

2017 ANNUAL REPORT



CHUGACH

Powering Alaska's Future

TO OUR MEMBERS

2017 was a busy and historic year for Chugach and its members. I am pleased to look back with you on the progress we've made.

After ten years on the Board and seven years as Chair, Janet Reiser resigned at the end of 2017 to take the job of Executive Director of the Alaska Energy Authority. I want to thank Janet for her years of service to Chugach and its members.

As the Vice Chair of the Board, I stepped into the leadership position at a very critical time for the cooperative. After decades of discussion about a potential consolidation of Chugach and Municipal Light & Power (ML&P), it was announced in December that voters would be asked to approve the sale of ML&P to Chugach. Voters gave the green light to that sale, and we are moving forward with plans to combine the two utilities.

It took a lot of work to get to this point, and there is much more to do. Sustainability continues to be a key focus of Chugach, and I believe that the consolidation efforts are the single most important thing that we can do right now for the cooperative to support that goal. This is a monumental step to secure our future.

This is an exciting time for our industry and Chugach specifically. The entire Board of Directors is looking forward to what's ahead, and we will continue to keep you, the members, in mind with every decision we make.



BETTINA CHASTAIN
BOARD CHAIR



2017 Chugach Board of Directors L to R: Susan Reeves, Vice Chair; Stuart Parks, Director; Janet Reiser, Chair; Harry Crawford, Director; Jim Henderson, Director; Bettina Chastain, Director and Sisi Cooper, Treasurer. Janet Reiser resigned in December 2017, and the Board appointed Rachel Morse to fill the vacancy.

OUR MANAGEMENT TEAM

As a member-owned electric cooperative, the goal of Chugach is to serve you, the member, with safe, reliable, and affordable power. 2017 brought many exciting projects and successes, and I am pleased to share some of the highlights with you in this annual report.

2017 was an excellent safety year for Chugach. As you will read in this report, we had one of our best years ever with an injury rate lower than both state and national benchmarks. Safety is at the core of everything we do, and I could not be prouder of the safety performance of our employees.

Other major milestones of the year include moving forward on the consolidation of Chugach and ML&P, completion of our meter upgrade project, and significant progress on our LED streetlight conversion. Sustainability remains a guiding force behind everything we do, and these initiatives help us down that path.

Our industry is changing, and we continue to adjust and innovate to prepare for the changes. With flat or declining loads, energy efficiency, and renewable generation, we need to be nimble and ready for changes in technology and user habits. Solar power, electric vehicles, and energy storage with battery and fly wheel systems are all part of the activities Chugach is working with to be part of that future.

Thank you to our employees whose commitment, hard work, and focus keep Chugach strong. I also want to thank the Board of Directors for their continued guidance and leadership that help make Chugach an efficient, effective, and reliable electric cooperative.



LEE THIBERT
CEO



L to R: Arthur Miller, Vice President, Regulatory & External Affairs; Connie Owens, Manager Executive Office; Brian Hickey, Sr. Vice President System Operations; Lee Thibert, Chief Executive Officer; Mark Fouts, Executive Manager Fuel & Corporate Planning; Sherri Highers, Vice President Finance and Administration & CFO; Tyler Andrews, Vice President Member & Employee Services; Paul Risse, Sr. Vice President Production & Engineering



Excellence in safety

Chugach closed 2017 with an excellent safety record. The year-end injury rate of 1.4 was a 50 percent reduction from the previous year; the lowest injury rate in decades. The rate of 1.4 reflects the number of injuries for every 200,000 hours worked by Chugach employees. The rate was well under both the Alaska (4.8) and U.S. Bureau of Labor Statistics (2.9) averages for the electric power generation, transmission, and distribution sector. Chugach believes excellence in safety is defined by more than just injury rates. Any time our rates fall below state and national benchmarks we can be assured that our employees are taking the right steps to keep everybody safe at work.

Streetlights getting LED upgrade



Chugach has launched an LED streetlight conversion program, working to change all of its street and area lights to the more efficient and environmentally-friendly lights. Chugach has changed out approximately half of the 5,000 lights in its service territory, the goal is to have them all swapped out by the end of 2019. The utility annually responds to over 1,000 reports of street and area lights being out of service; each time crews replace the older high-pressure sodium lights with an LED. In addition to being less costly to power and maintain, LED lights produce less light pollution as their light is more directional and focused. The new LED fixtures are also compatible with the control technology used by

the Municipality of Anchorage. They allow lights to be dimmed, turned off, or flashed during emergencies to assist police and first responders.

Section of transmission line rebuilt

Chugach rebuilt another section of the 115-kV transmission line that links Anchorage and the Kenai Peninsula. The line was originally constructed in 1962 to carry power from the Cooper Lake Hydroelectric Project to Anchorage. The line currently carries power produced at the Cooper Lake, Bradley Lake and Nikiski power plants. About four miles of transmission line between mile posts 61 and 55 along the Seward Highway was rebuilt, using 230-kV standards to maintain reliability and accommodate anticipated load growth in the future. The \$3.2 million project took just over two months to complete. Another ten miles of the line is expected to be rebuilt between the Hope and Summit Lake Substations in 2019.

Battery/Fly Wheel testing

Great progress is being made on the Multi-Stage Energy Storage project, which combines the features of a flywheel with a battery. In June 2017, there was a lot of activity on the Chugach campus involving construction of the project. Three modules stored at the Port of Anchorage were brought on-site and off-loaded near Chugach's headquarters. One contained a flywheel, the second a battery, and the third contained controls and inverters for the battery. This pilot project has been partially funded with a grant from the Alaska Energy Authority. It is designed to determine the best way to utilize flywheels and batteries together to regulate power quality on the electric grid in Alaska.

AMI meter project complete

In October 2017, the Advanced Metering Infrastructure (AMI) project was completed, four years ahead of schedule. In total, more than 81,000 meters were installed with no safety incidents to report. AMI meters provide secure two-way communication, allowing for safe and efficient collection of meter reading data with no required driving. In addition, the meters automatically notify Chugach of an outage, making restoration time much faster. With the new meters, members also have access to daily and interval usage data, outage notifications and usage alerts.



In the community

Giving back to the community is important to Chugach and its employees. As part of our goal to help build a strong, vibrant community, we support a number of local events and non-profits.

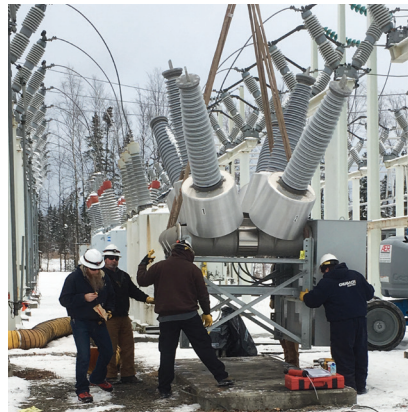


Member Appreciation Day draws big crowd

Chugach rolled out the bucket trucks and served 700 hot dogs for Member Appreciation Day on October 6. More than 300 members and their families came out for the event, which coincides each year with National Cooperative/Energy Awareness Month. One of the highlights of the day was the chance to take a tour of the Southcentral Power Project, one of the most efficient power plants in Alaska. One hundred members took the tours, while nearly 60 members and families rode in a bucket truck. Some members also took a drive in an electric vehicle or hopped on an electric bike for a test drive.

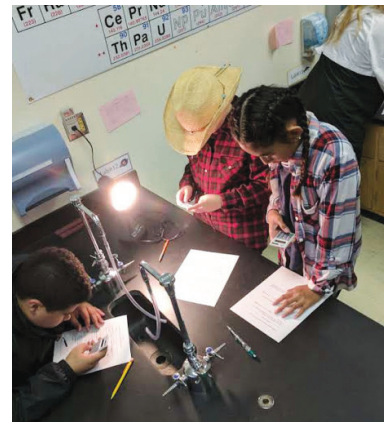


University Substation 115 kV breaker replaced



Chugach replaced a deteriorating 115 kV oil circuit breaker with a new SF6 gas insulated breaker. The installation required the bus to be de-energized while a crane was used to remove the old breaker and set the new one. The project is part of an ongoing effort to replace oil circuit breakers with new, modern technology, increasing reliability and improving overall maintenance.

Teaching energy use to Alaska students



More than 3,600 students from 131 classrooms in 27 middle and elementary schools around the state participated in the 2017 Power Pledge Challenge, an initiative aimed at helping youth better understand energy use. The program continues to expand, with 2017 reaching more students and schools than ever before. The Challenge began in 2012 as part of Energy Awareness Month and is recognized every October. Utilities and organizations from Anchorage, the Mat-Su Valley, the Kenai Peninsula, and Juneau participated.

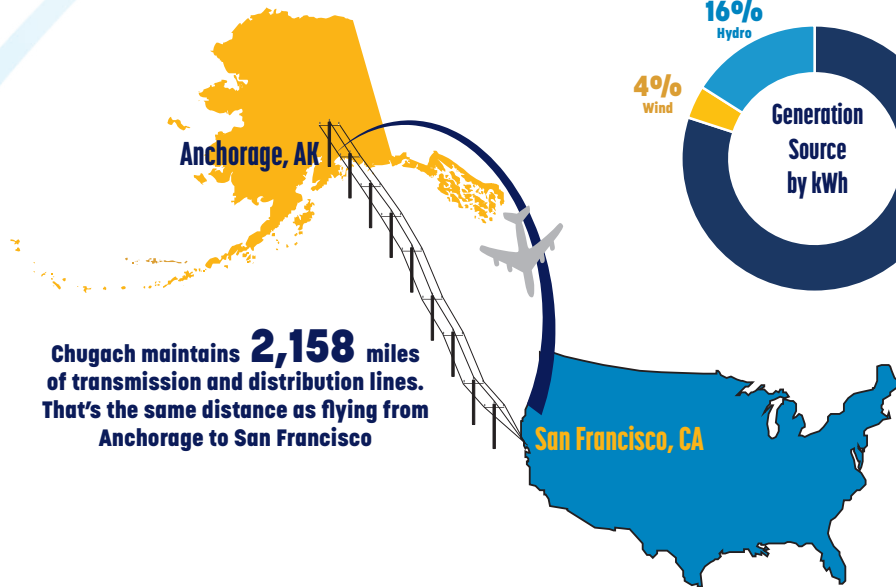
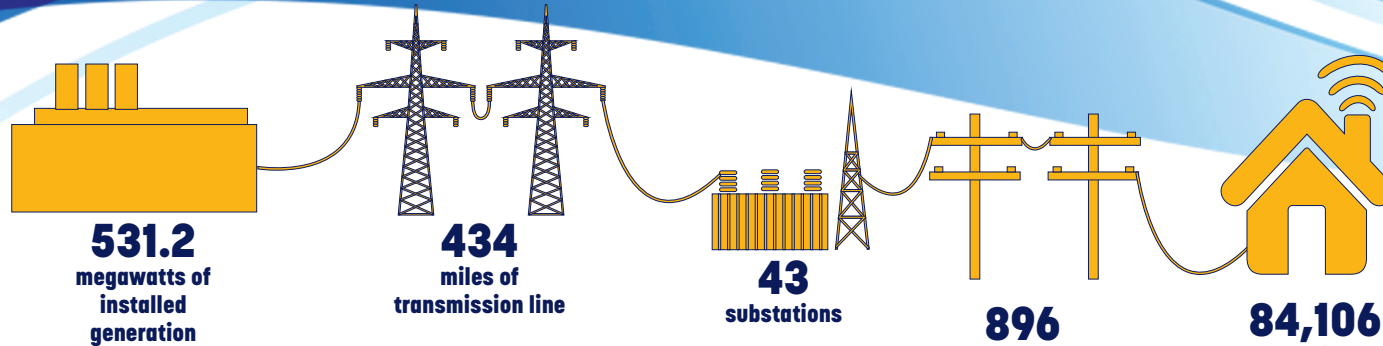
Chugach tests electric vehicle technology

To promote the use of electric vehicles (EV) in Alaska, Chugach purchased an all-electric 2017 Chevy Bolt. An electric vehicle charging station was also installed in front of the headquarters building and is available for public use. The EV purchase and testing is in line with Chugach's business philosophy of sustainability which says that social and environmental impacts are considered, along with financial impacts, when evaluating business performance. Named "Wattson" by Chugach employees, the EV is used by employees for work-related meetings, and is showcased at renewable energy fairs, school events, and other community-related activities. Chugach is also looking at installing additional charging stations and conducting public education about EVs to increase EV use in Alaska.



CHUGACH STATS

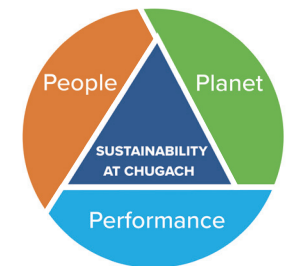
NOT-FOR-PROFIT • MEMBER-OWNED • ELECTRIC COOPERATIVE



OUTAGE STATISTICS

1.52
average outage hours
per customer in 2017, up
from 1.47 in 2016

1.57
5-year average outage
hours per customer,
down from 2.78 in 2016



Incorporation

Chugach Electric Association, Inc. was incorporated in Alaska on March 1, 1948, with funding under the Rural Electrification Act (REA) 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 Information

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P.O. Box 196300
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Tel. (907) 762-4489
www.chugachelectric.com

Investor Information

Chugach Electric Association, Inc.
Chief Financial Officer
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Independent Auditor

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

TREASURER REPORT



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TREASURER

As a cooperative, our bottom line, or revenues in excess of current costs, is called margins. Chugach's 2017 margins totaled \$6.0 million, which was higher than our 2016 margin performance of \$5.8 million.

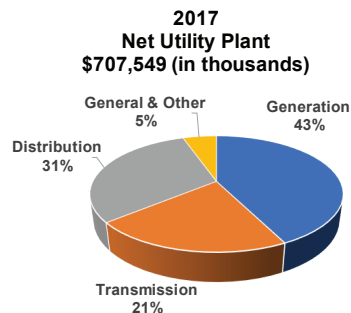
Total energy sales to retail, wholesale and economy customers were 1,213,502 megawatt hours compared to 1,197,083 in 2016. Total revenue was \$224.7 million, up from \$197.7 million in 2016. The increase in sales and sales revenue compared to the prior year was primarily due to colder than anticipated weather, unanticipated economy energy sales, contracted gas sales associated with the Beluga River Unit, and higher wheeling revenue. We ended the year with a margins-for-interest-to-interest ratio of 1.27, well above our indenture metric of 1.10 and an equity-to-total-capitalization ratio at 29.3 percent.

In 2017, Chugach continued to invest in utility plant while managing debt. We took advantage of low interest rates at the time and issued \$40.0 million of bonds at 3.43 percent, using the proceeds to pay down our commercial paper balance. We received a rating upgrade from Standard & Poor's Ratings Services (S&P) to "A" (Stable). The upgrade was a result of Chugach's good financial performance, declining leverage, continued strong competitive position, successful management of its transition to a primarily retail utility and positive and supportive relationship with the Regulatory Commission of Alaska, among other factors.

FINANCIAL RESULTS

Consolidated Balance Sheets as of December 31 (in thousands)

Assets	2017	2016
Net Utility Plant	\$ 707,549	\$ 714,872
Other Property & Investments	11,552	14,206
Current Assets	85,654	81,937
Deferred Charges, net	32,764	25,141
Total Assets	\$ 837,519	\$ 836,156
Liabilities, Equities and Margins		
Equities and Margins	\$ 189,301	\$ 185,516
Long-Term Obligations	456,328	442,890
Current Liabilities	119,367	134,396
Long-Term and Deferred Liabilities	72,523	73,354
Total Liabilities, Equities and Margins	\$ 837,519	\$ 836,156



Consolidated Statements of Operations (in thousands)

	2017	2016
Operating revenues	\$ 224,689	\$ 197,748
Fuel	78,553	54,779
Production	18,006	15,809
Purchased power	17,301	15,775
Transmission	6,130	5,591
Distribution	13,991	13,992
Consumer accounts	5,969	6,074
Administrative, general and other	23,257	22,888
Depreciation and amortization	34,011	36,233
Total operating expenses	197,218	171,141
Interest expense, net	22,201	21,401
Net operating margins	5,270	5,206
Total nonoperating margins	779	608
Assignable margins	\$ 6,049	\$ 5,814

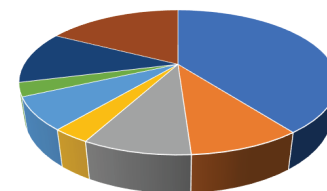
Consolidated Statement of Changes in Equities and Margins (in thousands)

Balance, January 1, 2017	\$ 185,516
Assignable margins	6,049
Retirement/net transfer of capital credits	(3,116)
Unclaimed capital credit retirements	612
Memberships and donations received	240
Balance, December 31, 2017	\$ 189,301

Consolidated Statements of Cash Flows (in thousands)

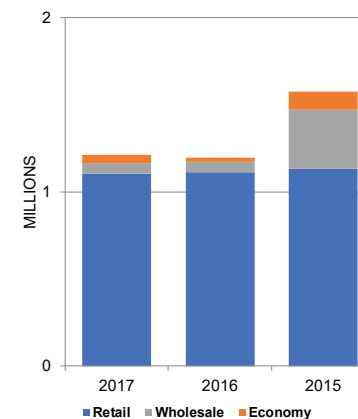
	2017	2016
Cash flows from operating activities:		
Assignable margins	\$ 6,049	\$ 5,814
Adjustments to reconcile assignable margins to net cash provided by operating activities:		
Depreciation and amortization	38,803	41,221
Allowance for funds used during construction	(69)	(188)
Other	441	1,246
(Increase) decrease in assets:	(11,153)	(15,422)
Increase (decrease) in liabilities:	(3,780)	(177)
Net cash provided by operating activities	\$ 30,291	\$ 32,494
Cash flows from investing activities:		
Investment in marketable securities	(925)	(10,580)
Investment in Beluga River Unit	-	(44,404)
Proceeds from capital grants	115	1,022
Extension and replacement of plant	(28,880)	(36,984)
Other	128	1,458
Net cash used in investing activities	\$ (29,562)	\$ (89,488)
Cash flows from financing activities:		
Net increase (decrease) in short-term obligations	(18,200)	48,200
Proceeds from long-term obligations	40,000	45,600
Repayments of long-term obligations	(24,836)	(48,182)
Other	3,120	422
Net cash provided by financing activities	\$ 84	\$ 46,040
Net change in cash and cash equivalents	813	(10,954)
Cash and cash equivalents at beginning of period	4,673	15,627
Cash and cash equivalents at end of period	\$ 5,486	\$ 4,673

2017 Total Operating Expenses \$197,218 (in thousands)



- 40% Fuel
- 9% Production
- 9% Purchased power
- 3% Transmission
- 7% Distribution
- 3% Consumer accounts
- 12% Administrative, general and other
- 17% Depreciation and amortization

MWh Sales



Revenue

