



CHUGACH

POWERING ALASKA'S FUTURE

2022 Annual Report



TO OUR MEMBERS



BETTINA CHASTAIN
BOARD CHAIR

As the largest electric utility in the state, Chugach has an important role and responsibility to our members and all Alaskans. Providing safe, affordable, reliable power is crucial to individuals, businesses, and a strong economy. In the coming years, our Board of Directors will make important decisions that will have an impact for decades to come.

The biggest challenge we face is the impending natural gas shortage in Cook Inlet. It is significant for all of us, as we need a reliable source of gas to continue to provide affordable energy to our members. Even as we diversify our energy portfolio with clean generation resources, natural gas will remain vital to ensure reliability throughout each year, especially during the cold and dark winter months.

As we confront this and other issues, we made significant strides in 2022. For the first time ever, Chugach's Strategic Plan includes decarbonization goals to support reducing our carbon emissions and reducing our dependence on natural gas. We are evaluating the operational and economic feasibility of utility-scale solar and wind projects to help us reach those goals. We hired a new CEO who has done an excellent job as we continued to see millions of dollars in savings from the combined operation of Chugach and Municipal Light & Power.

The future is bright and exciting for Chugach and our members. The board appreciates the support and input from all of you, and we look forward to continuing to work together to make the best decisions for your member-owned cooperative.

2022 Chugach Board of Directors L to R:

Treasurer Harold Hollis; Director Erin Whitney; Secretary Sam Cason; Chair Bettina Chastain; Vice Chair Mark Wiggin; Director Rachel Morse; Director Sisi Cooper



ARTHUR MILLER
CEO

The electric industry is undergoing significant change, driven by decarbonization efforts, grid decentralization, and technological advancements. As a result, consumers now have more options than ever before, including the choice to install solar panels and to use battery-powered tools and equipment such as snow blowers, lawn mowers, and electric bikes. The adoption of electric vehicles in Alaska continues to rise, as more individuals seek to reduce their carbon footprint. The advancement of beneficial electrification provides significant opportunity to increase the utilization of our assets while reducing impacts on the environment. The electric grid is becoming increasingly complex but more efficient at the same time.

The Cook Inlet natural gas shortage is a concern and we are focused on finding other reliable sources of gas while adding clean energy generation where we can without having a material negative impact on electric rates. Our two-thirds working ownership interest in the Beluga River Unit gas field provides some relief to our gas situation. However, we will continue to work with gas producers, the state, the other Railbelt utilities, and other stakeholders on long-term solutions for gas supply.

Our talented and experienced employees are our strongest asset, and I thank them and our Board of Directors for all the hard work continuing to serve our more than 92,000 members with the electricity needed to keep our homes and businesses thriving.

2022 Chugach Management L to R:

Sherri Highers, Chief Financial Officer; Matt Clarkson, Chief Legal Officer; Arthur Miller, Chief Executive Officer; Andrew Laughlin, Chief Operating Officer



Safety is #1

Chugach had a successful year in safety in 2022. Our lost time rate was 0.98, which is lower than the industry standard of 1.0, and our injury rate was 2.71, which is below the State of Alaska's average of 3.9 for the Electric Power Generation, Transmission, and Distribution sector (221). We know that numbers play a crucial role in assessing safety performance, but our employees' positive attitudes and unwavering dedication to safety are what truly ensure a safe working environment.



Acquisition success

As we passed the two-year mark of the acquisition of Municipal Light & Power, we continue to realize the many benefits of combining the two utilities. Due to economies of scale resulting from the acquisition, the cumulative savings through 2022 have surpassed \$72 million, and that number will continue to grow each year. We are saving nearly \$1 million each month in fuel costs alone. What the savings means for members is lower electric rates compared to what they would have been without the acquisition.



Improvements for Eklutna microwave tower

Chugach Telecom reached substantial completion of the Eklutna Microwave Project. The primary objective of the project is to establish utility-owned communications infrastructure that offers high-speed connectivity between the Eklutna Power Plant and Chugach's Teeland Substation, linking the plant to Chugach's Wide Area Network. Increased communications capacity provides more reliable network access for maintenance operators, supervisors, and dispatchers, facilitating the efficient and reliable operation and maintenance of the plant.

Community engagement

At Chugach, we recognize the significance of engaging and assisting community initiatives as an important part of our business. Our employees are given 16 work hours annually to volunteer for their preferred non-profit organizations. Since the program began in 2019, employees have donated hundreds of hours in the community. Several of the community service hours have been dedicated to supporting organizations such as the American Heart Association and the Salvation Army, as well as the annual Citywide Cleanup. Our belief is that our communities thrive when we collaborate and work together.



Cooper Landing reliability

Reliability has been improving for residents of Cooper Landing with the Daves Creek Reliability Project. Phase 2 of the project was completed in 2022 with pole framing activities and overhead wire installation. Chugach rebuilt three miles of the distribution line from the Sunrise Inn to the Kenai River Crossing near Blakley Drive. Completion of all project phases will result in increased capacity and improved reliability as a result of new poles, conductors, and feeder cross arms. The plan for Phase 3 for 2023 and 2024 involves the reconstruction of the segment of the Daves Creek distribution line that traverses the Kenai River, rebalancing customer load on the feeder, and installing sectionalizing devices aimed at reducing outage sizes.



Decarbonization

Chugach has made reducing carbon emissions and decreasing reliance on natural gas top priorities. In 2022, our Strategic Plan was updated to include decarbonization goals of reducing carbon intensity by at least 35% by 2030 and at least 50% by 2040, using 2012 as the baseline year. Chugach is committed to achieving these goals without having a material negative impact on rates. The decarbonization action plan also includes advancing beneficial electrification, including electric vehicle charging infrastructure, battery operated tools and equipment, and heat pumps.



In alignment with decarbonization, Chugach continues to advance its goal of adding 100,000 megawatt hours of renewable generation to its portfolio by the end of first quarter 2025. Key to this effort is the evaluation of utility scale renewable projects, including a large wind project and a large solar project, both of which were proposed

by Independent Power Producers in response to our request for proposals for renewable projects. Interconnection and integration studies began in late 2022, which involve evaluating the technical and economic aspects of the projects to ensure safe, reliable, and cost-effective operation of the Chugach system. Results of the studies are expected to be announced in 2023.

O'Malley Road undergrounding

Chugach took the opportunity during the widening of O'Malley Road to underground overhead powerlines. In collaboration with the State of Alaska Department of Transportation, Chugach upgraded and converted one mile of two 12.5 kV circuits from overhead to underground, spanning from Livingston Drive to Hillside Drive.

In conjunction with the road project, O'Malley Road was widened in that particular section, integrating a new turn lane and pedestrian pathways on both sides of the road. Under local ordinance, Chugach must allocate no less than 2% of a three-year average of annual retail revenues towards the undergrounding of overhead facilities each year.



Beluga River gas field success



Chugach has maintained a close partnership with unit operator Hilcorp Alaska, LLC to enhance the optimization of its working interest position as the primary owner of the Beluga River Unit gas field. Unit development activities in 2022 included the drilling of four new wells, which resulted in substantial increases in gas production rates. From a low average of 11.2 million cubic feet per day (net to Chugach) in July 2020, production peaked at 26.5 million cubic feet per day (net to Chugach) in February 2023. Operational success and increased gas production from the Beluga River Unit have

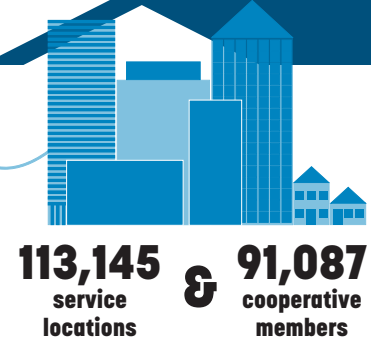
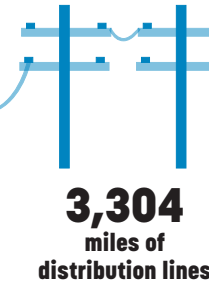
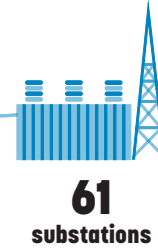
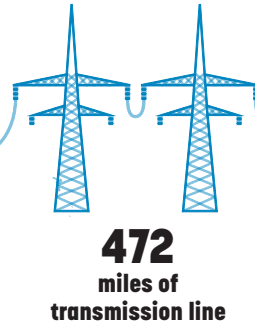
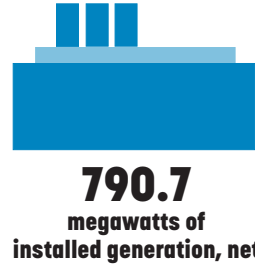
provided a significant source of natural gas for Chugach and continue to support lower electric rates and increased value to our members.

In 2022, Chugach's ownership interest in the Beluga River Unit gas field resulted in savings of \$30.1 million. Cumulative savings, as measured from Chugach's initial 10% ownership interest in 2016 through 2022, total \$71.4 million.

CHUGACH

at a glance

NOT-FOR-PROFIT
MEMBER-OWNED
ELECTRIC COOPERATIVE



Corporate Information

Chugach Electric Association, Inc.
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Anchorage, AK 99519-6300
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Investor Information

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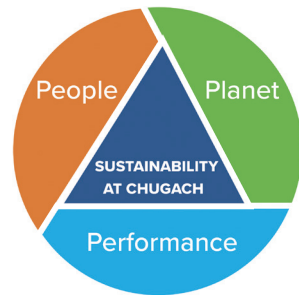
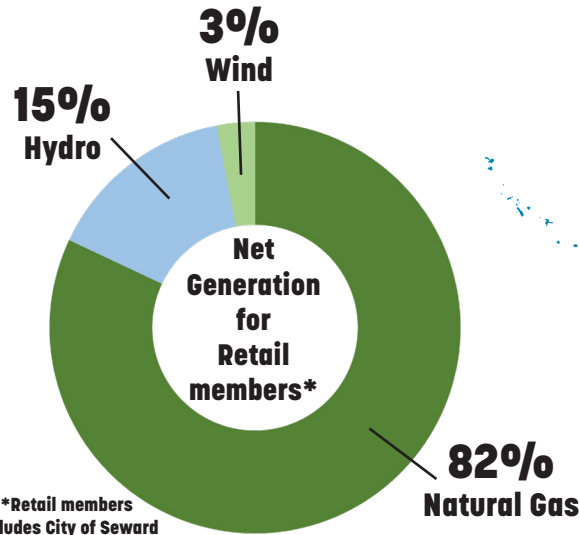
Independent Auditor

KPMG LLP
701 W. Eighth Ave., Ste. 600
Anchorage, AK 99501

Follow us on



@chugachelectric

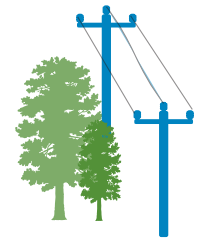


Chugach maintains
3,776 miles
of transmission and
distribution lines.
That's the same
distance as flying from
Anchorage to Orlando.



Reliability

2.51 hours
average outage length
per customer in 2022,
up 0.14 from 2.37 in 2021



224 miles
of line cleared
of trees to increase
reliability

2.54 hours
5-year average outage
length per customer,
up 0.21 from 2.33 in 2021

Incorporation

Chugach Electric Association, Inc. was incorporated in Alaska on 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 Rural Electrification Administration. 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.

TREASURER REPORT



HAROLD HOLLIS
Treasurer

Chugach's financial results for 2022 were modest as we slowly recovered from the economic impact related to the COVID-19 pandemic on sales and revenue. While the Regulatory Commission of Alaska provided another year of regulatory support through a deferred expense option, Chugach is pleased to report that we were able to achieve acceptable financial results through active expense management instead, reducing expenses that would otherwise be recovered through future electric rates. In 2022, Chugach achieved margins, which for a cooperative is our bottom line, or revenues in excess of current costs, totaling \$8.1M.

Energy sales to retail, wholesale, economy, and power pool customers were 2.3 billion kilowatt-hours (kWh) compared to 2.2 billion kWh in the 2022 budget and 2.1 billion kWh in 2021. Current year sales were higher than budget by 4.4% and higher compared to 2021, as we saw a recovery from the adverse economic impact related to COVID-19 on sales. In addition, power pool sales continued with Matanuska Electric Assoc., and totaled 197.3 million kWh for the year, resulting in fuel savings of over \$2.43M and a carbon dioxide equivalent reduction of 14,000 metric tons.

Revenue did not materially change in 2022 compared to 2021. Total revenue was \$354.4M, on par with \$354.5M in 2021, but higher from \$345.1M in the 2022 budget. Higher revenue from economy energy and power pool sales was offset by lower fuel costs recovered in revenue.

During 2022, Chugach invested over \$56M in utility plant while repaying \$42M in long-term debt. We ended the year with a margins-for-interest-to-interest ratio of 1.20, above our indenture metric of 1.10, but below our authorized TIER of 1.55. Our equity-to-total-capitalization ratio came in at 15.68%, which was higher than our 2021 equity ratio of 14.75%.

Chugach's credit ratings with S&P Global Ratings and Fitch Ratings remains unchanged at "A" (Stable) and "A-" (Stable), respectively.

Consolidated Statements of Operations (in thousands)

	2022	2021
Operating revenues	\$354,419	\$354,458
Fuel	83,474	86,562
Production	37,961	36,640
Purchased power	23,268	23,129
Transmission	9,690	9,314
Distribution	26,319	26,799
Consumer accounts	10,299	10,554
Administrative, general and other	52,204	51,872
Depreciation and amortization	64,661	60,466
Total operating expenses	307,876	305,336
Interest expense, net	39,086	39,984
Net operating margins	7,457	9,138
Total nonoperating margins	667	440
Assignable margins	\$8,124	\$9,578

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

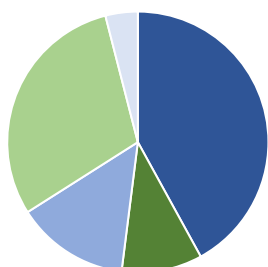
Balance, January 1, 2022	\$206,001
Assignable margins	8,124
Retirement/net transfer of capital credits	(1,942)
Unclaimed capital credit retirements	(20)
Memberships and donations received	173
Balance, December 31, 2022	\$212,336

Consolidated Statements of Cash Flows (in thousands)

	2022	2021
Cash flows from operating activities:		
Assignable margins	\$8,124	\$9,578
Adjustments to reconcile assignable margins to net cash provided by operating activities:		
Depreciation and amortization	77,319	73,699
Allowance for funds used during construction	(96)	(112)
Other	1,550	550
(Increase) decrease in assets:	(21,985)	(2,331)
Increase (decrease) in liabilities:	(21,072)	(15,608)
Net cash provided by operating activities	\$43,840	\$65,776
Cash flows from investing activities:		
Investment in special funds/marketable securities	(1,412)	(22,860)
Extension and replacement of plant	(56,854)	(43,929)
Other/proceeds from capital grants	136	3,141
Net cash used in investing activities	\$(58,130)	\$(63,648)
Cash flows from financing activities:		
Net increase (decrease) in short-term obligations	23,000	12,000
Proceeds from long-term obligations	-	-
Repayments of long-term obligations	(42,193)	(41,965)
Other	11,713	5,036
Net cash used in financing activities	\$(7,480)	\$(24,929)
Net change in cash and cash equivalents	(21,770)	(22,801)
Cash* at beginning of period	37,655	60,456
Cash* at end of period	\$15,885	\$37,655

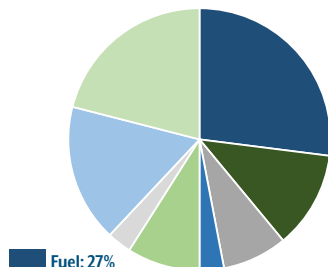
*Cash includes cash, cash equivalents and restricted cash

2022 NET UTILITY PLANT \$1,459,892 (in thousands)



■ **Generation: 42%**
■ **BRU: 10%**
■ **Transmission: 14%**
■ **Distribution: 30%**
■ **General & Other: 4%**

2022 TOTAL OPERATING EXPENSES \$307,876 (in thousands)



■ **Fuel: 27%**
■ **Production: 12%**
■ **Purchased Power: 8%**
■ **Transmission: 3%**
■ **Distribution: 9%**
■ **Consumer Accounts: 3%**
■ **Administrative, General & Other: 17%**
■ **Depreciation & Amortization: 21%**

FINANCIAL RESULTS

Consolidated Balance Sheets as of December 31 (in thousands)

Assets	2022	2021
Net Utility Plant	\$1,459,892	\$1,479,091
Other Property & Investments	37,731	54,858
Current Assets	161,400	150,066
Deferred Charges, net	108,557	112,348
Total Assets	\$1,767,580	\$1,796,363
Liabilities, Equities and Margins		
Equities and Margins	\$212,336	\$206,001
Long-Term Obligations	1,145,301	1,194,171
Current Liabilities	178,682	137,251
Long-Term and Deferred Liabilities	231,261	258,940
Total Liabilities, Equities and Margins	\$1,767,580	\$1,796,363