CHUGACH
POWERING ALASKA'S FUTURE

CHUGACH ELECTRIC ASSOCIATION, INC.

Financial Statements

December 31, 2017 and 2016

(With Report of Independent Registered Accounting Firm Thereon)

KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Report of Independent Registered Public Accounting Firm

The Board of Directors
Chugach Electric Association, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Chugach Electric Association, Inc. and subsidiary (the Company) as of December 31, 2017 and 2016, the related consolidated statements of operations, changes in equities and margins, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the relevant ethical requirements relating to our audits.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

KPMG LLP

We have served as the Company's auditor since 1983.

Anchorage, Alaska
March 20, 2018

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KPMG International Cooperative ("KPMG International"), a Swiss entity.

Chugach Electric Association, Inc.
Consolidated Balance Sheets
December 31, 2017 and 2016

Assets	December 31, 2017	December 31, 2016
Utility plant:		
Electric plant in service	$ 1,205,092,224	$ 1,192,513,869
Construction work in progress	17,952,573	18,455,940
Total utility plant	1,223,044,797	1,210,969,809
Less accumulated depreciation	(515,496,312)	(496,098,131)
Net utility plant	707,548,485	714,871,678
Other property and investments, at cost:		
Nonutility property	76,889	76,889
Investments in associated organizations	8,980,410	9,349,311
Special funds	1,466,010	907,836
Restricted cash equivalents	1,028,758	810,559
Investments - other	0	3,061,434
Total other property and investments	11,552,067	14,206,029
Current assets:		
Cash and cash equivalents	5,485,631	4,672,935
Special deposits	54,300	75,942
Restricted cash equivalents	687,370	899,723
Marketable securities	11,420,900	7,375,381
Fuel cost under-recovery	4,921,794	0
Accounts receivable, less provisions for doubtful accounts of $555,336 in 2017 and $484,352 in 2016	35,680,680	33,000,919
Materials and supplies	15,291,095	27,889,167
Fuel stock	6,901,994	6,321,676
Prepayments	4,953,170	1,407,026
Other current assets	257,193	294,697
Total current assets	85,654,127	81,937,466
Other non-current assets:		
Deferred charges, net	32,764,065	25,140,957
Total other non-current assets	32,764,065	25,140,957
Total assets	$ 837,518,744	$ 836,156,130

Chugach Electric Association, Inc.
Consolidated Balance Sheets (continued)
December 31, 2017 and 2016

Liabilities, Equities and Margins	December 31, 2017	December 31, 2016
Equities and margins:		
Memberships	$ 1,719,154	$ 1,691,014
Patronage capital	172,928,887	169,996,436
Other	14,653,253	13,828,075
Total equities and margins	189,301,294	185,515,525
Long-term obligations, excluding current installments:		
Bonds payable	421,833,331	405,249,998
Notes payable	37,164,000	40,356,000
Less unamortized debt issuance costs	(2,669,485)	(2,715,745)
Total long-term obligations	456,327,846	442,890,253
Current liabilities:		
Current installments of long-term obligations	26,608,667	24,836,667
Commercial paper	50,000,000	68,200,000
Accounts payable	7,420,279	9,618,630
Consumer deposits	5,335,896	5,207,585
Fuel cost over-recovery	0	3,824,722
Accrued interest	5,991,619	5,873,368
Salaries, wages and benefits	7,017,131	7,315,898
Fuel	9,913,781	6,284,338
Other current liabilities	7,079,821	3,234,586
Total current liabilities	119,367,194	134,395,794
Other non-current liabilities:		
Deferred compensation	1,229,294	907,836
Other liabilities, non-current	531,630	655,277
Deferred liabilities	1,249,390	1,179,414
Patronage capital payable	8,798,077	12,008,499
Cost of removal obligation / asset retirement obligation	60,714,019	58,603,532
Total other non-current liabilities	72,522,410	73,354,558
Total liabilities, equities and margins	$ 837,518,744	$ 836,156,130

See accompanying notes to financial statements.

Chugach Electric Association, Inc.
Consolidated Statements of Operations
Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
Operating revenues	$ 224,688,669	$ 197,747,579	$ 216,421,152
Operating expenses:			
Fuel	78,552,672	54,778,582	66,534,877
Production	18,006,490	15,809,168	16,886,257
Purchased power	17,301,067	15,774,733	19,599,994
Transmission	6,129,871	5,590,737	6,287,558
Distribution	13,991,088	13,991,997	14,089,862
Consumer accounts	5,968,736	6,073,710	6,117,625
Administrative, general and other	23,256,983	22,888,048	23,623,299
Depreciation and amortization	34,010,777	36,233,414	35,652,086
Total operating expenses	$ 197,217,684	$ 171,140,389	$ 188,791,558
Interest expense:			
Long-term debt and other	22,366,034	21,856,095	22,194,290
Charged to construction	(164,898)	(454,798)	(379,845)
Interest expense, net	$ 22,201,136	$ 21,401,297	$ 21,814,445
Net operating margins	$ 5,269,849	$ 5,205,893	$ 5,815,149
Nonoperating margins:			
Interest income	644,663	425,173	296,788
Allowance for funds used during construction	69,157	188,111	142,881
Capital credits, patronage dividends and other	65,055	(5,321)	248,034
Total nonoperating margins	$ 778,875	$ 607,963	$ 687,703
Assignable margins	$ 6,048,724	$ 5,813,856	$ 6,502,852

See accompanying notes to financial statements.

Chugach Electric Association, Inc.
Consolidated Statements of Changes in Equities and Margins
Years Ended December 31, 2017, 2016 and 2015

	Memberships	Other Equities and Margins	Patronage Capital	Total
Balance, January 1, 2015	$ 1,631,569	$ 11,158,677	$ 164,135,053	$ 176,925,299
Assignable margins	0	0	6,502,852	6,502,852
Retirement/net transfer of capital credits	0	0	(3,190,124)	(3,190,124)
Unclaimed capital credit retirements	0	1,298,410	0	1,298,410
Memberships and donations received	30,175	70,769	0	100,944
Balance, December 31, 2015	1,661,744	12,527,856	167,447,781	181,637,381
Assignable margins	0	0	5,813,856	5,813,856
Retirement/net transfer of capital credits	0	0	(3,265,201)	(3,265,201)
Unclaimed capital credit retirements	0	1,175,962	0	1,175,962
Memberships and donations received	29,270	124,257	0	153,527
Balance, December 31, 2016	1,691,014	13,828,075	169,996,436	185,515,525
Assignable margins	0	0	6,048,724	6,048,724
Retirement/net transfer of capital credits	0	0	(3,116,273)	(3,116,273)
Unclaimed capital credit retirements	0	612,752	0	612,752
Memberships and donations received	28,140	212,426	0	240,566
Balance, December 31, 2017	$ 1,719,154	$ 14,653,253	$ 172,928,887	$ 189,301,294

See accompanying notes to financial statements.

Chugach Electric Association, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
Cash flows from operating activities:			
Assignable margins	$ 6,048,724	$ 5,813,856	$ 6,502,852
Adjustments to reconcile assignable margins to net cash provided by operating			
Depreciation and amortization	34,010,777	36,233,414	35,652,086
Amortization and depreciation cleared to operating expenses	4,791,978	4,988,068	4,390,385
Allowance for funds used during construction	(69,157)	(188,111)	(142,881)
Write off of inventory, deferred charges and projects	413,690	997,301	691,035
Other	27,986	248,482	(220,496)
(Increase) decrease in assets:			
Accounts receivable, net	(2,858,099)	(4,926,631)	6,866,956
Fuel cost under-recovery	(4,921,794)	0	0
Materials and supplies	896,455	(850,493)	(1,070,896)
Fuel stock	(580,318)	741,865	2,588,532
Prepayments	(3,546,144)	59,275	712,422
Other assets	59,146	(71,144)	215,738
Deferred charges	(201,775)	(10,374,429)	(405,746)
Increase (decrease) in liabilities:			
Accounts payable	(1,469,106)	750,538	(270,416)
Consumer deposits	128,311	206,901	86,424
Fuel cost over-recovery	(3,824,722)	(1,311,023)	3,673,688
Accrued interest	118,251	(42,212)	(276,028)
Salaries, wages and benefits	(298,767)	56,092	(287,510)
Fuel	3,629,443	1,342,028	(6,195,299)
Other current liabilities	(2,045,800)	(1,051,220)	(290,715)
Deferred liabilities	(17,927)	(128,221)	(123,695)
Net cash provided by operating activities	30,291,152	32,494,336	52,096,436
Cash flows from investing activities:			
Return of capital from investment in associated organizations	370,010	319,233	352,420
Investment in restricted cash equivalents	(5,846)	(1,398)	(1,141)
Investment in special funds	(236,716)	0	0
Investment in marketable securities and investments-other	(924,903)	(10,580,000)	0
Investment in Beluga River Unit	0	(44,403,922)	0
Proceeds from restricted cash equivalents	0	1,140,343	0
Proceeds from capital grants	115,453	1,021,929	2,395,331
Extension and replacement of plant	(28,879,926)	(36,984,892)	(35,094,355)
Net cash used in investing activities	(29,561,928)	(89,488,707)	(32,347,745)
Cash flows from financing activities:			
Payments for debt issue costs	(206,871)	(277,155)	0
Net increase (decrease) in short-term obligations	(18,200,000)	48,200,000	(1,000,000)
Proceeds from long-term obligations	40,000,000	45,600,000	0
Repayments of long-term obligations	(24,836,667)	(48,181,832)	(23,889,777)
Memberships and donations received	853,318	1,329,489	357,365
Retirement of patronage capital and estate payments	(2,258,047)	(4,378,853)	(182,352)
Net receipts on consumer advances for construction	4,731,739	3,748,738	4,228,030
Net cash provided by (used in) financing activities	83,472	46,040,387	(20,486,734)
Net change in cash and cash equivalents	812,696	(10,953,984)	(738,043)
Cash and cash equivalents at beginning of period	$ 4,672,935	15,626,919	16,364,962
Cash and cash equivalents at end of period	$ 5,485,631	$ 4,672,935	$ 15,626,919
Supplemental disclosure of non-cash investing and financing activities:			
Cost of removal obligation	$ 2,110,487	$ 3,008,808	$ 1,366,318
Asset retirement obligation assumed upon BRU acquisition	$ 0	$ 3,523,409	$ 0
Extension and replacement of plant included in accounts payable	$ 1,185,788	$ 1,915,033	$ 2,582,947
Patronage capital retired/net transferred and included in other current liabilities	$ 2,057,036	$ 0	$ 2,105,440
Supplemental disclosure of cash flow information - interest expense paid, net of amounts capitalized	$ 20,911,535	$ 20,220,317	$ 21,891,308

See accompanying notes to financial statements.

(1) Description of Business

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

Chugach's retail and wholesale members are the consumers of the electricity sold. Chugach supplies much of the power requirements to the City of Seward (Seward), as a wholesale customer. Chugach also served Matanuska Electric Association, Inc. (MEA) through their contract expiration on April 30, 2015. Through March 31, 2015, we sold economy (non-firm) energy to Golden Valley Electric Association, Inc. (GVEA), which used that energy to serve its own load. Periodically, Chugach sells available generation, in excess of its own needs, to MEA, Homer Electric Association, Inc. (HEA), 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 authority of the Regulatory Commission of Alaska (RCA).

The consolidated financial statements include the activity of Chugach and the activity of the Beluga River Unit (BRU). Chugach accounts for its share of BRU activity using proportional consolidation (see *Note 15 – "Beluga River Unit"*). Intercompany activity has been eliminated for presentation of the consolidated financial statements.

(2) Significant Accounting Policies

a. Management Estimates

In preparing the financial statements in conformity with United States generally accepted accounting principles (GAAP), the management of Chugach is required to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the balance sheet and revenues and expenses for the reporting period. Estimates include the allowance for doubtful accounts, workers' compensation liability, deferred charges and liabilities, unbilled revenue, estimated useful life of utility plant, cost of removal and asset retirement obligation (ARO), and remaining proved BRU reserves. Actual results could differ from those estimates.

b. Regulation

The accounting records of Chugach conform to the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission (FERC). Chugach meets the criteria, and accordingly, follows the accounting and reporting requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, "Topic 980 - Regulated Operations." FASB ASC 980 provides for the recognition of regulatory assets and liabilities as allowed by regulators for costs or credits that are reflected in current rates or are considered probable of being included in future rates. Our regulated rates are established to recover all of our specific costs of providing electric service. In each rate filing, rates are set at levels to recover all of our specific allowable costs and those rates are then collected from our retail and wholesale customers. The regulatory assets or liabilities are then reduced as the cost or credit is reflected in earnings and our rates, see *Note (2o)* – "*Deferred Charges and Liabilities.*"

c. Utility Plant and Depreciation

Additions to electric plant in service are recorded at original cost of contracted services, direct labor and materials, indirect overhead charges and capitalized interest. For property replaced or retired, the book value of the property, removal costs, less salvage, is charged to accumulated depreciation. Renewals and betterments are capitalized, while maintenance and repairs are normally charged to expense as incurred.

In accordance with FASB ASC 360, "Topic 360 – Property, Plant, and Equipment," certain asset groups are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset group may not be recoverable in rates. Recoverability of asset groups to be held and used is measured by a comparison of the carrying amount of an asset group to estimated undiscounted future cash flows expected to be generated by the asset group. If the carrying amount of an asset group exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset group exceeds the fair value of the asset.

Depreciation and amortization rates have been applied on a straight-line basis and at December 31, 2017 are as follows:

Annual Depreciation Rate Ranges

	Six months ending June 30, 2017			Six months ending December 31, 2017		
Steam production plant	3.15%	-	3.84%	3.03%	-	3.26%
Hydroelectric production plant	1.06%	-	3.00%	0.88%	-	2.71%
Other production plant	3.15%	-	8.85%	2.18%	-	3.46%
Transmission plant	1.58%	-	7.86%	1.01%	-	10.50%
Distribution plant	2.16%	-	9.63%	1.40%	-	10.00%
General plant	1.57%	-	20.00%	1.95%	-	33.33%
Other	2.75%	-	2.75%	2.75%	-	2.75%

On March 23, 2017, the RCA approved revised depreciation rates effective July 1, 2017 in Docket U-16-081(2). Chugach's depreciation rates include a provision for cost of removal. Chugach records a separate liability for the estimated obligation related to the cost of removal.

Chugach records Depreciation, Depletion and Amortization (DD&A) expense on the BRU assets based on units of production using the following formula: ten percent of the total production from the BRU as provided by the operator divided by ten percent of the estimated remaining proved reserves (in thousand cubic feet (Mcf)) in the field multiplied by Chugach's total assets in the BRU.

d. Full Cost Method

Pursuant to FASB ASC 932-360-25, "Extractive Activities-Oil and Gas – Property, Plant and Equipment – Recognition," Chugach has elected the Full Cost method, rather than the Successful Efforts method, to account for exploration and development costs of gas reserves.

e. Asset Retirement Obligation (ARO)

Chugach calculated and recorded an Asset Retirement Obligation associated with the BRU. Chugach uses its BRU financing rate as its credit adjusted risk free rate and the expected cash flow approach to calculate the fair value of the ARO liability. The ARO asset is depreciated using the DD&A formula previously discussed. The ARO liability is accreted using the interest method of allocation.

f. Investments in Associated Organizations

The loan agreements with CoBank, ACB (CoBank) and National Rural Utilities Cooperative Finance Corporation (NRUCFC) requires as a condition of the extension of credit, that an equity ownership position be established by all borrowers. Chugach's equity ownership in these organizations is less than one percent. These investments are non-marketable and accounted for at cost. Management evaluates these investments annually for impairment. No impairment was recorded during 2017, 2016 or 2015.

g. Investments – Other

Investments – other consists of certificates of deposit with a maturity greater than 12 months. Total investments – other were $3.1 million as of December 31, 2016.

h. Special Funds

Special funds includes deposits associated with the deferred compensation plan and an investment associated with the BRU ARO. The BRU ARO investment was established pursuant to an agreement with the State of Alaska and was $0.2 million as of December 31, 2017.

i. Cash and Cash Equivalents / Restricted Cash Equivalents

For purposes of the statement of cash flows, Chugach considers all highly liquid instruments with a maturity of three months or less upon acquisition by Chugach to be cash equivalents. Chugach has a concentration account with First National Bank Alaska (FNBA). There is no rate of return or fees on this account. The concentration account had an average balance of $6,454,809 and $5,897,767 during the years ended December 31, 2017 and 2016, respectively.

Restricted cash equivalents include funds on deposit for future workers' compensation claims. Total current and long term restricted cash equivalents were $1.7 million at December 31, 2017 and 2016.

j. 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. Net gains on marketable securities are included in nonoperating margins – capital credits, patronage dividends and other, and are summarized as follows:

		Twelve months ended December 31, 2017
Net gains and losses recognized during the period on trading securities	$	59,182
Less: Net gains and losses recognized during the period on trading securities *sold* during the period		0
Unrealized gains and losses recognized during the reporting period on trading securities *still held* at the reporting date	$	59,182

k. Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount. The allowance for doubtful accounts is management's best estimate of the amount of probable credit losses in existing accounts receivable. Chugach determines the allowance based on its historical write-off experience and current economic conditions. Chugach reviews its allowance for doubtful accounts monthly. Past due balances over 90 days in a specified amount are reviewed individually for collectability. All other balances are reviewed in aggregate. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Chugach does not have any off–balance-sheet credit exposure related to its customers. Included in accounts receivable are invoiced amounts to ML&P for their proportionate share of current Southcentral Power Project (SPP) costs, which amounted to $1.3 million and $1.4 million in 2017 and 2016, respectively. At December 31, 2017 and 2016, accounts receivable also included $1.1 million and $0.7 million, respectively, from BRU operations primarily associated with gas sales to ENSTAR.

l. Materials and Supplies

Materials and supplies are stated at average cost.

m. Fuel Stock

Fuel Stock is the weighted average cost of fuel injected into Cook Inlet Natural Gas Storage Alaska (CINGSA). Chugach's fuel balance in storage for the years ended December 31, 2017 and 2016 amounted to $6.9 million and $6.3 million, respectively.

n. Fuel and Purchased Power Cost Recovery

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

o. Deferred Charges and Liabilities

Included in deferred charges and liabilities on Chugach's financial statements are regulatory assets and liabilities recorded in accordance with FASB ASC 980. See *Note 8 – Deferred Charges and Liabilities*. Continued accounting under FASB ASC 980 requires that certain criteria be met. We capitalize all or part of costs that would otherwise be charged to expense if it is probable that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for ratemaking purposes and future revenue will be provided to permit recovery of the previously incurred cost. Management believes Chugach's operations currently satisfy these criteria.

Chugach's regulatory asset recoveries are embedded in base rates approved by the RCA. Specific costs incurred and recorded as Regulatory Assets, including the amortization period for recovery, are approved by the RCA either in standard Simplified Rate Filings (SRF), general rate case filings or specified independent requests. The rates approved related to the regulatory assets are matched to the amortization of actual expenses recognized. The regulatory assets are amortized and collected through rates over differing periods depending upon the period of benefit as established by the RCA. Deferred liabilities include refundable contributions in aid of construction, which are credited to the associated cost of construction of property units. Refundable contributions in aid of construction are held in deferred liabilities pending their return or other disposition. If events or circumstances should change so the criteria are not met, the write off of regulatory assets and liabilities could have a material effect on Chugach's financial position, results of operations or cash flows.

On December 29, 2016, Chugach made a prepayment of $7.9 million to the National Rural Electric Cooperative Association (NRECA) Retirement and Security (RS) Plan, which is included in deferred charges. Chugach recorded the long term prepayment in deferred charges and is amortizing the deferred charge to administrative, general and other expense, over 11 years, which represents the difference between the normal retirement age of 62 and the average age of Chugach's employees in the RS Plan. The balance of the prepayment in deferred charges at December 31, 2017 and 2016 was $7.2 million and $7.9 million, respectively.

p. Patronage Capital

Revenues in excess of current period costs (net operating margins and nonoperating margins) in any year are designated on Chugach's statement of operations as assignable margins. These excess amounts (i.e. assignable margins) are considered capital furnished by the members, and are credited to their accounts and held by Chugach until such future time as they are retired and returned without interest at the discretion of the Board of Directors (Board). Retained assignable margins are designated on Chugach's balance sheet as patronage capital. This patronage capital constitutes the principal equity of Chugach. The Board may also approve the return of capital to former members and estates who request early retirements at discounted rates under a discounted capital credits retirement plan authorized by the Board in September of 2002.

q. Consumer Deposits

Consumer deposits include amounts certain customers are required to deposit to receive electric service. Consumer deposits for the years ended December 31, 2017 and 2016, totaled $3.7 million and $3.3 million, respectively. Consumer deposits also represent customer credit balances as a result of prepaid accounts. Credit balances totaled $1.6 million and $1.9 million for the years ended December 31, 2017 and 2016.

r. Fair Value of Financial Instruments

FASB ASC 825, "Topic 825 – Financial Instruments," requires disclosure of the fair value of certain on and off balance sheet financial instruments for which it is practicable to estimate that value. The following methods are used to estimate the fair value of financial instruments:

Cash and cash equivalents – the carrying amount approximates fair value because of the short maturity of those instruments.

Restricted cash – the carrying amount approximates fair value because of the short maturity of those instruments.

Marketable securities – the carrying amount approximates fair value as changes in the market value are recorded monthly and gains or losses are reported in earnings (see note 2j and note 4).

Long-term obligations – the fair value estimate is based on the quoted market price for same or similar issues (see note 11).

Consumer deposits – the carrying amount approximates fair value because of the short refunding term.

The fair value of accounts receivable and payable, and other short-term monetary assets and liabilities approximate carrying value due to their short-term nature.

s. Operating Revenues

Revenues are recognized upon delivery of electricity. Operating revenues are based on billing rates authorized by the RCA, which are applied to customers' usage of electricity. Chugach's rates are established, in part, on test period sales levels that reflect actual operating results. Chugach calculates unbilled revenue at the end of each month to ensure the recognition of a calendar year's revenue. Chugach accrued $10,674,543 and $10,940,274 of unbilled retail revenue at December 31, 2017 and 2016, respectively, which is included in accounts receivable on the balance sheet. Wholesale revenue is recorded from metered locations on a calendar month basis, so no estimation is required. Chugach's tariffs include provisions for the recovery of gas costs according to gas supply contracts, as well as purchased power costs.

t. Capitalized Interest

Allowance for funds used during construction (AFUDC) and interest charged to construction - credit (IDC) are the estimated costs of the funds used during the period of construction from both equity and borrowed funds. AFUDC and IDC are applied to specific projects during construction. AFUDC and IDC calculations use the net cost of borrowed funds when used and is recovered through RCA approved rates as utility plant is depreciated. For all projects Chugach capitalized such funds at the weighted average rate of 4.1% during 2017 and 4.3% during 2016 and 2015.

u. Environmental Remediation Costs

Chugach accrues for losses and establishes a liability associated with environmental remediation obligations when such losses are probable and can be reasonably estimated. Such accruals are adjusted as further information develops or circumstances change. Estimates of future costs for environmental remediation obligations are not discounted to their present value. However, various remediation costs may be recoverable through rates and accounted for as a regulatory asset.

v. Income Taxes

Chugach is exempt from federal income taxes under the provisions of Section 501(c)(12) of the Internal Revenue Code and for the years ended December 31, 2017, 2016 and 2015 was in compliance with that provision. In addition, as described in *Note (16) – "Commitments and Contingencies,"* Chugach collects sales tax and is assessed gross revenue and excise taxes which are presented on a net basis in accordance with FASB ASC 605-45-50, "Topic 605 - Revenue Recognition – Subtopic 45 - Principal Agent Considerations – Section 50 - Disclosure."

Chugach applies a more-likely-than-not recognition threshold for all tax uncertainties. FASB ASC 740, "Topic 740 – Income Taxes," only allows the recognition of those tax benefits that have a greater than fifty percent likelihood of being sustained upon examination by the taxing authorities. Chugach's management reviewed Chugach's tax positions and determined there were no outstanding or retroactive tax positions that were not highly certain of being sustained upon examination by the taxing authorities.

Management has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements for all periods presented. Chugach's evaluation was performed for the tax periods ended December 31, 2015 through December 31, 2017 for United States Federal Income Tax, the tax years which remain subject to examination by major tax jurisdictions as of December 31, 2017.

w. Grants

Chugach has received federal and state grants to offset storm related expenditures and to support investigating means of mitigating the impact of renewable generation variability on the grid as well as the construction of facilities to transport fuel, divert water and safely transmit electricity to its consumers. Grant proceeds used to construct or acquire equipment are offset against the carrying amount of the related assets while grant proceeds for storm related expenditures are offset against the actual expense incurred. Chugach received no grants in 2017 and $0.6 million in 2016.

(3) Accounting Pronouncements

Issued, not yet adopted:

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

In May of 2014, the FASB issued ASC Update 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASC Update 2014-09 provides guidance for the recognition, measurement and disclosure of revenue related to the transfer of promised goods or services to customers. Chugach adopted the standard on January 1, 2018 using the modified retrospective transition method with an immaterial cumulative effect adjustment as of the January 1, 2018 adoption date.

We have evaluated our energy sales contracts, including retail, wholesale, and economy energy, and do not believe there will be an impact to the timing or pattern of revenue recognition from our energy sales. Energy sales are billed monthly per regulator approved tariffs based on the energy consumed by the customer. Total revenue derived from energy sales during 2017 was approximately 99% of our total operating revenue.

The adoption of Topic 606 also includes additional disclosure requirements beginning in the first quarter of 2018, including expanded disclosures around the amount, timing, nature and uncertainty of revenues from contracts with customers. We are finalizing the required disclosures.

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

In January of 2016, the FASB issued ASC Update 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." ASC Update 2016-01 amends guidance related to certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. This update is effective for fiscal years beginning after December 15, 2018, and interim periods beginning after December 15, 2019, with early adoption not permitted with certain exceptions. Chugach will begin application of ASC 2016-01 with the annual report for the year ended December 31, 2019. Adoption is not expected to have a material effect on its results of operations, financial position, and cash flows.

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

In February of 2016, the FASB issued ASC Update 2016-02, "Leases (Topic 842): Section A – Leases: Amendments to the FASB Accounting Standards Codification; Section B – Conforming Amendments Related to Leases: Amendments to the FASB Accounting Standards Codification; Section C – Background Information and Basis for Conclusions." ASC Update 2016-02 amends guidance related to the recognition, measurement, presentation and disclosure of leases for lessors and lessees. This update is effective for fiscal years beginning after December 15, 2018, including the interim periods within those years, with early adoption permitted. Chugach will begin application of ASC 2016-02 on January 1, 2019. Chugach expects this update to increase the recorded amounts of assets and liabilities and we are evaluating the significance of the increase. We are also evaluating the impact of this update to our results of operations, financial position, and cash flows.

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

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

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

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

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

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

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

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

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

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

ASC Update 2018-01 *"Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842"*

In January 2018, the FASB issued ASC Update 2018-01, "Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842." ASC Update 2018-01 amends current guidance to provide an optional transition practical expedient allowing entities to not evaluate under Topic 842 existing or expired land easements that were not previously accounted for as leases under the current leases guidance in Topic 840. This update is effective for fiscal years beginning after December 15, 2018, including the interim periods within those years, with early adoption permitted. Chugach will begin application of ASC 2018-01 on January 1, 2019. Chugach is evaluating the impact of the Lease update as well as existing land easements to determine if we will elect to use the practical expedient for transition as well as the effect on our results of operations, financial position, and cash flows.

(4) Fair Value of Assets and Liabilities

Fair Value Hierarchy

In accordance with FASB ASC 820, Chugach groups its financial assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active exchange markets, such as the New York Stock Exchange. 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.

The table below presents the balance of Chugach's marketable securities measured at fair value on a recurring basis at December 31, 2017 and 2016. Chugach's bond mutual funds, corporate bonds, and marketable certificates of deposit are measured using quoted prices in active markets. Chugach had no other assets or liabilities measured at fair value on a recurring basis at December 31, 2017 or 2016.

December 31, 2017	Total	Level 1	Level 2	Level 3
Bond mutual funds	$ 8,109,242	$ 8,109,242	$ 0	$ 0
Corporate bonds	$ 248,335	$ 248,335	$ 0	$ 0
Certificates of deposit	$ 3,063,323	$ 3,063,323	$ 0	$ 0

December 31, 2016	Total	Level 1	Level 2	Level 3
Bond mutual funds	$ 7,375,381	$ 7,375,381	$ 0	$ 0
Certificates of deposit	$ 3,061,434	$ 3,061,434	$ 0	$ 0

Fair Value of Financial Instruments

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

The estimated fair values (in thousands) of long-term obligations included in the financial statements at December 31, 2017, are as follows:

	Carrying Value	Fair Value Level 2
Long-term obligations (including current installments)	$ 485,606	$ 511,196

(5) Regulatory Matters

Amended Eklutna Generation Station 2015 Dispatch Services Agreement

On February 13, 2015, Chugach submitted the Amended Eklutna Generation Station 2015 Dispatch Services Agreement (Dispatch Services Agreement) to the RCA for dispatch services to be provided by Chugach to MEA for a one-year period. Under the Dispatch Services Agreement, Chugach provides electric and natural gas dispatch services for MEA's Eklutna Generation Station (EGS), electric dispatch services for the Bradley Lake Hydroelectric Project (Bradley Lake), and electric dispatch coordination services for the Eklutna Hydroelectric Project (Eklutna Hydro) beginning with EGS' full commercial operation.

On March 23, 2015, the RCA approved the Dispatch Agreement, conditioned on the requirements that: 1) MEA and Chugach notify the RCA at least one month prior to forming separate Load Balancing Authorities and include in any such notification details on the tie points and any written agreements contemplated by the utilities; and, 2) Chugach file an update to its tariff to reflect any extension of the Dispatch Services Agreement one week from the receipt of such a request from MEA. The Dispatch Services Agreement was in effect through March 31, 2016.

In December of 2015, MEA notified Chugach that it would not be extending the Dispatch Services Agreement for the dispatch of electric service. Subsequently, Chugach and MEA entered into an agreement entitled, "Gas Dispatch Agreement" in which Chugach provides gas scheduling and dispatch services to MEA. The term of the agreement was April 1, 2016, through March 31, 2017. On April 18, 2016, Chugach requested RCA approval of the special contract. The RCA issued a letter order on June 8, 2016, approving the filing. Chugach and MEA signed an agreement to extend the gas dispatch agreement through March 31, 2018, and later signed an amendment to extend the agreement through March 31, 2019. A letter order was issued by the RCA on September 22, 2017, approving the amendment to the agreement to extend gas dispatch services as filed in Tariff Advice No. 442-8.

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 submitted quarterly SRF filings which resulted in a 3.0% decrease to system demand and energy rates effective July 1, 2017, and an increase of 1.9% for rates effective November 1, 2017. The SRF based on the September 2017 test year resulted in a 0.4 % increase to system demand and energy rates effective February 1, 2018.

Furie Agreement

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

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

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

Beluga River Unit Gas Transfer Price

On June 29, 2016, Chugach filed a petition with the RCA for approval to create a regulatory asset for the deferral of expenses (financial/economic, engineering and legal services) associated with Chugach's acquisition of the BRU, which was $1.5 million at December 31, 2016, and is included in deferred charges on Chugach's balance sheet. See *Note 8 – Deferred Charges and Liabilities*. Chugach also requested approval to recover the deferred costs in the gas transfer price.

On September 14, 2016, the RCA issued an order combining the BRU cost recovery process and the request to create a regulatory asset into a single docket. The RCA established a procedural schedule and indicated that a final order in the case would be issued by November 17, 2017. Docket U-16-062 / U-16-074 was established to address the creation of a regulatory asset for the recovery of costs associated with Chugach's acquisition of a portion of ConocoPhillips Alaska, Inc.'s interest in the BRU and to determine the methodology to establish permanent rates for the gas transfer price (GTP) associated with Chugach's ownership interest in the BRU. On September 7, 2017, the RCA issued U-16-062(7) / U-16-074(7) accepting a stipulation between Chugach and the Office of the Attorney General Regulatory Affairs and Public Advocacy Section and vacating the procedural hearing. On October 7, 2017, Chugach submitted the BRU GTP calculations to the RCA as part of a compliance filing to the settlement. On October 26, 2017, the RCA issued a final order accepting Chugach's compliance filing and closing the docket.

Beluga Parts Filing

On November 18, 2016, Chugach submitted a petition to the RCA for approval to create a regulatory asset that would allow Chugach to amortize and recover in rates the value of certain plant needed to support power production equipment located at the Beluga Power Plant.

Specifically, Chugach requested RCA approval to recover approximately $11.4 million in equipment that supports Beluga generation units. Chugach requested that it be permitted to amortize the value of this plant over a period of 30 months for plant associated with Units 1 and 2 (approximately $0.3 million), and 108 months for all other parts (approximately $11.1 million). The amortization periods are consistent with the proposed depreciation rates for the Beluga units contained in Chugach's depreciation study that was submitted to the RCA on September 30, 2016.

The RCA opened Docket Number U-16-092 to review the petition. The RCA approved the petition May 17, 2017 closing docket U-16-092(2).

Depreciation Study Update

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

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

Cook Inlet Natural Gas Alaska: Found Gas

On January 30, 2015, CINGSA submitted a filing to the RCA providing notice that it had found 14.5 Bcf of gas as a result of directional drilling in the storage facility and proposed to establish guidelines for commercial sales of at least 2 Bcf of this gas. Chugach submitted comments to the RCA regarding CINGSA's proposed treatment of found gas. Chugach did not believe CINGSA's proposal to retain revenues for the sale of found gas should be permitted in recognition of the risk-sharing agreements made by CINGSA and its storage customers that resulted in the development of the CINGSA storage facility.

The RCA issued an order in March of 2015, suspending the filing for further investigation. CINGSA filed direct testimony in the case on April 13, 2015. Chugach and other interveners in the case submitted responsive testimony on June 5, 2015. CINGSA submitted its reply testimony on June 29, 2015. The evidentiary hearing was held in September of 2015.

The RCA issued a final order in the case on December 4, 2015, ruling significantly in favor of the interveners in the case. The RCA granted approval for CINGSA to sell 2 Bcf with 87% of the proceeds allocated to CINGSA's Firm Storage Service (FSS) customers and 13 percent to CINGSA. The RCA also required CINGSA to file a reservoir engineering study by June 30, 2016, and required CINGSA to file notice of all gas sales within 30 days of any sales, including the transaction price, purchaser, quantities, and the terms and conditions of the sale. The RCA also required that all proceeds to the FSS customers be treated as a reduction in fuel costs that are paid by CINGSA's customers.

On January 4, 2016, CINGSA filed an appeal in Superior Court to Order U-15-016(14), stating the RCA violated CINGSA's right to due process of law, erred, and/or acted unreasonably, unfairly, arbitrarily, capriciously, or contrary to applicable law. CINGSA believes additional proceeds resulting from the sale of found native gas should remain with CINGSA. Chugach filed an entry of appearance in the case on January 14, 2016. CINGSA filed its brief on June 6, 2016. Chugach filed its reply brief on October 31, 2016. Oral argument was held on March 6, 2017.

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

Operation and Regulation of the Alaska Railbelt Electric and Transmission System

The 2014 Alaska Legislature directed the RCA to provide a recommendation on whether creating an independent system operator or similar structure in the Railbelt area is the best option for effective and efficient electrical transmission. On February 11, 2015, the RCA voted in favor of opening a docket to investigate and receive input on alternative transmission structures for the Railbelt. On June 30, 2015, the RCA issued its report which recommended an independent transmission company, certificated and regulated as a public utility, be created to operate the transmission system reliably and transparently and to plan and execute major maintenance, transmission system upgrades, and new transmission projects necessary for the reliable delivery of electric power to Railbelt customers. The RCA opened Docket I-15-001 to gather information on power pooling and/or centralized transmission system planning and operation among the Railbelt electric utilities, including economic dispatch of the Railbelt's electrical generation units. Initial progress reports were filed with the RCA on September 30, 2015. With the support of the RCA, Chugach and several other Railbelt utilities are evaluating possible transmission business model opportunities and associated economic dispatch models that Chugach believes may lead to more optimal Railbelt-wide system operations.

On February 1, 2016, Chugach and the Municipality of Anchorage d/b/a Municipal Light and Power (ML&P) filed a joint report regarding the development of a power pooling and joint dispatch arrangement between the utilities. The filing summarized several of the projected qualitative and quantitative benefits of such an arrangement. Chugach and ML&P filed subsequent joint reports regarding their progress toward joint dispatch and power pooling arrangements on May 2, 2016, and August 10, 2016. On October 31, 2016, Chugach, ML&P, and MEA filed a joint report informing the RCA that they were negotiating a power pooling and joint dispatch agreement.

On January 27, 2017, Chugach, ML&P, and MEA entered into an Amended and Restated Power Pooling and Joint Dispatch Agreement (Agreement) which provides for economic dispatch resulting from coordinated scheduling of generation and transmission assets, including scheduling, dispatch, and settlement transactions at the bulk power level of electric services. The Agreement was submitted to the RCA as an informational filing on January 30, 2017 under Docket I-15-001. The Agreement provides a contractual framework for coordinated scheduling, dispatch, and settlement transactions for the purchase, sale, or exchange of energy, capacity, reserves, and transmission ancillary services on an efficient and economic basis among the signatories to the Agreement.

The Agreement provides for a one-year development period to develop and agree upon specific, detailed generation and transmission dispatch procedures, fuel supply dispatch procedures, and a settlement process. Upon finalization of dispatch procedures and the settlement process in 2018, Chugach, ML&P and MEA will submit the Agreement to the RCA for approval.

(6) Utility Plant

Major classes of utility plant as of December 31 are as follows:

Electric plant in service:	2017	2016
Steam production plant	$ 101,116,277	$ 101,116,277
Hydroelectric production plant	33,659,129	33,659,129
Other production plant	287,765,474	287,404,484
Transmission plant	296,018,078	282,040,969
Distribution plant	315,862,812	294,641,485
General plant	55,164,994	54,982,432
Unclassified electric plant in service[1]	60,294,349	83,457,981
Intangible plant[1]	5,455,371	5,455,371
Beluga River Natural Gas Field (BRU Asset & ARO)	47,927,331	47,927,331
Other[1]	1,828,409	1,828,409
Total electric plant in service	1,205,092,224	1,192,513,869
Construction work in progress	17,952,573	18,455,940
Total electric plant in service and construction work in progress	$ 1,223,044,797	$ 1,210,969,809

[1]Unclassified electric plant in service consists of complete unclassified general plant, generation plant, transmission plant and distribution plant. Depreciation of unclassified electric plant in service has been included in functional plant depreciation accounts in accordance with the anticipated eventual classification of the plant investment. Intangible plant represents Chugach's share of a Bradley Lake transmission line financed internally. Other represents Electric Plant Held for Future Use.

(7) Investments in Associated Organizations

Investments in associated organizations include the following at December 31:

	2017	2016
NRUCFC Capital Term Certificates	$ 6,095,980	$ 6,095,980
CoBank	2,819,307	3,188,490
Other	65,123	64,841
Total investments in associated organizations	$ 8,980,410	$ 9,349,311

The Farm Credit Administration, CoBank's federal regulators, requires minimum capital adequacy standards for all Farm Credit System institutions. Loan agreements and financing arrangements with CoBank and NRUCFC require, as a condition of the extension of credit, that an equity ownership position be established by all borrowers.

(8) Deferred Charges and Liabilities

Deferred Charges

Deferred charges, net of amortization, consisted of the following at December 31:

	2017	2016
Regulatory assets:		
Debt issuance and reacquisition costs	$ 386,892	$ 492,850
Refurbishment of transmission equipment	95,679	104,939
Feasibility studies	237,425	1,387,285
Cooper Lake relicensing / projects	5,149,903	5,280,006
Fuel supply	1,801,970	2,005,052
Storm damage	453,166	647,381
Other regulatory deferred charges	815,722	849,933
Bond interest - market risk management	4,884,587	5,365,190
Environmental matters	978,820	1,024,171
Beluga parts and materials	10,696,210	0
Total regulatory assets	25,500,374	17,156,807
Other deferred charges:		
NRECA pension plan prepayment	7,204,591	7,925,050
Post retirement benefit obligation	59,100	59,100
Total other deferred charges	7,263,691	7,984,150
Total deferred charges	$ 32,764,065	$ 25,140,957

Deferred charges, not currently being recovered in rates charged to consumers, consisted of the following at December 31:

	2017	2016
Regulatory assets:		
Multi-stage Energy Storage	$ 0	$ 1,117,860
Regulatory studies and other	201,775	46,721
Total regulatory assets	201,775	1,164,581
Other deferred charges:		
NRECA pension plan prepayment	0	7,925,050
Post retirement benefit obligation	59,100	59,100
Total other deferred charges	59,100	7,984,150
Total deferred charges	$ 260,875	$ 9,148,731

We believe all regulatory assets not currently being recovered in rates charged to consumers are probable of recovery in the future based upon prior recovery of similar costs allowed by our regulator. The recovery of regulatory assets is approved by the RCA either in standard SRFs, general rate case filings or specified independent requests. In most cases, deferred charges are recovered over the life of the underlying asset.

Deferred Liabilities

Deferred liabilities, at December 31 consisted of the following:

		2017		2016
Refundable consumer advances for construction	$	416,263	$	328,360
Estimated initial installation costs for meters		100,927		118,854
Post retirement benefit obligation		732,200		732,200
Total deferred liabilities	$	1,249,390	$	1,179,414

(9) Patronage Capital

Chugach has a Board-approved capital credit retirement policy, which is contained in Chugach's Financial Forecast. This establishes, in general, a plan to return the capital credits of wholesale and retail customers based on the members' proportionate contribution to Chugach's assignable margins. At December 31, 2017, Chugach had $172,928,887 of patronage capital (net of capital credits retired in 2017), which included $166,880,163 of patronage capital that had been assigned and $6,048,724 of patronage capital to be assigned to its members. At December 31, 2016, Chugach had $169,996,436 of patronage capital (net of capital credits retired in 2016), which included $164,182,580 of patronage capital that had been assigned and $5,813,856 of patronage capital to be assigned to its members. Approval of actual capital credit retirements is at the discretion of the Chugach Board. Chugach records a liability when the retirements are approved by the Board.

Chugach entered into an agreement with HEA to return all of its patronage capital within five years after expiration of its power sales agreement, which was December 31, 2013. This patronage capital retirement was related to a settlement agreement associated with the 2005 Test Year General Rate Case (Docket U-06-134). The RCA accepted the parties' settlement agreement on August 9, 2007. We finalized a new agreement with HEA in September 2017 which spread their retirement payments between 2017 and 2020 in increments of $2.0 million annually. As a result, $2.0 million of HEA's patronage capital was retired and paid in 2017, and $2.0 million of HEA's patronage capital was reclassified to a current payable under other current liabilities leaving $3.9 million in long-term patronage capital payable at December 31, 2017. HEA's patronage capital payable was $7.9 million at December 31, 2016.

In an agreement reached in May of 2014 with MEA, capital credits retired to MEA are classified as patronage capital payable on Chugach's Balance Sheet. MEA's patronage capital payable was $4.9 million and $4.1 million at December 31, 2017 and 2016, respectively.

The Second Amended and Restated Indenture of Trust (Indenture) and the CoBank Second Amended and Restated Master Loan Agreement prohibit Chugach from making any distribution of patronage capital to Chugach's customers if an event of default under the Indenture or debt agreements exists. Otherwise, Chugach may make distributions to Chugach's members in each year equal to the lesser of 5% of Chugach's patronage capital or 50% of assignable margins for the prior fiscal year. This restriction does not apply if, after the distribution, Chugach's aggregate equities and margins as of the end of the immediately preceding fiscal quarter are equal to at least 30% of Chugach's total long-term debt and equities and margins. Capital credit retirements authorized by our Board, less early retirements, were $2,631,928, $3,001,426, and $3,007,772 for the years ended December 31, 2017, 2016, and 2015, respectively. With the exception of MEA's and HEA's patronage capital payable, the outstanding liability for capital credits authorized but not paid at December 31, 2017, 2016, and 2015 was $57,036, $2,014,080, and $2,105,440, respectively.

(10) Other Equities

A summary of other equities at December 31 follows:

	2017	2016
Nonoperating margins, prior to 1967	$ 23,625	$ 23,625
Donated capital	2,213,876	2,001,450
Unclaimed capital credit retirement[1]	12,415,752	11,803,000
Total other equities	$ 14,653,253	$ 13,828,075

[1]Represents unclaimed capital credits that have met all requirements of Alaska Statute section 34.45.200 regarding Alaska's unclaimed property law and have therefore reverted to Chugach.

(11) Debt

Long-term obligations at December 31 are as follows:	2017	2016
2011 Series A Bond of 4.20%, maturing in 2031, with interest payable semi-annually March 15 and September 15 and principal due annually beginning in 2012	63,000,000	67,500,000
2011 Series A Bond of 4.75%, maturing in 2041, with interest payable semi-annually March 15 and September 15 and principal due annually beginning in 2012	147,999,998	154,166,665
2012 Series A Bond of 4.01%, maturing in 2032, with interest payable semi-annually March 15 and September 15 and principal due annually beginning in 2013	56,250,000	60,000,000
2012 Series A Bond of 4.41%, maturing in 2042, with interest payable semi-annually March 15 and September 15 and principal due annually between 2013 and 2020 and between 2032 and 2042	88,000,000	95,000,000
2012 Series A Bond of 4.78%, maturing in 2042, with interest payable semi-annually March 15 and September 15 and principal due annually beginning in 2023	50,000,000	50,000,000
2017 Series A Bond of 3.43%, maturing in 2037, with interest payable semi-annually March 15 and September 15 and principal due annually beginning in 2018	40,000,000	0
2016 CoBank Note, 2.58% fixed rate note maturing in 2031, with interest and principal due quarterly beginning in 2016	40,356,000	43,776,000
Total long-term obligations	$ 485,605,998	$ 470,442,665
Less current installments	26,608,667	24,836,667
Less unamortized debt issuance costs	2,669,485	2,715,745
Long-term obligations, excluding current installments	$ 456,327,846	$ 442,890,253

Covenants

Chugach is required to comply with all covenants set forth in the Indenture that secures the 2011, 2012, and 2017 Series A Bonds, and the 2016 CoBank Note. The CoBank Note is governed by the Second Amended and Restated Master Loan Agreement, which is secured by the Indenture dated January 20, 2011.

Chugach is also required to comply with the 2016 Credit Agreement, between Chugach and NRUCFC, KeyBank National Association, Bank of America, N.A., and CoBank, ACB dated June 13, 2016, governing loans and extensions of credit associated with Chugach's commercial paper program, in an aggregate principal amount not exceeding $150.0 million at any one time outstanding.

Chugach is also required to comply with other covenants set forth in the Revolving Line of Credit Agreement with NRUCFC.

Security

The Indenture, which became effective on January 20, 2011, imposes a lien on substantially all of Chugach's assets to secure Chugach's long-term debt obligations. Assets that are generally not subject to the lien of the Indenture include cash (other than cash deposited with the indenture trustee); instruments and securities; patents, trademarks, licenses and other intellectual property; vehicles and other movable equipment; inventory and consumable materials and supplies; office furniture, equipment and supplies; computer equipment and software; office leases; other leasehold interests for an original term of less than five years; contracts (other than power sales agreements with members having an original term exceeding three years, certain contracts specifically identified in the indenture, and other contracts relating to the ownership, operation or maintenance of generation, transmission or distribution facilities); non-assignable permits, licenses and other contract rights; timber and minerals separated from land; electricity, gas, steam, water and other products generated, produced or purchased; other property in which a security interest cannot legally be perfected by the filing of a Uniform Commercial Code financing statement, and certain parcels of real property specifically excepted from the lien of the Indenture. The lien of the Indenture may be subject to various permitted encumbrances that include matters existing on the date of the Indenture or the date on which property is later acquired; reservations in United States patents; non-delinquent or contested taxes, assessments and contractors' liens; and various leases, rights-of-way, easements, covenants, conditions, restrictions, reservations, licenses and permits that do not materially impair Chugach's use of the mortgaged property in the conduct of Chugach's business.

Rates

The Indenture also requires Chugach, subject to any necessary regulatory approval, to establish and collect rates reasonably expected to yield margins for interest equal to at least 1.10 times total interest expense. If there occurs any material change in the circumstances contemplated at the time rates were most recently reviewed, the Indenture requires Chugach to seek appropriate adjustment to those rates so that they would generate revenues reasonably expected to yield margins for interest equal to at least 1.10 times interest charges, provided, however, upon review of rates based on a material change in circumstances, rates are required to be revised in order to comply and there are less than six calendar months remaining in the current fiscal year, Chugach can revise its rates so as to reasonably expect to meet the covenant for the next succeeding 12-month period after the date of any such revision.

The Second Amended and Restated Master Loan Agreement with CoBank, which became effective on June 30, 2016,also required Chugach to establish and collect rates reasonably expected to yield margins for interest equal to at least 1.10 times interest expense.

The 2016 Credit Agreement governing the unsecured facility providing liquidity for Chugach's Commercial Paper Program requires Chugach to maintain minimum margins for interest of at least 1.10 times interest charges for each fiscal year. Margins for interest generally consist of Chugach's assignable margins plus total interest expense.

Distributions to Members

Under the Indenture and debt agreements, Chugach is prohibited from making any distribution of patronage capital to Chugach's customers if an event of default under the Indenture or debt agreements exists. Otherwise, Chugach may make distributions to Chugach's members in each year equal to the lesser of 5% of Chugach's patronage capital or 50% of assignable margins for the prior fiscal year. This restriction does not apply if, after the distribution, Chugach's aggregate equities and margins as of the end of the immediately preceding fiscal quarter are equal to at least 30% of Chugach's total long-term debt and equities and margins.

Maturities of Long-term Obligations

Long-term obligations at December 31, 2017, mature as follows:

Year ending December 31	2011 Series A Bonds	2012 Series A Bonds	2016 CoBank Note	2017 Series A Bonds	Total
2018	$ 10,666,667	$ 10,750,000	$ 3,192,000	$ 2,000,000	$ 26,608,667
2019	10,666,667	10,750,000	3,192,000	2,000,000	26,608,667
2020	10,666,667	10,750,000	3,420,000	2,000,000	26,836,667
2021	10,666,667	3,750,000	3,648,000	2,000,000	20,064,667
2022	10,666,667	3,750,000	3,876,000	2,000,000	20,292,667
Thereafter	157,666,663	154,500,000	23,028,000	30,000,000	365,194,663
	$ 210,999,998	$ 194,250,000	$ 40,356,000	$ 40,000,000	$ 485,605,998

Lines of credit

Chugach maintains a $50.0 million line of credit with NRUCFC. Chugach did not utilize this line of credit in 2017 or 2016, and therefore had no outstanding balance at December 31, 2017 and 2016. The borrowing rate is calculated using the total rate per annum and may be fixed by NRUCFC. The borrowing rate was 3.00% at December 31, 2017, and 2.90% at December 31, 2016.

The NRUCFC Revolving Line Of Credit Agreement requires that Chugach, for each 12-month period, for a period of at least five consecutive days, pay down the entire outstanding principal balance. The NRUCFC line of credit was renewed effective September 29, 2017, and expires September 29, 2022. This line of credit is immediately available for unconditional borrowing.

Commercial Paper

On June 13, 2016, Chugach entered into a $150.0 million senior unsecured credit facility (Credit Agreement), which is used to back Chugach's commercial paper program. The pricing includes an all-in drawn spread of one month 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 Credit Agreement will expire on June 13, 2021. The participating banks include NRUCFC, KeyBank National Association, Bank of America, N.A., and CoBank, ACB.

Our commercial paper can be repriced between one day and 270 days. Chugach is expected to continue to issue commercial paper in 2018, as needed.

Chugach had $50.0 million and $68.2 million of commercial paper outstanding at December 31, 2017 and 2016, respectively.

The following table provides information regarding 2017 monthly average commercial paper balances outstanding (dollars in millions), as well as corresponding weighted average interest rates:

Month	Average Balance	Weighted Average Interest Rate	Month	Average Balance	Weighted Average Interest Rate
January	$ 65.0	0.94 %	July	$ 41.1	1.40 %
February	$ 63.0	0.92 %	August	$ 41.5	1.40 %
March	$ 60.9	1.04 %	September	$ 45.7	1.40 %
April	$ 44.4	1.14 %	October	$ 48.4	1.39 %
May	$ 42.4	1.14 %	November	$ 46.0	1.39 %
June	$ 40.2	1.29 %	December	$ 48.7	1.67 %

Financing

On January 21, 2011, Chugach issued $275.0 million of First Mortgage Bonds, 2011 Series A, in two tranches, Tranche A and Tranche B, for the purpose of refinancing the 2001 and 2002 Series A Bonds in 2011 and 2012, and for general corporate purposes. Interest is paid semi-annually on March 15 and September 15 commencing on September 15, 2011. Principal on the 2011 Series A Bonds is paid in equal annual installments beginning March 15, 2012. On January 11, 2012, Chugach issued $250.0 million of First Mortgage Bonds, 2012 Series A, in three tranches, Tranche A, Tranche B and Tranche C, for the purpose of repaying outstanding commercial paper used to finance SPP construction and for general corporate purposes. Interest is paid semi-annually March 15 and September 15 commencing on September 15, 2012. The 2012 Series A Bonds, Tranche A and Tranche C, pay principal in equal installments on an annual basis beginning March 15, 2013, and 2023, respectively. The 2012 Series A Bonds, Tranche B, pay principal beginning March 15, 2013, through 2020, and on March 15, 2032, through 2042. The bonds and all other long-term debt obligations are secured by a lien on substantially all of Chugach's assets, pursuant to the Indenture, which became effective on January 20, 2011.

On June 30, 2016, Chugach entered into a term loan facility with CoBank, evidenced by the 2016 CoBank Note, which is governed by the Second Amended and Restated Master Loan Agreement dated June 30, 2016, and secured by the Indenture. Chugach had $40.4 million and $43.8 million outstanding on this facility at December 31, 2017, and 2016, respectively.

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

The following table provides additional information regarding the 2011 Series A , 2012 Series A, and 2017 Series A bonds and the 2016 CoBank Note at December 31, 2017 (dollars in thousands):

	Maturing March 15,	Average Life (Years)	Interest Rate	Issue Amount	Carrying Value
2011 Series A, Tranche A	2031	6.7	4.20 %	$ 90,000	$ 63,000
2011 Series A, Tranche B	2041	11.7	4.75 %	185,000	148,000
2012 Series A, Tranche A	2032	7.2	4.01 %	75,000	56,250
2012 Series A, Tranche B	2042	15.0	4.41 %	125,000	88,000
2012 Series A, Tranche C	2042	14.7	4.78 %	50,000	50,000
2017 Series A, Tranche A	2037	10.2	3.43 %	40,000	40,000
2016 CoBank Note	2031	5.7	2.58 %	45,600	40,356
Total				$ 610,600	$ 485,606

(12) Employee Benefit Plans

Pension Plans

Pension benefits for substantially all union employees are provided through the Alaska Electrical Pension Trust Fund and the UNITE HERE National Retirement Fund, multi-employer plans. Chugach pays an hourly amount per eligible union employee pursuant to the collective bargaining unit agreements. In these master, multi-employer plans, the accumulated benefits and plan assets are not determined or allocated separately to the individual employer.

Pension benefits for non-union employees are provided by the National Rural Electric Cooperative Association (NRECA) Retirement and Security Plan (RS Plan). The RS Plan is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. Under ASC 960, "Topic 960 – Plan Accounting – Defined Benefit Pension Plans," the RS Plan is a multi-employer plan, in which the accumulated benefits and plan assets are not determined or allocated separately to individual employers. Chugach makes annual contributions to the RS Plan equal to the amounts accrued for pension expense.

Chugach made contributions to all significant pension plans for the years ended December 31, 2017, 2016 and 2015 of $5.9 million, $6.7 million and $6.7 million, respectively. The rate and number of employees in all significant pension plans did not materially change for the years ended December 31, 2017, 2016 and 2015.

In December 2012, a committee of the NRECA Board of Directors approved an option to allow participating cooperatives in the Retirement Security (RS) Plan (a defined benefit multi-employer pension plan) to make a prepayment and reduce future required contributions. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to January 1 of the year in which the amount is paid to the RS Plan. The 25% differential in billing rates is expected to continue for approximately 15 years from January 1, 2013. However unexpected changes in interest rates, asset returns and other plan experience, plan assumption changes, and other factors may have an impact on the differential in billing rates and the 15-year period.

On December 29, 2016, Chugach made a prepayment of $7.9 million to the NRECA RS Plan. See *Note 2o – "Deferred Charges and Liabilities."*

The following table provides information regarding pension plans which Chugach considers individually significant:

	Alaska Electrical Pension Plan[3]			NRECA Retirement Security Plan[3]		
Employer Identification Number	92-6005171			53-0116145		
Plan Number	001			333		
Year-end Date	December 31			December 31		
Expiration Date of CBA's	June 30, 2021			N/A[2]		
Subject to Funding Improvement Plan	No			No[4]		
Surcharge Paid	N/A			N/A[4]		
	2017	2016	2015	2017	2016	2015
Zone Status	Green	Green	Green	N/A[1]	N/A[1]	N/A[1]
Required minimum contributions	None	None	None	N/A	N/A	N/A
Contributions (in millions)	$3.3	$3.2	$3.1	$2.6	$3.5	$3.5
Contributions > 5% of total plan contributions	Yes	Yes	Yes	No	No	No

[1]A “zone status” determination is not required, and therefore not determined under the Pension Protection Act (PPA) of 2006.
[2]The CEO is the only participant in the NRECA RS Plan who is subject to an employment agreement, which is effective through April 30, 2020.
[3]The Alaska Electrical Pension Plan financial statements are publicly available. The NRECA RS Plan financial statements are available on Chugach’s website at www.chugachelectric.com.
[4]The provisions of the PPA do not apply to the RS Plan, therefore, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the RS Plan and may change as a result of plan experience.

Health and Welfare Plans

Health and welfare benefits for union employees are provided through the Alaska Electrical Health and Welfare Trust and the Alaska Hotel, Restaurant and Camp Employees Health and Welfare and Pension Trust Fund. Chugach participates in multi-employer plans that provide substantially all union workers with health care and other welfare benefits during their employment with Chugach. Chugach pays a defined amount per union employee pursuant to collective bargaining unit agreements. Amounts charged to benefit costs and contributed to the health and welfare plans for these benefits for the years ending December 31, 2017, 2016, and 2015 were $4.8 million, $4.5 million, and $4.5 million, respectively.

Chugach participates in a multi-employer plan through the Group Benefits Program of NRECA for non-union employees. Amounts charged to benefit cost and contributed to this plan for those benefits for the years ended December 31, 2017, 2016, and 2015 totaled $2.8 million, $2.8 million, and $2.6 million, respectively.

Money Purchase Pension Plan

Chugach participates in a multi-employer defined contribution money purchase pension plan covering some employees who are covered by a collective bargaining agreement. Contributions to the Plan are made based on a percentage of each employee's compensation. Contributions to the money purchase pension plan for the years ending December 31, 2017, 2016 and 2015 were $141.8 thousand, $132.3 thousand and $133.6 thousand, respectively.

401(k) Plan

Chugach has a defined contribution 401(k) retirement plan which covers substantially all employees who, effective January 1, 2008, can participate immediately. Employees who elect to participate may contribute up to the Internal Revenue Service's maximum of $18,000 in 2017, 2016, and 2015, and allowed catch-up contributions for those over 50 years of age of $6,000 in 2017, 2016, and 2015. Chugach does not make contributions to the plan.

Deferred Compensation

Effective January 1, 2011, Chugach participates in Vanguard's unfunded Deferred Compensation Program (the Program) to allow highly compensated employees who elect to participate in the Program to defer a portion of their current compensation and avoid paying tax on the deferrals until received. The program is a non-qualified plan under Internal Revenue Code 457(b).

Deferred compensation accounts are established for the individual employees, however, they are considered to be owned by Chugach until a distribution is made. The amounts credited to the deferred compensation account, including gains or losses, are retained by Chugach until the entire amount credited to the account has been distributed to the participant or to the participant's beneficiary. The balance of the Program for the years ending December 31, 2017, and 2016 was $1,229,294 and $907,836, respectively.

Potential Termination Payments

Pursuant to a Chugach Operating Policy, non-represented employees, including the executive officers except the Chief Executive Officer, who are terminated by Chugach for reasons unrelated to employee performance are entitled to severance pay for each year or partial year of service as follows: two weeks for each year of service to a maximum of 26 weeks for 13 years or more of service.

(13) Bradley Lake Hydroelectric Project

Chugach is a participant in the Bradley Lake Hydroelectric Project (Bradley Lake). Bradley Lake was built and financed by the Alaska Energy Authority (AEA) through State of Alaska grants and $166.0 million of revenue bonds. Chugach and other participating utilities have entered into take-or-pay power sales agreements under which shares of the project capacity have been purchased and the participants have agreed to pay a like percentage of annual costs of the project (including ownership, operation and maintenance costs, debt service costs and amounts required to maintain established reserves). Under these take-or-pay power sales agreements, the participants have agreed to pay all project costs from the date of commercial operation even if no energy is produced. Chugach has a 30.4% share, or 27.4 megawatts (MW) as currently operated, of the project's capacity. The share of Bradley Lake indebtedness for which we are responsible is approximately $16.3 million. Upon the default of a Bradley Lake participant, and subject to certain other conditions, AEA is entitled to increase each participant's share of costs pro rata, to the extent necessary to compensate for the failure of another participant to pay its share, provided that no participant's percentage share is increased by more than 25%. Upon default, Chugach could be faced with annual expenditures of approximately $6.0 million as a result of Chugach's Bradley Lake take-or-pay obligations. Management believes that such expenditures, if any, would be recoverable through the fuel recovery process.

The Battle Creek Diversion Project (Project) is a project to increase water available for generation by constructing a diversion on the West Fork of Upper Battle Creek to divert flows to Bradley Lake, increasing annual energy output by an estimated 37,000 MWh. The Bradley Lake Project Management Committee (BPMC) approved the project October 13, 2017, as amended December 1, 2017, and December 6, 2017. The Project cost is estimated at $47.0 million and the BMPC approved financing in this amount on December 6, 2017. The project is estimated to begin in the Spring of 2018 with an estimated completion date of 2020. Not all Bradley Lake purchasers are participating in the development and resulting benefits of the Project at this time, although they have preserved their ability to participate in the Project at a later date. Chugach would be entitled to 39.38% of the additional energy produced if no additional participants elect to join.

The following represents information with respect to Bradley Lake at June 30, 2017 (the most recent date for which information is available). Chugach's share of expenses was $6,452,898 in 2017, $5,662,522 in 2016, and $5,663,304 in 2015 and is included in purchased power in the accompanying financial statements.

(In thousands)	Total	Proportionate Share
Plant in service	$ 162,907	$ 49,524
Long-term debt	43,940	13,358
Interest expense	2,652	806

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

(14) Eklutna Hydroelectric Project

Along with two other utilities, Chugach purchased the Eklutna Hydroelectric Project from the Federal Government in 1997. Ownership was transferred from the United States Department of Energy's Alaska Power Administration jointly to Chugach (30%), MEA (17%) and ML&P (53%).

Plant in service in 2017 included $3,967,933, net of accumulated depreciation of $2,591,717, which represents Chugach's share of the Eklutna Hydroelectric Project. In 2016, plant in service included $4,229,167, net of accumulated depreciation of $2,442,175. The facility is operated by Chugach and maintained jointly by Chugach and ML&P. Each participant contributes their proportionate share for operation, maintenance and capital improvement costs to the plant, as well as to the transmission line between Anchorage and the plant. When MEA was an all-requirements wholesale customer, under net billing arrangements, Chugach reimbursed MEA for their share of the costs. Chugach's share of expenses was $403,511, $532,678, and $689,501 in 2017, 2016, and 2015, respectively, and is included in purchased power, power production and depreciation expense in the accompanying financial statements. ML&P performs major maintenance at the plant. Chugach performs the daily operation and maintenance of the power plant, providing personnel who perform daily plant inspections, meter reading, monthly report preparation, and other activities as required.

(15) Beluga River Unit

On February 4, 2016, Chugach entered into an agreement entitled, "Purchase and Sale Agreement between ConocoPhillips Alaska, Inc. (CPAI) and Municipality of Anchorage d/b/a Municipal Light & Power and Chugach Electric Association, Inc." The Purchase and Sale Agreement transfers CPAI's working interest in the BRU to Chugach and ML&P. The total purchase price was $148.0 million, with Chugach's portion totaling $44.4 million. 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.

Under the joint bid arrangement, Chugach's ownership of CPAI's working interest is 30% and ML&P's ownership is 70%. The ownership shares include the attendant rights and privileges of all gas and oil resources, including 15,500 lease acres (8,200 in Unit / Participating Area and 7,300 held by Unit), Sterling and Beluga producing zones, and CPAI's 67% working interest in deep oil resources. On April 21, 2016, the acquisition was approved by the RCA and the transaction closed on April 22, 2016.

Additionally, CPAI had contractual gas sales obligations to ENSTAR through 2017. This contract was assumed by ML&P and Chugach on the basis of ownership share.

The BRU is located on the western side of Cook Inlet, approximately 35 miles from Anchorage, and is an established natural gas field that was originally discovered in 1962. The BRU was jointly owned (one-third) by CPAI, Hilcorp, and ML&P. Following the acquisition, ML&P's ownership of the BRU increased to approximately 56.7%, Hilcorp's ownership remained unchanged at 33.3%, and Chugach's ownership is 10.0%.

The BRU acquisition costs were recorded as deferred charges on Chugach's balance sheet and totaled $1.5 million at December 31, 2016. Chugach requested that these costs be amortized based on units of production of the BRU and recognized as depreciation and amortization on Chugach's statement of operations. Chugach also requested approval to recover the deferred costs in the gas transfer price. The RCA issued an order combining the BRU cost recovery process and the request to create a regulatory asset into a single docket. On October 26, 2017, the RCA issued a final order accepting Chugach's filing and closing the docket, see *"Item 8 – Financial Statements and Supplementary Data – Note 5 – Regulatory Matters – Beluga River Unit Gas Transfer Price."*

Each of the BRU participants has a right to take their interest of the gas produced. Parties that take less than their interest of the field's output may either accept a cash settlement for their underlift or take their underlifted gas in future years. As part of the BRU acquisition, Chugach acquired 30% of CPAI's underlift, which was 69,099 Mcf at acquisition and was in an overlift position of 8 Mcf and 84 Mcf at December 31, 2017 and 2016, respectively. Chugach has opted to take any cumulative underlift in gas in the future and will record the gas as fuel expense on the statement of operations when received.

The revenue generated by Chugach's interest in the BRU operations is primarily associated with the gas sold to ENSTAR, pursuant to the aforementioned contract, which expired December 31, 2017. Chugach recognized revenue from the BRU in the amount of $6.6 million and $2.8 million through December 31, 2017 and 2016, respectively.

Chugach records depreciation, depletion and amortization on BRU assets based on units of production. During 2017, Chugach lifted 1.4 Bcf resulting in a cumulative lift since purchase of 3.1 Bcf of the approximate 25.1 Bcf in Chugach's proven developed reserves. Chugach, and other owners, ML&P and Hilcorp, are operating under an existing Joint Operating Agreement. Hilcorp is the operator for BRU. The owners are considering updating the existing Joint Operating Agreement to better match the new owners' interests. In addition to the operator fees to Hilcorp, other BRU expenses include royalty expense and interest on long-term debt. All expenses other than depreciation, depletion and amortization and interest on long-term debt are included as fuel expense on Chugach's statement of operations. Chugach has applied and qualified for a small producer tax credit, provided by the State of Alaska, resulting in an estimate of no liability for production taxes. The revenue in excess of expenses less the allowed TIER from BRU operations is adjusted through Chugach's fuel and purchased power adjustment process.

(16) Commitments and Contingencies

Contingencies

Chugach is a participant in various legal actions, rate disputes, personnel matters and claims both for and against Chugach's interests. Management believes the outcome of any such matters will not materially impact Chugach's financial condition, results of operations or liquidity. Chugach establishes reserves when a particular contingency is probable and calculable. Chugach has not accrued for any contingency at December 31, 2017, as it does not consider any contingency to be probable nor calculable. Chugach faces contingencies that are reasonably possible to occur; however, they cannot currently be estimated.

Concentrations

Approximately 70% of our employees are members of the International Brotherhood of Electrical Workers (IBEW). Chugach has three Collective Bargaining Unit Agreements (CBA) with the IBEW. We also have a CBA with the Hotel Employees and Restaurant Employees (HERE). All three IBEW CBA's and the HERE CBA have been renewed through June 30, 2021.

Fuel Supply Contracts

Chugach entered into a gas contract with Hilcorp effective January 1, 2015, to provide gas through March 31, 2018. On September 15, 2014, the RCA approved an amendment to the Hilcorp gas purchase agreement extending gas delivery and subsequently filling 100 percent of Chugach's needs through March 31, 2019. On September 8, 2015, the RCA approved another amendment to the Hilcorp gas purchase agreement extending the term of the agreement, thus filling up to 100 percent of Chugach's needs through March 31, 2023. The total amount of gas under this contract is estimated to be 60 Bcf. All of the production is expected to come from Cook Inlet, Alaska. The terms of the Hilcorp agreement require Chugach to manage the natural gas transportation over the connecting pipeline systems. Chugach has gas transportation agreements with ENSTAR Natural Gas Company (ENSTAR) and Hilcorp.

The RCA approved a natural gas supply contract with Marathon Alaska Production, LLC (MAP) effective May 17, 2010. This contract includes two contract extensions that were exercised in 2011. Effective February 1, 2013, this gas purchase agreement was assigned to Hilcorp, who purchased MAP's assets in Cook Inlet. This contract began providing gas April 1, 2011, and will expire March 31, 2023. The total amount of gas under contract is currently estimated up to 49 Bcf. These contracts fill 100% of Chugach's needs through March 31, 2023. All of the production is expected to come from Cook Inlet, Alaska.

In 2017, 81% of our power was generated from gas, with 14% generated at the Beluga Power Plant and 81% generated at SPP. In 2016, 77% of our power was generated from gas, with 9% generated at Beluga and 88% generated at SPP.

The following represents the cost of fuel purchased and or transported from various vendors as a percentage of total fuel costs for the years ended December 31:

	2017	2016	2015
Hilcorp	88.4 %	56.9 %	30.3 %
Furie	5.3 %	0.0 %	0.0 %
ConocoPhillips (COP)	0.0 %	32.0 %	58.7 %
AIX Energy	0.1 %	0.7 %	4.7 %
ENSTAR	3.4 %	4.7 %	3.3 %
Harvest (Hilcorp) Pipeline	2.1 %	3.2 %	1.6 %
Miscellaneous	0.7 %	2.5 %	1.4 %

Patronage Capital Payable

Pursuant to agreements reached with HEA and MEA, and discussed in *Note (9) – "Patronage Capital,"* patronage capital allocated or retired to HEA or MEA is classified as patronage capital payable on Chugach's balance sheet. The Board of Directors approved a capital credit retirement on September 27, 2017. MEA received a retirement of $0.8 million, increasing their payable to $4.9 million at December 31, 2017. We also finalized a new agreement with HEA in September 2017, which spread their retirement payments between 2017 and 2020 in increments of $2.0 million annually. As a result, $2.0 million of HEA's patronage capital was retired and paid in 2017, and $2.0 million of HEA's patronage capital was reclassified to a current payable under other current liabilities leaving $3.9 million in long term patronage capital payable at December 31, 2017. At December 31, 2016, patronage capital payable to HEA and MEA was $7.9 million and $4.1 million, respectively.

Regulatory Cost Charge

In 1992, the State of Alaska Legislature passed legislation authorizing the Department of Revenue to collect a Regulatory Cost Charge from utilities to fund the governing regulatory commission, which is currently the RCA. The tax is assessed on all retail consumers and is based on kilowatt-hour (kWh) consumption. The tax is collected monthly and remitted to the State of Alaska quarterly. The Regulatory Cost Charge has changed since its inception (November of 1992) from an initial rate of $0.000626 per kWh to the current rate of $0.000899, effective July 1, 2017. The tax is reported on a net basis and the tax is not included in revenue or expense.

Sales Tax

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

Gross Revenue Tax

Chugach pays to the State of Alaska a gross revenue tax in lieu of state and local ad valorem, income and excise taxes on electricity sold in the retail market. The tax is collected monthly and remitted annually.

Underground Compliance Charge

In 2005, the Anchorage Municipal Assembly adopted an ordinance to require utilities to convert overhead distribution lines to underground. To comply with the ordinance, Chugach must expend two percent of a three-year average of gross retail revenue within the Municipality of Anchorage annually in moving existing distribution overhead lines underground. Consistent with Alaska Statutes regarding undergrounding programs, Chugach is permitted to amend its rates by adding a two percent charge to its retail members' bills to recover the actual costs of the program. The rate amendments are not subject to RCA review or approval. Chugach's liability was $4,206,223 and $2,507,482 for this charge at December 31, 2017 and 2016, respectively, and is included in other current liabilities. These funds are used to offset the costs of the undergrounding program.

Environmental Matters

Since January 1, 2007, transformer manufacturers have been required to meet the US Department of Energy (DOE) efficiency levels as defined by the Energy Act of 2005 (Energy Act) for all "Distribution Transformers." As of January 1, 2016, the specific efficiency levels increased from the original "TP1" levels to the new "DOE-2016" levels. All new transformers are DOE-2016 compliant. At this time a small increase in capital costs is anticipated along with a reduction in energy losses.

The Clean Air Act and Environmental Protection Agency (EPA) regulations under the Clean Air Act establish ambient air quality standards and limit the emission of many air pollutants. New Clean Air Act regulations impacting electric utilities may result from future events or new regulatory programs. On August 3, 2015, the EPA released the final 111(d) regulation language aimed at reducing emissions of carbon dioxide (CO_2) from existing power plants that provide electricity for utility customers. In the final rule, the EPA took the approach of making individual states responsible for the development and implementation of plans to reduce the rate of CO_2 emissions from the power sector. The EPA initially applied the final rule to 47 of the contiguous states. At this time, Alaska, Hawaii, Vermont, Washington D.C. and two U.S. territories are not bound by the regulation. Alaska may be required to comply at some future date. On February 9, 2016 the U.S. Supreme Court issued a stay on the proposed EPA 111(d) regulations until the DC Circuit decides the case, or until the disposition of a petition to the Supreme Court on the issue. On September 27, 2016, the US Court of Appeals for the District of Columbia Circuit heard oral arguments challenging the legality of the Clean Power Plan. While awaiting the court decision, an Executive Order promoting energy independence and economic growth was issued March 28, 2017, by the President instructing the EPA to review the Clean Power Plan. The EPA is directed to review the Clean Power Plan rule and either revise or withdraw the proposed rule. On October 10, 2017, the EPA initiated a Proposed Repeal of the Clean Power Plan. The EPA 111(d) regulation, in its current form, is not expected to have a material effect on Chugach's financial condition, results of operations, or cash flows. While Chugach cannot predict the implementation of any additional new law or regulation, or the limitations thereof, it is possible that new laws or regulations could increase capital and operating costs. Chugach has obtained or applied for all Clean Air Act permits currently required for the operation of generating facilities.

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

(17) Quarterly Results of Operations (unaudited)

2017 Quarter Ended

	Dec. 31	Sept. 30	June 30	March 31
Operating Revenue	$ 62,934,930	$ 49,405,607	$ 51,554,650	$ 60,793,482
Operating Expense	52,778,100	44,850,594	48,365,752	51,223,238
Net Interest	5,575,665	5,569,961	5,535,031	5,520,479
Net Operating Margins	4,581,165	(1,014,948)	(2,346,133)	4,049,765
Nonoperating Margins	157,569	207,513	201,916	211,877
Assignable Margins	$ 4,738,734	$ (807,435)	$ (2,144,217)	$ 4,261,642

2016 Quarter Ended

	Dec. 31	Sept. 30	June 30	March 31
Operating Revenue	$ 57,741,954	$ 45,132,973	$ 44,622,517	$ 50,250,135
Operating Expense	47,000,307	40,308,301	41,472,710	42,359,071
Net Interest	5,341,242	5,427,440	5,247,404	5,385,211
Net Operating Margins	5,400,405	(602,768)	(2,097,597)	2,505,853
Nonoperating Margins	231,683	125,332	127,871	123,077
Assignable Margins	$ 5,632,088	$ (477,436)	$ (1,969,726)	$ 2,628,930