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, 2019

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	**92-0014224**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5601 Electron Drive, Anchorage, AK	**99518**
(Address of principal executive offices)	(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)

Securities registered pursuant to Section 12(b) of the Act: **None**

Title of each class	Trading Symbol(s)	Name of each exchange on which registered

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

(Note: The registrant is a voluntary filer and not subject to the filing requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934. Although not subject to these filing requirements, the registrant has filed all reports that would have been required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months had the registrant been subject to such requirements.)

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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	☐	**Accelerated filer**	☐
Non-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

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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, 2018, 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, 2019, follow.

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

Assets	September 30, 2019	December 31, 2018
Utility plant:		
Electric plant in service	$ 1,239,536,327	$ 1,216,663,092
Construction work in progress	15,324,043	17,272,307
Total utility plant	1,254,860,370	1,233,935,399
Less accumulated depreciation	(551,160,068)	(529,099,451)
Net utility plant	703,700,302	704,835,948
Other property and investments, at cost:		
Nonutility property	76,889	76,889
Operating lease right-of-use assets	977,096	0
Investments in associated organizations	8,148,223	8,570,046
Special funds	2,420,632	1,890,221
Restricted cash equivalents	108,000	108,000
Total other property and investments	11,730,840	10,645,156
Current assets:		
Cash and cash equivalents	2,914,639	6,106,995
Special deposits	54,300	54,300
Restricted cash equivalents	1,230,789	1,213,974
Marketable securities	191,242	6,316,583
Fuel cost under-recovery	325,339	0
Accounts receivable, net	24,002,928	31,165,249
Materials and supplies	17,529,355	16,223,477
Fuel stock	9,222,953	11,952,086
Prepayments	4,378,681	2,227,117
Other current assets	283,574	241,279
Total current assets	60,133,800	75,501,060
Other non-current assets:		
Deferred charges, net	42,783,785	37,668,424
Total other non-current assets	42,783,785	37,668,424
Total assets	$ 818,348,727	$ 828,650,588

(Continued)

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

Liabilities, Equities and Margins	September 30, 2019	December 31, 2018
Equities and margins:		
Memberships	$ 1,769,552	$ 1,748,172
Patronage capital	172,505,010	177,823,597
Other	15,295,360	14,952,925
Total equities and margins	189,569,922	194,524,694
Long-term obligations, excluding current installments:		
Bonds payable	449,999,997	398,416,664
Notes payable	31,464,000	33,972,000
Less unamortized debt issuance costs	(2,743,025)	(2,425,247)
Operating lease liabilities	787,076	0
Total long-term obligations	479,508,048	429,963,417
Current liabilities:		
Current installments of long-term obligations	26,912,687	26,608,667
Commercial paper	17,000,000	61,000,000
Accounts payable	7,978,599	9,538,749
Consumer deposits	4,743,546	4,845,611
Fuel cost over-recovery	0	3,388,295
Accrued interest	2,050,985	5,671,840
Salaries, wages and benefits	8,006,328	7,863,112
Fuel	6,520,890	5,844,856
Other current liabilities	9,711,873	10,085,556
Total current liabilities	82,924,908	134,846,686
Other non-current liabilities:		
Deferred compensation	1,612,964	1,359,878
Other liabilities, non-current	540,134	580,841
Deferred liabilities	766,126	764,834
Patronage capital payable	1,931,295	3,393,253
Cost of removal obligation / asset retirement obligation	61,495,330	63,216,985
Total other non-current liabilities	66,345,849	69,315,791
Total liabilities, equities and margins	$ 818,348,727	$ 828,650,588

See accompanying notes to financial statements.

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

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Operating revenues	$ 51,621,006	$ 46,114,590	$ 154,988,332	$ 148,160,451
Operating expenses:				
Fuel	14,965,286	12,506,604	42,492,081	43,548,282
Production	5,413,218	4,577,360	14,955,404	13,184,565
Purchased power	5,604,965	4,373,454	17,375,966	12,668,357
Transmission	1,714,765	1,816,866	5,737,548	5,546,054
Distribution	3,798,319	3,968,811	11,222,797	11,590,360
Consumer accounts	1,763,799	1,632,570	5,230,360	5,150,221
Administrative, general and other	5,421,364	5,871,051	18,367,731	17,286,324
Depreciation and amortization	7,902,172	7,498,076	23,452,921	22,235,372
Total operating expenses	46,583,888	42,244,792	138,834,808	131,209,535
Interest expense:				
Long-term debt and other	5,721,820	5,471,316	16,868,856	16,587,462
Charged to construction	(68,457)	(82,335)	(253,514)	(207,196)
Interest expense, net	5,653,363	5,388,981	16,615,342	16,380,266
Net operating margins	(616,245)	(1,519,183)	(461,818)	570,650
Nonoperating margins:				
Interest income	130,336	186,209	442,151	536,905
Allowance for funds used during construction	30,891	34,306	114,398	86,304
Capital credits, patronage dividends and other	(13,018)	2,258	105,739	(189,843)
Total nonoperating margins	148,209	222,773	662,288	433,366
Assignable margins	$ (468,036)	$ (1,296,410)	$ 200,470	$ 1,004,016

See accompanying notes to financial statements.

Chugach Electric Association, Inc.
Consolidated Statements of Changes in Equities and Margins
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Memberships:				
Balance at beginning of period	$ 1,761,182	$ 1,732,662	$ 1,748,172	$ 1,719,154
Memberships and donations received	8,370	8,645	21,380	22,153
Balance at end of period	$ 1,769,552	$ 1,741,307	$ 1,769,552	$ 1,741,307
Other equities and margins:				
Balance at beginning of period	15,079,726	14,798,475	14,952,925	14,653,253
Unclaimed capital credits retired	(3,017)	(4,442)	(8,935)	(17,901)
Memberships and donations received	218,651	25,365	351,370	184,046
Balance at end of period	$ 15,295,360	$ 14,819,398	$ 15,295,360	$ 14,819,398
Patronage capital:				
Balance at beginning of period	173,370,711	174,834,061	177,823,597	172,928,887
Assignable margins	(468,036)	(1,296,410)	200,470	1,004,016
Retirement/net transfer of capital credits	(397,665)	(52,709)	(5,519,057)	(447,961)
Balance at end of period	$ 172,505,010	$ 173,484,942	$ 172,505,010	$ 173,484,942
Total equities and margins	$ 189,569,922	$ 190,045,647	$ 189,569,922	$ 190,045,647

See accompanying notes to financial statements.

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

	Nine months ended September 30, 2019	2018
Cash flows from operating activities:		
Assignable margins	$ 200,470	$ 1,004,016
Adjustments to reconcile assignable margins to net cash provided by operating activities:		
Depreciation and amortization	23,452,921	22,235,372
Amortization and depreciation cleared to operating expenses	5,432,733	3,913,081
Allowance for funds used during construction	(114,398)	(86,304)
Write off of inventory, deferred charges and projects	543,364	160,022
Other	(100,730)	226,830
(Increase) decrease in assets:		
Accounts receivable, net	5,557,144	10,090,756
Fuel cost under-recovery	(325,339)	4,921,794
Materials and supplies	(1,324,947)	(512,888)
Fuel stock	2,729,133	(4,352,362)
Prepayments	(2,151,564)	1,130,418
Other assets	(42,295)	(35,303)
Deferred charges	(9,269,406)	(7,192,752)
Increase (decrease) in liabilities:		
Accounts payable	(610,255)	425,240
Consumer deposits	(102,065)	(317,921)
Fuel cost over-recovery	(3,388,295)	2,558,578
Accrued interest	(3,620,855)	(4,963,081)
Salaries, wages and benefits	143,216	1,014,555
Fuel	676,034	(4,352,803)
Other current liabilities	(2,241,684)	172,475
Deferred liabilities	13,483	(15,298)
Net cash provided by operating activities	15,456,665	26,024,425
Cash flows from investing activities:		
Return of capital from investment in associated organizations	421,899	414,012
Investment in special funds	(275,328)	(302,152)
Investment in marketable securities and investments-other	(213,510)	(2,843,213)
Proceeds from the sale of marketable securities	6,437,508	4,707,765
Extension and replacement of plant	(26,286,728)	(18,479,692)
Net cash used in investing activities	(19,916,159)	(16,503,280)
Cash flows from financing activities:		
Payments for debt issue costs	(505,065)	0
Net increase (decrease) in short-term obligations	(44,000,000)	12,000,000
Proceeds from long-term obligations	75,000,000	0
Repayments of long-term obligations	(25,810,667)	(25,810,667)
Memberships and donations received	363,815	188,298
Retirement of patronage capital and estate payments	(6,981,015)	(447,961)
Proceeds from consumer advances for construction	3,217,997	3,234,427
Repayments of customer advances for construction	(1,112)	(19,974)
Net cash (used in) provided by financing activities	1,283,953	(10,855,877)
Net change in cash, cash equivalents, and restricted cash equivalents	(3,175,541)	(1,334,732)
Cash, cash equivalents, and restricted cash equivalents at beginning of period	$ 7,428,969	$ 7,201,759
Cash, cash equivalents, and restricted cash equivalents at end of period	$ 4,253,428	$ 5,867,027
Supplemental disclosure of non-cash investing and financing activities:		
Cost of removal obligation	$ (1,721,655)	$ 1,876,966
Extension and replacement of plant included in accounts payable	$ 1,161,430	$ 4,468,774
Patronage capital retired/net transferred and included in other current liabilities	$ 0	$ 2,000,000
Supplemental disclosure of cash flow information - interest expense paid, net of amounts capitalized	$ 19,827,103	$ 20,484,334

See accompanying notes to financial statements.

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, 2018, 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 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. Occasionally, Chugach sells available generation, in excess of its own needs, to Matanuska Electric Association, Inc. ("MEA"), Homer Electric Association, Inc. ("HEA"), Golden Valley Electric Association, Inc. ("GVEA") and 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 an agreement with the Hotel Employees and Restaurant Employees ("HERE"). All three IBEW CBA's are effective 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 contract is effective through June 30, 2021, and provides for wage, pension contribution, and health and welfare contribution increases in all years.

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") Accounting Standards Codification ("ASC") 980, "Topic 980 - Regulated Operations." FASB ASC 980 provides for the recognition of regulatory assets and liabilities as allowed by regulators for costs or credits that are reflected in current rates or are considered probable of being included in future rates. 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, 2019, and 2018 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% 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. Cash, Cash Equivalents, and Restricted Cash Equivalents

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

	September 30, 2019	December 31, 2018
Cash and cash equivalents	$ 2,914,639	$ 6,106,995
Restricted cash equivalents	1,230,789	1,213,974
Restricted cash equivalents included in other property and investments	108,000	108,000
Total cash, cash equivalents and restricted cash equivalents shown in the consolidated statements of cash flows	$ 4,253,428	$ 7,428,969

Restricted cash equivalents include funds on deposit for future workers' compensation claims.

e. Marketable Securities

Chugach's marketable securities consist of bond mutual funds, corporate bonds, and certificates of deposit with a maturity less than 12 months, classified as trading securities, reported at fair value with gains and losses in earnings. Interest and dividend income from marketable securities is included in nonoperating margins – interest income, and was $103.9 thousand and $300.2 thousand at September 30, 2019, and 2018, respectively. Net gains and losses on marketable securities are included in nonoperating margins – capital credits, patronage dividends and other, and are summarized as follows:

	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Net gains (losses) recognized during the period on trading securities	$ 98,657	$ (177,267)
Less: Net gains (losses) recognized during the period on trading securities *sold* during the period	98,495	(179,916)
Unrealized gains (losses) recognized during the reporting period on trading securities *still held* at the reporting date	$ 162	$ 2,649

f. 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, 2019, and December 31, 2018, respectively.

g. Fuel Stock

Fuel Stock is the weighted average cost of fuel injected into Cook Inlet Natural Gas Storage, LLC ("CINGSA"). Chugach's fuel balance in storage amounted to $9.2 million and $12.0 million at September 30, 2019, and December 31, 2018, respectively.

h. Investments in Associated Organizations

Chugach's investments in associated organizations are considered equity securities without readily determinable fair values, and as such are measured at cost minus impairment, if any. There were no impairments of these investments recognized during the nine months ended September 30, 2019, or 2018.

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

a. Nature of goods and services

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

i. Energy Sales

Energy sales revenues are Chugach's primary source of revenue, representing approximately 96.8% and 95.1% of total operating revenue during the nine months ended September 30, 2019, and 2018, respectively. Energy sales revenues are recognized upon delivery of electricity, based on billing rates authorized by the RCA, which are applied to customers' usage of electricity. Chugach's rates are established, in part, on test period sales levels that reflect actual operating results. Chugach's tariffs include provisions for the recovery of gas costs according to gas supply contracts and costs associated with the BRU operations, as well as purchased power costs.

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

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

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

Chugach calculates unbilled revenue, for residential and commercial customers, at the end of each month to ensure the recognition of a full month of revenue. Chugach accrued $8,271,054 and $7,999,322 of unbilled retail revenue at September 30, 2019, and 2018, respectively, which is included in accounts receivable on the balance sheet. Revenue derived from wholesale and economy customers is recorded from metered locations on a calendar month basis, so no estimation is required.

The collectability of our energy sales is very high with typically 0.10% written off as bad debt expense, adjusted annually.

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

ii. Wheeling

Wheeling represented 2.0% and 3.7% of our revenue during the nine months ended September 30, 2019, and 2018, respectively. Wheeling was recorded through the wheeling of energy across Chugach's transmission lines at rates set by utility tariff and approved by the RCA. The rates are applied to MWh of energy wheeled. The collectability of wheeling is very high, with no adjustment required.

iii. Other Miscellaneous Services

Other miscellaneous services consist of various agreements including dispatch service and gas transfer agreements, pole rentals and microwave bandwidth. Revenue from these agreements is billed monthly and represented 1.2% of our total operating revenue during the nine months ended September 30, 2019, and 2018. The revenue recognized from these agreements is recorded as the service is provided over a period of time. The collectability of these agreements is very high, with no adjustment required.

b. Disaggregation of Revenue

The table below details the revenue recognized by customer class and disaggregates base revenue from fuel and purchased power revenue recognized in the Consolidated Statement of Operations for the third quarter of 2019 and 2018 (in millions).

	Base Rate Sales Revenue			Fuel and Purchased Power Revenue			Total Revenue		
	2019	2018	% Variance	2019	2018	% Variance	2019	2018	% Variance
Retail	$ 29.9	$ 28.1	6.4 %	$ 18.6	$ 14.8	25.7 %	$ 48.5	$ 42.9	13.1 %
Wholesale	$ 0.6	$ 0.6	0.0 %	$ 1.0	$ 0.7	42.9 %	$ 1.6	$ 1.3	23.1 %
Economy	$ 0.0	$ 0.0	0.0 %	$ 0.0	$ 0.0	0.0 %	$ 0.0	$ 0.0	0.0 %
Total Energy Sales	**$ 30.5**	**$ 28.7**	**6.3 %**	**$ 19.6**	**$ 15.5**	**26.5 %**	**$ 50.1**	**$ 44.2**	**13.3 %**
Wheeling	$ 0.0	$ 0.0	0.0 %	$ 0.8	$ 1.2	(33.3%)	$ 0.8	$ 1.2	(33.3%)
Other	$ 0.7	$ 0.6	16.7 %	$ 0.0	$ 0.1	(100.0 %)	$ 0.7	$ 0.7	0.0 %
Total Miscellaneous	**$ 0.7**	**$ 0.6**	**16.7 %**	**$ 0.8**	**$ 1.3**	**(38.5%)**	**$ 1.5**	**$ 1.9**	**(21.1%)**
Total Revenue	**$ 31.2**	**$ 29.3**	**6.5 %**	**$ 20.4**	**$ 16.8**	**21.4 %**	**$ 51.6**	**$ 46.1**	**11.9 %**

The table below details the revenue recognized by customer class and disaggregates base revenue from fuel and purchased power revenue recognized in the Consolidated Statement of Operations for the nine months ended September 30, 2019, and 2018 (in millions).

	Base Rate Sales Revenue			Fuel and Purchased Power Revenue			Total Revenue		
	2019	2018	% Variance	2019	2018	% Variance	2019	2018	% Variance
Retail	$ 91.9	$ 88.3	4.1 %	$ 53.7	$ 48.7	10.3 %	$ 145.6	$ 137.0	6.3 %
Wholesale	$ 1.6	$ 1.6	0.0 %	$ 2.7	$ 2.3	17.4 %	$ 4.3	$ 3.9	10.3 %
Economy	$ 0.0	$ 0.0	0.0 %	$ 0.0	$ 0.0	0.0 %	$ 0.0	$ 0.0	0.0 %
Total Energy Sales	**$ 93.5**	**$ 89.9**	**4.0 %**	**$ 56.4**	**$ 51.0**	**10.6 %**	**$ 149.9**	**$ 140.9**	**6.4 %**
Wheeling	$ 0.0	$ 0.0	0.0 %	$ 3.1	$ 5.4	(42.6%)	$ 3.1	$ 5.4	(42.6%)
Other	$ 1.9	$ 1.8	5.6 %	$ 0.1	$ 0.1	0.0 %	$ 2.0	$ 1.9	5.3 %
Total Miscellaneous	**$ 1.9**	**$ 1.8**	**5.6 %**	**$ 3.2**	**$ 5.5**	**(41.8%)**	**$ 5.1**	**$ 7.3**	**(30.1%)**
Total Revenue	**$ 95.4**	**$ 91.7**	**4.0 %**	**$ 59.6**	**$ 56.5**	**5.5 %**	**$ 155.0**	**$ 148.2**	**4.6 %**

c. Contract Balances

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

	September 30, 2019	December 31, 2018
Contract receivables, included in accounts receivable	$ 21,987,663	$ 27,179,031
Contract asset	325,339	0
Contract liabilities	1,841,037	5,196,426

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

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

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

Significant changes in the contract asset balances are as follows:

	September 30, 2019	December 31, 2018
Contract asset at beginning of period	$ 0	$ 4,921,794
Cash received, excluding amounts recognized as revenue during the period	325,339	0
Revenue recognized and transferred from contract asset at the beginning of the period	0	(4,921,794)
Contract asset at end of period	$ 325,339	$ 0

Significant changes in contract liabilities balances are as follows:

	September 30, 2019	December 31, 2018
Contract liabilities at beginning of period	$ 5,196,426	$ 1,581,481
Cash received, excluding amounts recognized as revenue during the period	1,715,354	5,196,426
Revenue recognized that was included in the contract liability balance at the beginning of the period	(5,070,743)	(1,581,481)
Contract liabilities at end of period	$ 1,841,037	$ 5,196,426

d. Transaction Price Allocated to Remaining Performance Obligations

The table below includes estimated revenue to be recognized during the remainder of 2019 related to performance obligations that are unsatisfied (or partially unsatisfied) at September 30, 2019.

		2019
Credit balances	$	1,841,037

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

5. 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. 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 is required to submit filings to the RCA for approval before any rate changes can be implemented. While there is no limitation on decreases, base rate increases under SRF are limited to 8% in a 12-month period and 20% in a 36-month period.

Chugach submitted quarterly SRF filings which resulted in a system demand and energy rate increase of 2.7% effective November 1, 2018; an increase of 0.7% effective February 1, 2019; an increase of 0.8% effective May 1, 2019; an increase of 2.5% effective August 1, 2019; and an increase of 3.8% effective November 1, 2019.

Operation and Regulation of the Alaska Railbelt Electric and Transmission System

In June 2016, the RCA opened a docket to "evaluate the reliability and security standards and practices of Alaska Electric Utilities." In 2017, Chugach and several other Alaska Railbelt utilities entered into a contract with GDS Associates, Inc. ("GDS"). GDS's role was to facilitate discussion among all six Alaska Railbelt utilities and various stakeholders with an end goal of submitting to the RCA a Railbelt Reliability Council ("RRC"), including a governance structure, that will be responsible for adoption and enforcement of uniform reliability and interconnection standards and integrated transmission resource planning and evaluation on transition to a single regional load balancing area. GDS presented to the RCA during technical conferences in January and March of 2018. Chugach and the other utilities provided GDS's final recommendation of the RRC to the RCA in May 2018. During the fourth quarter of 2018, the utilities reviewed and adapted the memorandum of understanding with GDS ("GDS MOU") with the RCA. The utilities are currently in discussions with non-utility stakeholders to include their input in the RRC formation process. In parallel, the utilities and an affiliate of American Transmission

Company ("ATC") were in discussions regarding the formation of a transmission-only utility. ATC, GVEA, HEA, ML&P, and Seward Electric System collectively dba the Alaska Railbelt Transmission Co ("ART") filed with the RCA for a Railbelt-wide Transco Certificate of Public Convenience ("CPCN") on February 25, 2019. At that time Chugach's primary focus was on filing with the RCA for the transfer of the ML&P CPCN to Chugach, and we were unable to complete our due diligence on the Transco filing prior to the filing date. Neither Chugach nor MEA were a party to this filing. On March 15, 2019 the RCA initiated an order requesting comments on proposed legislative language which would authorize the RCA to designate or develop an Electric Reliability Organization ("ERO"). Chugach submitted comments on this proposed legislative language seeking to delay adoption until the RRC Governance Board can be formed but continued to work with the RCA and stakeholders to craft acceptable legislation. Subsequently, Chugach completed its review of the ART filing, determined the model not to be in the best interest of our membership; and therefore, declined to participate in the ART Transco. Following Chugach's decision not to participate, ART withdrew its filing.

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

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

ML&P Acquisition

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

In June 2019, Chugach and GVEA entered into a Memorandum of Understanding (MOU) in which Chugach agreed to provide GVEA non-firm energy, wheeling and ancillary services for a 3-year period under terms and conditions consistent with its operating tariff, and will make available 5 MW of Bradley Lake capacity to GVEA for a 5-year period. Excluding fuel, the MOU is expected to provide over $10 million of additional revenue to the Chugach system over the term of the agreement. GVEA has withdrawn its petition to intervene regarding the ML&P acquisition.

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

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

On October 29, 2019, Chugach entered into an Amendment No. 2 to Asset Purchase and Sale Agreement ("APA Amendment No. 2"), Amendment No. 2 to Eklutna Power Purchase Agreement ("PPA Amendment No. 2"), and Amendment No. 2 to Payment in Lieu of Taxes Agreement ("PILT Amendment No. 2") with the MOA. The APA Amendment No. 2 extends the termination date of the APA from March 31, 2020 to September 30, 2020 and recognizes the Eklutna Transmission Assets as Acquired Assets in recognition of the fulfillment of a condition in the original Asset Purchase and Sale Agreement. The PPA Amendment No. 2 recognizes changes to the dispute resolution procedures contained therein and the PILT Amendment No. 2 removes Chugach's obligation in certain regulatory or bankruptcy proceedings to support and stipulate to the fact that the payment in lieu of taxes payments are a tax obligation and should be given appropriate priority status based on that fact.

Amendment No. 3 to Asset Purchase Agreement ("APA Amendment No. 3"), Amendment No. 3 to Eklutna Power Purchase Agreement ("PPA Amendment No. 3"), and an Amended and Restated BRU Fuel Agreement, were approved by the Chugach Board on October 24, 2019, and by the MOA Assembly on October 30, 2019, and will become effective upon RCA approval.

APA Amendment No. 3 reduces the upfront payment to the MOA by $10.0 million, eliminates upward price adjustments if ML&P's net book value of the purchased assets is greater than $715.4 million at closing, and recognizes a $36.0 million rate reduction account to be funded by the MOA for the benefit of ML&P legacy customers. PPA Amendment No. 3 recognizes Chugach's right to set-off payments to the extent the MOA does not fulfill its obligations required in the Stipulation. The amended BRU fuel agreement extends the period over which the costs and benefits of Chugach's and ML&P's legacy shares of BRU will be allocated to customers in each legacy service area, requires Chugach to utilize a market proxy value for legacy share BRU gas used for economy energy sales, and requires Chugach to utilize a market proxy value for any legacy share BRU gas used to serve Chugach legacy customers for transactions between the legacy service areas of Chugach and ML&P. For more information, see "Note 10 – ML&P ACQUISITION."

Petition to Increase Times Interest Earned Ratio ("TIER")

On January 15, 2019, Chugach submitted a Petition to the RCA requesting to increase its system target TIER from 1.35 to 1.55. The impact of this change, assuming no other changes on the system, increases Chugach's annual margins by approximately $4.0 million. The RCA opened a docket to review the petition, and invited the Office of the Attorney General, Regulatory Affairs and Public Advocacy Section ("RAPA") to participate. Chugach and RAPA entered a stipulation that no disputed issues exist in this Docket. On October 11, 2019, the RCA accepted the stipulation and granted Chugach's petition to increase its target system TIER to 1.55.

6. 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, 2019, or during 2018, and therefore had no outstanding balance at September 30, 2019, or at December 31, 2018. The borrowing rate is calculated using the total rate per annum and may be fixed by NRUCFC, and was 3.50% at September 30, 2019, and 3.75% at December 31, 2018. 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 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 ("The Credit Agreement") which is used to back Chugach's commercial paper program. The pricing included 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 commercial paper can be repriced between one day and 397 days. The participating banks included NRUCFC, KeyBank National Association, Bank of America, N.A., and CoBank, ACB. The Credit Agreement was due to expire on June 13, 2021.

On July 30, 2019, Chugach entered into the First Amendment to the Credit Agreement ("Amendment") with NRUCFC, Bank of America, N.A. KeyBank National Association, Wells Fargo Bank N.A., and CoBank, ACB. The Amendment increases the lenders' aggregate commitments under the senior unsecured credit facility from $150 million to $300 million and extends the maturity date of the facility from June 13, 2021, to July 30, 2024. The Amendment also includes provisions for calculating interest on loans in ways other than the LIBOR. In addition, the Amendment permits Chugach to enter into a bridge financing to fund its potential acquisition of Anchorage Municipal Light & Power, of not in excess of $800 million for a term of up to eighteen (18) months. This indebtedness is in addition to other indebtedness permitted to be incurred under the existing credit facility. Other terms of the credit agreement remain materially the same.

Chugach expects to continue issuing commercial paper in 2019, as needed. Chugach had $17.0 million and $61.0 million of commercial paper outstanding at September 30, 2019, and December 31, 2018, respectively.

The following table provides information regarding average commercial paper balances outstanding for the quarter ended September 30, 2019, and 2018 (dollars in millions), as well as corresponding weighted average interest rates:

2019		2018	
Average Balance	Weighted Average Interest Rate	Average Balance	Weighted Average Interest Rate
$9.4	2.53 %	$52.9	2.28 %

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 ("CoBank Loan Agreement"), and secured by the Second Amended and Restated Indenture of Trust ("Indenture"). At September 30, 2019, Chugach had $34.8 million outstanding with CoBank.

Financing

On May 15, 2019, Chugach issued $75.0 million of First Mortgage Bonds, 2019 Series A, due May 15, 2049 (the "Bonds"). The Bonds were issued for the purpose of repaying outstanding commercial paper used to finance Chugach's capital improvement program and for general corporate purposes. The Bonds bear interest at the rate of 3.86%. Interest on the Bonds is due each May 15 and November 15, commencing on November 15, 2019. Principal on the Bonds is due in varying installment amounts on an annual basis beginning May 15, 2021, resulting in an average life of approximately 12.0 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 Seventh Supplemental Indenture to the Indenture, which Indenture 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, 2019.

	Long-term Obligations	Unamortized Debt Issuance Costs
2011 Series A Bonds	$ 178,999,997	$ 1,010,283
2012 Series A Bonds	162,000,000	880,449
2017 Series A Bonds	34,000,000	181,033
2019 Series A Bonds	75,000,000	492,474
2016 CoBank Note	31,464,000	178,786
	$ 481,463,997	$ 2,743,025

The following table outlines debt issuance costs associated with long-term obligations, excluding current installments, at December 31, 2018.

	Long-term Obligations	Unamortized Debt Issuance Costs
2011 Series A Bonds	$ 189,666,664	$ 1,096,801
2012 Series A Bonds	172,750,000	938,028
2017 Series A Bonds	36,000,000	188,904
2016 CoBank Note	33,972,000	201,514
	$ 432,388,664	$ 2,425,247

7. RECENT ACCOUNTING PRONOUNCEMENTS

Issued and adopted at September 30, 2019:

ASC Update 2016-02 "*Leases (Topic 842)"* and Related Updates

In February of 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" ASU 2016-02 amends guidance related to the recognition, measurement, presentation and disclosure of leases for lessors and lessees. Pursuant to the new standard, lessees will be required to identify all leases, including those embedded in contracts, classify leases as finance or operating, recognize all leases on the balance sheet and record corresponding right-of-use assets and lease liabilities. The update requires the recognition of lease assets and liabilities for those leases currently classified as operating leases while also refining the definition of a lease. Operating leases will reflect lease expense on a straight-line basis, while finance leases will result in the separate presentation of interest expense on the lease liability and amortization expense of the right-of-use asset.

In January 2018, the FASB issued ASU 2018-01, "Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842." ASU 2018-01 amends ASU 2016-02 to provide an optional transition practical expedient allowing entities to not evaluate under Topic 842 existing or expired land easements that were not previously accounted for as leases under the current lease guidance in Topic 840.

In December 2018, the FASB issued ASU 2018-20, "Leases (Topic 842): Narrow-Scope Improvements for Lessors." ASU 2018-20 amends ASU 2016-02 to address lessor stakeholders' concerns regarding the following issues: sales taxes and other similar taxes collected from lessees, certain lessor costs, and recognition of variable payments from contracts with lease and non-lease components.

Topic 842 requires a modified retrospective transition, with the cumulative effect of transition, including initial recognition by lessees of lease assets and liabilities for existing operating leases, as of either the effective date, or the beginning of the earliest period presented. Under the effective date method, the entity's comparative reporting period is unchanged. Comparative reporting periods are presented in accordance with Topic 840, while periods subsequent to the effective date are presented in accordance with Topic 842. Chugach elected to use the effective date method.

The standard includes certain practical expedients intended to ease the burden of adoption on preparers. Chugach elected each of the following practical expedients:

1) Package of Practical expedients (all or nothing) - An entity may elect not to reassess: a) whether expired or existing contracts contain leases under the new definition of a lease, b) lease classification for expired or existing leases and c) whether previously capitalized initial direct costs would qualify for capitalization under Topic 842.
2) Use of hindsight - An entity may use hindsight in determining the lease term, and in assessing the likelihood that a lease purchase option will be exercised.

3) Land easements - An entity may elect not to reassess whether land easements meet the definition of a lease if they were not accounted for as leases prior to adoption of Topic 842 until they expire, unless they are modified on or after the effective date.

A lessee may elect not to separate the non-lease components of a contract from the lease component to which they relate. This means that the components will be treated as a single lease component. The lessee elects this practical expedient by class of underlying asset – for example: office equipment, automobiles, office space. Chugach elected this practical expedient for all classes of underlying assets.

Chugach elected not to recognize right-of-use assets and lease liabilities that arise from short-term leases (those with a term of less than twelve months) for any class of underlying asset.

These updates are effective for fiscal years beginning after December 15, 2018, including the interim periods within those years, with early adoption permitted. Chugach began application of ASU 2016-02 and related updates on January 1, 2019. Adoption did not have a material effect on our results of operations, financial position, and cash flows. See "*Note 8 – LEASES*."

Issued, not yet adopted:

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

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU 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 ASU 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 2018-13 "*Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement"*

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement." ASU 2018-13 changes the fair value measurement disclosure requirements of ASC 820. This update is effective for all entities for fiscal years beginning after December 15, 2019, including interim periods therein. Early adoption is permitted for any eliminated or modified disclosures upon issuance of this ASU. Chugach will begin application of ASU 2018-13 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 2018-14 "*Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans"*

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

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

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

8. LEASES

Effective January 1, 2019, Chugach began application of Accounting Standards Codification 842, Leases (Topic 842). Adoption of the new standard requires recognition of leases on the balance sheet. Chugach has no financing leases and several operating leases, most of which are various land easements. Chugach identified three operating leases as right-of-use assets for a building, office equipment, and substation land lease, with remaining lease terms of one to 25 years and a weighted average lease term of 6.95 years. Chugach's operating lease assets are presented as operating lease right-of-use assets on the consolidated balance sheet. The current portion of operating lease liabilities is included in current installments of long-term obligations and the long-term portion is presented as operating lease liabilities on the consolidated balance sheet. A discount rate of 4.24% was used in calculating the right-to-use assets and lease liabilities. Chugach's discount rate was calculated using our incremental borrowing rate based on the average borrowing rate of our long-term debt.

Adoption had no impact on our consolidated statements of operations. The recognition of the right-of-use asset and operating lease liability represents a non-cash investing and financing activity. Total operating lease expense for the nine months ended September 30, 2019, was $706,323, primarily associated with land easements and helicopter services.

Supplemental cash flow information associated with leases:

		Nine months ended September 30, 2019
Cash paid for amounts included in the measurement of liabilities:		
Operating cash flows from operating leases	$	165,750
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases		977,096

Supplemental balance sheet information associated with leases at September 30 were:

		2019
Operating lease right-of-use assets	$	977,096
Operating lease liabilities	$	787,076
Current installments of lease liabilities		190,020
Total operating lease liabilities	$	977,096

Maturities associated with lease liabilities:

		September 30, 2019
2019	$	63,630
2020		225,840
2021		225,000
2022		225,000
2023		225,000
Thereafter		171,000
Total lease payments		1,135,470
Less imputed interest		158,374
Present value of lease liabilities	$	977,096

Chugach entered into a Power Purchase Agreement with Fire Island Wind, LLC, ("FIW") on June 21, 2011. The Fire Island Wind contract contains a lease because the agreement identifies an asset (the wind farm is explicitly specified in the agreement and FIW does not have substantive substitution rights) and Chugach controls the use of the asset (it takes 100% of the output and, to the extent there is wind, can control how and when the wind farm produces power directly through its supervisory control and data acquisition ("SCADA") system). However, due to the exclusively variable nature of the payments related to Fire Island Wind, no new assets or liabilities have been added to the balance sheet, no changes were made to the cash flow statement, and the variable payments are still classified as purchased power expense on the statement of operations. The amount of the variable payments included in purchased power for the nine months ended September 30, 2019, was $2,944,690.

9. 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.

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.

Chugach sold all marketable securities in the second quarter of 2019, using the funds for patronage capital payments to HEA and MEA. During the third quarter, Chugach made a small investment in marketable securities. The table below presents the balance of Chugach's marketable securities measured at fair value on a recurring basis at September 30, 2019, and December 31, 2018. Chugach's bond mutual funds were measured using quoted prices in active markets. Chugach had no other assets or liabilities measured at fair value on a recurring basis at September 30, 2019, or at December 31, 2018.

September 30, 2019	Total	Level 1	Level 2	Level 3
Bond mutual funds	$ 191,242	$ 191,242	$ 0	$ 0

December 31, 2018	Total	Level 1	Level 2	Level 3
Bond mutual funds	$ 6,316,583	$ 6,316,583	$ 0	$ 0

Fair Value of Financial Instruments

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

The estimated fair values (in thousands) of long-term obligations included in the financial statements at September 30, 2019, are as follows:

	Carrying Value	Fair Value Level 2
Long-term obligations (including current installments)	$ 508,187	$ 548,523

10. ML&P ACQUISITION

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

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

During the first week of April 2019, pursuant to the APA, Chugach and the MOA jointly submitted applications to amend their respective CPCNs to permit Chugach to provide electric service in ML&P's legacy service territory. The RCA accepted the filing as complete on April 18, 2019, and a procedural conference was held on April 22, 2019. On May 8, 2019, the RCA issued an order indicating that a final order in the case was expected by November 19, 2019. In addition, the RCA granted the petitions to intervene filed by MEA; Providence Health and Services ("Providence"); GVEA; the Federal Executive Agencies ("FEA"); and HEA / Alaska Electric and Energy Cooperative, Inc. Hearings on the acquisition were held in August and September 2019. On October 1, 2019, all parties agreed to an extension for the RCA final order in the case to February 17, 2020.

In June 2019, Chugach and GVEA entered into a Memorandum of Understanding ("MOU") in which Chugach agreed to provide GVEA non-firm energy, wheeling and ancillary services for a 3-year period under terms and conditions consistent with its operating tariff, and will make available 5 MW of Bradley Lake capacity to GVEA for a 5-year period. Excluding fuel, the MOU is expected to provide over $10 million of additional revenue to the Chugach system over the term of the agreement. GVEA has withdrawn its petition to intervene regarding the ML&P acquisition.

Additionally, Chugach and MOA will cooperate to obtain an order from the RCA approving the Ancillary Agreements and allowing Chugach to recover the costs associated with the transaction. Following RCA approval, a closing date will be scheduled for the transaction within 120 days. Upon closing, Chugach will transfer the purchase price of $767.8 million less the estimated accrued leave liability and the estimated net book value of designated excluded assets. The APA also includes terms for post-closing purchase price adjustments.

The Eklutna Power Purchase Agreement, which will be effective upon closing, provides for the purchase of all or a portion of ML&P's share of generation from the Eklutna Hydroelectric Project by Chugach from MOA for a period of 35 years at specified fixed prices each year.

The PILT Agreement, which will be effective upon closing, provides for Chugach to make annual payments in lieu of taxes to the MOA for a period of 50 years based on current millage rates and the adjusted book value of property for ML&Ps service territory in existence at the closing as adjusted each year. The PILT Agreement also provides that until December 31, 2033, Chugach shall only collect amounts associated with those annual PILT payments from retail customers in the legacy ML&P territory. Thereafter, the annual PILT payments shall be collected from all Chugach retail customers.

The BRU Fuel Agreement, which will be effective upon closing, provides that through December 31, 2033, Chugach will use gas attributable to production in the portion of the BRU acquired from MOA to serve retail customers of Chugach within the legacy ML&P territory at a specified gas transfer price and will use any excess gas to serve other customers of Chugach at the same specified gas transfer price.

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

On October 29, 2019, Chugach entered into an Amendment No. 2 to Asset Purchase and Sale Agreement ("APA Amendment No. 2"), Amendment No. 2 to Eklutna Power Purchase Agreement ("PPA Amendment No. 2"), and Amendment No. 2 to Payment in Lieu of Taxes Agreement ("PILT Amendment No. 2") with the MOA. The APA Amendment No. 2 extends the termination date of the APA from March 31, 2020 to September 30, 2020 and recognizes the Eklutna Transmission Assets as Acquired Assets in recognition of the fulfillment of a condition in the original Asset Purchase and Sale Agreement. The PPA Amendment No. 2 recognizes changes to the dispute resolution procedures contained therein and the PILT Amendment No. 2 removes Chugach's obligation in certain regulatory or bankruptcy proceedings to support and stipulate to the fact that the payment in lieu of taxes payments are a tax obligation and should be given appropriate priority status based on that fact.

Amendment No. 3 to Asset Purchase Agreement ("APA Amendment No. 3"), Amendment No. 3 to Eklutna Power Purchase Agreement ("PPA Amendment No. 3"), and an Amended and Restated BRU Fuel Agreement, were approved by the Chugach Board on October 24, 2019, and by the MOA Assembly on October 30, 2019, and will become effective upon RCA approval. APA Amendment No. 3 reduces the upfront payment to the MOA by $10.0 million, eliminates upward price adjustments if ML&P's net book value of the purchased assets is greater than $715.4 million at closing, and recognizes a $36.0 million rate reduction account to be funded by the MOA for the benefit of ML&P legacy customers. PPA Amendment No. 3 recognizes Chugach's right to set-off payments to the extent the MOA does not fulfill its obligations required in the Stipulation. The amended BRU fuel agreement extends the period over which the costs and benefits of Chugach's and ML&P's legacy shares of BRU will be allocated to customers in each legacy service area, requires Chugach to utilize a market proxy value for legacy share BRU gas used for economy energy sales, and requires Chugach to utilize a market proxy value for any legacy share BRU gas used to serve Chugach legacy customers for transactions between the legacy service areas of Chugach and ML&P.

11. BELUGA RIVER UNIT

The BRU is located on the western side of Cook Inlet, approximately 35 miles from Anchorage, and is an established natural gas field that was originally discovered in 1962. The BRU is jointly owned by ML&P (56.7%), Hilcorp (33.3%), and Chugach (10.0%).

Chugach records depreciation, depletion and amortization on BRU assets based on units of production. During 2018, Chugach lifted 1.2 Billion Cubic Feet ("BCF"), resulting in a cumulative lift since purchase of 4.5 BCF. Chugach, and other owners, ML&P and Hilcorp, are operating under an existing joint operating agreement (the "Operating Agreement"). Hilcorp is the operator for BRU. In addition to the operator fees to Hilcorp, other BRU expenses include royalty expense and interest on long-term debt. All expenses other than depreciation, depletion and amortization and interest on long-term debt are included as fuel expense on Chugach's statement of operations. Costs associated with the BRU are recovered on a dollar-for-dollar basis through Chugach's quarterly fuel and purchased power adjustment process. Chugach has applied and qualified for a small producer tax credit, provided by the State of Alaska, resulting in an estimate of no liability for production taxes for a period of ten years, through 2026.

Chugach updates the BRU fuel reserve estimate every three years and the Asset Retirement Obligation ("ARO") every five years. During the second quarter of 2019, both the fuel reserve and the ARO were updated.

The fuel reserve study, based on the updated 2019 report, indicates that Chugach's BRU gas reserves are 19.6 BCF, or about 3.0 BCF lower in relation to the prior field reserve estimate after adjusting for actual gas produced. The production forecast was based upon well-defined current exponential decline rates for the economic life of the Sterling and Beluga formations. Based on production rates of the existing wells and the revised reserve estimate, the estimated field life has been extended from December 2033 to December 2037.

The updated ARO estimate for the field is $56.9 million, comprised of $28.5 million for above ground assets and $28.4 million for below ground assets. Chugach's share of this cost is $5.69 million. The updated ARO is higher than the prior field estimate of $33.5 million produced in the 2013 study. For Chugach, the ARO is increasing from $3.35 million to $5.69 million. Significant factors contributing to the increase include new facilities and increased regulatory requirements for remediation.

12. ENVIRONMENTAL MATTERS

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

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

The Clean Air Act and Environmental Protection Agency ("EPA") regulations under the Clean Air Act establish ambient air quality standards and limit the emission of many air pollutants. New Clean Air Act regulations impacting electric utilities may result from future events or new regulatory programs. An Executive Order promoting energy independence and economic growth was issued on March 28, 2017, by the President instructing the EPA to review the Clean Power Plan ("CPP"). On August 21, 2018 the EPA proposed the Affordable Clean Energy ("ACE") rule which would establish emission guidelines for states to develop plans to address GHG emissions from existing coal-fired power plants. The final ACE rule was issued by EPA on June 19, 2019. The final rule is certain to face legal challenge. The proposed ACE rule 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.

13. 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, 2019, 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% of our employees are members of the IBEW. Chugach has three CBA's with the IBEW. We also have a CBA with the HERE. All three IBEW CBA's and the HERE CBA 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 (the "Hilcorp Agreement"). After two amendments to the Hilcorp Agreement, Chugach's needs are filled 100% through March 31, 2023. The total amount of gas under this agreement 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 Harvest Pipeline.

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.

Patronage Capital

In March 2019, our Board authorized capital credit retirements to MEA and SES in the amount of $4.9 million. Pursuant to agreements reached with HEA and MEA, patronage capital retired to HEA and MEA is classified as patronage capital payable on Chugach's Balance Sheet until paid. In April 2019, our Board authorized payments to HEA and MEA of $2.0 million and $6.1 million, respectively, therefore reducing patronage capital payable. At September 30, 2019, patronage capital payable to HEA was $1.9 million, with no patronage capital payable to MEA. At December 31, 2018, patronage capital payable to HEA and MEA was $3.9 million and $1.5 million, respectively.

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 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 Matanuska Electric Association, Inc. ("MEA"), Homer Electric Association, Inc. ("HEA"), Golden Valley Electric Association, Inc. ("GVEA") and Anchorage Municipal Light & Power ("ML&P").

Chugach is an Alaska electric cooperative operating on a not-for-profit basis and is subject to the regulatory authority of the Regulatory Commission of Alaska ("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, plans at the state level, and the potential ML&P acquisition, will shape how Chugach proceeds into the future.

ML&P Acquisition

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

In June 2019, Chugach and GVEA entered into a Memorandum of Understanding (MOU) in which Chugach agreed to provide GVEA non-firm energy, wheeling and ancillary services for a 3-year period under terms and conditions consistent with its operating tariff, and will make available 5 MW of Bradley Lake capacity to GVEA for a 5-year period. Excluding fuel, the MOU is expected to provide over $10 million of additional revenue to the Chugach system over the term of the agreement. GVEA has withdrawn its petition to intervene regarding the ML&P acquisition.

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

On October 29, 2019, Chugach entered into an Amendment No. 2 to Asset Purchase and Sale Agreement ("APA Amendment No. 2"), Amendment No. 2 to Eklutna Power Purchase Agreement ("PPA Amendment No. 2"), and Amendment No. 2 to Payment in Lieu of Taxes Agreement ("PILT Amendment No. 2") with the MOA. The APA Amendment No. 2 extends the termination date of the APA from March 31, 2020 to September 30, 2020 and recognizes the Eklutna Transmission Assets as Acquired Assets in recognition of the fulfillment of a condition in the original Asset Purchase and Sale Agreement. The PPA Amendment No. 2 recognizes changes to the dispute resolution procedures contained therein and the PILT Amendment No. 2 removes Chugach's obligation in certain regulatory or bankruptcy proceedings to support and stipulate to the fact that the payment in lieu of taxes payments are a tax obligation and should be given appropriate priority status based on that fact.

Amendment No. 3 to Asset Purchase Agreement ("APA Amendment No. 3"), Amendment No. 3 to Eklutna Power Purchase Agreement ("PPA Amendment No. 3"), and an Amended and Restated BRU Fuel Agreement, were approved by the Chugach Board on October 24, 2019, and by the MOA Assembly on October 30, 2019, and will become effective upon RCA approval. APA Amendment No. 3 reduces the upfront payment to the MOA by $10.0 million, eliminates upward price adjustments if ML&P's net book value of the purchased assets is greater than $715.4 million at closing, and recognizes a $36.0 million rate reduction account to be funded by the MOA for the benefit of ML&P legacy customers. PPA Amendment No. 3 recognizes Chugach's right to set-off payments to the extent the MOA does not fulfill its obligations required in the Stipulation. The amended BRU fuel agreement extends the period over which the costs and benefits of Chugach's and ML&P's legacy shares of BRU will be allocated to customers in each legacy service area, requires Chugach to utilize a market proxy value for legacy share BRU gas used for economy energy sales, and requires Chugach to utilize a market proxy value for any legacy share BRU gas used to serve Chugach legacy customers for transactions between the legacy service areas of Chugach and ML&P. For more information, see "*ITEM 1 – FINANCIAL STATEMENTS – Note 10 – ML&P ACQUISITION.*"

Railbelt Grid Unification

Chugach remains focused on efforts in Alaska's Railbelt to explore the benefits of grid unification. Currently, each of the six electric utilities in 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. With the support of the RCA, Chugach and several other Alaska Railbelt utilities began evaluating possible restructured business model opportunities including a Railbelt Reliability Council and a Transco, as well as, associated economic dispatch models that Chugach believes may lead to more optimal system-wide operations.

In June 2016, the RCA opened a docket to "evaluate the reliability and security standards and practices of Alaska Electric Utilities." In 2017, Chugach and several other Alaska Railbelt utilities entered into a contract with GDS Associates, Inc. ("GDS"). GDS's role was to facilitate discussion among all six Alaska Railbelt utilities and various stakeholders with an end goal of submitting to the RCA a proposal for a Railbelt Reliability Council ("RRC"), including a governance structure, which will be responsible for adoption and enforcement of uniform reliability and interconnection standards and integrated transmission resource planning and evaluation on transition to a single regional load balancing area. GDS presented to the RCA during technical conferences in January and March 2018. Chugach and the other utilities provided GDS's final recommendation of the RRC to the RCA in May 2018. During the fourth quarter of 2018, the utilities reviewed and adapted the memorandum of understanding with GDS ("GDS MOU") with the RCA. The utilities are currently in discussions with non-utility stakeholders to include their input in the RRC formation process. In parallel, the utilities and an affiliate of American Transmission Company ("ATC") were in discussions regarding the formation of a transmission-only utility. ATC, GVEA, HEA, ML&P, and Seward Electric System collectively dba the Alaska Railbelt Transmission Co ("ART") filed with the RCA for a Railbelt-wide Transco Certificate of Public Convenience ("CPCN") on February 25, 2019. At the time Chugach's primary focus was on filing with the RCA for the transfer of the ML&P CPCN to Chugach, and we were unable to complete our due diligence on the Transco filing prior to the filing date. Neither Chugach nor MEA were a party to this filing. On March 15, 2019 the RCA initiated an order requesting comments on proposed legislative language which would authorize the RCA to designate or develop an Electric Reliability Organization ("ERO"). Chugach submitted comments on this proposed legislative language seeking to delay adoption until the RRC Governance Board can be formed but continued to work with the RCA and stakeholders to craft acceptable legislation. Subsequently, Chugach completed its review of the ART filing, determined the model not to be in the best interest of our membership; and therefore, declined to participate in the ART Transco. Following Chugach's decision not to participate, ART withdrew its filing.

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

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

Earthquake

On November 30, 2018, a 7.1 magnitude earthquake struck Southcentral Alaska. The epicenter was located approximately 10 miles northeast of Anchorage and resulted in significant damage throughout the area. While approximately 21,000 of Chugach's members lost power, the number of members without power was reduced to less than 70 within 12 hours. On January 31, 2019, the President declared the earthquake a federal disaster. Chugach has applied for Federal Emergency Management Agency ("FEMA") assistance and continues to assess and repair damage on our system due to the earthquake. At September 30, 2019, costs associated with system-wide repairs and damages reached $2.1 million. At this time, Chugach does not anticipate this event to have a material impact on our financial condition, results of operations, and cash flows.

Swan Lake Fire

The Swan Lake Fire has been burning since June 2019, has reached over 167,000 acres and damaged the transmission line that connects the Bradley Lake Hydroelectric Project to the Chugach system. This transmission line has been out of service for several weeks at the request of the fire management team. Because the loss of access to Bradley Lake power, more natural gas is being used and will continue to be until the line is repaired and back in service. During the third quarter, Chugach estimates the incremental increase to gas consumption for Chugach's generation needs is approximately 238,862 Mcf. Natural gas is a more expensive power than hydroelectric power, and Bradley Lake generally makes up 10% of Chugach's power supply requirements. At the end of September 2019, the Swan Lake Fire was 90% contained with an estimated containment date of December 31, 2019.

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. 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 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 Billion Cubic Feet ("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 has 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 Alaska Operating, LLC. 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 has a firm gas supply contract with Hilcorp, see "*ITEM 1 – FINANCIAL STATEMENTS – Note 13 – 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), and with Cook Inlet Energy LLC through March 31, 2023. Collectively, these agreements provide added diversification and optionality for Chugach to minimize costs within its gas supply portfolio.

<u>Beluga River Unit ("BRU")</u>

The primary purpose of Chugach's investment in the BRU is to reduce the cost of electric service to its retail and wholesale members by securing an additional long-term supply of natural gas to meet on-going generation requirements. The BRU production complements contract gas supplies and is expected to provide greater fuel diversity at an effective annual cost that is \$2 million to \$3 million less than alternative sources of gas in the Cook Inlet region. Approximately 75% of Chugach's current generation requirements are met from natural gas, 21% are met from hydroelectric facilities, and 4% are met from wind.

Chugach records depreciation, depletion and amortization on BRU assets based on units of production. During 2018, Chugach lifted 1.2 Billion Cubic Feet ("BCF"), resulting in a cumulative lift since purchase of 4.5 BCF. Chugach, and other owners, ML&P and Hilcorp, are operating under an existing joint operating agreement (the "Operating Agreement"). Hilcorp is the operator for BRU. In addition to the operator fees to Hilcorp, other BRU expenses include royalty expense and interest on long-term debt. All expenses other than depreciation, depletion and amortization and interest on long-term debt are included as fuel expense on Chugach's statement of operations. Costs associated with the BRU are recovered on a dollar-for-dollar basis through Chugach's quarterly fuel and purchased power adjustment process. Chugach has applied and qualified for a small producer tax credit, provided by the State of Alaska, resulting in an estimate of no liability for production taxes for a period of ten years, through 2026.

Chugach updates the BRU fuel reserve estimate every three years and the Asset Retirement Obligation ("ARO") every five years. During the first half of 2019, both the fuel reserve and the ARO were updated.

The fuel reserve study, based on the updated 2019 report, indicates that Chugach's BRU gas reserves are 19.6 BCF, or about 3.0 BCF lower in relation to the prior field reserve estimate after adjusting for actual gas produced. The production forecast was based upon well-defined current exponential decline rates for the economic life of the Sterling and Beluga formations. Based on production rates of the existing wells and the revised reserve estimate, the estimated field life has been extended from December 2033 to December 2037.

The updated ARO estimate for the field is $56.9 million, comprised of $28.5 million for above ground assets and $28.4 million for below ground assets. Chugach's share of this cost is $5.69 million. The updated ARO is higher than the prior field estimate of $33.5 million produced in the 2013 study. For Chugach, the ARO is increasing from $3.35 million to $5.69 million. Significant factors contributing to the increase include new facilities and increased regulatory requirements for remediation.

Rate Regulation and Rates

Chugach submitted quarterly SRF filings which resulted in a demand and energy rate increase of 2.7% and 1.5% for retail customers and Seward, respectively, effective November 1, 2018; an increase to demand and energy rates of 0.6% and 3.3% for retail customers and Seward, respectively, effective February 1, 2019; an increase to demand and energy rates of 0.8% for retail customers and 0.2% for Seward, effective May 1, 2019; and an increase to demand and energy rates of 2.5% for retail customers and 3.2% for Seward, effective August 1, 2019; and an increase to demand and energy rates of 3.9% for retail customers and 1.5% for Seward, effective November 1, 2019.

Petition to Increase Times Interest Earned Ratio ("TIER")

On January 15, 2019, Chugach submitted a Petition to the RCA requesting to increase its system target TIER from 1.35 to 1.55. The impact of this change, assuming no other changes on the system, increases annual margins by approximately $4.0 million. The RCA opened a docket to review the petition, and invited the Office of the Attorney General, Regulatory Affairs and Public Advocacy Section ("RAPA") to participate. Chugach and RAPA entered into a stipulation that no disputed issues exist in this Docket. On October 11, 2019, the RCA accepted the stipulation and granted Chugach's petition to increase its target system TIER to 1.55.

RESULTS OF OPERATIONS

Current Year Quarter versus Prior Year Quarter

Assignable margins increased $0.8 million, or 63.9%, during the third quarter of 2019 compared to the third quarter of 2018, primarily due to increases in operating revenue, which was somewhat offset by increases in production and depreciation and amortization expense.

Operating revenues, which include sales of electric energy to retail, wholesale and economy energy customers and other miscellaneous revenues, increased $5.5 million, or 11.9%, during the third quarter of 2019 compared to the third quarter of 2018. Retail revenue increased $5.6 million, or 13.1%, primarily due to an increase in energy sales and at higher base rates, as well as higher fuel and purchased power costs recovered through the fuel and purchased power adjustment process.

Wholesale revenue increased $0.3 million, or 23.1%, during the third quarter of 2019 compared to the third quarter of 2018, primarily due to higher fuel and purchased power costs recovered through the fuel and purchased power adjustment process.

Economy revenue did not materially change during the third quarter of 2019 compared to the third quarter of 2018.

Miscellaneous revenue decreased $0.3 million, or 15.8%, during the third quarter of 2019 compared to the third quarter of 2018, primarily due to lower wheeling 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 and $0.3 million to Chugach's fixed costs for each of the quarters ended September 30, 2019, and 2018, respectively.

See "*ITEM 1 – FINANCIAL STATEMENTS – Note 4 – REVENUE FROM CONTRACTS WITH CUSTOMERS*," for a table showing the base rate sales and fuel and purchased power revenue by customer class that is included in revenue for the quarters ended September 30, 2019, and 2018.

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

Customer	**2019 kWh**	**2018 kWh**
Retail	249,930,683	247,090,208
Wholesale	14,799,404	14,801,678
Total	264,730,087	261,891,886

From the third quarter of 2018 to the third quarter of 2019, base demand and energy rates increased 0.7% to retail and 0.3% to Seward, respectively. The rate changes result from Chugach's SRF process.

Total operating expenses increased $4.3 million, or 10.3%, in the third quarter of 2019 compared to the third quarter of 2018, primarily due to higher fuel, production, purchased power, and depreciation and amortization expense.

Fuel expense increased $2.5 million, or 19.7%, in the third quarter of 2019 compared to the third quarter of 2018, primarily due to a more fuel purchased for production caused by an increase in energy sales and more gas-fired generation, which was somewhat offset by a lower price. In the third quarter of 2019, Chugach purchased, for our own generation, 1,633,126 Mcf of fuel at an average effective delivered price of $8.21 per Mcf. This calculation does not include fuel produced at BRU, nor does it include fuel purchased for MEA and ML&P power plants and recorded as purchased power. In the third quarter of 2018, Chugach reported the amount used, including fuel produced at BRU and purchased for MEA and ML&P power plants, of 1,433,423 Mcf at an average effective delivered price of $7.85 per Mcf. For comparative purposes, we have recalculated the 2018 average effective delivered price to only reflect the amount purchased for our own generation of 1,349,649 Mcf of fuel at an average effective delivered price of $8.33 per Mcf.

Production expense increased $0.8 million, or 18.3%, in the third quarter of 2019 compared to the third quarter of 2018, primarily due to the amortization associated with Beluga Unit 3 maintenance and the Cooper Lake dredging project, maintenance expense associated with annual inspections at the Beluga Power Plant, and costs associated with the November 2018 earthquake.

Purchased power expense increased $1.2 million, or 28.2%, in the third quarter of 2019 compared to the third quarter of 2018, primarily due to more energy purchased and at a higher price. In the third quarter of 2019, Chugach purchased 54,314 MWh of energy at an average effective price of 8.77 cents per kWh. In the third quarter of 2018, Chugach purchased 51,847 MWh of energy at an average effective price of 6.76 cents per kWh.

Transmission, distribution, and consumer accounts expense did not materially change in the third quarter of 2019 compared to the third quarter of 2018.

Administrative, general and other expense decreased $0.4 million, or 7.7%, in the third quarter of 2019 compared to the third quarter of 2018, primarily due to a decrease in costs associated with workers' compensation.

Depreciation and amortization increased $0.4 million, or 5.4%, in the third quarter of 2019 compared to the third quarter of 2018, primarily due to adjustments from project closeouts in 2018.

Interest on long-term and other debt and interest charged to construction did not materially change in the third quarter of 2019 compared to the third quarter of 2018.

Non-operating margins did not materially change in the third quarter of 2019 compared to the third quarter of 2018.

Current Year to Date versus Prior Year to Date

Assignable margins decreased $0.8 million, or 80.0%, in the first nine months of 2019 compared to the same period of 2018, primarily due to increased production, depreciation and amortization, and administrative, general, and other expenses, which was somewhat offset by an increase in operating revenue due to higher base rates.

Operating revenues, which include sales of electric energy to retail, wholesale and economy energy customers and other miscellaneous revenues, increased $6.8 million, or 4.6%, in the first nine months of 2019 compared to the same period of 2018. This increase was primarily due to increased base rates and higher purchased power costs recovered through the fuel and purchased power adjustment process.

Retail revenue increased $8.6 million, or 6.3%, in the first nine months of 2019 compared to the same period of 2018, due to increased base rates and higher purchased power costs recovered through the fuel and purchased power adjustment process.

Wholesale revenue increased $0.4 million, or 10.3%, in the first nine months of 2019 compared to the same period of 2018, due to increased purchased power costs recovered through the fuel and purchased power adjustment process.

Economy revenue did not materially change in the first nine months of 2019 compared to the same period of 2018.

Miscellaneous revenue decreased $2.2 million, or 30.1%, in the first nine months of 2019 compared to the same period of 2018, due to lower wheeling revenue.

Based on the results of fixed and variable cost recovery established in Chugach's last rate case, wholesale sales to Seward contributed approximately $1.0 million to Chugach's fixed costs for the nine months ended September 30, 2019, and 2018.

See "*ITEM 1 – FINANCIAL STATEMENTS – Note 4 – REVENUE FROM CONTRACTS WITH CUSTOMERS*," for a table showing the base rate sales and fuel and purchased power revenue by customer class that is included in revenue for the nine months ending September 30, 2019 and 2018.

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

Customer	**2019 kWh**	**2018 kWh**
Retail	777,603,390	787,227,397
Wholesale	43,021,250	43,859,191
Economy Energy	103,400	207
Total	820,728,040	831,086,795

In the first nine months of 2019, base demand and energy rates charged to retail customers increased 1.2%, and 0.0% to the wholesale customer, Seward. The increase to the retail class is primarily the result of lower system sales levels.

Total operating expenses increased $7.6 million, or 5.8%, in the first nine months of 2019 compared to the same period of 2018, primarily due to higher production, purchased power, depreciation and amortization, and administrative and general expense, which was somewhat offset by lower fuel expense.

Fuel expense decreased $1.1 million, or 2.4%, in the first nine months of 2019 compared to the same period of 2018, primarily due to a decrease in price, which was somewhat offset by an increase in fuel purchased. In the first nine months of 2019, Chugach purchased, for our own generation, 4,733,503 Mcf of fuel at an average effective delivered price of $8.21 per Mcf. This calculation does not include fuel produced at BRU, nor does it include fuel purchased for MEA and ML&P power plants and recorded as purchased power. In the first nine months of 2018, Chugach reported the amount used, including fuel produced at BRU and purchased for MEA and ML&P power plants, of 4,861,861 Mcf at an average effective delivered price of $8.17 per Mcf. For comparative purposes, we have recalculated the 2018 average effective delivered price to only reflect the amount purchased for our own generation of 4,709,523 Mcf of fuel at an average effective delivered price of $8.43 per Mcf.

Production expense increased $1.8 million, or 13.4% in the first nine months of 2019 compared to the same period of 2018, primarily due to amortization associated with Beluga Unit 3 maintenance and the Cooper Lake dredging project.

Purchased power expense increased $4.7 million, or 37.2%, in the first nine months of 2019 compared to the same period of 2018, primarily due to more energy purchased and at a higher price. In the first nine months of 2019, Chugach purchased 193,068 MWh of energy at an average effective price of 7.60 cents per kWh. In the first nine months of 2018, Chugach purchased 156,225 MWh of energy at an average effective price of 6.56 cents per kWh.

Transmission, distribution and consumer accounts expense did not materially change in the first nine months of 2019 compared to the same period of 2018.

Administrative, general and other expense increased $1.1 million, or 6.3%, in the first nine months of 2019 compared to the same period of 2018, primarily due to higher labor expense and cancelled projects.

Depreciation and amortization increased $1.2 million, or 5.5%, in the first nine months of 2019 compared to the same period of 2018, primarily due to adjustments from project closeouts in 2018 and increases in plant in service during 2019.

Interest on long-term and other debt and interest charged to construction did not materially change in the first nine months of 2019 compared to the same period of 2018.

Non-operating margins did not materially change in the first nine months of 2019 compared to the same period of 2018.

Financial Condition

Assets

Total assets did not materially change from December 31, 2018, to September 30, 2019. Decreases in cash and cash equivalents, marketable securities, accounts receivable, and fuel stock, were somewhat offset by increases in operating lease right-of-use assets, prepayments, deferred charges, and materials and supplies. Cash and cash equivalents decreased $3.2 million, or 52.3% and marketable securities decreased $6.2 million, or 97.0%, primarily due to the payment of wholesale patronage capital. Accounts receivable decreased $7.2 million, or 23.0%, primarily due to a decrease in energy sales from winter to summer. Fuel stock decreased $2.7 million, or 22.8%, due to more fuel used for production from the fuel storage facility. Operating leases right-of-use assets increased $1.0 million, or 100.0% due to adoption of ASC 842 Leases. Prepayments increased $2.2 million, or 96.6%, primarily due to prepayment of insurance for 2019. Deferred charges increased $5.1 million, or 13.6%, primarily due to costs associated with the ML&P acquisition. Materials and supplies increased $1.3 million, or 8.0%, primarily due to inventory used for construction projects.

Liabilities and Equity

Total liabilities, equities and margins did not materially change from December 31, 2018, to September 30, 2019. Decreases in patronage capital, patronage capital payable, accounts payable, fuel cost over-recovery, accrued interest and commercial paper were somewhat offset by increases in long-term obligations. Patronage capital decreased $5.3 million, or 3.0%, and patronage capital payable decreased $1.5 million, or 43.1%, primarily due to the retirement and payment of wholesale capital credits. Accounts payable decreased $1.6 million, or 16.4%, due to the timing of payments. Fuel cost over-recovery decreased $3.4 million, or 100.0%, due to refunding of the prior period's over-collection through the fuel and purchased power adjustment process. Accrued interest decreased $3.6 million, or 63.8%, due to payment of interest and principal on long-term obligations. The decrease in commercial paper of $44.0 million, or 72.1%, and increase in long-term obligations of $49.5 million, or 11.5%, was due to the pay down of commercial paper using proceeds from the 2019 First Mortgage Bonds issued during the second quarter of 2019.

LIQUIDITY AND CAPITAL RESOURCES

Summary

Chugach ended the third quarter of 2019 with $4.3 million of cash, cash equivalents, and restricted cash equivalents down from $7.4 million at December 31, 2018. Chugach had $0.2 million in marketable securities at September 30, 2019, down from $6.3 million at December 31, 2018. Chugach did not utilize its $50.0 million line of credit maintained with NRUCFC in the first nine months of 2019, therefore, had no outstanding balance and the available borrowing capacity was $50.0 million at September 30, 2019. Chugach paid down commercial paper and ended the third quarter with $17.0 million of commercial paper outstanding, thus the available borrowing capacity under the commercial paper program at September 30, 2019, was $283.0 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 ("FNBA").

Cash Flows

The following table summarizes Chugach's cash flows from operating, investing and financing activities for the nine months ended September 30, 2019, and 2018.

	2019	2018
Total cash provided by (used in):		
Operating activities	$ 15,456,665	$ 26,024,425
Investing activities	(19,916,159)	(16,503,280)
Financing activities	1,283,953	(10,855,877)
Increase (decrease) in cash and cash equivalents	$ (3,175,541)	$ (1,334,732)

Operating Activities

Cash provided by operating activities was $15.5 million for the nine months ended September 30, 2019, compared with $26.0 million for the nine months ended September 30, 2018. The decrease in cash provided by operating activities was primarily due to lower sales at the end of 2018 compared to 2017, and therefore, less cash collected from receivables during the nine months ended September 30, 2019, compared to the same period in 2018. The increase in prepayments and deferred charges during the nine months ended September 30, 2019, compared to the same period in 2018 and more cash used for accounts payable also contributed to the decrease. While there was a decrease in cash used for fuel storage, this was largely offset by the increase in cash used for fuel over-recovery.

Deferred charges associated with the ML&P acquisition and integration for the nine months ended September 30, 2019, was $13.2 million and is estimated to be $25.9 million for the full year.

Investing Activities

Cash used in investing activities was $19.9 million for the nine months ended September 30, 2019, compared with $16.5 million for the nine months ended September 30, 2018. The change in cash used in investing activities was primarily due to the extension and replacement of plant caused by more construction activity during the nine months ended September 30, 2019, compared to the same period in 2018. This was somewhat offset by cash provided by the sale of marketable securities in the second quarter of 2019.

Capital construction through September 30, 2019, was $26.3 million and is estimated to be $33.9 million for the full year. Capital improvement expenditures are expected to decrease during the fourth quarter as the construction season ends.

Financing Activities

Cash provided by financing activities was $1.3 million for the nine months ended September 30, 2019, compared with cash used in financing activities of $10.9 million for the nine months ended September 30, 2018. The change in cash provided by or used in financing activities was primarily due to issuance of the 2019 Bonds and payment of commercial paper, as well as payment of wholesale patronage capital in the first half of 2019.

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 commercial paper program. On July 30, 2019, Chugach entered into the First Amendment to the Credit Agreement, increasing the senior unsecured credit facility from $150.0 million to $300.0 million, adding Wells Fargo Bank, N.A. as a participating bank, and extending the Credit Agreement to July 30, 2024.

At September 30, 2019, there was no outstanding balance on the NRUCFC line of credit and $17.0 million of outstanding commercial paper. Therefore, at September 30, 2019, the available borrowing capacity under Chugach's line of credit with NRUCFC was $50.0 million and the available commercial paper capacity was $283.0 million.

Commercial paper can be repriced between one day and 397 days. The average commercial paper balance for the nine months ended September 30, 2019, was $38.8 million with a corresponding weighted average interest rate of 2.75%. The maximum amount of outstanding commercial paper for the nine months ended September 30, 2019, was $85.0 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	$	56.8	2.81%
February	$	55.2	2.77%
March	$	72.8	2.77%
April	$	83.4	2.77%
May	$	45.2	2.74%
June	$	8.0	2.65%
July	$	8.5	2.61%
August	$	7.8	2.42%
September	$	12.1	2.54%

At September 30, 2019, 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, 2019, Chugach had the following outstanding with this facility:

	Principal Balance	Interest Rate	Maturity Date	Principal Payment Dates
2016 CoBank Note	$ 34,770,000	2.58%	2031	2019-2031

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. As a result of the 2019 debt issuance, the principal payment capacity as of September 30, 2019, is now $54.1 million. 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 2019 and thereafter.

CRITICAL ACCOUNTING POLICIES

As of September 30, 2019, there have been no significant changes in Chugach's critical accounting policies as disclosed in Chugach's 2018 Annual Report on Form 10-K. This includes policies regarding electric utility regulation.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Information required by this Item is contained in Note 7 to the "Notes to Financial Statements" within Part I, Item 1 of this Form 10-Q.

ENVIRONMENTAL MATTERS

Compliance with Environmental Standards

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

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

The Clean Air Act and Environmental Protection Agency ("EPA") regulations under the Clean Air Act establish ambient air quality standards and limit the emission of many air pollutants. New Clean Air Act regulations impacting electric utilities may result from future events or new regulatory programs. An Executive Order promoting energy independence and economic growth was issued on March 28, 2017, by the President instructing the EPA to review the Clean Power Plan ("CPP"). On August 21, 2018 the EPA proposed the Affordable Clean Energy ("ACE") rule which would establish emission guidelines for states to develop plans to address GHG emissions from existing coal-fired power plants. The final ACE rule was issued by EPA on June 19, 2019. The final rule is certain to face legal challenge. The proposed ACE rule 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, 2019, short- and long-term debt was comprised of the 2011, 2012, 2017, and 2019 Series A Bonds, the 2016 CoBank Note and outstanding commercial paper.

The interest rates of the 2011, 2012, 2017, and 2019 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, 2019.

	Maturing	Interest Rate	Carrying Value	Fair Value
2011 Series A, Tranche A	2031	4.20 %	$ 54,000	$ 56,495
2011 Series A, Tranche B	2041	4.75 %	135,667	152,417
2012 Series A, Tranche A	2032	4.01 %	48,750	50,649
2012 Series A, Tranche B	2042	4.41 %	74,000	82,666
2012 Series A, Tranche C	2042	4.78 %	50,000	57,239
2017 Series A, Tranche A	2037	3.43 %	36,000	36,311
2019 Series A, Tranche A	2049	3.86 %	75,000	78,489
2016 CoBank Note	2031	2.58 %	34,770	34,257
Total			$ 508,187	$ 548,523

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, or the base rate or prime rate of our lenders. At September 30, 2019, Chugach had $17.0 million of commercial paper outstanding. Based on this balance a 100 basis-point rise or decline in interest rates would increase or decrease our interest expense by approximately $0.2 million.

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 does not normally 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

Effective January 1, 2019, Chugach began application of Accounting Standards Codification 842, Leases (Topic 842). Although adoption of Topic 842 had an immaterial impact on our financial statements, we implemented certain changes to our contract review process to ensure that any future leases will be identified and accounted for properly according to the new standard.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information required by this Item is contained in Note 13 to the "Notes to Financial Statements" within Part I, Item 1 of this Form 10-Q.

ITEM 1A. RISK FACTORS

Credit Ratings

Changes in our credit ratings could affect our ability to access capital. We maintain a rating from Standard & Poor's Rating Services ("S&P") of "A" (Stable). Our implied secured and unsecured ratings from Fitch Ratings ("Fitch") of "A" (Rating Watch Evolving) were withdrawn and replaced with an Issuer Default Rating (IDR) of "A" (Rating Watch Negative). Fitch's Rating Watch revision is driven by the expected higher net leverage profile following the proposed acquisition of ML&P, see "ITEM 1 – FINANCIAL STATEMENTS – Note 10 – ML&P ACQUISITION." Fitch expects to resolve the Rating Watch once the transaction is reviewed by the RCA. S&P and Moody's currently rate our commercial paper at "A-1" and "P-2", respectively. If these agencies were to downgrade our ratings, particularly below investment grade, our commercial paper rates could increase immediately and we may be required to pay higher interest rates on financings which we need to undertake in the future. Additionally our potential pool of investors and funding sources could decrease.

Recovery of Fuel and Purchased Power Costs

The RCA approved inclusion of all fuel, purchased power, and transportation costs related to our current contracts in the calculation of Chugach's fuel and purchased power adjustment process which will ensure, in advance, that costs incurred under the contracts can be recovered from Chugach's customers. The fuel and purchased power adjustment process collects under-recoveries and refunds over-recoveries from prior periods with minimal regulatory lag. Chugach's fuel and purchased power adjustment process includes quarterly filings with the RCA, which set the rates on projected costs, sales and system operations for the quarter. Any under- or over-recovery of costs is incorporated into the following quarterly filing. Chugach under-recovered $0.3 million at September 30, 2019, and over-recovered $3.4 million at December 31, 2018. To the extent the regulated fuel and purchased power adjustment process does not provide for the timely recovery of costs, Chugach could experience a material negative impact on its cash flows. Chugach has line of credit and commercial paper borrowing capacity to mitigate this risk.

ML&P Acquisition

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

In June 2019, Chugach and GVEA entered into a Memorandum of Understanding (MOU) in which Chugach agreed to provide GVEA non-firm energy, wheeling and ancillary services for a 3-year period under terms and conditions consistent with its operating tariff, and will make available 5 MW of Bradley Lake capacity to GVEA for a 5-year period. Excluding fuel, the MOU is expected to provide over $10 million of additional revenue to the Chugach system over the term of the agreement. GVEA has withdrawn its petition to intervene regarding the ML&P acquisition.

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

On October 29, 2019, Chugach entered into an Amendment No. 2 to Asset Purchase and Sale Agreement ("APA Amendment No. 2"), Amendment No. 2 to Eklutna Power Purchase Agreement ("PPA Amendment No. 2"), and Amendment No. 2 to Payment in Lieu of Taxes Agreement ("PILT Amendment No. 2") with the MOA. The APA Amendment No. 2 extends the termination date of the APA from March 31, 2020 to September 30, 2020 and recognizes the Eklutna Transmission Assets as Acquired Assets in recognition of the fulfillment of a condition in the original Asset Purchase and Sale Agreement. The PPA Amendment No. 2 recognizes changes to the dispute resolution procedures contained therein and the PILT Amendment No. 2 removes Chugach's obligation in certain regulatory or bankruptcy proceedings to support and stipulate to the fact that the payment in lieu of taxes payments are a tax obligation and should be given appropriate priority status based on that fact.

Amendment No. 3 to Asset Purchase Agreement ("APA Amendment No. 3"), Amendment No. 3 to Eklutna Power Purchase Agreement ("PPA Amendment No. 3"), and an Amended and Restated BRU Fuel Agreement, were approved by the Chugach Board on October 24, 2019, and by the MOA Assembly on October 30, 2019, and will become effective upon RCA approval. APA Amendment No. 3 reduces the upfront payment to the MOA by $10.0 million, eliminates upward price adjustments if ML&P's net book value of the purchased assets is greater than $715.4 million at closing, and recognizes a $36.0 million rate reduction account to be funded by the MOA for the benefit of ML&P legacy customers. PPA Amendment No. 3 recognizes Chugach's right to set-off payments to the extent the MOA does not fulfill its obligations required in the Stipulation. The amended BRU fuel agreement extends the period over which the costs and benefits of Chugach's and ML&P's legacy shares of BRU will be allocated to customers in each legacy service area, requires Chugach to utilize a market proxy value for legacy share BRU gas used for economy energy sales, and requires Chugach to utilize a market proxy value for any legacy share BRU gas used to serve Chugach legacy customers for transactions between the legacy service areas of Chugach and ML&P. For more information, see "ITEM 1 – FINANCIAL STATEMENTS – Note 10 – ML&P ACQUISITION." There are many risks associated with the proposed acquisition including, but not limited to, regulatory approvals, incurrence of substantial debt, interest rate risk, realization of expected benefits and savings, etc., which could have a negative impact on our business, financial condition, or cost of electric service.

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, 2018. Except as noted above, these risk factors have not materially changed as of September 30, 2019.

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

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

Exhibit Number	***Description***
10.82.1	Amendment No. 1 to Asset Purchase and Sale Agreement between the Registrant and the Municipality of Anchorage, Alaska dated effective September 27, 2019
10.82.2	Amendment No. 2 to Asset Purchase and Sale Agreement between the Registrant and the Municipality of Anchorage, Alaska dated effective October 28, 2019
10.83.1	Amendment No. 1 to Eklutna Power Purchase Agreement between the Registrant and the Municipality of Anchorage, Alaska dated effective September 27, 2019
10.83.2	Amendment No. 2 to Eklutna Power Purchase Agreement between the Registrant and the Municipality of Anchorage, Alaska dated effective October 28, 2019
10.84.1	Amendment No. 1 to Payment in Lieu of Taxes Agreement between the Registrant and the Municipality of Anchorage, Alaska dated effective September 27, 2019
10.84.2	Amendment No. 2 to Payment in Lieu of Taxes Agreement between the Registrant and the Municipality of Anchorage, Alaska dated effective October 28, 2019
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

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, 2019

AMENDMENT NO. 1 TO ASSET PURCHASE AND SALE AGREEMENT

THIS AMENDMENT NO. 1 TO ASSET PURCHASE AND SALE AGREEMENT, dated as of the 27th day of September, 2019 (this "**Amendment**"), between the Municipality of Anchorage, Alaska, a political subdivision organized under the laws of the State of Alaska ("**Seller**"), and Chugach Electric Association, Inc., a not-for-profit electric cooperative corporation organized under the laws of the State of Alaska ("**Buyer**").

RECITALS

WHEREAS, Buyer and Seller entered into that certain Asset Purchase and Sale Agreement, dated as of December 28, 2018 (the "**Original Agreement**"); capitalized terms used in this Amendment, if not otherwise defined herein, shall have the meanings set forth in the Original Agreement, as amended or modified pursuant to this Amendment (as so amended or otherwise modified, the "**Asset Purchase Agreement**");

WHEREAS, pursuant to Section 10.10 of the Original Agreement, Buyer and Seller may amend, modify or supplement the Original Agreement upon the execution and delivery of a written agreement executed by the Parties; and

WHEREAS, the Parties desire to make certain amendments to the Original Agreement as provided in this Amendment.

NOW, THEREFORE, pursuant to Section 10.10 of the Original Agreement and in consideration for the premises and agreements hereinafter set forth, the Parties, intending to be legally bound, agree as follows:

1. New Definitions. The following definitions are added to Article I of the Original Agreement:

"**Eklutna Water Agreement**" has the meaning set forth in Section 6.23.

"**Estimated Net Book Value**" means the Net Book Value as estimated in good faith by Seller no later than ten (10) Business Days prior to the Closing Date.

"**Estimated Net Book Value Adjustment**" means the amount (whether a positive or negative number) obtained by subtracting the amount of $715,400,000 from the Estimated Net Book Value.

"**Net Book Value**" means the net book value, as of the Closing Date, of the following items appearing in the electric and gas balance sheets of ML&P, not including any asset accounts included in Transferred Cash or any Excluded Assets, but including retirement work in progress: (i) non-contributed plant in service; (ii) inventory, materials, and supplies; (iii) unamortized deferred charges and regulatory assets; and (iv) construction work in progress.

"**Net Book Value Adjustment**" means the amount (whether a positive or negative number) obtained by subtracting the amount of $715,400,000 from the Net Book Value.

2. Revised Definitions. The following definitions in Article I of the Original Agreement are amended and restated in their entirety as follows:

> "**PILT Agreement**" means the Payment in Lieu of Taxes Agreement between Seller and Buyer as amended on or before the Closing Date.

3. Amendment to Sections 2.05 through 2.08. Sections 2.05, 2.06, 2.07 and 2.08 of the Original Agreement are hereby deleted in their entirety and replaced with the following:

> **"Section 2.05. Purchase Price.** The aggregate purchase price for the Purchased Assets to be paid on the Closing Date will be the assumption of the Assumed Liabilities plus an amount (as adjusted in accordance with this Agreement, the "**Purchase Price**") equal to the following:
>
> (a) the Upfront Payment,
>
> (b) minus the Accrued Leave Liability;
>
> (c) minus the Net Book Value of Designated Excluded Assets;
>
> (d) plus the Net Book Value Adjustment (if the Net Book Value Adjustment is a positive number) or minus the absolute value of the Net Book Value Adjustment (if the Net Book Value Adjustment is a negative number).
>
> **Section 2.06. Estimated Purchase Price Statement.** At least ten (10) Business Days before the Closing, Seller shall prepare and deliver to Buyer a statement, prepared in accordance with the Accounting Principles (the "**Estimated Purchase Price Statement**"), setting forth Seller's good faith estimates of the Estimated Accrued Leave Liability, the Estimated Net Book Value of Designated Excluded Assets, the Estimated Net Book Value Adjustment and the calculation of the Estimated Purchase Price, as determined in accordance with Section 2.05 (the "**Estimated Purchase Price**"). Such statement shall also include an estimate of the Transferred Cash (the **"Estimated Transferred Cash**").
>
> **Section 2.07. Payment of Estimated Purchase Price**. At the Closing, Buyer will deliver, or cause to be delivered, to the intended final recipients (the names, wiring information and other relevant payment information of which recipients as may be reasonably requested by Buyer shall have been furnished by Seller in writing no later than three (3) Business Days prior to the Closing (such recipients, the "**Recipients**")), an amount equal to the Estimated Purchase Price for payment, on behalf of the Business, to the appropriate Recipient. Seller shall cause the Recipients to include amounts and Persons necessary to irrevocably defease or repay all Closing Debt in accordance with Section 3.02(c). With the exception of any portion of the Transferred Cash that Seller delivers to Buyer on the Closing Date, the Purchase Price shall be paid net of Estimated Transferred Cash in lieu of any obligation of Seller to deliver Transferred Cash on the Closing Date.

Section 2.08. Purchase Price Adjustment. Following the Closing, the Purchase Price will be adjusted as set forth below:

(a) **Closing Statement Preparation**. Within sixty (60) days after the Closing Date, Buyer shall prepare and deliver to Seller a statement (the "**Closing Statement**") setting forth a calculation of (i) the Accrued Leave Liability, (ii) the Transferred Cash, (iii) the Net Book Value of Designated Excluded Assets, (iv) the Net Book Value Adjustment and (v) the Closing Prorations, and (v) a recalculation of the Purchase Price, if any, based on each of the foregoing. The Closing Statement will be calculated (x) pursuant to the definitions within this Agreement, (y) in accordance with the Accounting Principles where applicable, and (z) without giving effect to the transactions contemplated hereby. Seller shall cooperate with Buyer in promptly responding to Buyer's reasonable requests while Buyer is preparing the Closing Statement.

(b) **Examination and Review**.

(i) Examination. After receipt of the Closing Statement, Seller shall have forty-five (45) days (the "**Review Period**") to review the Closing Statement. During the Review Period, Seller and its attorneys and accountants shall have access to the books and records of the Business, the personnel of, and work papers prepared by, Buyer or Buyer's Accountants to the extent that they relate to the Closing Statement and to such historical financial information (to the extent in Buyer's possession) relating to the Closing Statement as Seller may reasonably request for the purpose of reviewing the Closing Statement and to prepare a Statement of Objections (as defined below), *provided*, that such access shall be in a manner that does not interfere with the normal business operations of Buyer or the Business.

(ii) Objection. On or prior to the last day of the Review Period, Seller may object to the Closing Statement by delivering to Buyer a written statement setting forth Seller's objections in reasonable detail, indicating each disputed item, its amount and the basis for Seller's disagreement therewith (the "**Statement of Objections**"). If Seller fails to deliver the Statement of Objections before the expiration of the Review Period, the Closing Statement and the calculations contained therein shall be deemed to have been accepted by and to be final and binding on Seller and Buyer. If Seller delivers the Statement of Objections before the expiration of the Review Period, Buyer and Seller shall negotiate in good faith to resolve such objections within thirty (30) days after the delivery of the Statement of Objections (the "**Resolution Period**"), and, if the same are so resolved within the Resolution Period, the Closing Statement and the calculations contained therein, in each case with such changes as may have been previously agreed in writing by Buyer and Seller, shall be final and binding on Seller and Buyer and shall not be subject to further review.

(iii) Resolution of Disputes. If Seller and Buyer fail to reach an agreement with respect to any or all of the matters set forth in the Statement of Objections before expiration of the Resolution Period, then any amounts remaining in dispute ("**Disputed Amounts**") shall be submitted for resolution to an impartial regionally recognized financial consulting firm or a firm of independent certified public accountants other than Seller's Accountants, the Business's accountants or Buyer's Accountants mutually agreeable to Buyer and Seller (the "**Independent Accountant**") who, acting as an expert and not an arbitrator, and without considering extrinsic evidence, shall resolve the Disputed Amounts only to the extent they relate to accounting matters and make any adjustments to the Closing Statement. The Independent Accountant shall be jointly instructed by the parties to make a determination as soon as practicable within thirty (30) days (or such other time as the parties hereto shall agree in writing) after engagement of the Independent Accountant, and its resolution of the Disputed Amounts and, other than with respect to conclusions of Law and interpretation of this Agreement and consideration of extrinsic evidence, its adjustments to the Closing Statement shall be conclusive (other than with respect to conclusions of Law and interpretation of this Agreement and consideration of extrinsic evidence) absent manifest error. The Independent Accountant shall decide only the specific items under dispute by the parties and the Independent Accountant's decision for each Disputed Amount must be within the range of values assigned to each such item in the Closing Statement and the Statement of Objections, respectively. The fees and expenses of the Independent Accountant shall initially be split 50/50 between Buyer and Seller, and after the final resolution of any dispute, shall be borne by Buyer, on the one hand, and Seller, on the other hand, based on the percentage which the portion of the contested amount not awarded to each party bears to the amount actually contested by such party (and the appropriate party shall reimburse the other party accordingly). For example, if Accrued Leave Liability is the only disputed item, and Seller claims that Accrued Leave Liability is $1,000, and Buyer contests only $500 of the amount claimed by Seller, and if the Independent Accountants ultimately resolve the dispute by awarding Seller $300 of the $500 contested, then the costs and expenses of Independent Accountants will be allocated 60% (i.e., 300 ÷ 500) to Buyer and 40% (i.e., 200 ÷ 500) to Seller. Any dispute that cannot be resolved by the Independent Accountant pursuant to the provisions hereof shall be resolved by courts of law set forth in Section 10.11.

(c) **Adjustment Payments**. The Closing Prorations and the Purchase Price shall be recalculated using such finally determined amounts in lieu of the estimates of such amounts used in the calculation of the Purchase Price payable at Closing.

(i) With respect to Accrued Leave Liability, Net Book Value of Designated Excluded Assets, and Closing Prorations, the Purchase Price shall be increased (in the case of an aggregate positive amount) or decreased (in the case of an aggregate negative amount) on a dollar-for-dollar basis by the aggregate amount, if any, determined by (A) subtracting the Estimated Accrued Leave Liability from the Accrued Leave Liability, (B) subtracting the Estimated Net Book Value of Designated Excluded Assets from the Net Book Value of Designated Excluded Assets, and (C) adding the Closing Prorations if the aggregate amount of the prorations is for the benefit of Seller and subtracting the amount of Closing Prorations if the aggregate amount of the prorations is for the benefit of Buyer, and adding together the amounts calculated in each of the foregoing (A), (B), and (C) to reach a final net amount (such net amount, the "**Adjustment Amount**"). With respect to the Net Book Value Adjustment, the Purchase Price shall be increased on a dollar-for-dollar basis by the difference between the Estimated Net Book Value Adjustment and the Net Book Value Adjustment if the Net Book Value is higher than the Estimated Net Book Value, and shall be decreased on a dollar-for-dollar basis by the difference between the Estimated Net Book Value Adjustment and the Net Book Value Adjustment if the Net Book Value is lower than the Estimated Net Book Value.

(ii) No later than within two (2) Business Days after the determination of the Adjustment Amount and the Net Book Value Adjustment, (A) if the net effect of the Adjustment Amount and the Net Book Value Adjustment, collectively, results in an increase to the Purchase Price, Buyer shall pay to Seller an amount equal to the amount of such increase (without interest) and (B) if the net effect of the Adjustment Amount and the Net Book Value Adjustment, collectively, results in a decrease to the Purchase Price, Seller shall disburse to Buyer an amount equal to the amount of such decrease (without interest). In addition, if Estimated Transferred Cash minus Transferred Cash is a negative number, Seller shall pay Buyer the difference on such date, and if a positive number, Buyer shall pay Seller such difference on such date."

4. Amendment of Section 6.23. Section 6.23 of the Original Agreement is hereby deleted in its entirety and replaced by the following:

> **"Section 6.23. Eklutna Public Water Supply.** Seller shall not amend, extend, supplement or otherwise modify the Agreement for Public Water Supply and Energy Generation from Eklutna Lake, Alaska executed on February 17, 1984 between the Alaska Power Administration and Seller, as such agreement has been amended and supplemented to date. Seller and Buyer hereby acknowledge and agree that Seller has prior rights to not less than 41 million gallons of water per day from Eklutna Lake for public water supply pursuant to the Act of October 30, 1984, 98 Stat. 2823; Alaska Statutes 46.15.150(a); and Certificate of Appropriation ADL 44944. Seller and Buyer agree that during the term of the Eklutna Power Purchase Agreement, the supply of water available for production of Power (as defined in the Eklutna Power Purchase Agreement) by the Chugach Portion (as defined in the Eklutna Power Purchase Agreement) shall be net of all water taken by AWWU for public water supply purposes under any applicable water rights granted by the State of Alaska. Seller and Buyer further agree that, during the term of the Eklutna Power Purchase Agreement, Buyer shall be entitled to receive any consideration that Seller is entitled to receive from AWWU for the energy generation lost with respect to the Chugach Portion as a result of AWWU taking such water for such purposes, and that such consideration may, at the election of AWWU, take the form of monetary payments or delivery of replacement energy at the Eklutna PPA delivery point or the Plant 2A switchyard, for the full amount of such lost electric power generation. If replacement energy is provided through generation within the certificated service area of Buyer, such interconnection shall be made in accordance with Buyer's interconnection guidelines for non-utility generators. If such consideration takes the form of monetary payments, such payments shall be made at Seller's applicable tariffed rates, as adopted by Buyer as part of obtaining RCA Approval. Such tariff rates shall include (a) the base rate set forth in Seller's Rate Schedule 25, Replacement Energy Service - AWWU (without inclusion of any cost of power adjustment), and (b) the ML&P legacy service area cost of power adjustment (currently set forth in Seller's Rate Schedule 01, Fuel and Purchased Power Cost Adjustment). Together, those rates reflect and shall reflect the rate methodology described in RCA Order No. U-90-090(7) and Seller's most recent RCA-approved cost of service study in Docket U-17-008, as it may be revised from time to time upon approval by the RCA. Buyer agrees not to propose a change in that methodology until after December 31, 2025. If any such payments are made by AWWU to Seller, Seller will promptly after receipt of each such payment deliver to Buyer such portion of such payment that is attributable to the Chugach Portion. If any such payments are made by AWWU to Buyer, Buyer will promptly after receipt of each such payment deliver to Seller any portion of such payment that is attributable to the MEA Proportionate Interest (as defined in the Eklutna Power Purchase Agreement). AWWU may supply replacement energy from any part of the Eklutna Water Project (including the Energy Recovery Station near Plant 2A).

5. Effective Date of this Amendment. Except as expressly provided herein and the letter agreements dated March 8, 2019 and March 15, 2019 (the "**Letter Agreements**"), the Original Agreement is not amended, supplemented, modified, revised or otherwise affected by this

Amendment. This Amendment shall be deemed effective and in full force and effect as of the date first written above. On and after the date hereof, each reference in the Original Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of like import referring to the Original Agreement, shall mean and be a reference to the Asset Purchase Agreement and each reference to the Asset Purchase Agreement in any other agreements, documents or instruments executed and delivered pursuant to or in connection with the Asset Purchase Agreement shall be deemed to mean and be a reference to the Asset Purchase Agreement as amended by this Amendment and the Letter Agreements.

6. Binding Effect. This Amendment shall be binding upon and shall inure to the benefit of the Parties hereto and their respective successors and permitted assigns.

7. Governing Law. This Amendment shall be governed by and construed in accordance with the internal laws of the State of Alaska, without reference to conflicts of laws principles that would result in the application of the laws of any other jurisdiction.

8. Counterparts. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Amendment delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

[*Remainder of the page intentionally left blank*]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the date first written above by their respective officers and officials thereunto duly authorized.

MUNICIPALITY OF ANCHORAGE, ALASKA

By William D. Falsey

Name: William D. Falsey
Title: Municipal Manager

CHUGACH ELECTRIC ASSOCIATION, INC.

By______________________________

Name: Lee D. Thibert
Title: Chief Executive Officer

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the date first written above by their respective officers and officials thereunto duly authorized.

MUNICIPALITY OF ANCHORAGE, ALASKA

By________________________________

Name: William D. Falsey
Title: Municipal Manager

CHUGACH ELECTRIC ASSOCIATION, INC.

By________________________________

Name: Lee D. Thibert
Title: Chief Executive Officer

AMENDMENT NO. 2 TO ASSET PURCHASE AND SALE AGREEMENT

THIS AMENDMENT NO. 2 TO ASSET PURCHASE AND SALE AGREEMENT, dated as of the 28th day of October, 2019 (this "**Amendment**"), between the Municipality of Anchorage, Alaska, a political subdivision organized under the laws of the State of Alaska ("**Seller**"), and Chugach Electric Association, Inc., a not-for-profit electric cooperative corporation organized under the laws of the State of Alaska ("**Buyer**").

RECITALS

WHEREAS, Buyer and Seller entered into that certain Asset Purchase and Sale Agreement, dated as of December 28, 2018 (the "**Original Agreement**"); capitalized terms used in this Amendment, if not otherwise defined herein, shall have the meanings set forth in the Original Agreement, as amended or modified pursuant to this Amendment or any Previous Amendment (as so amended or otherwise modified, the "**Asset Purchase Agreement**");

WHEREAS, pursuant to Section 10.10 of the Original Agreement, Buyer and Seller may amend, modify or supplement the Original Agreement upon the execution and delivery of a written agreement executed by the Parties; and

WHEREAS, the Parties desire to make certain amendments to the Original Agreement as provided in this Amendment.

NOW, THEREFORE, pursuant to Section 10.10 of the Original Agreement and in consideration for the premises and agreements hereinafter set forth, the Parties, intending to be legally bound, agree as follows:

1. Amendment to Section 6.30. Section 6.30 of the Original Agreement is hereby deleted in its entirety and is replaced with the following:

> **Section 6.30 Eklutna Transmission Assets are Purchased Assets.** Seller and Buyer agree that MEA has consented, in accordance with the provisions of Section 1 of the Agreement for Extension of 1996 Eklutna Hydroelectric Project Transition Plan dated October 2, 1997 by and among Seller, Buyer, and MEA, to the sale by Seller to Buyer under this Agreement of all undivided interests, rights, and title of Seller in and to the Eklutna Transmission Assets. Accordingly, the Eklutna Transmission Assets are Purchased Assets for purposes of this Agreement. Accordingly, (i) each reference in this Agreement to the Eklutna Generation Assets will be deemed to exclude the Eklutna Transmission Assets, and (ii) the "Facility" under the Eklutna Power Purchase Agreement will be deemed to exclude the Eklutna Transmission Assets and the "Seller's Interest" under the Eklutna Power Purchase Agreement will be deemed to exclude all undivided interests, rights, title, and obligations of Seller in and to the Eklutna Transmission Assets, including for purposes of the Purchase Option under Section 14.3 of the Eklutna Power Purchase Agreement.

2. Amendment to Section 9.01(b)(ii). Section 9.01(b)(ii) of the Original Agreement is hereby deleted in its entirety and is replaced with the following:

> (ii) any of the conditions set forth in Section 7.01 or Section 7.02 shall not have been, or if it becomes apparent that any of such conditions will not be, fulfilled by September 30, 2020, unless such failure shall be due to the failure of Buyer to perform or comply with any of the covenants, agreements, or conditions hereof to be performed or complied with by it prior to the Closing; or

3. Amendment to Section 9.01(c)(ii). Section 9.01(c)(ii) of the Original Agreement is hereby deleted in its entirety and is replaced with the following:

> (ii) any of the conditions set forth in Section 7.01 or Section 7.03 shall not have been, or if it becomes apparent that any of such conditions will not be, fulfilled by September 30, 2020, unless such failure shall be due to the failure of Seller to perform or comply with any of the covenants, agreements, or conditions hereof to be performed or complied with by it prior to the Closing; or

4. Effective Date of this Amendment. Except as expressly provided herein and the letter agreements dated March 8, 2019 and March 15, 2019 and Amendment No. 1 to the Asset Purchase Agreement dated as of September 27, 2019 (the "**Previous Amendments**"), the Original Agreement and the Previous Amendments are not amended, supplemented, modified, revised or otherwise affected by this Amendment. This Amendment shall be deemed effective and in full force and effect as of the date first written above. On and after the date hereof, each reference in the Asset Purchase Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of like import referring to the Original Agreement or the Previous Amendments, shall mean and be a reference to the Asset Purchase Agreement and each reference to the Asset Purchase Agreement in any other agreements, documents or instruments executed and delivered pursuant to or in connection with the Asset Purchase Agreement shall be deemed to mean and be a reference to the Asset Purchase Agreement as amended by this Amendment and the Previous Amendments.

5. Binding Effect. This Amendment shall be binding upon and shall inure to the benefit of the Parties hereto and their respective successors and permitted assigns.

6. Governing Law. This Amendment shall be governed by and construed in accordance with the internal laws of the State of Alaska, without reference to conflicts of laws principles that would result in the application of the laws of any other jurisdiction.

7. Counterparts. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Amendment delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

[*Remainder of the page intentionally left blank*]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the date first written above by their respective officers and officials thereunto duly authorized.

MUNICIPALITY OF ANCHORAGE, ALASKA

By______________________

Name: William D. Falsey
Title: Municipal Manager

CHUGACH ELECTRIC ASSOCIATION, INC.

By______________________

Name: Lee D. Thibert
Title: Chief Executive Officer

AMENDMENT NO. 1 TO EKLUTNA POWER PURCHASE AGREEMENT

This AMENDMENT NO. 1 TO EKLUTNA POWER PURCHASE AGREEMENT, dated as of the 27th day of September, 2019 (this "**Eklutna PPA Amendment**"), is made and entered into by and between (i) **CHUGACH ELECTRIC ASSOCIATION, INC.**, an Alaska not-for-profit electric cooperative corporation ("**Purchaser**"), and (ii) the **MUNICIPALITY OF ANCHORAGE,** a political subdivision organized under the laws of the State of Alaska ("**Seller**"). Purchaser and Seller are hereinafter referred to individually as a "**Party**" and collectively as the "**Parties**".

RECITALS

WHEREAS, Purchaser and Seller entered into that certain Eklutna Power Purchase Agreement dated as of December 28, 2018 (the "**Eklutna PPA**");

WHEREAS, Section 15.7 of the Eklutna PPA provides that Purchaser and Seller may amend the Eklutna PPA upon the execution and delivery of a written agreement executed by each Party; and

NOW, THEREFORE, pursuant to Section 15.7 of the Eklutna PPA and in consideration for the premises and agreements hereinafter set forth, the Parties, intending to be legally bound, agree as follows:

1. Revision to Section 15.11. The following sentence is added at the end of Section 15.11 of the Eklutna PPA:

> It is the understanding of the Parties that this PPA, as a wholesale power agreement between public utilities governed by AS 42.05.431(b), will not take effect without the prior approval of the RCA, and will at all times after any such approval be subject to the RCA's continuing authority over wholesale power agreements.

2. Effective Date and Incorporation of Terms of Eklutna PPA. This Amendment shall be deemed effective as of the Effective Date as defined in Exhibit A to the Eklutna PPA and, without in any way limiting the effect of the amendment set forth in Section 1 of this Amendment, shall be subject to all the terms and conditions of the Eklutna PPA.

3. Counterparts. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Amendment delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Amendment.

[*Remainder of the page intentionally left blank*]

IN WITNESS WHEREOF, the Parties have caused this Amendment to be executed as of the date first written above by their respective officers and officials thereunto duly authorized.

MUNICIPALITY OF ANCHORAGE, ALASKA

By William D. Falsey

Name: William D. Falsey
Title: Municipal Manager

CHUGACH ELECTRIC ASSOCIATION, INC.

By Lee D. Thibert

Name: Lee D. Thibert
Title: Chief Executive Officer

AMENDMENT NO. 2 TO EKLUTNA POWER PURCHASE AGREEMENT

This AMENDMENT NO. 2 TO EKLUTNA POWER PURCHASE AGREEMENT, dated as of the 28th day of October, 2019 (this "**Eklutna PPA Amendment**"), is made and entered into by and between (i) **CHUGACH ELECTRIC ASSOCIATION, INC.**, an Alaska not-for-profit electric cooperative corporation ("**Purchaser**"), and (ii) the **MUNICIPALITY OF ANCHORAGE,** a political subdivision organized under the laws of the State of Alaska ("**Seller**"). Purchaser and Seller are hereinafter referred to individually as a "**Party**" and collectively as the "**Parties**".

RECITALS

WHEREAS, Purchaser and Seller entered into that certain Eklutna Power Purchase Agreement dated as of December 28, 2018 (the "**Eklutna PPA**");

WHEREAS, Section 15.7 of the Eklutna PPA provides that Purchaser and Seller may amend the Eklutna PPA upon the execution and delivery of a written agreement executed by each Party; and

NOW, THEREFORE, pursuant to Section 15.7 of the Eklutna PPA and in consideration for the premises and agreements hereinafter set forth, the Parties, intending to be legally bound, agree as follows:

1. <u>Revision to Section 10.1</u>. Section 10.1 of the Eklutna PPA is deleted in its entirety and replaced with the following:

> **Section 10.1** **Dispute Resolution**. In the event of any dispute arising under this PPA (a "**Dispute**"), within ten (10) Business Days following Notice by either Party, (i) each Party shall appoint a representative, and (ii) the representatives shall meet, negotiate and attempt in good faith to resolve the Dispute quickly, informally and inexpensively. In the event the representatives cannot resolve the Dispute within thirty (30) Days after the first meeting, either Party may request that consideration and resolution of the Dispute be transferred to a designated representative of each Party's senior management. Within ten (10) Days following such a request, each Party shall submit a written summary of the Dispute describing the issues and claims to a senior officer of each Party designated to address the Dispute. Within ten (10) Business Days after receipt of each Party's Dispute summaries, the senior management representatives for both Parties shall negotiate in good faith to resolve the Dispute. If such senior management representatives are unable to resolve the Dispute within thirty (30) Days thereafter, either Party may pursue any available legal remedies.

2. <u>Effective Date and Incorporation of Terms of Eklutna PPA.</u> This Amendment shall be deemed effective as of the Effective Date as defined in Exhibit A to the Eklutna PPA and, without in any way limiting the effect of the amendment set forth in Section 1 of this Amendment, shall be subject to all the terms and conditions of the Eklutna PPA.

3. Counterparts. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Amendment delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Amendment.

[*Remainder of the page intentionally left blank*]

IN WITNESS WHEREOF, the Parties have caused this Amendment to be executed as of the date first written above by their respective officers and officials thereunto duly authorized.

MUNICIPALITY OF ANCHORAGE, ALASKA

By William D. Falsey

Name: William D. Falsey
Title: Municipal Manager

CHUGACH ELECTRIC ASSOCIATION, INC.

By______________________

Name: Lee D. Thibert
Title: Chief Executive Officer

AMENDMENT NO. 1 TO PAYMENT IN LIEU OF TAXES AGREEMENT

THIS AMENDMENT NO. 1 TO PAYMENT IN LIEU OF TAXES AGREEMENT, dated as of the 27th day of September, 2019 (this "**Amendment**"), between the Municipality of Anchorage, Alaska, a political subdivision organized under the laws of the State of Alaska ("**Municipality**"), and Chugach Electric Association, Inc., a not-for-profit electric cooperative corporation organized under the laws of the State of Alaska ("**Chugach**").

RECITALS

WHEREAS, Chugach and Municipality entered into that certain Payment in Lieu of Taxes Agreement, dated as of December 28, 2018 (the "**Original PILT Agreement**");

WHEREAS, capitalized terms used in this Amendment, if not otherwise defined herein, shall have the meanings set forth in the Original PILT Agreement, as amended or modified pursuant to this Amendment (as so amended or modified, the "**PILT Agreement**");

WHEREAS, pursuant to Section 3.08 of the Original PILT Agreement, Chugach and Municipality may amend, modify or supplement the Original PILT Agreement upon the execution and delivery of a written agreement executed by each party thereto; and

WHEREAS, the Chugach and Municipality desire to make certain amendments to the Original PILT Agreement as provided in this Amendment.

NOW, THEREFORE, pursuant to Section 3.08 of the Original PILT Agreement and in consideration for the premises and agreements hereinafter set forth, the parties hereto, intending to be legally bound, agree as follows:

1. New Definitions. The following definition is added to Article I of the Original PILT Agreement:

"**Net ML&P Classified Plant in Service**" means the net book value of ML&P classified and unclassified plant in service within the Municipality of Anchorage as of the Closing Date, including contributed plant but not including intangible plant and construction work in progress.

2. Revised Definitions. The following definitions in Article I of the Original Agreement are replaced in their entirety as follows:

"**Adjusted Net Book Value**" means, for any year, the product of (i) the Net ML&P Classified Plant in Service located within each district in the Legacy Territory as of the Closing Date and (ii) the Overall Plant in Service Change.

"**Net Plant in Service**" means the net book value of plant in service, exclusive of contributed plant, intangible plant and construction work in progress.

"**Overall Plant in Service Change**" means a fraction of which (i) the numerator is the Net Plant in Service of Chugach located within the Municipality of Anchorage as of

January 1 of the current year, and (ii) the denominator is the sum of (a) ML&P's Net Plant in Service in the Legacy Territory that is located within the Municipality of Anchorage on the Closing Date plus (b) Chugach's Net Plant in Service in the Chugach legacy territory that is located within the Municipality of Anchorage on the Closing Date.

3. Amendment to Exhibit A. Exhibit A of the Original PILT Agreement is hereby deleted in its entirety and replaced with Exhibit A, attached hereto.

4. Effective Date of this Amendment. Except as expressly provided herein, the Original PILT Agreement is not amended, supplemented, modified, revised or otherwise affected by this Amendment. This Amendment shall be deemed effective and in full force and effect as of the date first written above. On and after the date hereof, each reference in the Original PILT Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of like import referring to the Original Agreement, shall mean and be a reference to the Payment In Lieu Of Taxes Agreement and each reference to the Payment In Lieu Of Taxes Agreement in any other agreements, documents or instruments executed and delivered pursuant to or in connection with the Payment In Lieu Of Taxes Agreement shall be deemed to mean and be a reference to the Payment In Lieu Of Taxes Agreement as amended by this Amendment.

5. Binding Effect. This Amendment shall be binding upon and shall inure to the benefit of the Parties hereto and their respective successors and permitted assigns.

6. Governing Law. This Amendment shall be governed by and construed in accordance with the internal laws of the State of Alaska, without reference to conflicts of laws principles that would result in the application of the laws of any other jurisdiction.

7. Counterparts. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Amendment delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

[*Remainder of the page intentionally left blank*]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the date first written above by their respective officers and officials thereunto duly authorized.

MUNICIPALITY OF ANCHORAGE, ALASKA

By______________________

Name: William D. Falsey
Title: Municipal Manager

CHUGACH ELECTRIC ASSOCIATION, INC.

By______________________

Name: Lee D. Thibert
Title: Chief Executive Officer

AMENDMENT NO. 2 TO PAYMENT IN LIEU OF TAXES AGREEMENT

THIS AMENDMENT NO. 2 TO PAYMENT IN LIEU OF TAXES AGREEMENT, dated as of the 28th day of October, 2019 (this "**Amendment**"), between the Municipality of Anchorage, Alaska, a political subdivision organized under the laws of the State of Alaska ("**Municipality**"), and Chugach Electric Association, Inc., a not-for-profit electric cooperative corporation organized under the laws of the State of Alaska ("**Chugach**").

RECITALS

WHEREAS, Chugach and Municipality entered into that certain Payment in Lieu of Taxes Agreement, dated as of December 28, 2018 (the "**Original PILT Agreement**");

WHEREAS, capitalized terms used in this Amendment, if not otherwise defined herein, shall have the meanings set forth in the Original PILT Agreement, as amended or modified to date or pursuant to this Amendment (as so amended or modified, the "**PILT Agreement**");

WHEREAS, pursuant to Section 3.08 of the Original PILT Agreement, Chugach and Municipality may amend, modify or supplement the Original PILT Agreement upon the execution and delivery of a written agreement executed by each party thereto; and

WHEREAS, the Chugach and Municipality desire to make certain amendments to the PILT Agreement as provided in this Amendment.

NOW, THEREFORE, pursuant to Section 3.08 of the Original PILT Agreement and in consideration for the premises and agreements hereinafter set forth, the parties hereto, intending to be legally bound, agree as follows:

1. Revisions. Section 2.09 and Section 2.10 of the PILT Agreement are hereby deleted in their entirety and replaced as follows:

Section 2.09 [Reserved.]

Section 2.10 [Reserved.]

2. Effective Date of this Amendment. Except as expressly provided herein, the PILT Agreement is not amended, supplemented, modified, revised or otherwise affected by this Amendment. This Amendment shall be deemed effective and in full force and effect as of the date first written above. On and after the date hereof, each reference in the PILT Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of like import referring to the PILT Agreement, shall mean and be a reference to the PILT Agreement and each reference to the PILT Agreement in any other agreements, documents or instruments executed and delivered pursuant to or in connection with the PILT Agreement shall be deemed to mean and be a reference to the PILT Agreement as amended by this Amendment.

3. Binding Effect. This Amendment shall be binding upon and shall inure to the benefit of the Parties hereto and their respective successors and permitted assigns.

4. Governing Law. This Amendment shall be governed by and construed in accordance with the internal laws of the State of Alaska, without reference to conflicts of laws principles that would result in the application of the laws of any other jurisdiction.

5. Counterparts. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Amendment delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

[*Remainder of the page intentionally left blank*]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the date first written above by their respective officers and officials thereunto duly authorized.

MUNICIPALITY OF ANCHORAGE, ALASKA

By William D. Falsey

Name: William D. Falsey
Title: Municipal Manager

CHUGACH ELECTRIC ASSOCIATION, INC.

By [signature]

Name: Lee D. Thibert
Title: Chief Executive Officer

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, 2019

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, 2019

By: Sherri L. Highers

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, 2019, 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, 2019

By: Lee D. Thibert
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, 2019, 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, 2019

By: Sherri L Highers

Sherri L. Highers
Chief Financial Officer
Principal Financial Officer