program at December 31, 2021, and 2020 was \$2,115,229 and \$1,821,222, respectively.

Potential Termination Payments

Pursuant to a Chugach Operating Policy, non-represented employees, including the executive officers except the Chief Executive Officer and Chief Operating Officer, who are terminated by Chugach for reasons unrelated to employee performance are entitled to severance pay for each year or partial year of service as follows: two weeks for each year of service to a maximum of 26 weeks for 13 years or more of service. If either the CEO or COO are terminated by Chugach without cause, they will receive a lump sum payment equal to 100% of their annual base salary payable and the full cost of health and welfare coverage for a period not in excess of twelve months.

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(13) Bradley Lake Hydroelectric Project

Chugach is a participant in the Bradley Lake Hydroelectric Project (“Bradley Lake”). Bradley Lake was built and financed by the Alaska Energy Authority (“AEA”) through State of Alaska grants and \$166.0 million of revenue bonds. Chugach and other participating utilities have entered into take-or-pay power sales agreements under which shares of the project capacity have been purchased and the participants have agreed to pay a like percentage of annual costs of the project (including ownership, operation and maintenance costs, debt service costs and amounts required to maintain established reserves). Under these take-or-pay power sales agreements, the participants have agreed to pay all project costs from the date of commercial operation even if no energy is produced. Chugach had a 30.4% share, or 27.4 megawatts (MW). Effective October 30, 2020, with the ML&P acquisition our share increased to 56.3%, or an additional 23.3 MW, as currently operated, of the project’s capacity. The original revenue bonds were paid in full July 1, 2021.

The Battle Creek Diversion Project (“Project”) is a project to increase water available for generation by constructing a diversion on the West Fork of Upper Battle Creek to divert flows to Bradley Lake, increasing annual energy output by an estimated 37,000 MWh. The Bradley Lake Project Management Committee (“BPMC”) approved the project October 13, 2017, as amended December 1, 2017, and December 6, 2017. The Project cost was \$46.5 million and the BPMC approved financing on December 6, 2017. Construction began in the Spring of 2018 and was completed in the fall of 2020. Not all Bradley Lake purchasers are participating in the development and resulting benefits of the Project at this time, although they have reserved their ability to participate in the Project at a later date. Chugach is entitled to 39.38% of the additional energy produced if no additional participants elect to join. The share of Battle Creek indebtedness for which we are responsible is approximately \$16.2 million as of June 30, 2021, the most recent information available.

In December 2020, AEA purchased the Sterling to Quartz section of the 115kV transmission line from HEA. The transmission line connects the Bradley Lake Project to the customers that are located north of the Kenai Peninsula. The section is approximately 39 miles long. AEA closed on the purchase by issuing bonds in the amount of \$17 million. The share of the SSQ line indebtedness for which we are responsible is approximately \$9.6 million as of June 30, 2021, the most recent information available.

The following represents information with respect to Bradley Lake at June 30, 2021 (the most recent date for which information is available):

<u>(In thousands)</u>	<u>Total</u>	<u>Proportionate Share</u>
Plant in service	\$ 197,570	\$ 111,232
Long-term debt	56,864	25,269
Interest expense	1,159	653

Chugach's share of expenses was \$8.7 million in 2021, \$6.9 million in 2020, and \$5.2 million in 2019, and is included in purchased power in the accompanying financial statements. Chugach's share of a Bradley Lake transmission line financed internally is included in Intangible Electric Plant.

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(14) Eklutna Hydroelectric Project

Along with two other utilities, Chugach purchased the Eklutna Hydroelectric Project from the Federal Government in 1997. Ownership was transferred from the United States Department of Energy's Alaska Power Administration jointly to Chugach (30%), MEA (17%) and Municipality of Anchorage, Alaska (53%). As of October 30, 2020, the Eklutna PPA became effective. The Eklutna PPA provides for the purchase of a portion of MOA's share of generation from the Eklutna Project.

Plant in service at December 31, 2021, included \$6,251,002, net of accumulated depreciation of \$3,580,140, which represents Chugach's share of the Eklutna Hydroelectric Project. At December 31, 2020, plant in service included \$6,072,378, net of accumulated depreciation of \$3,402,493. Each participant contributes their proportionate share for operation, maintenance, and capital improvement costs to the plant, as well as to the transmission line between Anchorage and the plant. Chugach's share of expenses was \$3,379,844, \$848,255, and \$620,273 in 2021, 2020, and 2019, respectively, and is included in purchased power, power production and depreciation expense in the accompanying financial statements. Chugach performs the major maintenance, daily operation, and maintenance of the power plant, providing personnel who perform daily plant inspections, meter reading, monthly report preparation, and other activities as required.

(15) Beluga River Unit

In April 2016, Chugach and ML&P acquired ConocoPhillips, Inc.'s ("CPAI") working interest in the BRU. Chugach acquired 30% and ML&P acquired 70%. Chugach invested in the BRU to reduce the cost of electric service to its retail and wholesale members by securing an additional long-term supply of natural gas to meet on-going generation requirements. The acquisition complemented existing gas supplies and provided greater fuel diversity.

The ownership shares include the attendant rights and privileges of all gas and oil resources, including 15,500 lease acres (8,200 in Unit / Participating Area and 7,300 held by Unit), Sterling and Beluga producing zones, and CPAI's 67% working interest in deep oil resources.

The BRU is located on the western side of Cook Inlet, approximately 35 miles from Anchorage, and is an established natural gas field that was originally discovered in 1962. BRU was jointly owned (one-third) by CPAI, Hilcorp, and ML&P. Following the acquisition, ML&P's ownership of the BRU increased to approximately 56.7%, Hilcorp's ownership remained unchanged at 33.3%, and Chugach's ownership was 10.0%.

Chugach obtained RCA approval to record BRU acquisition costs as deferred charges on our balance sheet and to amortize these costs based on units of BRU production and recognize as depreciation and amortization on Chugach's statement of operations. Chugach was also permitted to recover the deferred costs in the gas transfer price.

Effective October 30, 2020, Chugach acquired ML&P's 56.7% ownership share of the BRU, increasing Chugach's ownership share of the BRU to 66.7%. Each of the BRU participants has a right to take their interest of the gas produced. Parties that take less than their interest of the field's output may either accept a cash settlement for their underlift or take their underlifted gas in future years.

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Chugach was in an underlift position of 22 Mcf at December 31, 2021 and an underlift position of 2 Mcf at December 31, 2020. Chugach has opted to take any cumulative underlift in gas in the future and will record the gas as fuel expense on the statement of operations when received.

Chugach records depreciation, depletion, and amortization on BRU assets based on units of production. During 2021, Chugach lifted 5.4 Bcf resulting in a cumulative lift since purchase of 12.0 Bcf of the approximate 56.4 Bcf in Chugach's proven developed reserves. Chugach, and the other owner, Hilcorp, are operating under an existing Joint Operating Agreement. Hilcorp is the operator for BRU. In addition to the operator fees to Hilcorp, other BRU expenses include royalty expense and interest on long-term debt. All expenses other than depreciation, depletion and amortization, and interest on long-term debt are included as fuel expense on Chugach's statement of operations. Chugach has applied and qualified for a small producer tax credit, provided by the State of Alaska, resulting in an estimate of no liability for production taxes for a period of ten years, through 2026. The revenue in excess of expenses less the allowed TIER from BRU operations is adjusted through Chugach's fuel and purchased power adjustment process.

(16) ML&P Acquisition

On October 30, 2020, Chugach acquired substantially all of the assets of ML&P from the MOA. Chugach accounted for the ML&P acquisition in accordance with ASC 805, "Business Combinations," with identifiable assets acquired and liabilities assumed recorded at their estimated fair values on the acquisition date. The purchase price was allocated to the assets acquired and the liabilities assumed based on their fair value. The approval of ML&P's rates and Chugach's rates by the RCA, our regulator, which is intended to allow us to collect from customers total revenues equal to the costs of providing service, including a reasonable return on invested capital, is considered a fundamental input in measuring the fair value of ML&P's assets and liabilities, and as such, Chugach concluded that the historical net book values of all assets and liabilities recoverable through rates are representative of their fair values. The allocation of the purchase price includes the fair value of BRU reserves. Due to the application of regulatory accounting, the asset associated with the fair value of BRU reserves is offset by a BRU regulatory liability.

Chugach transferred \$699,359,393 to the MOA at October 30, 2020, which was based on ML&P's financial statements as of July 31, 2020. The table below outlines the final acquisition allocation. The difference between the cash transferred on October 30, 2020 and the acquisition allocation recorded below represents the change in asset and liability balances from July 31, 2020 to November 23, 2021 and working capital adjustments.

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	Amount
Utility Plant	\$ 709,113,644
Utility Plant (BRU Reserves)	116,908,985
Inventory	28,613,834
Other Assets	18,137,623
Fuel Recovery	2,240,975
Special Funds (ARO)	17,290,090
Goodwill	42,943,660
Total Assets	\$ 935,248,811
Accrued Leave	3,001,503
Cost of Removal Obligation / ARO	50,561,477
Regulatory Liabilities (BRU / ARO)	10,979,179
Regulatory Liabilities (BRU Reserves)	116,908,985
Customer Deposits	998,121
UG Ordinance Liability	4,468,160
Fuel Recovery	0
Other Liabilities	11,747,337
Settlement Obligation	36,000,000
Total Liabilities	\$ 234,664,762
Net Investment in ML&P	\$ 700,584,049

In 2021, Chugach completed the final purchase price allocation with no substantive changes to the initial purchase price allocation recorded at December 31, 2020. The acquisition premium (goodwill) has been approved for recovery by the RCA and is recorded as part of our regulatory assets. The acquisition premium is split between two regulatory assets. Per RCA order, Chugach recorded a \$19.0 million Secondary Regulatory Asset, which was approved for recovery and amortizes over a three-year period and is recognized in administrative, general, and other expense on Chugach's Consolidated Statement of Operations. The balance of the acquisition premium was also approved for recovery and will be included in Chugach's general rate case to be filed with the RCA, which will determine the period recovery.

Acquisition and integration costs are recorded as deferred charges on Chugach's Consolidated Balance Sheet, which Chugach believes is probable of being recovered in electric rates. These deferred charges, exclusive of the acquisition premium, totaled \$42.5 million at December 31, 2021 and \$35.8 million at December 31, 2020.

(17) Revenue From Contracts With Customers

a. Nature of goods and services

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

i. Energy Sales

Energy sales revenues are Chugach's primary source of revenue, representing approximately 98.5%, 98.0% and 97.0% of total operating revenue during the years ended December 31, 2021, 2020, and 2019, respectively. Energy sales revenues are recognized upon delivery of electricity,

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based on billing rates authorized by the RCA, which are applied to customers' usage of electricity. Chugach's rates are established, in part, on test period sales levels that reflect actual operating results. Chugach's tariffs include provisions for the recovery of gas costs according to gas supply contracts and costs associated with the BRU operations, as well as purchased power costs.

Expenses associated with electric services include fuel purchased from others and produced from Chugach's interest in the BRU, both of which are used to generate electricity, as well as power purchased from others. Chugach is authorized by the RCA to recover fuel and purchased power costs through the fuel and purchased power adjustment process, which is adjusted quarterly to reflect increases and decreases of such certain costs. The amount of fuel and purchased power revenue recognized is equal to actual fuel and purchased power costs. We recognize differences between projected recoverable fuel and purchased power costs and amounts recovered through rates. The fuel cost under/over recovery on our balance sheet represents the net accumulation of any under- or over-collection of fuel and purchased power costs. Fuel cost under-recovery will appear as an asset on our balance sheet and will be collected from our members in subsequent periods. Conversely, fuel cost over-recovery will appear as a liability on our balance sheet and will be refunded to our members in subsequent periods. Payment on energy sales invoices to all customer classes below are due within 15 to 30 days.

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

Chugach calculates unbilled revenue, for residential and commercial customers, at the end of each month to ensure the recognition of a full month of revenue. Chugach accrued \$13,063,177 and \$16,030,597 of unbilled retail revenue at December 31, 2021 and 2020, respectively, which is included in accounts receivable on the balance sheet. Revenue derived from wholesale and economy customers is recorded from metered locations on a calendar month basis, so no estimation is required.

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Power Pool sales began in April of 2021. The power pool is operating under an implementation period to develop dispatch and pricing settlement processes. Power pool revenues are recognized upon delivery of electricity and the transaction is then settled using a split-the-savings principle.

The collectability of our energy sales is very high with typically 0.35% written off as bad debt expense, adjusted annually. As it relates to the collectability of our energy sales during COVID-19, see “*Note 5 – Regulatory Matters – Senate Bill 241.*”

ii. Wheeling

Wheeling represented 0.5%, 1.3%, and 1.8% of our revenue during the years ended December 31, 2021, 2020, and 2019, respectively. Wheeling was recorded through the wheeling of energy across Chugach’s transmission lines at rates set by utility tariff and approved by the RCA. The rates are applied to MWh of energy wheeled. The collectability of wheeling is very high, with no adjustment required.

iii. Other Miscellaneous Services

Other miscellaneous services consist of various agreements including dispatch service and gas transfer agreements, pole rentals, and microwave bandwidth. Revenue from these agreements is billed monthly and represented 1.0%, 0.7%, and 1.2% of our total operating revenue during the years ended December 31, 2021, 2020, and 2019, respectively. The revenue recognized from these agreements is recorded as the service is provided over a period of time. The collectability of these agreements is very high, with no adjustment required.

b. Disaggregation of Revenue

The table below details the revenue recognized by customer class and disaggregates base revenue from fuel and purchased power revenue recognized in the Consolidated Statement of Operations for the year ended December 31, 2021 and 2020 (in millions).

	Base Rate Sales			Fuel and Purchased Power			Total Revenue		
	2021	2020	% Variance	2021	2020	% Variance	2021	2020	% Variance
Retail	\$ 242.5	\$ 152.4	59.1%	\$ 95.5	\$ 74.1	28.9%	\$ 338.0	\$ 226.5	49.2%
Wholesale	2.4	2.3	4.3%	2.8	3.3	(15.2%)	5.2	5.6	(7.1%)
Economy	0.6	0.1	500.0.0%	4.5	0.4	1025.0%	5.1	0.5	90200%
Power Pool	0.5	0.0	100.0%	0.3	0.0	100.0%	0.8	0.0	100.0%
Total Energy Sales	\$ 246.0	\$ 154.8	58.9%	\$ 103.1	\$ 77.8	32.5%	\$ 349.1	\$ 232.6	50.1%
Wheeling	0.0	0.0	0.0%	1.8	3.1	(41.9%)	1.8	3.1	(41.9%)
Other	3.2	1.7	88.2%	0.4	0.1	300.0%	3.6	1.8	100.0%
Total Miscellaneous	\$ 3.2	\$ 1.7	88.2%	\$ 2.2	\$ 3.2	(31.3%)	\$ 5.4	\$ 4.9	10.2%
Total Revenue	\$ 249.2	\$ 156.5	59.2%	\$ 105.3	\$ 81.0	30.0%	\$ 354.5	\$ 237.5	49.3%

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The table below details the revenue recognized by customer class and disaggregates base revenue from fuel and purchased power revenue recognized in the Consolidated Statement of Operations for the year ended December 31, 2020 and 2019 (in millions).

	Base Rate Sales			Fuel and Purchased Power			Total Revenue		
	2020	2019	% Variance	2020	2019	% Variance	2020	2019	% Variance
Retail	\$ 152.4	\$ 126.4	20.6%	\$ 74.1	\$ 73.8	0.4%	\$ 226.5	\$ 200.2	13.1%
Wholesale	2.3	2.2	4.5%	3.3	3.7	(10.8%)	5.6	5.9	(5.1%)
Economy	0.1	0.0	100.0%	0.4	0.0	100.0%	0.5	0.0	100.0%
Total Energy Sales	\$ 154.8	\$ 128.6	20.4%	\$ 77.8	\$ 77.5	0.4%	\$ 232.6	\$ 206.1	12.9%
Wheeling	0.0	0.0	0.0%	3.1	3.8	(18.4%)	3.1	3.8	(18.4%)
Other	1.6	2.6	(38.5%)	0.1	0.0	100.0%	1.7	2.6	(34.6%)
Total Miscellaneous	\$ 1.6	\$ 2.6	(38.5%)	\$ 3.2	\$ 3.8	(15.8%)	\$ 4.8	\$ 6.4	(25.0%)
Total Revenue	\$ 156.4	\$ 131.2	19.2%	\$ 81.0	\$ 81.3	(0.4%)	\$ 237.4	\$ 212.5	11.7%

c. Contract Balances

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

	December 31, 2021	December 31, 2020
Contract receivables, included in accounts receivable	\$ 43,490,663	\$ 49,694,496
Contract liabilities	4,662,550	3,656,662

Contract receivables represent amounts receivable from retail, wholesale, economy, and wheeling.

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

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

Significant changes in the contract asset balances are as follows:

	December 31, 2021	December 31, 2020
Contract asset at beginning of period	\$ 0	\$ 1,445,753
Cash received, excluding amounts recognized as revenue during the period	0	0
Revenue recognized and transferred from contract asset at the beginning of the period	0	(1,445,753)
Contract asset at end of period	\$ 0	\$ 0

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Significant changes in the contract liabilities balances are as follows:

	December 31, 2021	December 31, 2020
Contract liabilities at beginning of period	\$ 3,656,662	\$ 1,839,514
Cash received, excluding amounts recognized as revenue during the period	4,509,902	3,656,662
Revenue recognized and transferred from contract liabilities at the beginning of the period	(3,544,014)	(1,839,514)
Contract liabilities at end of period	\$ 4,622,550	\$ 3,656,662

d. Transaction Price Allocated to Remaining Performance Obligations

The table below includes estimated revenue to be recognized in 2022 related to performance obligations that are unsatisfied (or partially unsatisfied) at December 31, 2021.

	2021
Credit balances	\$ 3,341,243
Fuel cost over-recovery	1,281,307

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

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

(18) Leases

Chugach has two financing leases and several operating leases, most of which are various land easements. Chugach’s eight operating leases, recognized as right-of-use assets, consist of a building, heavy equipment, office trailer, and five land leases, with remaining lease terms of less than one to 50 years and a weighted average lease term of 42 years. Four of the land leases were acquired with the ML&P acquisition. Chugach’s operating and financing lease assets are presented as operating or financing right-of-use assets on our Consolidated Balance Sheet. The current portion of lease liabilities is included in current installments of long-term obligations and the long-term portion is presented as operating or financing lease liabilities on our Consolidated Balance Sheet. A weighted discount rate of 3.34% was used in calculating the right-to-use assets and lease liabilities. Chugach’s discount rate was calculated using our incremental borrowing rate based on the average borrowing rate of our long-term debt.

Recognition of the right-of-use asset and operating lease liability represents a non-cash investing and financing activity. Chugach entered into a Power Purchase Agreement with Fire Island Wind, LLC, (“FIW”) on June 21, 2011. The Fire Island Wind contract contains a lease because the agreement identifies an asset (the wind farm is explicitly specified in the agreement and FIW does not have substantive substitution rights) and Chugach controls the use of the asset (it takes 100% of the output and, to the extent there is wind, can control how and when the wind farm produces

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power directly through its supervisory control and data acquisition (“SCADA”) system). However, due to the exclusively variable nature of the payments related to Fire Island Wind, no new assets or liabilities have been added to the Consolidated Balance Sheet, no changes were made to the Consolidated Statements of Cash Flow, and the variable payments are still classified as purchased power expense on the Consolidated Statements of Operations. These variable payments, included in purchased power, are reflected in the following table.

Supplemental statement of operations information associated with leases for the twelve months ended December 31:

	2021	2020
Finance lease cost		
Amortization of right-of-use assets	\$ 3,183	\$ 3,242
Interest on lease liabilities	553	484
Operating lease cost	419,175	230,062
Variable lease cost	4,439,509	4,544,934
Total lease cost	<u>\$ 4,862,420</u>	<u>\$ 4,778,722</u>

Supplemental cash flow information associated with leases for the twelve months ended December 31:

	2021	2020
Cash paid for amounts included in the measurement of liabilities:		
Operating cash flows from operating leases	\$ 418,732	\$ 295,761
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	4,109,694	3,356,406
Financing leases	17,273	9,855

Supplemental balance sheet information associated with leases at December 31 were:

	2021	2020
Operating lease right-of-use assets	\$ 4,109,694	\$ 4,093,510
Financing lease right-of-use assets	17,273	8,818
Total right-of-use assets	<u>\$ 4,126,967</u>	<u>\$ 4,102,328</u>
Operating lease liabilities	3,835,282	3,866,092
Financing lease liabilities	13,667	7,302
Current installments of lease liabilities	281,171	232,448
Total operating lease liabilities	<u>\$ 4,130,120</u>	<u>\$ 4,105,842</u>

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Maturities associated with lease liabilities at December 31, 2021:

2022	\$ 409,614
2023	375,345
2024	156,345
2025	154,523
2026	153,313
Thereafter	6,323,257
Total lease payments	<u>7,572,397</u>
Less imputed interest	3,445,430
Present value of lease liabilities	<u>\$ 4,126,967</u>

(19) Commitments and Contingencies

Contingencies

Chugach is a participant in various legal actions, rate disputes, personnel matters and claims both for and against Chugach's interests. Management believes the outcome of any such matters will not materially impact Chugach's financial condition, results of operations or liquidity. Chugach establishes reserves when a particular contingency is probable and calculable. Chugach has not accrued for any contingency at December 31, 2021, as it does not consider any contingency to be probable nor calculable. Chugach faces contingencies that are reasonably possible to occur; however, they cannot currently be estimated.

Concentrations

Approximately 72% of our employees are members of the International Brotherhood of Electrical Workers ("IBEW"). Chugach has three Collective Bargaining Unit Agreements ("CBA") with the IBEW. On October 30, 2020, with the closing of the ML&P acquisition, all three IBEW CBAs were extended through June 30, 2025. We also have a CBA with the Hotel Employees and Restaurant Employees (HERE), which is effective through June 30, 2022.

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Fuel Supply Contracts

Chugach entered into a gas contract with Hilcorp effective January 1, 2015, to provide gas through March 31, 2018. The first amendment to this agreement extended the term through March 31, 2019. The second amendment to this agreement revised payment procedures and updated notice provisions. The third amendment extended the term of this agreement, thus filling up to 100% of Chugach’s needs through March 31, 2023. On December 31, 2019, Chugach entered into a fourth amendment to this agreement thus extending the term through March 31, 2028. The total amount of gas supplied under this contract is estimated to be 79.4 Bcf. All of the gas production is expected to come from Cook Inlet, Alaska. The terms of the Hilcorp agreement require Chugach to manage the natural gas transportation over the connecting pipeline systems. Chugach has gas transportation agreements with ENSTAR Natural Gas Company (“ENSTAR”) and Harvest Alaska.

Chugach also has a new agreement with Furie which provides Chugach the option to purchase supplemental gas to meet firm load requirements, if economically advantageous and if operational conditions warrant such purchases. Additionally, the agreement provides Chugach with an additional gas supply option for generation of energy for economy sales, which reduces the underlying cost to provide electric service to members.

In 2021, 83% of our electric energy was generated from gas, which includes energy purchased from others. Of this, 56% of the gas-based generation was at SPP and 42% at Sullivan. In 2020, 76% of our power was generated from gas, with 79% at SPP, 12% at Sullivan, and 2% at Beluga.

The following represents the cost of fuel purchased and or transported from various vendors as a percentage of total fuel costs for the years ended December 31:

	2021	2020	2019
Hilcorp	83.9%	92.9%	91.2%
Furie	5.4%	0.0%	1.0%
ENSTAR Pipeline	7.8%	3.8%	4.4%
Harvest (Hilcorp) Pipeline	2.9%	2.7%	3.4%
Miscellaneous	0.0%	0.6%	0.0%

BRU Operations

At this time, Chugach and Hilcorp, the other owner, have chosen to continue operating under an existing Joint Operating Agreement. Hilcorp is the operator for BRU.

Regulatory Cost Charge

In 1992, the State of Alaska Legislature passed legislation authorizing the Department of Revenue to collect a Regulatory Cost Charge from utilities to fund the governing regulatory commission, which is currently the RCA. The tax is assessed on all retail consumers and is based on kilowatt-hour (kWh) consumption. The tax is collected monthly and remitted to the State of Alaska quarterly. The Regulatory Cost Charge has changed since its inception (November of 1992) from an initial rate of \$0.000626 per kWh to the rate of \$0.000654, effective July 1, 2020 through

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December 31, 2021. A new rate of \$0.001016 became effective January 1, 2022. The tax is reported on a net basis and the tax is not included in revenue or expense.

Sales Tax

Chugach collect sales tax on retail electricity sold to consumers in Whittier, seasonally (April through September), and in the Kenai Peninsula Borough, monthly. This tax is remitted to the City of Whittier monthly and to the Kenai Peninsula Borough quarterly. These taxes are a direct pass-through to consumer bills and therefore do not impact our margins.

Gross Revenue Tax

Chugach pays to the State of Alaska a gross revenue tax in lieu of state and local ad valorem, income and excise taxes on electricity sold in the retail market. The tax is collected monthly and remitted annually.

Underground Compliance Charge

In 2005, the Anchorage Municipal Assembly adopted an ordinance to require utilities to convert overhead distribution lines to underground. To comply with the ordinance, Chugach must expend two percent of a three-year average of gross retail revenue within the Municipality of Anchorage annually in moving existing distribution overhead lines underground. Consistent with Alaska Statutes regarding undergrounding programs, Chugach is permitted to amend its rates by adding a two percent charge to its retail members' bills to recover the actual costs of the program. The rate amendments are not subject to RCA review or approval. Chugach's liability was \$9.5 million and \$10.5 million for this charge at December 31, 2021 and 2020, respectively, and is included in other current liabilities. These funds are used to offset the costs of the undergrounding program.

Environmental Matters

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

The utility owners of the Eklutna Hydro Project (Chugach, MOA, and MEA) are obligated by a 1991 Fish & Wildlife Agreement to develop and implement measures to protect, mitigate, and enhance the fish and wildlife impacted by the project (PME program). The program is to be approved by the Governor of Alaska with completion of the program no later than October of 2032, 35 years after its purchase. The owners initiated a required consultation process with key government agencies and interested parties in March 2019. The agreement requires equal consideration of; 1) efficient and economical power production, 2) energy conservation, 3) protection, mitigation of damage to, and enhancement of fish and wildlife, 4) protection of recreation opportunities, 5) municipal water supplies, 6) preservation of other aspects of environmental quality, 7) other beneficial public uses, and 8) requirements of state law. The hydro project and municipal water system currently utilize 100% of the water inflows. Expenditures

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associated with the Eklutna fish & wildlife study began in 2020 and totaled \$2.0 million at December 31, 2021. This is multi-year study with final completion expected in late 2024.

The Clean Air Act and Environmental Protection Agency (“EPA”) regulations under the Clean Air Act establish ambient air quality standards and limit the emission of many air pollutants. New Clean Air Act regulations impacting electric utilities may result from future events or new regulatory programs. An Executive Order promoting energy independence and economic growth was issued on March 28, 2017, by the President instructing the EPA to review the Clean Power Plan (“CPP”). On August 21, 2018, the EPA proposed the Affordable Clean Energy (“ACE”) rule which would establish emission guidelines for states to develop plans to address GHG emissions from existing coal-fired power plants. The final ACE rule was issued by the EPA on June 19, 2019. On January 19, 2021, the D.C. Circuit vacated the ACE rule and remanded to the EPA for further proceedings. The EPA has interpreted the court’s ruling to mean that states have no obligations under the now-vacated ACE rule. While Chugach cannot predict the implementation of any additional new law or regulation, or the limitations thereof, it is possible that new laws or regulations could increase capital and operating costs. Chugach has obtained or applied for all Clean Air Act permits currently required for the operation of generating facilities.

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