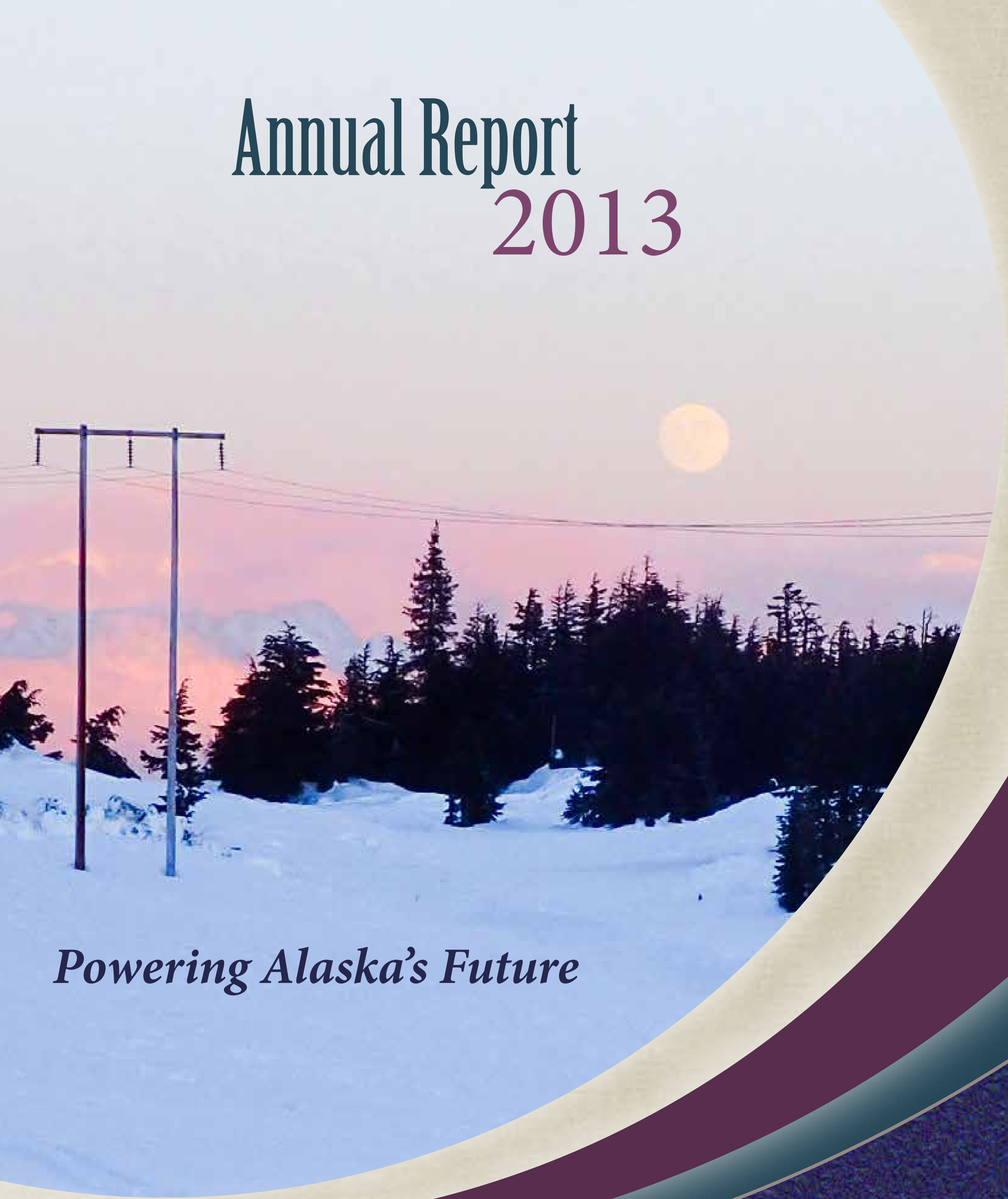
Annual Report 2013



Powering Alaska's Future

CHUGACH

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Lineman periodically do climbing inspections of Chugach's transmission structures.

Corporate Mission

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

Corporate Vision

Powering Alaska's Future

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.

Printed on recycled paper with soy-based ink

Year in review

In late January, Chugach assumed control of the Southcentral Power Project on behalf of utility owners Chugach and Municipal Light & Power.

In February, Chugach implemented new rates to reflect both the cost and efficiency of SPP. The Regulatory Commission of Alaska agreed with a Chugach request for an interim increase to base rates to recover the cost of the plant, while at the same time lowering the fuel surcharge to reflect SPP's efficiency. With fuel saving offsetting much of the cost of the new plant, the average residential customer received about a 6 percent increase in their monthly bill.

In March, the RCA approved a new gas supply contract Chugach negotiated with Hilcorp Alaska, LLC. The contract provides fuel through the frst quarter of 2015 to make economy energy sales to Golden Valley Electric Association while also providing fuel flexibility for Chugach and its customers.

With funding from a grant from the Alaska Energy Authority, in late April Chugach launched an innovative energy efficiency pilot program call MyPower that uses online tools and social media to inform residential members about their energy use. By the end of the year more than 2,000 members were using the program.

The annual meeting on May 16 drew 176 registered members. David Gillespie and Susan Reeves were elected to 3-year terms on the board of directors and one bylaw amendment was approved. A total of 12.7 percent of the 68,317 members of record voted in the election, 31 percent voted via the Internet.

In June, Chugach began selling renewable energy certificates to help offset the cost of power purchased from the Fire Island Wind Project. Renewable energy certificates represent the property rights to the environmental, social and other non-power qualities of renewable electricity generation.

As usual, summer saw a flurry of construction and other projects on the Chugach system, including cable replacements, cable injections and overhead-to-underground conversions. Other projects addressed problems on the distribution line to Hope.

In August, work began on a 2-year project to provide warmer water for salmon habitat near Chugach's Cooper Lake Hydroelectric Project.

In September, the RCA approved a natural gas supply contract with Hilcorp that ensures Chugach has fuel through March 2018. Pricing ties to a consent decree Hilcorp agreed to when taking over the Cook Inlet assets of Marathon Oil Co.

In late October, Chugach completed a project to turn the Hope Substation into an automated switching location on the Railbelt transmission system. The project improves both local service and the regional grid.

Chugach sent crews and equipment north to help restore power to customers of Golden Valley Electric Association after a fierce November storm left thousands of Interior Alaska without electricity in sub-zero temperatures..

In late November, the RCA approved a natural gas supply contract between Chugach and Cook Inlet Energy. Sales could begin in 2014, depending on drilling success.

After decades of wholesale power purchases, Homer Electric Association left the Chugach system when its contract terminated at the end of 2013. Losing HEA as a customer required fixed costs to be re-spread across fewer kilowatt-hours of sales. Consequently, the average Chugach residential customer received an increase of about 6 percent in their monthly bill in January 2014.

On May 6 more than 200 community leaders and other guests turned out for the grand opening of the Southcentral Power Project. Visitors got a behind-the-scenes look at the most efficient thermal power plant in Alaska.

One of the largest line extension projects in recent years took place in the fall at Tyonek, where about a mile of both 3-phase and single-phase distribution line was added to the system to support ongoing economic development activity.

Chair report

Janet Reiser

Board Chair

For the past several years, Chugach has been working to bring the electric utilities of the Railbelt together. Not to merge them into one utility, but rather to find ways to achieve the savings and efficiencies of unified efforts. At Chugach, it's clear to us that there are sound economic and operational reasons to work in concert.

The most obvious target for unification is the transmission system that serves Railbelt Alaskans. There are significant economies and efficiencies to be gained. It will not necessarily be a quick nor easy thing to achieve. However, as other parts of the country have learned, it is well-worth the effort. Just because something is difficult does not mean it is not possible.

We have success stories. The jointly owned Southcentral Power Project has been providing economical electricity for the customers of Chugach and Municipal Light & Power since it came under utility control in 2013. CINGSA – the Cook Inlet Natural Gas Storage Alaska project developed by the parent company of ENSTAR – provides a place for utilities to store gas purchased at times of lower demand to ensure a steady supply of gas for the cold, dark winter months. Our recent creation and development of a generation and transmission cooperative for the Railbelt to prioritize projects, speak with a regional voice and create a framework for future operations has demonstrated again the power of unified action. ARCTEC (the Alaska Railbelt Cooperative Transmission & Electric Company) has championed projects with benefits to the customers of multiple utilities. A good example was the rebuild of 15 miles of transmission line in Turnagain Pass that Chugach completed in 2013.

However, there is much more that can be done – especially when it comes to our regional transmission system. The interconnected Railbelt electric system is in transition. Legacy agreements are coming to an end. New generating facilities are being built. New and upgraded transmission lines are needed, as are rules of the road. Non-utility power providers want access to the grid. Above all, studies by the Alaska Energy Authority have shown that ratepayers in the Railbelt could save significant amounts of money each year through economic dispatch and an unconstrained transmission system.

Currently, six electric utilities and the Alaska Energy Authority own nearly all of the transmission facilities in the Railbelt. The use of the lines is largely governed by a combination of contracts and agreements. It is not the most efficient way to operate the grid. When disputes over reliability, interconnection, congestion and other issues arise, resolution can be protracted and difficult. Additions to the transmission system are often viewed through the narrow focus of the costs and benefits of customers of individual utilities in the short term, at the expense of vision for what will be best for the long-term economic vitality of the region and the integrity of the grid.

That situation has led Chugach to study alternatives in recent years. For guidance, we looked to models that have worked well in the Lower 48. There, over the past 15 years, Independent System Operators (ISOs) have emerged as a means to provide a neutral, third-party authority to resolve many of the transmission issues we're struggling with in the Railbelt. There are many benefits to the ISO model. These include open, non-discriminatory access to the Railbelt grid, the administration of a universal tariff, a regulatory compact to ensure cost recovery for needed additions to the grid and the development and enforcement of reliability and interconnection standards.

In the 2014 session, legislators are considering bills directing the Regulatory Commission of Alaska to produce a plan for the development of a Railbelt ISO. Chugach appreciates the attention of legislators, regulators and others that have expressed interest or support in this idea as a way to move our region forward. The outcome will be better by having more voices in the conversation.

Unification of the Railbelt transmission system is an important issue and a priority for your board of directors. You will be hearing more about it in the months and years to come.

Janet Reiser

The Executive staff

Seated is Brad Evans, Chief Executive Officer. Standing from left are Ed Jenkin, Vice President, Power Delivery; Paul Risse, Sr. Vice President, Power Supply; Sherri McKay-Highers, Vice President, Finance & Administration and Chief Financial Officer; Mark Johnson, Corporate Counsel; Tyler Andrews, Vice President, Member & Employee Services and Lee Thibert, Sr. Vice President, Strategic Development & Regulatory Affairs

CEO report

Bradley Evans
CEO

At the end of January 2013, Chugach assumed control of the Southcentral Power Project on behalf of its utility owners. It was a major achievement. Just 22 months after its groundbreaking ceremony, Chugach and Municipal Light & Power were the joint (70/30) owners of Alaska's most efficient thermal power plant. The 183-megawatt project came in months ahead of schedule and about $10 million under its $369 million budget.

With a three-on-one configuration of gas and steam turbine-generators operating in combined cycle, the efficient new plant has a much better heat rate than the former system average. In 2013 alone, SPP's efficiency resulted in more than $20 million in avoided natural gas purchases for Chugach customers.

Fuel savings went a long way toward covering the cost of the plant, and we intentionally adopted a strategy to mitigate the impact of the new plant on rates. Chugach sought and received permission from the Regulatory Commission of Alaska (RCA) to adjust both base rates and the fuel charge on the same day in February to simultaneously recognize the capital cost of the plant and its fuel savings. Despite more than $250 million in capital costs, the fuel saving offset caused an increase of only about 6 percent in the monthly bill of an average Chugach residential customer.

We had good news regarding our fuel supply in 2013. Following a settlement agreement with the State of Alaska that resolved market concerns, Hilcorp took possession of the gas production and delivery assets it had purchased from Marathon and other companies. Hilcorp soon reached agreements with Chugach and many other area utilities to fill gaps in supply contracts. We secured a contract with Hilcorp that will ensure Chugach's gas supply needs are met through March of 2018, at prices consistent with the settlement agreement. The RCA approved the contract in September. A separate Hilcorp contract secured gas to support economy energy sales to Fairbanks-based Golden Valley Electric Association.

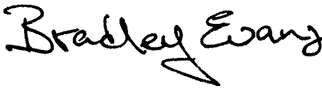
We have a major new tool to help us manage our natural gas supply. 2013 was the first full year of operations for the utility gas storage facility known as CINGSA (Cook Inlet Natural Gas Storage Alaska). Chugach's share of CINGSA provides us a means to take gas at flat production rates and park it for use during peak times. CINGSA has allowed Chugach to avoid paying premium prices for swing and peaking gas.

Chugach and its bargaining units came to agreement on new, multi-year labor contracts in 2013. The agreements fairly recognized the value of a trained labor force with appropriate wage and benefit increases.

Late in the year Fitch Ratings upgraded Chugach's financial rating to "A" from its previous "A-". It also provided an outlook of "Stable" for Chugach. The upgrade can lead to lower borrowing costs for future financings. Fitch cited four primary factors that contributed to the upgrade:

- Increased clarity of Chugach's future business performance
- Consistently stable financial results
- A reduced capital spending program
- Constructive regulatory treatment by the Regulatory Commission of Alaska

We have a slate of planned and proposed projects that will keep us busy in the coming years. Some would greatly increase renewables in our generation portfolio. We're in the midst of construction of the Stetson Creek diversion project at our Cooper Lake Hydroelectric Project. We remain in discussions with the Alaska Energy Authority about a similar project to divert Battle Creek into the Bradley Lake Hydroelectric Project reservoir. AEA continues its efforts to complete the studies to support an application for the Susitna-Watana hydro project. Chugach is planning to test the ability of a combination of a battery and flywheel to help regulate wind power. And in 2014, we'll begin a multi-year project to add Advanced Metering Infrastructure to the Chugach system. It's a dynamic business, and I'm proud of the employees working to improve service to our members.



Board of directors

Janet Reiser
Board Chair

Janet Reiser is the Director of Business and Resource Development for The Aleut Corporation. 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 Governance, Operations, Audit and Finance Committees. She is currently the Vice Chair of Alaska Railbelt Cooperative Transmission and Electric Company. She is a National Rural Electric Cooperative Association 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. She was elected to the board in 2010, and re-elected in 2013. She is serving as the Vice Chair of the Board, Chair of the Governance Committee and is a member of the Operations Committee. She is a National Rural Electric Cooperative Association Credentialed Cooperative Director.

Jim Henderson
Secretary

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 assets, and accounting and disposition of capital assets. His primary emphasis is transportation, industrial machinery and aviation operations, assets and industry development. He has over 30 years of experience in consulting and analysis and finance of capital assets. He has served on various committees for Chugach in the past. He was elected to the board in 2011. He is serving as the Secretary of the Board and is a member on the Governance and Operations Committee. He is a National Rural Electric Cooperative Association Credentialed Cooperative Director.

Dave Gillespie
Director

Dave Gillespie is the CEO of the Aleut Corporation. Dave received his MBA from Rensselaer Polytechnic Institute, Hartford, Connecticut and his BSME from the Worcester Polytechnic Institute, Worcester, Massachusetts. His background includes president and chief executive officer for DAG Associates, LLC; president and chief executive officer of New Generation Biofuels Holding, Inc.; and vice president of business development and asset management of Duke Energy Corporation. He currently serves on the Governance and Operations Committee.

Sisi Cooper
Treasurer

Sisi Cooper is a project engineer with Doyon Emerald, LLC. She specializes in process safety and risk management, energy-sector project management, and process/facility engineering and design. She is a former small business owner of North Ridge Home Inspections, LLC where she was the principal inspector. She was elected to the board in 2012. She is serving as the Treasurer of the Board, the Chair for the Audit and Finance Committee and is the Vice Chair for the Operations Committee. She has a Bachelor of Science degree in industrial engineering. She is a National Rural Electric Cooperative Association Credentialed Cooperative Director.

Harry T. Crawford, Jr.
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 as the Vice Chair for the Audit and Finance Committee, a member on the Governance Committee and is the CFC Voting Delegate. He is a National Rural Electric Cooperative Association 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 and 2012. He is a former legislator and State Director of Public Assistance. He has served as Chairman of the Board and currently serves as Chair of the Operations Committee and is a member of the Audit and Finance Committee. He is a National Rural Electric Cooperative Association Credentialed Cooperative Director.

Seated from left: Jim Henderson, Janet Reiser, and Harry Crawford. Standing from left: Susan Reeves, Sisi Cooper, David Gillespie, and Jim Nordlund.

Treasurer report

Sisi Cooper
Treasurer

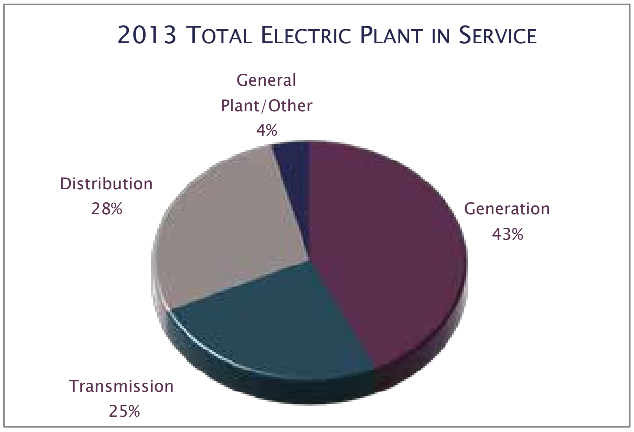
Chugach's 2013 margins (a cooperative's bottom line or revenues in excess of current costs) totaled $10.5 million. Our Margins-for-Interest ratio was 1.43, well above our indenture metric of 1.10. Our Equity-to-Total-Capitalization ratio required to be kept at or above 22 percent, was 26.1 percent.

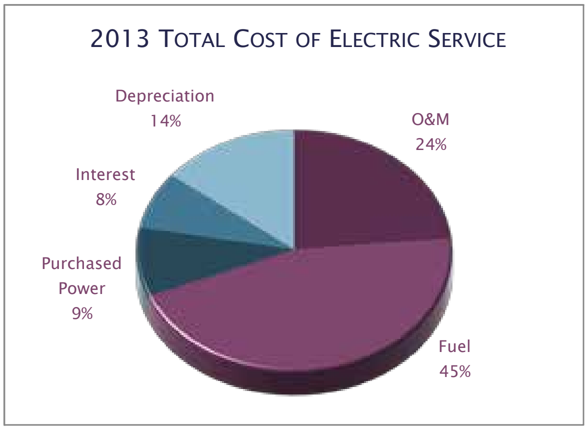
Total energy sales to retail, wholesale and economy customers were 2,815,679 megawatt-hours compared to 2,606,723 in 2012. While sales to retail and wholesale customers were slightly down from last year and from the 2013 budget, economy energy sales to Golden Valley Electric Association were significantly up from 2012 and from the 2013 budget. Total revenue was $305.3 million, up from $267.0 million in 2012 and from the 2013 budget of $292.3 million. Variances in revenue from 2012 and from the 2013 budget were largely driven by higher economy energy sales and an increase in fuel and purchased power recovered in revenue through the fuel and purchased power adjustment process.

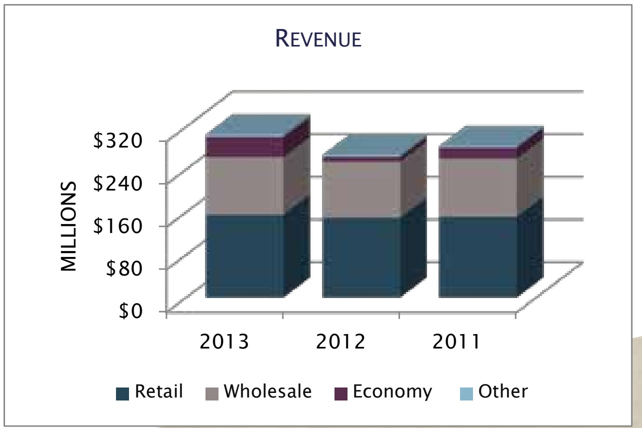
The increased clarity of Chugach's future business performance, consistently stable financial results, reduced capital program, and continued supportive regulatory treatment resulted in a national credit rating agency upgrading our corporate rating from "A-" to "A", with a "Stable" outlook. Chugach's ability to mitigate its reliance on natural gas by the commercial operation of more efficient generation and the planning and management of the loss of two wholesale customers without a negative impact on financial results, also contributed to this upgrade.

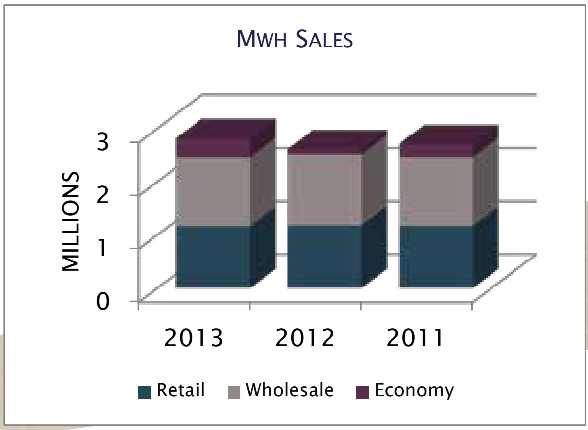
Chugach utilized its Commercial Paper Program for working capital needs throughout the year. We continued to take advantage of extremely low short-term interest rates averaging 0.23 percent, due in part to Chugach's ratings, which saved our members approximately $735,000 over using other available forms of liquidity.

Chugach continued to manage its debt, re-paying $24.5 million in 2013, which contributed to our increased equity ratio from a low of 23.0 percent in January of 2012 to 26.1 percent at December 31, 2013.





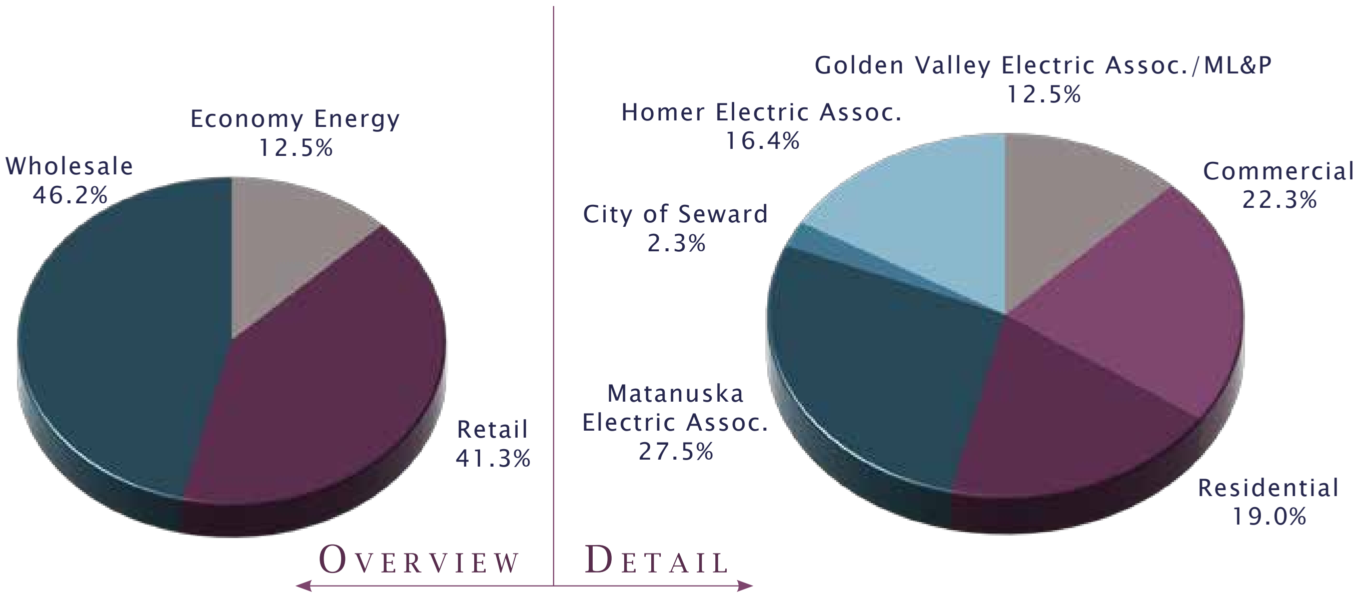




Power sales at a glance

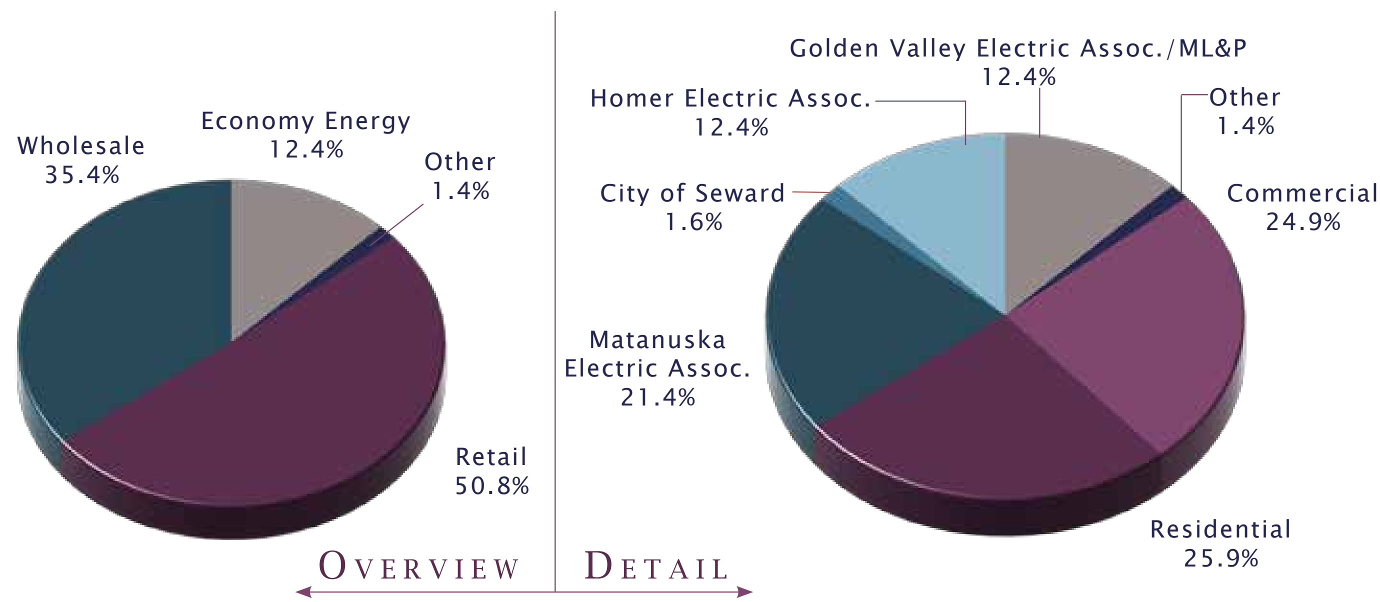
BY KILOWATT–HOURS

TOTAL: 2,815,678,613



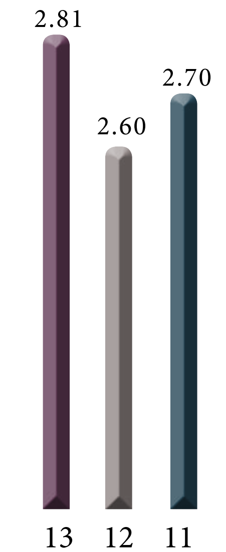
BY OPERATING REVENUES

TOTAL: $305,308,427

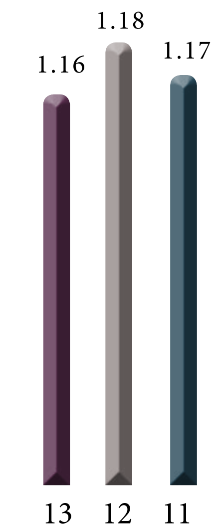


Key comparisons

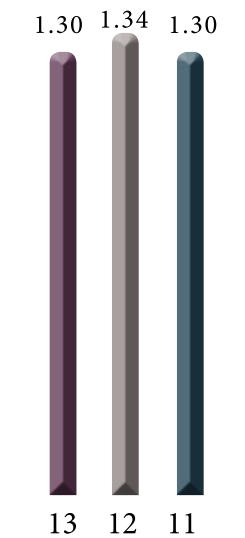
Kilowatt-hours sold (in billions)



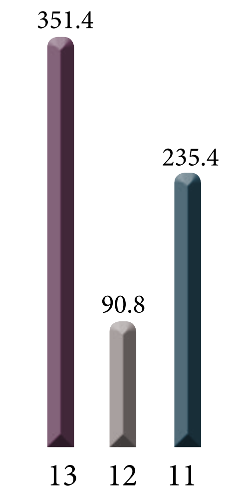
Retail kWh (in billions)



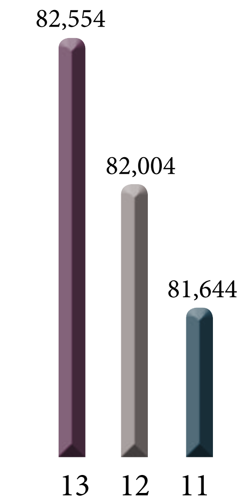
Wholesale kWh (in billions)



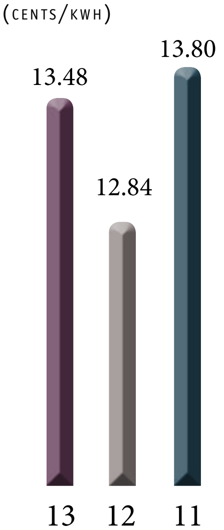
Economy energy kWh (in millions)



Service locations at year-end



Cost per residential kWh in December* (cents/kWh)

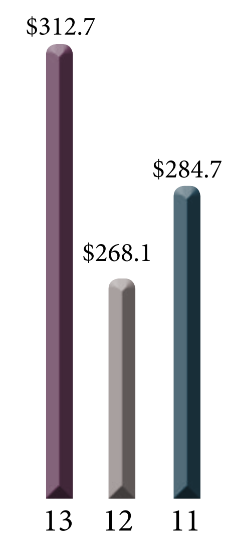


*not including the customer charge and the 2 percent MOA undergrounding charge

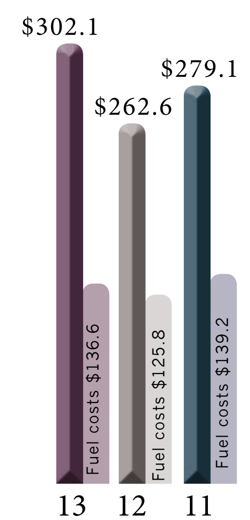
Cost of 650 kWh residential service in December*

*includes customer and energy charges, fuel and purchase power charges, Fire Island wind renewable energy adjustment, regulatory cost charge and 2 percent MOA undergrounding charge

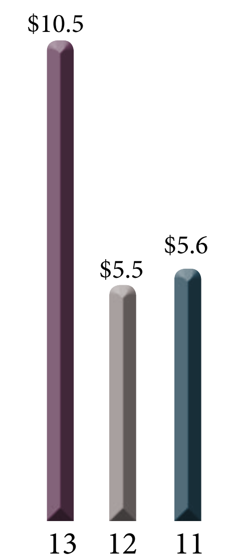
Total revenue including non-operating margins (in millions)



Expenses (in millions)



Margins (in millions)



Generation source by kWh

2013 87% Natural Gas 11% Hydro 2% Wind

2012 89% Natural Gas 10% Hydro 1% Wind

2011 92% Natural Gas 8% Hydro

Outage statistics

Chugach averaged 1.70 outage hours per customer in 2013, down significantly from the storm-driven 8.02 hours in 2012. The 5-year average for customer outage hours decreased to 3.34 hours in 2013, down from 3.52 hours in 2012.

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, 2013 and 2012, 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, 2013. 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, 2013 and 2012, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

March 20, 2014
Anchorage, Alaska

Balance Sheets
December 31, 2013 and 2012

Assets	2013	2012
Utility Plant:		
Electric plant in service	$ 1,135,356,956	$ 891,781,509
Construction work in progress	28,674,163	263,459,794
Total utility plant	1,164,031,119	1,155,241,303
Less accumulated depreciation	(464,880,322)	(449,266,075)
Net utility plant	699,150,797	705,975,228
Other property and investments, at cost:		
Nonutility property	76,889	84,735
Investments in associated organizations	10,204,193	10,552,683
Special funds	536,546	570,027
Total other property and investments	10,817,628	11,207,445
Current assets:		
Cash and cash equivalents, including repurchase agreements of $100 in 2013 and 2012	4,347,163	14,047,469
Special deposits	158,265	153,233
Restricted cash equivalents	3,706,832	1,953,085
Marketable securities	10,308,533	10,158,016
Accounts receivable, less provisions for doubtful accounts of $541,747 in 2013 and $490,413 in 2012	44,633,981	46,650,901
Materials and supplies	25,856,395	32,867,971
Fuel stock	13,029,848	9,466,767
Prepayments	1,863,407	2,156,862
Other current assets	320,658	252,146
Total current assets	104,225,082	117,706,450
Deferred charges, net	23,990,531	27,712,243
Total assets	$ 838,184,038	$ 862,601,366

Liabilities, Equities and Margins	2013	2012
Equities and margins:		
Memberships	$ 1,600,058	$ 1,559,344
Patronage capital	162,749,889	153,832,674
Other	11,445,918	11,372,355
Total equities and margins	175,795,865	166,764,373
Long-term obligations, excluding current installments:		
Bonds payable	469,499,999	491,916,666
National Bank for Cooperatives note payable	27,414,275	29,680,420
Total long-term obligations	496,914,274	521,597,086
Current liabilities:		
Current installments of long-term obligations	24,682,812	24,493,022
Commercial paper	30,000,000	11,500,000
Accounts payable	11,461,303	16,488,323
Consumer deposits	4,851,558	4,279,901
Fuel cost over-recovery	1,635,677	13,710,049
Accrued interest	6,512,860	6,807,207
Salaries, wages and benefits	8,967,140	8,369,203
Fuel	14,834,585	20,868,078
Other current liabilities	5,143,905	4,559,981
Total current liabilities	108,089,840	111,075,764
Deferred compensation	536,546	570,027
Deferred liabilities	1,776,826	1,769,172
Patronage capital payable	7,931,295	6,858,367
Cost of removal obligation	47,139,392	44,628,315
Deferred proceeds on sale of asset	0	9,338,262
Total liabilities, equities and margins	$ 838,184,038	$ 862,601,366

See accompanying notes to financial statements.

Statements of Operations
Years ended December 31, 2013, 2012 and 2011

	2013	2012	2011
Operating revenues	$ 305,308,427	$ 266,971,468	$ 283,618,369
Operating expenses:			
Fuel	136,610,262	125,836,659	139,179,413
Production	21,911,324	16,739,931	16,853,232
Purchased power	27,836,680	22,104,687	25,861,814
Transmission	6,624,836	5,802,009	6,809,401
Distribution	13,225,242	15,822,104	13,387,477
Consumer accounts	6,014,888	6,013,419	5,465,315
Administrative, general and other	23,131,149	23,519,246	22,169,039
Depreciation and amortization	43,384,116	32,356,900	32,616,175
Total operating expenses	$ 278,738,497	$ 248,194,955	$ 262,341,866
Interest expense:			
Long-term debt and other	24,691,582	24,085,371	18,681,680
Charged to construction	(1,310,110)	(9,682,440)	(1,934,703)
Interest expense, net	$ 23,381,472	$ 14,402,931	$ 16,746,977
Net operating margins	$ 3,188,458	$ 4,373,582	$ 4,529,526
Nonoperating margins:			
Interest income	686,460	447,434	297,983
Allowance for funds used during construction	141,014	258,301	159,916
Gain on sale of asset	6,436,992	0	0
Capital credits, patronage dividends and other	91,119	446,190	585,837
Total nonoperating margins	$ 7,355,585	$ 1,151,925	$ 1,043,736
Assignable margins	$ 10,544,043	$ 5,525,507	$ 5,573,262

See accompanying notes to financial statements.

Statements of Changes in Equities and Margins
Years ended December 31, 2013, 2012 and 2011

	Memberships	Other Equities and Margins	Patronage Capital	Total
Balance, January 1, 2011	$ 1,474,869	$ 10,823,463	$ 149,543,952	$ 161,842,284
Assignable margins	0	0	5,573,262	5,573,262
Retirement/net transfer 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	1,517,488	11,358,692	148,355,246	161,231,426
Assignable margins	0	0	5,525,507	5,525,507
Retirement/net transfer of capital credits	0	0	(48,079)	(48,079)
Unclaimed capital credit retirements	0	(12,949)	0	(12,949)
Memberships and donations received	41,856	26,612	0	68,468
Balance, December 31, 2012	1,559,344	11,372,355	153,832,674	166,764,373
Assignable margins	0	0	10,544,043	10,544,043
Retirement/net transfer of capital credits	0	0	(1,626,828)	(1,626,828)
Unclaimed capital credit retirements	0	(21,456)	0	(21,456)
Memberships and donations received	40,714	95,019	0	135,733
Balance, December 31, 2013	$ 1,600,058	$ 11,445,918	$ 162,749,889	$ 175,795,865

See accompanying notes to financial statements.

Statements of Cash Flows
Years ended December 31, 2013, 2012 and 2011

	2013	2012	2011
Cash flows from operating activities:			
Assignable margins	$ 10,544,043	$ 5,525,507	$ 5,573,262
Adjustments to reconcile assignable margins to net cash provided by operating activities:			
Depreciation	43,384,116	32,356,900	32,616,175
Amortization and depreciation cleared to operating expenses	5,912,254	5,882,580	5,472,557
Allowance for funds used during construction	(141,014)	(258,301)	(159,916)
Write off of inventory, deferred charges and projects	430,453	991,871	851,756
Gain on sale of Bernice Lake Power Plant	(6,436,992)	0	0
Other	240,836	(135,739)	(93,834)
(Increase) decrease in assets:			
Accounts receivable, net	4,823,879	(4,276,906)	(7,128,876)
Fuel cost under-recovery	0	1,213,484	1,158,147
Materials and supplies	(907,942)	(189,092)	2,563,223
Fuel stock	(3,563,081)	(9,466,767)	0
Prepayments	293,455	(245,073)	13,635
Other assets	(1,827,291)	27,937	(2,049,082)
Deferred charges	(317,070)	(4,335,252)	(6,358,154)
Increase (decrease) in liabilities:			
Accounts payable	1,775,412	1,454,677	1,891,089
Consumer deposits	571,657	330,849	(1,276,677)
Fuel cost over-recovery	(12,074,372)	13,710,049	0
Accrued interest	(294,347)	(36,266)	793,942
Salaries, wages and benefits	597,937	771,512	863,849
Fuel	(6,033,493)	(3,531,079)	2,829,619
Other current liabilities	2,901,022	3,094,139	3,011,319
Deferred liabilities	3,399	120,204	239,761
Net cash (used in) provided by operating activities	39,882,861	43,005,234	40,811,795
Cash flows from investing activities:			
Proceeds on sale of Bernice Lake Power Plant	0	0	9,537,530
Investment in associated organizations	424,484	663,697	1,153,470
Investment in restricted cash equivalents	0	0	(270,000,000)
Investment in marketable securities	(327,175)	(10,096,304)	0
Proceeds from restricted cash equivalents	0	120,000,000	150,000,000
Extension and replacement of plant	(44,144,184)	(109,180,413)	(123,679,854)
Net cash (used in) provided by investing activities	(44,046,875)	1,386,980	(232,988,854)
Cash flows from financing activities:			
Payments for debt issue costs	0	(1,850,199)	(1,949,027)
Proceeds from short-term obligations	45,500,000	24,500,000	76,500,000
Proceeds from long-term obligations	0	250,000,000	275,000,000
Repayments of short-term obligations	(27,000,000)	(188,000,000)	0
Repayments of long-term obligations	(24,493,022)	(133,360,210)	(152,851,500)
Memberships and donations received	114,277	55,519	189,385
Retirement of patronage capital and estate payments	(156,565)	(48,079)	(309,188)
Net receipts on consumer advances for construction	499,018	1,240,106	644,794
Net cash (used in) provided by financing activities	(5,536,292)	(47,462,863)	197,224,464
Net change in cash and cash equivalents	(9,700,306)	(3,070,649)	5,047,405
Cash and cash equivalents at beginning of period	$ 14,047,469	$ 17,118,118	$ 12,070,713
Cash and cash equivalents at end of period	$ 4,347,163	$ 14,047,469	$ 17,118,118
Supplemental disclosure of non-cash investing and financing activities:			
Retirement of plant	$ 24,095,596	$ 10,405,777	$ 11,317,319
Cost of removal obligation	$ 2,511,077	$ 3,148,135	$ 3,160,851
Extension and replacement of plant included in accounts payable	$ 3,817,788	$ 10,620,219	$ 15,561,199
Supplemental disclosure of cash flow information - interest expense paid, net of amounts capitalized	$ 21,839,391	$ 13,092,576	$ 12,590,296

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 two wholesale customers, Matanuska Electric Association, Inc. (MEA) and the City of Seward (Seward). We provided much of the power requirements of Homer Electric Association, Inc. (HEA) through their contract expiration date of December 31, 2013. We sell available generation in excess of our own needs to produce electric energy for sale to Golden Valley Electric Association, Inc. (GVEA). In addition, on a periodic basis, we provide electricity to Anchorage Municipal Light & Power (ML&P). Chugach's retail and wholesale members are the consumers of the electricity sold.

Chugach was organized as an Alaska electric cooperative in 1948 and operates on a not-for-profit basis and, accordingly, seeks only to generate revenues sufficient to pay operating and maintenance costs, the cost of purchased power, capital expenditures, depreciation, and principal and interest on all indebtedness and to provide for reserves. Chugach is subject to the regulatory authority of the Regulatory Commission of Alaska (RCA).

(2) Significant Accounting Policies

a. Management Estimates

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

b. Regulation

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

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

Depreciation and amortization rates have been applied on a straight-line basis and at December 31, 2013 are as follows:

Annual Depreciation Rate Ranges		
Steam production plant	4.81%	7.04%
Hydraulic production plant	1.06%	3.00%
Other production plant	3.98%	10.15%
Transmission plant	1.58%	7.86%
Distribution plant	2.17%	9.63%
General plant	1.57%	20.00%
Other	2.75%	2.75%
Southcentral Power Project (SPP) steam production plant	3.09%	3.46%
SPP other production plant	3.15%	3.84%

On November 1, 2010, the RCA approved revised depreciation rates effective November 1, 2010 in Docket U-09-097. Chugach's depreciation rates include a provision for cost of removal. Chugach records a separate liability for the estimated obligation related to the cost of removal.

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

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. For all projects excluding SPP, Chugach capitalized such funds at the weighted average rate (adjusted monthly) of 3.7 percent during 2013, 4.0 percent during 2012 and 4.1 percent during 2011. For SPP, Chugach capitalized actual interest expense and related fees associated with its construction.

e. Investments in Associated Organizations

The loan agreements with CoBank, ACB (CoBank) and National Rural Utilities Cooperative Finance Corporation (NRUCFC) requires as a condition of the extension of credit, that an equity ownership position be established by all borrowers. Chugach's equity ownership in these organizations is less than 1 percent. These investments are non-marketable and accounted for at cost. Management evaluates these investments annually for impairment. No impairment was recorded during 2013, 2012 and 2011.

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 (see 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 $10.0 million, which was subsequently invested in marketable securities in September of 2012. Chugach also maintains an Overnight Repurchase Agreement with FNBA, however, in November of 2011 this account was placed into an inactive status. The concentration account had an average balance of $6,262,978 and $8,942,631 for the years ended December 31, 2013 and 2012, 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 used the proceeds primarily to fund capital expenditures associated with SPP and closed the account in February of 2013.

Restricted cash equivalents include funds on deposit for future workers compensation claims and interim rates collected from customers and escrowed as required by the RCA.

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 receivable are invoiced amounts to ML&P for their proportionate share of current SPP costs, which amounted to $1.8 and $3.0 million in 2013 and 2012, respectively. In addition, accounts receivable includes invoiced amounts for grants to support the construction of facilities to divert water and safely transmit electricity, which amounted to $2.8 million in 2013 and $4.0 million in 2012.

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 Simplified Rate Filings (SRF), general rate case filings or specified independent requests. The rates approved related to the regulatory assets are matched to the amortization of actual expenses recognized. The regulatory assets are amortized and collected through rates over differing periods depending upon the period of benefit as established by the RCA. Deferred 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 (Board). Retained assignable margins are designated on Chugach's balance sheet as patronage capital. This patronage capital constitutes the principal equity of Chugach. The Board may also approve the return of capital to former members and estates who request early retirements at discounted rates under a discounted capital credits retirement plan authorized by the Board in September of 2002.

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 December 31, 2013. This patronage capital retirement was related to a settlement agreement associated with the 2005 Test Year General Rate Case (Docket U-06-134). The RCA accepted the parties' settlement agreement on August 9, 2007. HEA's patronage capital is classified as patronage capital payable and was $7.9 million at December 31, 2013.

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 $9,274,135 and $8,548,660 of unbilled retail revenue at December 31, 2013 and 2012, 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 adjustment process, which is adjusted quarterly to reflect increases and decreases of such costs. We recognize differences between projected recoverable fuel costs and amounts actually recovered through rates. The fuel cost under/over recovery on our Balance Sheet represents the net accumulation of any under- or over-collection of fuel and purchase 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 over-recovered by $1,635,677 in 2013 and over-recovered by $13,710,049 in 2012. Total fuel and purchased power costs in 2013, 2012, and 2011 were $164,446,942, $147,941,346, and $165,041,227, 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, 2013, 2012 and 2011 was in compliance with that provision. In addition, as described in *"Note (15) - Commitments and Contingencies,"* 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 50 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, 2010 through December 31, 2013 for United States Federal Income Tax, the tax years which remain subject to examination by major tax jurisdictions as of December 31, 2013.

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, 2013 and 2012, totaled $2.5 million and $2.4 million, respectively. Consumer deposits also represent customer credit balances as a result of prepaid accounts. Credit balances for the years ended December 31, 2013 and 2012 totaled $2.4 million and $1.9 million, respectively.

q. Grants

Chugach has received federal and state grants to offset storm related expenditures and to support the construction of facilities to transport fuel, divert water and safely transmit electricity to its consumers. Grant proceeds used to construct or acquire equipment are offset against the carrying amount of the related assets while grant proceeds for storm related expenditures are offset against the actual expense incurred, which totaled $17.4 million and $30.5 million in 2013 and 2012, respectively. The assets constructed from grant awards may not be sold, or used as collateral for any reason.

r. Fuel Stock

Fuel Stock is the weighted average cost of fuel injected into the Cook Inlet Natural Gas Storage Alaska (CINGSA), which began service in the second quarter of 2012. Chugach's fuel balance in storage for the years ended December 31, 2013 and 2012 amounted to $13.0 million and $9.5 million, respectively.

s. Marketable Securities

In September of 2012, Chugach implemented a bond and equity investment portfolio. Chugach's initial investment was $10.0 million. The investments are classified as marketable securities, reported at fair value with gains and losses included in earnings. At December 31, 2013 and 2012, the carrying amount and fair value was $10.3 million and $10.1 million, respectively.

t. Reclassifications

For the year ended December 31, 2013, Chugach recorded the following reclassification for the year ended December 31, 2012:

A reclassification representing the expected future cost of removal of our regulated assets previously included as an increase in accumulated depreciation and now included as an increase in cost of removal obligations. The impact of the reclassification was to decrease accumulated depreciation and increase cost of removal obligations by $44.6 million in 2012.

(3) Recent Accounting Pronouncements

ASC Update 2013-06 "*Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate (a consensus of the Emerging Issues Task Force)*"

In April of 2013, the FASB issued ASC Update 2013-06, "Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate (a consensus of the FASB Emerging Issues Task Force)" (ASC Update 2013-06). ASC Update 2013-06 provides guidance for recognizing and measuring services received from personnel of an affiliate. This update is effective prospectively for fiscal years beginning after June 15, 2014. Chugach will begin application of ASC 2013-06 on January 1, 2015. Adoption is not expected to have any incremental effect on results of operations, financial position, and cash flows.

ASC Update 2013-04 "*Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date (a consensus of the FASB Emerging Issues Task Force)*"

In February of 2013, the FASB issued ASC Update 2013-04, "Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date (a consensus of the FASB Emerging Issues Task Force.)" ASC Update 2013-04 provides guidance on the measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total obligation is fixed at the reporting date. This update is effective for reporting periods beginning after December 15, 2013. Chugach will begin application of ASC 2013-04 on January 1, 2014. Adoption is not anticipated to have any incremental effect on results of operations, financial position, and cash flows.

ASC Update 2013-02 "*Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*"

In January of 2013, the FASB issued ASC Update 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." ASC Update 2013-02 expands the disclosure requirements for amounts reclassified out of accumulated other comprehensive income. This update is effective for reporting periods beginning after December 15, 2012. Chugach began application of ASC 2013-02 on January 1, 2013. Chugach does not have any items included in other comprehensive income. Therefore, assignable margins and comprehensive income are the same amount and the adoption did not have any effect on results of operations, financial position, and cash flows.

ASC Update 2013-01 "*Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*"

In January of 2013, the FASB issued ASC Update 2013-01, "Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." ASC Update 2013-01 clarifies the scope of Update 2011-11 to apply to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. This update is effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. Chugach began application of ASC 2013-01 on January 1, 2013. Adoption did not have any incremental effect on results of operations, financial position, and cash flows.

ASC Update 2012-04 *"Technical Amendments and Improvements"*

In October of 2012, the FASB issued ASC Update 2012-04, "Technical Amendments and Improvements." ASC Update 2012-04 amends a wide range of Topics in the FASB Codification, however the main provisions were to correct source literature guidance, provide clarity by updating and correcting wording and references, relocating guidance to a more appropriate location within the Codification, and conform terminology and clarify guidance to fully reflect the fair value measurement and disclosure requirements of Topic 820. This update is effective for the first interim or annual reporting period beginning after December 15, 2012. Chugach began application of ASC 2012-04 on January 1, 2013. Adoption did not have any incremental effect on results of operations, financial position, and cash flows.

(4) Fair Value of Assets and Liabilities

Fair Value Hierarchy

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

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes United States Treasury and federal agency securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

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

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

The table below presents the balance of Chugach's marketable securities, money market and restricted cash equivalents assets measured at fair value on a recurring basis at December 31, 2013, and December 31, 2012.

	Total	Level 1	Level 2	Level 3
December 31, 2013				
Marketable securities	$ 10,308,533	$ 10,308,533	$ 0	$ 0
December 31, 2012				
Money market	$ 2,829,397	$ 2,829,397	$ 0	$ 0
Marketable securities	$ 10,158,016	$ 10,158,016	$ 0	$ 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 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 Matters

Fire Island Wind Project

On October 10, 2011, the RCA issued an order approving Chugach's request for assurance of cost recovery associated with 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.

Associated with the approval of the PPA, Chugach submitted project status reports on March 31, 2012, June 29, 2012, October 31, 2012, and January 16, 2013. On January 30, 2014, Chugach submitted a status report regarding FIW integration and a cost reimbursement agreement related to possible impacts to an interconnected utility as a result of the project. Chugach also requested that the RCA accept further updates beginning no later than July 31, 2014.

2013 General Rate Case

To reflect revenue and cost changes resulting from the expiration of HEA's wholesale contract, Chugach submitted its 2013 Test Year General Rate Case to the RCA on November 19, 2013, to increase system base rate revenues by $16.0 million, or approximately 12.5 percent on total retail, MEA, and Seward base rate revenues of $127.4 million. On January 2, 2014, the RCA approved the submitted rates on an interim and refundable basis. Retail rates were effective January 2, 2014, and wholesale rate changes were effective February 1, 2014, for purchases beginning January 1, 2014. The increase, net of both base rate increases and fuel savings, to Chugach retail end-users is approximately 6 percent, while the net increase to retail end-users of MEA and Seward is approximately 8 percent and 5 percent, respectively.

2012 General Rate Case

To reflect cost changes resulting from commercial operation of SPP, Chugach submitted a general rate case to the RCA on December 21, 2012, to increase system base rate revenues by $30.0 million, or approximately 26 percent on total base rate revenues of $115.0 million. The proposed rates became effective on an interim and refundable basis beginning in February of 2013. In a separate filing Chugach adjusted fuel rates to reflect efficiency improvements associated with the commercial operation of SPP and made these reduced fuel rates effective at the same time as the requested general rate case increases. This allowed the interim base rate increases to be synchronized with expected reductions in fuel cost recovery rates.

The filing also requested approval of a major expansion of Chugach's operating tariff to include both firm and non-firm transmission wheeling service and attendant ancillary services in support of third-party transactions on the Chugach system. The main purpose of the expansion is to accommodate anticipated wheeling services after expiration of the HEA and MEA wholesale customer contracts.

On February 1, 2013, Chugach submitted a supplemental filing to the RCA removing the impacts associated with a one-year amortization of distribution storm-related costs from its retail revenue requirement. On February 6, 2013, the RCA opened Docket U-13-007 and issued Order No. 1 approving Chugach's supplemental filing for rates effective February 6, 2013, on an interim and refundable basis. In addition, the RCA also approved Chugach's request to assess transmission wheeling charges on economy energy transactions that originate from the Chugach system.

The increase, net of both base rate increases and fuel savings, to Chugach retail end-users is approximately 6 percent, while the net increase to retail end-users of Chugach's wholesale customers is approximately 4 percent to 7 percent. Consistent with its practice the RCA required Chugach, at its option, to either place the interim and refundable amounts received into an escrow account or pay an annualized interest rate of 10.5 percent on any future refunds required in the docket. Chugach elected to place the interim and refundable amounts into escrow.

Intervener testimony was filed with the RCA on August 23, 2013. Both before and after those filings, Chugach has been engaged in discussions with the intervening parties to resolve the outstanding issues in the case. The RCA accepted stipulations that resolved the majority of the issues in the case. Chugach filed reply testimony on October 23, 2013, which proposed changes to its rate increase request, including a downward adjustment to its system revenue requirement by $0.2 million, which represents a 0.1 percent reduction to its system base rate revenue requirement of $143.0 million.

On December 10, 2013, Chugach submitted a petition to the RCA to release all escrowed funds in excess of $0.5 million, which Chugach will keep in escrow to cover any refunding required at the conclusion of the case. This $0.5 million is well in excess of the approximately $0.2 million needed to cover the refunds under the settlement. The RCA approved Chugach's petition on December 27, 2013.

A hearing on the case took place in December of 2013 to resolve the remaining transmission issues in the case.

On March 14, 2014, the RCA issued Order No. 16 affirming the acceptance of the stipulations entered among the parties in the case. In the order, the RCA approved Chugach's requested ratemaking treatment of select transmission facilities on its system. In conjunction with the approval, Chugach is required to notify the RCA upon the completion of its transmission power flow study required by stipulation. The RCA required Chugach to submit by April 14, 2014, a retail refund plan, updated rate calculations and attendant tariff revisions reflecting the results of the stipulations that were accepted by the RCA.

Natural Gas Contract Submittals

Gas Sale and Purchase Agreement between Chugach and Hilcorp Alaska, LLC

On July 12, 2013, Chugach submitted a new gas purchase agreement with Hilcorp Alaska, LLC (Hilcorp) to the RCA. The new agreement will supply gas from January 1, 2015, through March 31, 2018. The total amount of gas under the contract is estimated to be 17.7 billion cubic feet (Bcf). The new agreement is designed to fill the balance of Chugach's unmet needs in 2015 and 2016, up to 100% of unmet needs in 2017 and up to 100% of its total needs in the first quarter of 2018.

On September 10, 2013, the RCA issued an order approving the agreement and the recovery of the gas costs incurred under the agreement through Chugach's fuel and purchased power cost adjustment process.

Gas Sale and Purchase Agreement between Chugach and Cook Inlet Energy, LLC

On September 30, 2013, Chugach submitted a new gas purchase agreement with Cook Inlet Energy, LLC (CIE) to the RCA for natural gas deliveries commencing April 1, 2014, and terminating on March 31, 2018. The agreement does not provide a current commitment to purchase any volume of gas but rather provides for the parties to meet and confer each year on the possible volumes of gas that could be sold and delivered in the next contract year or such other period as may be agreed. This structure accommodates on-going gas development work by CIE and provides additional diversity in Chugach's sources of natural gas to meet system load requirements. On November 25, 2013, the RCA approved the agreement and the recovery of all gas costs incurred under the agreement through Chugach's fuel and purchased power cost adjustment process.

(6) Utility Plant

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

Electric plant in service:	2013	2012
Steam production plant	$ 60,462,671	$ 60,462,671
Hydraulic production plant	20,546,809	20,513,746
Other production plant	122,051,709	127,980,607
Transmission plant	249,483,480	252,910,740
Distribution plant	258,474,600	257,587,220
General plant	48,517,709	51,901,426
Unclassified electric plant in service[1]	369,280,657	109,023,464
Intangible plant[1]	4,710,912	4,710,912
Other[1]	1,828,409	6,690,723
Total electric plant in service	1,135,356,956	891,781,509
Construction work in progress[2]	28,674,163	263,459,794
Total electric plant in service and construction work in progress	$ 1,164,031,119	$ 1,155,241,303

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

[2]The amount associated with the construction of SPP included in construction work in progress was $245.5 million at December 31, 2012.

(7) Investments in Associated Organizations

Investments in associated organizations include the following at December 31:

	2013	2012
NRUCFC	$ 6,095,980	$ 6,095,980
CoBank	4,044,338	4,392,948
NRUCFC Capital Term Certificates and other	63,875	63,755
Total investments in associated organizations	$ 10,204,193	$ 10,552,683

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 Credits

Deferred Charges

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

	2013	2012
Debt issuance and reacquisition costs	$ 3,611,498	$ 4,126,529
Refurbishment of transmission equipment	132,717	141,976
Feasibility studies	912,537	76,390
Beluga gas compression	1,526,599	2,035,466
Cooper Lake relicensing / projects	5,670,314	5,800,417
Fuel supply negotiations	971,209	815,451
Major overhaul of steam generating unit	1,285,942	1,510,046
Other regulatory deferred charges	1,759,448	4,473,037
Bond interest - market risk management	6,960,044	7,527,357
Environmental matters and other	1,160,223	1,205,574
Total deferred charges	$ 23,990,531	$ 27,712,243

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

	2013	2012
Fuel supply (negotiations/studies/compression)	$ 231,712	$ 1,072,002
Studies and other	336,017	236,401
Wind project	34,543	391,285
Financing related costs	0	1,757,624
Beluga Unit 8 inspection	0	1,061,838
Total deferred charges	$ 602,272	$ 4,519,150

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

Deferred Credits

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

	2013	2012
Refundable consumer advances for construction	$ 773,089	$ 777,323
Estimated initial installation costs for meters	104,037	92,149
Post retirement benefit obligation	899,700	899,700
Total deferred costs	$ 1,776,826	$ 1,769,172

(9) Patronage Capital

Chugach has a Board-approved capital credit retirement policy, which is contained in Chugach's Financial Forecast. This establishes, in general, a plan to return the capital credits of wholesale and retail customers based on the members' proportionate contribution to Chugach's assignable margins. At December 31, 2013, Chugach had $162,749,889 of patronage capital (net of capital credits retired in 2013), which included $152,205,846 of patronage capital that had been assigned and $10,544,043 of patronage capital to be assigned to its members. Approval of actual capital credit retirements is at the discretion of Chugach's Board. Chugach records a liability when the retirements are approved by the Board. During 2008, the Board approved the deferral of capital credit retirements after 2009, excluding discounted capital credits, due to the construction of SPP and the anticipated loss of wholesale load in 2013 and 2014. In December of 2013, the Board resumed its capital credit retirement program. Capital credits retired, net of HEA's allocations, were $1,626,828, $48,079, and $309,188 for the years ended December 31, 2013, 2012, and 2011, respectively.

The Second Amended and Restated Indenture of Trust (the Indenture) 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 Indenture or debt agreements 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 December 31, 2013. This patronage capital retirement was related to a settlement agreement associated with the 2005 Test Year General Rate Case (Docket U-06-134). The RCA accepted the parties' settlement agreement on August 9, 2007. HEA's patronage capital payable was $7.9 million and $6.9 million at December 31, 2013 and 2012, respectively.

Capital credits retired, net of HEA's allocations, were $1,626,828, $48,079, and $309,188 for the years ended December 31, 2013, 2012, and 2011, respectively. With the exception of HEA's patronage capital payable, the outstanding liability for capital credits authorized but not paid at December 31, 2013 was $1,470,263. With the exception of HEA's patronage capital payable, there was no outstanding liability for capital credits authorized but not paid at December 31, 2012.

(10) Other Equities

A summary of other equities at December 31 follows:

	2013	2012
Nonoperating margins, prior to 1967	$ 23,625	$ 23,625
Donated capital	1,742,889	1,647,869
Unclaimed capital credit retirement[1]	9,679,404	9,700,861
Total other equities	$ 11,445,918	$ 11,372,355

[1]Represents 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:	2013	2012
CoBank 3 and 4, 2.52% variable rate notes maturing in 2022, with interest payable monthly and principal due annually beginning in 2003	$ 29,680,420	$ 31,756,775
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	81,000,000	85,500,000
2011 Series A Bond of 4.75%, maturing in 2041, with interest payable semi-annually March 15 and September 15 and principal due annually beginning in 2012	172,666,666	178,833,333
2012 Series A Bond of 4.01%, maturing in 2032, with interest payable semi-annually March 15 and September 15 and principal due annually beginning in 2013	71,250,000	75,000,000
2012 Series A Bond of 4.41%, maturing in 2042, with interest payable semi-annually March 15 and September 15 and principal due annually between 2013 and 2020 and between 2032 and 2042	117,000,000	125,000,000
2012 Series A Bond of 4.78%, maturing in 2042, with interest payable semi-annually March 15 and September 15 and principal due annually beginning in 2023	50,000,000	50,000,000
Total long-term obligations	$ 521,597,086	$ 546,090,108
Less current installments	24,682,812	24,493,022
Long-term obligations, excluding current installments	$ 496,914,274	$ 521,597,086

Covenants

Effective January 20, 2011, Chugach is required to comply with all covenants set forth in the Indenture 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.

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 Indenture dated January 20, 2011.

Chugach is also required to comply with the 2010 Credit Agreement, between Chugach and NRUCFC, KeyBank National Association, Bank of America, N.A., Bank of Montreal, CoBank, ACB and Chang Hwa Commercial Bank, Ltd., Los Angeles Branch dated June 29, 2012, governing loans and extensions of credit associated with Chugach's commercial paper program, in an aggregate principal amount not exceeding $100.0 million at any one time outstanding.

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

Security

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

Rates

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

The CoBank Master Loan Agreement also required Chugach to establish and collect rates reasonably expected to yield margins for interest equal to at least 1.10 times interest expense. The Amended and Restated Master Loan Agreement with CoBank, which became effective on January 19, 2011, did not change this requirement.

The 2010 Credit Agreement governing the unsecured facility providing liquidity for Chugach's Commercial Paper Program requires Chugach to maintain minimum margins for interest of at least 1.10 times interest charges for each fiscal year. Margins for interest generally consist of Chugach's assignable margins plus total interest expense.

Distributions to Members

Under the Indenture and debt agreements, Chugach is prohibited from making any distribution of patronage capital to Chugach's customers if an event of default under the Indenture or debt agreements exists. Otherwise, Chugach may make distributions to Chugach's members in each year equal to the lesser of 5 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, 2013, mature as follows:

Year ending December 31	2011 Series A Bonds	CoBank Note	2012 Series A Bonds	Total
2014	10,666,667	2,266,145	11,750,000	24,682,812
2015	10,666,667	2,473,110	10,750,000	23,889,777
2016	10,666,667	2,699,313	10,750,000	24,115,980
2017	10,666,667	2,945,954	10,750,000	24,362,621
2018	10,666,667	3,215,267	10,750,000	24,631,934
Thereafter	200,333,331	16,080,631	183,500,000	399,913,962
	$ 253,666,666	$ 29,680,420	$ 238,250,000	$ 521,597,086

Lines of credit

Chugach maintains a $50.0 million line of credit with NRUCFC. Chugach did not utilize this line of credit in 2013, and therefore had no outstanding balance at December 31, 2013. In addition, Chugach did not utilize this line of credit during 2012 and had no outstanding balance at December 31, 2012. The borrowing rate is calculated using the total rate per annum and may be fixed by NRUCFC. The borrowing rate was 2.90 percent at December 31, 2013, and December 31, 2012.

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.

On September 26, 2012, the Board approved a resolution to renew this line of credit under substantially the same terms as the previous agreement. The NRUCFC line of credit now expires October 12, 2017.

This line of credit is immediately available for unconditional borrowing.

Commercial Paper

On November 17, 2010, Chugach entered into a $300.0 million Unsecured Credit Agreement, which is used to back Chugach's Commercial Paper Program. The participating banks were NRUCFC, Bank of America, N.A., KeyBank National Association, JPMorgan Chase Bank, N.A., Bank of Montreal, CoBank, ACB, Goldman Sachs Bank USA, Bank of Taiwan, Los Angeles Branch and Chang Hwa Commercial Bank, Ltd., Los Angeles Branch. Effective May 4, 2012, Chugach reduced the commitment amount to $100.0 million and on June 29, 2012, amended and extended the Credit Agreement to update the pricing and extend the term. The new pricing includes an all-in drawn spread of one month London Interbank Offered Rate (LIBOR) plus 107.5 basis points, along with a 17.5 basis points facility fee (based on an A- unsecured debt rating). The Amended Unsecured Credit Agreement now expires on November 17, 2016. The participating banks include NRUCFC, KeyBank National Association, Bank of America, N.A., Bank of Montreal, CoBank and Chang Hwa Commercial Bank, Ltd., Los Angeles Branch. Our commercial paper can be repriced between one day and 270 days. Chugach is expected to continue to issue commercial paper in 2014, as needed, however, the requirement for short-term borrowing has decreased.

Chugach had $30.0 million and $11.5 million of commercial paper outstanding at December 31, 2013 and 2012, respectively.

The following table provides information regarding 2013 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	$5.9	0.27	July	$33.4	0.23
February	$0.1	0.25	August	$35.0	0.21
March	$23.2	0.29	September	$42.1	0.21
April	$40.0	0.26	October	$49.9	0.23
May	$39.7	0.24	November	$52.7	0.19
June	$34.3	0.24	December	$53.1	0.20

Financing

On January 11, 2012, Chugach issued $75.0 million of First Mortgage Bonds, 2012 Series A, due March 15, 2032 (Tranche A), $125.0 million of First Mortgage Bonds, 2012 Series A, due March 15, 2042 (Tranche B) and $50.0 million of First Mortgage Bonds, 2012 Series A, due March 15, 2042 (Tranche C), for the purpose of repaying outstanding commercial paper used to finance 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 percent per annum. The 2012 Series A Bonds (Tranche B) will mature on March 15, 2042, and will bear interest at 4.41 percent per annum. The 2012 Series A Bonds (Tranche C) will mature on March 15, 2042, and will bear interest at 4.78 percent per annum. Interest will be paid semi-annually 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 Indenture, which became effective on January 20, 2011.

On January 21, 2011, Chugach issued $90.0 million of First Mortgage Bonds, 2011 Series A, due March 15, 2031 and $185.0 million 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 percent per annum, payable semi-annually on March 15 and September 15 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 percent per annum, payable semi-annually on March 15 and September 15, 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 has a term loan facility with CoBank. Loans made under this facility 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 Indenture.

Fair Value of Debt Instruments

The fair value of long-term debt has been determined using discounted future cash flows at borrowing rates currently available to Chugach. Level 1 measurement was used to determine the fair value of the 2011 and 2012 Series A Bonds. Level 2 measurements were used to determine all other long-term obligations. The estimated fair value (in thousands) of the long-term obligations included in the financial statements at December 31 is as follows:

	Carrying Value	Fair Value
Long-term obligations (including current installments)	$ 521,597	$ 512,435

(12) Employee Benefit Plans

Pension Plans

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

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

Chugach made contributions to all significant pension plans for the years ended December 31, 2013, 2012 and 2011 of $6.8 million, $6.6 million and $6.0 million, respectively. The rate and number of employees in all significant pension plans did not materially change for the years ended December 31, 2013, 2012 and 2011.

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

	Alaska Electrical Pension Plan[3]			NRECA Retirement Security Plan[3]		
Employer Identification Number	92-6005171			53-0116145		
Plan Number	001			333		
Year-end Date	December 31			December 31		
Expiration Date of CBA's	June 30, 2017			N/A[2]		
Subject to Funding Improvement Plan	No			No[4]		
Surcharge Paid	N/A			N/A[4]		
	2013	2012	2011	2013	2012	2011
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)	$3.4	$3.6	$3.0	$3.4	$3.0	$3.0
Contributions > 5% of total plan contributions	Yes	Yes	Yes	No	No	No

[1]A "zone status" determination is not required, and therefore not determined under the Pension Protection Act (PPA) of 2006.
[2]The CEO is the only non-union employee subject to an employment agreement, which is effective through July 17, 2016.
[3]The Alaska Electrical Pension Plan is publicly available. The NRECA Retirement Security Plan is available on Chugach's website at www.chugachelectric.com.
[4]The provisions of the PPA do not apply to the RS Plan, therefore, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the RS Plan and may change as a result of plan experience.

Health and Welfare Plans

Health and welfare benefits for union employees are provided through the Alaska Electrical Health and Welfare Trust and the Alaska Hotel, Restaurant and Camp Employees Health and Welfare and Pension Trust Fund. Chugach participates in multi-employer plans that provide substantially all union workers with health care and other welfare benefits during their employment with Chugach. Chugach pays a defined amount per union employee pursuant to collective bargaining unit agreements. Amounts charged to benefit costs and contributed to the health and welfare plans for these benefits for the years ending December 31, 2013, 2012, and 2011 were $4.1 million, $4.3 million, and $3.7 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, 2013, 2012, and 2011 totaled $2.9 million, $2.5 million, and $2.4 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, 2013, 2012 and 2011 were $147.9 thousand, $141.0 thousand and $128.7 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 $17,500, $17,000 and $16,500 in 2013, 2012 and 2011 respectively, and allowed catch-up contributions for those over 50 years of age of $5,500 in 2013, 2012 and 2011. Chugach does not make contributions to the plan.

Deferred Compensation

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

Deferred compensation accounts are established for the individual employees, however, they are considered to be owned by Chugach until a distribution is made. The amounts credited to the deferred compensation account, including gains or losses, are retained by Chugach until the entire amount credited to the account has been distributed to the participant or to the participant's beneficiary. The balance of the Program for the years ending December 31, 2013, 2012 and 2011 was $536,546, $570,027 and $420,783, respectively.

Potential Termination Payments

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

(13) Bradley Lake Hydroelectric Project

Chugach is a participant in the Bradley Lake Hydroelectric Project (Bradley Lake). Bradley Lake was built and financed by the Alaska Energy Authority (AEA) through State of Alaska grants and $166.0 million of revenue bonds. Chugach and other participating utilities have entered into take-or-pay power sales agreements under which shares of the project capacity have been purchased and the participants have agreed to pay a like percentage of annual costs of the project (including ownership, operation and maintenance costs, debt service costs and amounts required to maintain established reserves). Under these take-or-pay power sales agreements, the participants have agreed to pay all project costs from the date of commercial operation even if no energy is produced. Chugach has a 30.4 percent share, or 27.4 megawatts (MW) as currently operated, of the project's capacity. The share of Bradley Lake indebtedness for which we are responsible is approximately $26.6 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 $5.2 million as a result of Chugach's Bradley Lake take-or-pay obligations. Management believes that such expenditures, if any, would be recoverable through the fuel recovery process.

The State of Alaska provided an initial grant for work on a project to divert water from Battle Creek into Bradley Lake. The project is being managed by the Alaska Energy Authority. Based on stream flow measurements from 1991 through 1993, diverting a portion of Battle Creek into Bradley Lake has the potential to increase annual energy output up to 40,000 megawatt-hours (MWh). Chugach would be entitled to 30.4 percent of the additional energy produced.

The following represents information with respect to Bradley Lake at June 30, 2013 (the most recent date for which information is available). Chugach's share of expenses was $4,882,163 in 2013, $4,223,784 in 2012, and $4,643,641 in 2011 and is included in purchased power in the accompanying financial statements.

(In thousands)	Total	Proportionate Share
Plant in service	$177,968	$54,102
Long-term debt	80,117	24,356
Interest expense	4,618	1,404

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

(14) Eklutna Hydroelectric Project

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

Plant in service in 2013 includes $4,562,310, net of accumulated depreciation of $1,854,083, which represents Chugach's share of the Eklutna Hydroelectric Project. In 2012, plant in service included $4,725,470, net of accumulated depreciation of $1,671,335. The facility is operated by Chugach and maintained jointly by Chugach and ML&P. Each participant contributes their proportionate share for operation, maintenance and capital improvement costs to the plant, as well as to the transmission line between Anchorage and the plant. Under net billing arrangements, Chugach then reimburses MEA for their share of the costs. Chugach's share of expenses was $730,122, $682,757, and $662,035 in 2013, 2012, and 2011, respectively, and is included in purchased power, power production and depreciation expense in the accompanying financial statements. ML&P performs major maintenance at the plant. Chugach performs the daily operation and maintenance of the power plant, providing personnel who perform daily plant inspections, meter reading, monthly report preparation, and other activities as required.

(15) Commitments and Contingencies

Contingencies

Chugach is a participant in various legal actions, rate disputes, personnel matters and claims both for and against Chugach's interests. Management believes the outcome of any such matters will not materially impact Chugach's financial condition, results of operations or liquidity.

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 three IBEW CBA's have been renewed through June 30, 2017. The HERE contract has been renewed through June 30, 2016.

Chugach is the principal supplier of power under a wholesale power contract with MEA and was the principal supplier of power under a wholesale power contract with HEA until December 31, 2013. These contracts, including the fuel component, represented $103.1 million or 34 percent of sales revenue in 2013, $100.6 million or 39 percent in 2012, and $104.0 million or 37 percent in 2011. The HEA contract expired December 31, 2013, and the MEA contract expires December 31, 2014. Pursuant to contract provisions, notifications were made by MEA and HEA that neither organization intended to renew their 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.

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 "ConocoPhillips"), 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 Marathon Alaska Production, LLC (MAP) effective May 17, 2010. This contract includes two contract extensions that were exercised in 2011. Effective February 1, 2013, this gas purchase agreement was assigned to Hilcorp, who purchased MAP's assets in Cook Inlet. This contract provided gas beginning April 1, 2011, and will expire March 31, 2018. The total amount of gas under contract is now estimated up to 40 Bcf. These contracts fill 100 percent of Chugach's needs through March 31, 2018. All of the production is expected to come from Cook Inlet, Alaska. In 2013, 87 percent of our power was generated from gas, with 47 percent generated at the Beluga Power Plant and 31 percent generated at SPP. In 2012 and 2011, 89 percent and 92 percent, respectively, of our power was generated from gas, with 83 percent and 79 percent generated at Beluga.

The terms of the ConocoPhillips and Hilcorp agreements require Chugach to handle the natural gas transportation over the connecting pipeline systems. Effective October 1, 2012, Chugach and Hilcorp entered into a gas exchange agreement to exchange gas between the east and west side of Cook Inlet. This agreement terminated on September 30, 2013. We have gas transportation agreements with ENSTAR Natural Gas Company (ENSTAR) and Hilcorp. The following represents the cost of fuel purchased and or transported from various vendors as a percentage of total fuel costs for the years ended December 31:

	2013	2012	2011
Marathon Oil Company	4.5%	72.0%	44.9%
Chevron / Unocal / Hilcorp	46.4%	1.3%	16.1%
ML&P	0.0%	0.0%	3.6%
ConocoPhillips (COP)	42.8%	24.2%	31.9%
ENSTAR	2.1%	2.2%	1.3%
Hilcorp Pipeline	3.8%	0.0%	0.0%
Miscellaneous	0.4%	0.3%	2.2%

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 and is included in the retirement of capital credits on our Statements of Changes in Equities and Margins. HEA's patronage capital was $7.9 million at December 31, 2013 and $6.9 million at December 31, 2012, and is classified as patronage capital payable on our Balance Sheet.

Regulatory Cost Charge

In 1992, the State of Alaska Legislature passed legislation authorizing the Department of Revenue to collect a Regulatory Cost Charge from utilities to fund the governing regulatory commission, which is currently the RCA. The tax is assessed on all retail consumers and is based on kilowatt-hour (kWh) consumption. The tax is collected monthly and remitted to the State of Alaska quarterly. The Regulatory Cost Charge has changed since its inception (November of 1992) from an initial rate of $0.000626 per kWh to the current rate of $0.000578, effective July 1, 2013. 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.

Production Taxes

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

Underground Compliance Charge

In 2005, the Anchorage Municipal Assembly adopted an ordinance to require utilities to convert overhead distribution lines to underground. To comply with the ordinance, Chugach must expend two percent of a three-year average of gross retail revenue within the Municipality of Anchorage annually in moving existing distribution overhead lines underground. Consistent with Alaska Statutes regarding undergrounding programs, Chugach is permitted to amend its rates by adding a two percent charge to its retail members' bills to recover the actual costs of the program. The rate amendments are not subject to RCA review or approval. Chugach's liability was $2,898,558 and $3,786,031 for this charge at December 31, 2013 and 2012, respectively. These funds are used to offset the costs of the undergrounding program.

Environmental Matters

The Clean Air Act and Environmental Protection Agency (EPA) regulations under the Clean Air Act establish ambient air quality standards and limit the emission of many air pollutants. New Clean Air Act regulations impacting electric utilities may result from future events or new regulatory programs. Chugach is subject to these regulations, which have not had and are 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. Chugach has obtained 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, results of operation or cash flows. 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. Chugach follows proposed new regulations and existing regulation changes through industry associations and professional organizations.

Economy Energy Sales

On October 5, 2012, Chugach and GVEA finalized arrangements for Chugach to provide economy energy to GVEA until March of 2015. Sales will be made under the terms and conditions of Chugach's economy energy sales tariff. The price to GVEA will include the cost of fuel, variable operations and maintenance expense, wheeling charges and a margin. Chugach has also entered into specific gas supply arrangements to make economy energy sales to GVEA.

Cooper Lake Hydroelectric Project

The Cooper Lake Hydroelectric Project received a 50-year license from FERC in August of 2007. A condition of that license is a requirement to construct a Stetson Creek diversion structure, a pipeline to Cooper Lake, and a bypass structure to release warmer water from Cooper Lake into Cooper Creek. If the project is not feasible or if the cost estimate materially exceeds the terms of the license, Chugach has the option to request a license amendment. At the time the project was being relicensed the estimated cost to complete the project was $12.0 million. The current estimate to complete the project is now $21.9 million. As an alternative to requesting a license amendment from FERC, Chugach requested grants from the State of Alaska. Funding for this project includes $6.4 million in grants received with an additional $1.76 million pending authorization. The Chugach Board authorized expenditures for the project November 15, 2012. The diversion project began construction in 2013 and will be completed in 2014. It will operate through the duration of the license.

(16) Gain on Sale of Asset

On July 12, 2011, Chugach sold the Bernice Lake Power Plant to AEEC and HEA. Chugach recognized the proceeds from this sale as a liability on its Balance Sheet and continued to dispatch the power plant until the expiration of its power sales agreement with HEA. In December of 2013, Chugach recognized the gain associated with this sale which amounted to $6.4 million.

(17) Quarterly Results of Operations (unaudited)

2013 Quarter Ended

	Dec. 31	Sept. 30	June 30	March 31
Operating Revenue	$ 81,068,132	$ 71,715,353	$ 74,776,425	$ 77,748,517
Operating Expense	73,756,307	67,061,684	70,076,488	67,844,018
Net Interest	6,014,808	6,016,792	6,058,246	5,291,626
Net Operating Margins	1,297,017	(1,363,123)	(1,358,309)	4,612,873
Nonoperating Margins	6,918,314	226,803	(18,235)	228,703
Assignable Margins	$ 8,215,331	$ (1,136,320)	$ (1,376,544)	$ 4,841,576

2012 Quarter Ended

	Dec. 31	Sept. 30	June 30	March 31
Operating Revenue	$ 74,483,455	$ 62,675,511	$ 58,631,729	$ 71,180,773
Operating Expense	68,250,215	60,200,529	55,725,151	64,019,060
Net Interest	3,492,044	3,495,865	3,542,676	3,872,346
Net Operating Margins	2,741,196	(1,020,883)	(636,098)	3,289,367
Nonoperating Margins	632,775	261,487	123,962	133,701
Assignable Margins	$ 3,373,971	$ (759,396)	$ (512,136)	$ 3,423,068

Power Supply

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

After 22 months of construction, the Southcentral Power Project came under utility control shortly before midnight on Jan. 31. Chugach accepted "care, custody and control" from SNC-Lavalin Constructors, the contractor hired to build the new power plant for Chugach and Municipal Light & Power. The utilities share both the costs and output of the 200.2-megawatt project, 70 percent Chugach and 30 percent ML&P. Under the terms of an agreement between the two utilities, Chugach will operate and dispatch the power from SPP on behalf of the joint owners. SPP came in several months ahead of schedule and about $10 million under its $369 million budget. A grand opening ceremony – attended by more than 200 community leaders and others – was held in May.

A diversion structure and two miles of buried 36-inch diameter polyethelene pipeline were installed in 2013 to carry water from Stetson Creek into the Cooper Lake reservoir. Infrastructure to allow the release of warmer water from the reservoir into Cooper Creek will be constructed in 2014.

Built on available land at Chugach's headquarters complex, SPP is a very efficient gas-fired power plant. It contains three natural gas-fired turbines and one steam turbine, each coupled with a generator. While the 48-Mw gas turbines-generators are capable of running independently, the plant operates in combined-cycle mode most of the time. In combined-cycle, the 800-degree hot exhaust of the gas turbines is used to make steam which powers the 39-Mw steam turbine-generator. By the end of the year SPP had saved Chugach members more than $20 million in avoided fuel purchases.

Construction began on the Stetson Creek diversion at the Cooper Lake Hydroelectric Project. The diversion project is a requirement of the new 50-year operating license for the plant that Chugach received from the Federal Energy Regulatory Commission (FERC) in 2007. The diversion will replace much of the cold water inflow of Stetson Creek into the Cooper Creek drainage with warmer water from the Cooper Lake reservoir to provide warmer water for fish habitat. The project includes the construction of a small diversion structure on Stetson Creek, two miles of buried pipeline to the reservoir and the works necessary to release water from the lake. Construction is scheduled to be completed in 2014.

Chugach continued a multi-year project to replace its microwave radios with new units with enhanced communications capabilities.

Chugach also completed the periodic inspection of its Cooper Lake Hydroelectric Project required by FERC regulations. The "12D" inspection – typically done every five years – requires an independent consultant to identify actual or potential deficiencies that might endanger public safety. No significant problems were found.

As the year drew to a close, power control and communications made modifications to the SCADA system in preparation for Homer Electric Association terminating its wholesale power contract.

Chugach took its first full year of energy from the Fire Island Wind Project in 2013, using its hydro resources to manage wind variability. the project had a 29 percent capacity factor, producing 49,525 megawatt-hours of energy.

Chugach completed annual inspections of the three gas turbines at its International plant, as well as Unit No. 5 at the Beluga Power Plant.

Power Delivery

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

Chugach rebuilt a 15-mile section of transmission line up and through Turnagain Pass. The 50-year-old line was originally constructed to link Chugach's Cooper Lake Hydroelectric Project near Cooper landing with customers in the Anchorage area. Over time the line has taken on greater importance. For more than 20 years it has provided the only path to move electricity from the State-owned Bradley Lake Hydroelectric Project to utilities and their customers north of the Kenai Peninsula. Currently energized at 115,000 volts, Chugach rebuilt the section of line to 230-kv standards in anticipation of a future upgrade of the line, consistent with the Alaska Energy Authority's long-range goal for the Railbelt transmission backbone.

Chugach also upgraded the nearby Hope Substation, adding new 230-kv switches and automated switching capabilities. The substation, fed by the 115-kv transmission line between Anchorage and the Kenai Peninsula, provides distribution service to members in the Hope and Sunrise areas. With the upgrade, it now has the added benefit of being a switching point to isolate faults, reduce the impact of transmission line outages, speed troubleshooting and improve the overall reliability of a key piece of regional infrastructure. The $2.2 million project was paid for by a combination of Chugach funds and State grants.

Chugach completed a series of projects along the 17.7-miles of radial distribution line that serves customers in Sunrise and Hope. Long the source of outage problems and associated costs, Chugach has been working steadily over the past decade to tackle problems identified in a detailed study of the line. The 2013 projects included rebuilding about 4.5 miles of the line (moving it closer to the road) and projects to either raise or bury sections of the line across a pair of avalanche chutes. The projects were paid for by a combination of funds from the Hazard Mitigation Grant Program and Chugach.

Distribution line projects across the Anchorage Bowl included cable injections, cable replacements and overhead-to-underground conversions. A dozen injection projects extended the life of existing underground cable in different neighborhoods. Thirteen replacement projects installed new underground cable in areas where injection could not compensate for the deterioration of the old facilities. In compliance with a Municipal ordinance, several overhead-to-underground conversions were done or initiated. Seven conversion projects were completed in 2013, with large projects along Tudor Road and Victor Road underway at year end. One completed project converted a short section of overhead line that was the source of an extended outage for a largely underground service area in and around the Kempton Hills neighborhood after a 100-mph windstorm in September 2012. Similar projects have been identified for future years.

After being battered by unusual winter storms, strong winds and flooding in recent years, the Chugach system saw few out-of-the-ordinary storms in 2013. Operations crews were busy with transmission and distribution maintenance projects, some of which were carryover permanent repairs of damages done by the unusually difficult weather events in September 2012.

A $15 million grant from the Legislature, administered by the Alaska Energy Authority, paid for a Chugach project that rebuilt 15 miles of transmission line up and through Ternagain Pass.

A new substation transformer was installed at the Turnagain Substation to replace one nearing the end of its useful life.

A portion of a 138-kv transmission line was relocated to make room for an upgrade of Dowling Road between the Old Seward Highway and C Street.

Finance & Administration

The Finance and Administration Division is responsible for Chugach's Accounting and Finance, Information Services and Administrative Services departments.

In 2013 the Accounting and Finance department actively managed fixed asset conversions, and compliance with requirements of the Securities and Exchange Commission and Chugach's indenture and debt agreements. Staff handled the receipt and management of more than $25 million in federal and state grant payments. In addition, the department supported the accounting requirements that resulted from the joint ownership of the Southcentral Power Project with Municipal Light & Power.

The Accounting and Finance department also finalized a system to close out work orders, which will streamline and automate processes to increase efficiency and internal control measures.

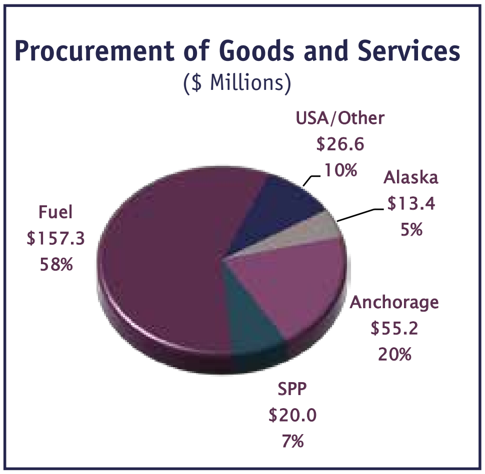
The year concluded with an upgrade from a national credit rating agency. Fitch Ratings upgraded Chugach's financial rating to "A" from its previous "A-" and provided an outlook of "Stable" for Chugach. Fitch noted the rating is on implied obligations, since the more than $500 million in existing Chugach debt is secured by privately held, first mortgage bonds.

Information Services supports the technical needs of a wide variety of systems that enable efficient performance of Chugach's business processes. Major accomplishments in 2013 included system upgrades for enterprise document management, substation and operations work management, engineering design, Geographic Information System, and data backup and recovery. Additionally, software was developed and deployed for managing Engineering's construction projects and improving outage management. The Information Services department also installed and configured a new core switch.

Administrative Services is responsible for Chugach's purchasing, contracting, facilities maintenance and security. Administrative Services procurement of goods and services for 2013 totaled $272.6 million. Of that, $157.3 million (58 percent of the total expenditure) was for fuel to produce power and $20 million (7 percent) was for SPP construction. Of the remaining $95.2 million, Chugach spent $68.6 million in Alaska, with $55.2 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, utilities and professional services.

Administrative Services also completed a variety of facilities and security projects which included replacing the security access system, fence refurbishment at the International Substation, remodeling projects for Operations and Member Services, and other maintenance and replacement projects located at the headquarters building.

The remodeling of the service center that Administrative Services began in 2013 included the addition of new, variable-height work stations.



The new core switch installed and configured by Information Services is the heart of Chugach's computing network.

Member & Employee Services

Member and Employee Services has the responsibility for Chugach's human resources, safety and Member Services functions.

At the end of 2013, Chugach had a total of 324 employees; 311 were regular employees and 13 were temporary. Approximately two-thirds of Chugach employees are represented by a labor union. Most represented employees work under one of three contracts between Chugach and the International Brotherhood of Electrical Workers, with a small group at the Beluga camp covered by an agreement with UNITE HERE (an expanded union that includes Chugach employees formerly members of the Hotel Employees and Restaurant Employees). In mid-2013, Chugach came to agreement with its various bargaining units on new contracts that expire in 2016 and 2017.

Chugach maintained a focus on working safely. Multiple training courses were held on a wide range of topics. The lost work day recordable incident rate for the year was 2.18.

For Member Services, 2013 was the first full year of operation with its new customer information system. The CIS provides member service representatives faster and broader access to information to enhance their interactions with members, as well as improved summary reporting.

Chugach continued efforts to improve service and streamline business processes. The Auto Pay by Checking program showed strong growth once again. Participation grew by 4 percent in 2013, with more than 20,400 accounts enrolled by the end of the year. The growth rate was even better for Paperless Billing. Enrollment in that program grew by 15 percent, with more than 9,600 accounts signed up by year's end. For credit notices, Chugach sought and received regulatory approval to use phone calls delivered by the Interactive Voice Response (IVR) system in lieu of having meter readers hang up to 2,000 door tags each month.

Member Services followed up on lessons-learned from the series of damaging windstorms that hit Southcentral Alaska in September 2012. The department improved its outage communication abilities and increased its call-handling capacity for any given emergency event by contracting for disaster response care call center services. The service will back up and augment existing Chugach phone call answering capabilities 24/7. When activated, call center agents use Chugach's outage reporting system to enter trouble tickets.

Chugach maintained an active and innovative energy efficiency and conservation program throughout the year. With funding from an Alaska Energy Authority grant, Chugach launched the MyPower program and OPower App to help members track their energy usage and compare it with friends and neighbors. In addition to print and web-based communications, Chugach participated in group and community events to promote efficiency and conservation.

Working safely is a priority at Chugach.

Member Services worked with the Election Committee and contractor for the 2013 election, and also registered members at the annual meeting.

Chugach continued its business partnership with the Anchorage School District. Chugach made presentations on energy efficiency topics to more than 1,300 students throughout its service territory in 2013, including co-sponsoring the "Energy Hog" program.

Strategic Development & Regulatory Affairs

Strategic Development and Regulatory Affairs is responsible for long-term planning, fuel supply, new business development, corporate business analysis, government relations, corporate communications and regulatory affairs.

A new gas contract was negotiated with Hilcorp Alaska, LLC, resulting in Chugach's gas supply needs being met through March 2018. Chugach also entered into a new gas contract with Cook Inlet Energy to purchase supplemental gas. Chugach will continue to seek long-term fuel supplies.

Regarding renewable energy, 2013 was the first full year of wind energy generated by the Fire Island Wind Project and Chugach continued to develop solutions to integrate and regulate this intermittent energy resource. In April 2013 Chugach published a request for proposals for renewable and zero carbon resources. Chugach also supported the State's efforts to advance the Watana hydroelectric project and a diversion of Battle Creek into Bradley Lake for increased hydroelectric production. Chugach's Stetson Creek diversion will increase the energy produced by Chugach's Cooper Lake Hydroelectric Project.

Rate adjustments to recover costs associated with the Southcentral Power Project and benefits from its fuel efficiency were put in place in 2013.

Chugach was very successful applying for funding to support renewable energy projects. The Alaska Energy Authority recommended that in 2014 Chugach be awarded a renewable energy grant of $1,760,019 for Stetson Creek construction and an emerging energy technology fund grant of $720,000 for a pilot project to develop a multi-stage energy storage system to help manage the intermittent wind energy from Fire Island.

Chugach's wholesale power sales contract with Homer Electric Association ended on Dec. 31, 2013 and the wholesale contract with Matanuska Electric Association will end on Dec. 31, 2014. Chugach will continue to work on issues associated with this transition.

A fast-evolving area for Chugach and the Railbelt involves reliability standards and operating parameters for the transmission system. This has become a critical issue as more utilities are separately responsible for the operation of the common Railbelt transmission system. Chugach is leading the efforts to develop the rules of the road for regional transmission planning and operations and to educate stakeholders. Chugach is at the forefront of an effort to develop an independent system operator (ISO) for the Railbelt. The ISO structure will facilitate implementation of these rules of the road and transmission development.

Chugach secured new gas supplies in 2013 after years of concern about declining production from Cook Inlet wells.

During the 2013 legislative session, Chugach led the successful effort that changed the co-op statute to permit 4-year terms for directors and the Alaska Energy Authority received $95 million for the Watana hydroelectric project.

Chugach's regulatory affairs department was extremely active before the Regulatory Commission of Alaska in 2013. A rate case was concluded during 2013 that was primarily driven by the need to recover costs associated with bringing the Southcentral Power Project into service. This rate case also included transmission wheeling and ancillary services tariffs which are necessary to recover the costs of providing generation and transmission services to neighboring utilities that use the Chugach system. A second rate case was filed in late 2013 to adjust rates for the termination of Homer Electric Association as a wholesale customer by redistributing fixed costs previously paid for by HEA to remaining customers. The regulatory affairs department also made filings to recover fuel and purchased power costs, adjust fees and actively participated in rulemaking proceedings.

Chugach executed a gas purchase contract and a power sales agreement for economy energy to Golden Valley Electric Association for a two-year period beginning April 1, 2013.

Generation resources

Chugach uses various generation resources to ensure reliable, affordable power. At the end of December 2013, Chugach had 602.7 megawatts of installed capacity at Chugach-owned facilities (which includes Chugach's share of the jointly owned Southcentral Power Project and Eklutna Power Plant). The unit ratings shown are taken at 30 degrees Fahrenheit. Chugach also took power from the state-owned Bradley Lake Hydroelectric Project near Homer, from Homer Electric Association's gas-fired units at Nikiski and Bernice Lake and from the Fire Island wind project. In 2013, 87 percent of the kilowatt-hours Chugach sold came from natural gas units, 11 percent from hydroelectric resources and 2 percent from wind..

Beluga

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

Cooper Lake

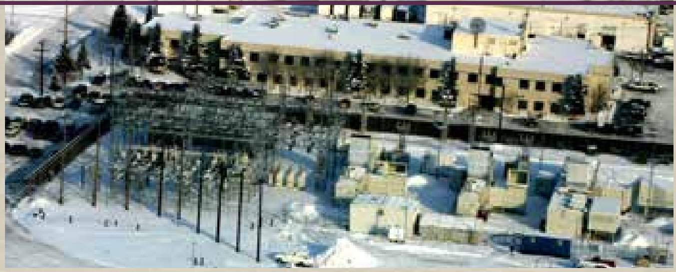
Located near Cooper Landing on the Kenai Peninsula; units are hydro turbines.

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

Eklutna

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.

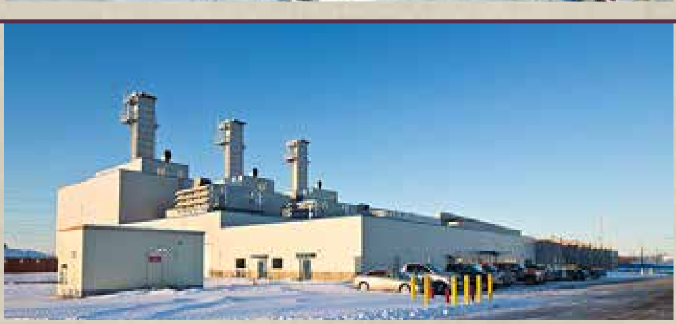
Units	Commissioned	Power Rating (megawatts)
No. 1	1955	23.5
No. 2	1955	23.5
	TOTAL	47.0



International

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



SPP

Located off International Airport Road in Anchorage; Units 11-13 are natural gas combustion turbines and Unit 10 is a steam turbine. Chugach's share is 70 percent, or 140.1 megawatts.

Units	Commissioned	Power Rating (megawatts)
No. 10	2013	57.4
No. 11	2013	47.6
No. 12	2013	47.6
No. 13	2013	47.6
	TOTAL	200.2

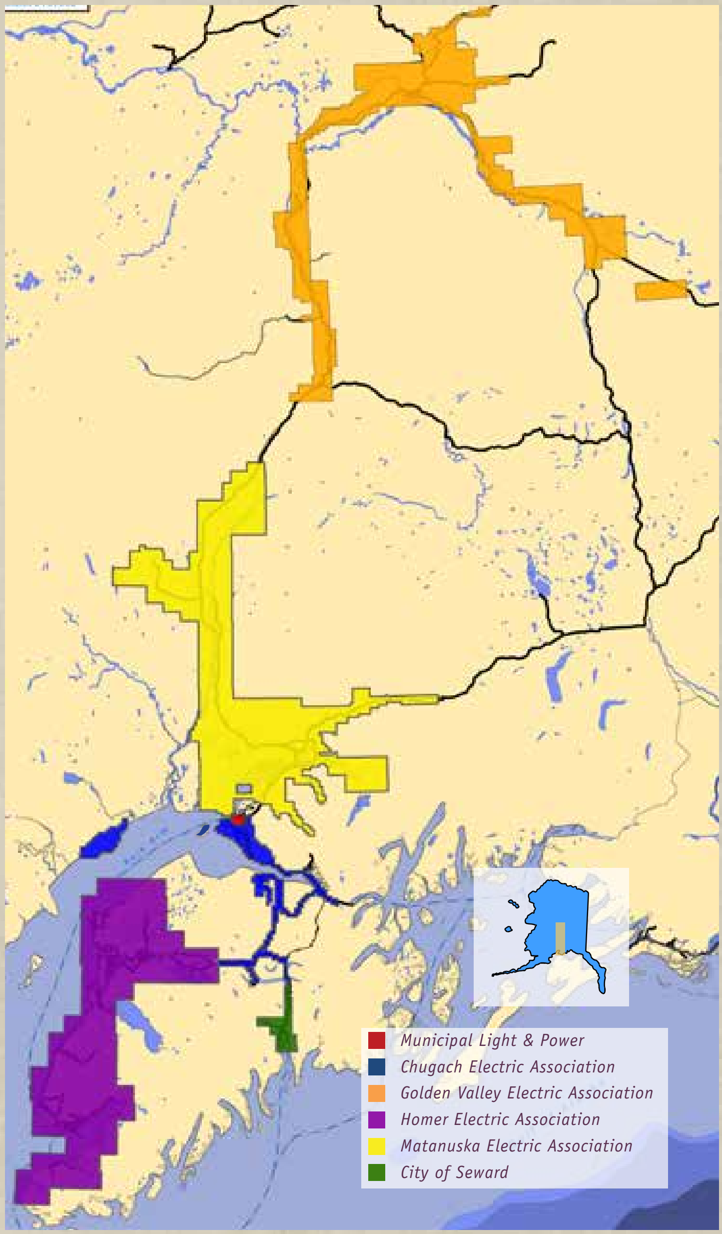
CHUGACH

The Railbelt

Chugach power flows to nearly three-fourths of Alaska's population. Chugach serves 82,554 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 including Fire Island. Through 2013, Chugach provided 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.

On December 31, Chugach had 602.7 megawatts of generation capacity at Chugach-owned facilities, which included Chugach's share of the jointly owned Southcentral Power Project and Eklutna Power Plant. Chugach operated 2,229 miles of energized line. Chugach had 539 miles of transmission line, which included 128 miles of leased transmission lines. Chugach has 909 miles of overhead distribution line and 781 miles of underground distribution line.

Chugach set its 2013 system peak load on Dec. 17, when demand hit 458 megawatts in the hour ending at 7 p.m. The temperature at the time at Chugach headquarters was minus 1 degree Fahrenheit. Power sales for the year totaled 2.8 billion kilowatt-hours.



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