Annual Report

Chugach Electric Association, Inc.

2014

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Front cover: Chugach crews installed aerial marker balls on a newly constructed section of distribution line over the Chuitna River. Above: The new line replaced a temporary crossing erected after flooding in September 2012 damaged the line.

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

Unusually warm weather in January cut expected revenues by about $1 million. Despite cold temperatures later in the winter, the impact would affect revenue projections for the rest of the year. January also saw rates rise for the remaining customers on the Chugach system to compensate for the loss of Homer Electric Association at the end of 2013.

Chugach was a proponent of grid unification in multiple forums. In discussions with legislators, regulators, agencies and other utilities, Chugach advocated the merits of a unified system operator for the Railbelt transmission grid. The Legislature provided $250,000 in funding for the Regulatory Commission of Alaska to study the feasibility of an independent transmission organization for the Railbelt.

At the annual meeting May 22, members made the initial elections to begin to move Chugach directors to 4-year terms. Jim Henderson and Janet Reiser were elected to 4-year terms and Harry Crawford to a 3-year term. A total of 180 members registered at the annual meeting. In all, 12.5 percent of the 68,583 Chugach members of record voted, with 37.5 percent of the ballots cast electronically via the Internet or phone.

In June the Environmental Protection Agency released a proposed rule that will require carbon dioxide emission reductions from existing power plants in 49 states – including Alaska. With a future generation portfolio largely consisting of natural gas fired energy from the low-emission Southcentral Power Project plus hydro and wind resources, Chugach expects to be below the target CO2-to-megawatt-hour production rate target set by EPA for Alaska.

Chugach crews and contractors were busy during the construction season. Projects included cable injections, cable replacements and overhead-to-underground conversions. Of note was a project completed in May that moved about a mile of line closer to the Hope Highway. The project was the last in a decade-long effort to improve service and cut operating costs by improving the 17.7 miles of line that serves the area.

Chugach's largest project was the ongoing work on the Stetson Creek diversion. The project is a condition of Chugach's renewed license for the Cooper Lake Hydroelectric Project from the Federal Energy Regulatory Commission.

Late in the year Chugach filed with the Regulatory Commission of Alaska a contract amendment for an additional year of natural gas supply. The agreement was negotiated with Hilcorp Alaska, LLC. With approval of the agreement, Chugach secured natural gas to meet its needs through March 31, 2019.

As the end of the year drew near, so did the anticipated end of the decades-long wholesale power contract between Chugach and Matanuska Electric Association. When full completion of MEA's generating plant by year-end was delayed, the two utilities negotiated an interim power sales agreement for three months using some generation from MEA's Eklutna Generation Station. The RCA approved the agreement Dec. 22.

Left: Chugach resumed capital credit retirements in December, with the board authorizing the return of $4 million in retail credits and another $3.5 million in wholesale credits. Capital credits are a member's share of the margins for a year in which revenues exceeded expenses. The retail retirement returned remaining credits from 1989 and a portion of 1990. When Chugach took on new debt to finance its share of the Southcentral Power Project, it was necessary to suspend retirements for several years to grow equity.

Right: Spring, summer and fall were also busy times for field crews gathering data for dozens of studies to support a license application for the proposed Susitna-Watana hydroelectric project. Chugach supports the effort by the Alaska Energy Authority (supported by funding from the Legislature) to move the project to a FERC license application. Utilities will make their business decisions about participation in the project based upon its cost and conditions, the latter of which won't be known until after the license process.

Janet Reiser
Board Chair

Chair report

Railbelt utilities are in a time of transition. Changes to our business and operational relationships are being driven by the end of long-term wholesale power contracts, construction of new generation and the need to rationalize regional transmission assets. These changes have led to Chugach's support for a unified system operator for the Railbelt transmission system.

For decades Chugach was the wholesale power provider for not only its own retail customers, but also Homer Electric Association, Matanuska Electric Association and the City of Seward. Chugach has also sold large amounts of economy energy to Fairbanks-based Golden Valley Electric Association since the 1980s. Some of those business relationships are changing. HEA chose to build its own generation and leave the Chugach system when its contract expired at the end of 2013. MEA is doing the same thing, leaving the Chugach system in 2015.

Under the former arrangement Chugach planned, built and operated much of the regional electric system. With the expiration of the HEA and MEA contracts, we are moving into a new era and striving to find the right means to ensure customers continue to receive reliable, affordable electric service. It is in this context that we became proponents of a unified system operator for the transmission system.

New and upgraded transmission lines are needed, as are rules for reliability and interconnection. Non-utility power providers want access to the grid. Alaska Energy Authority studies have identified significant savings from economic dispatch, but it takes an unconstrained transmission system to fully achieve them.

We need a means to make decisions and finance improvements that are good for the entire Railbelt region. That is difficult with several organizations whose traditional charge is to look out for ratepayers within their respective service territories. Currently, six electric utilities and the Alaska Energy Authority own most of the transmission facilities in the Railbelt. 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, and dispute resolution consumes time and money.

Chugach's study of business models that have worked well in the Lower 48 led us to the conclusion that a unified system operator for the Railbelt transmission system would be very beneficial. Across the country, these organizations – often called independent system operators – 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. Benefits of the model include open, non-discriminatory access, the administration of a universal tariff, a regulatory compact to ensure cost recovery, grid additions and the development and enforcement of reliability and interconnection standards. Creation of a unified system operator, with a follow-on transmission-only focused organization, could help the Railbelt realize significant benefits.

In the 2014 session, legislators approved funding the Regulatory Commission of Alaska to do an investigation into grid unification. Specifically, the RCA was tasked with determining "whether creating an independent system operator or similar structure for electric utilities in the Railbelt area is the best option for effective and efficient electrical transmission." Chugach has and will continue to engage with the RCA as it develops a record and prepares to report its findings to the Legislature by June 30, 2015. We're encouraged by the Legislature's willingness to help the state's most-populous region find a way to better manage and expand the transmission system that serves hundreds of thousands of Alaskans. We also appreciate the fact that more and more legislators, regulators, agencies, administrators, utilities and third-party interests are joining in the discussion. The decision we make about a unified system operator will affect the Railbelt for years to come. We'll benefit from more voices in the conversation.

The Executive staff

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

CEO REPORT

Bradley Evans
CEO

Chugach has worked through many challenges in recent years. Several of these were successfully managed in a very short time frame and it truly took a team to manage these challenges.

The end of long-term natural gas contracts and the comings and goings of area gas producers caused concerns about fuel supply. The life cycle of machinery led to the replacement of generation resources. The recent relicensing of a hydro project brought us a major construction project, and an example of how we might increase production from another regional asset. The end of decades-long wholesale power agreements – and the unified planning and operation they brought to the system – means we need to find new ways of doing business. The pace of change has been swift.

Chugach's has a clean generation portfolio. In 2014, 87 percent of the kilowatt-hours we sold came from burning natural gas, 11 percent from hydroelectric projects and 2 percent from wind turbines. A reliable supply of reasonably priced natural gas is key to our business. We have secured gas contracts that ensure fuel for a five-year planning horizon. The entrance of new suppliers and investments into the Cook Inlet gas basin has helped stimulate not only production, but competition. We also continue to benefit from our decision to be a customer of a commercial gas storage facility on the Kenai Peninsula. We have found ways to leverage our storage space, not simply using it to store gas in the summer for use in the winter but also taking advantage of its capacity for spot purchases and other opportunities.

Our decision to build a new gas-fired power plant on our Anchorage headquarters complex has paid off in a number of ways. The Southcentral Power Project's operating statistics exceeded national standards in 2014 – its first full year of operations. The modern combined-cycle units at SPP have saved customers money for the past two years. In 2014 Chugach customers saved more than $17 million that we otherwise would have spent on natural gas.

SPP is a clean-burning power plant, with nitrous oxide emissions down dramatically from Beluga and other older plants. Because it burns less fuel, it also produces less carbon dioxide per megawatt-hour than older units. That is increasingly important as a national debate ensues over whether or not a proposed plan by the Environmental Protection Agency to reduce CO2 emissions from power plants will stand. With SPP, Chugach is well-positioned if those regulations come to pass.

We are nearing the end of a major construction project at our Cooper Lake Hydroelectric Project. As a condition of our license from the Federal Regulatory Energy Commission, we will be diverting much of the flow of cold water from Stetson Creek into the Cooper Lake reservoir, then releasing relatively warmer reservoir water into the drainage. The project's goal is to restore fish habitat in the lower reaches of Cooper Creek while increasing the energy output of the plant. The Stetson Creek project also allowed us to offer insights and suggestions to the Alaska Energy Authority as it designed a similar proposed diversion of Battle Creek into the Bradley Lake reservoir.

On the renewable front, we continue to look for opportunities to add and manage these resources. To that end, we are planning a project to demonstrate how the combined use of a battery and flywheel can mitigate some of the variability of the wind power.

Expansion and operation of the regional transmission system and efficient dispatch of generation resources are important for Alaska's economy. Chugach is concerned about the collective ability of multiple asset-owners to effectively and efficiently optimize grid operations. We believe a unified system operator would be good for the Railbelt and have shared that message with legislators, regulators and others in recent years. We have an immediate need to unconstrain the transmission system between Anchorage and the Bradley Lake Hydroelectric Project, and a long-term desire for the economic dispatch of generation resources.

I am very pleased with the hard work and outcomes produced by all of Chugach's employees in facing the challenges of 2014.

Bradley Evans

Board of directors

Janet Reiser
Chair

Janet Reiser was elected to the board in 2008, 2011 and re-elected in 2014. She is currently the Chair of the Board and serves on the Governance, Operations, Audit and Finance Committees. She is currently the Representative to the Alaska Railbelt Cooperative Transmission and Electric Company. Janet 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 Vice Chair 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 and re-elected in 2014. He is serving as the Secretary of the Board, Vice Chair of the Audit and Finance Committee and is a member on the Governance Committee. He is a National Rural Electric Cooperative Association Credentialed Cooperative Director.

Dave Gillespie
Director

Dave Gillespie is an independent consultant. He received his MBA from Rensselaer Polytechnic Institute, Hartford, Connecticut and his BSME from the Worcester Polytechnic Institute, Worcester, Massachusetts. His background includes CEO of the Aleut Corporation; 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. He is currently the Member Representative to Alaska Railbelt Cooperative Transmission and Electric Company and is the ARCTEC Board Chair.

Sisi Cooper
Treasurer

Sisi Cooper is a project engineer with Doyon Anvil, 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 a member of 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 and re-elected in 2014. He currently serves on the Audit and Finance and Governance Committees and is the CFC Voting Delegate. He is a National Rural Electric Cooperative Association Credentialed Cooperative Director.

Jim Nordlund
Director

Jim Nordlund is the 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 Chair 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, Dave Gillespie, and Jim Nordlund.

Treasurer Report

Sisi Cooper

Treasurer

Chugach's 2014 margins (a cooperative's bottom line or revenues in excess of current costs) totaled $6.5 million. Our Margins-for-Interest-to-Interest ratio was 1.28, well above our indenture requirement of 1.10. Our Equity-to-Total-Capitalization ratio, required to be kept at or above 22 percent, was 27.3 percent.

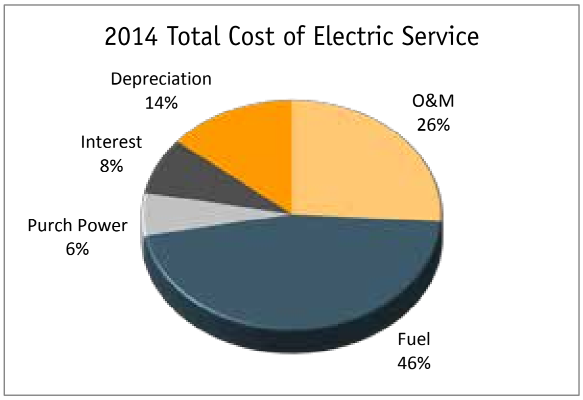
Total energy sales to retail, wholesale and economy customers were 2,319,039 megawatt-hours compared to 2,815,679 in 2013. While the expiration of Homer Electric Association's wholesale contract contributed to most of the decrease in energy sales from 2013, sales to retail and the remaining wholesale customers were down from last year and from the 2014 budget, due to unseasonably warm weather.

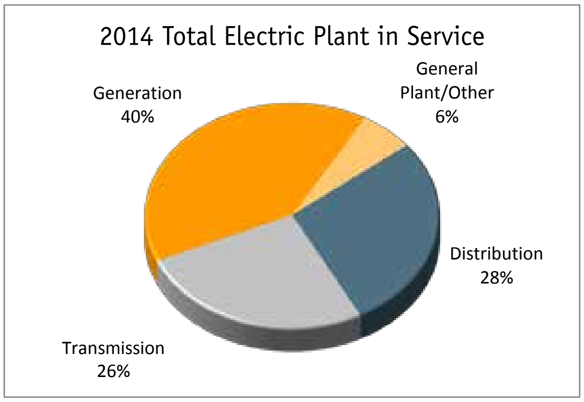
Total revenue for the year was $281.3 million, down from $305.3 million in 2013, although consistent with the 2014 budget of $281.6 million. The decrease in revenue from 2013 was due primarily to the expiration of HEA's wholesale contract. While there was no significant overall variance from the 2014 budget, higher than anticipated wheeling revenue associated with economy energy sales to Golden Valley Electric Association offset lower than anticipated energy sales to retail and wholesale customers.

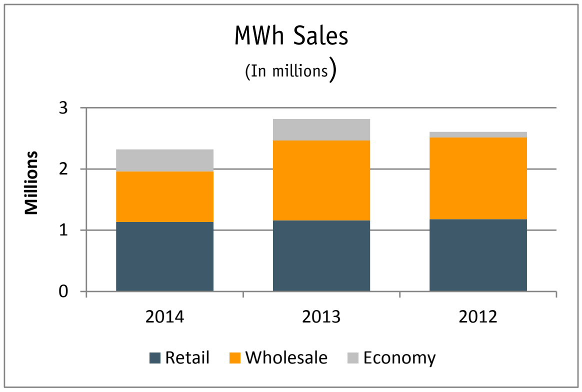
Through diligent monitoring and cost-containment measures, Chugach was able to offset lower-than-anticipated energy sales and revenue by reducing operating expenses, excluding fuel and purchased power, by $3.0 million from 2013 and $4.4 million from the 2014 budget, therefore achieving margins consistent with the 2014 budget.

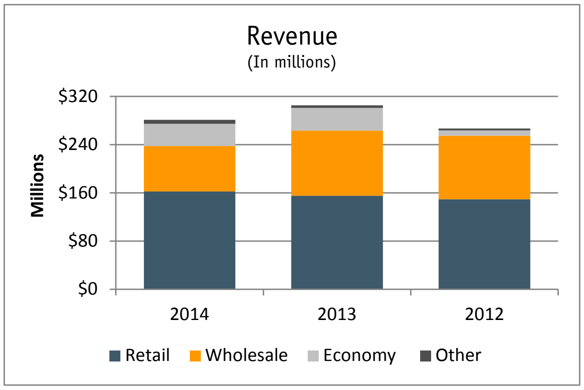
Chugach continued to manage its debt, re-paying $24.7 million in 2014, which contributed to our increased equity ratio of 27.3 percent in 2014 from 26.1 percent in 2013, all while resuming our capital credits retirement program.

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 less than 0.25 percent, due in part to Chugach's ratings, which saved our members approximately $835,000 over using traditional lines of credit. We maintained long-term debt ratings from Standard & Poor's Rating Services (S&P) and Fitch Ratings of "A-" (Positive) and "A" (Stable), respectively. We also maintained commercial paper ratings from S&P and Moody's Investors Service of "A-1" and "P-2", respectively. In 2014, citing strong financial performance, sufficient liquidity and regulatory support, S&P and Moody's affirmed our current ratings.





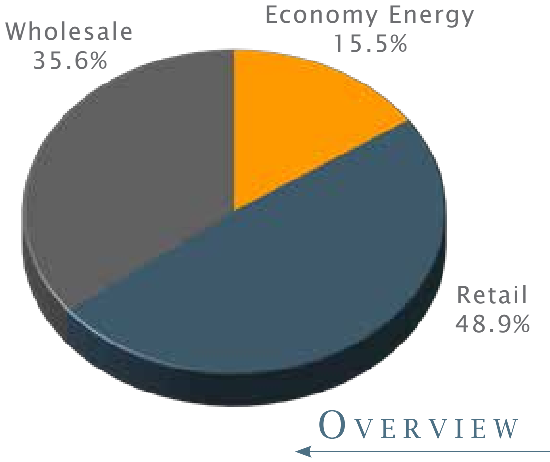


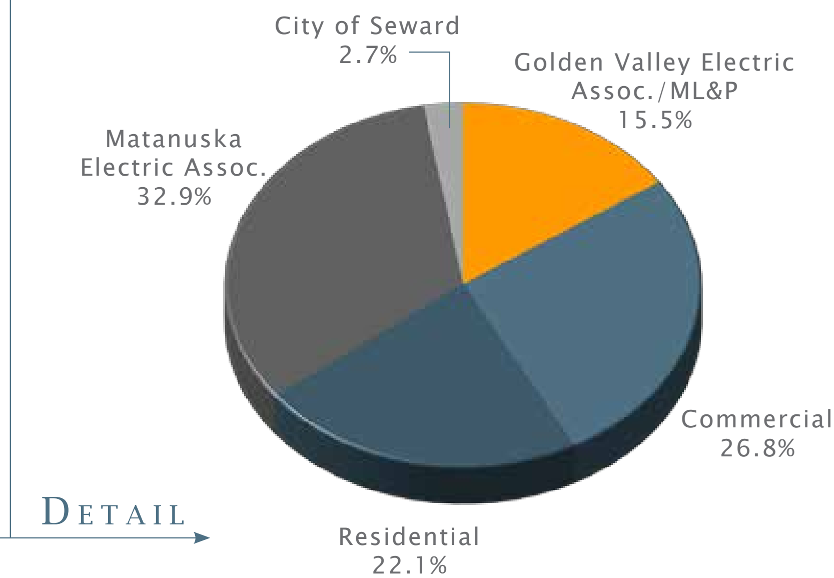


Power sales at a glance

BY KILOWATT-HOURS

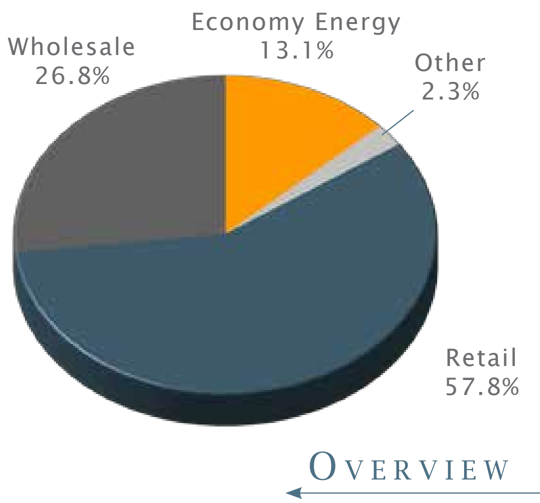
TOTAL: 2,319,039,180

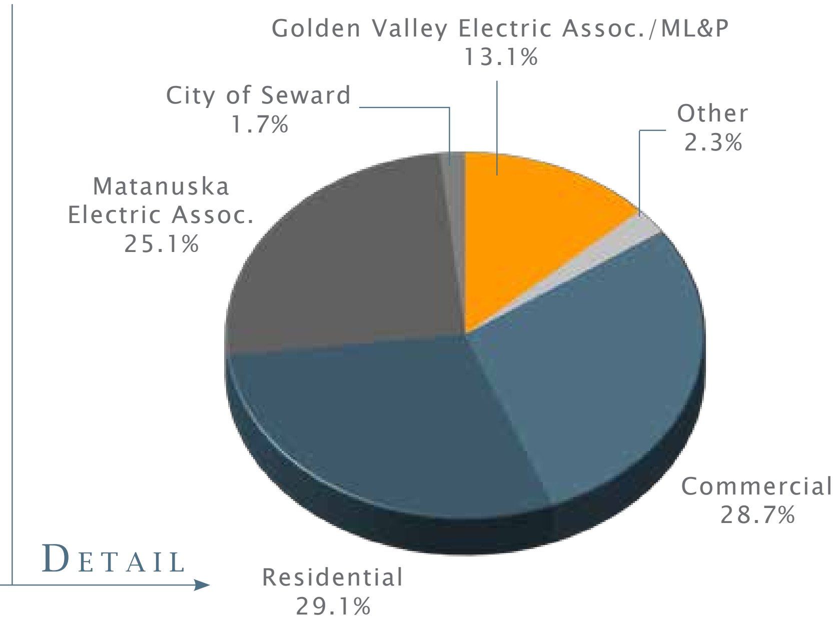




BY OPERATING REVENUES

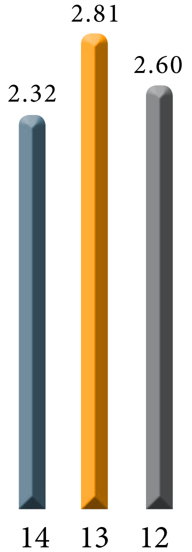
TOTAL: $281,318,513



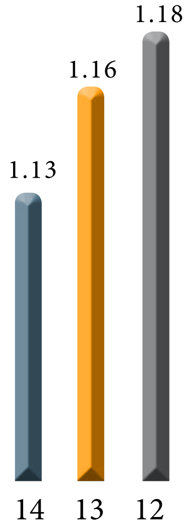


Key comparisons

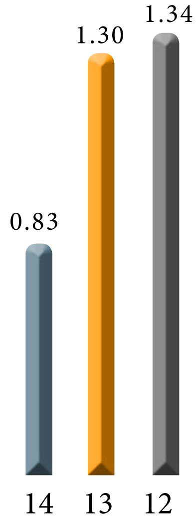
Kilowatt-hours sold (in billions)



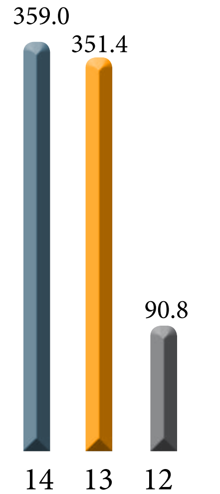
Retail kWh (in billions)



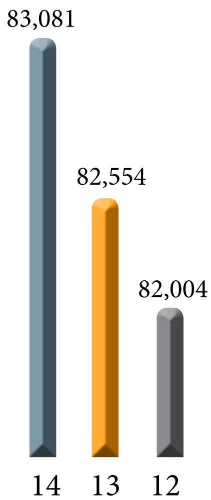
Wholesale kWh (in billions)



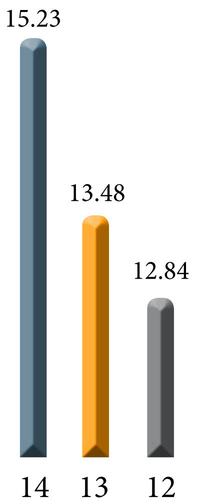
Economy energy kWh (in millions)



Service locations at year-end

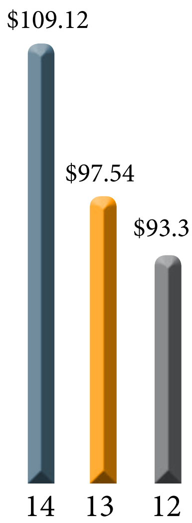


Cost per residential kWh in December* (cents/kWh)



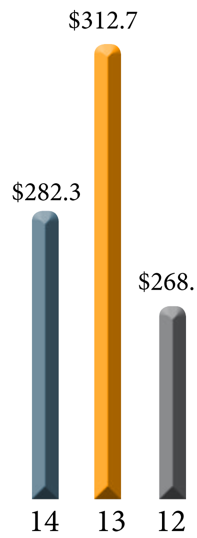
*Not including the customer charge and the 2 percent MOA undergrounding charge

Cost of 650 kWh residential service in December*

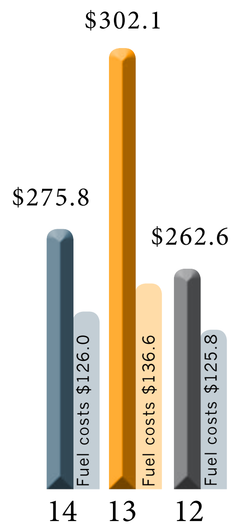


*Includes customer and energy charges, fuel and purchase power charges, Fire Island wind renewable energy adjustment, regulatory cost charge and 2 percent MOA undergrounding charge

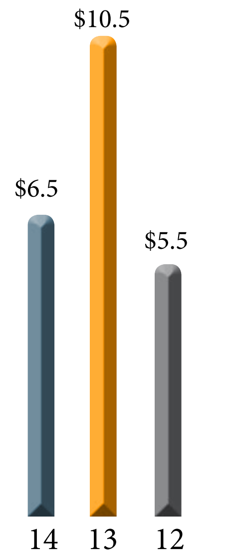
Total revenue including non-operating margins (in millions)



Expenses (in millions)



Margins (in millions)



Generation source by kWh

2014	87% Natural Gas	11% Hydro	2% Wind
2013	87% Natural Gas	11% Hydro	2% Wind
2012	89% Natural Gas	10% Hydro	1% Wind

Outage statistics

Chugach averaged 0.64 outage hours per customer in 2014, down from the 1.7 hours in 2013. The 5-year average for customer outage hours decreased to 3.14 hours in 2014, down from 3.34 hours in 2013.

The Board of Directors
Chugach Electric Association, Inc.

We have audited the accompanying balance sheets of Chugach Electric Association, Inc. as of December 31, 2014 and 2013, 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, 2014. 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, 2014 and 2013, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

March 20, 2015
Anchorage, Alaska

Balance Sheets
December 31, 2014 and 2013

Assets	December 31, 2014	December 31, 2013
Utility Plant:		
Electric plant in service	$ 1,155,500,963	$ 1,135,356,956
Construction work in progress	21,567,341	28,674,163
Total utility plant	1,177,068,304	1,164,031,119
Less accumulated depreciation	(497,601,371)	(464,880,322)
Net utility plant	679,466,933	699,150,797
Other property and investments, at cost:		
Nonutility property	76,889	76,889
Investments in associated organizations	9,923,552	10,204,193
Special funds	666,967	536,546
Restricted cash equivalents	1,705,086	1,956,578
Total other property and investments	12,372,494	12,774,206
Current assets:		
Cash and cash equivalents	16,364,962	4,347,163
Special deposits	79,390	158,265
Restricted cash equivalents	1,143,000	1,750,254
Marketable securities	0	10,308,533
Accounts receivable, less provisions for doubtful accounts of $346,749 in 2014 and $541,747 in 2013	36,060,256	44,633,981
Materials and supplies	26,774,512	25,856,395
Fuel stock	9,652,073	13,029,848
Prepayments	2,178,723	1,863,407
Other current assets	242,682	320,658
Total current assets	92,495,598	102,268,504
Deferred charges, net	21,376,596	23,990,531
Total assets	$ 805,711,621	$ 838,184,038

Liabilities, Equities and Margins	December 31, 2014	December 31, 2013
Equities and margins:		
Memberships	$ 1,631,569	$ 1,600,058
Patronage capital	164,135,053	162,749,889
Other	11,158,677	11,445,918
Total equities and margins	176,925,299	175,795,865
Long-term obligations, excluding current installments:		
Bonds payable	447,083,332	469,499,999
National Bank for Cooperatives note payable	24,941,165	27,414,275
Total long-term obligations	472,024,497	496,914,274
Current liabilities:		
Current installments of long-term obligations	24,889,777	24,682,812
Commercial paper	21,000,000	30,000,000
Accounts payable	9,746,175	11,461,303
Consumer deposits	4,914,260	4,851,558
Fuel cost over-recovery	1,462,057	1,635,677
Accrued interest	6,191,608	6,512,860
Salaries, wages and benefits	7,547,316	7,932,363
Fuel	11,137,609	14,834,585
Other current liabilities	4,594,865	5,143,905
Total current liabilities	91,483,667	107,055,063
Deferred compensation	666,967	536,546
Other liabilities, non-current	1,842,000	1,034,777
Deferred liabilities	1,858,455	1,776,826
Patronage capital payable	10,205,739	7,931,295
Cost of removal obligation	50,704,997	47,139,392
Total liabilities, equities and margins	$ 805,711,621	$ 838,184,038

See accompanying notes to financial statements.

Statements of Operations
Years ended December 31, 2014, 2013 and 2012

	2014	2013	2012
Operating revenues	$ 281,318,513	$ 305,308,427	$ 266,971,468
Operating expenses:			
Fuel	126,038,350	136,610,262	125,836,659
Production	21,082,176	21,911,324	16,739,931
Purchased power	15,608,396	27,836,680	22,104,687
Transmission	6,138,658	6,624,836	5,802,009
Distribution	13,002,157	13,225,242	15,822,104
Consumer accounts	5,887,713	6,014,888	6,013,419
Administrative, general and other	25,036,248	23,131,149	23,519,246
Depreciation and amortization	40,179,181	43,384,116	32,356,900
Total operating expenses	$ 252,972,879	$ 278,738,497	$ 248,194,955
Interest expense:			
Long-term debt and other	23,264,041	24,691,582	24,085,371
Charged to construction	(463,335)	(1,310,110)	(9,682,440)
Interest expense, net	$ 22,800,706	$ 23,381,472	$ 14,402,931
Net operating margins	$ 5,544,928	$ 3,188,458	$ 4,373,582
Nonoperating margins:			
Interest income	566,639	686,460	447,434
Allowance for funds used during construction	163,151	141,014	258,301
Gain on sale of asset	0	6,436,992	0
Capital credits, patronage dividends and other	240,827	91,119	446,190
Total nonoperating margins	$ 970,617	$ 7,355,585	$ 1,151,925
Assignable margins	$ 6,515,545	$ 10,544,043	$ 5,525,507

See accompanying notes to financial statements.

Statements of Changes in Equities and Margins
Years ended December 31, 2014, 2013 and 2012

	Memberships	Other Equities and Margins	Patronage Capital	Total
Balance, January 1, 2012	$ 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
Assignable margins	0	0	6,515,545	6,515,545
Retirement/net transfer of capital credits	0	0	(5,130,381)	(5,130,381)
Unclaimed capital credit retirements	0	(350,776)	0	(350,776)
Memberships and donations received	31,511	63,535	0	95,046
Balance, December 31, 2014	$ 1,631,569	$ 11,158,677	$ 164,135,053	$ 176,925,299

See accompanying notes to financial statements.

Statements of Cash Flows
Years ended December 31, 2014, 2013 and 2012

	2014	2013	2012
Cash flows from operating activities:			
Assignable margins	$ 6,515,545	$ 10,544,043	$ 5,525,507
Adjustments to reconcile assignable margins to net cash provided by operating activities:			
Depreciation and amortization	40,179,181	43,384,116	32,356,900
Amortization and depreciation cleared to operating expenses	5,777,628	5,912,254	5,882,580
Allowance for funds used during construction	(163,151)	(141,014)	(258,301)
Write off of inventory, deferred charges and projects	974,062	430,453	991,871
Gain on sale of Bernice Lake Power Plant	0	(6,436,992)	0
Other	56,250	240,836	(135,739)
(Increase) decrease in assets:			
Accounts receivable, net	6,879,762	4,823,879	(4,276,906)
Fuel cost under-recovery	0	0	1,213,484
Materials and supplies	(1,197,127)	(907,942)	(189,092)
Fuel stock	3,377,775	(3,563,081)	(9,466,767)
Prepayments	(315,316)	293,455	(245,073)
Other assets	978,338	(1,827,291)	27,937
Deferred charges	(1,050,505)	(317,070)	(4,335,252)
Increase (decrease) in liabilities:			
Accounts payable	(420,041)	1,775,412	1,454,677
Consumer deposits	62,702	571,657	330,849
Fuel cost over-recovery	(173,620)	(12,074,372)	13,710,049
Accrued interest	(321,252)	(294,347)	(36,266)
Salaries, wages and benefits	(385,047)	597,937	771,512
Fuel	(3,696,976)	(6,033,493)	(3,531,079)
Other current liabilities	4,843,982	2,901,022	3,094,139
Deferred liabilities	34,668	3,399	120,204
Net cash provided by operating activities	61,956,858	39,882,861	43,005,234
Cash flows from investing activities:			
Return of capital from investment in associated organizations	351,162	424,484	663,697
Investment in restricted cash equivalents	(142)	0	0
Investment in marketable securities	(217,817)	(327,175)	(10,096,304)
Proceeds from restricted cash equivalents	0	0	120,000,000
Proceeds from the sale of marketable securities	10,522,620	0	0
Proceeds from capital grants	6,960,143	20,329,782	23,117,721
Extension and replacement of plant	(30,303,133)	(64,473,966)	(132,298,134)
Net cash (used in) provided by investing activities	(12,687,167)	(44,046,875)	1,386,980
Cash flows from financing activities:			
Payments for debt issue costs	0	0	(1,850,199)
Proceeds from short-term obligations	22,000,000	45,500,000	24,500,000
Proceeds from long-term obligations	0	0	250,000,000
Repayments of short-term obligations	(31,000,000)	(27,000,000)	(188,000,000)
Repayments of long-term obligations	(24,682,812)	(24,493,022)	(133,360,210)
Memberships and donations received	(255,730)	114,277	55,519
Retirement of patronage capital and estate payments	(4,114,541)	(156,565)	(48,079)
Net receipts on consumer advances for construction	801,191	499,018	1,240,106
Net cash used in financing activities	(37,251,892)	(5,536,292)	(47,462,863)
Net change in cash and cash equivalents	12,017,799	(9,700,306)	(3,070,649)
Cash and cash equivalents at beginning of period	$ 4,347,163	$ 14,047,469	$ 17,118,118
Cash and cash equivalents at end of period	$ 16,364,962	$ 4,347,163	$ 14,047,469
Supplemental disclosure of non-cash investing and financing activities:			
Retirement of plant	$ 5,814,886	$ 24,095,596	$ 10,405,777
Cost of removal obligation	$ 3,565,605	$ 2,511,077	$ 3,148,135
Extension and replacement of plant included in accounts payable	$ 2,382,117	$ 3,817,788	$ 10,620,219
Patronage capital retired and included in other current liabilities and patronage capital payable	$ 2,572,670	$ 2,512,753	$ 0
Supplemental disclosure of cash flow information - interest expense paid, net of amounts capitalized	$ 21,835,216	$ 21,839,391	$ 13,092,576

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, 2014 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 4.3 percent during 2014, 3.7 percent during 2013 and 4.0 percent during 2012. 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 2014, 2013 and 2012.

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.

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.

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. Chugach has a concentration account with First National Bank Alaska (FNBA). There is no rate of return or fees on this account. The concentration account had an average balance of $6,300,149 and $6,262,978 during the years ended December 31, 2014 and 2013, 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.

In September of 2012, Chugach invested $10.0 million in marketable securities with UBS Financial Services, Inc. (UBS). In 2014, these securities were used to invest in a money market fund.

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. At December 31, 2014 and 2013, restricted cash equivalents included $2.8 million and $3.2 million, respectively, of funds on deposit for future workers' compensation claims. At December 31, 2014, there were no restricted cash equivalents representing interim rates collected from customers. At December 31, 2013, restricted cash equivalents included $0.5 million of 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 $0.9 and $1.8 million in 2014 and 2013, 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 $1.1 million in 2014 and $2.8 million in 2013.

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, results of operations or cash flows.

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 operations as assignable margins. These excess amounts (i.e. assignable margins) are considered capital furnished by the members, and are credited to their accounts and held by Chugach until such future time as they are retired and returned without interest at the discretion of the Board of Directors (Board). Retained assignable margins are designated on Chugach's balance sheet as patronage capital. This patronage capital constitutes the principal equity of Chugach. The Board may also approve the return of capital to former members and estates who request early retirements at discounted rates under a discounted capital credits retirement plan authorized by the Board in September of 2002.

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 $9,885,526 and $9,274,135 of unbilled retail revenue at December 31, 2014 and 2013, 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 $1,462,057 and by $1,635,677 in 2014 and 2013, respectively. Total fuel and purchased power costs in 2014, 2013, and 2012 were $141,646,746, $164,446,942, and $147,941,346, 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, 2014, 2013 and 2012 was in compliance with that provision. In addition, as described in *Note (15) – "Commitments and Contingencies,"* Chugach collects sales tax and is assessed gross revenue and excise taxes which are presented on a net basis in accordance with FASB ASC 605-45-50, "Topic 605 - Revenue Recognition – Subtopic 45 - Principal Agent Considerations – Section 50 - Disclosure."

Chugach applies a more-likely-than-not recognition threshold for all tax uncertainties. FASB ASC 740, "Topic 740 – Income Taxes," only allows the recognition of those tax benefits that have a greater than 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, 2012 through December 31, 2014 for United States Federal Income Tax, the tax years which remain subject to examination by major tax jurisdictions as of December 31, 2014.

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, 2014 and 2013, totaled $2.9 million and $2.5 million, respectively. Consumer deposits also represent customer credit balances as a result of prepaid accounts. Credit balances for the years ended December 31, 2014 and 2013 totaled $2.0 million and $2.4 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 $4.8 million and $17.4 million in 2014 and 2013, respectively.

r. Fuel Stock

Fuel Stock is the weighted average cost of fuel injected into Cook Inlet Natural Gas Storage Alaska (CINGSA), which began service in the second quarter of 2012. Chugach's fuel balance in storage for the years ended December 31, 2014 and 2013 amounted to $9.7 million and $13.0 million, respectively.

s. Marketable Securities

Chugach had a bond investment portfolio, which consisted of marketable securities reported at fair value with gains and losses included in earnings. On August 12, 2014, Chugach sold its marketable securities portfolio and therefore had no balance at December 31, 2014. At December 31, 2013, the carrying amount and fair value was $10.3 million.

t. Reclassifications

For the year ended December 31, 2014, Chugach recorded the following reclassification for the year ended December 31, 2013:

A reclassification representing the long-term portion of funds on deposit for future workers' compensation claims, included as restricted cash equivalents, previously reported as a current asset and now reported as other property and investments. The impact of this reclassification was an increase to total other property and investments and a decrease to current assets of $2.0 million in 2013. A reclassification representing the long-term portion of the liability for future workers' compensation claims previously reported as salaries, wages and benefits and now included as other liabilities, non-current. The impact of this reclassification was an increase to other liabilities, non-current, and a decrease to current liabilities of $1.0 million in 2013.

For the year ended December 31, 2014, Chugach recorded the following reclassifications for the years ended December 31, 2013 and 2012:

A reclassification representing the gross versus net presentation of cash received for capital grants, included as cash flows from investing, previously reported as extension and replacement of plant and now reported as proceeds from capital grants. These reclassifications had no impact on net cash used in investing activities.

(3) Recent Accounting Pronouncements

ASC Update 2014-09 *"Revenue from Contracts with Customers (Topic 606)"*

In May of 2014, the FASB issued ASC Update 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASC Update 2014-09 provides guidance for the recognition, measurement and disclosure of revenue related to the transfer of promised goods or services to customers. This update is effective for fiscal years beginning after December 15, 2016, for which early adoption is prohibited. Chugach will begin application of ASC 2014-09 on January 1, 2017. Chugach is evaluating the effect on its results of operations, financial position, and cash flows.

(4) Fair Value of Assets and Liabilities

Fair Value Hierarchy

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

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

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

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

Chugach had a Level 1 bond investment portfolio, which consisted of marketable securities reported at fair value with gains and losses included in earnings. At December 31, 2013, the bond portfolio had a balance of $10,308,533 measured at fair value on a recurring basis. On August 12, 2014, Chugach sold the bond portfolio and invested the proceeds in a money market fund.

Chugach had no Level 2 or 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.

(5) Regulatory Matters

Operation and Regulation of the Alaska Railbelt Transmission System

On February 11, 2015, the RCA voted in favor of opening a docket to investigate and receive input on alternative transmission structures for the Railbelt. On February 27, 2015, the RCA issued Order No. 1 to docket I-15-001 requiring interested parties to respond by March 31, 2015, to questions outlined in the order regarding the creation of an independent system operator for Railbelt transmission.

June 2014 Test Year General Rate Case

Chugach's June 2014 test year rate case was finalized and submitted to the RCA on February 13, 2015. Chugach requested a system base rate increase of approximately $21.3 million, or 20 percent on total base rate revenues for rates effective in April 2015. The filing also includes updates to firm and non-firm transmission wheeling rates and attendant ancillary services in support of third-party transactions on the Chugach transmission system. The primary driver of the rate changes is the reduction in fixed-cost contributions resulting from the March 31, 2015 expiration of the Interim Power Sales Agreement between Chugach and MEA.

Chugach submitted proposed adjustments to its fuel and purchased power rates under a separate tariff advice letter to become effective at the same time which allows interim base rate increases to be synchronized with reductions in fuel costs resulting from system heat rate improvements and a greater share of hydroelectric generation used to meet the load requirements of the remaining customers on the system. In combination with Chugach's fuel and purchased power rate adjustment filing for rates effective in April 2015, the effective increase to retail customer bills is approximately 2.0 to 5.0 percent.

Amended Eklutna Generation Station 2015 Dispatch Services Agreement

On February 13, 2015, Chugach submitted the Amended Eklutna Generation Station 2015 Dispatch Services Agreement to the RCA for dispatch services to be provided by Chugach to MEA for a one-year period. If approved by the RCA, the Agreement becomes effective April 1, 2015 and remains in effect through March 31, 2016, unless extended by MEA. MEA may extend the Agreement through March 31, 2017 by providing written notice to Chugach on or before December 31, 2015. Under the Agreement, Chugach provides electric and natural gas dispatch services for MEA's Eklutna Generation Station (EGS), electric dispatch services for the Bradley Lake Hydroelectric Project (Bradley Lake), and electric dispatch coordination services for the Eklutna Hydroelectric Project (Eklutna Hydro) beginning with EGS' Full Commercial Operation. If approved, Chugach will receive $40,000 per month from MEA for these services.

MEA Interim Power Sales Agreement

On August 12, 2014, MEA notified Chugach that their newly constructed power plant, the Eklutna Generation Station (EGS), would not be completed by January 1, 2015. On September 30, 2014, Chugach entered into an Interim Power Sales Agreement (Agreement) to provide MEA with all demand and energy requirements on a firm basis based on existing tariffed rates for a minimum one quarter period beginning on January 1, 2015, and ending on March 31, 2015. Under the terms of the agreement, Chugach agreed to purchase from MEA the output of up to four units from their plant upon commercial operation through the term of the agreement. Chugach proposed to purchase the pooled energy and recover the costs from its members, including MEA, through Chugach's fuel and purchased power adjustment process. MEA will supply and deliver any and all additional gas and attendant transportation necessary for Chugach to produce electric service to MEA arising as a result of the electric services to be provided by Chugach pursuant to the Agreement.

On December 22, 2014, the RCA issued a letter order approving both the Agreement and Chugach's proposal to recover costs incurred under the Agreement through its fuel and purchased power rate adjustment process. As part of the approval, the RCA required Chugach to provide monthly information on MEA gas deliveries to Chugach, system heat rates with and without EGS, and the number of EGS units made commercially available during each month of the contract.

Pursuant to the agreement, MEA was required to notify Chugach if it planned to exercise an option to extend the agreement an additional quarter. On January 5, 2015, MEA notified Chugach that it would not be extending the agreement.

On January 30, 2015, MEA notified Chugach that it had four units available to pool with Chugach units to meet the combined system load of Chugach and MEA. These units were subsequently placed into economic dispatch.

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. On July 25, 2014, the RCA issued Order No. 4 approving Chugach's request to file its next status update by September 30, 2014. Chugach filed a status report with the RCA on September 26, 2014. In the filing, Chugach informed the RCA that it had received notification from ML&P that they believe no further proceedings on this matter are necessary. ML&P indicated that fluctuations from the wind project are impacting system frequency but the attendant costs associated with quantifying the impacts likely exceed the attendant benefit. ML&P reserved the right to open this issue at a later time. In the filing, Chugach indicated that it will continue to evaluate the potential impact of the Fire Island Wind Project on the grid and requested that the RCA accept the status report on the integration and cost reimbursement issues and close the docket.

The RCA issued an order on February 27, 2015, requiring ML&P to file a separate report addressing the nature and estimate of any adverse cost impacts attributable to FIW integration, as well as the estimated costs and equipment needed for measurement. ML&P's report to the RCA is due April 28, 2015.

AIX, Energy LLC

On December 22, 2014, Chugach executed an agreement with AIX, Energy LLC ("AIX Agreement") which allows for natural gas purchases by Chugach from AIX Energy from March 1, 2015 through February 29, 2016. The AIX Agreement provides flexibility in both the purchase price and volumes, with specific prices and volumes to be determined by each transaction. However, the price of gas cannot exceed $6.24 per thousand cubic feet (Mcf) and the total volume of gas is capped at 300,000 Mcf, or a maximum total outlay of approximately $1.9 million. As the AIX Agreement is for a term less than one year, approval of the agreement by the RCA is not required; however, Chugach submitted a filing to the RCA seeking approval to recover purchases made under the agreement as a new cost element in its fuel and purchased power adjustment process.

First Amendment to the Gas Sale and Purchase Agreement with Hilcorp

On July 31, 2014, Chugach filed the First Amendment to the Gas Sale and Purchase Agreement (Amendment) between Hilcorp Alaska, LLC (Hilcorp) and Chugach for gas delivery from February 1, 2015, through March 31, 2019, for RCA review and approval. The RCA approved the original Gas Sale and Purchase Agreement between Hilcorp and Chugach in September 2013, which provided up to 100 percent of Chugach's unmet gas needs from January 1, 2015, through March 31, 2018. The Amendment extends the contract term for firm deliveries by one year and expands the time horizon for non-firm purchases. Specifically, the Amendment provides a firm gas supply for a significant portion of Chugach's gas supply needs from April 1, 2018, through March 31, 2019, and gives Chugach the right to purchase additional portions of its firm gas supply needs, if requested. The Amendment also provides a non-firm gas supply for deliveries through March 2019, if both parties agree.

Chugach received notification on September 11, 2014, that the Amendment was approved by the RCA. The RCA also approved Chugach's request to recover gas costs incurred under the Amendment through its fuel and purchased power adjustment process.

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.

On April 18, 2014, Chugach submitted an update to its 2013 general rate case to reflect the final results contained in Chugach's compliance filing in the 2012 general rate case that was submitted to the RCA on April 14, 2014. The update reflects final rate design changes contained in the 2012 rate case. On May 30, 2014, the RCA issued Order No. 3 approving Chugach's motion and update to retail and wholesale base rates effective with the first billing cycle in June 2014. There was no impact to the system revenue requirement contained in the 2013 Test Year General Rate Case filing.

Chugach and the parties to the docket entered into a stipulation resolving revenue requirement and cost of service matters contained in the case. The stipulation was filed with the RCA on October 16, 2014, and requires Chugach to issue refunds totaling $1.1 million (annualized) for service provided beginning January 2014, with an expected financial impact to Chugach of approximately $0.2 million on an annual basis. The stipulation contained a provision that Chugach be permitted to create a regulatory asset for approximately $0.9 million of storm-related costs and be permitted to recover $0.2 million per year over the next five years. On November 13, 2014, the RCA accepted the stipulation.

On February 12, 2015, the RCA issued Order No. 9 of U-14-001 accepting the stipulation on revenue requirement matters and resolving the remaining issues in the docket.

The RCA required Chugach to submit updated tariffs reflecting the results of the RCA order and the stipulations entered into the case, including a detailed refund plan, which Chugach submitted on March 16, 2015.

(6) Utility Plant

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

Electric plant in service:	2014	2013
Steam production plant	$ 60,516,027	$ 60,462,671
Hydraulic production plant	20,594,429	20,546,809
Southcentral Power Project plant	248,970,341	5,153,237
Other production plant	130,356,979	116,898,472
Transmission plant	261,173,934	249,483,480
Distribution plant	281,706,456	258,474,600
General plant	53,452,136	48,517,709
Unclassified electric plant in service[1]	91,446,881	369,280,657
Intangible plant[1]	5,455,371	4,710,912
Other[1]	1,828,409	1,828,409
Total electric plant in service	1,155,500,963	1,135,356,956
Construction work in progress	21,567,341	28,674,163
Total electric plant in service and construction work in progress	$ 1,177,068,304	$ 1,164,031,119

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

(7) Investments in Associated Organizations

Investments in associated organizations include the following at December 31:

	2014	2013
NRUCFC	$ 6,095,980	$ 6,095,980
CoBank	3,763,697	4,044,338
NRUCFC Capital Term Certificates and other	63,875	63,875
Total investments in associated organizations	$ 9,923,552	$ 10,204,193

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:

	2014	2013
Debt issuance and reacquisition costs	$ 3,263,937	$ 3,611,498
Refurbishment of transmission equipment	123,457	132,717
Feasibility studies	578,806	912,537
Beluga gas compression	1,017,733	1,526,599
Cooper Lake relicensing / projects	5,540,212	5,670,314
Fuel supply	898,849	971,209
Major overhaul of steam generating unit	0	1,285,942
Other regulatory deferred charges	2,435,855	1,759,448
Bond interest - market risk management	6,402,875	6,960,044
Environmental matters and other	1,114,872	1,160,223
Total deferred charges	$ 21,376,596	$ 23,990,531

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

	2014	2013
Fuel supply (negotiations/studies/compression)	$ 0	$ 231,712
Studies and other	387,253	336,017
Storm damage	971,071	0
Wind project	34,543	34,543
Total deferred charges	$ 1,392,867	$ 602,272

The amount related to storm damage was subsequently approved by the RCA on February 21, 2015, see *Note (5) – Regulatory Matters – 2013 General Rate Case."*

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:

	2014	2013
Refundable consumer advances for construction	$ 787,824	$ 773,089
Estimated initial installation costs for meters	98,964	104,037
Post retirement benefit obligation	874,000	899,700
Other	97,667	0
Total deferred costs	$ 1,858,455	$ 1,776,826

(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, 2014, Chugach had $164,135,053 of patronage capital (net of capital credits retired in 2014), which included $157,619,508 of patronage capital that had been assigned and $6,515,545 of patronage capital to be assigned to its members. Approval of actual capital credit retirements is at the discretion of the Chugach Board. Chugach records a liability when the retirements are approved by the Board. 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.

Chugach entered into an agreement with HEA to return all of its patronage capital within five years after expiration of its power sales agreement, which was December 31, 2013. This patronage capital retirement was related to a settlement agreement associated with the 2005 Test Year General Rate Case (Docket U-06-134). The RCA accepted the parties' settlement agreement on August 9, 2007. HEA's patronage capital payable was $7.9 million at December 31, 2014 and 2013, respectively.

In an agreement reached in May of 2014 with MEA, capital credits retired to MEA are classified as patronage capital payable on Chugach's Balance Sheet. MEA's patronage capital payable was $2.3 million at December 31, 2014.

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.Capital credits retired, net of HEA's allocations, were $5,130,381, $1,626,828, and $48,079 for the years ended December 31, 2014, 2013, and 2012, respectively. With the exception of HEA's patronage capital payable, the outstanding liability for capital credits authorized but not paid at December 31, 2014, and 2013 was $1,042,064 and $1,470,263, respectively.

(10) Other Equities

A summary of other equities at December 31 follows:

	2014	2013
Nonoperating margins, prior to 1967	$ 23,625	$ 23,625
Donated capital	1,806,424	1,742,889
Unclaimed capital credit retirement[1]	9,328,628	9,679,404
Total other equities	$ 11,158,677	$ 11,445,918

[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:	2014	2013
2011 CoBank bond, 2.51% variable rate notes maturing in 2022, with interest payable monthly and principal due annually beginning in 2003	$ 27,414,275	$ 29,680,420
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	76,500,000	81,000,000
2011 Series A Bond of 4.75%, maturing in 2041, with interest payable semi-annually March 15 and September 15 and principal due annually beginning in 2012	166,499,999	172,666,666
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	67,500,000	71,250,000
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	109,000,000	117,000,000
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	$ 496,914,274	$ 521,597,086
Less current installments	24,889,777	24,682,812
Long-term obligations, excluding current installments	$ 472,024,497	$ 496,914,274

Covenants

Chugach is required to comply with all covenants set forth in the Indenture that secures the 2011 Series A Bonds, the 2012 Series A Bonds and the 2011 CoBank bond.

The CoBank bond 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 as amended 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, 2014, mature as follows:

Year ending December 31	2011 Series A Bonds	CoBank Note	2012 Series A Bonds	Total
2015	10,666,667	2,473,110	11,750,000	24,889,777
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
2019	10,666,667	3,509,142	10,750,000	24,925,809
Thereafter	189,666,664	12,571,489	171,750,000	373,988,153
	$ 242,999,999	$ 27,414,275	$ 226,500,000	$ 496,914,274

Lines of credit

Chugach maintains a $50.0 million line of credit with NRUCFC. Chugach did not utilize this line of credit in 2014 or 2013, and therefore had no outstanding balance at December 31, 2014 and 2013. 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, 2014 and 2013.

The NRUCFC Revolving Line Of Credit Agreement requires that Chugach, for each 12-month period, for a period of at least five consecutive days, pay down the entire outstanding principal balance. The NRUCFC line of credit expires October 12, 2017, and is immediately available for unconditional borrowing.

Commercial Paper

On November 17, 2010, Chugach entered into a $300.0 million Unsecured Credit Agreement, which is used to back Chugach's Commercial Paper Program. The participating banks were NRUCFC, Bank of America, N.A., KeyBank National Association, JPMorgan Chase Bank, N.A., Bank of Montreal, CoBank, ACB, Goldman Sachs Bank USA, Bank of Taiwan, Los Angeles Branch and Chang Hwa Commercial Bank, Ltd., Los Angeles Branch. Effective May 4, 2012, Chugach reduced the commitment amount to $100.0 million and on June 29, 2012, amended and extended the Credit Agreement to update the pricing and extend the term. 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 2015, as needed, however, the requirement for short-term borrowing has decreased.

Chugach had $21.0 million and $30.0 million of commercial paper outstanding at December 31, 2014 and 2013, respectively.

The following table provides information regarding 2014 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 2014	$ 28.8	0.20	July 2014	$ 31.2	0.19
February 2014	$ 23.8	0.19	August 2014	$ 27.4	0.19
March 2014	$ 35.2	0.19	September 2014	$ 33.3	0.19
April 2014	$ 39.2	0.19	October 2014	$ 34.6	0.20
May 2014	$ 33.2	0.19	November 2014	$ 28.7	0.20
June 2014	$ 30.2	0.20	December 2014	$ 25.2	0.25

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)	$ 496,914	$ 538,091

(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, 2014, 2013 and 2012 of $6.8 million, $6.8 million and $6.6 million, respectively. The rate and number of employees in all significant pension plans did not materially change for the years ended December 31, 2014, 2013 and 2012.

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]		
	2014	2013	2012	2014	2013	2012
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)	$3.3	$3.4	$3.6	$3.5	$3.4	$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, 2014, 2013, and 2012 were $4.5 million, $4.1 million, and $4.3 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, 2014, 2013, and 2012 totaled $2.9 million, $2.9 million, and $2.5 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, 2014, 2013 and 2012 were $149.2 thousand, $147.9 thousand and $141.0 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, $17,500 and $17,000 in 2014, 2013 and 2012 respectively, and allowed catch-up contributions for those over 50 years of age of $5,500 in 2014, 2013 and 2012. 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, 2014, 2013 and 2012 was $666,967, $536,546 and $570,027, 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 $24.0 million. Upon the default of a Bradley Lake participant, and subject to certain other conditions, AEA is entitled to increase each participant's share of costs pro rata, to the extent necessary to compensate for the failure of another participant to pay its share, provided that no participant's percentage share is increased by more than 25 percent. Upon default, Chugach could be faced with annual expenditures of approximately $5.4 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, 2014 (the most recent date for which information is available). Chugach's share of expenses was $5,228,907 in 2014, $4,882,163 in 2013, and $4,223,784 in 2012 and is included in purchased power in the accompanying financial statements.

(In thousands)	Total	Proportionate Share
Plant in service	$ 173,058	$ 52,610
Long-term debt	71,155	21,631
Interest expense	4,127	1,255

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 2014 included $4,442,440, net of accumulated depreciation of $2,017,032, which represents Chugach's share of the Eklutna Hydroelectric Project. In 2013, plant in service included $4,562,310, net of accumulated depreciation of $1,854,083. 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 $761,613, $730,122, and $682,757 in 2014, 2013, and 2012, 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. The MEA contract, including the fuel component, represented $70.7 million, or 26 percent, of sales revenue in 2014. The MEA and HEA contracts, including the fuel component, represented $103.1 million, or 34 percent, in 2013, and $100.6 million, or 39 percent, in 2012. The HEA contract expired December 31, 2013, and the MEA contract now expires March 31, 2015. Pursuant to contract provisions, notification was made by MEA that they did not intend to renew their contract. 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, 2019. The total amount of gas under contract is now estimated up to 49 Bcf. These contracts fill 100 percent of Chugach's needs through March 31, 2019. All of the production is expected to come from Cook Inlet, Alaska.

In 2014, 87 percent of our power was generated from gas, with 57 percent generated at the Beluga Power Plant and 43 percent generated at SPP. In 2013 and 2012, 87 percent and 89 percent of our power was generated from gas, respectively, with 47 percent and 83 percent generated at Beluga, and 31 percent generated at SPP in 2013.

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

	2014	2013	2012
Marathon Oil Company	0.0 %	4.5 %	72.0 %
Chevron / Unocal / Hilcorp	50.4 %	46.4 %	1.3 %
ConocoPhillips (COP)	43.6 %	42.8 %	24.2 %
ENSTAR	2.0 %	2.1 %	2.2 %
Hilcorp Pipeline	3.0 %	3.8 %	0.0 %
Miscellaneous	1.0 %	0.4 %	0.3 %

Patronage Capital Payable

Pursuant to agreements reached with HEA and MEA, and discussed in *Note (9) – "Patronage Capital,"* patronage capital allocated or retired to HEA or MEA is classified as patronage capital payable on Chugach's balance sheet. HEA's patronage capital payable was $7.9 million at December 31, 2014 and 2013. MEA's patronage capital payable was $2.3 million at December 31, 2014.

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 $0.000754, effective July 1, 2014. The tax is reported on a net basis and the tax is not included in revenue or expense.

Sales Tax

Chugach collects sales tax on retail electricity sold to Kenai and Whittier consumers. The tax is collected monthly and remitted to the Kenai Peninsula Borough quarterly. Sales tax is reported on a net basis and the tax is not included in revenue or expense.

Gross Revenue Tax

Chugach pays to the State of Alaska a gross revenue tax in lieu of state and local ad valorem, income and excise taxes on electricity sold in the retail market. The tax is accrued monthly and remitted annually.

Production Taxes

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

Underground Compliance Charge

In 2005, the Anchorage Municipal Assembly adopted an ordinance to require utilities to convert overhead distribution lines to underground. To comply with the ordinance, Chugach must expend two percent of a three-year average of gross retail revenue within the Municipality of Anchorage annually in moving existing distribution overhead lines underground. Consistent with Alaska Statutes regarding undergrounding programs, Chugach is permitted to amend its rates by adding a two percent charge to its retail members' bills to recover the actual costs of the program. The rate amendments are not subject to RCA review or approval. Chugach's liability was $2,761,921 and $2,898,558 for this charge at December 31, 2014 and 2013, 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. On June 2, 2014, the EPA released a proposed regulation aimed at reducing emissions of carbon dioxide (CO_2) from existing power plants that provide electricity for utility customers. In the draft rule, the EPA took the approach of making individual states responsible for the development and implementation of plans to reduce the rate of CO_2 emissions from the power sector. A final rule is expected in June 2015, with State plans due to the EPA in June 2016. Chugach is subject to this proposed regulation, in its current form, and does not expect it to have a material effect on its results of operations, financial position, and cash flows. While Chugach cannot predict the implementation of any additional new law or regulation, or the limitations thereof, it is possible that new laws or regulations could increase capital and operating costs. Chugach has obtained Clean Air Act permits currently required for the operation of generating facilities.

Chugach is subject to numerous other environmental statutes including the Clean Water Act, the Resource Conservation and Recovery Act, the Toxic Substances Control Act, the Endangered Species Act, and the Comprehensive Environmental Response, Compensation and Liability Act and to the regulations implementing these statutes. Chugach does not believe that compliance with these statutes and regulations to date has had a material impact on its financial condition, results of operation or cash flows. However, the implementation of any additional new law or regulation, or the limitations thereof, or changes in or new interpretations of laws or regulations could result in significant additional capital or operating expenses. Chugach monitors proposed new regulations and existing regulation changes through industry associations and professional organizations.

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 total project cost is now estimated at $22.3 million. As an alternative to requesting a license amendment from FERC, Chugach requested grants from the State of Alaska. Funding for this project includes $9.9 million in grants awarded. The Chugach Board authorized expenditures for the project November 15, 2012. The diversion project began construction in 2013 and will be completed in 2015. 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)

2014 Quarter Ended

	Dec. 31	Sept. 30	June 30	March 31
Operating Revenue	$ 69,272,422	$ 65,677,900	$ 70,269,305	$ 76,098,886
Operating Expense	58,795,411	61,712,934	66,997,011	65,467,523
Net Interest	5,673,940	5,622,892	5,661,316	5,842,558
Net Operating Margins	4,803,071	(1,657,926)	(2,389,022)	4,788,805
Nonoperating Margins	411,590	96,181	249,820	213,026
Assignable Margins	$ 5,214,661	$ (1,561,745)	$ (2,139,202)	$ 5,001,831

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

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.

Work continued on a major construction activity at Chugach's Cooper Lake Hydroelectric Project. Chugach is installing infrastructure to divert much of the flow of Stetson Creek into the Cooper Lake reservoir, and an outfall structure to siphon water from the reservoir into the Cooper Creek drainage. By replacing the cold water of Stetson Creek with relatively warmer water from the reservoir, agency biologists intend to restore fish habitat in the lower reaches of Cooper Creek where it flows into the Kenai River. Resource managers estimate these activities will raise the Cooper Creek water temperature by about 3 degrees F.

Construction on the $22.3 million project began in 2013. Chugach estimates the Stetson Creek diversion will increase the annual energy output of the Cooper Lake Power Plant by about 10 percent. Chugach funded approximately $12 million in construction costs and State grant funding provided the balance.

The Stetson Creek diversion project was a condition of a new 50-year license Chugach received from the Federal Energy Regulatory Commission in 2007 for the continued operation of the Cooper Lake project. Like other hydro projects, the 19.2-megawatt Cooper Lake project provides some of the most economical energy on the Chugach system.

The Beluga Power Plant has been Chugach's primary source of natural gas generation for decades, but with the end of long-term wholesale contracts with both Homer and Matanuska electric associations that situation is changing. In 2014, Beluga continued to run reliably and produced about 57 percent of Chugach's gas-fired kilowatt-hours. The Southcentral Power Project produced about 43 percent. In the future, SPP will account for the bulk of Chugach's gas-fired production. 2014 was the first full year of operations for the plant. As staff fine-tuned the operation of SPP, both its availability and reliability improved. The availability of the plant in 2014 was 97.4 percent, while its reliability was 99.4 percent.

During 2014, Power Supply worked with a team of Chugach staff from various departments in evaluating options for a new outage management system. A good OMS can tie together several systems to better manage power outage reporting, management and restoration. In 2014, a system and provider were selected. The new OMS will be installed in 2015.

Power Supply also worked with a team of Chugach staff on a project to replace thousands of older meters aging out in the near future. This program was initiated to replace these meters over time with state-of-the art meters. In 2014, nearly 200 of the new meters were installed on feeders served by the O'Malley Substation in a site test that demonstrated the performance of the meters. Chugach plans to install thousands of additional meters annually in the coming years.

A diversion structure (left) and more than 2 miles of 48-inch pipeline (center) will divert water from Stetson Creek into the Cooper Lake reservoir, where a siphon (right) will convey water into the Cooper Creek drainage below the dam.

Through its Engineering, Substation & Line Operations functions, Power Delivery is responsible for delivering safe and reliable power from the generators to Chugach members. The division managed a number of significant projects during the course of the year.

Transmission system projects included the repair of a corroded foundation on a tower supporting the 115-kilovolt line along Turnagain Arm, and design and clearing in preparation for a rebuild of a section of 115-kv line near the community of Indian. At the subtransmission level, Chugach improved the reliability of its 34.5-kv system by replacing a single overhead circuit serving two substations with a pair of buried feeders out of the Retherford Substation. Each of the new underground feeders serves one of the substations formerly fed by the single overhead circuit.

Chugach upgraded the Raspberry Substation by replacing 35-kv fuses with a 35-kv circuit switcher, improving the protection and controls for both the 34.5-kv and 12.5-kv circuits, and adding secondary oil containment at the base of the transformer.

Chugach completed the last in a decade-long series of projects designed to improve service to customers in the Hope area, while also lowering operating costs. In May, a Chugach contractor finished relocating about a mile of distribution line, moving it closer to the Hope Highway where future events will be easier to find and fix. The project was funded in part by a $310,000 state grant.

Distribution system work across the Anchorage Bowl included 21 cable injection projects that treated 136 segments totaling 48,279 feet. Injections extend the life of existing underground cable. Chugach also completed six cable replacement projects. Replacement projects are necessary in areas where injection cannot compensate for cable deterioration. Projects were also done in compliance with a Municipal ordinance that seeks to speed the conversion of existing overhead lines to underground facilities. A major conversion project along Tudor Road was completed in 2014. Three additional projects saw the conversion of overhead-to-underground electric service in the Indian Hills, Creekside and Valli Vue subdivisions.

In 2014 – the second year in a row – the Chugach system saw few out-of-the-ordinary storms.

Counter-clockwise from top: A project to install a pair of underground 34.5-kilovolt feeder circuits from the Retherford Substation was completed in 2014. Chugach continued to replace existing overhead circuits and failing cable with new underground lines in 2014. Corrosion was addressed at the foundation of a transmission tower along Turnagain Arm. Crews installed a new overhead crossing at the Chuitna River, driven by damage from 2012 flooding. A contractor cleared the alignment for the future rebuild of a section of 115-kv transmission line near the community of Indian.

Finance & Administration

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

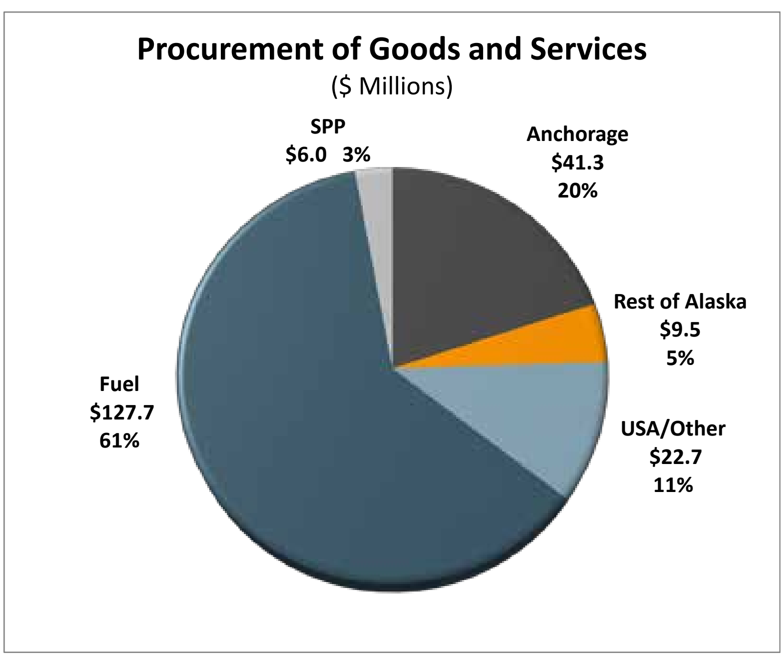
Accounting and Finance ensures timely and accurate payments to vendors and staff. In addition, considerable time was devoted to Securities and Exchange (SEC), indenture of trust and debt agreement compliance requirements, which included the update and associated documentation of key internal controls. We continued to actively manage a fixed asset conversion project, which included the final closeout of the Southcentral Power Project (SPP). We also completed the 2015 Operating and Capital Budget and accounted for the receipt of approximately $7 million in state and federal grant project reimbursements during the year.

In spite of lower sales caused by mild weather, we were able to maintain consistent financial performance due to prudent management of expenses. We resumed capital credit rotations to our members in 2014. Our ratings with Standard & Poor's Rating Service and Moody's Investors Service were affirmed.

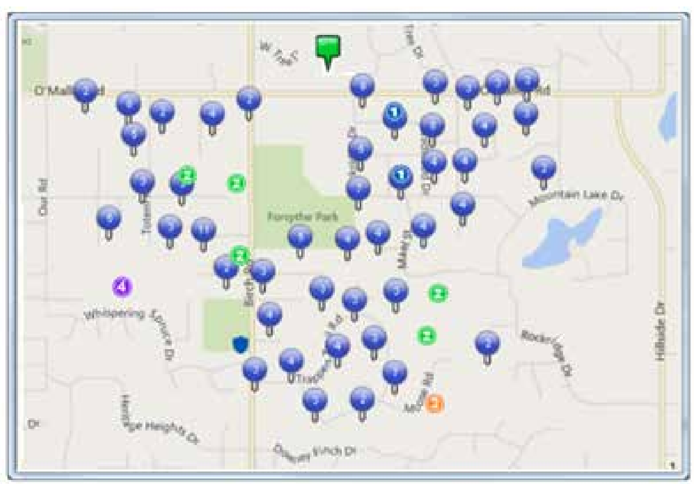
Information Services supports the technical needs of a wide variety of systems that enable efficient performance of Chugach's business processes. A major accomplishment in 2014 included completing an upgrade to our enterprise data storage system. Additionally, an Advanced Metering Infrastructure (AMI) system was selected after an extensive and rigorous competitive bid process. The AMI system was implemented and a functional test was performed that included placing state-of-the-art meters in the field with integrations to the outage management and billing systems. An iOS mobile application was deployed to field personnel for management and distribution of critical maps and documents.

Administrative Services is responsible for Chugach's purchasing and administrative functions. The procurement of goods and services for 2014 totaled $207.3 million, $127.7 million, or 61 percent of which was for fuel and purchased power and $6 million, or 3 percent, for SPP-related expenditures. Of the remainder, Chugach spent $41.3 million within the local Anchorage economy and another $9.5 million elsewhere in the state. Goods and services included materials and supplies for routine operations and maintenance, capital projects, utilities and professional services.

Chugach continued to successfully secure and utilize grant funding. During 2014, Chugach received a $3.45 million renewable energy grant for construction of the Stetson Creek Diversion Project and a $720,000 emerging energy technology fund grant to develop a multi-stage energy storage system, a pilot project to manage intermittent energy purchased from Fire Island Wind, Inc. During the year, we also used previously granted funds for the Stetson Creek Diversion Project, an upgrade to segments of the 115-kV transmission line from the Kenai Peninsula to Anchorage and the relocation of the distribution line serving the community of Hope.



The initial installation of meters on the system provided an Advanced Metering Infrastructure functional acceptance test deployment map of meters, router and collector.



Member and Employee Services has the responsibility for Chugach's Human Resources, Member Services and Safety functions.

At the end of 2014, Chugach had a total of 298 employees; 292 were regular employees and 6 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 included Chugach employees formerly members of the Hotel Employees and Restaurant Employees).

Chugach has been working closely in recent years with employees and their representatives to manage a smooth transition from dependence upon the Beluga Power Plant as the main source of generation to the new Southcentral Power Project. That work continued in 2014.

Chugach's human resources staff was instrumental in helping a regional generation and transmission organization with a leadership search. Chugach is one of four utilities that belong to the Alaska Cooperative Railbelt Transmission and Electric Company. In 2014, Chugach's HR department provided direct support to the ARCTEC board of directors for the recruitment, selection and hiring of a highly qualified chief executive officer.

Working safely remained a priority throughout the year. In particular, Chugach focused on activities that generated conversations about safety between workers and their supervisors. The number of employee injuries in 2014 was 40 percent below the previous 5-year average. Training plans for two large divisions were developed collaboratively, allowing for tailored safety education and better tracking. Quarterly supervisor safety meetings helped deepen the safety culture and share experiences.

Member Services sought new ways to meet and exceed customer expectations. Chugach added telephone voting as an option in the annual election associated with the cooperative's annual meeting. Staff worked closely with employees from other departments to outline requirements and evaluate proposals from vendors for a new outage management system.

Member Services was also deeply involved in the Advanced Metering Infrastructure project that will be phased in over time. In the first demonstration of the technology, nearly 200 meters were installed on O'Malley Substation feeders in 2014.

Chugach maintained an active education program on energy efficiency and conservation throughout the year. A variety of methods were used to help members understand how to get the most out of the money they spend on electric energy. Staff used an online portal, publications, presentations and individual counseling to share information with members.

In December, the Member Services department helped Chugach resume capital credit retirements to members after a hiatus to build equity to offset new debt associated with construction of the Southcentral Power Project. Bill credits and checks were successfully processed for members of record from 1989 and 1990.

Left to right: Through its business partnership with the Anchorage School District, Chugach provided energy education to more than 1,500 students in its service territory. Member Appreciation Week in October featured daily displays and activities. In 2014, Chugach worked to tailor a "Smart Card" program to reinforce positive safety behaviors.

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.

Chugach's gas supply needs were significantly reduced with the addition of the highly efficient Southcentral Power Project in January 2013 and the departure of Homer Electric Association at the end of that same year. That trend will continue, as Matanuska Electric Association assumed responsibility for its own power and gas supply on Jan. 1, 2015. To ensure its own gas supply is secure into the future, Chugach negotiated a one-year extension of its contract with Hilcorp Alaska, LLC. The extension meets Chugach's supply needs through March 2019. Chugach's participation in a regulatory proceeding on gas transportation resulted in savings of more than $1 million per year.

Chugach continues to support opportunities for more hydropower in the Railbelt. Studies and field work to support a license application for the Susitna-Watana hydroelectric project continued throughout 2014, as did planning for a project to divert water from Battle Creek into the Bradley Lake reservoir. Chugach also made significant progress on the construction of a similar diversion project at its Cooper Lake Hydroelectric Project. Chugach also continued preparing for the 2015 implementation of a project to develop a multi-stage energy storage system, which was partially funded by a $720,000 grant from the state's Emerging Energy Technology Fund. The project is intended to help manage the intermittent wind energy purchased from Fire Island Wind, LLC.

While Chugach's wholesale power sales contract with Matanuska Electric Association ended on Dec. 31, 2014, MEA's new power plant was not fully completed by that date. The two utilities agreed to an interim power sales agreement, with Chugach providing power to MEA through March 31, 2015 and purchasing some of the output from MEA's new Eklutna Generation Station.

Chugach and MEA also entered into agreements whereby Chugach will provide electric and gas dispatch services to MEA for its new power plant, electric dispatch services for MEA's share of the Bradley Lake Hydroelectric Project and electric dispatch coordination services for MEA's share of the Eklutna Hydroelectric Project. The terms of these agreements begin on or about April 1, 2015 and expire on March 31, 2016, unless extended by MEA through March 31, 2017.

Left: Chugach is currently focused on unification of the Railbelt transmission grid. Grid unification entails operating the regional transmission system under a common set of standards and rules, funded by a universal tariff authorized by regulators and collected from all Railbelt ratepayers.

Right: The new Southcentral Power Project has helped reduce Chugach's overall consumption of natural gas.

Chugach championed the benefits of Railbelt grid unification during the 2014 legislative session. The legislative effort resulted in a $250,000 grant to the Regulatory Commission of Alaska to further investigate the issue and report back to the Legislature by July 1, 2015. Chugach also supported additional State funding for the Susitna-Watana hydroelectric project and led the utility effort, teamed with contractors and others, to pass metals theft legislation.

Chugach's Regulatory Affairs department was extremely active processing rate cases before the RCA in 2014. A rate case filed in late 2012 was concluded with a favorable ruling, including key ratemaking matters related to transmission and ancillary services. A rate case filed in late 2013 to reallocate costs was primarily driven by the end of the wholesale contract with Homer Electric Association. In late 2014, Chugach was preparing its third rate case in three years, in this case to adjust rates once MEA's wholesale contract ends.

Chugach also actively participated in RCA proceedings on independent power producers, renewable energy co-generation and demand ratchet policy.

Generation Resources

Chugach uses various generation resources to ensure reliable, affordable power. At the end of December 2014, 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 and from the Fire Island wind project. In 2014, 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

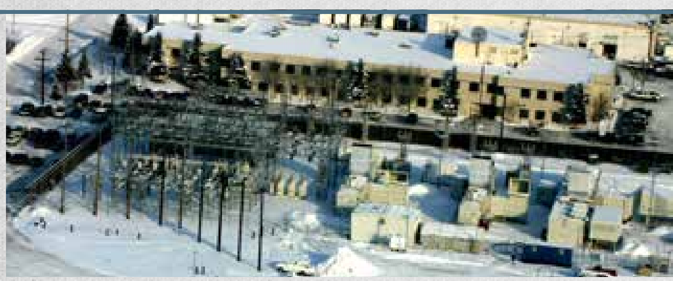
Located near Cooper Landing on the Kenai Peninsula; units are hydro turbines.

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.

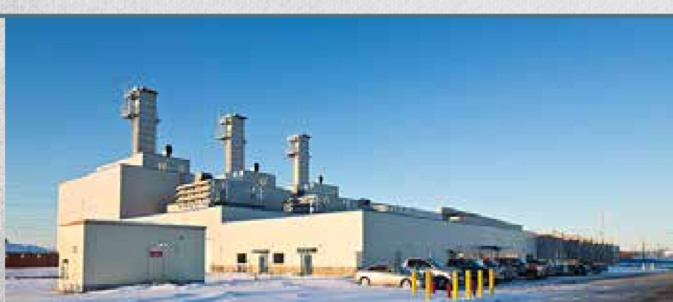
Units	Commissioned	Power Rating (megawatts)
No. 1	1955	23.5
No. 2	1955	23.5
	TOTAL	47.0



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



Southcentral Power Project

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.

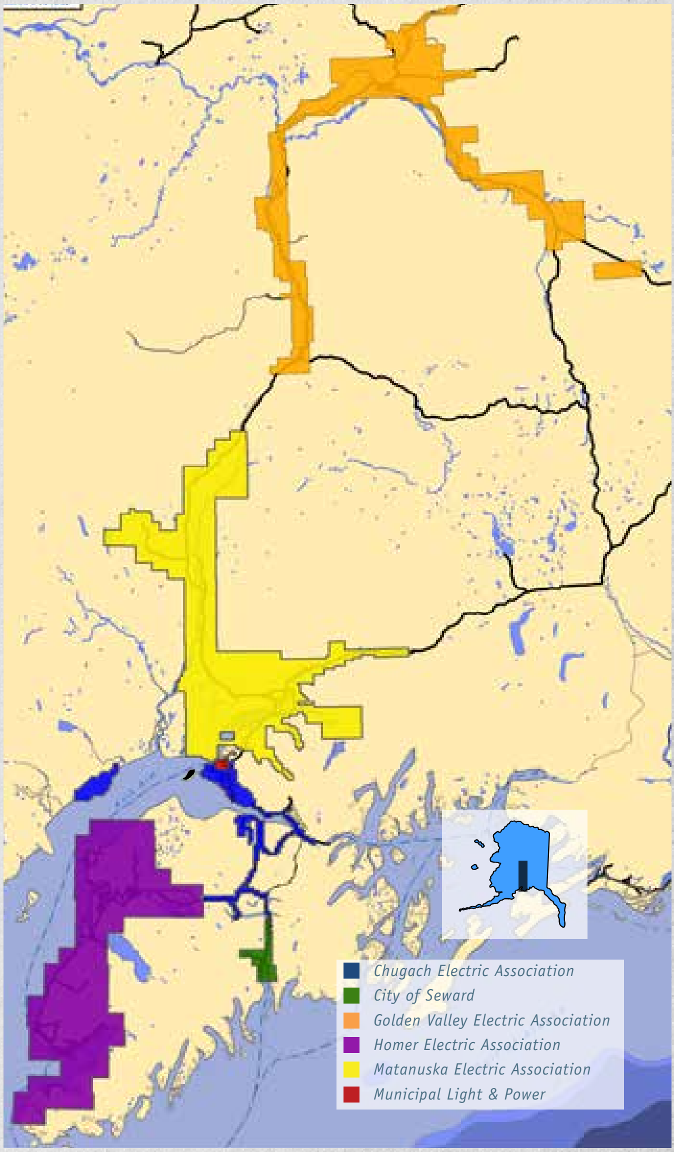
Units	Commissioned	Power Rating (megawatts)
No. 10	2013	57.4
No. 11	2013	47.6
No. 12	2013	47.6
No. 13	2013	47.6
	TOTAL	200.2

CHUGACH

POWERING ALASKA'S FUTURE

The Railbelt

Chugach power flows to much of Alaska's population. At the end of 2014, Chugach served 83,081 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). During 2014, Chugach provided power for Alaskans in the Railbelt through wholesale and economy energy sales to 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 Dec. 31, 2014, 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 2,238 miles of energized line at year-end. Chugach had 539 miles of transmission line, which included 128 miles of leased transmission lines. Chugach had 901 miles of overhead distribution line and 798 miles of underground distribution line.

Chugach set its 2014 system peak load on Jan. 12, when demand hit 360 megawatts in the hour ending at 6 p.m. The temperature at the time at Chugach headquarters was 14 degrees Fahrenheit. Power sales for the year totaled 2.3 billion kilowatt-hours.

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