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 June 30, 2020

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, 2019, 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 June 30, 2020, follow.

Chugach Electric Association, Inc.
Consolidated Balance Sheets

Assets	(Unaudited) June 30, 2020	December 31, 2019
Utility plant:		
Electric plant in service	$ 1,257,895,249	$ 1,242,523,092
Construction work in progress	13,068,061	16,966,608
Total utility plant	1,270,963,310	1,259,489,700
Less accumulated depreciation	(570,277,245)	(556,209,740)
Net utility plant	700,686,065	703,279,960
Other property and investments, at cost:		
Nonutility property	76,889	76,889
Operating lease right-of-use assets	859,346	958,111
Financing lease right-of-use assets	9,855	0
Investments in associated organizations	7,790,990	8,148,426
Special funds	2,580,334	2,603,505
Restricted cash equivalents	64,310	108,000
Long-term prepayments	266,143	0
Total other property and investments	11,647,867	11,894,931
Current assets:		
Cash and cash equivalents	4,269,225	7,271,820
Special deposits	58,300	54,300
Restricted cash equivalents	500,555	1,244,155
Marketable securities	192,164	194,183
Fuel cost under-recovery	544,313	1,445,753
Accounts receivable, net	25,187,529	30,120,230
Materials and supplies	18,163,777	18,014,480
Fuel stock	13,712,623	12,250,567
Prepayments	3,131,917	2,699,308
Other current assets	169,580	235,132
Total current assets	65,929,983	73,529,928
Other non-current assets:		
Deferred charges, net	52,205,634	45,880,452
Total other non-current assets	52,205,634	45,880,452
Total assets	$ 830,469,549	$ 834,585,271

(Continued)

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

Liabilities, Equities and Margins	(Unaudited) June 30, 2020	December 31, 2019
Equities and margins:		
Memberships	$ 1,789,017	$ 1,776,592
Patronage capital	180,263,286	177,380,964
Other	15,353,158	15,309,357
Total equities and margins	197,405,461	194,466,913
Long-term obligations, excluding current installments:		
Bonds payable	429,683,330	449,999,997
Notes payable	28,728,000	30,552,000
Less unamortized debt issuance costs	(2,582,670)	(2,684,537)
Operating lease liabilities	646,660	738,713
Financing lease liabilities	8,329	0
Total long-term obligations	456,483,649	478,606,173
Current liabilities:		
Current installments of long-term obligations	24,179,146	27,056,065
Commercial paper	41,000,000	24,000,000
Accounts payable	7,613,900	8,316,375
Consumer deposits	3,740,420	4,294,770
Accrued interest	5,409,640	5,717,759
Salaries, wages and benefits	8,496,035	7,387,746
Fuel	6,594,044	6,765,881
Undergrounding ordinance liability	11,796,424	10,001,492
Other current liabilities	435,301	2,625,516
Total current liabilities	109,264,910	96,165,604
Other non-current liabilities:		
Deferred compensation	1,484,476	1,775,759
Other liabilities, non-current	583,787	398,790
Deferred liabilities	1,103,232	903,870
Cost of removal obligation / asset retirement obligation	64,144,034	62,268,162
Total other non-current liabilities	67,315,529	65,346,581
Total liabilities, equities and margins	$ 830,469,549	$ 834,585,271

See accompanying notes to financial statements.

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

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Operating revenues	$ 48,786,953	$ 47,540,088	$ 108,694,376	$ 103,367,326
Operating expenses:				
Fuel	12,189,988	12,788,246	26,722,341	27,526,795
Production	5,213,389	4,683,375	11,107,383	9,542,186
Purchased power	5,743,669	4,877,990	13,117,067	11,771,001
Transmission	1,625,215	1,634,714	3,361,172	4,022,783
Distribution	4,451,673	3,867,859	7,982,106	7,424,478
Consumer accounts	1,800,710	1,753,002	3,589,755	3,466,561
Administrative, general and other	6,001,533	6,620,509	12,520,493	12,946,367
Depreciation and amortization	7,922,073	7,724,380	15,913,682	15,550,749
Total operating expenses	$ 44,948,250	$ 43,950,075	$ 94,313,999	$ 92,250,920
Interest expense:				
Long-term debt and other	5,463,395	5,590,422	11,121,181	11,147,036
Charged to construction	(61,480)	(84,099)	(143,325)	(185,057)
Interest expense, net	$ 5,401,915	$ 5,506,323	$ 10,977,856	$ 10,961,979
Net operating margins	$ (1,563,212)	$ (1,916,310)	$ 3,402,521	$ 154,427
Nonoperating margins:				
Interest income	86,735	142,663	193,146	311,815
Allowance for funds used during construction	24,591	37,950	57,329	83,507
Capital credits, patronage dividends and other	50,307	18,626	(68,241)	118,757
Total nonoperating margins	$ 161,633	$ 199,239	$ 182,234	$ 514,079
Assignable margins	$ (1,401,579)	$ (1,717,071)	$ 3,584,755	$ 668,506

See accompanying notes to financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Memberships:				
Balance at beginning of period	$ 1,782,028	$ 1,753,742	$ 1,776,592	$ 1,748,172
Memberships and donations received	6,989	7,440	12,425	13,010
Balance at end of period	$ 1,789,017	$ 1,761,182	$ 1,789,017	$ 1,761,182
Other equities and margins:				
Balance at beginning of period	15,337,373	15,035,783	15,309,357	14,952,925
Unclaimed capital credits retired	(10,723)	(4,341)	(13,796)	(5,918)
Memberships and donations received	26,508	48,284	57,597	132,719
Balance at end of period	$ 15,353,158	$ 15,079,726	$ 15,353,158	$ 15,079,726
Patronage capital:				
Balance at beginning of period	182,281,350	175,198,092	177,380,964	177,823,597
Assignable margins	(1,401,579)	(1,717,071)	3,584,755	668,506
Retirement/net transfer of capital credits	(616,485)	(110,310)	(702,433)	(5,121,392)
Balance at end of period	$ 180,263,286	$ 173,370,711	$ 180,263,286	$ 173,370,711
Total equities and margins	$ 197,405,461	$ 190,211,619	$ 197,405,461	$ 190,211,619

See accompanying notes to financial statements.

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

	Six months ended June 30, 2020	Six months ended June 30, 2019
Cash flows from operating activities:		
Assignable margins	$ 3,584,755	$ 668,506
Adjustments to reconcile assignable margins to net cash provided by operating activities:		
Depreciation and amortization	15,913,682	15,550,749
Amortization and depreciation cleared to operating expenses	3,729,546	3,607,234
Allowance for funds used during construction	(57,329)	(83,507)
Write off of inventory, deferred charges and projects	245,915	484,649
Other	70,909	(112,604)
(Increase) decrease in assets:		
Accounts receivable, net	5,414,016	4,278,299
Fuel cost under-recovery	901,440	0
Materials and supplies	(151,168)	(347,346)
Fuel stock	(1,462,056)	1,948,872
Prepayments	(698,752)	(1,330,643)
Other assets	61,552	(62,101)
Deferred charges	(8,746,638)	(4,457,105)
Increase (decrease) in liabilities:		
Accounts payable	(865,797)	(428,416)
Consumer deposits	(554,350)	(188,541)
Fuel cost over-recovery	0	(464,531)
Accrued interest	(308,119)	48,142
Salaries, wages and benefits	1,108,289	307,172
Fuel	(171,837)	(777,938)
Other current liabilities	(2,005,219)	(2,022,672)
Deferred liabilities	(32,241)	(17,313)
Net cash provided by operating activities	15,976,598	16,600,906
Cash flows from investing activities:		
Return of capital from investment in associated organizations	357,436	414,443
Investment in special funds	(305,373)	(14,855)
Investment in marketable securities and investments-other	(3,372)	(22,430)
Proceeds from the sale of marketable securities	0	6,437,508
Extension and replacement of plant	(13,434,130)	(19,481,053)
Net cash used in investing activities	(13,385,439)	(12,666,387)
Cash flows from financing activities:		
Payments for debt issue costs	(34,122)	(472,332)
Net increase (decrease) in short-term obligations	17,000,000	(53,000,000)
Proceeds from long-term obligations	0	75,000,000
Repayments of long-term obligations	(25,012,667)	(25,012,667)
Memberships and donations received	56,226	139,811
Retirement of patronage capital and estate payments	(702,433)	(6,583,350)
Proceeds from consumer advances for construction	2,311,952	2,097,882
Net cash used in financing activities	(6,381,044)	(7,830,656)
Net change in cash, cash equivalents, and restricted cash equivalents	(3,789,885)	(3,896,137)
Cash, cash equivalents, and restricted cash equivalents at beginning of period	$ 8,623,975	$ 7,428,969
Cash, cash equivalents, and restricted cash equivalents at end of period	$ 4,834,090	$ 3,532,832
Supplemental disclosure of non-cash investing and financing activities:		
Cost of removal obligation	$ 1,875,872	$ (2,277,741)
Extension and replacement of plant included in accounts payable	$ 1,498,781	$ 1,657,083
Supplemental disclosure of cash flow information - interest expense paid, net of amounts capitalized	$ 10,720,616	$ 10,317,686

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, 2019, filed as part of Chugach's annual report on Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for interim periods are not necessarily indicative of the results that may be expected for an entire year or any other period.

2. DESCRIPTION OF BUSINESS

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

Chugach's retail and wholesale members are the consumers of the electricity sold. Chugach supplies much of the power requirements of the City of Seward ("Seward"), as a wholesale customer. 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").

The consolidated financial statements include the activity of Chugach and of Chugach's interest in the Beluga River Unit ("BRU"). Chugach accounts for its share of BRU activity using proportional consolidation (see *Note 11 – Beluga River Unit*). Intercompany activity has been eliminated for presentation of the consolidated financial statements.

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, 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 proven 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 six month periods ended June 30, 2020, and 2019, 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.

	June 30, 2020	December 31, 2019
Cash and cash equivalents	$ 4,269,225	$ 7,271,820
Restricted cash equivalents	500,555	1,244,155
Restricted cash equivalents included in other property and investments	64,310	108,000
Total cash, cash equivalents and restricted cash equivalents shown in the consolidated statements of cash flows	$ 4,834,090	$ 8,623,975

Restricted cash equivalents include funds on deposit for future workers’ compensation claims. Restricted assets, including cash equivalents, are recognized on Chugach’s Consolidated Balance Sheet when they are restricted as to withdrawal or usage.

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 $25.8 thousand and $91.7 thousand at June 30, 2020, and 2019, respectively. Net gains and losses on marketable securities are included in nonoperating margins – capital credits, patronage dividends and other, and are summarized as follows:

	Six months ended June 30, 2020	Six months ended June 30, 2019
Net gains and (losses) recognized during the period on trading securities	$ (5,391)	$ 98,495
Less: Net gains and (losses) recognized during the period on trading securities sold during the period	0	98,495
Unrealized gains and (losses) recognized during the reporting period on trading securities still held at the reporting date	$ (5,391)	$ 0

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 $1.0 million at June 30, 2020, and December 31, 2019.

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 $13.7 million and $12.3 million at June 30, 2020, and December 31, 2019, 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 six months ended June 30, 2020, or 2019.

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 97.7% and 96.6% of total operating revenue during the six months ended June 30, 2020, and 2019, 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 rates 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 is applied by kWh usage. The fuel and purchased power revenue collected reflects actual cost. 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 $8,477,183 and $7,936,992 of unbilled retail revenue at June 30, 2020, and 2019, respectively, which is included in accounts receivable on the balance sheet. Revenue derived from wholesale and economy customers is recorded from metered locations on a calendar month basis, so no unbilled estimation is required.

The collectability of our energy sales has been very high with typically 0.10% written off as bad debt expense, adjusted annually. As it relates to the collectability of our energy sales during COVID-19, see "*Item 1 – Financial Statements – Note 5 – Regulatory Matters – Senate Bill 241*."

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

ii. Wheeling

Wheeling represented 1.6% and 2.2% of our revenue during the six months ended June 30, 2020, and 2019, respectively. Wheeling was recorded through the wheeling of energy across Chugach's transmission lines at rates set by utility tariff and approved by the RCA. The rates are applied to MWh of energy wheeled. The collectability of wheeling is very high, with no adjustment required.

iii. Other Miscellaneous Services

Other miscellaneous services consist of various agreements including dispatch service and gas transfer agreements, pole rentals and microwave bandwidth. Revenue from these agreements is billed monthly and represented 0.7% and 1.2% of our total operating revenue during the six months ended June 30, 2020, and 2019, respectively. The revenue recognized from these agreements is recorded as the service is provided over a period of time. The collectability of these agreements is very high, with no adjustment required.

b. Disaggregation of Revenue

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

	Base Rate Sales Revenue			Fuel and Purchased Power Revenue			Total Revenue		
	2020	2019	% Variance	2020	2019	% Variance	2020	2019	% Variance
Retail	$ 30.2	$ 28.9	4.5 %	$ 16.2	$ 15.2	6.2 %	$ 46.4	$ 44.1	5.2 %
Wholesale	$ 0.5	$ 0.5	0.0 %	$ 0.9	$ 0.8	12.5 %	$ 1.4	$ 1.3	7.7 %
Economy	$ 0.0	$ 0.0	0.0 %	$ 0.0	$ 0.0	0.0 %	$ 0.0	$ 0.0	0.0 %
Total Energy Sales	**$ 30.7**	**$ 29.4**	**4.4 %**	**$ 17.1**	**$ 16.0**	**6.9 %**	**$ 47.8**	**$ 45.4**	**5.3 %**
Wheeling	$ 0.0	$ 0.0	0.0 %	$ 0.7	$ 1.5	(53.3 %)	$ 0.7	$ 1.5	(53.3 %)
Other	$ 0.3	$ 0.6	(50.0 %)	$ 0.0	$ 0.0	0.0 %	$ 0.3	$ 0.6	(50.0 %)
Total Miscellaneous	**$ 0.3**	**$ 0.6**	**(50.0 %)**	**$ 0.7**	**$ 1.5**	**(53.3 %)**	**$ 1.0**	**$ 2.1**	**(52.4 %)**
Total Revenue	**$ 31.0**	**$ 30.0**	**3.3 %**	**$ 17.8**	**$ 17.5**	**1.7 %**	**$ 48.8**	**$ 47.5**	**2.7 %**

The table below details the revenue recognized by customer class and disaggregates base revenue from fuel and purchased power revenue recognized in the Consolidated Statement of Operations for the six months ended June 30 2020 and 2019 (in millions).

	Base Rate Sales Revenue			Fuel and Purchased Power Revenue			Total Revenue		
	2020	2019	% Variance	2020	2019	% Variance	2020	2019	% Variance
Retail	$ 67.3	$ 62.0	8.5 %	$ 35.9	$ 35.1	2.3 %	$ 103.2	$ 97.1	6.3 %
Wholesale	$ 1.2	$ 1.1	9.1 %	$ 1.8	$ 1.7	5.9 %	$ 3.0	$ 2.8	7.1 %
Economy	$ 0.0	$ 0.0	0.0 %	$ 0.0	$ 0.0	0.0 %	$ 0.0	$ 0.0	0.0 %
Total Energy Sales	**$ 68.5**	**$ 63.1**	**8.6 %**	**$ 37.7**	**$ 36.8**	**2.4 %**	**$ 106.2**	**$ 99.9**	**6.3 %**
Wheeling	$ 0.0	$ 0.0	0.0 %	$ 1.7	$ 2.3	(26.1 %)	$ 1.7	$ 2.3	(26.1%)
Other	$ 0.8	$ 1.2	(33.3 %)	$ 0.0	$ 0.0	0.0 %	$ 0.8	$ 1.2	(33.3%)
Total Miscellaneous	**$ 0.8**	**$ 1.2**	**(33.3 %)**	**$ 1.7**	**$ 2.3**	**(26.1 %)**	**$ 2.5**	**$ 3.5**	**(28.6%)**
Total Revenue	**$ 69.3**	**$ 64.3**	**7.8 %**	**$ 39.4**	**$ 39.1**	**0.8 %**	**$ 108.7**	**$ 103.4**	**5.1 %**

c. Contract Balances

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

	June 30, 2020	December 31, 2019
Contract receivables, included in accounts receivable	$ 22,947,314	$ 26,383,976
Contract asset	544,313	1,445,753
Contract liabilities	1,556,518	1,839,514

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 fuel and purchased power rates in the following quarter.

Significant changes in the contract asset balances are as follows:

	June 30, 2020	December 31, 2019
Contract asset at beginning of period	$ 1,445,753	$ 0
Cash received, excluding amounts recognized as revenue during the period	544,313	1,445,753
Revenue recognized and transferred from contract asset at the beginning of the period	(1,445,753)	0
Contract asset at end of period	$ 544,313	$ 1,445,753

Significant changes in contract liabilities balances are as follows:

	June 30, 2020	December 31, 2019
Contract liabilities at beginning of period	$ 1,839,514	$ 5,196,426
Cash received, excluding amounts recognized as revenue during the period	1,335,757	1,839,514
Revenue recognized and transferred from contract liabilities at the beginning of the period	(1,618,753)	(5,196,426)
Contract liabilities at end of period	$ 1,556,518	$ 1,839,514

d. Transaction Price Allocated to Remaining Performance Obligations

The table below includes estimated revenue to be recognized during the remainder of 2020 related to performance obligations that are unsatisfied (or partially unsatisfied) at June 30, 2020.

	2020
Credit balances	$ 1,556,518

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 3.8% effective November 1, 2019; an increase of 0.4% effective February 1, 2020; an increase of 1.1% effective May 1, 2020; and a decrease of 0.04% effective August 1, 2020.

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 between all six Alaska Railbelt utilities and various stakeholders with a goal of submitting to the RCA organizational plans for a Railbelt Reliability Council ("RRC"), including a governance structure, that will be responsible for adoption and enforcement of uniform reliability standards and integrated transmission resource planning. GDS presented to the RCA during two technical conferences in January and March of 2018. Chugach and the other utilities provided GDS's final recommendation of the RRC to the RCA in May 2018. During the fourth quarter of 2018, the utilities reviewed and adopted the memorandum of understanding with GDS ("GDS MOU").

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 seeking to delay adoption until the RRC Governance Board could be formed but continued to work with the RCA, Railbelt utilities and stakeholders to draft acceptable legislation.

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 December 2019, the Railbelt utilities signed a Memorandum of Understanding to form an RRC. Alaska Senate Bill 123 ("SB 123") provides for the creation and regulation of an electric reliability organization. The electric reliability organization will provide integrated resource planning and require preapproval for interconnection for some large energy facilities. On April 29, 2020, the Governor of Alaska signed the bill, with the section requiring the RCA to adopt regulations taking effect immediately and the section allowing the RCA to form and regulate electric reliability organizations will take effect July 1, 2021.

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. The final draft was presented to the Railbelt Utility Managers on February 15, 2019. On July 10, 2019, a status update was provided to the RCA by the Railbelt Utility Managers announcing the completion of Alaska Critical Infrastructure Protection ("AKCIP") Cybersecurity Standards and a collective agreement for adoption effective January 1, 2020. Implementation schedules are contained in the specific standards.

<u>ML&P Acquisition</u>

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 65.08% of Anchorage voters 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 ("CPCN") No. 8 to the RCA. The RCA accepted the filing as complete on April 18, 2019, and the procedural conference was held on April 22, 2019. On May 8, 2019, the RCA issued an order indicating that a final order in the case was expected by November 19, 2019. In addition, the RCA granted the petitions to intervene filed by MEA; Providence Health and Services ("Providence"); GVEA; the Federal Executive Agencies ("FEA"); and HEA / Alaska Electric and Energy Cooperative, Inc. Hearings on the acquisition were held in August and September 2019. On October 1, 2019, all parties agreed to an extension for the RCA's final order in the case to February 17, 2020, which was subsequently extended to May 28, 2020, as described below.

In June 2019, Chugach and GVEA entered into a Memorandum of Understanding ("MOU") in which Chugach agreed to provide GVEA non-firm energy, wheeling and ancillary services for a 3-year period under terms and conditions consistent with its operating tariff, and will make available 5 MW of Bradley Lake capacity to GVEA for a 5-year period. Excluding fuel, the MOU is expected to provide over $10 million of additional revenue to 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 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."), 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 was not a party to the Stipulation. The RCA ordered an additional hearing to consider the Stipulation.

On October 28, 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 June 30, 2020, to September 30, 2020, and recognizes the Eklutna Transmission Assets as Acquired Assets in recognition of the fulfillment of a condition in the original APA. The PPA Amendment No. 2 recognizes changes to the dispute resolution procedures contained therein and the PILT Amendment No. 2 removes Chugach's obligation in certain regulatory or bankruptcy proceedings to support and stipulate to the fact that the payment in lieu of taxes payments are a tax obligation and should be given appropriate priority status based on that fact.

On February 27, 2020, the RCA issued an order extending the statutory timeline and extended the time to consider the Stipulations to May 28, 2020. The RCA issued an order on May 28, 2020, accepting the Stipulations and approved the acquisition of ML&P subject to certain conditions. The conditions include required filings within 90 days of the Order date for: 1) unified fuel and purchased power rates, and 2) the gas transfer price for natural gas from the BRU. Additional conditions include the formation of a tight power pool with MEA and the filing of a general rate case by December 31, 2023 that contains unified base demand and energy rates.

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

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

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

Chugach anticipates that the financial close for the acquisition will occur on October 30, 2020. For more information, see "Note 10 – ML&P ACQUISITION."

Senate Bill 241

The Alaska House and Senate approved a bill designed to address several impacts resulting from the COVID-19 pandemic in the State of Alaska. Three sections of Senate Bill 241 ("SB 241") affect utility operations in Alaska. A section on "tolling" allows the RCA to exceed normal decision-making deadlines. Another section prohibits disconnection of utility service for residential customers agreeing to a payment plan who provide a sworn statement they are unable to pay because of COVID-19 issues. This section also makes it clear that customers are not relieved of their obligation to pay for utility service. The final utility section deals with the creation of "regulatory assets" for unpaid accounts and other COVID-19-related unusual expenses. A regulatory asset provides an accounting treatment and recovery over time for out-of-the-ordinary expenses. SB 241 also extends the date of the coronavirus emergency to November 15, 2020, unless lifted earlier. Alaska Governor Dunleavy signed the bill into law on April 9, 2020.

6. DEBT

Lines of Credit

Chugach maintains a $50.0 million line of credit with National Rural Utilities Cooperative Finance Corporation ("NRUCFC"). On March 16, 2020, Chugach drew $41.0 million on this line of credit to pay the balance of commercial paper. The balance on this line of credit was subsequently paid using the senior unsecured credit facility backstopping our commercial paper program; therefore, there was no outstanding balance on this line of credit at June 30, 2020. Chugach did not utilize this line of credit during 2019, and therefore had no outstanding balance at December 31, 2019. The borrowing rate is calculated using the total rate per annum and may be fixed by NRUCFC, and was 2.70% and 3.25% at June 30, 2020, and December 31, 2019, respectively. The NRUCFC Revolving Line Of Credit Agreement requires that Chugach, for each 12-month period, for a period of at least five consecutive days, pay down the entire outstanding principal balance. The NRUCFC line of credit was renewed 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 ML&P, of not in excess of $800 million for a term of up to eighteen (18) months. This indebtedness is in addition to other indebtedness permitted to be incurred under the existing senior unsecured credit facility. Other terms of the Credit Agreement remain materially the same.

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

Chugach had $41.0 million of commercial paper outstanding at June 30, 2020, and $24.0 million outstanding at December 31, 2019.

The following table provides information regarding average commercial paper balances outstanding for the quarter ended June 30, 2020, and 2019 (dollars in millions), as well as corresponding weighted average interest rates:

2020		2019	
Average Balance	Weighted Average Interest Rate	Average Balance	Weighted Average Interest Rate
$30.6	0.60 %	$45.5	2.75 %

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"), as amended November 26, 2019, and secured by the Second Amended and Restated Indenture of Trust ("Indenture"). At June 30, 2020, Chugach had $32.4 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 June 30, 2020.

	Long-term Obligations	Unamortized Debt Issuance Costs
2011 Series A Bonds	$ 168,333,330	$ 927,054
2012 Series A Bonds	158,250,000	825,439
2017 Series A Bonds	32,000,000	173,162
2019 Series A Bonds	71,100,000	481,122
2016 CoBank Note	28,728,000	156,059
2020 Financing	0	19,834
	$ 458,411,330	$ 2,582,670

The following table outlines debt issuance costs associated with long-term obligations, excluding current installments, at December 31, 2019.

	Long-term Obligations	Unamortized Debt Issuance Costs
2011 Series A Bonds	$ 178,999,997	$ 981,692
2012 Series A Bonds	162,000,000	864,613
2017 Series A Bonds	34,000,000	178,410
2019 Series A Bonds	75,000,000	488,611
2016 CoBank Note	30,552,000	171,211
	$ 480,551,997	$ 2,684,537

7. RECENT ACCOUNTING PRONOUNCEMENTS

Issued and adopted at June 30, 2020:

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. Chugach began application of ASU 2016-13 on January 1, 2020. Adoption did not have a material effect on our results of operations, financial position, and cash flows.

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

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

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

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

Issued, not yet adopted:

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

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

8. LEASES

Chugach has one financing lease and several operating leases, most of which are various land easements. Chugach has four operating leases as right-of-use assets for a building, office equipment, and substation land lease, with remaining lease terms of one month to 23.25 years and a weighted average lease term of 6.55 years. Chugach's financing lease and operating lease assets are presented as operating lease right-of-use assets on the consolidated balance sheet. The current portion of financing lease and operating lease liabilities are included in current installments of long-term obligations and the long-term portion is presented as financing lease or operating lease liabilities on the consolidated balance sheet. A weighted average discount rate of 4.14% was used in calculating the right-to-use assets and lease liabilities. Chugach's discount rate was calculated using our incremental borrowing rate based on the average borrowing rate of our long-term debt.

Recognition of the right-of-use asset and operating lease liability represents a non-cash investing and financing activity. Chugach entered into a Power Purchase Agreement with Fire Island Wind, LLC, ("FIW") on June 21, 2011. The Fire Island Wind contract contains a lease because the agreement identifies an asset (the wind farm is explicitly specified in the agreement and FIW does not have substantive substitution rights) and Chugach controls the use of the asset (it takes 100% of the output and, to the extent there is wind, can control how and when the wind farm produces power directly through its supervisory control and data acquisition ("SCADA") system). However, due to the exclusively variable nature of the payments related to Fire Island Wind, no new assets or liabilities have been added to the Consolidated Balance Sheet, no changes were made to the Consolidated Statements of Cash Flow, and the variable payments are still classified as purchased power expense on the Consolidated Statements of Operations. These variable payments, included in purchased power, are reflected in the following table.

Chugach Electric Association, Inc.
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

Supplemental statement of operations information associated with leases:

	Six months ended June 30, 2020	Six months ended June 30, 2019
Finance lease cost:		
Amortization of right-of-use assets	$ 1,870	$ 0
Interest on lease liabilities	251	0
Operating lease cost	133,500	110,130
Variable lease cost	2,310,037	2,306,187
Total lease cost	$ 2,445,658	$ 2,416,317

Supplemental cash flow information associated with leases:

	Six months ended June 30, 2020	Six months ended June 30, 2019
Cash paid for amounts included in the measurement of liabilities:		
Operating cash flows from operating leases	$ 127,023	$ 111,750
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 0	$ 1,025,106
Financing leases	$ 9,855	$ 0

Supplemental balance sheet information associated with leases:

	June 30, 2020	December 31, 2019
Operating lease right-of-use assets	$ 859,346	$ 958,111
Financing lease right-of-use assets	9,855	0
Total right-of-use assets	$ 869,201	$ 958,111
Operating lease liabilities	646,660	738,713
Financing lease liabilities	8,329	0
Current installments of lease liabilities	214,479	219,398
Total lease liabilities	$ 869,468	$ 958,111

Maturities associated with lease liabilities:

		June 30, 2020
2020	$	136,023
2021		227,429
2022		227,429
2023		227,429
2024		11,429
Thereafter		165,036
Total lease payments		994,775
Less imputed interest		125,307
Present value of lease liabilities	$	869,468

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 of 2019, 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 June 30, 2020, and December 31, 2019. 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 June 30, 2020, or at December 31, 2019.

June 30, 2020	Total	Level 1	Level 2	Level 3
Bond mutual funds	$ 192,164	$ 192,164	$ 0	$ 0

December 31, 2019	Total	Level 1	Level 2	Level 3
Bond mutual funds	$ 194,183	$ 194,183	$ 0	$ 0

<u>Fair Value of Financial Instruments</u>

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 debt included in long-term obligations at June 30, 2020, are as follows:

	Carrying Value	Fair Value Level 2
Long-term obligations (including current installments)	$ 482,376	$ 538,073

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. The statutory timeline for issuance of a final order and to rule on the Stipulations was extended to February 28, 2020. On February 27, 2020, the RCA issued an order extending the statutory timeline and extended the time to consider the Stipulation to May 28, 2020. The RCA issued an order on May 28, 2020, accepting the Stipulations and approved the acquisition of ML&P subject to certain conditions. The conditions include required filings within 90 days of the Order date for: 1) unified fuel and purchased power rates, and 2) the gas transfer price for natural gas from the BRU. Additionally, the RCA requires Chugach to form a tight Power Pooling Agreement with MEA.

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

Pursuant to the original APA, 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. In September 2019, Chugach entered into APA Amendment No. 1, which provides that the purchase price shall reflect net book value of ML&P assets at closing and amends related definitions. In October 2019, Chugach entered into APA Amendment No. 2 extending the termination date of the APA from June 30, 2020, to September 30, 2020, and recognizing Eklutna Transmission Assets as acquired assets in recognition of the fulfillment of a condition in the original APA. On July 9, 2020, Chugach entered into APA Amendment No. 3 addressing the RCA's conditions which removes provisions regarding Chugach's commitment not to raise base rates as a result of the acquisition, extends the time to close from 120 days to 160 days after RCA approval, removes references to the BRU Fuel Agreement, requires the MOA to provide certain copies of easements, reduces the upfront payment to the MOA by $10.0 million, eliminates any upward price adjustment if ML&P's net book value of the purchased assets is greater than $715.4 million at closing, recognizes a $36.0 million rate reduction account to be funded by the MOA for the benefit of ML&P legacy customers, and extends the APA termination date to October 31, 2020.

The Eklutna PPA, 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. In September 2019, Chugach entered into

PPA Amendment No. 1, which defines the Eklutna PPA as a wholesale power agreement. In October 2019, Chugach entered into PPA Amendment No. 2 to recognize changes to the dispute resolution procedures. On July 9, 2020, Chugach entered into PPA Amendment No. 3 which recognizes Chugach's right to set-off payments to the extent the MOA does not fulfill its obligations required in the Stipulation and removes references indicating the PPA is a power purchase agreement under Alaska statute.

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&P's service territory in existence at the closing as adjusted each year. The PILT Agreement also provides that until December 31, 2033, Chugach shall only collect amounts associated with those annual PILT payments from retail customers in the legacy ML&P territory. Thereafter, the annual PILT payments shall be collected from all Chugach retail customers. In September 2019, Chugach entered into PILT Amendment No. 1 to revise the calculation of PILT to make it consistent with the APA Amendment No. 1. In October 2019, Chugach entered into PILT Amendment No. 2 to remove Chugach's obligation in certain regulatory or bankruptcy proceedings to support and stipulate to the fact that the payments in lieu of taxes are a tax obligation and should be given appropriate priority status based on that fact. On July 9, 2020, Chugach entered into PILT Amendment No. 3, which requires that beginning no later than January 1, 2024, costs incurred by Chugach as a result of the PILT Agreement shall be recovered through base rates charged to all Chugach customers.

The BRU Fuel Agreement provided that through December 31, 2033, Chugach would 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 would use any excess gas to serve other customers of Chugach at the same specified gas transfer price. On July 9, 2020, to comply with the RCA's conditions relating to the pricing of BRU gas in Order 39, Chugach entered into an agreement to terminate the BRU Fuel Agreement, see "*Note 5 – Regulatory Matters – ML&P Acquisition*."

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 2019, Chugach lifted 0.9 Billion Cubic Feet ("BCF"), resulting in a cumulative lift since purchase of 6.3 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 Consolidated 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. The RCA opened and consolidated dockets to address BRU gas transfer prices and related matters, including the reserve study and the ARO update. Both Chugach and ML&P are parties to the proceeding. Chugach expects these matters will be adjudicated as part of future compliance filings if the acquisition of ML&P is approved.

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 Hydroelectric 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 hydroelectric project and municipal water system currently utilize 100% of the water inflows.

The Clean Air Act and Environmental Protection Agency ("EPA") regulations under the Clean Air Act establish ambient air quality standards and limit the emission of many air pollutants. New Clean Air Act regulations impacting electric utilities may result from future events or new regulatory programs. An Executive Order promoting energy independence and economic growth was issued on March 28, 2017, by the President instructing the EPA to review the Clean Power Plan ("CPP"). On August 21, 2018 the EPA proposed the Affordable Clean Energy ("ACE") rule which would establish emission guidelines for states to develop plans to address GHG emissions from existing coal-fired power plants. The final ACE rule was issued by the EPA on June 19, 2019. The final rule is certain to face legal challenge. The ACE rule, in its current form, is not expected to have a material effect on Chugach's financial condition, results of operations, or cash flows. While Chugach cannot predict the implementation of any additional new law or regulation, or the limitations thereof, it is possible that new laws or regulations could increase capital and operating costs. Chugach has obtained or applied for all Clean Air Act permits currently required for the operation of generating facilities.

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

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 June 30, 2020, as it does not consider any contingency to be probable nor calculable. Chugach faces contingencies that are reasonably possible to occur; however, they cannot currently be estimated.

Concentrations

Approximately 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 four amendments to the Hilcorp Agreement, Chugach has 100% of its needs filled through March 31, 2028. The total amount of gas under this agreement is estimated to be 79.4 BCF. All of the production is expected to come from Cook Inlet, Alaska. The terms of the Hilcorp Agreement require Chugach to manage the natural gas transportation over the connecting pipeline systems. Chugach has gas transportation agreements with ENSTAR and Harvest Pipeline.

BRU Operations

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

Patronage Capital

Pursuant to an agreement reached with HEA in 2017, patronage capital payable to HEA is paid in increments of $2.0 million annually. At December 31, 2019, patronage capital payable to HEA was $1.9 million. The Board authorized payment in May 2020, resulting in no patronage capital payable to HEA at June 30, 2020. Additionally, the Board authorized the retirement and payment of capital credits to MEA and SES of $520,144 and $30,888, 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 global pandemic environment, while managing flat load growth and securing additional revenue sources. These challenges, 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. On April 1, 2019, Chugach submitted a joint request for approval for the acquisition and an application to amend the CPCN to the RCA, which was accepted on April 18, 2019. On May 28, 2020, the RCA issued a conditional approval of the acquisition. For more information concerning the potential ML&P Acquisition, see "*Item 1 – Financial Statements – Note 5 – Regulatory Matters*."

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 unify the grid effectively. 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 (Railbelt wide transmission only utility), 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 discussions among all six Alaska Railbelt utilities and various stakeholders with a goal of submitting to the RCA organizational plans for a Railbelt Reliability Council ("RRC"), including a governance structure, that will be responsible for adoption and enforcement of uniform reliability standards and integrated transmission resource planning. Chugach and the other utilities provided GDS's final recommendation of the RRC to the RCA in May 2018. During the fourth quarter of 2018, the utilities reviewed and adopted the memorandum of understanding.

During 2019, the utilities engaged non-utility stakeholders in the MOU process and revised the MOU to take into account non-utility stakeholder concerns. In December 2019, the utilities submitted the revised MOU detailing the formation of an RRC to the RCA.

In March 2019, the RCA issued an order requesting comments on proposed legislative language which would authorize the RCA to designate or develop an Electric Reliability Organization ("ERO"). Chugach submitted comments seeking to delay adoption until the RRC Governance Board could be formed but continued to work with the RCA, Railbelt utilities and stakeholders to draft acceptable legislation. This legislation took form in Alaska Senate Bill 123 ("SB 123").

SB 123 provides for the creation and regulation of an ERO. On April 29, 2020, the Governor of Alaska signed the bill, which in part requires the RCA to adopt rules to form and regulate EROs. It is anticipated that the RRC will apply to be the regional ERO for the Railbelt, be selected by the RCA in late 2020, and should be functional by mid-2022.

In June 2020, the RCA opened three regulatory dockets (R-20-001, 002, 003) to address ERO regulations. Chugach, in coordination with the other utilities and some non-utility stakeholders, is participating in each of these dockets. In a parallel effort, the RRC is being formed. The RRC Implementation Committee is now nearly fully formed, and consists of representatives of the six Railbelt utilities, Alaska Energy Authority ("AEA"), two independent power provider representatives, a consumer advocacy seat, two non-affiliated members with the Chair of the RCA and a representative from the Regulatory Affairs and Public Advocacy Office ("RAPA") of the Attorney General. This group is working to develop the foundational documents for the RRC, e.g., Articles of Incorporation, bylaws, code of conduct, etc.

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

Additionally, in June 2016, in response to RCA Docket I-16-002, Railbelt Utility Information Technology and Operations Technology leadership began meeting to discuss Railbelt Cybersecurity. The Railbelt Utilities Managers group designated the Cybersecurity Working Group to review industry standards and provide a statement of work to develop Railbelt Cybersecurity Standards. In June 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 14, 2019. On July 10, 2019, a status 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. The standards will be also be adopted for further development, administration and enforcement by the ERO.

Earthquake

On November 30, 2018, a 7.1 magnitude earthquake jolted 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 as we continue to assess and repair any damages on our system due to the earthquake. At June 30, 2020, costs associated with system-wide repairs and damages were $2.1 million, with $0.4 million received from FEMA during the first six months of 2020. No FEMA funds were received during 2019. At this time, Chugach does not anticipate this event to have a material impact on our financial condition, results of operations, and cash flows.

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 2028. Chugach continues its efforts to secure long-term reliable gas supply solutions and encourages new development and continued investment in Cook Inlet. The DNR published a study in March 2018, "Cook Inlet Natural Gas Availability," to provide an estimate of additional Cook Inlet gas that could be recovered through additional investment and how long Cook Inlet gas production can continue to meet existing demand levels. The 2018 DNR study concluded there is potentially 500-800 Bcf of additional gas to be developed at the economical price range of $6-8/Mcf (real 2016 dollars); however, at a price greater than $12/Mcf as much as 800-1,000 Bcf could be developed. The 2018 DNR study also concluded there was sufficient Cook Inlet gas to satisfy the current demand of 80 Bcf/year to meet the demand until around 2030, under the assumptions and simplifications used therein. The 2018 DNR study did not attempt to forecast Cook Inlet gas prices. The 2015 DNR study estimated there are 1,183 Bcf of proved and probable reserves remaining in Cook Inlet's legacy fields. The 2015 DNR estimate did not include reserves from a large gas field developed by Furie and another developed by BlueCrest Alaska Operating, LLC. Furie constructed an offshore gas production platform, Julius R, in 2015 and achieved production. The platform and other production facilities are designed for up to 200 million cubic feet (MMcf) per day. Chugach continues to explore other alternatives to diversify its portfolio.

In April 2016, the RCA approved the acquisition of the Beluga River Unit effective January 1, 2016. Chugach's interest 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 acquisition complements existing 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 81% of Chugach's current generation requirements are met from natural gas, 15% are met from hydroelectric facilities, and 4% are met from wind.

At the time of acquisition, the BRU was expected to provide gas to meet Chugach's on-going generation requirements over an approximate 18-year period. As it is currently operated, pursuant to an updated reserve study completed in 2019 the BRU is expected to provide about 15% of Chugach's gas requirements through 2037, although actual gas quantities produced are expected to vary on a year-by-year basis.

Chugach has a firm gas supply contract with Hilcorp, see "*Item 1 – Financial Statement – 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.

To date, Chugach's fuel supply has not been impacted or disrupted by the COVID-19 pandemic.

RESULTS OF OPERATIONS

Current Year Quarter versus Prior Year Quarter

Assignable margins decreased $0.3 million, or 18.4%, during the second quarter of 2020 compared to the second quarter of 2019, primarily due to increases in production and distribution expense, which was somewhat offset by an increase in operating revenue.

Operating revenues, which include sales of electric energy to retail, wholesale and economy energy customers and other miscellaneous revenues, increased $1.3 million, or 2.7%, during the second quarter of 2020 compared to the second quarter of 2019. Retail revenue increased $2.3 million, or 5.2%, and wholesale revenue increased $0.1 million, or 7.7%, during the second quarter of 2020 compared to the second quarter of 2019, primarily due to higher rates. The increase in energy sales to residential customers as a result of the COVID-19 pandemic were more than offset by the decrease in energy sales to commercial customers.

Economy revenue did not materially change during the second quarter of 2020 compared to the second quarter of 2019.

Miscellaneous revenue decreased $1.1 million, or 52.4%, during the second quarter of 2020 compared to the second quarter of 2019, 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 $0.3 million to Chugach's fixed costs for each of the quarters ended June 30, 2020, and 2019.

See "*ITEM 1 – FINANCIAL STATEMENTS – Note 4 – REVENUE FROM CONTRACTS WITH CUSTOMERS*," for a table showing the base rate sales revenue and fuel and purchased power revenue by customer class that is included in revenue for the quarters ended June 30, 2020, and 2019.

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

Customer	**2020 kWh**	**2019 kWh**
Retail	232,916,603	241,658,706
Wholesale	13,324,059	14,081,270
Economy Energy	0	103,400
Total	246,240,662	255,843,376

From the second quarter of 2019 to the second quarter of 2020, base demand and energy rates increased 8.0% to retail and 7.9% to Seward, respectively. The rate changes result from Chugach's SRF process.

Total operating expenses increased $1.0 million, or 2.3%, in the second quarter of 2020 compared to the second quarter of 2019, primarily due to higher production expense.

Fuel expense did not materially change in the second quarter of 2020 compared to the second quarter of 2019. However, less fuel was purchased for production and at a lower average effective delivered price. In the second quarter of 2020, Chugach purchased, for our own generation, 1,342,893 Mcf of fuel, excluding 162,321 Mcf recorded as purchased power, at an average effective delivered price of $8.28 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 second quarter of 2019, Chugach purchased, for our own generation, 1,398,790 Mcf, excluding 384,737 Mcf recorded as purchased power, at an average effective delivered price of $8.31 per Mcf.

Production expense increased $0.5 million, or 11.3%, in the second quarter of 2020 compared to the second quarter of 2019, primarily due to maintenance costs associated with the Beluga Power Plant and Southcentral Power Project.

Purchased power expense increased $0.9 million, or 17.8%, in the second quarter of 2020 compared to the second quarter of 2019, primarily due to more energy purchased and at a higher price. In the second quarter of 2020, Chugach purchased 67,599 MWh of energy at an average effective price of 7.13 cents per kWh. In the second quarter of 2019, Chugach purchased 64,436 MWh of energy at an average effective price of 6.00 cents per kWh.

Transmission did not materially change in the second quarter of 2020 compared to the second quarter of 2019.

Distribution expense increased $0.6 million, or 15.1%, in the second quarter of 2020 compared to the second quarter of 2019, primarily due to an increase in vegetation control expenses.

Consumer accounts expense did not materially change in the second quarter of 2020 compared to the same quarter of 2019.

Administrative, general and other expense decreased $0.6 million, or 9.4%, in the second quarter of 2020 compared to the second quarter of 2019, primarily due to a decrease in travel and education caused by travel restrictions as a result of the COVID-19 pandemic, as well as lower labor expense.

Depreciation and amortization, interest on long-term debt and other, and interest charged to construction did not materially change in the second quarter of 2020 compared to the second quarter of 2019.

Non-operating margins did not materially change in the second quarter of 2020 compared to the second quarter of 2019.

Current Year to Date versus Prior Year to Date

Assignable margins increased $2.9 million, or 436.2%, during the first half of 2020 compared to the first half of 2019, primarily due to increased operating revenue, which was somewhat offset by increases in production and distribution expenses.

Operating revenues, which include sales of electric energy to retail, wholesale and economy energy customers and other miscellaneous revenues, increased $5.3 million, or 5.1%, in the first half of 2020 compared to the same period of 2019. This increase was primarily due to an increase in energy sales and higher base rates, as well as higher purchased power costs recovered through the fuel and purchased power adjustment process.

Retail revenue increased $6.1 million, or 6.3%, in the first half of 2020 compared to the same period of 2019, due to increase in energy sales and higher base rates, as well as higher purchased power costs recovered through the fuel and purchased power adjustment process.

Wholesale revenue increased $0.2 million, or 7.1%, in the first half of 2020 compared to the same period of 2019, due to increased purchased power costs recovered through the fuel and purchased power adjustment process.

Economy revenue did not materially change in the first half of 2020 compared to the same period of 2019.

Miscellaneous revenue decreased $1.0 million, or 28.6%, in the first half of 2020 compared to the same period of 2019, 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 $0.7 million to Chugach's fixed costs for the six months ended June 30, 2020, and 2019.

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 six months ending June 30, 2020 and 2019.

The following table summarizes kWh sales for the six months ended June 30:

Customer	**2020 kWh**	**2019 kWh**
Retail	533,355,287	527,672,707
Wholesale	29,447,750	28,221,846
Economy Energy	0	103,400
Total	562,803,037	555,997,953

In the first half of 2020, base demand and energy rates charged to retail customers increased 1.5% and 3.1% to the wholesale customer, Seward. The rate changes result from Chugach's SRF process.

Total operating expenses increased $2.1 million, or 2.2%, in the first half of 2020 compared to the same period of 2019, primarily due to higher production, purchased power and distribution expense, which was somewhat offset by lower fuel and transmission expense.

Fuel expense decreased $0.8 million, or 2.9%, in the first half of 2020 compared to the same period of 2019, primarily due to a decrease in fuel consumed as a result of an increase in power purchased. In the first half of 2020, Chugach purchased, for our own generation, 3,003,900 Mcf of fuel, excluding 457,120 Mcf recorded as purchased power, at an average effective delivered price of $8.26 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 half of 2019, Chugach purchased, for our own generation, of 3,100,377 Mcf, excluding 384,737 Mcf recorded as purchased power, at an average effective delivered price of $8.21 per Mcf.

Production expense increased $1.6 million, or 16.4% in the first half of 2020 compared to the same period of 2019, primarily due to maintenance associated with Beluga Units 1 and 2.

Purchased power expense increased $1.3 million, or 11.4%, in the first half of 2020 compared to the same period of 2019, primarily due to an increase in energy purchased, which was somewhat offset by a lower average effective price. In the first half of 2020, Chugach purchased 161,083

MWh of energy at an average effective price of 7.00 cents per kWh. In the first half of 2019, Chugach purchased 138,754 MWh of energy at an average effective price of 7.13 cents per kWh.

Transmission expense decreased $0.7 million, or 16.5%, in the first half of 2020 compared to the same period of 2019, primarily due to decreased expense labor associated with earthquake assessment and repair that occurred during 2019.

Distribution expense increased $0.6 million, or 7.5%, in the first half of 2020 compared to the same period in 2019, primarily due to costs associated with vegetation control.

Consumer accounts expense, administrative, general and other expense, interest on long-term debt and other and interest charged to construction did not materially change in the first half of 2020 compared to the same period of 2019.

Non-operating margins decreased $0.3 million, or 64.6%, in the first half of 2020 compared to the same period of 2019, primarily due to the change in market value of marketable securities.

Financial Condition

Assets

Total assets did not materially change from December 31, 2019, to June 30, 2020. Decreases in net utility plant, cash, cash equivalents and restricted cash equivalents, fuel cost under-recovery and accounts receivable were offset by increases in fuel stock and deferred charges. Net utility plant decreased $2.6 million, or 0.4%, primarily due to depreciation exceeding construction work in progress. Cash, cash equivalents and restricted cash equivalents decreased $3.8 million, or 43.9%, primarily due to the timing of collections and payments. Fuel cost under-recovery decreased $0.9 million, or 62.4%, due to the collection of the prior period’s fuel and purchased power costs through the fuel and purchased power adjustment process. Account receivable decreased $4.9 million, or 16.4%, primarily due to a decrease in energy sales from winter to summer. Fuel stock increased $1.5 million, or 11.9%, due to more fuel injected into the fuel storage facility than withdrawn for generation. Deferred charges increased $6.3 million, or 13.8%, primarily due to costs associated with the ML&P acquisition.

Liabilities and Equity

Total liabilities, equities and margins did not materially change from December 31, 2019, to June 30, 2020. Decreases in long-term obligations were offset by increases in patronage capital, commercial paper, cost of removal obligation and salaries, wages and benefits. Long-term obligations, including current installments, decreased $25.0 million, or 4.9%, primarily due to principal paid in March 2020 on our debt. Patronage capital increased $2.9 million, or 1.6%, due to the assignable margins earned during the first six months of 2020. Commercial paper increased $17.0 million, or 70.8%, primarily due to the payment of principal and interest on our debt. Cost of removal obligation increased $1.9 million, or 3.0%, due to the accrual of removal costs included in depreciation. Salaries, wages and benefits increased $1.1 million, or 15.0%, primarily due to the timing of pay periods.

LIQUIDITY AND CAPITAL RESOURCES

Summary

Chugach ended the first six months of 2020 with $4.8 million of cash, cash equivalents, and restricted cash equivalents down from $8.6 million at December 31, 2019. Chugach had $0.2 million in marketable securities at June 30, 2020, and at December 31, 2019. Chugach utilized its $50.0 million line of credit maintained with NRUCFC in the first three months of 2020, but subsequently rolled the balance to the commercial paper backstop facility. Therefore, there was no outstanding balance and the available borrowing capacity was $50.0 million at June 30, 2020. Chugach had a $41.0 million outstanding commercial paper and no balance outstanding on the senior unsecured credit facility used to backstop the commercial paper program, thus the available borrowing capacity under this facility at June 30, 2020, was $259.0 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 six months ended June 30, 2020, and 2019.

	2020	2019
Total cash provided by (used in):		
Operating activities	$ 15,976,598	$ 16,600,906
Investing activities	(13,385,439)	(12,666,387)
Financing activities	(6,381,044)	(7,830,656)
Increase (decrease) in cash and cash equivalents	$ (3,789,885)	$ (3,896,137)

Operating Activities

Cash provided by operating activities was $16.0 million for the six months ended June 30, 2020, compared with $16.6 million for the six months ended June 30, 2019. The decrease in cash provided by operating activities was primarily due to an increase in cash used for deferred charges associated with the pending acquisition. More cash provided by fuel recovery through the fuel and purchased power adjustment process was offset by more cash used for fuel stock.

Deferred charges associated with the ML&P acquisition and integration for the six months ended June 30, 2020, was $7.5 million and is estimated to be $26.0 million for the full year. Deferred charges associated with extraordinary COVID-19 costs for the same period was $1.2 million.

Investing Activities

Cash used in investing activities was $13.4 million for the six months ended June 30, 2020, compared with $12.7 million for the six months ended June 30, 2019. The change in cash used in investing activities was primarily due to the extension and replacement of plant caused by less construction activity during the six months ended June 30, 2020, compared to the same period in 2019.

Capital construction through June 30, 2020, was $13.4 million and is estimated to be $15.6 million for the full year. Capital improvement expenditures are expected to continue during the third quarter as the construction season carries on.

Financing Activities

Cash used in financing activities was $6.4 million for the six months ended June 30, 2020, compared with $7.8 million for the six months ended June 30, 2019. The decrease in cash used in financing activities was primarily due to less cash required for patronage capital retirements, which was somewhat offset by a decrease in cash provided by short-term obligations.

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 June 30, 2020, there was no outstanding balance on the NRUCFC line of credit and $41.0 million of outstanding commercial paper. Therefore, at June 30, 2020, the available borrowing capacity under Chugach's line of credit with NRUCFC was $50.0 million and the available commercial paper capacity was $259.0 million.

Commercial paper can be repriced between one day and 397 days. The average commercial paper balance for the six months ended June 30, 2020, was $23.1 million with a corresponding weighted average interest rate of 1.37%. The maximum amount of outstanding commercial paper for the six months ended June 30, 2020, was $41.0 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	$ 20.0	1.84%
February	$ 15.9	1.75%
March	$ 10.7	1.75%
April	$ 9.6	0.93%
May	$ 41.0	0.63%
June	$ 41.0	0.30%

Chugach re-entered the commercial paper market on April 24, 2020, and expects to continue issuing commercial paper in 2020, as needed.

At June 30, 2020, 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, as amended November 26, 2019, and secured by the Indenture.

At June 30, 2020, Chugach had the following outstanding with this facility:

	Principal Balance	Interest Rate at June 30, 2020	Maturity Date	Principal Payment Dates
2016 CoBank Note	$ 32,376,000	2.58%	2031	2020-2031

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

Chugach management continues to expect that cash flows from operations and external funding sources, including additional short-term or commercial paper borrowings, will be sufficient to cover operational, financing and capital funding requirements in 2020 and thereafter.

CRITICAL ACCOUNTING POLICIES

As of June 30, 2020, there have been no significant changes in Chugach's critical accounting policies as disclosed in Chugach's 2019 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 the EPA on June 19, 2019. The final rule is certain to face legal challenge. The ACE rule, in its current form, is not expected to have a material effect on Chugach's financial condition, results of operations, or cash flows. While Chugach cannot predict the implementation of any additional new law or regulation, or the limitations thereof, it is possible that new laws or regulations could increase capital and operating costs. Chugach has obtained or applied for all Clean Air Act permits currently required for the operation of generating facilities.

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

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 June 30, 2020, short- and long-term debt was comprised of the 2011, 2012, 2017, and 2019 Series A Bonds, the 2016 CoBank Note and the outstanding balance of 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 June 30, 2020.

	Maturing	Interest Rate	Carrying Value	Fair Value
2011 Series A, Tranche A	2031	4.20 %	$ 49,500	$ 52,930
2011 Series A, Tranche B	2041	4.75 %	129,500	149,737
2012 Series A, Tranche A	2032	4.01 %	45,000	47,890
2012 Series A, Tranche B	2042	4.41 %	67,000	79,691
2012 Series A, Tranche C	2042	4.78 %	50,000	58,959
2017 Series A, Tranche A	2037	3.43 %	34,000	35,471
2019 Series A, Tranche A	2049	3.86 %	75,000	80,893
2016 CoBank Note	2031	2.58 %	32,376	32,502
Total			$ 482,376	$ 538,073

Chugach is exposed to market risk from changes in interest rates associated with its senior unsecured 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 June 30, 2020, Chugach had $41.0 million outstanding of commercial paper. Based on this balance a 100 basis-point rise in interest rates would increase our interest expense by approximately $0.4 million.

Commodity Price Risk

Because fuel and purchased power costs are passed directly to wholesale and retail customers through a fuel and purchased power adjustment 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

There have been no changes in Chugach’s internal controls over financial reporting identified in connection with the evaluation that occurred during the second quarter of 2020 that has materially affected, or is reasonably likely to materially affect, internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

ML&P Acquisition

There are many risks associated with the pending 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.

COVID-19

We continue to monitor the impact of COVID-19 on the global economy and supply chains, as well as within our local community. The pandemic triggered a significant downturn in global markets and if these conditions continue for an extended period of time or worsen, this could materially impact financing options. In an effort to contain the spread of COVID-19, maintain the well-being of our employees and members and our reliability standards and in accordance with governmental requirements, we closed our lobby to the public and encouraged telecommuting among staff. While the global market downturn, closures and limitations on movement are expected to be temporary, the duration of the production and supply chain disruptions, and related financial impacts, cannot be estimated at this time.

To date, Chugach's service delivery has not been impaired. Chugach crews continue to respond to outages, perform maintenance and operations necessary for the provision and delivery of electric service. Additionally, to date, Chugach has not experienced any supply chain disruptions.

Prior to COVID-19, Chugach's uncollectible expense has been immaterial, averaging 0.10% of -- retail revenue for the 3-year period 2017-2019. As expected, we are beginning to see an increase, which we are monitoring. Our commercial customers are required to maintain deposits. Based on our analysis, we have seen an increase in residential sales and a decrease in commercial sales and our receivable balances and delinquencies have increased. In addition, we believe that not disconnecting customers will continue to affect cash flows. We will continue to monitor this information, along with the impact 2020 temperatures have on our sales levels. Additionally, we are working with our commercial customers to ensure that they are aware of all state and federal assistance programs.

Senate Bill 241, recently approved by the State of Alaska Governor, allows utilities to set up regulatory assets for residential bad debts and extraordinary expenses associated with COVID-19. At June 30, 2020, the Chugach's regulatory asset associated with COVID-19 was $1.2 million. In addition, Chugach has available liquidity resources with a $300 million backstopped commercial paper program and a $50 million line of credit with NRUCFC.

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, 2019. Except as noted above, these risk factors have not materially changed as of June 30, 2020.

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***
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: August 14, 2020

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 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 second 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: August 14, 2020

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 second 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: August 14, 2020

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 June 30, 2020, 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: August 14, 2020

By: Lee 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 June 30, 2020, 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: August 14, 2020

By: Sherri L. Highers
Sherri L. Highers
Chief Financial Officer
Principal Financial Officer