

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES
EXCHANGE ACT OF 1934

Commission file number 33-42125

CHUGACH ELECTRIC ASSOCIATION, INC.

(Exact name of registrant as specifies in its charter)

State of Alaska

(State or other jurisdiction of
incorporation or organization)

92-0014224

(I.R.S. Employer
Identification No.)

5601 Electron Drive, Anchorage, AK

(Address of principal executive offices)

99518

(Zip Code)

(907) 563-7494

(Registrant's telephone number, including area code)

None

(Former name, former address, and former fiscal year if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

NONE

CHUGACH ELECTRIC ASSOCIATION, INC.
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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Statements in this report that do not relate to historical facts, including statements relating to future plans, events or performance, are forward-looking statements that involve risks and uncertainties. Actual results, events or performance may differ materially. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date of this report and the accuracy of which is subject to inherent uncertainty. It is suggested that these statements be read in conjunction with the audited financial statements for Chugach Electric Association Inc. (Chugach) for the year ended December 31, 2016, filed as part of Chugach's annual report on Form 10-K. Chugach undertakes no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances that may occur after the date of this report or the effect of those events or circumstances on any of the forward-looking statements contained in this report, except as required by law.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The unaudited financial statements and notes to the unaudited financial statements of Chugach as of and for the quarter ended September 30, 2017, follow.

Chugach Electric Association, Inc.
Consolidated Balance Sheets
(Unaudited)

| Assets | September 30, 2017 | December 31, 2016 |
|---|-----------------------|-----------------------|
| Utility Plant: | | |
| Electric plant in service | \$ 1,206,712,928 | \$ 1,192,513,869 |
| Construction work in progress | 15,817,120 | 18,455,940 |
| Total utility plant | 1,222,530,048 | 1,210,969,809 |
| Less accumulated depreciation | (513,861,377) | (496,098,131) |
| Net utility plant | 708,668,671 | 714,871,678 |
| Other property and investments, at cost: | | |
| Nonutility property | 76,889 | 76,889 |
| Investments in associated organizations | 8,980,409 | 9,349,311 |
| Special funds | 1,137,189 | 907,836 |
| Restricted cash equivalents | 975,732 | 810,559 |
| Investments - other | 1,419,574 | 3,061,434 |
| Total other property and investments | 12,589,793 | 14,206,029 |
| Current assets: | | |
| Cash and cash equivalents | 3,966,322 | 4,672,935 |
| Special deposits | 54,300 | 75,942 |
| Restricted cash equivalents | 737,517 | 899,723 |
| Investments - other | 1,891,407 | 0 |
| Marketable securities | 8,384,626 | 7,375,381 |
| Fuel cost under-recovery | 1,443,967 | 0 |
| Accounts receivable, net | 29,662,805 | 33,000,919 |
| Materials and supplies | 14,063,331 | 27,889,167 |
| Fuel stock | 10,773,773 | 6,321,676 |
| Prepayments | 4,921,490 | 1,407,026 |
| Other current assets | 316,335 | 294,697 |
| Total current assets | 76,215,873 | 81,937,466 |
| Other non-current assets: | | |
| Deferred charges, net | 33,819,717 | 25,140,957 |
| Total other non-current assets | 33,819,717 | 25,140,957 |
| Total assets | \$ 831,294,054 | \$ 836,156,130 |

Chugach Electric Association, Inc.
Consolidated Balance Sheets (continued)
(Unaudited)

| Liabilities, Equities and Margins | September 30, 2017 | December 31, 2016 |
|---|--------------------|-------------------|
| Equities and margins: | | |
| Memberships | \$ 1,712,704 | \$ 1,691,014 |
| Patronage capital | 168,190,154 | 169,996,436 |
| Other | 14,016,284 | 13,828,075 |
| Total equities and margins | 183,919,142 | 185,515,525 |
| Long-term obligations, excluding current installments: | | |
| Bonds payable | 421,833,331 | 405,249,998 |
| Notes payable | 37,962,000 | 40,356,000 |
| Less unamortized debt issuance costs | (2,734,709) | (2,715,745) |
| Total long-term obligations | 457,060,622 | 442,890,253 |
| Current liabilities: | | |
| Current installments of long-term obligations | 26,608,667 | 24,836,667 |
| Commercial paper | 51,000,000 | 68,200,000 |
| Accounts payable | 7,712,302 | 9,618,630 |
| Consumer deposits | 5,219,743 | 5,207,585 |
| Fuel cost over-recovery | 0 | 3,824,722 |
| Accrued interest | 1,095,652 | 5,873,368 |
| Salaries, wages and benefits | 7,310,097 | 7,315,898 |
| Fuel | 9,501,633 | 6,284,338 |
| Other current liabilities | 8,146,356 | 3,234,586 |
| Total current liabilities | 116,594,450 | 134,395,794 |
| Other non-current liabilities: | | |
| Deferred compensation | 1,137,189 | 907,836 |
| Other liabilities, non-current | 863,220 | 655,277 |
| Deferred liabilities | 1,574,566 | 1,179,414 |
| Patronage capital payable | 10,798,077 | 12,008,499 |
| Cost of removal obligation / ARO | 59,346,788 | 58,603,532 |
| Total other non-current liabilities | 73,719,840 | 73,354,558 |
| Total liabilities, equities and margins | \$ 831,294,054 | \$ 836,156,130 |

See accompanying notes to financial statements.

Chugach Electric Association, Inc.
Consolidated Statements of Operations
(Unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|---------------------|---------------------------------|-------------------|
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| Operating revenues | \$ 49,405,607 | \$ 45,132,973 | \$ 161,753,739 | \$ 140,005,625 |
| Operating expenses: | | | | |
| Fuel | 17,291,134 | 11,825,993 | 55,487,263 | 37,661,493 |
| Production | 4,711,160 | 4,218,378 | 12,951,877 | 12,111,405 |
| Purchased power | 3,089,568 | 3,067,950 | 11,739,475 | 11,258,778 |
| Transmission | 1,548,215 | 1,653,494 | 4,598,273 | 4,369,240 |
| Distribution | 4,080,959 | 3,769,984 | 10,368,772 | 10,530,563 |
| Consumer accounts | 1,483,127 | 1,509,664 | 4,580,216 | 4,704,764 |
| Administrative, general and other | 4,666,137 | 5,010,460 | 17,776,742 | 17,068,780 |
| Depreciation and amortization | 7,980,294 | 9,252,379 | 26,936,964 | 26,435,059 |
| Total operating expenses | \$ 44,850,594 | \$ 40,308,302 | \$ 144,439,582 | \$ 124,140,082 |
| Interest expense: | | | | |
| Long-term debt and other | 5,616,675 | 5,507,173 | 16,733,184 | 16,343,393 |
| Charged to construction | (46,714) | (79,734) | (107,712) | (283,338) |
| Interest expense, net | \$ 5,569,961 | \$ 5,427,439 | \$ 16,625,472 | \$ 16,060,055 |
| Net operating margins | \$ (1,014,948) | \$ (602,768) | \$ 688,685 | \$ (194,512) |
| Nonoperating margins: | | | | |
| Interest income | 164,207 | 89,118 | 471,038 | 253,455 |
| Allowance for funds used during | 19,555 | 32,978 | 45,219 | 117,189 |
| Capital credits, patronage dividends and other | 23,751 | 3,236 | 105,049 | 5,636 |
| Total nonoperating margins | \$ 207,513 | \$ 125,332 | \$ 621,306 | \$ 376,280 |
| Assignable margins | <u>\$ (807,435)</u> | <u>\$ (477,436)</u> | <u>\$ 1,309,991</u> | <u>\$ 181,768</u> |

See accompanying notes to financial statements.

Chugach Electric Association, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

| | Nine months ended September 30, | |
|---|---------------------------------|----------------------|
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Assignable margins | \$ 1,309,991 | \$ 181,768 |
| Adjustments to reconcile assignable margins to net cash provided by operating activities: | | |
| Depreciation and amortization | 26,936,964 | 26,435,059 |
| Amortization and depreciation cleared to operating expenses | 3,548,294 | 3,799,494 |
| Allowance for funds used during construction | (45,219) | (117,189) |
| Write off of inventory, deferred charges and projects | 393,341 | 774,190 |
| Other | (52,782) | 42,267 |
| (Increase) decrease in assets: | | |
| Accounts receivable, net | 1,955,518 | 1,242,132 |
| Fuel cost under-recovery | (1,443,967) | 0 |
| Materials and supplies | 2,183,548 | 792,607 |
| Fuel stock | (4,452,097) | (1,436,315) |
| Prepayments | (3,514,464) | (1,588,834) |
| Other assets | 4 | (56,821) |
| Deferred charges | (432,465) | (3,186,363) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (1,282,462) | (828,693) |
| Consumer deposits | 12,158 | 115,384 |
| Fuel cost over-recovery | (3,824,722) | 76,906 |
| Accrued interest | (4,777,716) | (4,822,053) |
| Salaries, wages and benefits | (5,801) | (8,242) |
| Fuel | 3,217,295 | 393,451 |
| Other current liabilities | 131,182 | (586,163) |
| Deferred liabilities | 0 | 6,131 |
| Net cash provided by operating activities | 19,856,600 | 21,228,716 |
| Cash flows from investing activities: | | |
| Return of capital from investment in associated organizations | 370,010 | 319,233 |
| Investment in restricted cash equivalents | (2,967) | (199) |
| Investment in marketable securities and investments-other | (1,158,521) | (8,895,871) |
| Investment in Beluga River Unit | 0 | (44,421,161) |
| Proceeds from capital grants | 115,452 | 387,692 |
| Extension and replacement of plant | (21,844,914) | (26,494,465) |
| Net cash used in investing activities | (22,520,940) | (79,104,771) |
| Cash flows from financing activities: | | |
| Payments for debt issue costs | (208,498) | (274,373) |
| Net increase (decrease) in short-term obligations | (17,200,000) | 45,200,000 |
| Proceeds from long-term obligations | 40,000,000 | 45,600,000 |
| Repayments of long-term obligations | (24,038,667) | (47,269,832) |
| Memberships and donations received | 209,899 | 102,806 |
| Retirement of patronage capital and estate payments | (484,345) | (209,043) |
| Net receipts on consumer advances for construction | 3,679,338 | 2,817,862 |
| Net cash provided by financing activities | 1,957,727 | 45,967,420 |
| Net change in cash and cash equivalents | (706,613) | (11,908,635) |
| Cash and cash equivalents at beginning of period | \$ 4,672,935 | \$ 15,626,919 |
| Cash and cash equivalents at end of period | \$ 3,966,322 | \$ 3,718,284 |
| Supplemental disclosure of non-cash investing and financing activities: | | |
| Cost of removal obligation | \$ 743,256 | \$ 5,776,366 |
| Extension and replacement of plant included in accounts payable | \$ 1,291,167 | \$ 2,195,012 |
| Supplemental disclosure of cash flow information - interest expense paid, net of amounts capitalized | \$ 20,518,560 | \$ 19,980,489 |

See accompanying notes to financial statements.

Chugach Electric Association, Inc.
Notes to Consolidated Financial Statements
September 30, 2017 and 2016

1. PRESENTATION OF FINANCIAL INFORMATION

The accompanying unaudited interim financial statements include the accounts of Chugach Electric Association, Inc. (Chugach) and have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by United States of America generally accepted accounting principles (U.S. GAAP) for complete financial statements. They should be read in conjunction with Chugach's audited financial statements for the year ended December 31, 2016, filed as part of Chugach's annual report on Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for interim periods are not necessarily indicative of the results that may be expected for an entire year or any other period.

2. DESCRIPTION OF BUSINESS

Chugach is one of the largest electric utilities in Alaska. Chugach is engaged in the generation, transmission and distribution of electricity in the Anchorage and upper Kenai Peninsula areas. Chugach is on an interconnected regional electrical system in an area 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 of the City of Seward (Seward), as a wholesale customer. Periodically, 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 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 regulatory authority of the Regulatory Commission of Alaska (RCA).

Chugach has three Collective Bargaining Agreements (CBA's) with the International Brotherhood of Electrical Workers (IBEW), representing approximately 70% of its workforce. Chugach also has a CBA with the Hotel Employees and Restaurant Employees (HERE). All three IBEW CBA's have been renewed through June 30, 2021. The three CBA's provide for wage increases in all years and include health and welfare premium cost sharing provisions. The HERE CBA was renewed through June 30, 2021, and provides for wage, pension contribution, and health and welfare contribution increases in all years.

Chugach Electric Association, Inc.
Notes to Consolidated Financial Statements
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3. SIGNIFICANT ACCOUNTING POLICIES

a. Management Estimates

In preparing the financial statements in conformity with U.S. 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 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 Beluga River Unit (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) 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. Chugach's regulated rates are established to recover all of the specific costs of providing electric service. In each rate filing, rates are set at levels to recover all of the specific allowable costs and those rates are then collected from retail and wholesale customers. The regulatory assets or liabilities are then reduced as the cost or credit is reflected in earnings and our rates.

c. 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 nine month periods ended September 30, 2017, and 2016 was in compliance with that provision.

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 50 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.

d. Restricted Cash Equivalents

Restricted cash equivalents, including both current and long-term amounts, consist of funds on deposit for future workers' compensation claims. Total restricted cash equivalents amounted to \$1.7 million at September 30, 2017, and December 31, 2016.

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September 30, 2017 and 2016

e. Marketable Securities

Chugach’s marketable securities consist of bond mutual funds classified as trading securities, reported at fair value with gains and losses in earnings. Net gains on marketable securities are included in nonoperating margins – capital credits, patronage dividends and other, and are summarized as follows:

| | | Nine months ended September 30, 2017 |
|--|----|---|
| Net gains and losses recognized during the period on trading securities | \$ | 103,443 |
| Less: Net gains and losses recognized during the period on trading securities <i>sold</i> during the period | | 0 |
| Unrealized gains and losses recognized during the reporting period on trading securities <i>still held</i> at the reporting date | \$ | 103,443 |

f. Investments – Other

Investments – other, including both current and long-term amounts, consists of certificates of deposit and corporate bond investments. Total investments – other were \$3.3 million and \$3.1 million as of September 30, 2017, and December 31, 2016, respectively.

g. Accounts Receivable

Included in accounts receivable are amounts invoiced to ML&P for their proportionate share of current Southcentral Power Project (SPP) costs, which amounted to \$1.3 million and \$1.4 million at September 30, 2017, and December 31, 2016, respectively. At September 30, 2017, and December 31, 2016, accounts receivable also included \$0.5 million and \$0.7 million, respectively, from BRU operations primarily associated with gas sales to ENSTAR Natural Gas Company (ENSTAR).

h. Fuel Stock

Fuel Stock is the weighted average cost of fuel injected into the Cook Inlet Natural Gas Storage Alaska (CINGSA). Chugach’s fuel balance in storage amounted to \$10.8 million and \$6.3 million at September 30, 2017, and December 31, 2016, respectively.

Chugach Electric Association, Inc.
Notes to Consolidated Financial Statements
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4. REGULATORY MATTERS

Simplified Rate Filing

Chugach is a participant in the Simplified Rate Filing (SRF) process for adjustments to base demand and energy rates for Chugach retail customers and wholesale customer, Seward Electric System. 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 is a participant on a quarterly filing schedule basis. Chugach submitted its December 2016 test year SRF with the RCA on March 1, 2017, as an informational filing with no changes to the demand and energy rates of Chugach retail customers or Seward. On May 30, 2017, Chugach filed its SRF based on the test year ending March 2017, requesting approval to reduce the demand and energy rates charged to Chugach retail customers and Seward Electric System by 3.0% and 4.9%, respectively. The RCA approved the filing for rates effective July 1, 2017. On August 29, 2017, Chugach filed its SRF based on the June 2017 test year requesting approval to increase system base demand and energy rates by 1.9%. The RCA approved the filing for rates effective November 1, 2017.

Beluga River Unit Gas Transfer Price

Docket U-16-062 / U-16-074 was established to address the creation of a regulatory asset for the recovery of costs associated with Chugach's acquisition of a portion of ConocoPhillips Alaska, Inc.'s interest in the BRU and to determine the methodology to establish permanent rates for the gas transfer price (GTP) associated with Chugach's ownership interest in the BRU. On September 7, 2017, the RCA issued U-16-062(7) / U-16-074(7) accepting a stipulation between Chugach and the Office of the Attorney General Regulatory Affairs and Public Advocacy Section and vacating the procedural hearing. On October 7, 2017, Chugach submitted the BRU GTP calculations to the RCA as part of a compliance filing to the settlement. On October 26, 2017, the RCA issued a final order accepting Chugach's compliance filing and closing the docket.

Depreciation Study Update

In compliance with a previous order from the RCA (U-12-009(8)), Chugach submitted a 2015 Depreciation Study Update to the RCA, requesting approval of the depreciation rates resulting from the study for use in Chugach's financial record keeping and for establishing electric rates. The filing was submitted to the RCA on September 30, 2016. Chugach proposed changes to depreciation rates that would result in a \$5.9 million reduction in annual depreciation expense. On a demand and energy rate basis, the impact is a 4.7% reduction to retail customers and a 4.6% reduction to Seward. The reductions on a total customer bill basis, which includes fuel and purchased power costs, were 3.2% and 1.9%, respectively. Chugach requested that the updated depreciation rates be implemented on July 1, 2017, for both accounting and ratemaking purposes.

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On March 23, 2017, the RCA issued Order U-16-081(2) approving Chugach's proposed changes to its depreciation rates. The depreciation rates were approved as filed. The RCA required Chugach to file a new depreciation study by July 1, 2022, based on plant activity as of December 31, 2021. The RCA closed the docket.

Furie Agreement

On March 16, 2017, Chugach submitted a request to the RCA for approval of the agreement entitled, "Firm and Interruptible Gas Sale and Purchase Agreement between Furie Operating Alaska, LLC and Chugach Electric Association, Inc." (Furie Agreement) dated March 3, 2017. As part of the filing, Chugach also requested RCA approval to recover both firm and interruptible purchases under the agreement and all attendant transportation and storage costs through its quarterly fuel and purchased power cost adjustment process.

The Furie Agreement provides Chugach with both firm and non-firm gas supplies over a 16-year period, with firm purchases beginning on April 1, 2023, and ending March 31, 2033, and interruptible gas purchases available to Chugach immediately and ending on March 31, 2033. With respect to firm purchases beginning on April 1, 2023, and ending on March 31, 2033, the Furie Agreement provides an annual gas commitment by Furie to sell and Chugach to purchase approximately 1.8 Bcf of gas each year, which represents approximately 20% to 25% of Chugach's projected gas requirements during this period. The Furie Agreement also provides Chugach with additional purchase options, on a firm and interruptible basis. The initial price for firm gas is \$7.16 per Mcf beginning April 1, 2023 and escalates annually rising to \$7.98 per Mcf on April 1, 2032, the last year of the Furie Agreement.

On May 1, 2017, the RCA approved the Furie Agreement. The RCA also approved recovery of costs associated with the Furie Agreement through its fuel and purchased power cost adjustment process.

MEA Gas Dispatch Agreement

On June 8, 2016, the RCA approved the "Gas Dispatch Agreement" in which Chugach provides gas scheduling and dispatch services to MEA. The term of this agreement was April 1, 2016, through March 31, 2017, however, it was extended through March 31, 2018, in a letter agreement dated July 29, 2016 and extended through March 31, 2019, in an agreement dated July 25, 2017.

Beluga Parts Filing

On November 18, 2016, Chugach submitted a petition to the RCA for approval to create a regulatory asset that would allow Chugach to amortize and recover in rates the value of certain plant needed to support power production equipment located at Beluga Power Plant. Specifically, Chugach requested RCA approval to recover approximately \$11.4 million in equipment that supports Beluga generation units. Chugach requested that it be permitted to amortize the value of this plant over a period of 30 months for plant associated with Units 1 and

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2 (approximately \$0.3 million), and 108 months for all other parts (approximately \$11.1 million). The amortization periods are consistent with the proposed depreciation rates for the Beluga units contained in Chugach's depreciation study that was submitted to the RCA on September 30, 2016. On May 17, 2017, the RCA issued Order U-16-092(2) approving Chugach's request.

Cook Inlet Natural Gas Alaska: Found Gas

On August 17, 2017, the Superior Court issued its order affirming the decisions by the RCA that it has authority in this case, that the RCA's decision was not arbitrary, and that the RCA's basis for assignment was reasonable. The RCA's assignment allocation remains unchanged. There is no impact on Chugach's margin levels as a result of a sale of found gas and any funds Chugach receives will be returned to members as a reduction to fuel expense. It is not known if or when CINGSA will sell any of the found gas.

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5. DEBT

Lines of Credit

Chugach maintains a \$50.0 million line of credit with National Rural Utilities Cooperative Finance Corporation (NRUCFC). Chugach did not utilize this line of credit in the nine months ended September 30, 2017. In addition, Chugach did not utilize this line of credit during 2016 and had no outstanding balance at December 31, 2016. The borrowing rate is calculated using the total rate per annum and may be fixed by NRUCFC. The borrowing rate was 2.75% at September 30, 2017, and 2.50% at December 31, 2016. 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

On June 13, 2016, Chugach entered into a \$150.0 million senior unsecured credit facility (Credit Agreement), which is used to back Chugach's commercial paper program. The pricing includes an all-in drawn spread of one month London Interbank Offered Rate (LIBOR) plus 90.0 basis points, along with a 10.0 basis points facility fee (based on an A/A2/A unsecured debt rating). The new Credit Agreement will expire on June 13, 2021. The participating banks include NRUCFC, KeyBank National Association, Bank of America, N.A., and CoBank, ACB. The commercial paper can be repriced between one day and 270 days.

Chugach expects to continue issuing commercial paper in 2017, as needed. Chugach had \$51.0 million and \$68.2 million of commercial paper outstanding at September 30, 2017, and December 31, 2016, respectively.

The following table provides information regarding average commercial paper balances outstanding for the quarters ended September 30, 2017, and 2016 (dollars in millions), as well as corresponding weighted average interest rates:

| 2017 | | 2016 | |
|-----------------|--------------------------------|-----------------|--------------------------------|
| Average Balance | Weighted Average Interest Rate | Average Balance | Weighted Average Interest Rate |
| \$42.8 | 1.40 % | \$53.8 | 0.65 % |

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Term Loans

Chugach has a term loan facility with CoBank. Loans made under this facility are evidenced by the 2016 CoBank Note, which is governed by the Amended and Restated Master Loan Agreement dated June 30, 2016, and secured by the Second Amended and Restated Indenture of Trust (Indenture). The borrowing rate is fixed at 2.58% on a fifteen year term, maturing April 20, 2031. Chugach had \$41.2 million and \$43.8 million outstanding on this facility at September 30, 2017, and December 31, 2016.

Financing

On March 17, 2017, Chugach issued \$40,000,000 of First Mortgage Bonds, 2017 Series A, due March 15, 2037. The bonds were issued for general corporate purposes. The 2017 Series A Bonds will mature on March 15, 2037, and bear interest at 3.43%. Interest will be paid each March 15 and September 15, commencing on September 15, 2017. The 2017 Series A Bonds require principal payments in equal installments on an annual basis beginning March 15, 2018, resulting in an average life of approximately 10.0 years. The bonds are secured, ranking equally with all other long-term obligations, by a first lien on substantially all of Chugach's assets, pursuant to the Sixth Supplemental Indenture to the Second Amended and Restated Indenture of Trust, which initially became effective on January 20, 2011, as previously amended and supplemented.

Debt Issuance Costs

The following table outlines debt issuance costs associated with long-term obligations, excluding current installments, at September 30, 2017.

| | Long-term Obligations | Unamortized Debt Issuance Costs |
|---------------------|--------------------------|------------------------------------|
| 2011 Series A Bonds | \$ 200,333,331 | \$ 1,250,685 |
| 2012 Series A Bonds | 183,500,000 | 1,040,988 |
| 2017 Series A Bonds | 38,000,000 | 203,643 |
| 2016 CoBank Note | 37,962,000 | 239,393 |
| | \$ 459,795,331 | \$ 2,734,709 |

The following table outlines debt issuance costs associated with long-term obligations, excluding current installments, at December 31, 2016.

| | Long-term Obligations | Unamortized Debt Issuance Costs |
|---------------------|--------------------------|------------------------------------|
| 2011 Series A Bonds | \$ 210,999,998 | \$ 1,347,350 |
| 2012 Series A Bonds | 194,250,000 | 1,106,275 |
| 2016 CoBank Note | 40,356,000 | 262,120 |
| | \$ 445,605,998 | \$ 2,715,745 |

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6. RECENT ACCOUNTING PRONOUNCEMENTS

Issued, not yet adopted:

ASC Update 2014-09 “Revenue from Contracts with Customers (Topic 606)” and Related Updates

In May of 2014, the FASB issued Accounting Standards Codification (ASC) Update 2014-09, “Revenue from Contracts with Customers (Topic 606).” ASC Update 2014-09 provides guidance for the recognition, measurement and disclosure of revenue related to the transfer of promised goods or services to customers. Chugach will begin application of the standard on January 1, 2018. The standard permits the use of either the retrospective or cumulative effect transition method. We currently expect to use the cumulative effect method.

We have evaluated our energy sales contracts, including retail, wholesale, and economy energy, and do not believe there will be a material impact to our recognition of revenue from energy sales. However, we do anticipate additional disclosures will be required as a result of adoption. Energy sales are billed monthly per regulator approved tariffs based on the energy consumed by the customer. Total revenue derived from energy sales during 2017 was approximately 99% of our total operating revenue. We have identified the contract assets and contract liabilities associated with our customers and are finalizing the required disclosures.

ASC Update 2016-01 “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities”

In January of 2016, the FASB issued ASC Update 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” ASC Update 2016-01 amends guidance related to certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. This update is effective for fiscal years beginning after December 15, 2017, and interim periods within those years, with early adoption not permitted with certain exceptions. Chugach will begin application of ASC 2016-01 on January 1, 2018. Adoption is not expected to have a material effect on its results of operations, financial position, and cash flows.

ASC Update 2016-02 “Leases (Topic 842): Section A – Leases: Amendments to the FASB Accounting Standards Codification; Section B – Conforming Amendments Related to Leases: Amendments to the FASB Accounting Standards Codification; Section C – Background Information and Basis for Conclusions” and Related Updates

In February of 2016, the FASB issued ASC Update 2016-02, “Leases (Topic 842): Section A – Leases: Amendments to the FASB Accounting Standards Codification; Section B – Conforming Amendments Related to Leases: Amendments to the FASB Accounting Standards Codification; Section C – Background Information and Basis for Conclusions.” ASC Update 2016-02 amends guidance related to the recognition, measurement, presentation and disclosure of leases for lessors and lessees. This update is effective for fiscal years beginning after December 15, 2018, including the interim periods within those years, with early adoption permitted. Chugach will

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begin application of ASC 2016-02 on January 1, 2019. We expect this update to increase the recorded amounts of assets and liabilities and we are evaluating the significance of the increase as we monitor FASB updates and interpretations related to the new standard. We are also evaluating the impact of this update to our results of operations, financial position, and cash flows.

ASC Update 2016-13 “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”

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 will begin application of ASC 2016-13 on January 1, 2020. Adoption is not expected to have a material effect on its results of operations, financial position, and cash flows.

ASC Update 2016-15 “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)”

In August 2016, the FASB issued ASC Update 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force).” ASC Update 2016-15 clarifies how certain cash payments and cash proceeds should be classified on the statement of cash flows to limit the diversity in practice. This update is effective fiscal years beginning after December 15, 2017, including interim periods within those years, with early adoption permitted. Chugach will begin application of ASC 2016-15 on January 1, 2018. Adoption is not expected to have a material effect on its results of operations, financial position, and cash flows.

ASC Update 2016-18 “Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)”

In November 2016, the FASB issued ASC Update 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force).” ASC Update 2016-18 clarifies how to classify and present changes in restricted cash or cash equivalents that occur when there are transfers between cash, cash equivalents, and restricted cash or restricted cash equivalents and when there are direct cash receipts into or payments made from restricted cash or restricted cash equivalents on the statement of cash flows to limit the diversity in practice. This update is effective for for fiscal years beginning after December 15, 2017, including interim periods within those years, with early adoption permitted. Chugach will begin application of ASC 2016-18 on January 1, 2018. Adoption is not expected to have a material effect on its results of operations, financial position, and cash flows.

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ASC Update 2017-01 “Business Combinations (Topic 805): Clarifying the Definition of a Business”

In January 2017, the FASB issued ASC Update 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business.” ASC Update 2017-01 clarifies the definition of a business by providing a screen to determine when a set of assets and activities acquired or disposed of constitute a business, as well as a framework for evaluating whether all elements of a business are present in the set. This update is effective for fiscal years beginning after December 15, 2017, including interim periods within those years, with early adoption permitted only when the transaction has not been reported in financial statements. Chugach will begin application of ASC 2017-01 on January 1, 2018. Adoption is not expected to have a material effect on its results of operations, financial position, and cash flows.

ASC Update 2017-07 “Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost”

In March 2017, the FASB issued ASC Update 2017-07, “Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.” ASC Update 2017-07 amends current guidance on the presentation and disclosure of other compensation costs in the income statement. This update is effective for fiscal years beginning after December 15, 2017, including interim periods within those years, with early adoption permitted only for financial statements that have not been issued. Chugach will begin application of ASC 2017-07 on January 1, 2018. Adoption is not expected to have a material effect on its results of operations, financial position, and cash flows.

7. FAIR VALUES 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. Level 1 also includes United States Treasury and federal agency securities, which are traded by dealers or brokers in active markets. 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.

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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 September 30, 2017, and December 31, 2016. Chugach’s bond mutual funds and corporate bonds are measured using quoted prices in active markets. Market prices for Chugach’s certificates of deposit are measured using pricing models based upon market-observable interest rates. Chugach had no other assets or liabilities measured at fair value on a recurring basis at September 30, 2017, or at December 31, 2016.

| September 30, 2017 | Total | Level 1 | Level 2 | Level 3 |
|-------------------------|--------------|--------------|--------------|---------|
| Bond mutual funds | \$ 8,384,626 | \$ 8,384,626 | \$ 0 | \$ 0 |
| Corporate bonds | \$ 249,068 | \$ 249,068 | \$ 0 | \$ 0 |
| Certificates of deposit | \$ 3,061,913 | \$ 0 | \$ 3,061,913 | \$ 0 |

| December 31, 2016 | Total | Level 1 | Level 2 | Level 3 |
|-------------------------|--------------|--------------|--------------|---------|
| Bond mutual funds | \$ 7,375,381 | \$ 7,375,381 | \$ 0 | \$ 0 |
| Corporate bonds | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Certificates of deposit | \$ 3,061,434 | \$ 0 | \$ 3,061,434 | \$ 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 value (in thousands) of long-term obligations included in the financial statements at September 30, 2017, are as follows:

| | Carrying Value | Fair Value Level 2 |
|--|----------------|--------------------|
| Long-term obligations (including current installments) | \$ 486,404 | \$ 505,140 |

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8. ENVIRONMENTAL MATTERS

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. On August 3, 2015, the EPA released the final 111(d) regulation language aimed at reducing emissions of carbon dioxide (CO₂) from existing power plants that provide electricity for utility customers. In the final rule, the EPA took the approach of making individual states responsible for the development and implementation of plans to reduce the rate of CO₂ emissions from the power sector. The EPA initially applied the final rule to 47 of the contiguous states. At this time, Alaska, Hawaii, Vermont, Washington District of Columbia (D.C.) and two U.S. territories are not bound by the regulation. Alaska may be required to comply at some future date. On February 9, 2016 the U.S. Supreme Court issued a stay on the proposed EPA 111(d) regulations until the D.C. Circuit decides the case, or until the disposition of a petition to the Supreme Court on the issue. On September 27, 2016, the U.S. Court of Appeals for the D.C. Circuit heard oral arguments challenging the legality of the Clean Power Plan. While awaiting the court decision, an Executive Order promoting energy independence and economic growth was issued March 28, 2017, by the President instructing the EPA to review the Clean Power Plan. The EPA is directed to review the Clean Power Plan rule and either revise or withdraw the proposed rule. On October 10, 2017, the EPA initiated a Proposed Repeal of the Clean Power Plan. The EPA 111(d) regulation, 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.

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9. 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 September 30, 2017, 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 70 percent of Chugach's employees are members of the IBEW. Chugach has three CBA's with the IBEW. Chugach also has a CBA with the HERE. All CBA's have been renewed through June 30, 2021.

Commitments

Fuel Supply Contracts

Chugach has fuel supply contracts with various producers at market terms. Chugach entered into a gas contract with Hilcorp effective January 1, 2015, to provide gas through March 31, 2018. On September 15, 2014, the RCA approved an amendment to the Hilcorp gas purchase agreement extending gas delivery and subsequently filling 100 percent of Chugach's unmet needs through March 31, 2019. On September 8, 2015, the RCA approved another amendment to the Hilcorp gas purchase agreement extending the term of the agreement, thus filling up to 100 percent of Chugach's unmet needs through March 31, 2023. The total amount of gas under this contract is estimated to be 60 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 and Hilcorp.

Chugach has a gas sale and purchase agreement with Furie, see "*Item 1 – FINANCIAL STATEMENTS – Note 4 – Regulatory Matters – Furie Agreement*."

BRU Operations

Chugach, and other owners, ML&P and Hilcorp, are operating under an existing Joint Operating Agreement. Hilcorp is the operator for BRU. The owners are considering updating the existing Joint Operating Agreement to better match the new owners' interests.

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Patronage Capital

Pursuant to agreements reached with HEA and MEA, patronage capital allocated or retired to HEA or MEA is classified as patronage capital payable on Chugach's balance sheet. At December 31, 2016, patronage capital payable to HEA and MEA was \$7.9 million and \$4.1 million, respectively. The Board of Directors approved a capital credit retirement on September 27, 2017. MEA received a retirement of \$0.8 million, increasing their payable from \$4.1 million to \$4.9 million at September 30, 2017. We also finalized a new agreement with HEA which spread their retirement payments between 2017 and 2020 in increments of \$2.0 million annually. As a result, \$2.0 million of HEA's patronage capital was reclassified to a current payable under other current liabilities leaving \$5.9 million in long term patronage capital payable at September 30, 2017.

Legal Proceedings

Chugach has certain litigation matters and pending claims that arise in the ordinary course of Chugach's business. In the opinion of management, none of these matters, individually or in the aggregate, is or are likely to have a material adverse effect on Chugach's results of operations, financial condition or cash flows.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Reference is made to the information contained under the caption "CAUTION REGARDING FORWARD-LOOKING STATEMENTS" at the beginning of this report.

OVERVIEW

Chugach is one of the largest electric utilities in Alaska, engaged in the generation, transmission and distribution of electricity. Chugach is on an interconnected regional electrical system in an area referred to as Alaska's Railbelt, a 400-mile-long area stretching from the coastline of the southern Kenai Peninsula to the interior of the state which includes Alaska's largest cities, Anchorage and Fairbanks.

Chugach directly serves retail customers in the Anchorage and upper Kenai Peninsula areas and supplies much of the power requirements of the City of Seward, as a wholesale customer. Periodically, Chugach sells available generation in excess of its own needs to MEA, HEA, GVEA and ML&P.

Chugach is an Alaska electric cooperative operating on a not-for-profit basis and is subject to the regulatory authority of the RCA.

Chugach's customers' requirements for capacity and energy generally increase in fall and winter as home heating and lighting needs increase and decline in spring and summer as the weather becomes milder and daylight hours increase.

Chugach Operations

In the near term, Chugach continues to face the challenges of operating in a flat load growth environment and securing additional revenue sources. These challenges, along with energy issues and plans at the state level, will shape how Chugach proceeds into the future.

Railbelt Grid Unification

Chugach is focused on efforts in Alaska's Railbelt to explore the benefits of grid unification. Currently, each of the six electric utilities in the Alaska's Railbelt own a portion of the transmission grid, as does the Alaska Energy Authority (AEA). Chugach is a proponent of following other successful business models to effectively unify the grid. Discussions on the issue led the Alaska State Legislature in 2014 to appropriate \$250,000 to the RCA to explore the issue and report back to legislators. The RCA expects to analyze and review present efforts in order to assess the organizational and governance structure needed for an independent consolidated system operator. Beginning in 2016, progress reports associated with system-wide economic dispatch were required. With the support of the RCA, Chugach and several other Alaska's Railbelt utilities are evaluating possible transmission business model opportunities and associated economic dispatch models that Chugach believes may lead to more optimal Alaska's Railbelt-wide system operations. Chugach intends to finalize this review and evaluation by the end of the second quarter of 2018. While Chugach cannot determine the materiality of any effect on its results of operations, financial condition, and cash flows until a business model and plan are adopted, it anticipates a positive outcome.

Fuel Supply

Chugach actively manages its fuel supply needs and currently has contracts in place to meet up to 100% of its anticipated needs through March of 2023 and approximately 20% to 25% of Chugach's projected gas requirements from April 2023 through March 2033. Chugach continues its efforts to secure long-term reliable gas supply solutions and encourages new development and continued investment in Cook Inlet. The State of Alaska's Department of Natural Resources (DNR) published a study in September 2015, "Updated Engineering Evaluation of Remaining Cook Inlet Gas Reserves," to provide an estimate of Cook Inlet's gas supply. The study estimated there are 1,183 Bcf of proved and probable reserves remaining in Cook Inlet's legacy fields. This is higher than the 2009 DNR study estimate of 1,142 Bcf. Effectively, Cook Inlet gas supply estimates have slightly increased from 2009. The 2015 DNR estimate does not include reserves from a large gas field under development by Furie Operating Alaska, LLC (Furie) and another considered for development by BlueCrest Energy, Inc. Furie has constructed an offshore gas production platform and has begun production. The platform and other production facilities are designed for up to 200 million cubic feet (MMcf) per day. Other gas producers are actively developing gas supplies in the Cook Inlet. Chugach is encouraged with these developments but continues to explore other alternatives to diversify its portfolio.

Chugach also has an interest in the BRU, which provides an additional long-term supply of natural gas to meet on-going generation requirements. Gas associated with the BRU is expected to provide approximately 15% of Chugach's gas requirements through 2033, although actual gas quantities produced are expected to vary on a year-by-year basis. During 2016, 77% of the kilowatt hours sold by Chugach came from natural gas generation, 19% from hydroelectric facilities, and 4% from wind.

Chugach has a firm gas supply contract with Hilcorp, see "*Item 1 – FINANCIAL STATEMENTS – Note 9 – Commitments and Contingencies – Commitments – Fuel Supply Contracts*". In addition to this firm contract, Chugach has gas supply agreements with AIX Energy LLC through March 31, 2024 (with an option to extend the term an additional 5-year period through March 31, 2029), with Cook Inlet Energy LLC through March 31, 2023 (Chugach has exercised its option to extend the term an additional 5-year period through March 31, 2023), with Furie beginning April 1, 2023 through March 31, 2033, and had an agreement with ML&P which expired March 31, 2017. Collectively, these agreements provide added diversification and optionality for Chugach to minimize costs within its gas supply portfolio.

Renewable Energy Goals

A State of Alaska Energy Policy approved by the legislature in 2010 included legislative intent that the state achieve a 15% increase in energy efficiency on a per capita basis between 2010 and 2020, receive 50% of its electric generation from renewable and alternative energy sources by 2025, work to ensure reliable in-state gas supply for residents of the state, that the state power project fund serve as the main source of state assistance for energy projects, remain a leader in petroleum and natural gas production and become a leader in renewable and alternative energy development. This is an aspirational goal for the State of Alaska and not a mandate.

The main project moving Alaska toward its renewable energy goals was to be the Susitna-Watana Hydroelectric Project on the Susitna River, approximately halfway between Anchorage and Fairbanks. The Alaska Legislature has appropriated a total of \$192.1 million for AEA to plan, design, and obtain permit of the project. On December 26, 2014, the Governor of Alaska issued Administrative Order 271 suspending discretionary spending on the project. On January 8, 2015, the FERC granted AEA's request to hold the licensing process in abeyance. On July 6, 2015, the Governor's office authorized AEA to proceed with the Integrated Licensing Process using previously appropriated funds. In August 2015, AEA requested the FERC's permission to resume the licensing efforts. As per the Governor's direction on June 29, 2016, AEA has continued to work towards shutting down the project while preserving the State's investment to date. On August 4, 2016, the Governor issued a letter to FERC requesting FERC to proceed with the Integrated Licensing Process (ILP) to the point of issuing its updated Study Plan Determination (SPD) to preserve the State's investment in the project. On August 26, 2016, FERC responded to the Governor's letter. FERC will proceed with the ILP to complete the SPD. After issuing the SPD, the project will be put into abeyance as requested by the Governor. FERC issued a determination on the initial study reports for this project on June 22, 2017, and overwhelmingly endorsed the previously approved study plan, generally with minor changes. Chugach intends to continue to work with AEA and other parties on this effort.

RESULTS OF OPERATIONS

Current Year Quarter versus Prior Year Quarter

Assignable margins decreased \$0.3 million, or 69.1%, during the third quarter of 2017 compared to the third quarter of 2016, primarily due to increased power production and distribution expenses.

Operating revenues, which include sales of electric energy to retail, wholesale and economy energy customers and other miscellaneous revenues, increased \$4.3 million, or 9.5%, in the third quarter of 2017 compared to the third quarter of 2016. This increase was primarily due to increased fuel costs recovered through the fuel and purchased power adjustment process as well as increased wheeling and economy energy sales to GVEA, HEA, and MEA.

Retail and wholesale revenue increased \$3.0 million, or 7.4%, and \$0.3 million, or 25.0%, respectively, in the third quarter of 2017 compared to the third quarter of 2016, primarily due to higher fuel costs recovered through the fuel and purchased power adjustment process.

Economy revenue increased \$0.4 million, or 133.3%, in the third quarter of 2017 compared to the third quarter of 2016, due to economy energy sales to GVEA, HEA, and MEA.

Miscellaneous revenue increased \$0.6 million, or 18.2%, in the third quarter of 2017 compared to the third quarter of 2016, due to an increase in wheeling and BRU revenue.

Based on the results of fixed and variable cost recovery established in Chugach's last rate case, wholesale sales to Seward contributed approximately \$0.4 million to Chugach's fixed costs for each of the quarters ended September 30, 2017 and 2016.

The following table shows the base rate sales revenue and fuel and purchased power revenue by customer class that is included in revenue for the quarters ended September 30, 2017, and 2016:

| | Base Rate Sales Revenue | | | Fuel and Purchased Power Revenue | | | Total Revenue | | |
|------------------------|-------------------------|----------------|---------------|----------------------------------|----------------|--------------|----------------|----------------|--------------|
| | 2017 | 2016 | % Variance | 2017 | 2016 | % Variance | 2017 | 2016 | % Variance |
| Retail | | | | | | | | | |
| Residential | \$ 14.0 | \$ 14.2 | (1.4%) | \$ 6.8 | \$ 5.2 | 30.8% | \$ 20.8 | \$ 19.4 | 7.2% |
| Small Commercial | \$ 2.5 | \$ 2.5 | 0.0% | \$ 1.6 | \$ 1.3 | 23.1% | \$ 4.1 | \$ 3.8 | 7.9% |
| Large Commercial | \$ 10.3 | \$ 10.9 | (5.5%) | \$ 7.7 | \$ 5.8 | 32.8% | \$ 18.0 | \$ 16.7 | 7.8% |
| Lighting | \$ 0.4 | \$ 0.4 | 0.0% | \$ 0.0 | \$ 0.0 | 0.0% | \$ 0.4 | \$ 0.4 | 0.0% |
| Total Retail | \$ 27.2 | \$ 28.0 | (2.9%) | \$ 16.1 | \$ 12.3 | 30.9% | \$ 43.3 | \$ 40.3 | 7.4% |
| Wholesale | | | | | | | | | |
| SES | \$ 0.6 | \$ 0.6 | 0.0% | \$ 0.9 | \$ 0.6 | 50.0% | \$ 1.5 | \$ 1.2 | 25.0% |
| Total Wholesale | \$ 0.6 | \$ 0.6 | 0.0% | \$ 0.9 | \$ 0.6 | 50.0% | \$ 1.5 | \$ 1.2 | 25.0% |
| Economy | \$ 0.2 | \$ 0.0 | 100.0% | \$ 0.5 | \$ 0.3 | 66.7% | \$ 0.7 | \$ 0.3 | 133.3% |
| Miscellaneous | \$ 0.5 | \$ 0.7 | (28.6%) | \$ 3.4 | \$ 2.6 | 30.8% | \$ 3.9 | \$ 3.3 | 18.2% |
| Total Revenue | \$ 28.5 | \$ 29.3 | (2.7%) | \$ 20.9 | \$ 15.8 | 32.3% | \$ 49.4 | \$ 45.1 | 9.5% |

The following table summarizes kilowatt hour (kWh) sales for the quarter ended September 30:

| Customer | 2017 kWh | 2016 kWh |
|-----------------|---------------------|---------------------|
| Retail | 251,003,486 | 255,491,835 |
| Wholesale | 15,896,837 | 15,319,452 |
| Economy Energy | 10,388,000 | 0 |
| Total | 277,288,323 | 270,811,287 |

Base rates charged to retail customers and wholesale customer, Seward, decreased 3.0% and 4.9%, respectively, in the third quarter of 2017 from the third quarter of 2016. The decrease to base rates is primarily driven by lower depreciation expense.

Total operating expenses increased \$4.5 million, or 11.3%, in the third quarter of 2017 compared to the third quarter of 2016, primarily due to higher fuel, production, and distribution expenses.

Fuel expense increased \$5.5 million, or 46.2%, in the third quarter of 2017 compared to the third quarter of 2016, primarily due to a higher average effective delivered price. In the third quarter of 2017, Chugach used 2,031,831 Mcf of fuel at an average effective delivered price of \$7.69 per Mcf. In the third quarter of 2016, Chugach used 1,917,405 Mcf of fuel at an average effective delivered price of \$5.40 per Mcf.

Production expense increased \$0.5 million or 11.7% in the third quarter of 2017 compared to the third quarter of 2016, primarily due to higher labor expense and amortization expense associated with the Beluga power production parts.

Purchased power expense did not materially change in the third quarter of 2017 compared to the third quarter of 2016. While not a significant overall variance, more energy purchased was offset by a lower price. In the third quarter of 2017, Chugach purchased 67,879 megawatt hours (MWh) of energy at an average effective price of 3.46 cents per kWh. In the third quarter of 2016, Chugach purchased 40,744 MWh of energy at an average effective price of 5.77 cents per kWh.

Transmission expense decreased \$0.1 million or 6.4% in the third quarter of 2017 compared to the third quarter of 2016, primarily due to lower vegetation control expenses.

Distribution expense increased \$0.3 million or 8.3% in the third quarter of 2017 compared to the third quarter of 2016, primarily due to higher labor expenses.

Consumer accounts expenses did not materially change in the third quarter of 2017 compared to the third quarter of 2016.

Administrative, general and other expense decreased \$0.3 million, or 6.9%, in the third quarter of 2017 compared to the third quarter of 2016, primarily due to a decrease in inventory writeoffs and property tax expense.

Depreciation and amortization decreased \$1.3 million, or 13.8%, in the third quarter of 2017 compared to the third quarter of 2016, primarily due to the implementation of lower depreciation rates effective July 1, 2017.

Interest on long-term and other debt and interest charged to construction did not materially change in the third quarter of 2017 compared to the third quarter of 2016.

Non-operating margins increased \$0.1 million, or 65.6%, in the third quarter of 2017 compared to the third quarter of 2016, primarily due to the dividends, interest income, and change in market value of marketable securities.

Current Year to Date versus Prior Year to Date

Assignable margins increased \$1.1 million, or 620.7%, in the first nine months of 2017 compared to the same period of 2016, primarily due to increased sales revenue.

Operating revenues, which include sales of electric energy to retail, wholesale and economy energy customers and other miscellaneous revenues, increased \$21.8 million, or 15.6%, in the first nine months of 2017 compared to the same period of 2016. This increase was primarily due to increased energy sales caused by colder weather, as well as higher fuel and purchased power costs recovered through the fuel and purchased power adjustment process, increased economy energy sales to GVEA, HEA, and MEA, increased wheeling and BRU revenue.

Retail revenue increased \$13.0 million, or 10.1%, in the first nine months of 2017 compared to the same period of 2016, due to increased energy sales, as discussed above, and higher fuel and purchased power costs recovered through the fuel and purchased power adjustment process.

Wholesale revenue increased \$0.7 million, or 18.9%, in the first nine months of 2017 compared to the same period of 2016, due to increased energy sales and higher fuel and purchased power costs recovered through the fuel and purchased power adjustment process.

Economy revenue increased \$2.8 million in the first nine months of 2017 compared to the same period of 2016, due to economy energy sales to GVEA, HEA, and MEA.

Miscellaneous revenue increased \$5.3 million, or 75.7%, in the first nine months of 2017 compared to the same period of 2016, due to an increase in wheeling and BRU revenue.

Based on the results of fixed and variable cost recovery established in Chugach's last rate case, wholesale sales to Seward contributed approximately \$1.1 million and \$1.0 million to Chugach's fixed costs for the nine months ended September 30, 2017, and 2016, respectively.

The following table shows the base rate sales revenue and fuel and purchased power revenue by customer class that is included in revenue for the nine months ended September 30, 2017, and 2016:

| | Base Rate Sales Revenue | | | Fuel and Purchased Power Revenue | | | Total Revenue | | |
|------------------------|-------------------------|----------------|----------------|----------------------------------|----------------|----------------|-----------------|-----------------|----------------|
| | 2017 | 2016 | % Variance | 2017 | 2016 | % Variance | 2017 | 2016 | % Variance |
| Retail | | | | | | | | | |
| Residential | \$ 47.9 | \$ 45.8 | 4.6 % | \$ 23.7 | \$ 18.4 | 28.8 % | \$ 71.6 | \$ 64.2 | 11.5 % |
| Small Commercial | \$ 8.4 | \$ 8.3 | 1.2 % | \$ 5.6 | \$ 4.5 | 24.4 % | \$ 14.0 | \$ 12.8 | 9.4 % |
| Large Commercial | \$ 31.9 | \$ 32.1 | (0.6%) | \$ 23.2 | \$ 18.6 | 24.7 % | \$ 55.1 | \$ 50.7 | 8.7 % |
| Lighting | \$ 1.2 | \$ 1.2 | 0.0 % | \$ 0.1 | \$ 0.1 | 0.0 % | \$ 1.3 | \$ 1.3 | 0.0 % |
| Total Retail | \$ 89.4 | \$ 87.4 | 2.3 % | \$ 52.6 | \$ 41.6 | 26.4 % | \$ 142.0 | \$ 129.0 | 10.1 % |
| Wholesale | | | | | | | | | |
| SES | \$ 1.7 | \$ 1.6 | 6.2 % | \$ 2.7 | \$ 2.1 | 28.6 % | \$ 4.4 | \$ 3.7 | 18.9 % |
| Total Wholesale | \$ 1.7 | \$ 1.6 | 6.2 % | \$ 2.7 | \$ 2.1 | 28.6 % | \$ 4.4 | \$ 3.7 | 18.9 % |
| Economy | \$ 0.4 | \$ 0.0 | 100.0 % | \$ 2.7 | \$ 0.3 | 800.0 % | \$ 3.1 | \$ 0.3 | 933.3 % |
| Miscellaneous | \$ 1.6 | \$ 1.7 | (5.9%) | \$ 10.7 | \$ 5.3 | 101.9 % | \$ 12.3 | \$ 7.0 | 75.7 % |
| Total Revenue | \$ 93.1 | \$ 90.7 | 2.6 % | \$ 68.7 | \$ 49.3 | 39.4 % | \$ 161.8 | \$ 140.0 | 15.6 % |

The following table summarizes kWh sales for the nine months ended September 30:

| Customer | 2017 kWh | 2016 kWh |
|----------------|--------------------|--------------------|
| Retail | 806,832,569 | 804,456,166 |
| Wholesale | 45,503,487 | 44,850,709 |
| Economy Energy | 31,220,000 | 0 |
| Total | 883,556,056 | 849,306,875 |

Base rates charged to retail customers and wholesale customer, Seward, decreased 3.0% and 4.9%, respectively, in the first nine months of 2017 from the same period of 2016. The decrease to base rates is largely driven by the results of the 2017 Depreciation Study, which reduced depreciation expense. The reduction in depreciation expense was partially offset by an increase to amortization expense associated with the recovery of Beluga Power Plant production equipment.

Total operating expenses increased \$20.3 million, or 16.4%, in the first nine months of 2017 compared to the same period of 2016, primarily due to higher fuel and power production expenses.

Fuel expense increased \$17.8 million, or 47.3%, in the first nine months of 2017 compared to the same period of 2016, primarily due to more fuel purchased for generation as a result of increased energy sales, and at a higher average effective delivered price. In the first nine months of 2017, Chugach used 6,327,236 Mcf of fuel at an average effective delivered price of \$7.95 per Mcf. In the first nine months of 2016, Chugach used 6,057,602 Mcf of fuel at an average effective delivered price of \$5.48 per Mcf.

Production expense increased \$0.8 million, or 6.9%, in the first nine months of 2017 compared to the same period of 2016, primarily due to increased labor and production supplies expenses.

Purchased power expense increased \$0.5 million, or 4.3%, in the first nine months of 2017 compared to the same period of 2016, primarily due to increased energy requirements caused by higher energy sales despite a lower average effective price. In the first nine months of 2017, Chugach purchased 164,032 MWh of energy at an average effective price of 5.79 cents per kWh. In the first nine months of 2016, Chugach purchased 125,184 MWh of energy at an average effective price of 7.41 cents per kWh.

Transmission expense increased \$0.2 million, or 5.2%, in the first nine months of 2017 compared to the same period of 2016, primarily due to higher costs associated with vegetation control.

Distribution, consumer accounts, administrative, general, and other expense, depreciation and amortization expense and interest on long-term and other debt and interest charged to construction did not materially change in the first nine months of 2017 compared to the same period of 2016.

Non-operating margins increased \$0.2 million, or 65.1%, in the first nine months of 2017 compared to the same period of 2016, primarily due to the dividends, interest income, and change in market value of marketable securities.

Financial Condition

Assets

Total assets did not materially change from December 31, 2016, to September 30, 2017. Decreases in net utility plant, accounts receivable, and materials and supplies were offset by increases in marketable securities, fuel cost under-recovery, fuel stock, prepayments and deferred charges over the same period. Net utility plant decreased \$6.2 million, or 0.9%, due to the

depreciation expense in excess of extension and replacement of plant. Accounts receivable decreased \$3.3 million, or 10.1%, primarily due to a decrease in energy sales through the warmer spring and summer months. Materials and supplies decreased \$13.8 million, or 49.6%, primarily due to the reclassification of production equipment parts for the Beluga Power Plant to a regulatory asset under deferred charges. Fuel cost under-recovery increased \$1.4 million, or 100%, due to the under-collection of the prior quarter's fuel and purchased power costs. Fuel stock increased \$4.5 million, or 70.4%, due to more fuel purchased for storage than used for generation. Prepayments increased \$3.5 million due to the prepayment of insurance, memberships, consulting, and technical support for 2017. Deferred charges increased \$8.7 million, or 34.5%, primarily due to the aforementioned reclassification of production equipment parts for the Beluga Power Plant.

Liabilities and Equity

Total liabilities, equities and margins did not materially change from December 31, 2016, to September 30, 2017. Decreases in commercial paper, accounts payable, fuel cost over-recovery, accrued interest, patronage capital and patronage capital payable were offset by increases in total long-term obligations, fuel, and other liabilities. Commercial paper decreased \$17.2 million, or 25.2%, due primarily to the issuance of the 2017 Series A First Mortgage Bonds which was used to pay down commercial paper. Accounts payable decreased \$1.9 million, or 19.8%, due to the timing of cash payments and fuel cost over-recovery decreased \$3.8 million, or 100.0%, due to refunding of the prior quarter's over-collection of fuel and purchased power costs. Accrued interest decreased \$4.8 million, or 81.3%, due to the semi-annual interest payment on the Series A Bonds. Patronage capital and patronage capital payable decreased due to the capital credit retirement authorized by the Chugach Board of Directors on September 27, 2017. Long-term obligations increased \$14.2 million, or 3.2%, due to the issuance of the 2017 Series A First Mortgage Bonds, which was somewhat offset by the principal payments on Chugach's existing debt. Fuel increased \$3.2 million, or 51.2%, primarily due to an increase in gas purchased for storage in September 2017 compared to December 2016. Other liabilities increased \$4.9 million primarily due to an increase in the underground ordinance liability and the aforementioned capital credit retirement.

LIQUIDITY AND CAPITAL RESOURCES

Summary

Chugach ended the first nine months of 2017 with \$3.9 million of cash and cash equivalents, down from \$4.7 million at December 31, 2016. At September 30, 2017, Chugach also had \$8.4 million in marketable securities available for immediate liquidity, if needed. Chugach did not utilize its \$50.0 million line of credit maintained with NRUCFC in the nine months ended September 30, 2017, therefore, this line of credit had no outstanding balance and the available borrowing capacity under this line was \$50.0 million at September 30, 2017. Chugach used commercial paper in the first nine months of 2017 and had \$51.0 million of commercial paper outstanding at September 30, 2017, thus the available borrowing capacity under the commercial paper program at September 30, 2017, was \$99.0 million.

Cash equivalents consist of all highly liquid debt instruments, with a maturity of three months or less when purchased, and a concentration account with First National Bank Alaska.

Cash Flows

The following table summarizes Chugach's cash flows from operating, investing and financing activities for the nine months ended September 30, 2017 and 2016.

| | 2017 | 2016 |
|---------------------------------------|---------------------|------------------------|
| Total cash provided by (used in): | | |
| Operating activities | \$ 19,856,600 | \$ 21,228,716 |
| Investing activities | (22,520,940) | (79,104,771) |
| Financing activities | 1,957,727 | 45,967,420 |
| Decrease in cash and cash equivalents | <u>\$ (706,613)</u> | <u>\$ (11,908,635)</u> |

Operating Activities

Cash provided by operating activities was \$19.9 million for the nine months ended September 30, 2017, compared with \$21.2 million for the nine months ended September 30, 2016. The decrease in cash provided by operating activities in the first nine months of 2017 from the same period in 2016 was primarily due to fuel activity. A shift from a fuel cost over-recovery position to a fuel cost under-recovery position and an increase in fuel stock was somewhat offset by a decrease in cash used for fuel. An increase in cash used for prepayments also contributed to this variance. These variances were somewhat offset by an increase in assignable margins and less cash used for materials and supplies and deferred charges.

Investing Activities

Cash used in investing activities was \$22.5 million for the nine months ended September 30, 2017, compared with \$79.1 million for the nine months ended September 30, 2016. The change in cash used in investing activities was primarily due to Chugach's investment in the BRU in 2016.

Capital construction through September 30, 2017, was \$21.8 million and is anticipated to reach \$29.5 million for 2017, net of funding from other sources totaling \$14.8 million. Construction activity is expected to decrease during the fourth quarter as the season ends.

Financing Activities

Cash provided by financing activities was \$2.0 million for the nine months ended September 30, 2017, compared with \$46.0 million for the nine months ended September 30, 2016. The change in cash provided by financing activities was primarily due to the change in commercial paper and repayments of long-term obligations as a result of the 2017 Series A First Mortgage Bonds and payment of the 2011 CoBank Note.

Sources of Liquidity

Chugach satisfies its operational and capital cash requirements through internally generated funds, a \$50.0 million line of credit from NRUCFC and a \$150.0 million commercial paper program. At September 30, 2017, there was no outstanding balance on the NRUCFC line of credit and \$51.0 million of outstanding commercial paper. Therefore, at September 30, 2017, the available borrowing capacity under Chugach’s line of credit with NRUCFC was \$50.0 million and the available commercial paper capacity was \$99.0 million.

Commercial paper can be repriced between one day and 270 days. The average commercial paper balance for the nine months ended September 30, 2017, was \$42.8 million with a corresponding weighted average interest rate of 1.40%. The maximum balance of outstanding commercial paper for the nine months ended September 30, 2017, was \$91.2 million.

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

| Month | Average Balance | Weighted Average Interest Rate |
|----------------|------------------------|---------------------------------------|
| January 2017 | \$ 65.0 | 0.94 |
| February 2017 | \$ 63.0 | 0.92 |
| March 2017 | \$ 60.9 | 1.04 |
| April 2017 | \$ 44.4 | 1.14 |
| May 2017 | \$ 42.4 | 1.14 |
| June 2017 | \$ 40.2 | 1.29 |
| July 2017 | \$ 41.1 | 1.40 |
| August 2017 | \$ 41.5 | 1.40 |
| September 2017 | \$ 45.7 | 1.40 |

At September 30, 2017, Chugach had a term loan facility with CoBank. Loans made under these facilities are evidenced by the 2016 CoBank Note, which is governed by the Second and Amended and Restated Master Loan Agreement dated June 30, 2016 and secured by the Indenture.

At September 30, 2017, Chugach had the following outstanding with this facility:

| | <u>Principal Balance</u> | <u>Interest Rate at September 30, 2017</u> | <u>Maturity Date</u> | <u>Principal Payment Dates</u> |
|------------------|------------------------------|--|--------------------------|------------------------------------|
| 2016 CoBank Note | \$ 41,154,000 | 2.58% | 2031 | 2017-2031 |

Under the Indenture, additional obligations may be sold by Chugach upon the basis of bondable additions and the retirement or defeasance of or principal payments on previously outstanding obligations. Chugach's ability to sell additional debt obligations will be dependent on the market's perception of Chugach's financial condition and Chugach's continuing compliance with financial covenants contained in its debt agreements.

Chugach management continues to expect that cash flows from operations and external funding sources, including additional commercial paper borrowings, will be sufficient to cover operational, financing and capital funding requirements in 2017 and thereafter.

CRITICAL ACCOUNTING POLICIES

As of September 30, 2017, there have been no significant changes in Chugach's critical accounting policies as disclosed in Chugach's 2016 Annual Report on Form 10-K. These policies include electric utility regulation and unbilled revenue.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Information required by this Item is contained in Note 6 to the "Notes to Financial Statements" within Part I, Item 1 of this Form 10-Q.

ENVIRONMENTAL MATTERS

Compliance with Environmental Standards

Chugach's operations are subject to certain federal, state and local environmental laws and regulations, which seek to limit air, water and other pollution and regulate hazardous or toxic waste disposal. While we monitor these laws and regulations to ensure compliance, they frequently change and often become more restrictive. When this occurs, the costs of our compliance generally increase.

We include 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 estimable. 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 Clean Air Act and 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. On August 3, 2015, the EPA released the final 111(d) regulation language aimed at reducing emissions of CO₂ from existing power plants that provide electricity for utility customers. In the final rule, the EPA took the approach of making the individual states responsible for the development and implementation of plans to reduce the rate of CO₂ emissions from the power sector. The EPA initially applied the final rule to 47 of the contiguous states. At this time Alaska, Hawaii, Vermont, Washington District of Columbia (D.C.) and two U.S. territories are not bound by the regulation. Alaska may be required to comply at some future date. On February 9, 2016 the U.S. Supreme Court issued a stay on the proposed EPA 111(d) regulations until the D.C. Circuit decides the case, or until the disposition of a petition to the Supreme Court on the issue. On September 27, 2016, the U.S. Court of Appeals for the D.C. Circuit heard oral arguments challenging the legality of the Clean Power Plan. While awaiting the court decision, an Executive Order promoting energy independence and economic growth was issued March 28, 2017, by the President instructing the EPA to review the Clean Power Plan. The EPA is directed to review the Clean Power Plan rule and either revise or withdraw the proposed rule. On October 10, 2017, the EPA initiated a Proposed Repeal of the Clean Power Plan. The EPA 111(d) regulation, 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Chugach is exposed to a variety of risks. In the normal course of its business, Chugach manages exposure to these risks as described below. Chugach does not engage in trading market risk-sensitive instruments for speculative purposes.

Interest Rate Risk

At September 30, 2017, short- and long- term debt was comprised of the 2011, 2012 and 2017 Series A Bonds, the 2016 CoBank Note and outstanding commercial paper.

The interest rates of the 2011, 2012 and 2017 Series A Bonds, and 2016 CoBank Note are fixed and set forth in the table below with the carrying value and fair value (dollars in thousands) at September 30, 2017.

| | Maturing | Interest Rate | Carrying Value | Fair Value |
|--------------------------|----------|---------------|----------------|------------|
| 2011 Series A, Tranche A | 2031 | 4.20 % | \$ 63,000 | \$ 64,180 |
| 2011 Series A, Tranche B | 2041 | 4.75 % | 148,000 | 159,293 |
| 2012 Series A, Tranche A | 2032 | 4.01 % | 56,250 | 56,708 |
| 2012 Series A, Tranche B | 2042 | 4.41 % | 88,000 | 92,624 |
| 2012 Series A, Tranche C | 2042 | 4.78 % | 50,000 | 54,712 |
| 2017 Series A, Tranche A | 2037 | 3.43 % | 40,000 | 38,548 |
| 2016 CoBank Note | 2031 | 2.58 % | 41,154 | 39,075 |
| Total | | | \$ 486,404 | \$ 505,140 |

Chugach is exposed to market risk from changes in interest rates associated with its credit facility. Chugach's credit facilities' interest rates may be reset due to fluctuations in a market-based index, such as the LIBOR. At September 30, 2017, Chugach had \$51.0 million of commercial paper outstanding. A 100 basis-point rise or decline in interest rates would increase or decrease interest expense by approximately \$0.5 million, based on this variable rate outstanding debt.

Commodity Price Risk

Because fuel and purchased power costs are passed directly to wholesale and retail customers through a fuel and purchased power recovery process, fluctuations in the price paid for gas pursuant to gas supply contracts do not generally impact margins.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Controls and Procedures

As of the end of the period covered by this report, under the supervision and with the participation of Chugach management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), Chugach conducted an evaluation of the effectiveness of the design and operation of disclosure controls and procedures, as defined in the Securities Exchange Act of 1934 (Exchange Act) Rule 13a-15(e). Based on this evaluation, the CEO and CFO each concluded that as of the end of the period covered by this report, disclosure controls and procedures are effective in timely alerting them to material information required to be disclosed in Chugach's periodic reports to the Securities and Exchange Commission (SEC), ensures that such information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and such information is accumulated and communicated to management, including the CEO and CFO, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in Chugach's internal controls over financial reporting identified in connection with the evaluation that occurred during the third quarter of 2017 that has materially affected, or is reasonably likely to materially affect, internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information required by this Item is contained in Note 9 to the "Notes to Financial Statements" within Part I, Item 1 of this Form 10-Q.

ITEM 1A. RISK FACTORS

Regulatory

Chugach's billing rates are approved by the RCA. Chugach submits quarterly filings for adjustments to base demand and energy rates under the SRF process. See "*Item 1 FINANCIAL STATEMENTS – Note 4 – Regulatory Matters – Simplified Rate Filing.*"

Financing

On March 17, 2017, Chugach issued \$40,000,000 of First Mortgage Bonds, 2017 Series A, due March 15, 2037. The bonds were issued for general corporate purposes. The 2017 Series A Bonds will mature on March 15, 2037, and bear interest at 3.43%. Interest will be paid each March 15 and September 15, commencing on September 15, 2017. The 2017 Series A Bonds require principal payments in equal installments on an annual basis beginning March 15, 2018, resulting in an average life of approximately 10.0 years. The bonds are secured, ranking equally with all other long-term obligations, by a first lien on substantially all of Chugach's assets, pursuant to the Sixth Supplemental Indenture to the Second Amended and Restated Indenture of Trust, which initially became effective on January 20, 2011, as previously amended and supplemented.

Fuel Supply

In 2016, 77% of our power was generated from natural gas. Our primary sources of natural gas in 2016 were Hilcorp, ConocoPhillips, ML&P, and Chugach's 10% share of the Beluga River Unit. Chugach currently has gas contracts in place to fill up to 100% of Chugach's needs through March 31, 2023.

On May 1, 2017, the RCA approved the Furie Agreement. The Furie Agreement provides Chugach with both firm and non-firm gas supplies over a 16-year period, with firm purchases beginning on April 1, 2023, and ending March 31, 2033, and interruptible gas purchases available to Chugach immediately and ending on March 31, 2033. With respect to firm purchases beginning on April 1, 2023, and ending on March 31, 2033, the Furie Agreement provides an Annual Gas Commitment by Furie to sell and Chugach to purchase approximately 1.8 Bcf of gas each year, which represents approximately 20% to 25% of Chugach's projected

gas requirements during this period. The Furie Agreement also provides Chugach with additional purchase options, on a firm and interruptible basis. The initial price for firm gas is \$7.16 per Mcf beginning April 1, 2023 and escalates annually rising to \$7.98 per Mcf on April 1, 2032, the last year of the contract.

Chugach also has agreements with Cook Inlet Energy (CIE) and AIX Energy, LLC, which provide a structure to purchase supplemental gas, adding diversity in Chugach's sources of natural gas to meet system load requirements.

Green House Gas Regulations, Carbon Emission and Climate Change

Uncertainty remains regarding the impacts of potential regulations regarding greenhouse gases (GHG), carbon emissions, and climate change on Chugach's operations. The EPA is moving forward with regulations that seek to limit carbon emissions in the United States. Power plants are the single largest source of carbon emissions in the United States. On August 3, 2015, the EPA released the final 111(d) regulation aimed at reducing emissions of CO₂ from existing power plants. Alaska is not bound by the 111(d) regulation, however Alaska may be required to comply at some future date. On February 9, 2016, the U.S. Supreme Court issued a stay on the proposed EPA 111(d) regulations until the DC Circuit decides the case, or until the disposition of a petition to the Supreme Court on the issue. On September 27, 2016, the US Court of Appeals for the District of Columbia Circuit heard oral arguments challenging the legality of the Clean Power Plan. While awaiting the court decision, 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. The EPA is directed to review the Clean Power Plan rule and either revise or withdraw the proposed rule. On October 10, 2017, the EPA initiated a Proposed Repeal of the Clean Power Plan. The EPA 111(d) regulation, in its current form, is not expected to have a material effect on Chugach's financial condition, results of operations, or cash flows.

Additional costs related to a GHG tax or cap and trade program, if enacted by Congress, or other regulatory action, could affect the relative cost of the energy Chugach produces. 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.

For information regarding additional risk factors, refer to Item 1A of Chugach's Annual Report on Form 10-K for the year ended December 31, 2016. Except as noted above, these risk factors have not materially changed as of September 30, 2017.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Revolving Line of Credit Agreement between the Registrant and National Rural Utilities Cooperative Finance Corporation (NRUCFC) effective September 29, 2017

Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

XBRL Instance Document

XBRL Taxonomy Extension Schema Document

XBRL Taxonomy Extension Calculation Linkbase Document

XBRL Taxonomy Extension Label Linkbase Document

XBRL Taxonomy Extension Presentation Linkbase Document

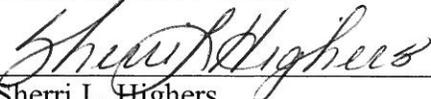
XBRL Taxonomy Extension Definition Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this quarterly report to be signed on its behalf by the undersigned thereunto duly authorized.

CHUGACH ELECTRIC ASSOCIATION, INC.

By: 
Lee D. Thibert
Chief Executive Officer

By: 
Sherri L. Highers
Chief Financial Officer

Date: November 8, 2017

EXHIBITS

Listed below are the exhibits, which are filed as part of this Report:

| <u>Exhibit Number</u> | <u>Description</u> |
|------------------------------|--|
| 10.47.5 | Revolving Line of Credit Agreement between the Registrant and National Rural Utilities Cooperative Finance Corporation (NRUCFC) effective September 29, 2017. Incorporated by reference to the Registrant's Form 8-K dated September 29, 2017. |
| 31.1 | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |

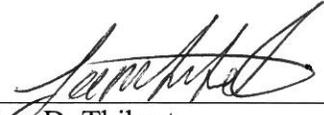
CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
Certification Pursuant to 18 U.S.C. Section 1350 (Adopted Pursuant to Section 302
of the Sarbanes-Oxley Act of 2002)

I, Lee D. Thibert, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Chugach Electric Association, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's third fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2017

By: 

Lee D. Thibert
Chief Executive Officer
Principal Executive Officer

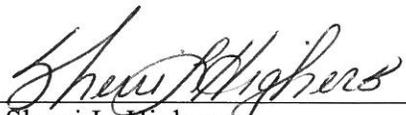
CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
Certification Pursuant to 18 U.S.C. Section 1350 (Adopted Pursuant to Section 302 of
the Sarbanes-Oxley Act of 2002)

I, Sherri L. Highers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Chugach Electric Association, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of Chugach as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's third fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing similar functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2017

By: 

Sherri L. Highers
Chief Financial Officer
Principal Financial Officer

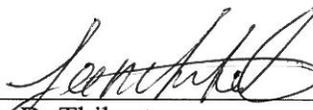
CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
Certification Pursuant to 18 U.S.C. Section 1350 (Adopted Pursuant to Section 906
of the Sarbanes-Oxley Act of 2002)

In connection with the quarterly report on Form 10-Q of Chugach Electric Association, Inc. (the "Company") for the quarter ended September 30, 2017, as filed with the Securities and Exchange Commission (the "Report"), I, Lee D. Thibert, Chief Executive Officer and Principal Executive Officer of the Company, hereby certify as the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: November 8, 2017

By: _____



Lee D. Thibert

Chief Executive Officer
Principal Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
Certification Pursuant to 18 U.S.C. Section 1350 (Adopted Pursuant to Section 906
of the Sarbanes-Oxley Act of 2002)

In connection with the quarterly report on Form 10-Q of Chugach Electric Association, Inc. (the "Company") for the quarter ended September 30, 2017, as filed with the Securities and Exchange Commission (the "Report"), I, Sherri L. Highers, Chief Financial Officer and Principal Financial Officer of the Company, hereby certify as the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: November 8, 2017

By: 

Sherri L. Highers
Chief Financial Officer
Principal Financial Officer