# CHUGACH ELECTRIC ASSOCIATION, INC.

Financial Statements

December 31, 2020 and 2019

(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 Financial Statements

We have audited the accompanying consolidated financial statements of Chugach Electric Association, Inc. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, 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, 2020, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our audit as of and for the year ended December 31, 2020 was also conducted in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chugach Electric Association, Inc. and its subsidiary as of December 31, 2020 and 2019, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2020 in accordance with U.S. generally accepted accounting principles.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards,* we have also issued our report dated April 9, 2021 on our consideration of Chugach Electric Association, Inc.'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 Chugach Electric Association, Inc.'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 Chugach Electric Association, Inc.'s internal control over financial reporting and compliance.

KPMG LLP

Anchorage, Alaska
April 9, 2021

**Chugach Electric Association, Inc.**
**Consolidated Balance Sheets**
**December 31, 2020 and 2019**

| Assets | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Utility plant: | | |
| Electric plant in service | $ 1,941,080,063 | $ 1,242,523,092 |
| Construction work in progress | 38,075,575 | 16,966,608 |
| Total utility plant | 1,979,155,638 | 1,259,489,700 |
| Less accumulated depreciation | (578,506,871) | (556,209,740) |
| Net utility plant | 1,397,648,767 | 703,279,960 |
| Other property and investments, at cost: | | |
| Nonutility property | 76,889 | 76,889 |
| Operating lease right-of-use assets | 4,093,510 | 958,111 |
| Financing lease right-of-use assets | 8,818 | 0 |
| Investments in associated organizations | 7,595,197 | 8,148,426 |
| Special funds | 19,862,119 | 2,603,505 |
| Restricted cash equivalents | 64,310 | 108,000 |
| Long-term prepayments | 423,404 | 0 |
| Total other property and investments | 32,124,247 | 11,894,931 |
| Current assets: | | |
| Cash and cash equivalents | 23,891,715 | 7,271,820 |
| Special deposits | 58,300 | 54,300 |
| Restricted cash equivalents | 36,500,393 | 1,244,155 |
| Marketable securities | 0 | 194,183 |
| Fuel cost under-recovery | 0 | 1,445,753 |
| Accounts receivable, less provision for doubtful accounts of $881,164 in 2020 and $446,837 in 2019 | 53,679,921 | 30,120,230 |
| Materials and supplies | 46,030,317 | 18,014,480 |
| Fuel stock | 16,399,692 | 12,250,567 |
| Prepayments | 4,672,489 | 2,699,308 |
| Other current assets | 241,983 | 235,132 |
| Total current assets | 181,474,810 | 75,529,928 |
| Other non-current assets: | | |
| Deferred charges, net | 110,489,123 | 45,880,452 |
| Total other non-current assets | 110,489,123 | 45,880,452 |
| Total assets | $ 1,721,736,947 | $ 834,585,271 |

(Continued)

**Chugach Electric Association, Inc.**
**Consolidated Balance Sheets (continued)**
**December 31, 2020 and 2019**

| Liabilities, Equities and Margins | December 31, 2020 | December 31, 2019 |
|---|---|---|
| | | |
| Equities and margins: | | |
| Memberships | $ 1,908,432 | $ 1,776,592 |
| Patronage capital | 181,564,419 | 177,380,964 |
| Other | 15,376,562 | 15,309,357 |
| Total equities and margins | 198,849,413 | 194,466,913 |
| | | |
| Long-term obligations, excluding current installments: | | |
| Bonds payable | 1,211,683,330 | 449,999,997 |
| Notes payable | 26,904,000 | 30,552,000 |
| Less unamortized debt issuance costs | (6,179,476) | (2,684,537) |
| Operating lease liabilities | 3,866,092 | 738,713 |
| Financing lease liabilities | 7,302 | 0 |
| Total long-term obligations | 1,236,281,248 | 478,606,173 |
| | | |
| Current liabilities: | | |
| Current installments of long-term obligations | 42,197,115 | 27,056,065 |
| Commercial paper | 10,000,000 | 24,000,000 |
| Accounts payable | 19,170,493 | 8,316,375 |
| Consumer deposits | 5,249,272 | 4,294,770 |
| Fuel cost over-recovery | 1,049,622 | 0 |
| Accrued interest | 9,148,690 | 5,717,759 |
| Salaries, wages and benefits | 14,423,252 | 7,387,746 |
| Fuel | 5,561,956 | 6,765,881 |
| Undergrounding ordinance liability | 10,553,288 | 10,001,492 |
| Settlement obligation | 12,000,286 | 0 |
| Other current liabilities | 875,160 | 2,625,516 |
| Total current liabilities | 130,229,134 | 96,165,604 |
| | | |
| Other non-current liabilities: | | |
| Deferred compensation | 1,821,222 | 1,775,759 |
| Other liabilities, non-current | 548,570 | 398,790 |
| Deferred liabilities | 12,899,176 | 903,870 |
| Settlement obligation | 24,0000,000 | 0 |
| Cost of removal obligation / asset retirement obligation | 117,108,184 | 62,268,162 |
| Total other non-current liabilities | 156,377,152 | 65,346,581 |
| | | |
| Total liabilities, equities and margins | $ 1,721,736,947 | $ 834,585,271 |

See accompanying notes to financial statements.

## Chugach Electric Association, Inc.
## Consolidated Statements of Operations
## Years Ended December 31, 2020, 2019 and 2018

| | | 2020 | | 2019 | | 2018 |
|---|---|---|---|---|---|---|
| Operating revenues | $ | 237,428,680 | $ | 212,516,561 | $ | 202,252,742 |
| | | | | | | |
| Operating expenses: | | | | | | |
| Fuel | | 60,122,978 | | 59,038,626 | | 56,283,541 |
| Production | | 24,556,922 | | 20,201,534 | | 17,797,549 |
| Purchased power | | 22,380,419 | | 22,630,765 | | 19,978,497 |
| Transmission | | 7,323,776 | | 7,260,615 | | 7,361,503 |
| Distribution | | 18,914,383 | | 15,222,079 | | 14,960,770 |
| Consumer accounts | | 8,199,828 | | 6,730,109 | | 6,662,590 |
| Administrative, general and other | | 29,398,871 | | 23,864,202 | | 22,651,092 |
| Depreciation and amortization | | 36,874,892 | | 31,299,685 | | 29,875,683 |
| Total operating expenses | $ | 207,772,069 | $ | 186,247,615 | $ | 175,571,225 |
| | | | | | | |
| Interest expense: | | | | | | |
| Long-term debt and other | | 25,546,831 | | 22,338,868 | | 22,164,007 |
| Charged to construction | | (373,098) | | (338,904) | | (306,377) |
| Interest expense, net | $ | 25,173,733 | $ | 21,999,964 | $ | 21,857,630 |
| Net operating margins | $ | 4,482,878 | $ | 4,268,982 | $ | 4,823,887 |
| | | | | | | |
| Nonoperating margins: | | | | | | |
| Interest income | | 369,386 | | 585,039 | | 732,165 |
| Allowance for funds used during construction | | 147,223 | | 152,930 | | 127,629 |
| Capital credits, patronage dividends and other | | (2,606) | | 112,676 | | (320,807) |
| Total nonoperating margins | $ | 514,003 | $ | 850,645 | $ | 538,987 |
| | | | | | | |
| Assignable margins | $ | 4,996,881 | $ | 5,119,627 | $ | 5,362,874 |

See accompanying notes to financial statements.

**Chugach Electric Association, Inc.**
**Consolidated Statements of Changes in Equities and Margins**
**Years Ended December 31, 2020, 2019 and 2018**

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Memberships: | | | |
| Balance at beginning of period | $ 1,776,592 | $ 1,748,172 | $ 1,719,154 |
| Memberships and donations received | 131,840 | 28,420 | 29,018 |
| Balance at end of period | $ 1,908,432 | $ 1,776,592 | $ 1,748,172 |
| Other equities and margins: | | | |
| Balance at beginning of period | 15,309,357 | 14,952,925 | 14,653,253 |
| Unclaimed capital credits retired | (42,164) | (15,935) | 105,651 |
| Memberships and donations received | 109,369 | 372,367 | 194,021 |
| Balance at end of period | $ 15,376,562 | $ 15,309,357 | $ 14,952,925 |
| Patronage capital: | | | |
| Balance at beginning of period | 177,380,964 | 177,823,597 | 172,928,887 |
| Assignable margins | 4,996,881 | 5,119,627 | 5,362,874 |
| Retirement/net transfer of capital credits | (813,426) | (5,562,260) | (468,164) |
| Balance at end of period | $ 181,564,419 | $ 177,380,964 | $ 177,823,597 |
| Total equities and margins | $ 198,849,413 | $ 194,466,913 | $ 194,524,694 |

See accompanying notes to financial statements.

# Chugach Electric Association, Inc.
# Consolidated Statements of Cash Flows
# Years Ended December 31, 2020, 2019 and 2018

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Assignable margins | $ 4,996,881 | $ 5,119,627 | $ 5,362,874 |
| Adjustments to reconcile assignable margins to net cash provided by operating activities: | | | |
| Depreciation and amortization | 36,874,892 | 31,299,685 | 29,875,683 |
| Amortization and depreciation cleared to operating expenses | 7,973,036 | 7,401,527 | 5,550,438 |
| Allowance for funds used during construction | (147,223) | (152,930) | (127,629) |
| Write off of inventory, deferred charges and projects | 567,040 | 571,067 | 175,608 |
| Other | 651,355 | (107,769) | 410,249 |
| (Increase) decrease in assets: | | | |
| Accounts receivable, net | (17,048,090) | (544,554) | 5,485,914 |
| Fuel cost under-recovery | 1,445,753 | (1,445,753) | 4,921,794 |
| Materials and supplies | 81,372 | (1,812,024) | (992,627) |
| Fuel stock | (3,110,337) | (298,481) | (5,050,092) |
| Prepayments | (713,087) | (472,191 | 2,726,053 |
| Other assets | (10,018) | 6,147 | 15,914 |
| Deferred charges | (23,524,240) | (13,699,839) | (8,896,613) |
| Increase (decrease) in liabilities: | | | |
| Accounts payable | 4,051,713 | (421,479) | 1,137,415 |
| Consumer deposits | (363,107) | (550,841) | (490,285) |
| Fuel cost over-recovery | 392,249 | (3,388,295) | 3,388,295 |
| Accrued interest | 3,430,931 | 45,919 | (319,779) |
| Salaries, wages and benefits | 4,003,779 | (475,366) | 845,981 |
| Fuel | (1,203,925) | 921,025 | (4,068,925) |
| Other current liabilities | (1,600,576) | (2,303,287) | (8,930) |
| Deferred liabilities | 846,475 | 11,813 | (367,051) |
| **Net cash provided by operating activities** | 17,594,873 | 19,704,001 | 39,574,287 |
| Cash flows from investing activities: | | | |
| Return of capital from investment in associated organizations | 557,852 | 421,899 | 414,187 |
| Investment in special funds | (1,080,198) | (288,568) | (309,188) |
| Investment in marketable securities and investments-other | (6,600) | (216,453) | (2,872,104) |
| Investment in ML&P Acquisition | (699,527,862) | 0 | 0 |
| Proceeds from special funds | 1,173,591 | 0 | 0 |
| Proceeds from the sale of marketable securities | 205,408 | 6,437,508 | 7,666,196 |
| Extension and replacement of plant | (27,107,529) | (33,441,408) | (27,321,158) |
| **Net cash used in investing activities** | (725,785,338) | (27,087,022) | (22,422,067) |
| Cash flows from financing activities: | | | |
| Payments for debt issue costs | (3,761,491) | (515,455) | 0 |
| Net increase (decrease) in short-term obligations | (14,000,000) | (37,000,000) | 11,000,000 |
| Proceeds from long-term obligations | 800,000,000 | 75,000,000 | 0 |
| Repayments of long-term obligations | (26,837,667) | (26,608,667) | (26,608,667) |
| Memberships and donations received | 199,045 | 384,852 | 328,690 |
| Retirement of patronage capital and estate payments | (813,426) | (7,024,218) | (5,872,988) |
| Proceeds from consumer advances for construction | 5,235,447 | 4,342,627 | 4,294,276 |
| Repayments of consumer advances for construction | 0 | (1,112) | (66,321) |
| **Net cash (used in) provided by financing activities** | 760,022,908 | 8,578,027 | (16,925,010) |
| Net change in cash, cash equivalents, and restricted cash equivalents | 51,832,443 | 1,195,006 | 227,210 |
| Cash, cash equivalents, and restricted cash equivalents at beginning of period | $ 8,623,975 | $ 7,428,969 | $ 7,201,759 |
| Cash, cash equivalents, and restricted cash equivalents at end of period | $ 60,456,418 | $ 8,623,975 | $ 7,428,969 |
| Supplemental disclosure of non-cash investing and financing activities: | | | |
| Cost of removal obligation / ARO | $ 4,278,545 | $ (948,823) | $ 2,502,966 |
| Extension and replacement of plant included in accounts payable | $ 1,132,270 | $ 1,365,948 | $ 2,149,039 |
| Patronage capital retired/net transferred and included in other current liabilities | $ 0 | $ 1,931,295 | $ 2,000,000 |
| Supplemental disclosure of cash flow information - interest expense paid, net of amounts capitalized | $ 20,669,620 | $ 21,008,829 | $ 21,041,442 |

See accompanying notes to financial statements.

## (1) 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 the acquisition Anchorage Municipal Light & Power ("ML&P").

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.

## (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 of our specific costs of providing electric service. In each rate filing, rates are set at levels to recover all of 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 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, 2020 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.

*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 2020, 2019 or 2018. Investments in associated organizations was \$7.6 million and \$8.1 million at December 31, 2020 and 2019, respectively.

*g. Special Funds*

Special funds include deposits associated with the deferred compensation plan and an investment associated with the BRU ARO. The BRU ARO investment was established pursuant to an agreement with the State of Alaska and was \$19.2 million and \$0.8 million as of December 31, 2020 and 2019, respectively. We acquired, in-kind, approximately \$17.3 million from the MOA associated with the ML&P acquisition, see "*Note 16 – ML&P Acquisition.*"

*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.

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Cash and cash equivalents | $ 23,891,715 | $ 7,271,820 |
| Restricted cash equivalents | 36,500,393 | 1,244,155 |
| Restricted cash equivalents included in other property and investments | 64,310 | 108,000 |
| Total cash, cash equivalents and restricted cash equivalents shown in the consolidated statements of cash flows | $ 60,456,418 | $ 8,623,975 |

Restricted cash equivalents include funds on deposit for future workers' compensation claims and \$36.0 million transferred from the MOA to be used for a rate reduction refund to the North District members as ordered by the RCA. 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 $52.2 thousand and $120.2 thousand at December 31, 2020 and 2019, 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:

| | 2020 | 2019 |
|---|---|---|
| Net gains and (losses) recognized during the period on trading securities | $ 4,625 | $ 98,655 |
| Less: Net gains and (losses) recognized during the period on trading securities *sold* during the period | (4,625) | (108,173) |
| Unrealized gains and (losses) recognized during the reporting period on trading securities *still held* at the reporting date | $ 0 | $ 206,828 |

*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. Included in accounts receivable are invoiced amounts to the Municipality of Anchorage ("MOA") for ML&P's proportionate share of current Southcentral Power Project ("SPP") costs prior to the acquisition, which amounted to $1.0 million in 2020 and 2019, respectively.

*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, 2020 and 2019 amounted to $16.4 million and $12.3 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 actually 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. 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.

On December 29, 2016, Chugach made a prepayment of $7.9 million to the National Rural Electric Cooperative Association ("NRECA") Retirement and Security ("RS") Plan, which is included in deferred charges. Chugach recorded the long term prepayment 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, 2020 and 2019 was $5.0 million and $5.8 million, respectively.

*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, 2020 and 2019, totaled $2.9 million and $2.5 million, respectively. Consumer deposits also represent customer credit balances from prepaid accounts. Credit balances totaled $2.3 million at December 31, 2020 and 2019.

*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 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%, 4.0%, and 4.1% during 2020, 2019 and 2018, 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, 2020, 2019 and 2018 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 uncertain tax positions requiring recognition in its financial statements for all periods presented. Chugach's evaluation was performed for the tax periods ended December 31, 2017 through December 31, 2020 for United States Federal Income Tax, the tax years which remain subject to examination by major tax jurisdictions as of December 31, 2020.

## (3) Accounting Pronouncements

Issued, and adopted:

ASC Update 2016-13 "*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*" and Related Updates

In June 2016, the FASB issued ASC Update 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASC Update 2016-13 revised the criteria for the measurement, recognition, and reporting of credit losses on financial instruments to be recognized when expected. This update is effective for fiscal years beginning after December 15, 2019, including the interim periods within those years, with early adoption permitted for fiscal years beginning after December 15, 2018, including interim periods within those years. Chugach began application of ASC 2016-13 on January 1, 2020. Adoption did not have a material effect on our results of operations, financial position, and cash flows.

ASC Update 2018-13 "*Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement"*

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement." ASU 2018-13 changes the fair value measurement disclosure requirements of ASC 820. This update is effective for all entities for fiscal years beginning after December 15, 2019, including interim periods therein. Early adoption is permitted for any eliminated or modified disclosures upon issuance of this ASU. Chugach began application of ASU 2018-13 on January 1, 2020. Adoption did not have a material effect on our results of operations, financial position, and cash flows.

ASC Update 2018-15 "*Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)"*

In August 2018, the FASB issued ASU 2018-15, "Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The ASU is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. Chugach began application of ASU 2018-15 on January 1, 2020. Adoption did not have a material effect on our results of operations, financial position, and cash flows.

Issued, not yet 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 will begin application of ASU 2018-14 on January 1, 2021. Adoption is not expected to have a material effect on our results of operations, financial position, and cash flows.

## (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 marketable securities measured at fair value on a recurring basis at December 31, 2020 and 2019. Chugach acquired MLP's investment account associated with the BRU ARO, which is comprised of bond and equity securities. Chugach sold the UBS investments in December 2020, therefore there was no balance at December 31, 2020. Chugach's bond mutual funds were measured using quoted prices in active markets. Chugach had no other assets or liabilities measured at fair value on a recurring basis at December 31, 2020 or 2019.

| December 31, 2020 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| BRU ARO Fund | $ 18,040,897 | $ 10,448,488 | $ 7,592,409 | $ 0 |

| December 31, 2019 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Bond mutual funds | $ 194,183 | $ 194,183 | $ 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 and 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, 2020, are as follows (dollars in thousands):

| | Carrying Value | Fair Value Level 2 |
|---|---|---|
| Long-term obligations (including current installments) | $ 1,280,552 | $ 1,332,984 |

## (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. This agreement, which has been extended several times, will remain in effect through March 31, 2023 unless terminated by either party.

Fourth Amendment to Hilcorp Agreement

On July 1, 2013, Chugach and Hilcorp entered into a Gas Sales and Purchase Agreement ("GSPA"). In September 2013, the RCA approved the GSPA and allowed Chugach to recover all costs of the agreement (including gas purchases, transportation and storage costs) through the fuel and purchased power cost adjustment process. The initial term was effective through March 31, 2018. The First, Second and Third Amendments extended the contractual terms, established more efficient payment procedures, and updated notice provisions.

Chugach submitted a Fourth Amendment to the RCA on January 17, 2020, which extends the term through March 31, 2028, and provides additional annual quantities of 3.7 Bcf starting April 1, 2023, through March 31, 2028. In relation to the price structure in the Third Amendment, the Fourth Amendment reduced the price per Mcf from $7.56 to $7.49 effective April 1, 2020, and will reduce the price from $7.80 to $7.55 effective April 1, 2021, and from $7.96 to $7.61 effective April 1, 2023. In addition, the Fourth Amendment provides extensive gas purchase flexibility from optional purchase provisions that, if executed, extends to additional gas on a daily, monthly, and annual contract quantity basis through 2028. On February 28, 2020, the RCA approved the Fourth Amendment effective March 6, 2020.

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% 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 adapted the memorandum of understanding with GDS ("GDS MOU").

In addition, and working in parallel, the utilities and American Transmission Corporation (ATC) were in discussions regarding the formation of a transmission-only utility. ATC, GVEA, HEA, ML&P, and Seward Electric System collectively, d/b/a Alaska Railbelt Transmission Co. ("ART") filed with the RCA for a Railbelt-wide Transco Certificate of Public Convenience and Necessity ("CPCN") on February 25, 2019.

At that time, Chugach's primary focus was on filing with the RCA for transfer of the ML&P CPCN to Chugach and we were unable to complete due diligence on the Transco filing prior to its submittal to the RCA. Neither Chugach nor MEA were a party to ART's filing.

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. Subsequently, Chugach completed its review of the ART filing, determined the model not to be in the best interest of our membership; and therefore, declined to participate in the ART Transco. Following Chugach's decision not to participate, ART withdrew its filing from the RCA.

Chugach and the members of the Alaska Railbelt Cooperative Transmission and Electric Company ("ARCTEC") continue to work with the other utilities and stakeholders to arrive at legislation and an RRC organization acceptable to all Railbelt utilities and stakeholders.

In December 2019, the Railbelt utilities signed a Memorandum of Understanding to form an RRC. Alaska Senate Bill 123 ("SB 123") provides for the creation and regulation of an electric reliability organization. The electric reliability organization will provide integrated resource planning and require preapproval for interconnection for some large energy facilities. On April 29, 2020, the Governor of Alaska signed the bill, with the section requiring the RCA to adopt regulations taking effect immediately. Regulations should be finalized by July 1, 2021, with certification of the ERO, by the RCA, occurring in late 2021 or early 2022.

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

In December 2017, the Mayor of Anchorage, Alaska, announced plans to place a proposition on the April 3, 2018 municipal ballot allowing the voters to authorize the sale of ML&P to Chugach. The proposition was approved by Anchorage voters 65.08% to 34.92% per the certified election results. Chugach and the Municipality of Anchorage ("MOA") negotiated final sales agreements and associated documents. The sale of ML&P was approved by the Anchorage Assembly on December 4, 2018 and the Chugach Board of Directors gave its final approval on December 19, 2018. The agreements and associated documents were executed on December 28, 2018. Pursuant to these agreements and associated documents, on April 1, 2019, Chugach submitted the Joint Request for Necessary Approvals to Acquire Anchorage Municipal Light and Power, and the Petition for Approvals Needed to Acquire Anchorage Municipal Light and Power and Application to Amend Certificate of Public Convenience and Necessity No. 8 to the RCA. The RCA accepted the filing as complete on April 18, 2019, and the procedural conference was held on April 22, 2019. On May 8, 2019, the RCA issued an order indicating that a final order in the case was expected by November 19, 2019. In addition, the RCA granted the petitions to intervene filed by MEA, Providence Health and Services ("Providence"), GVEA, the Federal Executive Agencies ("FEA"), and HEA/Alaska Electric and Energy Cooperative, Inc. Hearings on the acquisition were held in August and September 2019. On October 1, 2019, all parties agreed to an extension for the RCA's final order in the case to February 17, 2020, which was subsequently extended to May 28, 2020, as described below.

In June 2019, Chugach and GVEA 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. Excluding fuel, the MOU is expected to provide over $10 million of additional revenue to Chugach's system over the term of the agreement. GVEA has withdrawn its petition to intervene regarding the ML&P acquisition.

On September 27, 2019 Chugach entered into Amendment No 1 to Asset Purchase agreement ("APA Amendment No. 1"), Amendment No. 1 to Payment in Lieu of Taxes Agreement ("PILT Amendment No. 1"), and Amendment No. 1 to Eklutna Power Purchase Agreement ("PPA Amendment No. 1") with the MOA. The APA Amendment No. 1 provides that the purchase price shall reflect the net book value of ML&P assets at closing and amends related definitions. The PILT Amendment No. 1 revises the calculation of PILT to make it consistent with APA Amendment No. 1 and the PPA Amendment No. 1 defines the Eklutna PPA as a wholesale power agreement.

On October 28, 2019, Chugach, ML&P, Providence, FEA, MEA, Alaska Energy Authority, and ENSTAR Natural Gas Company, a Division of SEMO Energy Inc., filed a stipulation with the RCA resolving all disputed issues in these consolidated dockets ("Stipulation"). The State of Alaska Office of the Attorney General, Regulatory Affairs and Public Advocacy Section is not a party to the Stipulation.

On October 28, 2019, Chugach entered into Amendment No. 2 to Asset Purchase and Sale Agreement ("APA Amendment No. 2"), Amendment No. 2 to Eklutna Power Purchase Agreement ("PPA Amendment No. 2"), and Amendment No. 2 to Payment in Lieu of Taxes Agreement ("PILT Amendment No. 2") with the MOA. The APA Amendment No. 2 extends the termination date of the APA from March 31, 2020, to September 30, 2020 and recognizes the Eklutna Transmission Assets as Acquired Assets in recognition of the fulfillment of a condition in the original APA. The PPA Amendment No. 2 recognizes changes to the dispute resolution procedures contained therein and the PILT Amendment No. 2 removes Chugach's obligation in certain regulatory or bankruptcy proceedings to support and stipulate to the fact that the payment in lieu of taxes payments are a tax obligation and should be given appropriate priority status based on that fact.

On February 27, 2020, the RCA issued an order extending the statutory timeline and extended the time to consider the Stipulations to May 28, 2020. 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 include 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 include 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.

On July 9, 2020, Chugach entered into an Amendment No. 3 to Asset Purchase Agreement ("APA Amendment No. 3"), Amendment No. 3 to Eklutna Power Purchase Agreement ("PPA Amendment No. 3"), Amendment No. 3 to the Payment in Lieu of Taxes Agreement ("PILT Amendment No. 3") and a BRU Fuel Agreement Termination Agreement with the MOA and became effective upon RCA approval. These amended agreements incorporate changes reflecting accepted settlements and/or the result of the May 28, 2020 RCA order. APA Amendment No. 3 removes provisions regarding Chugach's commitment not to raise base rates as a result of the acquisition, extends the time to close from 120 days to 160 days after RCA approval, removes references to the BRU Fuel Agreement, requires the MOA to provide certain copies of easements, reduces the upfront payment to the MOA by $10.0 million, eliminates any upward price adjustment if ML&P's net book value of the purchased assets is greater than $715.4 million at closing, recognizes a $36.0 million settlement to be funded by the MOA for the benefit of ML&P legacy customers, and extends the APA termination date to October 31, 2020. PPA Amendment No. 3 recognizes Chugach's right to set-off payments to the extent the MOA does not fulfill its obligations required in the Stipulation and removes references indicating the PPA is a power purchase agreement under Alaska statute. PILT Amendment No. 3 requires that beginning no later than January 1, 2024, costs incurred by Chugach as a result of the PILT Agreement shall be recovered through base rates charged to all Chugach customers. The BRU Fuel Agreement Termination Agreement terminates the BRU Fuel Agreement, given the conditions relating to the pricing of BRU gas in Order 39.

As a condition of approval for the acquisition of ML&P, the RCA included in its May 28, 2020 order a requirement that Chugach and MEA execute and file a tight power pool agreement at least 45 days in advance of close of the acquisition. In addition to this requirement, the RCA order required certain conditions to be included in the agreement. On July 15, 2020, Chugach submitted the Operations Agreement for Power Pooling and Joint Dispatch by and between Chugach and MEA. In an order issued on July 31, 2020, the RCA indicated that the agreement did not facially meet the requirements contained in the acquisition order.

Chugach and MEA updated the agreement and Chugach submitted the Amended and Restated Operations Agreement for Power Pooling and Joint Dispatch ("Amended Pooling Agreement") with the RCA on August 7, 2020. The Amended Pooling Agreement removes certain termination provisions prior to the expiration of the 20-year term, contains clarifying language on the creation of a single load balancing area within the first year of tight pool operation, recognizes the RCA's ability to establish just and reasonable rates or rate mechanisms, and clarifies that power pool operation will begin within six months of acquisition close. The RCA subsequently issued an order that its conditions were met, allowing Chugach to close on the acquisition. On November 2, 2020, the RCA approved the Amended Pooling Agreement.

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. On November 20, 2020, the Commission approved Chugach's request. Chugach has committed and the RCA has 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. Chugach also entered into a letter agreement regarding the APA with the MOA regarding certain procedural matters related to closing of the acquisition. Additionally, Chugach entered into Amendment No. 4 to the Eklutna Power Purchase Agreement dated September 23, 2020, which modified a clause pertaining to Chugach's portion of the Eklutna Hydroelectric Project, thereby setting a timeline for the parties to come to an agreement within one (1) year of closing on the acquisition of ML&P. Chugach also entered into a side letter to the Eklutna Power Purchase Agreement with the MOA, effective October 30, 2020, addressing the terms and conditions of the interim period between the effective acquisition date of ML&P by Chugach and the effective date of the MEA Eklutna Power Purchase Agreement between the MOA and MEA. 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. A regulatory asset provides an accounting treatment and recovery over time for out-of-the-ordinary expenses. SB 241 also extends 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 recent expiration of the State of Alaska emergency order declaration on COVID-19, Chugach will be ending its current 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 financial hardship and enter into a deferred payment agreement. Chugach will be ending this option on April 30, 2021. Chugach is in the process of establishing a schedule for members to begin making payments under their deferred payment agreements.

COVID-19 Relief Funds to Members

In December 2020, Chugach received $1.19 million from the Municipality of Anchorage to assist members who were experiencing financial difficulty in paying their electric bills due to the COVID-19 pandemic. The funds were available to members that signed a statement of financial hardship attesting that they experienced financial hardship due to the COVID-19 pandemic. The funds were issued as credit adjustments on December 30, 2020 to members that receive electric service within the MOA and who had a delinquent account (> 60 days) balance. To ensure the funds went as far as possible, the funds were first issued to residential members, then small commercial members, with the remaining balance applied on a pro-rata basis to large commercial members. In total, the $1.19 million was distributed to 1,549 members, with $853,547 provided to 1,416 residential accounts, $121,585 provided to 98 small commercial accounts, and $214,867 provided to 35 large commercial accounts. Prior to the disbursement of funds, the 60 plus day delinquent account balance was $2,659,399, which was reduced to $1,469,399 after disbursement of the relief funds.

## (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: | 2020 | 2019 |
|---|---|---|
| Steam production plant | $ 308,652,600 | $ 101,141,201 |
| Hydroelectric production plant | 34,414,925 | 34,362,228 |
| Other production plant | 494,119,198 | 288,086,243 |
| Transmission plant | 353,242,733 | 298,211,033 |
| Distribution plant | 495,385,923 | 333,594,738 |
| General plant | 76,273,775 | 58,614,421 |
| Unclassified electric plant in service[1] | 105,881,169 | 71,941,610 |
| Intangible plant[1] | 8,460,377 | 6,148,200 |
| Beluga River Natural Gas Field (BRU Asset & ARO Asset) | 62,820,954 | 48,595,009 |
| Other[1] | 1,828,409 | 1,828,409 |
| Total electric plant in service | 1,941,080,063 | 1,242,523,092 |
| Construction work in progress | 38,075,575 | 16,966,608 |
| Total electric plant in service and construction work in progress | $ 1,979,155,638 | $ 1,259,489,700 |

[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.

## (7) Investments in Associated Organizations

Investments in associated organizations include the following at December 31:

| | 2020 | 2019 |
|---|---|---|
| NRUCFC Capital Term Certificates | $ 5,902,230 | $ 6,095,980 |
| CoBank | 1,633,792 | 1,991,094 |
| Other | 59,175 | 61,352 |
| Total investments in associated organizations | $ 7,595,197 | $ 8,148,426 |

## (8) Deferred Charges and Liabilities

*Deferred Charges*

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

| | 2020 | 2019 |
|---|---|---|
| Regulatory assets and deferred charges: | | |
| Short-term debt issuance and reacquisition costs | $ 489,871 | $ 713,681 |
| Refurbishment of transmission equipment | 67,901 | 77,161 |
| Feasibility studies | 165,539 | 179,830 |
| Cooper Lake relicensing / projects | 4,759,595 | 4,889,698 |
| Fuel supply | 1,536,875 | 1,610,498 |
| Storm Damage | 0 | 64,738 |
| Other regulatory deferred charges | 521,695 | 262,508 |
| Bond interest - market risk management | 3,595,750 | 3,999,873 |
| Environmental matters | 842,768 | 888,118 |
| Beluga parts and materials | 6,757,808 | 7,986,500 |
| Beluga Unit 3 major overhaul | 0 | 1,246,195 |
| Cooper Lake dredging | 0 | 156,638 |
| NRECA pension plan prepayment | 5,043,214 | 5,763,673 |
| ML&P acquisition & integration | 35,812,317 | 18,041,341 |
| ML&P regulatory assets acquired | 4,095,163 | 0 |
| ML&P acquisition price premium | 25,422,071 | 0 |
| ML&P acquisition price premium, secondary | 17,944,444 | 0 |
| Incremental COVID-19 costs | 3,434,111 | 0 |
| Total regulatory assets and deferred charges | $ 110,489,122 | $ 45,880,452 |

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

| | 2020 | 2019 |
|---|---|---|
| Regulatory assets and deferred charges | | |
| Regulatory studies and other | $ 300,074 | $ 2,992 |
| ML&P acquisition & integration | 35,812,317 | 18,041,341 |
| ML&P acquisition premium | 25,422,071 | 0 |
| Incremental COVID-19 costs | 3,434,111 | 0 |
| Total regulatory assets and deferred charges | $ 64,968,573 | $ 18,044,333 |

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. 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:

| | 2020 | 2019 |
|---|---|---|
| Refundable consumer advances for construction | $ 579,585 | $ 485,081 |
| Estimated initial installation costs for meters | 103,586 | 91,089 |
| Post retirement benefit obligation | 448,372 | 327,700 |
| Regulatory liability – gas sales | 7,169 | 0 |
| Future gas purchases | 7,806,831 | 0 |
| ARO surcharge deferred liability | 3,953,633 | 0 |
| Total deferred liabilities | $ 12,899,176 | $ 903,870 |

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, 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. At December 31, 2019, Chugach had $177,380,964 of patronage capital (net of capital credits retired in 2019), which included $172,261,336 of patronage capital that had been assigned and $5,119,627 of patronage capital to be assigned to its members. Approval of actual capital credit retirements is at the discretion of the Chugach Board of Directors ("Board"). Chugach records a liability when the retirements are approved by the Board.

Chugach entered into an agreement with HEA to return all of its patronage capital within five years after expiration of its power sales agreement, which was December 31, 2013. This agreement was related to a settlement agreement associated with the 2005 Test Year General Rate Case (Docket U-06-134). The RCA accepted the parties' settlement agreement on August 9, 2007. We finalized a new agreement with HEA in September 2017 which spread their retirement payments between 2017 and 2020 in increments of approximately $2.0 million annually. As a result, $1.9 million of HEA's patronage capital was retired and paid in 2020 and $2.0 million in 2019. There was no patronage capital payable to HEA at December 31, 2020, and $1.9 million classified as other current liabilities at December 31, 2019.

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 March 2019, our Board authorized capital credit retirements to MEA and SES in the amount of $4.9 million. In April 2019, our Board authorized payments to HEA and MEA of $2.0 million and $6.1 million, respectively. In May 2020, the Board authorized payments to MEA and Seward of approximately $520.1 thousand and $30.9 thousand, respectively.

## (10) Other Equities

A summary of other equities at December 31 follows:

| | 2020 | 2019 |
|---|---|---|
| Nonoperating margins, prior to 1967 | $ 23,625 | $ 23,625 |
| Donated capital | 2,889,635 | 2,780,265 |
| Unclaimed capital credit retirement[1] | 12,463,302 | 12,505,467 |
| Total other equities | $ 15,376,562 | $ 15,309,357 |

[1]Represents 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.

## (11) Debt

| Long-term obligations at December 31 are as follows: | 2020 | 2019 |
|---|---|---|
| 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 | 49,500,000 | 54,000,000 |
| 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 | 129,499,997 | 135,666,664 |
| 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 | 45,000,000 | 48,750,000 |
| 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 | 74,000,000 |
| 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 | 34,000,000 | 36,000,000 |
| 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 | 75,000,000 | 75,000,000 |
| 2020 Series A Bond of 2.38%, maturing in 2039, with interest and principal due semi-annually April 30 and October 30 beginning 2021 | 275,000,000 | 0 |
| 2020 Series A Bond of 2.91%, maturing in 2050, with interest and principal due semi-annually April 30 and October 30, beginning 2025 | 525,000,000 | 0 |
| 2016 CoBank Note, 2.58% fixed rate note maturing in 2031, with interest and principal due quarterly beginning in 2016 | 30,552,000 | 33,972,000 |
| Total long-term obligations | $ 1,280,551,997 | $ 507,388,664 |
| Less current installments | 41,964,667 | 26,836,667 |
| Less unamortized debt issuance costs | 6,179,476 | 2,684,537 |
| Long-term debt, excluding current installments | $ 1,232,407,854 | $ 477,867,460 |

*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 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 there occurs any material change 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.

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, 2020, mature as follows (dollars in thousands):

| Year ending December 31 | 2011 Series A Bonds | 2012 Series A Bonds | 2016 CoBank Note | 2017 Series A Bonds | 2019 Series A Bonds | 2020 Series A Bonds | Total |
|---|---|---|---|---|---|---|---|
| 2021 | $ 10,667 | $ 3,750 | $ 3,648 | $ 2,000 | $ 3,900 | $ 18,000 | $ 41,965 |
| 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 |
| Thereafter | 125,665 | 135,750 | 10,944 | 24,000 | 55,500 | 698,000 | 1,049,859 |
| | $ 179,000 | $ 162,000 | $ 30,552 | $ 34,000 | $ 75,000 | $ 800,000 | $ 1,280,552 |

*Lines of credit*

Chugach maintains a $50.0 million line of credit with NRUCFC. 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. Chugach did not utilize this line of credit in 2019, and therefore had no outstanding balance at December 31, 2019. The borrowing rate is calculated using the total rate per annum and may be fixed by NRUCFC. The borrowing rate was 2.45% and 3.25% at December 31, 2020 and 2019, respectively.

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 effective September 29, 2017 and expires September 29, 2022. This line of credit is immediately available for unconditional borrowing.

*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. The Credit Agreement expires on July 20, 2024. The participating banks include NRUCFC, Bank of America, N.A., KeyBank National Association, Wells Fargo Bank N.A., and CoBank, ACB.

The Credit Agreement, as amended, permitted Chugach to enter into a bridge financing to fund its acquisition of ML&P, of not in excess of $800 million for a term of up to eighteen (18) months. This indebtedness is in addition to other indebtedness permitted to be incurred under the existing credit facility. Chugach did not exercise this option to fund the acquisition and therefore had no balance associated with this facility at December 31, 2020.

Our commercial paper can be repriced between one day and 397 days. Chugach is expected to continue to issue commercial paper in 2021, 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 $10.0 million and $24.0 million of commercial paper outstanding at December 31, 2020 and 2019, respectively.

The following table provides information regarding 2020 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 | $ 20.0 | 1.84% | July | $ 41.0 | 0.24% |
| February | $ 15.9 | 1.75% | August | $ 41.0 | 0.22% |
| March | $ 10.7 | 1.75% | September | $ 46.9 | 0.20% |
| April | $ 9.6 | 0.93% | October | $ 55.6 | 0.20% |
| May | $ 41.0 | 0.63% | November | $ 13.4 | 0.20% |
| June | $ 41.0 | 0.30% | December | $ 10.0 | 0.21% |

*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.

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.

The following table provides additional information regarding the bonds and the CoBank note at December 31, 2020 (dollars in thousands):

| | Maturing | Average Life (Years) | Interest Rate | Issue Amount | Carrying Value |
|---|---|---|---|---|---|
| 2011 Series A, Tranche A | 2031 | 5.2 | 4.20 % | $ 90,000 | $ 49,500 |
| 2011 Series A, Tranche B | 2041 | 10.2 | 4.75 % | 185,000 | 129,500 |
| 2012 Series A, Tranche A | 2032 | 5.7 | 4.01 % | 75,000 | 45,000 |
| 2012 Series A, Tranche B | 2042 | 16.3 | 4.41 % | 125,000 | 67,000 |
| 2012 Series A, Tranche C | 2042 | 11.7 | 4.78 % | 50,000 | 50,000 |
| 2017 Series A, Tranche A | 2037 | 8.2 | 3.43 % | 40,000 | 34,000 |
| 2019 Series A, Tranche A | 2049 | 9.9 | 3.86 % | 75,000 | 75,000 |
| 2020 Series A, Tranche A | 2039 | 10.5 | 2.38 % | 275,000 | 275,000 |
| 2020 Series A, Tranche B | 2050 | 18.7 | 2.91 % | 525,000 | 525,000 |
| 2016 CoBank Note | 2031 | 4.1 | 2.58 % | 45,600 | 30,552 |
| Total | | | | $ 1,485,600 | $ 1,280,552 |

## (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 401 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, 2020, 2019 and 2018 of $8.0 million, $6.7 million and $6.3 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, 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 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. See *Note 2n – "Deferred Charges and Liabilities."*

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] | | |
| | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 |
| 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) | $4.4 | $3.5 | $3.5 | $3.6 | $3.2 | $2.8 |
| 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 these benefits for the years ending December 31, 2020, 2019, and 2018 were $6.4 million, $5.2 million, and $5.1 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, 2020, 2019, and 2018 totaled $2.9 million, $2.8 million, and $2.7 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, 2020, 2019 and 2018 were $196.5 thousand, $148.1 thousand and $137.3 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 2020, $19,000 in 2019, $18,500 in 2018, and allowed catch-up contributions for those over 50 years of age of $6,500 in 2020 and $6,000 in 2019 and 2018. 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, 2020, and 2019 was $1,821,222 and $1,775,759, 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.

## (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 23.3 MW, as currently operated, of the project's capacity. The share of Bradley Lake indebtedness for which we are responsible is approximately $6.1 million. Upon the default of a Bradley Lake participant, and subject to certain other conditions, AEA is entitled to increase each participant's share of costs pro rata, to the extent necessary to compensate for the failure of another participant to pay its share, provided that no participant's percentage share is increased by more than 25%. Upon default, Chugach could be faced with annual expenditures of approximately $6.9 million as a result of Chugach's Bradley Lake take-or-pay obligations. Management believes that such expenditures, if any, would be recoverable through the fuel and purchased power adjustment process.

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 would be 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.

The following represents information with respect to Bradley Lake at June 30, 2020 (the most recent date for which information is available). Chugach's share of expenses was $6,880,432 in 2020, $5,195,917 in 2019, and $7,367,455 in 2018, and is included in purchased power in the accompanying financial statements.

| (In thousands) | Total | Proportionate Share |
|---|---|---|
| Plant in service | $ 185,824 | $ 104,619 |
| Long-term debt | 52,109 | 22,360 |
| Interest expense | 827 | 466 |

Chugach's share of a Bradley Lake transmission line financed internally is included in Intangible Electric Plant.

## (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%).

Plant in service at December 31, 2020, included $6,072,378, net of accumulated depreciation of $3,402,493, which represents Chugach's share of the Eklutna Hydroelectric Project. At December 31, 2019, plant in service included $5,102,906, net of accumulated depreciation of $2,902,772. 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 $848,255, $620,273, and $416,237 in 2020, 2019, and 2018, 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 complements existing gas supplies and provides 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. The 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 is 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 57% ownership share of the BRU, increasing Chugach's ownership share of the BRU to 67%. 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. Chugach was in an underlife position of 2 Mcf at December 31, 2020 and an overlift position of 174

Mcf at December 31, 2019. 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 2020, Chugach lifted 1.5 Bcf resulting in a cumulative lift since purchase of 7.8 Bcf of the approximate 25.1 Bcf in Chugach's proven developed reserves. Chugach, and other owners, ML&P and 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

In December 2017, the Mayor of Anchorage, Alaska, announced plans to place a proposition on the April 3, 2018 municipal ballot allowing the voters to authorize the sale of ML&P to Chugach. The proposition was approved by Anchorage voters 65.08% to 34.92% per the certified election results. Chugach and the Municipality of Anchorage ("MOA") negotiated final sales agreements and associated documents. The sale of ML&P was approved by the Anchorage Assembly on December 4, 2018 and the Chugach Board of Directors gave its final approval on December 19, 2018.

On December 28, 2018, Chugach entered into an Asset Purchase and Sale Agreement ("APA") with the MOA to acquire substantially all of the assets, and certain specified liabilities of ML&P, subject to approval by the RCA. On December 28, 2018, Chugach also entered into an Eklutna Power Purchase Agreement ("Eklutna PPA"), a Payment in Lieu of Taxes Agreement ("PILT Agreement") and a BRU Fuel Agreement (collectively the "Ancillary Agreements") with the MOA.

During the first week of April 2019, pursuant to the APA, Chugach and the MOA jointly submitted applications to amend their respective CPCNs to permit Chugach to provide electric service in ML&P's legacy service territory. The RCA accepted the filing as complete on April 18, 2019. During 2019, multiple hearings were held on the acquisition with the RCA and the intervenors and stipulations were filed. 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 include required filings within 90 days of the order date require Chugach to form a tight Power Pooling Agreement with MEA.

In June 2019, Chugach and GVEA 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. Excluding fuel, the MOU is expected to provide over $10 million of additional revenue to Chugach's system over the term of the agreement. GVEA has withdrawn its petition to intervene regarding the ML&P acquisition.

Chugach has entered into three amendments to the APA, which provided that the purchase price shall reflect the net book value of ML&P assets at closing, amended related definitions, extended the termination date, recognized Eklutna Transmission Assets as acquired assets, removed provisions regarding Chugach's commitment to not raise base rates as a result of the acquisition, extended the time to close following RCA approval, required the MOA to provide certain copies of easements, reduced the upfront payment to the MOA by $10.0 million, eliminated any upward price adjustment if ML&P's net book value of the purchased assets was greater than $715.4 million, and recognized a $36.0 million settlement to be funded by the MOA for the benefit of ML&P legacy customers. Pursuant to the APA, upon closing Chugach transferred the adjusted purchase price of $749.0 million less the estimated accrued leave liability and the estimated net book value of designated excluded assets. The APA also includes terms for post-closing purchase price adjustments.

The Eklutna PPA, which became effective upon closing, provides for the purchase of all or a portion of ML&P's share of generation from the Eklutna Hydroelectric Project by Chugach from the MOA for a period of 35 years at specified fixed prices each year. Chugach entered into three amendments to the Eklutna PPA, which recognizes changes to the dispute resolution procedures and Chugach's right to set-off payments to the extent the MOA does not fulfill its obligations required in the stipulation filed with the RCA, as well as removes references indicating the PPA is a power purchase agreement under Alaska statute.

The PILT Agreement, which became effective upon closing, provides for Chugach to make annual payments in lieu of taxes to the MOA for a period of 50 years based on current millage rates and the adjusted book value of property for ML&P's service territory in existence at the closing as adjusted each year. The PILT Agreement also provides that until December 31, 2033, Chugach shall only collect amounts associated with those annual PILT payments from retail customers in the legacy ML&P territory. Thereafter, the annual PILT payments shall be collected from all Chugach retail customers. Chugach entered into three amendments to the PILT Agreement, which revised the calculation of PILT, removed Chugach's obligation in certain regulatory or bankruptcy proceedings to support and stipulate to the fact that the payments in lieu of taxes are a tax obligation and should be given appropriate priority status based on that fact, and requires that beginning no later than January 1, 2024, costs incurred by Chugach as a result of the PILT Agreement shall be recovered through base rates charged to all Chugach customers.

The acquisition closed on October 30, 2020. Chugach also entered into a letter agreement regarding the APA with the MOA regarding certain procedural matters related to closing of the acquisition. Additionally, Chugach entered into Amendment No. 4 to the Eklutna PPA dated September 23, 2020, which modified a clause pertaining to Chugach's portion of the Eklutna Hydroelectric Project, thereby setting a timeline for the parties to come to an agreement within one (1) year of closing on the acquisition of ML&P. Chugach also entered into a side letter to the Eklutna Power Purchase Agreement with the MOA, effective October 30, 2020, addressing the terms and conditions of the interim period between the effective acquisition date of ML&P by Chugach and the effective date of the ML&P Eklutna Power Purchase Agreement between the MOA and MEA.

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 is considered preliminary, pending receipt of the final valuation report, which is expected during 2021.

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 acquisition allocation recorded as of December 31, 2020. 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 October 31, 2020 and working capital adjustments.

| | | Amount |
|---|---|---|
| Utility Plant | $ | 711,347,333 |
| Inventory | | 29,157,494 |
| Other Assets | | 16,776,883 |
| Special Funds (ARO) | | 17,290,090 |
| Goodwill | | 42,400,000 |
| Total Assets | $ | 816,971,800 |
| Accrued Leave | | 3,031,727 |
| Cost of Removal Obligation / ARO | | 50,561,477 |
| Regulatory Liabilities (BRU / ARO) | | 11,021,265 |
| Customer Deposits | | 1,317,609 |
| UG Ordinance Liability | | 4,468,160 |
| Fuel Recovery | | 657,373 |
| Other Liabilities | | 10,386,327 |
| Settlement Obligation | | 36,000,000 |
| Total Liabilities | $ | 117,443,938 |
| Net Investment in ML&P | $ | 699,527,862 |

Other assets and other liabilities include approximately $7.0 million in ML&P's customer accounts receivable at close, which is payable to the MOA, as well as approximately $3.4 million of right-of-use assets and lease liabilities recorded with the acquisition. Other assets also includes approximately $4.3 million in regulatory assets acquired.

The goodwill 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 $23.4 million was also approved for recovery and will be included in the Chugach's general rate case to be filed with the RCA, which will determine the period of recovery.

Acquisition and integration costs are recorded as deferred charges on Chugach's Consolidated Balance Sheet, which Chugach believes is probable of being allowed full recovery to be collected through rates because the RCA has approved prudently incurred costs and totaled $34.6 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 98.0%, 97.0% and 95.5% of total operating revenue during the years ended December 31, 2020, 2019 and 2018, respectively. Energy sales revenues are recognized upon delivery of electricity, 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 actually 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.

| 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. |

Payment on energy sales invoices to all customer classes above are due within 15 to 30 days.

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 $16,030,597 and $11,249,118 of unbilled retail revenue at December 31, 2020 and 2019, 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.

The collectability of our energy sales is very high with typically 0.10% 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*."

There were no costs associated with obtaining any of these contracts, therefore no asset was recognized or recorded associated with obtaining any contract.

*ii. Wheeling*

Wheeling represented 1.3%, 1.8%, and 3.3% of our revenue during the years ended December 31, 2020, 2019, and 2018, 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 0.7%, 1.2%, and 1.2% of our total operating revenue during the years ended December 31, 2020, 2019, and 2017, 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, 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%** |

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, 2019, and 2018 (in millions).

| | Base Rate Sales | | | Fuel and Purchased Power | | | Total Revenue | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | % Variance | 2019 | 2018 | % Variance | 2019 | 2018 | % Variance |
| Retail | $ 126.4 | $ 121.2 | 4.3% | $ 73.8 | $ 66.7 | 10.6% | $ 200.2 | $ 187.9 | 6.5% |
| Wholesale | 2.2 | 2.0 | 10.0% | 3.7 | 3.2 | 15.6% | 5.9 | 5.2 | 13.5% |
| Economy | 0.0 | 0.0 | 0.0% | 0.0 | 0.0 | 0.0% | 0.0 | 0.0 | 0.0% |
| **Total Energy Sales** | **$ 128.6** | **$ 123.2** | **4.4%** | **$ 77.5** | **$ 69.9** | **10.9%** | **$ 206.1** | **$ 193.1** | **6.7%** |
| Wheeling | 0.0 | 0.0 | 0.0% | 3.8 | 6.7 | (43.3%) | 3.8 | 6.7 | (43.3%) |
| Other | 2.6 | 2.4 | 8.3% | 0.0 | 0.1 | (100.0%) | 2.6 | 2.5 | 4.0% |
| **Total Miscellaneous** | **$ 2.6** | **$ 2.4** | **8.3%** | **$ 3.8** | **$ 6.8** | **(44.1%)** | **$ 6.4** | **$ 9.2** | **(30.4%)** |
| **Total Revenue** | **$ 131.2** | **$ 125.6** | **4.5%** | **$ 81.3** | **$ 76.7** | **6.0%** | **$ 212.5** | **$ 202.3** | **5.0%** |

*c. Contract Balances*

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

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Contract receivables, included in accounts receivable | $ 49,694,496 | $ 26,383,976 |
| Contract asset | 0 | 1,445,753 |
| Contract liabilities | 3,656,662 | 1,839,514 |

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, 2020 | December 31, 2019 |
|---|---|---|
| Contract asset at beginning of period | $ 1,445,753 | $ 0 |
| Cash received, excluding amounts recognized as revenue during the period | 0 | 1,445,753 |
| Revenue recognized and transferred from contract asset at the beginning of the period | (1,445,753) | 0 |
| Contract asset at end of period | $ 0 | $ 1,445,753 |

Significant changes in the contract liabilities balances are as follows:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Contract liabilities at beginning of period | $ 1,839,514 | $ 5,196,426 |
| Cash received, excluding amounts recognized as revenue during the period | 3,656,662 | 1,839,514 |
| Revenue recognized and transferred from contract liabilities at the beginning of the period | (1,839,514) | (5,196,426) |
| Contract liabilities at end of period | $ 3,656,662 | $ 1,839,514 |

*d. Transaction Price Allocated to Remaining Performance Obligations*

The table below includes estimated revenue to be recognized in 2021 related to performance obligations that are unsatisfied (or partially unsatisfied) at December 31, 2020.

| | 2020 |
|---|---|
| Credit balances | $ 2,289,294 |

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 one financing lease and several operating leases, most of which are various land easements. Chugach's seven operating leases recognized as right-of-use assets for a building, office equipment, heavy equipment, four land leases, with remaining lease terms of two to 50 years and a weighted average lease term of 41.9 years. Three 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 discount rate of 3.37% 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 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:

| | 2020 | 2019 |
|---|---|---|
| Finance lease cost | | |
| Amortization of right-of-use assets | $ 3,242 | $ 0 |
| Interest on lease liabilities | 484 | 0 |
| Operating lease cost | 230,062 | 110,130 |
| Variable lease cost | 4,544,934 | 4,653,551 |
| Total lease cost | $ 4,778,722 | $ 4,763,681 |

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

| | 2020 | 2019 |
|---|---|---|
| Cash paid for amounts included in the measurement of liabilities: | | |
| Operating cash flows from operating leases | $ 295,761 | $ 244,380 |
| Right-of-use assets obtained in exchange for lease obligations: | | |
| Operating leases | 3,356,406 | 958,111 |
| Financing leases | 9,855 | 0 |

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

| | 2020 | 2019 |
|---|---|---|
| Operating lease right-of-use assets | $ 4,093,510 | $ 958,111 |
| Financing lease right-of-use assets | 8,818 | 0 |
| Total right-of-use assets | $ 4,102,328 | $ 958,111 |
| Operating lease liabilities | 3,866,092 | 738,713 |
| Financing lease liabilities | 7,302 | 0 |
| Current installments of lease liabilities | 232,448 | 219,398 |
| Total operating lease liabilities | $ 4,105,842 | $ 958,111 |

Maturities associated with lease liabilities at December 31, 2020:

| | |
|---|---|
| 2021 | $ 364,769 |
| 2022 | 361,769 |
| 2023 | 361,769 |
| 2024 | 145,769 |
| 2025 | 143,947 |
| Thereafter | 6,098,215 |
| Total lease payments | 7,476,238 |
| Less imputed interest | 3,370,396 |
| Present value of lease liabilities | $ 4,105,842 |

## (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, 2020, 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 74% 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, 2021.

*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 under this contract is currently estimated to be 79.4 Bcf. All of the 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 Hilcorp.

In 2020, 76% of our electric energy was generated from gas, with 79% generated at the SPP, 12% at the Sullivan Power Plant, and 2% at the Beluga Power Plant. In 2019, 81% of our power was generated from gas, with 90% at the SPP and 7% generated 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:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Hilcorp | 92.9% | 91.2% | 90.9% |
| Hex Cook Inlet | 0.0% | 1.0% | 0.6% |
| ENSTAR | 3.8% | 4.4% | 4.9% |
| Harvest (Hilcorp) Pipeline | 2.7% | 3.4% | 3.6% |
| Miscellaneous | 0.6% | 0.0% | 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 current rate of $0.000654, effective July 1, 2020. The tax is reported on a net basis and the tax is not included in revenue or expense.

*Sales Tax*

Chugach collects sales tax on retail electricity sold to Kenai and Whittier consumers. The tax is collected monthly and remitted to the Kenai Peninsula Borough quarterly. Sales tax is reported on a net basis and the tax is not included in revenue or expense.

*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 $10,553,288 and $10,001,492 for this charge at December 31, 2020 and 2019, 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 three utility owners of the Eklutna Hydro Project (Chugach, ML&P, 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.

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. The final rule is certain to face legal challenge. The ACE rule, in its current form, is not expected to have a material effect on Chugach's financial condition, results of operations, or cash flows. 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.