CHUGACH ELECTRIC ASSOCIATION, INC.

Financial Statements

December 31, 2016 and 2015

(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.:

We have audited the accompanying consolidated balance sheets of Chugach Electric Association, Inc. and subsidiary as of December 31, 2016 and 2015, and 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, 2016. 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 conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chugach Electric Association, Inc. and subsidiary as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

March 24, 2017

Chugach Electric Association, Inc.
Consolidated Balance Sheets
December 31, 2016 and 2015

Assets	December 31, 2016	December 31, 2015
Utility plant:		
Electric plant in service	$ 1,192,513,869	$ 1,128,474,292
Construction work in progress	18,455,940	15,601,374
Total utility plant	1,210,969,809	1,144,075,666
Less accumulated depreciation	(496,098,131)	(469,199,226)
Net utility plant	714,871,678	674,876,440
Other property and investments, at cost:		
Nonutility property	76,889	76,889
Investments in associated organizations	9,349,311	9,635,519
Special funds	907,836	763,913
Restricted cash equivalents	810,559	1,705,760
Investments - other	3,061,434	0
Total other property and investments	14,206,029	12,182,081
Current assets:		
Cash and cash equivalents	4,672,935	15,626,919
Special deposits	75,942	74,416
Restricted cash equivalents	899,723	1,143,467
Marketable securities	7,375,381	0
Accounts receivable, less provisions for doubtful accounts of $484,352 in 2016 and $425,751 in 2015	33,000,919	28,232,930
Materials and supplies	27,889,167	27,611,184
Fuel stock	6,321,676	7,063,541
Prepayments	1,407,026	1,466,301
Other current assets	294,697	225,079
Total current assets	81,937,466	81,443,837
Other non-current assets:		
Deferred charges, net	25,140,957	16,811,756
Total other non-current assets	25,140,957	16,811,756
Total assets	$ 836,156,130	$ 785,314,114

Chugach Electric Association, Inc.
Consolidated Balance Sheets (continued)
December 31, 2016 and 2015

Liabilities, Equities and Margins	December 31, 2016	December 31, 2015
Equities and margins:		
Memberships	$ 1,691,014	$ 1,661,744
Patronage capital	169,996,436	167,447,781
Other	13,828,075	12,527,856
Total equities and margins	185,515,525	181,637,381
Long-term obligations, excluding current installments:		
Bonds payable	405,249,998	426,666,665
Notes payable	40,356,000	22,241,852
Less unamortized debt issuance costs	(2,715,745)	(2,680,897)
Total long-term obligations	442,890,253	446,227,620
Current liabilities:		
Current installments of long-term obligations	24,836,667	24,115,980
Commercial paper	68,200,000	20,000,000
Accounts payable	9,618,630	9,701,088
Consumer deposits	5,207,585	5,000,684
Fuel cost over-recovery	3,824,722	5,135,745
Accrued interest	5,873,368	5,915,580
Salaries, wages and benefits	7,315,898	7,259,806
Fuel	6,284,338	4,942,310
Other current liabilities	3,234,586	8,076,903
Total current liabilities	134,395,794	90,148,096
Other non-current liabilities:		
Deferred compensation	907,836	763,913
Other liabilities, non-current	655,277	1,555,329
Deferred liabilities	1,179,414	1,802,389
Patronage capital payable	12,008,499	11,108,071
Cost of removal obligation / asset retirement obligation	58,603,532	52,071,315
Total other non-current liabilities	73,354,558	67,301,017
Total liabilities, equities and margins	$ 836,156,130	$ 785,314,114

See accompanying notes to financial statements.

Chugach Electric Association, Inc.
Consolidated Statements of Operations
Years Ended December 31, 2016, 2015 and 2014

	2016	2015	2014
Operating revenues	$ 197,747,579	$ 216,421,152	$ 281,318,513
Operating expenses:			
Fuel	54,778,582	66,534,877	126,038,350
Production	15,809,168	16,886,257	21,082,176
Purchased power	15,774,733	19,599,994	15,608,396
Transmission	5,590,737	6,287,558	6,138,658
Distribution	13,991,997	14,089,862	13,002,157
Consumer accounts	6,073,710	6,117,625	5,887,713
Administrative, general and other	22,888,048	23,623,299	25,036,248
Depreciation and amortization	36,233,414	35,652,086	40,179,181
Total operating expenses	$ 171,140,389	$ 188,791,558	$ 252,972,879
Interest expense:			
Long-term debt and other	21,856,095	22,194,290	23,264,041
Charged to construction	(454,798)	(379,845)	(463,335)
Interest expense, net	$ 21,401,297	$ 21,814,445	$ 22,800,706
Net operating margins	$ 5,205,893	$ 5,815,149	$ 5,544,928
Nonoperating margins:			
Interest income	425,173	296,788	566,639
Allowance for funds used during construction	188,111	142,881	163,151
Capital credits, patronage dividends and other	(5,321)	248,034	240,827
Total nonoperating margins	$ 607,963	$ 687,703	$ 970,617
Assignable margins	$ 5,813,856	$ 6,502,852	$ 6,515,545

See accompanying notes to financial statements.

Chugach Electric Association, Inc.
Consolidated Statements of Changes in Equities and Margins
Years Ended December 31, 2016, 2015 and 2014

	Memberships	Other Equities and Margins	Patronage Capital	Total
Balance, January 1, 2014	$ 1,600,058	$ 11,445,918	$ 162,749,889	$ 175,795,865
Assignable margins	0	0	6,515,545	6,515,545
Retirement/net transfer of capital credits	0	0	(5,130,381)	(5,130,381)
Unclaimed capital credit retirements	0	(350,776)	0	(350,776)
Memberships and donations received	31,511	63,535	0	95,046
Balance, December 31, 2014	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

See accompanying notes to financial statements.

Chugach Electric Association, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2016, 2015 and 2014

	2016	2015	2014
Cash flows from operating activities:			
Assignable margins	$ 5,813,856	$ 6,502,852	$ 6,515,545
Adjustments to reconcile assignable margins to net cash provided by operating activities:			
Depreciation and amortization	36,233,414	35,652,086	40,179,181
Amortization and depreciation cleared to operating expenses	4,988,068	4,390,385	5,777,628
Allowance for funds used during construction	(188,111)	(142,881)	(163,151)
Write off of inventory, deferred charges and projects	997,301	691,035	974,062
Other	248,482	(220,496)	56,250
(Increase) decrease in assets:			
Accounts receivable, net	(4,926,631)	6,866,956	6,879,762
Materials and supplies	(850,493)	(1,070,896)	(1,197,127)
Fuel stock	741,865	2,588,532	3,377,775
Prepayments	59,275	712,422	(315,316)
Other assets	(71,144)	215,738	978,338
Deferred charges	(10,374,429)	(405,746)	(1,050,505)
Increase (decrease) in liabilities:			
Accounts payable	750,538	(270,416)	(420,041)
Consumer deposits	206,901	86,424	62,702
Fuel cost over-recovery	(1,311,023)	3,673,688	(173,620)
Accrued interest	(42,212)	(276,028)	(321,252)
Salaries, wages and benefits	56,092	(287,510)	(385,047)
Fuel	1,342,028	(6,195,299)	(3,696,976)
Other current liabilities	(1,051,220)	(290,715)	1,653,424
Deferred liabilities	(128,221)	(123,695)	34,668
Net cash provided by operating activities	32,494,336	52,096,436	58,766,300
Cash flows from investing activities:			
Return of capital from investment in associated organizations	319,233	352,420	351,162
Investment in restricted cash equivalents	(1,398)	(1,141)	(142)
Investment in marketable securities and investments-other	(10,580,000)	0	(217,817)
Investment in Beluga River Unit	(44,403,922)	0	0
Proceeds from restricted cash equivalents	1,140,343	0	0
Proceeds from the sale of marketable securities	0	0	10,522,620
Proceeds from capital grants	1,021,929	2,395,331	6,960,143
Extension and replacement of plant	(36,984,892)	(35,094,355)	(30,303,133)
Net cash used in investing activities	(89,488,707)	(32,347,745)	(12,687,167)
Cash flows from financing activities:			
Payments for debt issue costs	(277,155)	0	0
Net increase (decrease) in short-term obligations	48,200,000	(1,000,000)	(9,000,000)
Proceeds from long-term obligations	45,600,000	0	0
Repayments of long-term obligations	(48,181,832)	(23,889,777)	(24,682,812)
Memberships and donations received	1,329,489	357,365	(255,730)
Retirement of patronage capital and estate payments	(4,378,853)	(182,352)	(4,114,541)
Net receipts on consumer advances for construction	3,748,738	4,228,030	3,991,749
Net cash provided by (used in) financing activities	46,040,387	(20,486,734)	(34,061,334)
Net change in cash and cash equivalents	(10,953,984)	(738,043)	12,017,799
Cash and cash equivalents at beginning of period	$ 15,626,919	$ 16,364,962	$ 4,347,163
Cash and cash equivalents at end of period	$ 4,672,935	$ 15,626,919	$ 16,364,962
Supplemental disclosure of non-cash investing and financing activities:			
Cost of removal obligation	$ 3,008,808	$ 1,366,318	$ 3,565,605
Asset retirement obligation assumed upon BRU acquisition	$ 3,523,409	0	0
Extension and replacement of plant included in accounts payable	$ 1,915,033	$ 2,582,947	$ 2,382,117
Patronage capital retired and included in other current liabilities	$ 0	$ 2,105,440	$ 2,572,670
Supplemental disclosure of cash flow information - interest expense paid, net of amounts capitalized	$ 20,220,317	$ 21,891,308	$ 21,835,216

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, 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), purchase price allocation for BRU, 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 (2n) – "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, less salvage, is charged to accumulated depreciation. The removal cost is charged to cost of removal obligation. 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, 2016 are as follows:

Annual Depreciation Rate Ranges

Steam production plant	3.15% - 3.84%
Hydroelectric production plant	1.06% - 3.00%
Other production plant	3.15% 8.85%
Transmission plant	1.58% - 7.86%
Distribution plant	2.16% - 9.63%
General plant	1.57% - 20.00%
Other	2.75% - 2.75%

On November 1, 2010, the RCA approved revised depreciation rates effective November 1, 2010 in Docket U-09-097. 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.

On August 31, 2012, in Docket U-12-009, the RCA approved Southcentral Power Project (SPP) depreciation rates effective February 1, 2013, the date the SPP plant was placed in service.

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 Accounting Standards Codification (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. This is the first time Chugach has invested in oil or gas activities, so there is no prior policy of using the Successful Efforts method.

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 2016, 2015 and 2014.

g. Investments – Other

Investments –other consists of certificates of deposit with an original maturity of 18 months.

h. 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 $5,897,767 and $6,218,015 during the years ended December 31, 2016 and 2015, respectively.

Restricted cash equivalents include funds on deposit for future workers' compensation claims. At December 31, 2016 and 2015, restricted cash equivalents included $0.8 million and $1.7 million, respectively, of funds on deposit for future workers' compensation claims.

i. Marketable Securities

In September 2016, Chugach resumed its mutual fund investment portfolio. The investments are classified as trading securities, reported at fair value with gains and losses in earnings, and include bond funds.

		Twelve months ended December 31, 2016
Net gains and losses recognized during the period on trading securities	$	(143,185)
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	$	(143,185)

j. 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 Anchorage Municipal Light & Power (ML&P) for their proportionate share of current SPP costs, which amounted to $1.4 million and $1.1 million in 2016 and 2015, respectively. In addition, accounts receivable includes invoiced amounts for grants to support investigating means of mitigating the impact of renewable generation variability on the grid as well as the construction of facilities to divert water and safely transmit electricity, which amounted to $0.0 million and $0.2 million in 2016 and 2015, respectively. At December 31, 2016, accounts receivable also included $0.7 million from BRU operations primarily associated with gas sales to ENSTAR.

k. Materials and Supplies

Materials and supplies are stated at average cost.

l. Fuel Stock

Fuel Stock is the weighted average cost of fuel injected into Cook Inlet Natural Gas Storage Alaska (CINGSA), which began service in the second quarter of 2012. Chugach's fuel balance in storage for the years ended December 31, 2016 and 2015 amounted to $6.3 million and $7.1 million, respectively.

m. 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.

n. 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 credits 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.

o. 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.

p. Consumer Deposits

Consumer deposits are the amounts certain customers are required to deposit to receive electric service. Consumer deposits for the years ended December 31, 2016 and 2015, totaled $3.3 million and $3.1 million, respectively. Consumer deposits also represent customer credit balances as a result of prepaid accounts. Credit balances totaled $1.9 million for the years ended December 31, 2016 and 2015.

q. 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 2i 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.

r. 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 $10,940,274 and $10,531,377 of unbilled retail revenue at December 31, 2016 and 2015, 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.

s. 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 4.3% during 2016, 2015 and 2014.

t. 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.

u. 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, 2016, 2015 and 2014 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, 2014 through December 31, 2016 for United States Federal Income Tax, the tax years which remain subject to examination by major tax jurisdictions as of December 31, 2016.

v. 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, both of which totaled $0.6 million and $1.6 million in 2016 and 2015, respectively.

(3) Accounting Pronouncements

Issued and adopted:

ASC Update 2015-03 "*Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*"

In April of 2015, the FASB issued ASC Update 2015-03, "Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." ASC Update 2015-03 revises the presentation guidance for debt issuance costs related to a recognized debt liability. The effect of this update was to present the debt issuance costs as a direct deduction to the liability on the balance sheet and was adopted by retrospective application. This update did not change the recognition and measurement guidance for debt issuance costs. This update was effective for fiscal years beginning after December 15, 2015, and interim periods beginning after December 15, 2016, with early adoption permitted. Chugach began application of ASC 2015-03 with the fiscal year beginning January 1, 2016. Adoption did not have a material effect on its results of operations, financial position, and cash flows.

ASC Update 2015-15 "*Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*"

In September of 2015, the FASB issued ASC Update 2015-15, "Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements." ASC Update 2015-15 amended guidance related to the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements for SEC reporting. This update was effective for fiscal years beginning after December 15, 2015, and interim periods beginning after December 15, 2016, with early adoption permitted. Chugach began application of ASC 2015-15 with the fiscal year beginning January 1, 2016. Adoption did not have a material effect on its results of operations, financial position, and cash flows.

Adoption of this guidance was applied retrospectively and reduced deferred charges and long-term debt by the unamortized debt issuance costs of $2.7 million at December 31, 2016, and December 31, 2015.

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. This update was effective for fiscal years beginning after December 15, 2016, for which early adoption was prohibited. However, in August of 2015, the FASB issued ASC Update 2014-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," deferring the effective date of ASC Update 2014-09 to fiscal years beginning after December 15, 2017, and permitting early adoption of this update, but only for annual reporting periods beginning after December 15, 2016, and interim reporting periods within that reporting period. The standard permits the use of either the retrospective or cumulative effect transition method. While Chugach has not yet selected a transition method, we currently expect to use the cumulative effect method. Our transition method, and the expected materiality of the impact of adopting this standard on our operations, financial position, and cash flows, will be determined after we further evaluate the impact of this update.

We have evaluated our energy sales contracts, including retail, wholesale, and economy energy, and do not believe there will be a material impact to our recognition of revenue from energy sales. Energy sales are billed monthly per regulator approved tariffs based on the energy consumed by the customer. Total revenue derived from energy sales during 2016 was approximately 99% of our total operating revenue.

The American Institute of Certified Public Accountants (AICPA) Power and Utilities Revenue Recognition Task Force is currently assessing the impact of this update on contributions in aid of construction (CIAC). CIAC represents the funds collected from customers and third parties and recorded as a reduction to the total cost of property, plant and equipment, per industry standard practice. If it is determined that CIAC is within the scope of this update, it could have a material impact on the amount of revenue we recognize.

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, 2018.

Adoption is not expected to have a material effect on its results of operations, financial position, and cash flows.

<u>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*"</u>

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.

<u>ASC Update 2016-11 "*Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Update 2014-09 and 2014-06 Pursuant to Staff Announcements at the March 3, 2016, EITF Meeting (SEC Update)*"</u>

In May 2016, the FASB issued ASC Update 2016-11, "Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Update 2014-09 and 2014-06 Pursuant to Staff Announcements at the March 3, 2016, EITF Meeting (SEC Update)." ASC 2016-11 rescinds and supersedes SEC guidance previously governing revenue and expense recognition for freight services in process, accounting for shipping and handling fees and costs, consideration given by a vendor to a customer, and gas-balancing arrangements. This update affects the guidance in ASC Update 2014-09 and 2014-06 and follows the same effective date and transition requirements. While Chugach has not yet selected a transition method, we currently expect to use the cumulative effect method. Our transition method, and the expected materiality of the impact of adopting this standard on our operations, financial position, and cash flows, will be determined after we further evaluate the impact of this update.

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

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

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

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

(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.

Chugach's marketable securities classified as trading securities are outlined in the table below. Chugach had no other assets or liabilities measured at fair value on a recurring basis at December 31, 2016. At December 31, 2015, Chugach had no Level 1 or Level 2 assets or liabilities measured at fair value on a recurring basis.

	December 31, 2016	Level 1
Bond funds/Certificates of Deposit	$ 10,436,815	$ 10,436,815

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 fair value of investments – other approximate their carrying value due to the recency of their acquisition.

The estimated fair values (in thousands) of long-term obligations included in the financial statements at December 31, 2016, are as follows:

	Measurement	Carrying Value	Fair Value
2011 Series A Bonds	Level 2	$ 221,667	$ 231,057
2012 Series A Bonds	Level 2	205,000	209,242
2016 CoBank Note	Level 2	43,776	40,921
Long-term obligations (including current installments)		$ 470,443	$ 481,220

(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 is 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. This agreement was extended through March 31, 2018, in a letter agreement dated July 29, 2016, with a provision to extend the agreement through March 31, 2019, to be exercised on or before August 1, 2017.

June 2014 Test Year General Rate Case

Chugach's June 2014 test year rate case was submitted to the RCA on February 13, 2015. Chugach requested a system base rate increase of approximately $21.3 million, or 20% on total base rate revenues for rates effective in April 2015. The filing also included updates to firm and non-firm transmission wheeling rates and attendant ancillary services in support of third-party transactions on the Chugach transmission system. The primary driver of the rate changes was the reduction in fixed-cost contributions resulting from the expiration of the Interim Power Sales Agreement between Chugach and MEA. In addition, Chugach submitted proposed adjustments to its fuel and purchased power rates under a separate tariff advice letter to become effective at the same time. This allows interim base rate increases to be synchronized with reductions in fuel costs resulting from system heat rate improvements and a greater share of hydroelectric generation used to meet the load requirements of the remaining customers on the system. Collectively, the effective increase to retail customer bills was approximately between two and five percent.

The RCA issued Order U-15-081(1) on April 30, 2015, suspending the filing and granting Chugach's request for interim and refundable rate increases effective May 1, 2015. A scheduling conference was held on May 27, 2015. On June 4, 2015, the RCA issued Order U-15-081(2), granting approval for intervention by HEA, MEA and GVEA. The RCA indicated that a final order in the case will be issued by May 8, 2016. Intervenor responsive testimony was filed by the Attorney General (AG) and MEA on October 28, 2015. The AG's testimony focused on revenue requirement matters and MEA's testimony focused on transmission cost allocation issues. Chugach's responsive testimony was filed on December 15, 2015.

In January of 2016, Chugach and the Attorney General (AG) for the State of Alaska entered into settlement discussions to resolve revenue requirement matters in the case, which resulted in settlement of all outstanding matters related to the determination of Chugach's system revenue requirement for both the interim and permanent rate periods. As a result, Chugach agreed to reduce its revenue requirement by 0.5% (approximately $0.6 million). In addition, the stipulation provides for a permanent increase in Chugach's system Times Interest Earned Ratio (TIER) from 1.30 to 1.35, which represents an approximate margin increase of $1.0 million per year.

The stipulation was filed with the RCA on January 21, 2016. On May 2, 2016, the RCA issued Order U-15-081(8) accepting the stipulation between Chugach and the AG. On May 20, 2016, Chugach submitted updated revenue requirement, cost of service and tariffs reflecting the results of the stipulation, with proposed final rates effective July 5, 2016. On June 17, 2016, the RCA issued Order U-15-081(10) approving final permanent rates effective for Chugach retail customers and the City of Seward (Seward). Refunds totaling $0.75 million were issued to Chugach retail customers in August 2016. The refund applied to purchases from May 2015 through July 2016. Chugach issued a refund to Seward totaling approximately $28,000 on July 8, 2016.

On June 27, 2016, the RCA issued Order U-15-081(11) resolving the outstanding issues related to transmission and ancillary services. The RCA ruled in Chugach's favor, affirming continued use of a postage stamp rate methodology for wheeling transactions on the Chugach system and denied MEA's request for a separate rate for wheeling transactions based on MEA's claim that it only used a small portion of Chugach's transmission system. The order was consistent with previous orders on transmission and ancillary services that were issued by the RCA in Chugach's 2012 and 2013 General Rate Case filings. On July 15, 2016, Chugach submitted updated tariff sheets and supporting exhibits for the calculation of transmission and ancillary service rates. On August 23, 2016, the RCA approved final rates contained in Chugach's July 15, 2016, compliance filing.

On September 15, 2016, Chugach notified the RCA that it completed the issuance of refunds resulting from settlement of the rate case. A final order closing the docket was issued on October 6, 2016.

Simplified Rate Filing

On June 30, 2016, the Chugach Board of Directors voted to re-enter the 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. On July 1, 2016, Chugach requested approval to implement the SRF process for energy and demand rate changes, and requested approval for a 4.2% system demand and energy rate increase, or approximately $4.8 million on an annual basis. On a total retail customer bill basis, which includes fuel and purchased power costs, the impact was approximately 2.5%. Chugach requested the proposed rate increase become effective August 15, 2016. Chugach plans to adjust rates through the SRF process on a quarterly basis going forward.

On August 12, 2016, the RCA issued a letter order approving Chugach's entry into the SRF process for quarterly adjustments to the demand and energy rates of Chugach retail customers and Seward. The RCA also approved Chugach's request to increase demand and energy rates by 4.2%, effective August 15, 2016.

On August 29, 2016, Chugach submitted its June 2016 test year SRF to the RCA with no changes to the demand and energy rates of Chugach retail and Seward. In the filing, Chugach requested approval to adopt the SRF process for quarterly rate adjustments for non-firm transmission wheeling and ancillary services, and approval to reduce these rates between 9.5% and 14.4% based on the current SRF. The RCA issued an order on October 13, 2016, denying Chugach's request on the basis that the underlying premise of the SRF does not apply to rates for third-party use of Chugach's transmission system. Revenues from these transactions do not impact Chugach margin levels, but instead are used to reduce fuel and purchased power costs that are recovered by Chugach retail and Seward. As a result, rate changes to third party transmission and ancillary services will be prospectively made through general rate case filings. This has no impact on Chugach's continued use of SRF for quarterly demand and energy rate adjustments to Chugach retail customers and Seward.

Chugach submitted its June 2016 and September 2016 test year SRFs with the RCA on August 29, 2016 and December 1, 2016, respectively, as informational filings with no changes to the demand and energy rates of Chugach retail and Seward.

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. The total cost reductions resulting from the pool are estimated to be up to $16 million per year after the development period for all participants combined.

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 now proposes 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 does 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.

Beluga River Unit

In July of 2015, ConocoPhillips Alaska, Inc. (CPAI) announced the marketing for sale of its North Cook Inlet Unit; its interest in the Beluga River Unit (BRU); and its interest in 5,700 acres of exploration prospects in the Cook Inlet region. In October of 2015, Chugach submitted a joint bid with ML&P for acquisition of CPAI's one-third working interest in the BRU.

Chugach entered into an agreement entitled, "Purchase and Sale Agreement between ConocoPhillips Alaska, Inc. and Municipality of Anchorage d/b/a Municipal Light & Power and Chugach Electric Association, Inc." (Purchase and Sale Agreement) on February 4, 2016. The Purchase and Sale Agreement transfers CPAI's interest in the BRU to Chugach and ML&P. The acquisition and attendant recovery of costs in electric rates was subject to RCA approval.

On March 11, 2016, Chugach and ML&P submitted a joint request to the RCA for approval of the acquisition of CPAI's interest in the BRU and the attendant recovery of the acquisition costs in electric rates. Chugach and ML&P requested expedited consideration, asking the RCA to issue a bench ruling by April 21, 2016. The request for expedited consideration was made to provide additional certainty regarding Chugach's eligibility for a State of Alaska production tax credit.

The RCA opened docket U-15-081 and established an expedited procedural schedule for the case. The RCA held a hearing from April 18 through April 20, 2016, and issued a bench ruling on April 20, 2016, approving the joint request for approval of the Purchase and Sale Agreement. A written order affirming the bench ruling was issued on April 21, 2016.

Separate filings detailing the specific rate recovery process were filed in the second quarter of 2016. The RCA approved the initial gas transfer price of $5.88 per Mcf. Under the recovery structure proposed by Chugach, costs associated with the BRU, including acquisition and on-going operations, maintenance and capital investment, will be recovered on a dollar-for-dollar basis through Chugach's quarterly fuel adjustment process. Chugach recovers its fuel and purchased power costs as a direct pass-through from its retail and wholesale customers with minimal lag between cost incurrence and recovery.

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.

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. If approved, adoption of the updated depreciation rates would result in a $5.9 million reduction in annual depreciation expense. On a demand and energy rate basis, the impact is a 4.7% reduction to retail customers and a 4.6% reduction to Seward. The reductions on a total customer bill basis, which includes fuel and purchased power costs, are 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 October 11, 2016, the RCA issued Order U-16-081(1) to address the depreciation study update. The RCA indicated that a final order in the proceeding would be issued by March 29, 2017.

Beluga Parts Filing

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

Specifically, Chugach requested RCA approval to recover approximately $11.4 million in equipment that supports Beluga generation units. Chugach requested that it be permitted to amortize the value of this plant over a period of 30 months for plant associated with Units 1 and 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.

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 upon RCA approval 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, with on a firm and interruptible basis. The initial price for firm gas is $7.16 per Mcf beginning April 1, 2023 and escalates annually, rising to $7.98 per Mcf on April 1, 2032, the last year of the contract.

(6) Utility Plant

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

Electric plant in service:	2016	2015
Steam production plant	$ 101,116,277	$ 100,938,247
Hydroelectric production plant	33,659,129	20,591,678
Other production plant	287,404,484	284,035,865
Transmission plant	282,040,969	277,490,606
Distribution plant	294,641,485	290,680,919
General plant	54,982,432	51,841,582
Unclassified electric plant in service[1]	83,457,981	95,611,615
Intangible plant[1]	5,455,371	5,455,371
Beluga River Natural Gas Field (BRU Asset & ARO)	47,927,331	0
Other[1]	1,828,409	1,828,409
Total electric plant in service	1,192,513,869	1,128,474,292
Construction work in progress	18,455,940	15,601,374
Total electric plant in service and construction work in progress	$ 1,210,969,809	$ 1,144,075,666

[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:

	2016	2015
NRUCFC	$ 6,095,980	$ 6,095,980
CoBank	3,188,490	3,475,664
NRUCFC Capital Term Certificates and other	64,841	63,875
Total investments in associated organizations	$ 9,349,311	$ 9,635,519

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:

	2016	2015
Regulatory assets:		
Debt issuance and reacquisition costs	$ 492,850	$ 247,481
Refurbishment of transmission equipment	104,939	114,198
Feasibility studies	1,387,285	551,122
Beluga gas compression	0	508,866
Cooper Lake relicensing / projects	5,280,006	5,410,109
Fuel supply	2,005,052	939,768
Storm damage	647,381	841,595
Other regulatory deferred charges	849,933	1,056,909
Bond interest - market risk management	5,365,190	5,871,286
Environmental matters	1,024,171	1,069,522
Total regulatory assets	17,156,807	16,610,856
Other deferred charges:		
NRECA pension plan prepayment	7,925,050	0
Post retirement benefit obligation	59,100	200,900
Total other deferred charges	7,984,150	200,900
Total deferred charges	$ 25,140,957	$ 16,811,756

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

	2016	2015
Regulatory assets:		
Multi-stage Energy Storage	$ 1,117,860	$ 124,569
Regulatory studies and other	46,721	360,879
Total regulatory assets	1,164,581	485,448
Other deferred charges:		
NRECA pension plan prepayment	7,925,050	0
Other deferred charges	59,100	200,900
Total other deferred charges	7,984,150	200,900
Total deferred charges	$ 9,148,731	$ 686,348

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:

	2016	2015
Refundable consumer advances for construction	$ 328,360	$ 823,115
Estimated initial installation costs for meters	118,854	105,274
Post retirement benefit obligation	732,200	874,000
Total deferred liablities	$ 1,179,414	$ 1,802,389

(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, 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. At December 31, 2015, Chugach had $167,447,781 of patronage capital (net of capital credits retired in 2015), which included $160,944,929 of patronage capital that had been assigned and $6,502,852 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. In December of 2013, the Board resumed its capital credit retirement program.

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. HEA's patronage capital payable was $7.9 million at December 31, 2016 and 2015, respectively.

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 $4.1 million and $3.2 million at December 31, 2016 and 2015, 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 liabilities and equities and margins. Capital credits retired, net of HEA's allocations, were $3,265,201, $3,190,124, and $5,130,381 for the years ended December 31, 2016, 2015, and 2014, 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, 2016, 2015, and 2014 was $2,014,080, $2,105,440 and $1,042,064, respectively.

(10) Other Equities

A summary of other equities at December 31 follows:

	2016	2015
Nonoperating margins, prior to 1967	$ 23,625	$ 23,625
Donated capital	2,001,450	1,877,193
Unclaimed capital credit retirement[1]	11,803,000	10,627,038
Total other equities	$ 13,828,075	$ 12,527,856

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

(11) Debt

Long-term obligations at December 31 are as follows:	2016	2015
2011 CoBank Note, 2.78% variable rate at redemption, with interest payable monthly and principal due annually beginning in 2003	$ 0	$ 24,941,165
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	67,500,000	72,000,000
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	154,166,665	160,333,332
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	60,000,000	63,750,000
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	95,000,000	102,000,000
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
2016 CoBank Note, 2.58% fixed rate note maturing in 2031, with interest and principal due quarterly beginning in 2016	43,776,000	0
Total long-term obligations	$ 470,442,665	$ 473,024,497
Less current installments	24,836,667	24,115,980
Less unamortized debt issuance costs	2,715,745	2,680,897
Long-term obligations, excluding current installments	$ 442,890,253	$ 446,227,620

Covenants

Chugach is required to comply with all covenants set forth in the Indenture that secures the 2011 Series A Bonds, the 2012 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., CoBank, and 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 CoBank Master Loan Agreement 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 Second Amended and Restated Master Loan Agreement with CoBank, which became effective on June 30, 2016, did not change this requirement.

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 liabilities and equities and margins.

Maturities of Long-term Obligations

Long-term obligations at December 31, 2016, mature as follows:

Year ending December 31	2011 Series A Bonds	2016 CoBank Note	2012 Series A Bonds	Total
2017	$ 10,666,667	$ 3,420,000	$ 10,750,000	$ 24,836,667
2018	10,666,667	3,192,000	10,750,000	24,608,667
2019	10,666,667	3,192,000	10,750,000	24,608,667
2020	10,666,667	3,420,000	10,750,000	24,836,667
2021	10,666,667	3,648,000	3,750,000	18,064,667
Thereafter	168,333,330	26,904,000	158,250,000	353,487,330
	$ 221,666,665	$ 43,776,000	$ 205,000,000	$ 470,442,665

Lines of credit

Chugach maintains a $50.0 million line of credit with NRUCFC. Chugach did not utilize this line of credit in 2016 or 2015, and therefore had no outstanding balance at December 31, 2016 and 2015. The borrowing rate is calculated using the total rate per annum and may be fixed by NRUCFC. The borrowing rate was 2.90% at December 31, 2016 and 2015.

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 expires October 12, 2017, and is immediately available for unconditional borrowing.

Commercial Paper

On November 17, 2010, Chugach entered into a $300.0 million Unsecured Credit Agreement, which is used to back Chugach's Commercial Paper Program. The participating banks were NRUCFC, Bank of America, N.A., KeyBank National Association, JPMorgan Chase Bank, N.A., Bank of Montreal, CoBank, ACB, Goldman Sachs Bank USA, Bank of Taiwan, Los Angeles Branch and Chang Hwa Commercial Bank, Ltd., Los Angeles Branch. Effective May 4, 2012, Chugach reduced the commitment amount to $100.0 million and on June 29, 2012, amended and extended the Credit Agreement to update the pricing and extend the term. This pricing included an all-in drawn spread of one month London Interbank Offered Rate (LIBOR) plus 107.5 basis points, along with a 17.5 basis points facility fee (based on an A- unsecured debt rating). The Amended Unsecured Credit Agreement was set to expire on November 17, 2016.

On June 13, 2016, Chugach entered into a $150.0 million senior unsecured credit facility, the Credit Agreement, which is used to back Chugach's commercial paper program. The new 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 new Credit Agreement will expire on June 13, 2021. The participating banks include NRUCFC, KeyBank National Association, Bank of America, N.A., and CoBank, ACB.

Our commercial paper can be repriced between one day and 270 days. Chugach is expected to continue to issue commercial paper in 2017, as needed.

Chugach had $68.2 million and $20.0 million of commercial paper outstanding at December 31, 2016 and 2015, respectively.

The following table provides information regarding 2016 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 2016	$ 16.1	0.61	July 2016	$ 47.3	0.66
February 2016	$ 16.9	0.60	August 2016	$ 54.2	0.63
March 2016	$ 30.5	0.60	September 2016	$ 60.0	0.65
April 2016	$ 55.1	0.60	October 2016	$ 63.5	0.65
May 2016	$ 78.2	0.60	November 2016	$ 60.8	0.65
June 2016	$ 76.0	0.62	December 2016	$ 63.7	0.86

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.

Chugach had a term loan facility with CoBank, evidenced by the 2011 CoBank Note, which was governed by the Amended and Restated Master Loan Agreement dated January 19, 2011, and secured by the Indenture. On July 13, 2016, Chugach used commercial paper to pay off the $22.2 million balance and therefore had no outstanding balance at December 31, 2016. Chugach had $24.9 million outstanding on this facility at December 31, 2015.

On June 30, 2016, Chugach entered into another 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 $43.8 million outstanding on this facility at December 31, 2016.

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

	Maturing March 15,	Average Life (Years)	Interest Rate	Issue Amount	Carrying Value
2011 Series A, Tranche A	2031	7.2	4.20 %	$ 90,000	$ 67,500
2011 Series A, Tranche B	2041	12.2	4.75 %	185,000	154,167
2012 Series A, Tranche A	2032	7.7	4.01 %	75,000	60,000
2012 Series A, Tranche B	2042	14.8	4.41 %	125,000	95,000
2012 Series A, Tranche C	2042	15.7	4.78 %	50,000	50,000
2016 CoBank Note	2031	6.2	2.58 %	45,600	43,776
Total				$ 570,600	$ 470,443

(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, 2016, 2015 and 2014 of $6.7 million, $6.7 million and $6.8 million, respectively. The rate and number of employees in all significant pension plans did not materially change for the years ended December 31, 2016, 2015 and 2014.

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 multiemployer 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, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years. However changes in interest rates, asset returns and other plan experience different from that expected, plan assumption changes, and other factors may have an impact on the differential in billing rates and the 15 year period.

On December 29, 2106, Chugach made a prepayment of $7.9 million to the NRECA RS Plan. See *Note 2n – "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, 2017			N/A[2]		
Subject to Funding Improvement Plan	No			No[4]		
Surcharge Paid	N/A			N/A[4]		
	2016	2015	2014	2016	2015	2014
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)	$3.2	$3.1	$3.3	$3.5	$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, 2016, 2015, and 2014 were $4.5 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, 2016, 2015, and 2014 totaled $2.8 million, $2.6 million, and $2.9 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, 2016, 2015 and 2014 were $132.3 thousand, $133.6 thousand and $149.2 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 2016 and 2015 and $17,500 in 2014, and allowed catch-up contributions for those over 50 years of age of $6,000 in 2016 and 2015 and $5,500 in 2014. 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, 2016, and 2015 was $907,836 and $763,913, 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 $19.0 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 State of Alaska provided an initial grant for work on a project to divert water from Battle Creek into Bradley Lake. The project is being managed by the Alaska Energy Authority. Based on stream flow measurements from 1991 through 1993, diverting a portion of Battle Creek into Bradley Lake has the potential to increase annual energy output up to 40,000 megawatt-hours (MWh). Chugach would be entitled to 30.4% of the additional energy produced.

The following represents information with respect to Bradley Lake at June 30, 2016 (the most recent date for which information is available). Chugach's share of expenses was $5,662,522 in 2016, $5,663,304 in 2015, and $5,228,907 in 2014 and is included in purchased power in the accompanying financial statements.

(In thousands)	Total	Proportionate Share
Plant in service	$ 163,531	$ 49,713
Long-term debt	53,495	16,262
Interest expense	3,177	966

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 2016 included $4,229,167, net of accumulated depreciation of $2,442,175, which represents Chugach's share of the Eklutna Hydroelectric Project. In 2015, plant in service included $4,401,440, net of accumulated depreciation of $2,203,659. 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. Under net billing arrangements, Chugach then reimburses MEA for their share of the costs. Chugach's share of expenses was $532,678, $689,501, and $761,613 in 2016, 2015, and 2014, 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. 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 (see "*Note 5 – Regulatory Matters – Beluga River Unit*") and the transaction closed on April 22, 2016.

Chugach had a firm gas supply contract with CPAI as previously discussed in "*Note 16 – Commitments and Contingencies – Fuel Supply Contracts*". In addition to Chugach, CPAI had contractual gas sales obligations to ENSTAR through 2017. These contracts were 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%.

Chugach's interest in the BRU is insignificant to the BRU as a whole and compared to Chugach's operations prior to the acquisition. As such, Chugach has not provided supplemental pro forma financial information. Since the BRU activities are limited to the extraction of natural gas, Chugach is following the guidance provided in ASC 932-810-45-1 (Extractive Activities-Oil and Gas – Consolidation – Other Presentation Matters) and will record its pro rata share of the assets, liabilities, revenues and expenses of the BRU.

Chugach recorded the acquisition at fair value on the acquisition date. The fair value estimate used the discounted cash flow method assuming an estimated useful life of 18 years with 27 Bcf of proven developed producing reserves and using Chugach's BRU financing rate as the credit adjusted risk free rate. The table below outlines the acquisition allocation recorded at December 31, 2016.

		Amount
Utility Plant:		
Proved Developed Reserves	$	33,693,922
Proved Undeveloped Reserves		10,710,000
Asset Retirement Obligation		3,523,409
Utility plant		47,927,331
Cost of removal obligation		(3,523,409)
Cash Consideration	$	44,403,922

Acquisition costs are recorded as deferred charges on Chugach's balance sheet because Chugach believes it is probable the RCA will allow them to be collected through rates, and totaled $1.5 million at December 31, 2016. Chugach has 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.

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 84 Mcf at December 31, 2016. 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 due to expire December 31, 2017. Chugach recognized revenue from the BRU in the amount of $2.8 million through December 31, 2016.

Chugach records depreciation, depletion and amortization on BRU assets based on units of production. As of December 31, 2016, Chugach lifted 1.9 Bcf resulting in approximately 25.1 Bcf remaining in Chugach's proven developed reserves. Prior to the acquisition, CPAI was the contracted operator of the BRU. Following the acquisition, Hilcorp temporarily assumed operations under an agreement similar to that previously held by CPAI. A final operator agreement is expected during the second quarter of 2017. 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, 2016, 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 an agreement with the Hotel Employees and Restaurant Employees (HERE). All three IBEW CBA's have been renewed through June 30, 2021. The HERE contract was renewed through June 30, 2021. We believe our relationship with our employees is good.

Fuel Supply Contracts

Chugach has fuel supply contracts from various producers at market terms. A gas supply contract between Chugach and ConocoPhillips Alaska, Inc. and ConocoPhillips, Inc. (collectively “ConocoPhillips”), approved effective by the RCA on August 21, 2009, began providing gas in 2010 and expired December 31, 2016. The total amount of gas under the contract was 62 Bcf. This contract was assumed by Chugach and ML&P as part of the BRU acquisition, on the basis of ownership share. As such, Chugach paid ML&P for 70% of gas purchased under this contract. 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 ML&P (previously under ConocoPhillips) and Hilcorp agreements 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 2016, 77% of our power was generated from gas, with 9% generated at the Beluga Power Plant and 88% generated at SPP. In 2015, 86% of our power was generated from gas, with 30% generated at Beluga and 61% generated at SPP.

The terms of the ConocoPhillips and Hilcorp agreements require Chugach to handle the natural gas transportation over the connecting pipeline systems. We have gas transportation agreements with ENSTAR and Hilcorp. 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:

	2016	2015	2014
Hilcorp	56.9%	30.3%	50.4%
ConocoPhillips (COP)	32.0%	58.7%	43.6%
AIX Energy	0.7%	4.7%	0.0%
ENSTAR	4.7%	3.3%	2.0%
Harvest (Hilcorp) Pipeline	3.2%	1.6%	3.0%
Miscellaneous	2.5%	1.4%	1.0%

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. HEA's patronage capital payable was $7.9 million at December 31, 2016 and 2015. MEA's patronage capital payable was $4.1 million and $3.2 million at December 31, 2016 and 2015, 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 $0.000675, effective July 1, 2016. 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.

Production Taxes

Production taxes on Chugach fuel purchases are paid directly to our gas producers and are recorded under "Fuel" in Chugach's financial statements.

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 $2,507,482 and $5,184,551 for this charge at December 31, 2016 and 2015, 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 are increasing 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. The court is expected to issue a decision in the near future. 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) Subsequent Events

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, resulting in an average life of approximately 10.0 years. The bonds are secured, ranking equally with all other long-term obligations, by a first lien on substantially all of Chugach's assets, pursuant to the Sixth Supplemental Indenture to the Second Amended and Restated Indenture of Trust, which initially became effective on January 20, 2011, as previously amended and supplemented.

(18) Quarterly Results of Operations (unaudited)

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

2015 Quarter Ended

	Dec. 31	Sept. 30	June 30	March 31
Operating Revenue	$ 50,640,703	$ 43,109,512	$ 47,697,820	$ 74,973,117
Operating Expense	42,182,178	39,667,546	43,490,558	63,451,276
Net Interest	5,415,131	5,428,774	5,381,167	5,589,373
Net Operating Margins	3,043,394	(1,986,808)	(1,173,905)	5,932,468
Nonoperating Margins	368,403	79,028	126,010	114,262
Assignable Margins	$ 3,411,797	$ (1,907,780)	$ (1,047,895)	$ 6,046,730