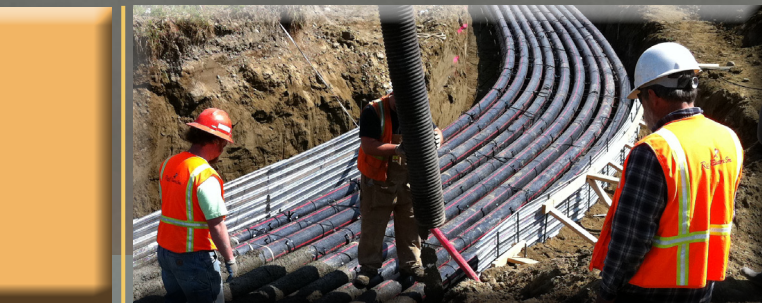
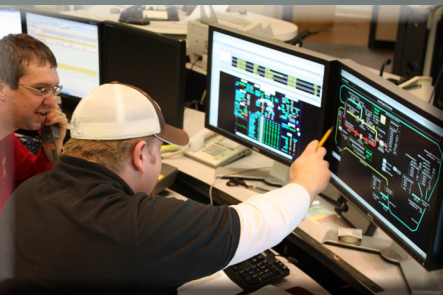


CHUGACH

POWERING ALASKA'S FUTURE



- 3. Year in Review
- 4. Board Chair Report
- 5. CEO's Report
- 6. Board of Directors
- 7. Treasurer's Report
- 8. Power Sales at a Glance
- 9. Key Comparisons
- 10. Independent Registered Public Accounting Firm's Report
- 11. Financial Statements
- 26. Power Supply
- 27. Power Delivery
- 28. Finance
- 29. Administration
- 30. Strategic Planning & Corporate Affairs
- 31. Generation Resources



Above: Southcentral Power Project construction

Corporate Mission

Through superior service, safely provide reliable and competitively priced energy.

Incorporation

Chugach Electric Association was incorporated in Alaska, March 1, 1948, with funding under the Rural Electrification Act of 1936, as amended. In 1991 Chugach refinanced and paid off its federal debt, leaving the REA program. Chugach remains a cooperative and ranks among the largest of the more than 900 electric cooperatives in the nation.

Equal Employment Opportunity

It is a policy of Chugach Electric Association, Inc., to recruit, hire, train, promote and compensate persons without regard to race, color, religion, national origin, sex, marital status, pregnancy, parenthood, physical or mental disability, veteran's status, age or any other classification protected by applicable federal, state or local law.

Corporate Vision

Powering Alaska's Future



Printed on recycled paper with soy-based ink

Chugach significantly improved its financial position in 2011 by taking advantage of historically low interest rates in the market. Following months of effort, numerous meetings with investors in New York, Boston, Charlotte, Milwaukee and Chicago, Chugach completed a \$275 million refinancing.

One hundred sixty seven members registered for the May 26 annual meeting. Janet Reiser, Harry Crawford, and Jim Henderson were elected to 3-year terms and Doug Robbins was elected to a 1-year term on the board of directors. Members also approved a pair of proposed bylaw amendments. About 14 percent of the 66,829 Chugach members of record voted in the election, with 21 percent of the ballots cast via the new option of Internet voting.

Chugach and four other Railbelt electric utilities joined together to create a new generation & transmission cooperative. The Alaska Railbelt Cooperative Transmission & Electric Company held its first meeting on Jan. 7, 2011. The ARCTEC board soon began developing a capital projects list to discuss with legislators and the administration.

A groundbreaking ceremony for the new Southcentral Power Project was held on March 28. SPP is a joint project to construct an efficient, 183-megawatt, combined-cycle power plant. The output and \$369 million cost will be shared 70/30 between Chugach and Municipal Light & Power.

Chugach had a very successful legislative session. The state capital budget contained \$36 million in funding for nine projects supported by the ARCTEC board, \$1.7 million in renewable

grants requested by Chugach, and a \$1 million municipal grant to help fund a second distribution feeder line in Girdwood

A pair of new gas contracts went into effect on April 1. The event marked a major change – bringing an end to contracts that had provided fuel for Chugach power plants for more than 20 years. Chugach's natural gas is now supplied by ConocoPhillips and Marathon Alaska Production.

Chugach and Marathon Alaska Production agreed to a 1-year extension of an existing fuel supply contract. With the extension, Marathon will be providing natural gas to Chugach through 2014. Chugach's contract with ConocoPhillips provides gas into 2016.

After the conclusion of lengthy negotiations, the Chugach board of directors voted to approve a set of terms and conditions for power purchased from a wind project on Fire Island. The Regulatory Commission of Alaska issued an order authorizing Chugach to recover in rates the cost of power purchased from Fire Island Wind, LLC. Under the power purchase agreement, Chugach will take up to 17.6 megawatts of wind power for 25 years at a flat net cost of \$97 per megawatt-hour. The RCA also approved an extension of Chugach's power sales contact with the City of Seward through the end of 2016.

The Bernice Lake Power Plant was sold to Alaska Electric and Energy Cooperative, Inc. - a subsidiary of Homer Electric Association. Under the terms of the purchase agreement, HEA paid Chugach \$11.9 million for the plant.

In what would turn out to be a record snow winter for Anchorage, Chugach facilities and customers were battered by an unusually severe series of winter storms that began in November and continued through the end of the year. Some packed winds around 100 mph, while others dropped heavy, wet snow that led to severe icing on lines – especially in the mountains of the northern Kenai Peninsula.



Top: The Chugach and ML&P boards were represented at the groundbreaking for the Southcentral Power Project. Middle: An estimated 250 people attended the annual meeting. Bottom: The City of Seward will remain a Chugach wholesale customer through the end of 2016.



Janet Reiser
Board Chair

English poet John Donne famously noted, "No man is an island, entire of itself; every man is a piece of the continent." That's true whether you're a member of a board, or one of several utilities in a region.

In 2011, the Chugach board and management focused our internal efforts on refinancing, reshaping our generation mix and transitioning to new relationships with our wholesale customers. The board also took action to improve board governance and put in place new governance policies and procedures that serve as a model to other cooperatives. We have made significant progress toward our goal of making the board as well-respected as the organization itself. We've focused our attention on issues of strategic importance – like working with other utilities for the collective good of our members and electric customers throughout the region.

We share common interests and challenges with other utilities in the Railbelt, and we're better able to address them by working together. That's why in late 2010 utilities formed ARCTEC – the Alaska Railbelt Cooperative Transmission & Electric Company. The organization provides a vehicle for regional planning,

and a collective approach to problems. Legislatively, ARCTEC had its first tests and successes in 2011. The board of directors of the new organization agreed on a capital projects list to take to Juneau seeking legislative funding. Focusing on projects beneficial to customers throughout the region, the ARCTEC board developed a list of nine projects that received \$36 million in support from legislators and the governor.

The Southcentral Power Project is one example of a joint project with shared benefits for customers of different utilities. Chugach is building the efficient new plant with Municipal Light & Power. Estimates are that the customers of the two utilities will save more than \$20 million in avoided fuel costs in the plant's first full year of operation.

Chugach took a significant step toward diversification of our generation mix in 2011. In June, after lengthy negotiations that improved many aspects of the project for Chugach, the board approved a power purchase agreement to take the output of a 17.6-megawatt wind project on Fire Island from a developer. The 50,000 megawatt-hours of energy from the project will provide about 4 percent of the requirements of our retail customers.

The largest renewable energy project under consideration for the Railbelt is the Watana hydroelectric project on the Susitna River planned by the Alaska Energy Authority. For years Chugach has supported the state's efforts to develop a major new regional hydro project. In 2011, the legislature and governor provided \$65.7 million in the capital budget to allow AEA to move the project

forward. Chugach will remain engaged on this important project throughout the licensing process.

As a cooperative, Chugach is responsive to its members. The right to elect a board to govern the utility is an important benefit of membership, and some members had suggested offering a way to do that electronically. In 2011 the board authorized for the first time the addition of voting via the Internet as an option in our annual election. Twenty one percent of the voting members did so electronically. Members reported it was easier – and it also saves on postage and printing. Give it a try in a future election.

As 2011 drew to a close, Southcentral Alaska was hit hard by a series of severe winter storms. Thousands of customers lost power, and Chugach personnel from across the organization worked day and night to restore service. The board appreciates the patience of members and the efforts of dedicated employees during these unusual events. Together we make up the cooperative – one with a bright future.

THE EXECUTIVE STAFF

Seated from left, Brad Evans, Chief Executive Officer; Lee Thibert, Sr. Vice President, Strategic Planning & Corporate Affairs. Standing from left are Paul Risse, Sr. Vice President, Power Supply; Ed Jenkin, Vice President, Power Delivery; Connie Owens, Executive Assistant; Mark Johnson, Corporate Counsel; Tyler Andrews, Vice President, Human Resources and Mike Cunningham, Sr. Vice President, Finance & Chief Financial Officer.



Chugach was incredibly busy – and successful – in 2011.

Construction of the 183-megawatt Southcentral Power Project remains on schedule and on budget, reflecting the benefit of the detailed planning and preparation that preceded our March 2011 groundbreaking. By the end of the year, the three gas turbine-generators and the steam unit were in place, keeping us on schedule for planned operational testing in the summer of 2012. After concurrent construction of the new International Substation, SPP is scheduled to begin commercial operations in December 2012. This efficient new plant is important in many ways. One is that customers will see a lower fuel charge on their monthly bills (expected to largely offset the capital cost of the plant). Another is lower emissions (for its output, SPP will produce only 3 percent of the NOx and CO of existing simple-cycle units). And a third is that we'll reduce our demand for gas from Cook Inlet fields by about 3 billion cubic feet (BCF) a year – equal to about 10 percent of our 2011 purchases.

Alaskans have been concerned about both the supply and deliverability of natural gas in the Cook Inlet area. Chugach has worked this issue from the

supply side to the consumer. We've supported tax incentives for exploration and production, utility gas storage, construction of the efficient new power plant and energy efficiency programs for members. We're also a leader in the Energy Watch program developed to alert consumers in the event of an energy emergency.

The gas storage project is a very important and historic one for the region. For the first time, utilities will have their own storage facility. The project, known as CINGSA (Cook Inlet Natural Gas Storage Alaska) will improve fuel supply security, deliverability and provide a market for gas during the summer months when demand would otherwise fall considerably from winter levels. Initially Chugach will take about 22 percent of the project.

In 2011 Chugach and Marathon Alaska Production agreed to a 1-year extension of a contract that will continue to supply about half of the utility's natural gas through 2014. Chugach's contract with its other supplier, ConocoPhillips, provides the other half of our gas through 2014, and additional volumes into 2016. With both contracts tied to national markets, customers have benefitted from decreased natural gas costs in the Lower 48.

Taking advantage of historically low interest rates, we significantly improved our financial position in the past year. On Jan. 21, 2011, we closed a \$275 million refinancing with bonds that carry a weighted average interest rate of 4.57 percent. A second successful transaction closed on Jan. 11, 2012 with a \$250 million sale of bonds that carry a weighted average inter-



Bradley Evans
CEO

est rate of 4.36 percent. Chugach used a portion of the proceeds to pay off higher-interest debt, and another to lock in long-term savings by converting short-term commercial paper used to finance construction of SPP and other facilities. All of Chugach's debt is now amortizing, with no bullet debt left on its books.

As a member of the Alaska Railbelt Cooperative Transmission & Electric Company, Chugach helped craft and champion a project list that included improvements to the Railbelt's transmission backbone and flexibility in the regional natural gas pipeline system. These projects received \$36 million in state funding, and we moved quickly to put the money – and Alaskans – to work. Additionally, Chugach supported statutory changes that broadened the mission of the Alaska Energy Authority – allowing it to move forward on the Susitna-Watana Hydroelectric Project. Chugach thanks legislators and the governor for their support of important regional energy issues and projects.

2011 saw major accomplishments. We look forward to more in 2012.

Janet Reiser

Board Chair

Janet Reiser is a small-business owner and management consultant in the emerging technology field. She was elected to the board in 2008, and re-elected in 2011. She is currently the Chair of the Board and serves on the Operations, Audit and Finance committees. Reiser is the Chair of the ARCTEC board. She is a National Rural Electric Cooperative Association (NRECA) Credentialed Cooperative Director and has earned her Board Leadership Certificate. She has a Bachelor of Science degree in chemical engineering.

Susan Reeves

Vice Chair

Susan Reeves is the managing member of Reeves Amodio LLC, where she practices law. She has been active on Alaska non-profit boards and commissions for many years. Reeves was elected to the board in 2010. She is serving as the Vice Chair and is a member of the Audit and Finance Committee. She is also Chugach's Alaska Power Association representative. She is an NRECA Credentialed Cooperative Director.

Doug Robbins

Secretary

Doug Robbins is a retired petroleum geologist and manager with 26 years of experience at Marathon Oil Company. Robbins holds a master's degree in geology. Robbins was appointed to fill a vacancy in December 2010 and elected to a 1-year term in the 2011 election. He serves as the Board Secretary, the Chair of the Audit Committee and Vice Chair of the Operations Committee. He is also Chugach's ARCTEC representative. He is an NRECA Credentialed Cooperative Director.

P.J. Hill

Treasurer

P.J. Hill is a retired professor from the School of Business and Public Policy at the University of Alaska Anchorage. He is also an economic consultant and a commercial fisherman. He was elected to the board in 2007 and re-elected in 2010. Hill is the Board Treasurer, Chair of the Finance Committee and serves on the Audit Committee. He is an NRECA Credentialed Cooperative Director and has completed the Board Leadership Program.

Harry Crawford

Director

Harry T. Crawford, Jr. is a former Alaska state legislator, retired iron worker and a small-real estate developer. He was elected to the board in 2011. He currently serves on the Operations and Audit committees and is the Board liaison to the Bylaws Committee and the Renewable Energy Committee. He is an NRECA Credentialed Cooperative Director.

Jim Henderson

Director

Jim Henderson is a principal with New American Financial Group in the financial services industry. He specializes in asset-based finance products, reorganization, refinancing of distressed companies, and accounting and disposition of capital assets. His primary emphasis is transportation, industrial machinery and



Seated from left: Jim Nordlund; P.J. Hill, Treasurer; Janet Reiser, Chair and Jim Henderson.
Standing from left: Doug Robbins, Secretary; Harry Crawford, and Susan Reeves, Vice Chair.

aviation operations, assets and industry development. He has over 30 years of experience in consulting and analysis and finance of capital assets. Henderson has served on various committees for Chugach in the past. Henderson was elected to the Board in 2011. He serves on the Operations and Finance committees. He is an NRECA Credentialed Cooperative Director.

Jim Nordlund

Director

Jim Nordlund is Alaska State Director of USDA-Rural Development, as well as the owner of Nordlund Carpentry, LLC. He was elected to the Board in 2006 and re-elected in 2009. Nordlund is a former legislator and State Director of Public Assistance. He has served as Chairman of the Board and currently is Chair of the Operations Committee. He is an NRECA Credentialed Cooperative Director.

Chugach continued to enjoy success on the financial and regulatory fronts in 2011. A major accomplishment was the successful execution of the Capital Markets project which was designed to refinance two large amounts of maturing debt in 2011/12 and to obtain long-term financing for the Southcentral Power Project scheduled to be operational by the end of 2012. With interest rates in the bond market at historic lows, the timing of these two financings could not have been more perfect.

In 2010, we presented to investors the Chugach story, including a compilation of our operating/financial profile and results, resolution of critical issues such as future natural gas supply, recovery of costs associated with SPP in utility rates, return to a secured Indenture of Trust (where corporate assets are used as collateral for debt) and the Simplified Rate Filing process (which speeds up the ability to change base rates). We also provided future financial projections for the end of power sales agreements with wholesale customers Matanuska Electric Association and Homer Electric Association and projected capital expansion plans.

In 2010, Chugach committed to issue \$275 million of bonds to twelve investors at a blended interest rate of 4.57 percent. Investor demand for these bonds reached approximately \$400M, however, we limited the issue to the amount necessary to refinance our bullet debt. This transaction closed in January 2011, and is expected to save members nearly \$5M in interest expense per year.

Chugach returned to the private placement market in October of 2011 to obtain long-term financing for SPP.

Chugach committed to a \$250M private placement bond issuance, which included eighteen total investors, including twelve new investors. The amortizing debt carries a blended interest rate of 4.36 percent and closed in January 2012.

On the regulatory front we continued to obtain positive results. The Regulatory Commission of Alaska approved a request to recover in rates the cost of power purchases from the Fire Island Wind Project.

The Bernice Lake Power Plant was sold to Alaska Electric and Energy Cooperative, Inc. and HEA, which will yield a minimal gain on the sale of the plant. The transaction was accepted by the RCA – to the benefit of both Chugach and HEA consumers. In addition, the RCA approved a related Capacity Agreement that allows Chugach to purchase output from the Bernice Lake Power Plant through 2013.

Chugach filed two SRF adjustments, which resulted in a slight rate increase in May and a decrease in November, as members began to see the impact of Chugach's successful refinancing efforts.

In 2012, we will file a general rate case, to permit the recovery of SPP costs in our rates going forward. The RCA provided cost recovery assurance for the majority of SPP costs in October of 2010.

Chugach's 2011 margins (a cooperative's bottom line or revenues in excess of current costs) were \$5.6M. Margins continued to be consistent with prior years and with forecasts. This was accomplished in spite of major wind and snow storms that hit the Southcentral region in November and December. Our Margins-for-Interest-to-Interest ratio



P.J. Hill
Treasurer

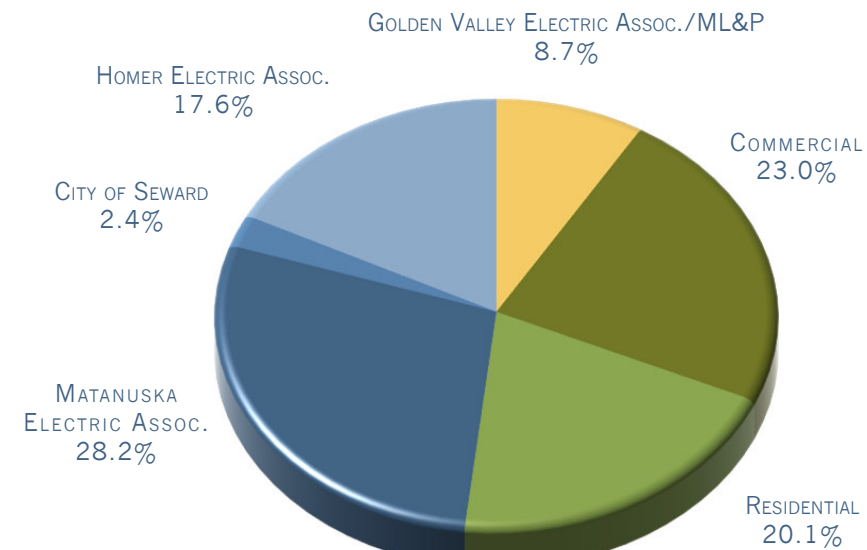
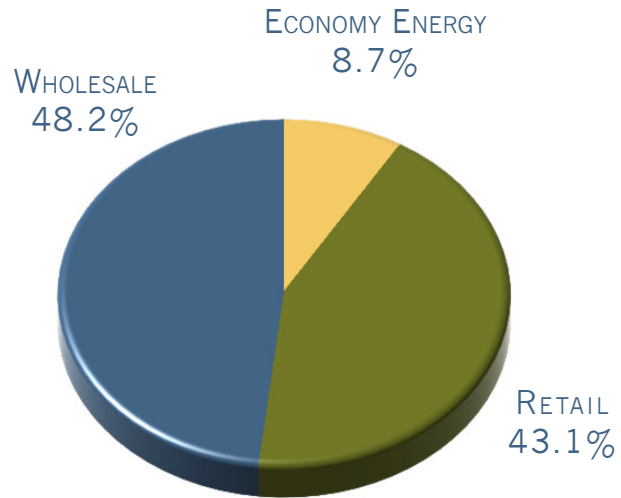
was 1.30. Chugach is required to meet or exceed the indenture metric of 1.10. The Equity-to-Total-Capitalization ratio, targeted to be kept at or above 30 percent, was 35.3 percent.

Total energy sales to retail, wholesale and economy energy customers were 2,704,412 megawatt hours compared to 2,706,609 in 2010. Even though sales were down slightly, all categories were above the 2011 budget. Total revenue was \$283.6M, up from the \$258.3M in 2010 and down from the 2011 budget of \$291.7M. Variances in revenue from 2010 and the 2011 budget were largely driven by changes to fuel recovered in revenue through the fuel and purchased power recovery process, not from actual sales, which have remained fairly constant.

Chugach's strong, consistent financial performance and ongoing favorable regulatory environment, plus the successful refinancing of the bullet debt caused two national rating agencies to reaffirm our bond ratings and outlooks as "A-/ stable" and "A3/ stable". The third rating agency reaffirmed our bond rating at "A-" but upgraded our outlook to "Positive".

BY KILOWATT-HOURS

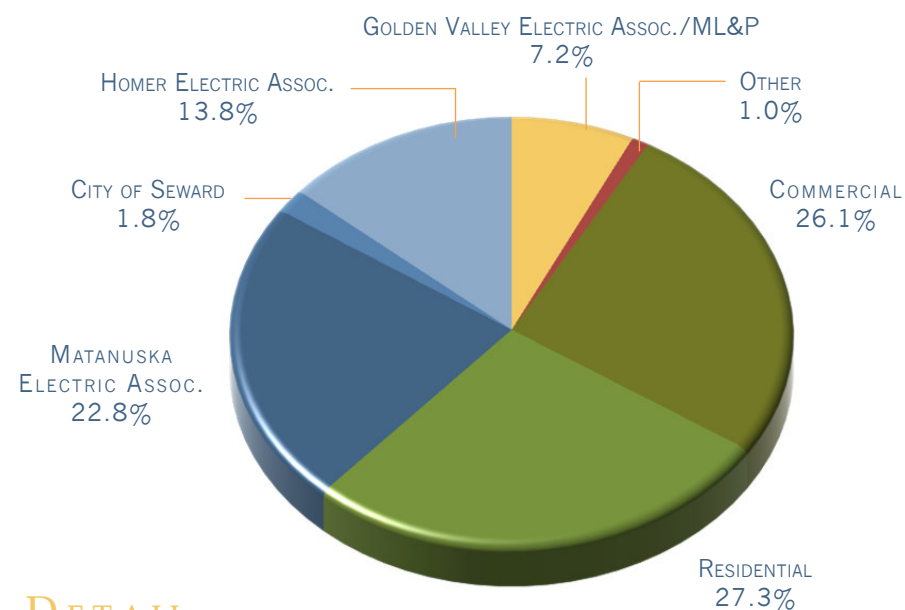
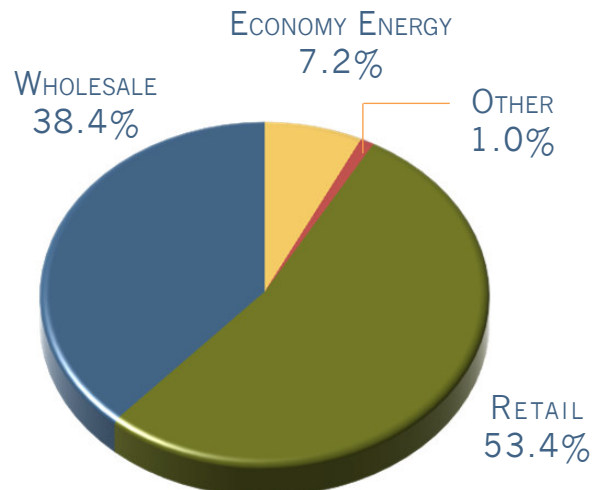
TOTAL: 2,704,411,682



OVERVIEW ← → DETAIL

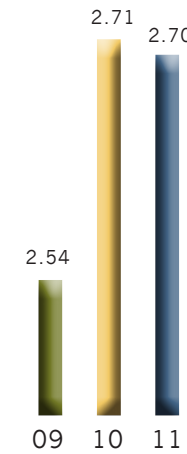
BY OPERATING REVENUES

TOTAL: \$283,618,369

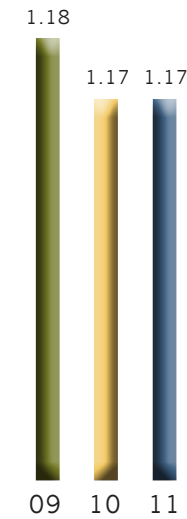


OVERVIEW ← → DETAIL

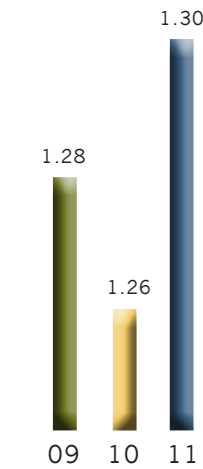
KILOWATT-HOURS SOLD (IN BILLIONS)



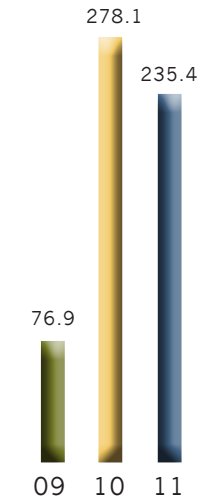
RETAIL KWH (IN BILLIONS)



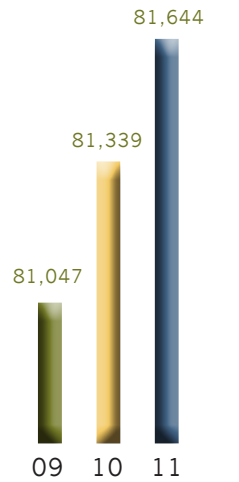
WHOLESALE KWH (IN BILLIONS)



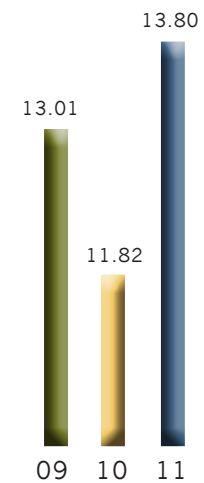
ECONOMY ENERGY KWH (IN MILLIONS)



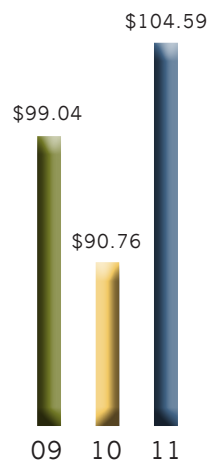
SERVICE LOCATIONS AT YEAR-END



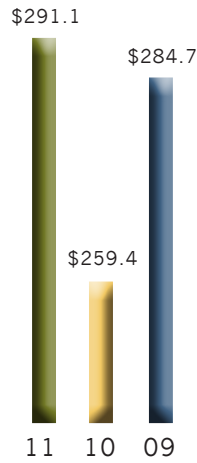
COST PER RESIDENTIAL KWH IN DECEMBER* (CENTS/KWH)



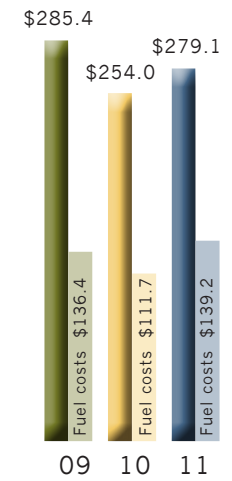
COST OF 700 KWH RESIDENTIAL SERVICE IN DECEMBER*



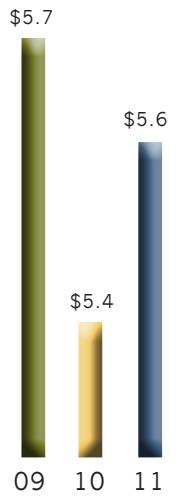
TOTAL REVENUE NON-OPERATING MARGINS (IN MILLIONS)



EXPENSES (IN MILLIONS)



MARGINS (IN MILLIONS)



*NOT INCLUDING THE CUSTOMER CHARGE AND THE 2 PERCENT MOA UNDERGROUNDING CHARGE

*INCLUDES CUSTOMER AND ENERGY CHARGES, FUEL AND PURCHASE POWER CHARGE AND REGULATORY COST CHARGE. DOES NOT INCLUDE 2 PERCENT MOA UNDERGROUNDING CHARGE

GENERATION SOURCE BY KWH

| | | |
|------|-----------------|-----------|
| 2011 | 92% Natural Gas | 8% Hydro |
| 2010 | 89% Natural Gas | 11% Hydro |
| 2009 | 90% Natural Gas | 10% Hydro |

OUTAGE STATISTICS

Chugach averaged 2.03 outage hours per customer in 2011, up from the 1.71 hours in 2010. The 5-year average for customer outage hours decreased to 2.13 hours in 2011, down from 2.33 hours in 2010.

Report of Independent Registered Public Accounting Firm

The Board of Directors
Chugach Electric Association, Inc.

We have audited the accompanying balance sheets of Chugach Electric Association, Inc. as of December 31, 2011 and 2010, and the related statements of operations, changes in equities and margins, and cash flows for each of the years in the three-year period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 financial statements referred to above present fairly, in all material respects, the financial position of Chugach Electric Association, Inc. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

March 19, 2012
Anchorage, Alaska

Balance Sheets
December 31, 2011 and 2010

| <u>Assets</u> | <u>2011</u> | <u>2010</u> |
|--|----------------------|----------------------|
| Utility plant: | | |
| Electric plant in service | \$862,362,243 | \$853,933,739 |
| Construction work in progress | 206,005,783 | 100,787,482 |
| Total utility plant | 1,068,368,026 | 954,721,221 |
| Less accumulated depreciation | (470,282,210) | (446,582,318) |
| Net utility plant | 598,085,816 | 508,138,903 |
| Other property and investments, at cost: | | |
| Nonutility property | 84,735 | 84,735 |
| Special funds | 420,783 | 395,833 |
| Investments in associated organizations | 11,134,496 | 12,163,097 |
| Total other property and investments | 11,640,014 | 12,643,665 |
| Current assets: | | |
| Cash and cash equivalents, including repurchase agreements of \$100 in 2011 and \$12,008,821 in 2010 | 17,118,118 | 12,070,713 |
| Special deposits | 149,701 | 211,858 |
| Restricted cash equivalents | 122,006,738 | 0 |
| Fuel cost under-recovery | 1,213,484 | 2,371,631 |
| Accounts receivable, less provision for doubtful accounts of \$408,429 in 2011 and \$307,169 in 2010 | 42,373,995 | 35,140,119 |
| Materials and supplies | 32,994,454 | 35,974,170 |
| Prepayments | 1,911,789 | 1,925,424 |
| Other current assets | 229,858 | 256,290 |
| Total current assets | 217,998,137 | 87,950,205 |
| Deferred charges, net | 25,205,690 | 20,994,955 |
| Total assets | <u>\$852,929,657</u> | <u>\$629,727,728</u> |
| <u>Liabilities, Equities and Margins</u> | <u>2011</u> | <u>2010</u> |
| Equities and margins: | | |
| Memberships | \$1,517,488 | \$1,474,869 |
| Patronage capital | 148,355,246 | 149,543,952 |
| Other | 11,358,692 | 10,823,463 |
| Total equities and margins | 161,231,426 | 161,842,284 |
| Long-term obligations, excluding current installments: | | |
| Bonds payable | 264,333,333 | 270,000,000 |
| National Bank for Cooperatives note payable | 31,756,775 | 34,450,318 |
| Total long-term obligations | 296,090,108 | 304,450,318 |
| Current liabilities: | | |
| Current installments of long-term obligations | 133,360,210 | 2,851,500 |
| Commercial paper | 175,000,000 | 98,500,000 |
| Accounts payable | 22,800,190 | 18,860,926 |
| Consumer deposits | 3,949,052 | 5,225,729 |
| Accrued interest | 6,843,473 | 6,049,531 |
| Salaries, wages and benefits | 7,597,691 | 6,733,842 |
| Fuel | 24,399,157 | 21,569,538 |
| Other current liabilities | 3,350,692 | 1,872,314 |
| Total current liabilities | 377,300,465 | 161,663,380 |
| Deferred compensation | 420,783 | 395,833 |
| Deferred credits | 1,703,277 | 1,375,913 |
| Patronage capital payable | 6,646,068 | 0 |
| Deferred proceeds on sale of asset | 9,537,530 | 0 |
| Total liabilities, equities and margins | <u>\$852,929,657</u> | <u>\$629,727,728</u> |

See accompanying notes to financial statements.

Statement of Operations
Years ended December 31, 2011, 2010 and 2009

| | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|--|--------------------|--------------------|--------------------|
| Operating revenues | \$283,618,369 | \$258,325,345 | \$290,247,308 |
| Operating expenses: | | | |
| Fuel | 139,179,413 | 111,718,947 | 136,416,761 |
| Power production | 16,853,232 | 18,248,656 | 16,406,911 |
| Purchased power | 25,861,814 | 26,691,968 | 35,690,476 |
| Transmission | 6,809,401 | 5,697,446 | 5,709,578 |
| Distribution | 13,387,477 | 12,216,252 | 12,740,381 |
| Consumer accounts | 5,465,315 | 5,323,551 | 5,259,348 |
| Administrative, general and other charges | 22,169,039 | 21,434,273 | 20,518,688 |
| Depreciation | 32,616,175 | 32,636,108 | 32,130,434 |
| Total operating expenses | <u>262,341,866</u> | <u>233,967,201</u> | <u>264,872,577</u> |
| Interest expense: | | | |
| Long-term debt and other | 18,681,680 | 21,014,387 | 21,207,600 |
| Charged to construction | (1,934,703) | (1,008,689) | (601,251) |
| Interest expense, net | <u>16,746,977</u> | <u>20,005,698</u> | <u>20,606,349</u> |
| Net operating margins | 4,529,526 | 4,352,446 | 4,768,382 |
| Nonoperating margins: | | | |
| Interest income | 297,983 | 310,964 | 250,958 |
| Allowance for funds used during construction | 159,916 | 83,966 | 145,281 |
| Capital credits, patronage dividends and other | 585,837 | 662,633 | 495,727 |
| Total nonoperating margins | <u>1,043,736</u> | <u>1,057,563</u> | <u>891,966</u> |
| Assignable margins | <u>\$5,573,262</u> | <u>\$5,410,009</u> | <u>\$5,660,348</u> |

See accompanying notes to financial statements.

Statements of Changes in Equities and Margins
Years ended December 31, 2011, 2010 and 2009

| | <u>Memberships</u> | <u>Other Equities and Margins</u> | <u>Patronage Capital</u> | <u>Total</u> |
|--------------------------------------|--------------------|---------------------------------------|------------------------------|----------------------|
| Balance, January 1, 2009 | \$1,390,413 | \$10,366,588 | \$142,009,998 | \$153,766,999 |
| Assignable margins | 0 | 0 | 5,660,348 | 5,660,348 |
| Retirement of capital credits | 0 | 0 | (3,442,125) | (3,442,125) |
| Unclaimed capital credit retirements | 0 | 213,527 | 0 | 213,527 |
| Memberships and donations received | 41,641 | 80,207 | 0 | 121,848 |
| Balance, December 31, 2009 | <u>1,432,054</u> | <u>10,660,322</u> | <u>144,228,221</u> | <u>156,320,597</u> |
| Assignable margins | 0 | 0 | 5,410,009 | 5,410,009 |
| Retirement of capital credits | 0 | 0 | (94,278) | (94,278) |
| Unclaimed capital credit retirements | 0 | 90,320 | 0 | 90,320 |
| Memberships and donations received | 42,815 | 72,821 | 0 | 115,636 |
| Balance, December 31, 2010 | <u>1,474,869</u> | <u>10,823,463</u> | <u>149,543,952</u> | <u>161,842,284</u> |
| Assignable margins | 0 | 0 | 5,573,262 | 5,573,262 |
| Retirement of capital credits | 0 | 0 | (6,761,968) | (6,761,968) |
| Unclaimed capital credit retirements | 0 | 367,277 | 0 | 367,277 |
| Memberships and donations received | 42,619 | 167,952 | 0 | 210,571 |
| Balance, December 31, 2011 | <u>\$1,517,488</u> | <u>\$11,358,692</u> | <u>\$148,355,246</u> | <u>\$161,231,426</u> |

See accompanying notes to financial statements.

Statements of Cash Flows
Years ended December 31, 2011, 2010 and 2009

| | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|---|----------------------|---------------------|---------------------|
| Cash flows from operating activities: | | | |
| Assignable margins | \$5,573,262 | \$5,410,009 | \$5,660,348 |
| Adjustments to reconcile assignable margins to net cash provided by operating activities: | | | |
| Depreciation | 32,616,175 | 32,636,108 | 32,130,434 |
| Amortization and depreciation cleared to operating expenses | 5,472,557 | 5,457,480 | 4,755,265 |
| Allowance for funds used during construction | (159,916) | (83,966) | (145,281) |
| Write off of inventory, deferred charges and projects | 851,756 | 210,596 | 1,461,349 |
| Other | (93,834) | 74,726 | (121,417) |
| (Increase) decrease in assets: | | | |
| Accounts receivable | (7,128,876) | 670,424 | 35,367 |
| Fuel cost under-recovery | 1,158,147 | (2,093,467) | 11,509,914 |
| Materials and supplies | 2,563,223 | (6,061,005) | (1,407,931) |
| Prepayments | 13,635 | (663,527) | 282,128 |
| Other assets | (2,049,082) | (96,522) | 16,409 |
| Deferred charges | (6,358,154) | (1,511,639) | (2,522,027) |
| Increase (decrease) in liabilities: | | | |
| Accounts payable | 1,891,089 | (1,321,046) | 169,466 |
| Consumer deposits | (1,276,677) | (267,221) | 585,618 |
| Fuel cost over-recovery | 0 | (3,511,422) | 3,511,422 |
| Accrued interest | 793,942 | (18,099) | (91,297) |
| Salaries, wages and benefits | 863,849 | 777,522 | 474,699 |
| Fuel | 2,829,619 | 6,911,480 | (13,836,153) |
| Other liabilities | 3,011,319 | 2,701,345 | (70,105) |
| Deferred liabilities | 239,761 | (70,335) | 11,219 |
| Net cash provided by operating activities | <u>40,811,795</u> | <u>39,151,441</u> | <u>42,409,427</u> |
| Cash flows from investing activities: | | | |
| Proceeds on sale of Bernice Lake Power Plant | 9,537,530 | 0 | 0 |
| Investment in associated organizations | 1,153,470 | 311,593 | 0 |
| Investment in restricted cash equivalents | (270,000,000) | 0 | 0 |
| Proceeds from restricted cash equivalents | 150,000,000 | 0 | 0 |
| Extension and replacement of plant | (123,679,854) | (73,214,825) | (38,100,312) |
| Net cash used in investing activities | <u>(232,988,854)</u> | <u>(72,903,232)</u> | <u>(38,100,312)</u> |
| Cash flows from financing activities: | | | |
| Payments of notes payable | 0 | 0 | (2,860,000) |
| Payments for debt issue costs | (1,949,027) | (1,493,572) | 0 |
| Proceeds from short-term obligations | 76,500,000 | 47,000,000 | 66,998,000 |
| Proceeds from long-term obligations | 275,000,000 | 0 | 0 |
| Repayments of short-term obligations | 0 | 0 | (22,998,000) |
| Repayments of long-term obligations | (152,851,500) | (4,118,029) | (47,367,312) |
| Memberships and donations received | 189,385 | 205,956 | 21,624 |
| Retirement of patronage capital and estate payments | (309,188) | (146,596) | (3,022,246) |
| Net receipts of consumer advances for construction | 644,794 | 870,980 | 931,282 |
| Net cash provided by (used in) financing activities | <u>197,224,464</u> | <u>42,318,739</u> | <u>(8,296,652)</u> |
| Net changes in cash and cash equivalents | 5,047,405 | 8,566,948 | (3,987,537) |
| Cash and cash equivalents at beginning of period | \$12,070,713 | \$3,503,765 | \$7,491,302 |
| Cash and cash equivalents at end of period | <u>\$17,118,118</u> | <u>\$12,070,713</u> | <u>\$3,503,765</u> |
| Supplemental disclosure of non-cash investing and financing activities: | | | |
| Retirement of plant (net of salvage) | \$11,317,319 | \$6,666,875 | \$991,011 |
| Extension and replacement of plant included in accounts payable | \$15,561,199 | \$15,919,688 | \$5,712,404 |
| Non-cash transmission assets | \$3,204,257 | \$804,928 | \$0 |
| Supplemental disclosure of cash flow information – interest expense paid, including amounts capitalized | \$22,006,369 | \$19,173,013 | \$19,710,442 |

See accompanying notes to financial statements.

(1) Description of Business

Chugach Electric Association, Inc. (Chugach) is the largest electric utility in Alaska. Chugach is engaged in the generation, transmission and distribution of electricity to directly serve retail customers in the Anchorage and upper Kenai Peninsula areas. Through an interconnected regional electrical system, Chugach's power flows throughout Alaska's 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 also supplies much of the power requirements of three wholesale customers, Matanuska Electric Association, Inc. (MEA), Homer Electric Association, Inc. (HEA) and the City of Seward (Seward). Chugach's retail and wholesale members are the consumers of the electricity sold.

Chugach operates on a not-for-profit basis and, accordingly, seeks only to generate revenues sufficient to pay operating and maintenance costs, the cost of purchased power, capital expenditures, depreciation, and principal and interest on all indebtedness and to provide for reserves. Chugach is subject to the regulatory authority of the Regulatory Commission of Alaska (RCA).

(2) Significant Accounting Policiesa. Management Estimates

In preparing the financial statements in conformity with generally accepted accounting principles, management of Chugach is required to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the balance sheet and revenues and expenses for the reporting period. Estimates include allowance for doubtful accounts, workers compensation, deferred charges and credits, unbilled revenue and the estimated useful life of utility plant. 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, see Note (2) - "Deferred Charges and Credits."

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, plus removal cost, less salvage, is charged to accumulated depreciation. Renewals and betterments are capitalized, while maintenance and repairs are normally charged to expense as incurred.

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

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

| | Annual Depreciation Rate Ranges | | | |
|----------------------------|---------------------------------|----------|----------|----------|
| | 06/01/08 | 10/31/10 | 11/01/10 | 12/31/11 |
| Steam production plant | 4.45% | 5.85% | 4.81% | 7.04% |
| Hydraulic production plant | 1.22% | 3.00% | 1.06% | 3.00% |
| Other production plant | 3.77% | 10.56% | 3.98% | 10.15% |
| Transmission plant | 1.61% | 6.67% | 1.58% | 7.86% |
| Distribution plant | 1.95% | 9.77% | 2.17% | 9.63% |
| General plant | 1.25% | 26.11% | 1.57% | 20.00% |
| Other | 2.75% | 2.75% | 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. Given that the estimated timing and amount cannot be reasonably estimated, Chugach does not record a separate liability for its obligation associated with the retirement of plant.

d. 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. Chugach capitalized such funds at the weighted average rate (adjusted monthly) of 4.1 percent during 2011, 4.8 percent during 2010 and 4.9 percent during 2009. Chugach capitalized actual interest expense and related fees associated with the construction of the Southcentral Power Project (SPP).

e. Investments in Associated Organizations

The loan agreements with CoBank, ACB (CoBank) and National Rural Utilities Cooperative Finance Corporation (NRUCFC) require 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 1 percent. These investments are non-marketable and accounted for at cost. Management evaluates these investments annually for impairment. No impairment was recorded during 2011, 2010 and 2009.

f. 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.
- Consumer deposits - the carrying amount approximates fair value because of the short refunding term.
- Long-term obligations - the fair value is estimated based on the quoted market price for same or similar issues (note 11).

- Restricted cash - the carrying amount approximates fair value because of the short maturity of those instruments.
- Repurchase agreement - the carrying amount approximates fair value because of the short maturity of those instruments.

g. 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. In November of 2011, Chugach opened a Concentration account with First National Bank Alaska (FNBA). There is no rate of return or fees on this account. On December 30, 2011, Chugach opened a money market account with UBS Financial Services, Inc. (UBS) with an initial deposit of \$10,000,000. Chugach also maintains an Overnight Repurchase Agreement with FNBA, however, in November of 2011 this account was placed into an inactive status. Prior to November of 2011 the daily balance was invested by FNBA and Chugach received varying interest rates for our investment pursuant to our Overnight Purchase Agreement. The Concentration account had an average balance since November of 2011 of \$6,481,639. The Overnight Repurchase Agreement account had an average balance in 2011 and 2010 of \$5,210,009 and \$5,092,665, at an average interest rate of 0.06 percent and 0.14 percent, respectively.

On January 12, 2012, Chugach opened a money market account with KeyBank with the balance of proceeds from the 2012 Series A bond purchase, after repaying the outstanding balance of commercial paper. Chugach's initial deposit was \$69.0 million. Chugach plans to use these proceeds primarily to fund the remaining capital expenditures associated with SPP.

Restricted cash equivalents include \$120 million of proceeds from the issuance of the 2011 Series A Bonds, which was used to retire the 2002 Series A Bonds on February 1, 2012, State of Alaska construction bonds and funds on deposit for future workers compensation claims.

h. 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 receivables are invoiced amounts to ML&P for fuel and their proportionate share of current SPP costs, which amounted to \$4.8 and \$4.5 million in 2011 and 2010, respectively.

i. Materials and Supplies

Materials and supplies are stated at average cost.

j. Deferred Charges and Credits

In accordance with FASB ASC 980, Chugach's financial statements reflect regulatory assets 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 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 SRFs, general rate case filings or specified independent requests. The rates approved related to the regulatory assets are matched to the amortization of actual expenditures recognized on the books. The regulatory assets are amortized and collected through rates over differing periods depending upon the period of benefit as established by the RCA. Deferred credits, primarily representing regulatory liabilities, are amortized to operating expense over the period required for ratemaking purposes. It also includes 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 or results of operations.

k. 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 revenues and expenses 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. Retained assignable margins are designated on Chugach's balance sheet as patronage capital. This patronage capital constitutes the principal equity of Chugach. The Board of Directors 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 2002.

In 2007, 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 is January 1, 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 is classified as patronage capital payable and was \$6.6 million at December 31, 2011.

l. 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 \$8,977,409 and \$8,612,454 of unbilled retail revenue at December 31, 2011 and 2010, respectively. 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.

m. Fuel and Purchased Power Costs Recovery

Expenses associated with electric services include fuel used to generate electricity and power purchased from others. Chugach is authorized by the RCA to recover fuel and purchased power costs through the fuel and purchased power recovery 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. Fuel costs were under-recovered by \$1,213,484 in 2011 and under-recovered by \$2,371,631 in 2010. Total fuel and purchased power costs in 2011, 2010, and 2009 were \$165,041,227, \$138,410,915, and \$172,107,237, respectively.

n. 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.

o. 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, 2011, 2010 and 2009 was in compliance with that provision. In addition, as described in "Note (15) - Commitments, Contingencies and Concentrations," Chugach collects sales tax and is assessed gross receipts 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, 2008 through December 31, 2011 for U.S. Federal Income Tax, the tax years which remain subject to examination by major tax jurisdictions as of December 31, 2011.

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, 2011 and 2010, totaled \$2.2 million and \$2.1 million, respectively. Consumer deposits also represent customer credit balances as a result of prepaid accounts. Credit balances for the years ended December 31, 2011 and 2010 totaled \$1.7 million and \$3.1 million, respectively.

q. Grants

Chugach has received grants from the Alaska Energy Authority to support the construction of facilities to transport fuel, divert water and transmit electricity to its consumers. Grant proceeds used to construct or acquire equipment are offset against the carrying amount of the related assets, which totaled \$4.3 and \$0.9 million in 2011 and 2010, respectively. The assets constructed from grant awards may not be sold, or used as collateral for any reason.

(3) Recent Accounting PronouncementsASC Update 2011-09 "Compensation - Retirement Benefits - Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer's Participation in a Multiemployer Plan"

In September 2011, the FASB issued ASC Update 2011-09, "Compensation - Retirement Benefits - Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer's Participation in a Multiemployer Plan." ASC Update 2011-09 expands the disclosure requirements for those employers participating in multiemployer plans to increase the awareness of the employer's commitments and potential future cash flow impacts. This update is effective for annual reporting periods ending after December 15, 2011. Chugach began application of ASC 2011-09 in the annual report for the period ended December 31, 2011. Adoption did not have any incremental effect on results of operations, financial position, and cash flows.

ASC Update 2010-06 "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements"

In January 2010, the FASB issued ASC Update 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements." ASC Update 2010-06 applies to all entities that are required to make disclosures about recurring or nonrecurring fair value measurements and expands the disclosures required based on the measurement level. This update is effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for certain Level 3 transactions. Those transaction disclosure requirements were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Chugach began application of ASC Update 2010-06 for the period ended March 31, 2010, which did not have any effect on our results of operations, financial position, and cash flows. Chugach began application of the Level 3 transaction disclosures on January 1, 2011. Adoption did not have any effect on results of operations, financial position and cash flows.

(4) Fair Value of Assets and LiabilitiesFair 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 U.S. Treasury and federal agency securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect Chugach's estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The table below presents the balance of Chugach's non-qualified deferred compensation plan, Overnight Repurchase Agreement, money market and restricted cash equivalents assets measured at fair value on a recurring basis at December 31, 2011, and December 31, 2010.

| | Total | Level 1 | Level 2 | Level 3 |
|-----------------------------|---------------|---------------|--------------|---------|
| <u>December 31, 2011</u> | | | | |
| Repurchase agreement | \$100 | \$0 | \$100 | \$0 |
| Money market | \$10,000,000 | \$10,000,000 | \$0 | \$0 |
| Restricted cash equivalents | \$122,006,738 | \$122,006,738 | \$0 | \$0 |
| <u>December 31, 2010</u> | | | | |
| Repurchase agreement | \$12,008,821 | \$0 | \$12,008,821 | \$0 |

Chugach had no Level 3 assets or liabilities measured at fair value on a recurring basis. 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 long-term debt has been determined using discounted future cash flows at borrowing rates currently available to Chugach. 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.

(5) Regulatory MattersJune 30, 2011 Test Year Simplified Rate Filing

On September 28, 2011, Chugach submitted a SRF to the RCA and requested a system demand and energy rate decrease of 1.3 percent, or approximately \$1.5 million on an annual basis. The filing was based on the June 30, 2011 test year for proposed rate adjustments effective mid November 2011. The RCA approved the filing on November 7, 2011. The updated rates became effective November 14, 2011.

December 31, 2010 Test Year Simplified Rate Filing

On March 31, 2011, Chugach submitted a Simplified Rate Filing (SRF) to the RCA and requested a system demand and energy rate increase of 0.9 percent, or approximately \$1.0 million on an annual basis. The filing was based on the December 31, 2010 test year for proposed rate adjustments effective in mid May 2011. On a customer class basis, Chugach requested demand and energy rate increases of 0.3 percent to Chugach retail customers and 2.2 percent to its wholesale classes. The RCA issued a letter order on May 13, 2011 approving the filing. The updated rates became effective May 16, 2011.

2008 Test Year Rate Case

On June 23, 2009, Chugach filed a general rate case with the RCA to increase base demand and energy rate revenue by \$4.2 million, with increases of \$2.7 million to Chugach retail customers and \$1.5 million to wholesale customers. On October 9, 2009, the RCA granted an increase to base demand and energy rates of 3.3 percent, 7.8 percent, 2.0 percent and 9.7 percent to Chugach's retail customers and wholesale customers HEA, MEA and Seward, respectively, on an interim and refundable basis. On October 15, 2009, the RCA consolidated Docket U-09-080 (General Rate Case) and Docket U-09-097 (Depreciation Study Update). Chugach reached a settlement with its wholesale customers, HEA, MEA and Seward, which resolved issues in both the general rate case and the depreciation study update. After a June 2010 hearing, the RCA issued a final order in the consolidated case (2008 Test Year General Rate Case and Revision to Current Depreciation Rates) on September 16, 2010. The RCA accepted Chugach's settlements with its wholesale customers, HEA, MEA and Seward and resolved depreciation issues disputed by the Attorney General, which resulted in no change to the depreciation rates contained in the settlement agreements. As a result of the RCA accepting the settlement agreements and resolving depreciation issues, Chugach refunded its wholesale and retail customers approximately \$0.7 million, including interest. Base rate changes were approved effective November 1, 2010.

Request for Participation in the Simplified Rate Filing Process

On December 15, 2009, Chugach submitted a request to the RCA for approval to implement the Simplified Rate Filing (SRF) process for the adjustment of base energy and demand rates in accordance with Alaska Statute 42.05.381(e). Chugach requested that base rate adjustments under SRF be completed on a semi-annual basis, utilizing the twelve months ended June and December as the test periods in each year. Chugach requested that its initial SRF be submitted on the June 2010 test year for rate adjustments, if necessary, during fourth quarter, 2010. A public hearing was held on July 19, 2010. The parties to the docket entered into a stipulation on the outstanding issues in the case and the RCA issued a bench order at the hearing approving the stipulation. A formal written order was issued on July 26, 2010.

June 30, 2010 Test Year Simplified Rate Filing

On September 28, 2010, Chugach filed its initial filing under the Simplified Rate Filing process to decrease base demand and energy rate revenue by \$0.2 million, with increases of 0.2 percent to Chugach retail customers and 0.3 percent to Seward and decreases of 0.6 percent and 1.2 percent to HEA and MEA, respectively. The RCA approved Chugach's Simplified Rate Filing on November 4, 2010, for base rate changes effective November 15, 2010.

Seward Power Sales Agreement

On May 6, 2011, Chugach submitted a request to the RCA to extend the term of the 2006 Agreement for the Sale and Purchase of Electric Power and Energy between Chugach and the City of Seward to December 31, 2016. The current contract expires on December 31, 2011. The RCA issued a letter order on May 26, 2011, approving the extension.

Effective March 1, 2012, the RCA approved Amendment No. 2 to the 2006 Agreement for the Sale and Purchase of Electric Power and Energy between Chugach and the City of Seward (2006 Agreement). Amendment No. 2 allows Seward to accept power from Small Power Projects on terms that are financially neutral to both Chugach and Seward for wholesale power service provided to Seward, without changing Seward's status under the 2006 Agreement as a partially interruptible requirements customer of Chugach. In addition, Amendment No. 2 facilitates Seward offering net metering service from eligible on-site generation sources to its retail customers without attendant compensation to Chugach. Chugach and Seward have structured the net metering conditions to be consistent with the net metering regulations adopted by the RCA.

Request for Regulatory Asset

On January 21, 2011, Chugach issued \$90 million of First Mortgage Bonds (2011 Series A, Tranche A) at an interest rate of 4.20 percent and \$185 million of First Mortgage Bonds (2011 Series A, Tranche B) at an interest rate of 4.75 percent. The proceeds of the 2011 Series A Bonds were used for the refinancing of Chugach's \$150 million of 2001 Series A Bonds that matured on March 15, 2011 and will be used for the refinancing of Chugach's \$120 million of 2002 Series A Bonds that mature on February 1, 2012.

On March 22, 2011, Chugach submitted a petition to the RCA requesting authorization to create regulatory assets for the deferral of interim interest expense associated with the refinancing of its 2001 and 2002 Series A Bonds. The 2011 financing reduced interest rate risk and allowed Chugach to capitalize on historic lows in long-term interest rates to minimize the long-term financial cost to members. Chugach deferred the interim interest expense and recognized regulatory assets as it believed that recovery through future rates was probable as we had received approval for similar costs historically. The requested amortization period was over the life of the bonds or between 20 and 30 years.

The deferral of interest for the portion of the 2011 bonds used to pay off the 2001 Series A Bonds that matured on March 15, 2011, totaled approximately \$1.0 million. The deferral of interest for the portion of the 2011 bonds used to pay off the 2002 Series A Bonds that matured on February 1, 2012, was estimated at \$5.7 million. Chugach also requested approval to recover the associated refinancing costs in electric rates through amortization over the life of the new 2011 Series A Bonds.

The RCA issued a final order in this docket on September 16, 2011, approving Chugach's request.

ENSTAR (Alaska Pipeline Company)

ENSTAR Natural Gas Company (ENSTAR) has a tariff to transport our gas purchased from gas suppliers on a firm basis to our International Station Power Plant (historically known as "IGT") at a transportation rate of \$0.63 per thousand cubic feet (Mcf). The agreement contains a fixed monthly charge of \$2,840 for firm service. In December of 2010, ENSTAR applied for an extension of this tariffed rate to provide gas transportation to Chugach to service the Bernice Lake Power Plant. Previously, transportation was provided as part of a natural gas supply contract. Under the new contract, Chugach is responsible for transportation of the natural gas. The RCA approved the request in February of 2011.

Chugach and ENSTAR have negotiated a Gas Transportation Agreement. On September 15, 2011, ENSTAR filed the Gas Transportation Agreement with the RCA, subject to Chugach Board approval by October 31, 2011. Chugach's Board of Directors approved the agreement on October 26, 2011. The agreement provides for transport of up to 20,000 Mcf of gas per day to Chugach's Beluga power plant. The total cost for the one year period is expected to be approximately \$1 million. Chugach will recover this cost through the fuel and purchased power recovery process.

Bernice Lake Asset Purchase and Capacity Agreement

On July 12, 2011, Chugach, AEEC and HEA entered into an Asset Purchase and Sale Agreement whereby Chugach has agreed to sell and AEEC has agreed to purchase the Bernice Lake Power Plant located in Nikiski, Alaska. The sale also includes associated transmission substation facilities located on the premises. The Bernice Lake facility is located on land that is leased to Chugach by HEA. The current lease expired on November 30, 2011, but was extended by HEA to be consistent with the closing date contained in the Asset Purchase and Sale Agreement. The sale and book value of assets was equal to approximately \$11.9 and \$4.4 million, respectively. The proceeds from the sale, net of amount paid on capacity agreement described below, is classified as deferred proceeds on sale of asset on our Balance Sheet and was \$9.5 million at December 31, 2011.

Associated with the Asset Purchase and Sale Agreement described above, Chugach also entered into an Agreement for Sale of Electric Capacity with AEEC and HEA (Capacity Agreement). The agreement is a purchased power agreement that allows Chugach to purchase the capacity and related energy from the Bernice Lake Power Plant from the closing date of the sale of the facility (Asset Purchase and Sale Agreement) to AEEC through December 31, 2013. This agreement allows Chugach to sell the Bernice Lake Power Plant and simultaneously ensure system retail and wholesale deliverability requirements are met through December 31, 2013. Chugach submitted the Asset Purchase and Capacity Agreement to the RCA on July 21, 2011. The agreements were approved by the RCA on December 23, 2011, with an effective date of December 31, 2011. In the order, the RCA approved Chugach's request to recover all purchased power costs associated with the Capacity Agreement through its fuel and purchased power recovery process.

Fire Island Wind Project

On June 23, 2011, Chugach submitted a request to the RCA for approval of a new power purchase agreement (PPA) between Chugach and Fire Island Wind, LLC (FIW), a special purpose entity wholly-owned by Cook Inlet Region, Inc. Chugach also requested authorization from the RCA to recover the costs of all energy purchases under the PPA through its retail quarterly fuel and purchased power recovery process at the time the project becomes commercially operational, which is currently expected to occur before October 1, 2012. Annual cost of these purchases is expected to be about \$4.7 million. An affiliate of FIW is responsible for the construction of the interconnection between the project and Chugach's transmission system. Chugach is the recipient of a grant in the amount of \$25.0 million appropriated from the State of Alaska. The grant will be used to offset construction of the transmission line. Chugach is not expected to incur any capital costs associated with this line. The PPA is a 25 year agreement whereby Chugach purchases the output of the facility over a 25 year term, commencing January 1, 2013. The Fire Island Wind project is comprised of eleven 1.6 megawatt wind turbine generators with a total nameplate capacity of 17.6 megawatts which are expected to generate approximately 50,000 MWh per year. The generators will be located on the southern part of Fire Island in Anchorage, Alaska.

The RCA held a public hearing from September 27 through September 30, 2011. On October 10, 2011, the RCA issued an order approving Chugach's request for assurance of cost recovery associated with the PPA. The RCA order also granted approval for Chugach to recover costs associated with the PPA through its fuel and purchased power recovery process. The RCA order also required Chugach to submit a project status report by November 10, 2011 and a specific rate recovery plan by March 31, 2012.

Chugach submitted its initial status report to the RCA on November 10, 2011. On November 22, 2011, the RCA issued Order No. 1 of Docket U-11-129 to monitor the project.

Petition to Establish Depreciation Rates for the SPP

On February 22, 2012, Chugach submitted a filing to the RCA requesting approval to establish depreciation rates for the Southcentral Power Project and related transmission plant. If approved, the depreciation rates will be effective on the commercial operation date of the SPP, which is currently expected by year-end 2012. Chugach expects a decision by third quarter, 2012.

(6) Utility Plant

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

| | 2011 | 2010 |
|---|-----------------|---------------|
| Electric plant in service: | | |
| Steam production plant | \$60,462,671 | \$60,462,671 |
| Hydraulic production plant | 20,456,395 | 20,402,466 |
| Other production plant | 134,434,574 | 134,400,210 |
| Transmission plant | 252,561,598 | 248,084,767 |
| Distribution plant | 257,341,532 | 249,408,094 |
| General plant | 45,144,425 | 49,275,336 |
| Unclassified electric plant in service ¹ | 80,559,413 | 80,498,560 |
| Intangible plant ¹ | 4,710,912 | 4,710,912 |
| Other ¹ | 6,690,723 | 6,690,723 |
| Total electric plant in service | 862,362,243 | 853,933,739 |
| Construction work in progress ² | 206,005,783 | 100,787,482 |
| Total electric plant in service and construction work in progress | \$1,068,368,026 | \$954,721,221 |

¹Unclassified 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.

²The amount associated with the construction of the SPP included in construction work in progress was \$177.4 and \$84.9 million at December 31, 2011 and 2010, respectively.

(7) Investments in Associated Organizations

Investments in associated organizations include the following at December 31:

| | 2011 | 2010 |
|--|--------------|--------------|
| National Rural Utilities Cooperative Finance Corporation | \$6,095,980 | \$6,095,980 |
| CoBank, ACB | 4,974,755 | 6,003,555 |
| NRUCFC capital term certificates / Other | 63,761 | 63,562 |
| Total Investments in Associated Organizations | \$11,134,496 | \$12,163,097 |

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 CreditsDeferred Charges

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

| | 2011 | 2010 |
|---|--------------|--------------|
| Debt issuance and reacquisition costs | \$3,432,665 | \$2,851,601 |
| Refurbishment of transmission equipment | 151,235 | 160,495 |
| Feasibility Studies | 351,727 | 334,853 |
| Beluga Gas Compression | 2,544,332 | 3,053,198 |
| Cooper Lake Relicensing / projects | 5,930,520 | 6,052,811 |
| Fuel supply negotiations | 1,118,439 | 1,467,986 |
| Major overhaul of steam generating unit | 2,265,069 | 3,020,092 |
| Other regulatory deferred charges | 2,126,335 | 2,757,644 |
| Bond interest - market risk management | 6,034,443 | 0 |
| Environmental matters and other | 1,250,925 | 1,296,275 |
| Total deferred charges | \$25,205,690 | \$20,994,955 |

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

| | 2011 | 2010 |
|-----------------------------------|-----------|-------------|
| Fuel supply negotiations | \$0 | \$203,231 |
| Studies/Other | 578,327 | 334,853 |
| Cooper Lake Unit 1 Major Overhaul | 0 | 1,356,489 |
| Cooper Lake Relicensing | 0 | 491,091 |
| Wind project | 144,866 | 0 |
| Financing costs | 51,129 | 350,380 |
| Total deferred charges | \$774,322 | \$2,736,044 |

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 requested in SRF rate adjustments filed with the RCA on a semi-annual basis. In most cases, deferred charges are recovered over the life of the underlying asset.

Deferred Credits

Deferred credits, or regulatory liabilities, at December 31 consisted of the following:

| | 2011 | 2010 |
|---|-------------|-------------|
| Refundable consumer advances for construction | \$727,917 | \$447,025 |
| Estimated initial installation costs for meters | 75,660 | 89,208 |
| Post retirement benefit obligation | 899,700 | 824,700 |
| Other | 0 | 14,980 |
| Total deferred credits | \$1,703,277 | \$1,375,913 |

(9) Patronage Capital

Chugach has a Board approved capital credit retirement policy, which is contained in Chugach's Financial Management Plan. 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, 2011, Chugach had \$148,355,246 of patronage capital (net of capital credits retired in 2011), which included \$142,781,984 of patronage capital that had been assigned and \$5,573,262 of patronage capital to be assigned to its members. Approval of actual capital credit retirements is at the discretion of Chugach's Board of Directors. Chugach records a liability when the retirements are approved by the Board of Directors. During 2008, the Board of Directors approved the deferral of capital credit retirements after 2009, excluding discounted capital credits, due to the construction of new generation and the anticipated loss of wholesale load in 2014. The Second Amended and Restated Indenture of Trust and the CoBank 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 Second Amended and Restated Indenture of Trust or CoBank Amended and Restated Master Loan Agreement exists. Otherwise, Chugach may make distributions to Chugach's members in each year equal to the lesser of 5 percent of Chugach's patronage capital or 50 percent 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 percent of Chugach's total liabilities and equities and margins.

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 is January 1, 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 \$6.6 million at December 31, 2011.

Capital credits retired were \$309,188, \$94,278, and \$3,442,125 for the years ended December 31, 2011, 2010, and 2009, respectively. The outstanding liability for capital credits authorized but not paid was \$0 and \$388,463 at December 31, 2011 and 2010, respectively.

(10) Other Equities

| | | |
|--|---------------------|---------------------|
| A summary of other equities at December 31 follows | <u>2011</u> | <u>2010</u> |
| Nonoperating margins, prior to 1967 | \$23,625 | \$23,625 |
| Donated capital | 1,621,257 | 1,453,305 |
| Unclaimed capital credit retirement ¹ | <u>9,713,810</u> | <u>9,346,533</u> |
| Total other equities | <u>\$11,358,692</u> | <u>\$10,823,463</u> |

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

(11) Debt

| | | |
|---|----------------------|----------------------|
| Long-term obligations at December 31 are as follows: | <u>2011</u> | <u>2010</u> |
| CoBank 3 and 4, 2.64% variable rate notes maturing in 2022, with interest payable monthly and principal due annually beginning in 2003 | \$33,659,141 | \$35,402,290 |
| CoBank 5, 2.64% variable rate note maturing in 2012, with interest and principal payable monthly | 791,177 | 1,899,528 |
| 2001 Series A Bond of 6.55%, maturing in 2011, with interest payable semi-annually March 15 and September 15 | 0 | 150,000,000 |
| 2002 Series A Bond of 6.20%, maturing in 2012, with interest payable semi-annually February 1 and August 1 | 120,000,000 | 120,000,000 |
| 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 | 90,000,000 | 0 |
| 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 | <u>185,000,000</u> | <u>0</u> |
| Total long-term obligations | \$429,450,318 | \$307,301,818 |
| Less current installments | <u>133,360,210</u> | <u>2,851,500</u> |
| Long-term obligations, excluding current installments | <u>\$296,090,108</u> | <u>\$304,450,318</u> |

Covenants

Chugach was required to comply with all covenants set forth in the Amended and Restated Indenture, dated April 1, 2001, and effective January 22, 2003. Effective January 20, 2011, Chugach is required to comply with all covenants set forth in the Second Amended and Restated Indenture of Trust that secured the 2002 Series A Bonds through February 1, 2012, and now secures the 2011 Series A Bonds, the 2012 Series A Bonds and the 2011 promissory note to CoBank, which has replaced the outstanding CoBank 3, 4 and 5 promissory notes.

Chugach was also required to comply with the Master Loan Agreement between Chugach and CoBank dated December 27, 2002, which governed the outstanding CoBank 3, 4 and 5 promissory notes. On January 19, 2011, CoBank and Chugach replaced the CoBank 3, 4 and 5 promissory notes with a promissory note that is governed by the Amended and Restated Master Loan Agreement, which is now secured by the Second Amended and Restated Indenture of Trust dated January 20, 2011.

Chugach is also required to comply with the 2010 Credit Agreement, between Chugach and 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 dated November 17, 2010, governing loans and extensions of credit associated with Chugach's commercial paper program, in an aggregate principal amount not exceeding \$300 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.

Chugach was also required to comply with covenants set forth in the Reimbursement and Indemnity Agreement with MBIA Insurance Corporation until February 1, 2012, when Chugach repaid the outstanding 2002 Series A bonds.

Security

Under the Amended and Restated Indenture of Trust, Chugach was prohibited from creating or permitting to exist any mortgage, lien, pledge, security interest or encumbrance on Chugach's properties and assets (other than those arising by operation of law) to secure the repayment of borrowed money or the obligation to pay the deferred purchase price of property unless Chugach equally and ratably secured the Bonds subject to the Amended and Restated Indenture, except that Chugach was permitted to incur secured indebtedness in an amount not to exceed \$5 million or enter into sale and leaseback or similar agreements.

On January 20, 2011, Chugach and the indenture trustee entered into a Second Amended and Restated Indenture of Trust (the Indenture) imposing 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 U.S. 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

Under the Amended and Restated Indenture of Trust, dated April 1, 2001, Chugach was required, 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 occurred any material change in the circumstances contemplated at the time rates were most recently reviewed, the Amended and Restated Indenture required 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.

The Second Amended and Restated Indenture of Trust, which became effective on January 20, 2011, 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 Second Amended and Restated Indenture of Trust 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 twelve-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 Amended and Restated Master Loan Agreement with CoBank, which became effective on January 19, 2011, did not change this requirement.

The NRUCFC Revolving Line of Credit Agreement requires Chugach to maintain an average Times Interest Earned Ratio (TIER) of not less than 1.10.

The 2010 Credit Agreement governing the unsecured facility providing liquidity for Chugach's Commercial paper program requires Chugach to maintain a 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

The Amended and Restated Indenture and the CoBank Master Loan Agreement prohibited Chugach from making any distribution of patronage capital to Chugach's customers if an event of default under the Amended and Restated Indenture or CoBank Master Loan Agreement exists. Otherwise, Chugach could make distributions to Chugach's members in each year equal to the lesser of 5 percent of Chugach's patronage capital or 50 percent of assignable margins for the prior fiscal year. This restriction did not apply if, after the distribution, Chugach's aggregate equities and margins as of the end of the immediately preceding fiscal quarter were equal to at least 30 percent of Chugach's total liabilities and equities and margins.

The Second Amended and Restated Indenture of Trust, which became effective on January 20, 2011, and the CoBank Amended and Restated Master Loan Agreement, which became effective on January 19, 2011, prohibits Chugach from making any distribution of patronage capital to Chugach's customers if an event of default under the Second Amended and Restated Indenture of Trust or CoBank Amended and Restated Master Loan Agreement exists. Otherwise, Chugach may make distributions to Chugach's members in each year equal to the lesser of 5 percent of Chugach's patronage capital or 50 percent 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 percent of Chugach's total liabilities and equities and margins.

Maturities of Long-term Obligations

Long-term obligations at December 31, 2011, including the subsequent \$250 million 2012 Series A Bonds issued on January 11, 2012, mature as follows:

| Year ending December 31 | 2002 Series A Bonds | 2011 Series A Bonds | CoBank Note | 2012 Series A Bonds | Total |
|----------------------------|------------------------|------------------------|---------------------|------------------------|----------------------|
| 2012 | 120,000,000 | 10,666,667 | 2,693,543 | 0 | 133,360,210 |
| 2013 | 0 | 10,666,667 | 2,076,355 | 11,750,000 | 24,493,022 |
| 2014 | 0 | 10,666,667 | 2,266,145 | 11,750,000 | 24,682,812 |
| 2015 | 0 | 10,666,667 | 2,473,110 | 10,750,000 | 23,889,777 |
| 2016 | 0 | 10,666,667 | 2,699,313 | 10,750,000 | 24,115,980 |
| Thereafter | <u>0</u> | <u>221,666,665</u> | <u>22,241,852</u> | <u>205,000,000</u> | <u>448,908,517</u> |
| | <u>\$120,000,000</u> | <u>\$275,000,000</u> | <u>\$34,450,318</u> | <u>\$250,000,000</u> | <u>\$679,450,318</u> |

Lines of credit

Chugach maintains a \$50 million line of credit with National Rural Utilities Cooperative Finance Corporation (NRUCFC). Chugach did not utilize this line of credit in 2011, and therefore had no outstanding balance at December 31, 2011. In addition, Chugach did not utilize this line of credit during 2010 and had no outstanding balance at December 31, 2010. The borrowing rate is calculated using the total rate per annum and may be fixed by NRUCFC and will not exceed the Prevailing Prime Rate, plus one percent per annum. At December 31, 2011, and December 31, 2010, the borrowing rate was 3.20% and 4.95%, respectively.

The NRUCFC Revolving Line Of Credit Agreement requires that Chugach, for each 12-month period, for a period of at least five consecutive days, pay down the entire outstanding principal balance. The NRUCFC line of credit expires October 14, 2012.

This line of credit is immediately available for unconditional borrowing.

Commercial Paper

On November 17, 2010, Chugach replaced the \$300 million unsecured Credit Agreement executed on October 10, 2008, which was due to expire on October 10, 2011. The 2010 Credit Agreement with National Rural Utilities Cooperative Finance Corporation (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, will expire on November 17, 2013. The Credit Agreement is used to back Chugach's Commercial Paper program. The 2010 Credit Agreement was priced with an all-in drawn spread of one month LIBOR plus 150 basis points, along with a 25 basis points facility fee (based on an A-/A3 unsecured debt rating). Chugach had \$175.0 and \$98.5 million of commercial paper outstanding at December 31, 2011 and 2010, respectively. Our commercial paper can be repriced between one day and two hundred seventy days. The following table provides information regarding 2011 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 | \$100.3 | 0.30 | July | \$125.9 | 0.27 |
| February | \$111.3 | 0.30 | August | \$141.7 | 0.28 |
| March | \$117.4 | 0.30 | September | \$152.6 | 0.28 |
| April | \$113.0 | 0.30 | October | \$159.6 | 0.27 |
| May | \$116.0 | 0.27 | November | \$170.7 | 0.25 |
| June | \$116.7 | 0.29 | December | \$175.0 | 0.27 |

Financing

On January 11, 2012, Chugach issued \$75,000,000 of First Mortgage Bonds, 2012 Series A, due March 15, 2032 (Tranche A), \$125,000,000 of First Mortgage Bonds, 2012 Series A, due March 15, 2042 (Tranche B) and \$50,000,000 of First Mortgage Bonds, 2012 Series A, due March 15, 2042 (Tranche C), for the purpose of repaying outstanding commercial paper used to finance the Southcentral Power Project (SPP) construction and for general corporate purposes. The 2012 Series A Bonds (Tranche A) will mature on March 15, 2032, and will bear interest at 4.01% per annum. The 2012 Series A Bonds (Tranche B) will mature on March 15, 2042, and will bear interest at 4.41% per annum. The 2012 Series A Bonds (Tranche C) will mature on March 15, 2042, and will bear interest at 4.78% per annum. Interest will be paid each March 15 and September 15, commencing on September 15, 2012. The 2012 Series A Bonds (Tranche A) will pay principal in equal installments on an annual basis beginning March 15, 2013, resulting in an average life of approximately 10.7 years. The 2012 Series A Bonds (Tranche B) will pay principal between March 15, 2013 and March 15, 2020 and between March 15, 2032 and March 15, 2042, resulting in an average life of approximately 15.7 years. The 2012 Series A Bonds (Tranche C) will pay principal in equal installments on an annual basis beginning March 15, 2023, resulting in an average life of approximately 20.7 years. The bonds and all other long-term debt obligations are secured by a lien on substantially all of Chugach's assets, pursuant to the Second Amended and Restated Indenture of Trust, which became effective on January 20, 2011.

On January 21, 2011, Chugach issued \$90,000,000 of First Mortgage Bonds, 2011 Series A, due March 15, 2031 and \$185,000,000 of First Mortgage Bonds, 2011 Series A, due March 15, 2041 for the purpose of refinancing the 2001 and 2002 Series A Bonds due March 15, 2011, and February 1, 2012, respectively, and for general corporate purposes. As anticipated, on February 1, 2012, Chugach retired its 2002 Series A Bonds with proceeds from the 2011 Series A bond issuance. The 2011 Series A Bonds due March 15, 2031, will bear interest at 4.20% per annum, payable semi-annually on March 15 and September 15 of each year commencing on September 15, 2011. Principal on the 2011 Series A Bonds due March 15, 2031 will be paid in equal annual installments beginning March 15, 2012, resulting in an average life of approximately 10 years. The 2011 Series A Bonds due March 15, 2041, will bear interest at 4.75% per annum, payable semi-annually on March 15 and September 15 of each year commencing on September 15, 2011. Principal on the 2011 Series A Bonds due March 15, 2041 will be paid in equal annual installments beginning March 15, 2012, resulting in an average life of approximately 15.5 years.

Chugach had a term loan facility with CoBank. Loans made under that facility were evidenced by promissory notes governed by the Master Loan Agreement, which was effective January 22, 2003. On January 19, 2011, Chugach and CoBank amended and restated the existing Master Loan Agreement. The existing obligations under the existing loan are evidenced by the 2011 CoBank Note, which is governed by the Amended and Restated Master Loan Agreement dated January 19, 2011 and secured by the Second Amended and Restated Indenture.

Fair Value of Debt Instruments

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

| | 2011 | | 2010 | |
|--|----------------|------------|----------------|------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Long-term obligations (including current installments) | \$429,450 | \$442,711 | \$307,302 | \$315,401 |

(12) Employee Benefit PlansPension 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 Program. Under ASC 960, "Topic 960 – Plan Accounting – Defined Benefit Pension Plans," the 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 pension plan equal to the amounts accrued for pension expense. Chugach made contributions to all significant pension plans for the years ended December 31, 2011, 2010 and 2009 of \$6.0 million, \$6.0 million and \$5.0 million, respectively. The rate and number of employees in all significant pension plans did not materially change for the years ended December 31, 2011, 2010 and 2009. The following table provides information regarding pension plans which Chugach considers individually significant:

| | Alaska Electrical Pension Plan ³ | | | NRECA Retirement Security Plan ³ | | |
|--|---|-------|-------|---|------------------|------------------|
| | 2011 | 2010 | 2009 | 2011 | 2010 | 2009 |
| 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, 2013 | | | N/A ² | | |
| Subject to Funding Improvement Plan | No | | | No | | |
| Surcharge Paid | N/A | | | N/A | | |
| 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) | \$3.0 | \$2.9 | \$2.9 | \$3.0 | \$3.1 | \$2.1 |
| Contributions > 5% of total plan contributions | Yes | Yes | Yes | No | No | No |

¹In total, the NRECA Retirement Security Plan was between 65 percent and 80 percent funded at January 1, 2011. 2010 and 2009 are based on the Pension Protection Act (PPA) funding target and PPA actuarial value of assets on those dates.

²The CEO is the only non-union employee subject to an employment agreement, which is effective through July 1, 2013.

³The Alaska Electrical Pension Plan is publically available. The NRECA Retirement Security Plan is available on Chugach's website at www.chugachelectric.com.

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, 2011, 2010, and 2009 were \$3.7 million, \$3.7 million, and \$3.4 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, 2011, 2010, and 2009 totaled \$2.4 million, \$2.2 million, and \$2.1 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, 2011, 2010, and 2009 were \$128.7 thousand, \$124.1 thousand, and \$99.7 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 \$16,500, \$16,500, and \$16,500 in 2011, 2010, and 2009 respectively, and allowed catch-up contributions for those over 50 years of age of \$5,500, \$5,500, and \$5,500 in 2011, 2010, and 2009, respectively. Chugach does not make contributions to the plan.

Deferred Compensation

Chugach adopted NRECA'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, 2011, 2010 and 2009 was \$420,783, \$395,833 and \$345,792, 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 twenty-six (26) weeks for thirteen (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 \$166,000,000 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 percent share, or 27.4 megawatts as currently operated, of the project's capacity. The share of Bradley Lake indebtedness for which we are responsible is approximately \$31 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 percent. Upon default, Chugach could be faced with annual expenditures of approximately \$4.9 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.

On July 1, 2010, AEA issued \$28,800,000 of Power Revenue Refunding Bonds, Sixth Series, for purposes of refunding \$30,640,000 of the Fifth Series Bonds. The refunded Fifth Series Bonds were called on August 2, 2010. The refunding resulted in aggregate debt service payments over the next eleven years in a total amount approximately \$3.3 million less than the debt service payments which would have been due on the refunded bonds. Refunding the Fifth Series Bonds resulted in an economic gain of approximately \$2.4 million. Chugach's share of these savings will be approximately \$714,300, which represents the reduction in debt-service costs recorded as purchased power expense.

The State of Alaska has provided grants for a project to divert water from Battle Creek into Bradley Lake. The project is being managed by the Alaska Energy Authority and is expected to be completed in 2014. 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 by 27,000 to 45,000 MWh. Chugach would be entitled to 30.4 percent of the additional energy produced.

The following represents information with respect to Bradley Lake at June 30, 2011 (the most recent date for which information is available). Chugach's share of expenses was \$4,643,641 in 2011, \$5,120,958 in 2010, and \$5,152,716 in 2009 and is included in purchased power in the accompanying financial statements.

| | (In thousands) | Total | Proportionate Share |
|------------------|----------------|------------|---------------------|
| Plant in service | | \$ 185,627 | \$ 56,431 |
| Long-term debt | | 94,676 | 28,782 |
| Interest expense | | 5,540 | 1,684 |

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

(14) Eklutna Hydroelectric Project

During October 1997, the ownership of the Eklutna Hydroelectric Project formally transferred from the Alaska Power Administration to the participating utilities. This group, including their corresponding interest in the project, consists of Chugach (30 percent), MEA (16.7 percent) and Anchorage Municipal Light & Power (ML&P) (53.3 percent).

Plant in service in 2011 includes \$4,880,583, net of accumulated depreciation of \$1,491,704, which represents Chugach's share of the Eklutna Hydroelectric Project. In 2010 plant in service included \$2,386,571, net of accumulated depreciation of \$996,593. Chugach and ML&P jointly operate the facility. 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 \$662,035, \$664,747, and \$615,060 in 2011, 2010, and 2009, respectively and is included in power production and depreciation expense in the accompanying financial statements. ML&P performs major maintenance at the plant. Chugach provides personnel for the daily operation and maintenance of the power plant, who perform daily plant inspections, meter reading, monthly report preparation, and other activities as required.

(15) Commitments and ContingenciesContingencies

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.

Fuel Supply Contracts

Chugach has fuel supply contracts from various producers at market terms. Previous contracts expired at the end of the currently committed volumes in 2010 and 2011. A gas supply contract between Chugach and ConocoPhillips Alaska, Inc. and ConocoPhillips, Inc. (collectively "COP"), was approved by the RCA effective August 21, 2009. The new contract provided gas beginning in 2010 and will terminate December 31, 2016. The total amount of gas under the contract is now estimated to be 60 BCF. The RCA approved a new natural gas supply contract with MAP effective May 17, 2010. The new MAP contract provided gas beginning April 1, 2011 and will terminate December 31, 2014. MAP had two contract extension options that could be exercised during the first year of the initial contract. MAP extended the contract to December 31, 2013, by exercising the first contract extension on January 12, 2011, and extended the contract to December 31, 2014, by exercising the second contract extension on October 25, 2011. The total amount of gas under contract is now estimated up to 40 billion cubic feet (BCF). These contracts fill 100 percent of Chugach's needs through December 2014, approximately 70 percent of Chugach's needs through December 2015 and approximately 40 percent in 2016. In 2011, 92 percent of our power was generated from gas, compared to 89 percent and 90 percent in 2010 and 2009 respectively. Of that gas-fired power, 79 percent was generated at Chugach's Beluga Power Plant in 2011 compared with 78 percent in 2010 and 83 percent in 2009.

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

| | 2011 | 2010 | 2009 |
|---------------------------------------|-------|-------|-------|
| Marathon Oil Company | 44.9% | 24.1% | 44.6% |
| Chevron/UNOCAL/Hilcorp Alaska | 16.1% | 26.4% | 20.9% |
| ML&P | 3.6% | 14.2% | 16.7% |
| ConocoPhillips (COP) | 31.9% | 35.1% | 17.8% |
| ENSTAR Natural Gas Company | 1.3% | 0.2% | 0.0% |
| Kenai Nikiski Pipeline (KNPL) / Misc. | 2.2% | 0.0% | 0.0% |

Concentrations

Approximately 70 percent 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 agreements were due to expire on June 30, 2010. On February 24, 2010, the Board of Directors approved three year extensions of all three IBEW CBA's. The three extensions provide no wage increase in the first year and wage increases tied to changes in the Consumer Price Index (CPI) in the second and third years, with a floor on the minimum increase and a cap on the maximum increase. The wage increases also have an indirect connection to Chugach's financial performance. The contract extensions expire on June 30, 2013. On April 28, 2010, the Board of Directors approved a three year extension of the HERE agreement. The extension contains an increase in the employer health and welfare contribution in each year of the extension but does not provide for a wage or pension increase. This contract extension also expires on June 30, 2013.

Chugach is the principal supplier of power under long-term wholesale power contracts with MEA and HEA. These contracts represented \$104.0 million or 37 percent of sales revenue in 2011, \$89.1 million or 35 percent in 2010, and \$112.6 million or 39 percent in 2009. The HEA contract expires January 1, 2014, and the MEA contract expires December 31, 2014. Non-renewal of these contracts could have a negative impact on the rates charged to other Chugach customers. Notification was made by MEA and HEA that neither organization intends to renew these contracts. MEA advised Chugach that it desired to open discussions regarding power sales possibilities beyond 2014. Chugach proposed a power supply offer to MEA on January 11, 2011, and again on January 31, 2012. Chugach received a response on February 29, 2012, indicating that MEA was following the path its membership most favored and is moving forward with plans to build its own generation plant. All rates are established by the RCA.

Patronage Capital Payable

In 2007, 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 related to a settlement agreement associated with the 2005 Test Year General Rate Case (Docket U-06-134). The agreement was contingent on the RCA accepting the parties' settlement agreement in Docket U-06-134, which occurred on August 9, 2007. HEA's patronage capital should have been classified as a liability at that time. HEA's patronage capital was \$6.5 million at December 31, 2010. As the amount of the patronage capital was not material for any period, Chugach recorded an adjustment in the first quarter of 2011 to reclassify the amount of \$6.5 million from patronage capital to patronage capital payable. HEA's patronage capital was \$6.6 million at December 31, 2011, and is classified as patronage capital payable on our Balance Sheet and is included in the retirement of capital credits on our Statements of Changes in Equities and Margins.

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 1992) from an initial rate of \$0.000626 per kWh to the current rate of \$0.000492, effective July 1, 2011. 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 Receipts Tax

Chugach pays to the State of Alaska a gross receipts tax in lieu of state and local ad valorem, income and excise taxes on electricity sold in the retail market. The tax is accrued monthly and remitted annually. The tax is reported on a net basis and the tax is not included in revenue.

Excise taxes

Excise 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 invest 2 percent of gross retail revenue in the Municipality of Anchorage annually in moving existing distribution overhead lines underground. Consistent with State of Alaska undergrounding requirement, Chugach is permitted to amend its rates by adding a 2 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 \$2,611,110 and \$726,209 for this charge at December 31, 2011 and 2010, respectively and will use the funds to offset the costs of the projects.

Environmental Matters

The Clean Air Act and Environmental Protection Agency (EPA) regulations under the act (the "Clean Air Act") establish ambient air quality standards and limit the emission of many air pollutants. Some Clean Air Act programs that regulate electric utilities, notably the Title IV "acid rain" requirements, do not apply to facilities located in Alaska.

New Clean Air Act regulations impacting electric utilities may result from future events or may result from new regulatory programs. On October 30, 2009, the EPA published new federal regulations requiring the mandatory reporting of greenhouse gases from all sectors of the economy. Chugach is subject to this new regulation, which is not expected to have a material effect on our results of operations, financial position, and cash flows. While we cannot predict whether any additional new regulation would occur or its limitation, it is possible that new laws or regulations could increase our capital and operating costs. We have obtained or applied for all Clean Air Act permits currently required for the operation of our 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. We do not believe that compliance with these statutes and regulations to date has had a material impact on our financial condition or results of operation. However, new laws or regulations, implementation of final regulations or changes in or new interpretations of these laws or regulations could result in significant additional capital or operating expenses.

Generation Commitments

Chugach is in the process of developing a natural gas-fired generation plant on land owned by Chugach near its Anchorage headquarters. The SPP will be developed and owned by Chugach and ML&P as tenants in common. Chugach will own and take approximately 70 percent of the new plant's output and ML&P will own and take the remaining output. Chugach will proportionately account for its ownership in the SPP. On November 17, 2008, Chugach executed a gas turbine purchase agreement for the purchase of three gas turbines with General Electric Packaged Power (GEPP). During 2009 Chugach executed several amendments associated with its purchase agreement with GEPP, which included the purchase of a spare engine for maintenance purposes. Chugach executed an Owner's Engineer Services Contract on May 12, 2009. On January 5, 2010, Chugach executed a Services Contract for the shipment of the combustion turbine generators and related accessories. On February 25, 2010, Chugach purchased land adjacent to its Anchorage headquarters for the laydown of equipment displaced by the new power plant. On April 13, 2010, Chugach executed a steam turbine generator (STG) purchase agreement. On June 18, 2010, Chugach executed an Engineering, Procurement, and Construction (EPC) contract with SNC-Lavalin Constructors, Inc. (SLCI). On August 27, 2010, Chugach executed a Once Through Steam Generator (OTSG) equipment contract with Innovative Steam Technologies (IST). Chugach amended the contract for transportation of combustion turbine generators on September 28, 2010, to include transportation of the steam turbine generator. On December 20, 2010, Chugach received a construction permit from the Alaska Department of Environmental Conservation allowing the project to begin construction in spring of 2011 as planned. On March 15, 2011, Chugach received its initial building permit from the Municipality of Anchorage. Chugach made payments of \$130.5 million in 2011 and \$74.3 million in 2010, with additional payments of \$96.1 million expected in 2012, pursuant to all these contracts.

(16) Reclassifications

For the year ended December 31, 2011, Chugach recorded a reclassification representing the amount of patronage returned from CoBank previously included as an increase of cash provided by operating activities and now included as a decrease of cash used in investing activities. Chugach also recorded a reclassification representing the non-cash change in accounts payable associated with capital expenditures. The impact of the reclassifications was to decrease cash provided by operating activities and decrease cash used in investing activities by \$2.0 million in 2010.

(17) Quarterly Results of Operations (unaudited)

| | 2011 Quarter Ended | | | |
|-----------------------|--------------------|----------------|----------------|--------------|
| | Dec. 31 | Sept. 30 | June 30 | March 31 |
| Operating Revenue | \$76,828,268 | \$68,778,352 | \$68,517,526 | \$69,494,223 |
| Operating Expense | 70,143,069 | 65,509,750 | 65,592,311 | 61,096,736 |
| Net Interest | 4,102,750 | 3,544,204 | 4,209,482 | 4,890,541 |
| Net Operating Margins | 2,582,449 | (275,602) | (1,284,267) | 3,506,946 |
| Nonoperating Margins | 628,697 | 161,595 | 120,363 | 133,081 |
| Assignable Margins | \$ 3,211,146 | \$ (114,007) | \$ (1,163,904) | \$3,640,027 |
| | 2010 Quarter Ended | | | |
| | Dec. 31 | Sept. 30 | June 30 | March 31 |
| Operating Revenue | \$73,895,221 | \$58,274,912 | \$59,444,167 | \$66,711,045 |
| Operating Expense | 65,584,673 | 55,445,222 | 55,716,842 | 57,220,464 |
| Net Interest | 5,015,213 | 4,949,813 | 5,023,767 | 5,016,905 |
| Net Operating Margins | 3,295,335 | (2,120,123) | (1,296,442) | 4,473,676 |
| Nonoperating Margins | 753,600 | 110,850 | 98,250 | 94,863 |
| Assignable Margins | \$ 4,048,935 | \$ (2,009,273) | \$ (1,198,192) | \$4,568,539 |

Power Supply is responsible for operating and maintaining Chugach's power plants, its power control center, Supervisory Control and Data Acquisition (SCADA) system and communications infrastructure.

In the summer of 2011, after more than 200,000 fired-hours, Chugach replaced the turbine wheels on the rotor of Beluga Unit No. 5. The gas-fired turbine began generating power for Chugach in October 1975. A Smart Process analysis of the options determined the best approach was to perform the replacement at Beluga utilizing Chugach personnel. Doing the project on-site cut 30 days from the schedule and saved almost half a million dollars.

The joint Southcentral Power Project received both its Title I and Title V air

emissions permits early in 2011. The Title I permit allowed the project to proceed with construction, which began with a groundbreaking ceremony on March 28. The three General Electric LM6000 gas turbines and their related generators arrived in May and were installed in June. At the end of November all the remaining major components were received and installed. These included three boilers, a steam turbine and generator, two gas compressors, and four step-up transformers. By the end of the year virtually all the engineering had been completed and almost half of the construction. The project is forecast to be in service seven months ahead of the original schedule and to be completed within its original budget.

The Cooper Lake hydroelectric project has been in operation since 1960. A

new 50-year license issued in August 2007 contained a requirement to divert the cold water of Stetson Creek into the project reservoir and construct an outlet structure to release warmer project water into the Cooper Creek drainage in an effort to improve habitat for certain species of fish. In 2011 Chugach achieved a 60 percent project engineering milestone, allowing it to submit applications for the various permits required to construct the diversion project.

After reaching agreement in the summer of 2011 on the sale of the Bernice Lake Power Plant, Power Supply personnel continued to work closely with their counterparts at Homer Electric Association. The balance of the year involved numerous operational tests, training for HEA personnel, and an extensive effort to coordinate the many issues that needed to be addressed in the transaction, such as the transfer of the air emissions permits. The sale closed at the end of the year.

Chugach avoided significant transmission and distribution outages for most of 2011, but that changed dramatically late in the year. Beginning in November and continuing through December an unusual number of Pacific storms swept north and battered the Chugach system. Each storm had a similar pattern, with winds that gusted around 100 mph followed by warming temperatures, icing conditions and heavy, wet snow. Storms caused damage and outages from Moose Pass and Cooper Landing to the Anchorage Hillside. Some customers were without power for days. The Power Control Center worked closely with Chugach field crews, contractors and neighboring utilities to restore service.

Power Delivery is responsible for delivering safe and reliable power from the generators to Chugach's members through its Engineering, Substation & Line Operations functions.

Construction of the International Transmission Substation began in 2011. The facility is necessary to allow the output of the Southcentral Power Project to flow to the 138- and 115-kilovolt systems of Chugach and Municipal Light & Power, respectively. Work was also done on sections of associated nearby transmission lines.

Engineering was involved in planning for the transmission link to carry power generated by the Fire Island Wind Project into the grid. A pair of 34.5-kv circuits will connect a new substation on the island to Chugach's International Substation. Construction is scheduled for 2012.

Grants of FEMA funds through state managers allowed Chugach to work on some key projects in advance of serious problems. One anchored transformers at the Beluga Power Plant to their foundations to minimize damage in an earthquake. Another allowed Chugach to underground a section of the 25-kv distribution line that feeds the city of Whittier across an avalanche path. A third allowed Chugach to cut danger trees and widen a portion of the cleared right of way for the 17.7-mile 25-kv distribution line that serves the Hope area.

Chugach continued its on-going program to rehabilitate or replace aged underground cable. In 2011, 14 cable-injection projects were completed and 12 cable-replacement jobs were done.

Late in the year, an unusual series of severe winter storms had crews working long hours in difficult conditions

to restore service. A combination of high winds, heavy wet snow, and icing downed and damaged wires, cross arms and poles across the service territory. Facilities in the mountains of the north-

ern Kenai Peninsula were especially hard hit, leading to extended outages for customers in the communities of Moose Pass, Sunrise and Hope.



Top left: Beluga Unit 5 turbine rotor disassembly
 Top right: Beluga Unit 5 inspection
 Bottom left: Pt. McKenzie maintenance
 Bottom right: Setting the steam turbine generator at SPP



Top left: In August Chugach completed a project that replaced about 60 old high-pressure sodium streetlights in the Bayshore subdivision with new LED fixtures. The project was jointly funded by the state, municipality and Chugach.
 Top right: Strong winds toppled trees across the service area in winter storms.
 Center left: Sections of the 115-kv transmission line were downed in the northern Kenai mountains by heavy ice and snow during year-end storms.
 Center right: Additional bracing was added to the Beluga power transformers to help support them in the event of an earthquake.
 Bottom: The new International Transmission Substation will feed power from the Southcentral Power Project to the Chugach and ML&P systems.

The Finance division is responsible for Chugach's Accounting, Finance, Regulatory Affairs & Pricing, and risk management departments and functions.

Finance worked throughout 2011 on activities to secure new long-term financing at very attractive interest rates. A \$275 million bond transaction closed Jan. 21, 2011. The bonds are amortizing, secured by an indenture, and carry a weighted average interest rate of 4.57 percent. Chugach used a portion of the proceeds to retire \$150 million in higher-interest bullet debt when it came due in March. Another \$120 million was reserved to retire bullet debt due in February 2012.

Chugach uses a commercial paper program to provide short-term financing for construction of the Southcentral Power Project and for general corporate purposes, before converting the borrowing to long-term debt. A total of 9 different financial organizations participate in the credit agreement backing the program.

Later in 2011, Chugach began preparing for an additional bond issue. A team took the Chugach story to investors in eight cities in advance of a \$250 million bond issue. The transaction closed on Jan. 11, 2012. The bonds carry a weighted average interest rate of 4.36 percent. All of Chugach's debt is now

amortizing.

In May, Chugach submitted a request to the Regulatory Commission of Alaska to raise base rates modestly which the Commission subsequently approved. Chugach used the Simplified Rate Filing process available to electric co-ops. SRF is a rate adjustment process that allows for limited base rate changes on a streamlined basis.

In May, the RCA approved the extension of the wholesale power sales agreement between Chugach and the City of Seward. The agreement was extended through December 31, 2016.

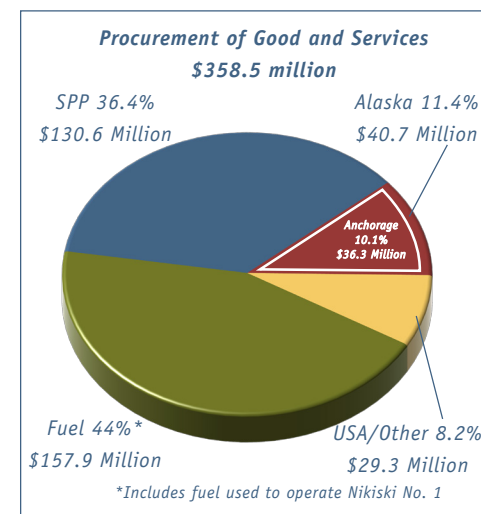
In late September, Chugach made another SRF request for the RCA to lower rates for most customers, reflecting the lower financing costs achieved by the previous bond sales.

Chugach entered into a power purchase agreement with Fire Island Wind, LLC. The PPA raised a number of questions which the RCA dealt with in an October ruling. The order authorized Chugach to recover in rates the cost of purchases from the wind project and approved the use of the purchased power charge on customers' bill to recover the expenditures – thereby achieving Chugach's primary goals in the filing.

On Dec. 23, the RCA issued an order permitting Chugach to sell the Bernice Lake Power Plant to Homer Electric Association. HEA paid Chugach \$11.9 million for the plant in a transaction completed Dec. 27. Chugach also entered into an agreement that allows it to purchase the capacity and related energy from Bernice Lake through the end of HEA's contract on Dec. 31, 2013.

Administration is responsible for Chugach's Administrative Services, Information Services, Member Services and energy efficiency and conservation departments and functions.

Administrative Services procurement of goods and services for 2011 totaled \$358.5 million. Of that, \$157.9 million or 44 percent of the total expenditures was for fuel to produce power. Additionally, \$130.6 million or 36.4 percent was for major equipment or contracts associated with construction of the new Southcentral Power Project. Of the remaining \$70 million, Chugach spent \$40.7 million in Alaska, with \$36.3 million of that being spent within the local Anchorage economy. Goods and services included materials and supplies for routine and major operations and maintenance, capital projects, cost of utilities and professional services.



In 2011, Administrative Services recovered more than \$400,000 in salvage materials and disposed of property that had been previously written off. Another large accomplishment included the successful shipment and receipt of all equipment associated with SPP.



Left: Chugach staff explain how light is produced, the differences between LED and incandescent light bulbs, measuring electricity and conserving electricity to fourth-grade students in the Anchorage School District.



Right: Continuing a holiday tradition, Chugach donated over 6,000 pounds of turkey to various charitable organizations in Anchorage.

Member Services, Information Services and Finance were actively involved with the implementation of a new customer information system. As approved in the 2011 Capital Improvement Program, Chugach prepared to replace its 16-year-old system. The current system was built with "pre-windows" technology and hasn't been supportable by the vendor since 1996 – leading to a great deal of customized programming. After a rigorous evaluation process, a system was chosen that will best meet Chugach's customer service goals now and into the future. The system is planned to be in use by June 2012.

After analysis, the damage claim process was streamlined to improve the timeliness of cost recovery.

Chugach continued its outreach program, presenting energy education, and conservation messages to fourth graders in nine Anchorage School District elementary schools. Additionally, Member Services coordinated the Alaska Resource Education day at the utility, where eighth graders learned about careers at Chugach.

Information Services completed enhancements to the outage application used by the Power Control Center. Improvements were made to the planning calendar, Gantt charts and enhanced switching sequence editor.

Information Services also coordinated with executive staff to implement an electronic packet management system for board meeting materials. It is expected to dramatically cut the time and expense of producing paper board packets and allow for timely updates. Apple's iPad was chosen to support the change.

Many other projects were accomplished to improve operating systems throughout the organization. Software for the Itron MV-90 and MV-WEB was upgraded to enhance data analysis and security, Geographic Information System applications were automated, website maintenance was simplified and accounting software was modified to better track and depreciate general plant assets.



Top left: Fire Island
 Top right: Chugach CEO Brad Evans and Sr. VP Finance & CFO Mike Cunningham sign bond financing documents
 Bottom left: Bernice Lake Power Plant Bottom right: New York City financial district

Strategic Planning & Corporate Affairs is responsible for long-term planning, fuel supply, new business development, Government Relations & Corporate Communications and corporate business analysis.

The addition of renewable energy to the Chugach system moved forward with the RCA approval of recovery in rates of the costs of Chugach's power purchase agreement for wind energy from the Fire Island Wind Project. The project is expected to be in operation by December 2012.

Chugach also advanced the development of other proposed renewable energy projects. These included the Susitna-Watana hydroelectric project, a diversion of Battle Creek into the Bradley Lake reservoir, and a project to divert Stetson Creek into the reservoir of Chugach's Cooper Lake hydroelectric project. Each of the diversion projects is forecast to boost the energy output of their respective projects by about 10 percent.

Chugach has been very successful in acquiring funding to support renewable energy projects. Chugach was selected

to receive three state renewable energy grants totaling \$1.7 million in 2011. Negotiations continued on possible new business arrangements with wholesale customers Homer Electric Association and Matanuska Electric Association. Long-term power sales contracts with the two utilities are scheduled to end in 2013 and 2014, respectively. RCA approval was received for the sale of Chugach's Bernice Lake Power Plant to HEA for \$11.9 million. After the end of the power sales agreement with HEA, Chugach will no longer need this plant to meet its power supply responsibilities. MEA plans to build its own power plant, but Chugach continued to work with MEA to address its full range of needs.

There were significant changes in the natural gas situation in 2011. A pair of new contracts went into effect on April 1, marking an end to legacy contracts that had provided fuel for Chugach power plants for more than 20 years. Under the new contracts, ConocoPhillips and Marathon Alaska Production now each provide about half of Chugach's annual fuel needs. The ConocoPhillips contract provides gas into 2016 and

after coming to agreement in October on an extension, the Marathon contract will provide fuel through 2014. In the summer the US Geological Survey released the results of an assessment that concluded up to 19 trillion cubic feet of natural gas remains to be found in the Cook Inlet area. Taking advantage of state incentives, exploratory drilling did take place in the basin in 2011. Construction continued throughout the year on a facility to provide natural gas storage for utilities, with the goal of being able to make injections by late spring 2012 and withdrawals the following winter. A state grant provided funds that modified the pipeline under Cook Inlet to enable bi-directional flow.

Chugach continued to work with elected officials at all levels to build understanding of, and support for, its ongoing operations and initiatives. As a member of ARCTEC, Chugach successfully made the case in Juneau for state help in funding capital projects to strengthen the regional grid.



State grants will help advance projects to add additional water to the reservoirs of the Bradley Lake (left) and Cooper Lake (center) hydroelectric projects. Chugach has contracts in place to meet 100 percent of its natural gas needs through 2014.

Chugach uses various generation resources to ensure reliable, affordable power. Chugach had 530.1 megawatts of installed capacity at Chugach-owned facilities in 2011. The unit ratings shown are taken at 30 degrees Fahrenheit. Chugach also takes power from the state-owned Bradley Lake hydroelectric project near Homer and from Homer Electric Association's gas-fired unit at Nikiski. In 2011, 92 percent of the kilowatt-hours Chugach sold came from natural gas units and the other 8 percent from hydroelectric resources.

Located on the west side of Cook Inlet near Tyonek; Unit Nos. 1-3 and 5-7 are fueled by natural gas; Unit 8 is a steam turbine.

| Units | Commissioned | Power Rating (megawatts) |
|-------|--------------|--------------------------|
| No. 1 | 1968 | 19.6 |
| No. 2 | 1968 | 19.6 |
| No. 3 | 1973 | 64.8 |
| No. 5 | 1975 | 68.7 |
| No. 6 | 1976 | 79.2 |
| No. 7 | 1978 | 80.1 |
| No. 8 | 1981 | 53.0 |
| TOTAL | | 385.0 |



Beluga

Located near Nikiski on the Kenai Peninsula; units are natural gas combustion turbines. Sold to AEEC and HEA effective 12/31/11.

| Units | Commissioned | Power Rating (megawatts) |
|-------|--------------|--------------------------|
| No. 2 | 1971 | 19.0 |
| No. 3 | 1978 | 26.0 |
| No. 4 | 1981 | 22.5 |
| TOTAL | | 67.5 |



Bernice Lake

Located near Cooper Landing on the Kenai Peninsula; units are hydro turbines.

| Units | Commissioned | Power Rating (megawatts) |
|-------|--------------|--------------------------|
| No. 1 | 1960 | 9.6 |
| No. 2 | 1960 | 9.6 |
| TOTAL | | 19.2 |



Cooper Lake

Located along the Knik River and jointly owned with Municipal Light & Power and Matanuska Electric Association. Chugach's share is 30 percent, up to an 11.7-megawatt maximum. Units are hydro turbines.

| Units | Commissioned | Power Rating (megawatts) |
|-------|--------------|--------------------------|
| No. 1 | 1955 | 23.5 |
| No. 2 | 1955 | 23.5 |
| TOTAL | | 47.0 |



Eklutna

Located off International Airport Road in Anchorage; units are natural gas combustion turbines.

| Units | Commissioned | Power Rating (megawatts) |
|-------|--------------|--------------------------|
| No. 1 | 1964 | 14.1 |
| No. 2 | 1965 | 14.1 |
| No. 3 | 1969 | 18.5 |
| TOTAL | | 46.7 |



International

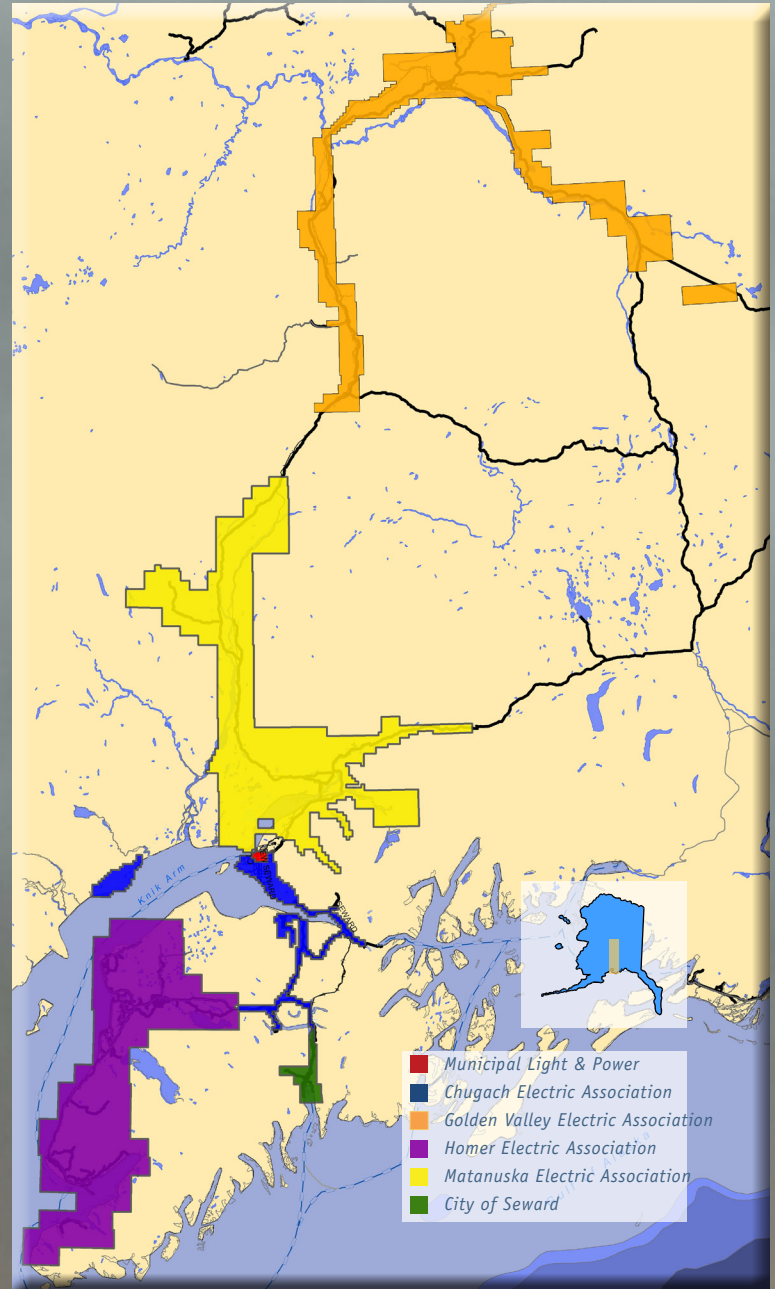
The Railbelt

Chugach power flows to nearly three-fourths of Alaska's population. Chugach serves 81,644 retail service locations in an area extending from Anchorage to the northern Kenai Peninsula, and from Whittier on Prince William Sound to Tyonek on the west side of Cook Inlet. Chugach provides power for Alaskans from Homer to Fairbanks through wholesale and economy energy sales to Homer Electric Association, the City of Seward, Matanuska Electric Association and Golden Valley Electric Association. On occasion, Chugach sells to, or buys energy from, Municipal Light & Power.

In 2011, Chugach had 530.1 megawatts of installed generation capacity at five power plants. Effective December, 31, 2011 Chugach sold the Bernice Lake Power Plant to Alaska Electric and Energy Cooperative, Inc. and Homer Electric Association. Chugach operates 2,227 miles of energized line. Chugach has 539 miles of transmission line, including 128 miles of leased transmission lines and Chugach's share of the jointly-owned Eklutna transmission line. Chugach has 912 miles of overhead distribution line and 776 miles of underground distribution line.

Chugach set its 2011 system peak load on Jan. 17, when demand hit 460 megawatts in the hour ending at 7 p.m. The temperature at the time at Chugach headquarters was 1 degree Fahrenheit. Power sales for the year totaled 2.7 billion kilowatt-hours.

CHUGACH
POWERING ALASKA'S FUTURE



Contact Info

INDEPENDENT AUDITOR

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

CORPORATE INFORMATION

Chugach Electric Association, Inc
Corporate Communications
P.O. Box 196300
Anchorage, Alaska 99519-6300
Tel. (907) 762-4766
www.chugachelectric.com

INVESTOR INFORMATION

Chugach Electric Association, Inc
Chief Financial Officer
P.O. Box 196300
Anchorage, Alaska 99519-6300
Tel. (907) 762-4778