

CHUGACH

Proudly
serving our members



1948 - 2018



2018 Annual Report

70
years



To Our Members

Looking back at 2018, there was a tremendous amount of work done by the entire Chugach organization and the Municipality of Anchorage on the acquisition of Municipal Light & Power (ML&P). Many people spent countless hours putting together a deal that will benefit our members, employees, and the community at large for decades to come.

As we move forward, I think our greatest opportunity is to make sure that the integration process is done right, and we get the cost savings we are expecting. We will know we have been successful when we are ultimately one combined utility, with a smooth transition for our employees and our members.

The most important duty as a board member is to focus on what makes the most sense when we are looking at a project, spending money, and what we can do to strategically place the utility for a successful future. Our priority is continuing to provide safe, affordable, and reliable power, and we believe the acquisition of ML&P keeps us on that path.

With a focus on our business philosophy of the triple bottom line, we continue to look at financial, environmental, and community interests when making our decisions. A strong and successful electric utility is a key part of a healthy community. Providing reliable and affordable power allows the

communities we serve to thrive, businesses to grow, and Alaskans to have good, secure jobs.

It is an honor to serve on the Chugach Electric Board of Directors. Together, with our members and employees, we are all making a positive difference for Alaska.



2017 Chugach Board of Directors L to R: Susan Reeves, Vice Chair; Stuart Parks, Secretary; Harold Hollis, Director; Harry Crawford, Director; Bettina Chastain, Chair; Rachel Morse, Treasurer; Jim Henderson, Director



BETTINA CHASTAIN
BOARD CHAIR

Our Management Team

2018 was a milestone year for Chugach as we made enormous progress on the potential acquisition of Municipal Light & Power (ML&P). In April, more than 65 percent of Anchorage voters gave the Municipality of Anchorage (MOA) the authority to sell ML&P to Chugach. Following the vote, we spent the summer working with ML&P and the MOA on the final terms of the Asset Purchase and Sale Agreement and associated documents.

Throughout the summer and fall, we took part in several public meetings and had regular updates with the Chugach Board of Directors and the Anchorage Assembly. By the end of the year, both bodies gave their final approval and all documents were signed. It was an incredible amount of work, but necessary as we move forward on this effort that will benefit our members, our employees, and the community at large for decades to come.

As we await regulatory approval, we estimate by combining two utilities and taking advantage of the synergies and economies of scale, there will be savings of over \$200 million over the next 40 years. The result will be permanent cost savings that will be realized through time and reflected in electric rates.

None of this would be possible without the continued hard work and dedication of our employees and our Board of Directors. To all of them, I say

thank you. Our priority remains safe, reliable, and affordable power. We are focused on making that happen each and every day, while positioning your member-owned cooperative for a strong, successful future.



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



LEE THIBERT
CEO



Commitment to safety

Safe, reliable delivery of power remains the top priority of Chugach, and 2018 was an excellent safety year. Chugach's injury rates are low and below industry averages. Chugach's 2018 injury rate of 2.4 was well below the average of all Alaska utilities at 4.8. The injury rate of 2.4 reflects the number of injuries for every 200,000 hours worked by Chugach employees. Additionally, Chugach continues to trend below the national five-year utility average of 2.9. And while numbers are important for measuring, we know it is our employees' professional attitudes and commitment to safety that keep everyone safe at work.



Interest grows in electric vehicles

Chugach continues testing electric vehicle (EV) usage in cold climates. The co-op's EV, Wattson, saw over 2,000 miles of road time in 2018. Throughout the year, Chugach conducted a number of public presentations on EV use in Alaska and is looking at ways to expand the program. The charging station at the Chugach headquarters saw a continual uptick in public usage, and Chugach is looking to partner with commercial customers to host charging stations in different parts of the service territory.



Testing solar panels



Chugach is testing the cost effectiveness and generation activity of different solar panel types at a test site on its Anchorage campus. Partnering with the University of Alaska Fairbanks, the project is studying solar panel types, and tracking versus non-tracking mounting systems. The program will

analyze snow shedding, optimal design, and overall performance of the different options. All of the data will be used to help members make more informed decisions when considering solar energy.

Major overhaul for Beluga Unit 3

Over the course of several months, Beluga's Unit 3 was disassembled, inspected, and reassembled. The overhaul included disassembling the gas turbine and generator, replacing a number of components in the hot gas path, electrical testing, refurbishing the generator and turbine bearings, as well as cleaning and preparing parts for reassembly. An overhaul of this nature takes place about every 48,000 operating hours.



DeBarr Substation gets upgrade



The DeBarr Substation, serving residents of the East Anchorage/Muldoon area, got a major overhaul including rebuilding a transformer and setting a spare foundation for a second transformer that will be needed in the future. The substation was built in 1963, and much of the equipment needed to be retired and replaced in order to improve efficiency and reliability. Bringing the substation up to current codes and standards entailed building a fire wall and oil containment around the transformer and spare foundation. The fence was also rebuilt to Chugach's current 10-foot standard. Full landscaping of the area outside the fence will be completed in the Spring of 2019. Chugach appreciates the Northeast Community Council and the Planning and Zoning Commission for support of the project.

Hundreds show up for Member Appreciation Day

Chugach welcomed more than 300 members for fun, food, and education at the 2018 Member Appreciation Day. Each October, we roll out the bucket trucks, educational booths, provide tours of our power plant, and serve a hot dog lunch in conjunction with National Cooperative/Energy Awareness Month. More than 100 members got a chance to get a birds-eye view in a bucket truck, and Chugach employees led more than 100 through the Southcentral Power Project tour. Member Appreciation Day is a great way for Chugach to say “thank you” to our members and show them just what it means to be a part of a member-owned cooperative.



In the community



Chugach believes part of being a good neighbor is giving back to the community. Each year our employees donate their time, talent, and treasure to several local non-profits. We also participate in community events such as Clean-up Week, the Heart Run, and the Alaska Run for Women.

Bradley Lake water diversion project started

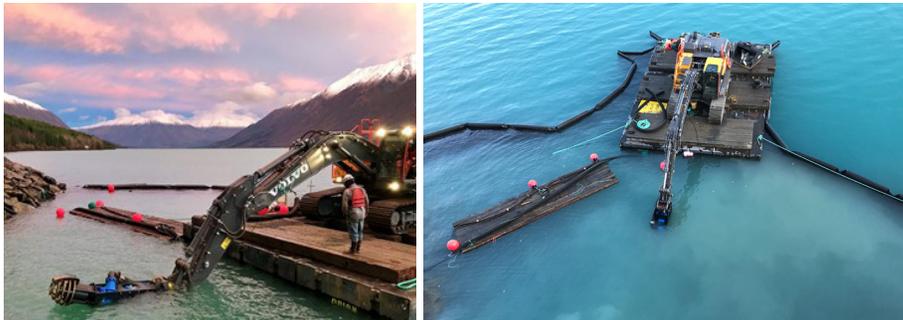
Chugach is working with other Railbelt utilities on construction of a water diversion project at Bradley Lake designed to increase electricity production from a renewable resource. The Battle Creek Diversion Project will divert glacial water from the West Fork of Upper Battle Creek into Bradley Lake. The project includes construction of three miles of road, a diversion dam, and a five-foot pipe under the road to convey the water to Bradley Lake. When completed, it will increase Bradley Lake Hydroelectric production by about 37,300 megawatt hours, or 10 percent. The project is expected to be complete in 2019 or 2020.

Alaska students learn about energy use

For the sixth year in a row, Chugach participated in the Power Pledge Challenge, teaching Alaska’s students about energy use and conservation. Partnering with other utilities and organizations across Alaska, the Power Pledge Challenge reached more than 3,000 middle school students from Talkeetna to Homer. The initiative helps students understand energy use, including learning how to calculate the cost of appliances and conducting an online home energy audit with their families. The Power Pledge Challenge is held every year in October in conjunction with Energy Awareness Month.



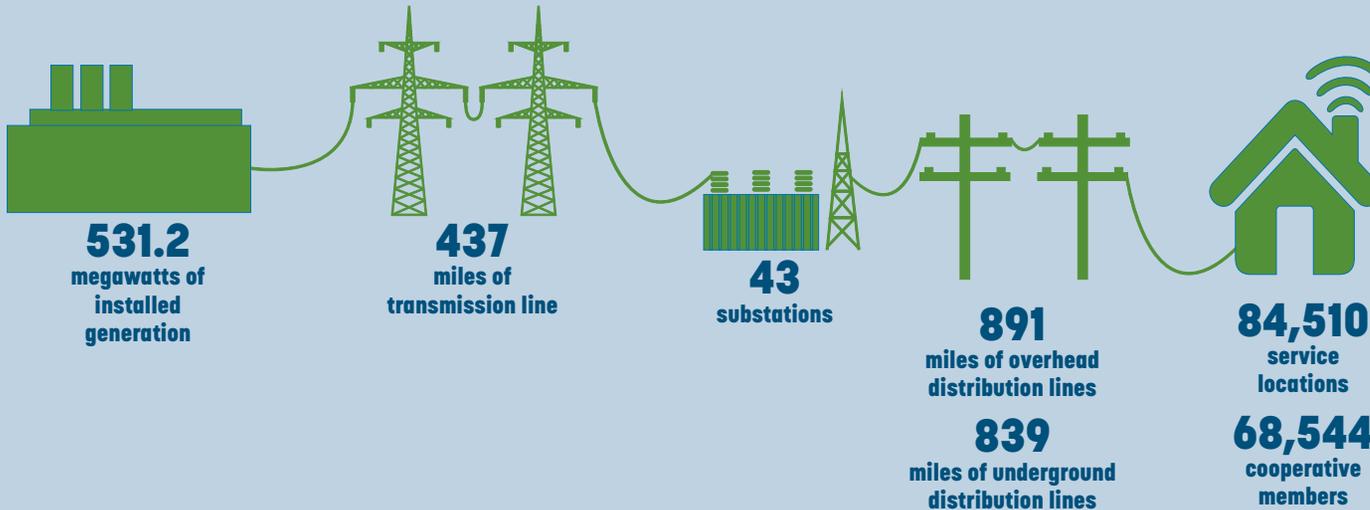
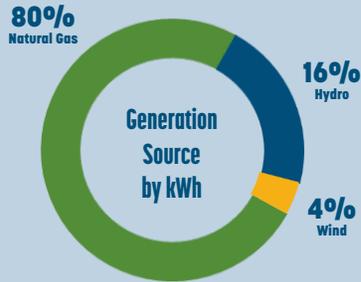
Trailrace dredging project at Cooper Lake



Significant work was done in the fall at the Cooper Lake Power Plant. Dredging activities included the installation of a silt curtain in Kenai Lake, construction of dredge material storage pits, and the installation of treatment tanks designed to treat the dredge water before it returns to Kenai Lake. Additionally, a dredge platform was anchored in front of the power plant, and suction dredging within the power plant tailrace was completed. As sediment builds up over time, eventually diminishing the power output of the plant, periodically removing the sediment maintains the output of the plant.

CHUGACH Stats

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



OUTAGE STATISTICS

3.80
average outage hours per customer in 2018, up from 1.52 in 2017

2.00
5-year average outage hours per customer, up from 1.57 in 2017



Tree clearing of over
162
miles of line to increase reliability

Incorporation

Chugach Electric Association, Inc. was incorporated in Alaska on March 1, 1948, with funding under the Rural Electrification Act (REA) of 1936, as amended. In 1991, Chugach refinanced and paid off its federal debt, leaving the REA program. Chugach remains a cooperative and ranks among the largest of the more than 900 electric cooperatives in the nation.

Equal Employment Opportunity

It is a policy of Chugach Electric Association, Inc., to recruit, hire, train, promote and compensate persons without regard to race, color, religion, national origin, sex, marital status, pregnancy, parenthood, physical or mental disability, veteran's status, age or any other classification protected by applicable federal, state or local law.

Corporate Information

Chugach Electric Association, Inc.
P.O. Box 196300
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Tel. (907) 762-4489
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Investor Information

Chugach Electric Association, Inc.
Chief Financial Officer
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Anchorage, AK 99519-6300
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Independent Auditor

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

Treasurer report



RACHEL MORSE
TREASURER

As a cooperative, our bottom line, or revenues in excess of current costs, is called margins. Chugach's 2018 margins totaled \$5.4 million, which was lower than our margin performance of \$6.0 million in 2017, and lower than our 2018 budget.

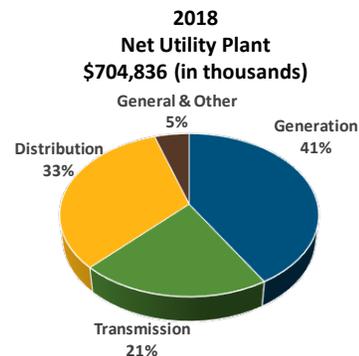
Total energy sales to retail, wholesale and economy customers were 1,130,814 megawatt hours compared to 1,213,502 in 2017. Total revenue was \$202.3 million, down from \$224.7 million in 2017 and from the 2018 budget of \$215.0 million. The decrease in sales and sales revenue compared to prior year and to budget was primarily due to warmer than anticipated weather. In 2018, Chugach continued to invest in utility plant while repaying over \$26 million in debt. We ended the year with a margins-for-interest-to-interest ratio of 1.24, well above our indenture metric of 1.10 and an equity-to-total-capitalization ratio of 31.2%.

In anticipation of the acquisition of ML&P, Chugach engaged an investment banking team for the proposed transaction, approved by Chugach's Board of Directors in August. Members of this team were also engaged for Chugach's successful financings in 2011 and 2012. Chugach's credit rating with Fitch Ratings (Fitch) remains at "A" (Watch Evolving) as the potential transaction advances. Chugach's Standard & Poor's Rating Services (S&P) rating remains unchanged at "A" (Stable).

FINANCIAL RESULTS

Consolidated Balance Sheets as of December 31 (in thousands)

Assets	2018	2017
Net Utility Plant	\$ 704,836	\$ 707,549
Other Property & Investments	10,645	11,552
Current Assets	75,501	85,654
Deferred Charges, net	37,669	32,764
Total Assets	\$ 828,651	\$ 837,519
Liabilities, Equities and Margins		
Equities and Margins	\$ 194,525	\$ 189,301
Long-Term Obligations	429,963	456,328
Current Liabilities	134,847	119,367
Long-Term and Deferred Liabilities	69,316	72,523
Total Liabilities, Equities and Margins	\$ 828,651	\$ 837,519



Consolidated Statements of Operations (in thousands)

	2018	2017
Operating revenues	\$ 202,253	\$ 224,689
Fuel	56,283	78,553
Production	17,798	18,006
Purchased power	19,978	17,301
Transmission	7,361	6,130
Distribution	14,961	13,991
Consumer accounts	6,663	5,969
Administrative, general and other	22,651	23,257
Depreciation and amortization	29,876	34,011
Total operating expenses	175,571	197,218
Interest expense, net	21,858	22,201
Net operating margins	4,824	5,270
Total nonoperating margins	539	779
Assignable margins	\$ 5,363	\$ 6,049

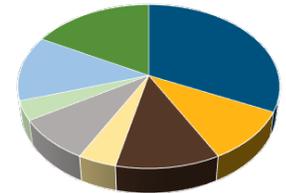
Consolidated Statement of Changes in Equities and Margins (in thousands)

Balance, January 1, 2018	\$ 189,301
Assignable margins	5,363
Retirement/net transfer of capital credits	(468)
Unclaimed capital credit retirements	106
Memberships and donations received	223
Balance, December 31, 2018	\$ 194,525

Consolidated Statements of Cash Flows (in thousands)

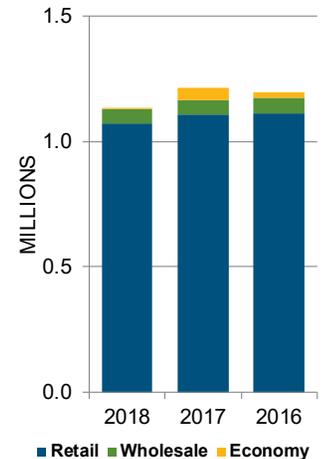
	2018	2017
Cash flows from operating activities:		
Assignable margins	\$ 5,363	\$ 6,049
Adjustments to reconcile assignable margins to net cash provided by operating activities:		
Depreciation and amortization	35,426	38,803
Allowance for funds used during construction	(128)	(69)
Other	586	441
(Increase) decrease in assets:	(1,790)	(11,153)
Increase (decrease) in liabilities:	117	(3,780)
Net cash provided by operating activities	\$ 39,574	\$ 30,291
Cash flows from investing activities:		
Investment in marketable securities	(2,872)	(925)
Proceeds from capital grants	7,666	-
Extension and replacement of plant	(27,321)	(28,764)
Other	105	133
Net cash used in investing activities	\$ (22,422)	\$ (29,556)
Cash flows from financing activities:		
Net increase (decrease) in short-term obligations	(11,000)	(18,200)
Proceeds from long-term obligations	-	40,000
Repayments of long-term obligations	(26,609)	(24,836)
Other	(1,316)	3,120
Net cash provided by (used in) financing activities	\$ (16,925)	\$ 84
Net change in cash and cash equivalents	227	819
Cash and cash equivalents at beginning of period	7,202	6,383
Cash and cash equivalents at end of period	\$ 7,429	\$ 7,202

2018 Total Operating Expenses \$175,571 (in thousands)



- 32% Fuel
- 10% Production
- 11% Purchased power
- 4% Transmission
- 9% Distribution
- 4% Consumer accounts
- 13% Administrative, general and other
- 17% Depreciation and amortization

MWh Sales



Revenue

