

2008

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CHUGACH ELECTRIC ASSOCIATION, INC.

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## 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.

### Front cover and left:

Chugach crews performed line inspections and replaced broken insulators on the Beluga to Point MacKenzie transmission lines.

### Above:

Anchorage Hillside and Chugach Mountains

### Annual report photos by:

Chris Arend Photography and Chugach Staff

Printed on recycled paper with soy-based ink



In March the board approved Phase II of the Supervisory Control and Data Acquisition (SCADA) migration project to upgrade an aging computer-based control system that was installed in 1999. The project is a joint effort with Anchorage Municipal Light & Power (AML&P).

or over the automated phone system. The Regulatory Commission of Alaska (RCA) opened a docket to review the plan and the payment transaction fee was suspended during the proceeding. In December the RCA approved the proposal and the assessment to transactions began Jan. 22, 2009.

New rates went into effect in June, bringing to a close a rate case Chugach had filed in September 2006. Members saw reduced energy and demand charges. Fuel costs were rolled into a single total, allowing members to track the total amount of their bill that is associated with fuel and purchased power costs.

In July the board created a committee to work with



an Anchorage Assembly committee to evaluate how Chugach and AML&P can continue to work together. It was determined that the two utilities should do joint projects – such as the Southcentral Power Project – to help hold down costs for all customers. The board authorized signing the Participation Agreement and the Operation and Maintenance Agreement with AML&P, as well as the land lease. The board also authorized proceeding with procurement of the gas turbines for the project.

The board approved a contract naming Bradley Evans as Chief Executive Officer in August. Evans had served as interim CEO since December 2007.

In September Chugach teamed with Total Re-



*In 2008 Chugach budgeted \$450,000 for cable injection projects including Towne East, International Square and Highland Park subdivisions.*

claim and began allowing members to recycle their household compact fluorescent lamps (CFLs) at Chugach headquarters.

In October Chugach began working to establish a \$300 million commercial paper borrowing program to provide interim financing for capital expansion projects, refinancing of redeemed bonds and refinancing of maturing long-term debt.

Chugach adopted a long-term strategy in November toward a 90/10 to 10/90 vision. This vision has the ultimate goal of moving Chugach toward a generation goal of 90 percent renewable resources and 10 percent fossil fuels.



Chugach developed Smart Power, a program dedicated to energy efficiency and conservation. AML&P

joined Chugach in launching a promotion for the purchase of CFLs.

In December Chugach returned about \$1.7 million in retail capital credits to thousands of past and long-term members of record for 1989, which included discounted and estate payments. Chugach's three wholesale customers also received about \$1.4 million in capital credit retirements pursuant to a prior settlement agreement from the 1990s.



*Chugach crews performed a major overhaul on Unit No. 7 in 2008, one of the two largest units at the Beluga Power Plant.*

Chugach received the final payment of \$457,060.94 from the Federal Emergency Management Agency in March for the rebuilding of six towers at Dynamite Slough. The towers were damaged during flooding of the Susitna River in August 2006.

Chugach held its 2008 Annual Membership Meeting April 24. Three hundred one members registered for the event. Nearly 24 percent of the 65,146 members of record voted in the election. Rebecca Logan, Janet Reiser and Elizabeth Vazquez were elected to 3-year terms on the board of directors. There were no proposed bylaw amendments before the voters.

In May Chugach announced that – beginning in September – a \$3.50 payment transaction fee would be collected by a third party processor from members who pay their bill online



*Chugach crews performed maintenance on the 115-kilovolt transmission line in Turnagain Pass.*



*Rebecca Logan*  
Board Chair

As we move forward to meet the needs of our members for reliable, affordable electric service, one thing is clear. Cooperation has a better chance to effect positive change than going it alone.

For some time now Chugach has been meeting with other utilities and the State of Alaska to explore how we can team up to best serve our customers. It is more and more apparent that working together is the best way to mitigate the impact higher natural gas prices have on electric bills.

Chugach has been working at both the local and state level to maximize the benefits of cooperation.

Chugach and Anchorage Municipal Light & Power (AML&P) agreed to partner to build a new power plant. It was a logical decision. Both utilities foresaw the need for new generation around 2012-2013. Rather than building two separate power plants, the utilities determined jointly building and owning a single plant would achieve significant savings for customers. In the summer of 2008 both the Chugach Board of Directors and the Anchorage Assembly approved a joint operating agreement for the plant, which will be known as the Southcentral Power Project.

The new plant will efficiently help

meet the needs of Chugach customers for years. This joint effort will capture a significant portion of the savings identified in a recent study of how the ratepayers of the two utilities could benefit from consolidated efforts.

At the state level, Chugach has been actively engaged in the effort by the Alaska Energy Authority (AEA) and the governor to determine how to best meet the needs of electric consumers throughout the region. Using a legislative grant to study how the Railbelt grid works today – and strategize how it could best work in the future – the AEA study authors concluded that a new authority should be created, led by the six electric utilities of the Railbelt and assisted by the state. (This effort resulted in the Governor introducing legislation in 2009 to create the Greater Railbelt Energy and Transmission Corporation.) The authority could develop new generation and transmission projects to meet the needs of the six utilities, which would retain their autonomy and continue to provide distribution service to their customers.

Common sense tells us that the new authority should be able to develop larger projects than any individual utility could on its own. This could make it possible to bring significant new renewable generation to the grid – including a prospective new, major hydroelectric project. Working together, the utilities and the state should be able to gain savings from economies of scale. More importantly, the new organization can take a coordinated approach to regional power planning – and thereby avoid too many projects having to be paid for by too few customers.

The discussion of how best to create a new electrical authority for the Railbelt will continue in 2009.

As we think ahead about meeting the

electric needs of our members today and tomorrow, we know that renewable energy needs to be a larger part of our generation mix. Today, about 90 percent of the kilowatt-hours Chugach sells each year come from burning natural gas. The remaining 10 percent come from hydro projects. Chugach members, and the retail members of our wholesale customers, are painfully aware that the rising price of natural gas has pushed electric bills higher and higher in recent years. In 2008, as part of an overall policy statement on studying all sources of alternative energy, the Chugach board adopted a long-term goal of turning these ratios around. We envision a future – admittedly perhaps decades away – where 90 percent of Chugach

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*“Cooperation has a better chance to effect positive change than going it alone.”*

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members' electric energy will come from renewable resources and 10 percent from fossil fuel.

Chugach's strategic vision has different layers. We are building an efficient, new gas-fired power plant with AML&P to meet the near-term needs of our customers, while at the same time working with all the Railbelt utilities and the state on a long-term plan that could add significant renewable generation to the grid.

What these two activities have in common is cooperation. Chugach is committed to working with others for the good of the interconnected Railbelt electric system and the hundreds of thousands of Alaskans who depend upon it.

*Rebecca Logan*

This is a challenging time for Chugach. For more than 40 years we have depended upon natural gas as our primary generation fuel. The Cook Inlet Basin has provided the gas we need. It has been plentiful, and it has been affordable.

Now we are in a time of transition. In recent years, the known quantities of Cook Inlet gas have been declining while prices have been rising – a disturbing set of circumstances for a utility that uses natural gas to generate most of its power.

Chugach believes the Southcentral region would benefit from the state preparing a comprehensive resource management plan for Cook Inlet natural gas. Natural gas is critically important to the economy of Southcentral Alaska, and it is incumbent upon all of us to manage it wisely. This plan would identify the remaining life of reserves, optimum usage, storage requirements and the details of bringing online the untapped reserves not already under production. We believe this is a prudent next step for the state to undertake before investing billions of dollars in large-scale natural gas supply solutions for Southcentral Alaska and the Railbelt region.

From the utility perspective, the wise use of a resource takes place on both the demand and supply side of the equation. We put a renewed emphasis on conservation in the past year, launching our Smart Power program to help customers better understand how they can control their bills. This program will expand over time and better enable our members to take direct control of their consumption.

On the supply side, Chugach is building an efficient, new, combined-cycle power plant near its Anchorage headquarters. The Southcentral Power Project is a joint effort with Anchorage Municipal Light & Power that will provide base-load generation for

Chugach for years after it comes online in 2013. The new plant will save millions of dollars annually by using less gas to make a kilowatt-hour and will avoid the investment of millions of dollars in legacy generation.

The new plant will help reduce our annual natural gas bill, but will not change the fact that we are overly dependent upon a single fuel. Currently about 90 percent of the kilowatt-hours Chugach sells each year are generated by burning natural gas, with the other 10 percent coming from hydro projects. In the future we want a generation portfolio with a much larger share of renewable energy. This is the basis of the "90/10 to 10/90" goal embodied in a November 2008 board resolution.

How are we going to add a large amount of renewable energy to our mix? Wind is probably a part of the answer, geothermal could make a contribution, and someday so might a tidal project. However, hydropower is the proven technology that could add significant renewable energy to the regional grid in the near future. The Railbelt has several possible areas for hydro projects of varying size, and many are already under consideration by prospective developers. In 2008 Chugach and others successfully argued for the state to take a fresh look at the concept of an appropriately sized hydro project on the Susitna River that would not compromise added capacity to the project if future load requirements warrant expansion. The results of that effort are due in 2009.

Any major new hydro project will be expensive, and well beyond the

ability of any single utility to finance. All six of the Railbelt electric utilities working together, with the assistance of the state, would be in a much better position to plan, finance, construct and operate generation and transmission projects for the region. This was the finding of the Railbelt Electrical Grid Authority study completed in 2008 by the Alaska Energy Authority. Chugach supported the study, and it supports the conclusion as the most logical direction to take to enable us to wean ourselves from fossil fuel fired generation and deliver affordable power to our members.

*Bradley Evans*



## *The Executive staff*

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

## *Rebecca Logan*, Chairman

Rebecca Logan is president and chief executive officer for the Associated Builders and Contractors, Alaska Chapter. She was appointed to fill a board vacancy in 2007 and elected to the board in 2008. Logan serves on the board's Operations, Finance and Audit committees. She also serves as Chugach's Alaska Power Association Resolutions Committee representative.

## *Jim Nordlund*, Vice Chairman

Jim Nordlund is a self-employed home builder and general contractor with Nordlund Carpentry, LLC. He was elected to the board in 2006. Nordlund is a former legislator and state Director of Public Assistance. He currently serves as chair of the Operations Committee and is Chugach's representative on the board of the Alaska Power Association. He is a National Rural Electric Cooperative Association Credentialed Cooperative Director.

## *Alex Gimarc*, Secretary

Alex Gimarc is a systems programmer with the Municipality of Anchorage. He was elected to the board in 2007. Gimarc currently serves on the board's Operations, Finance and Audit committees. He is also Chugach's representative to the Joint Action Agency.



Seated from left: Jim Nordlund, Vice Chair; Rebecca Logan, Chair and P.J. Hill, Treasurer Standing from left: Elizabeth Vazquez, Alex Gimarc, Secretary, Janet Reiser and Jeff Lipscomb

## *P.J. Hill*, Treasurer

P.J. Hill is a retired Associate Professor of Economics at the University of Alaska Anchorage and a commercial fisherman. He was elected to the board in 2007. Hill chairs the board's Finance and Audit committees. He is a National Rural Electric Cooperative Association Credentialed Cooperative Director.

## *Jeff Lipscomb*, Director

Jeff Lipscomb is a project management consultant with JWL Engineering. He was elected to the board in 2000 and re-elected in 2003 and 2006. Lipscomb currently serves on the board's Finance and Audit committees. He also serves on the Northwest Public Power Association Board of Trustees and is a National Rural Electric Cooperative Association Credentialed Cooperative Director.

## *Janet Reiser*, Director

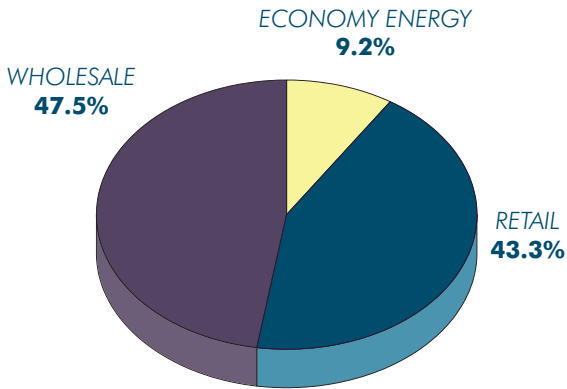
Janet Reiser is an engineer and managing partner of Salus Management Services and chief operating officer of Sea Lion International. She was elected to the board in 2008. She serves on the Operations Committee and is the board liaison to the Renewable Energy Committee.

## *Elizabeth Vazquez*, Director

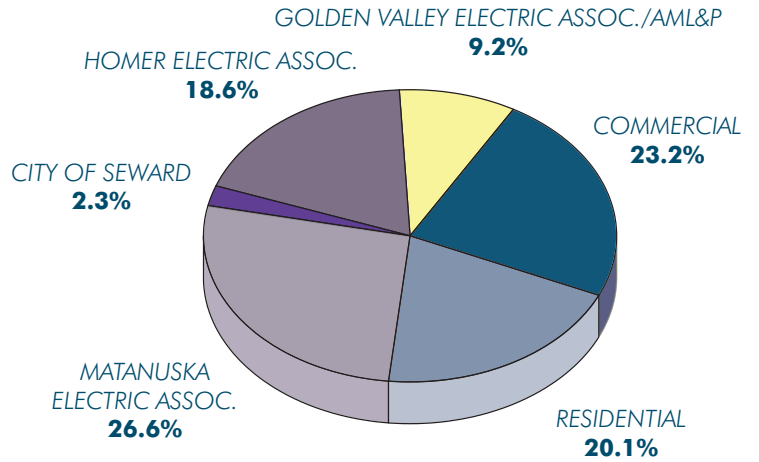
Elizabeth Vazquez is an attorney with the State of Alaska and has a Master's of Business Administration. She was elected to the board in 2005 and re-elected in 2008. Vazquez also serves on the board's Operations, Finance and Audit committees. She is a National Rural Electric Cooperative Association Credentialed Cooperative Director and has earned her Board Leadership Certificate.

## by Kilowatt-hours

Total: 2,785,705,017



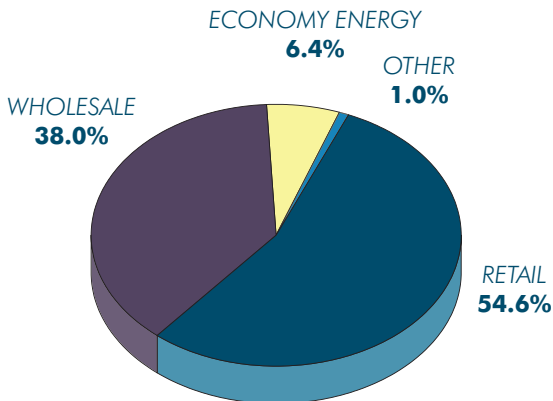
Overview



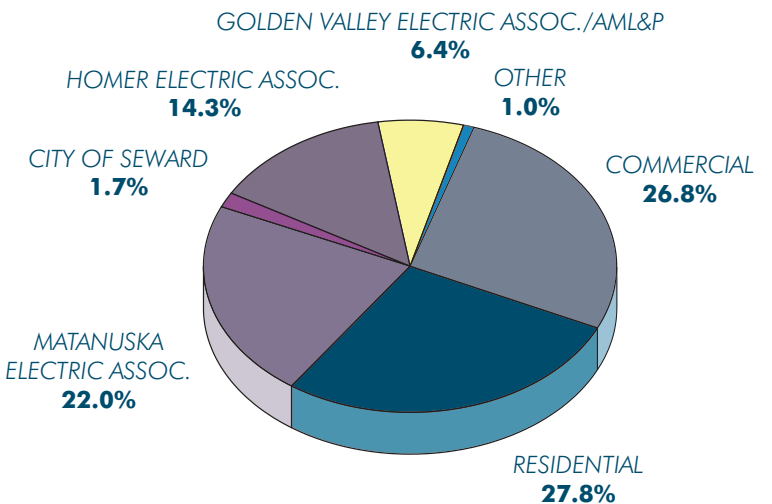
Detail

## by Operating Revenues

Total: \$288,292,112



Overview



Detail

Chugach ended 2008 with \$6.4 million in "margins" (as they are referred to in the cooperative world) on the bottom line. This is more than a two-fold improvement over 2007's result which was \$2.9 million.

The original 2008 budget projected margins of \$9.1 million. While the final result was not up to the level of the original budget, it did reflect the impact of tight cost control in the face of decreased kilowatt hour sales from retail customers and the added

expenses associated with an October wind storm, unbudgeted credit card fees associated with bill payments, an unplanned outage on the waste heat generator (which caused increased fuel purchases), another outage on a large generator, additional expense recognition on a gas compression unit as ordered in the final 2005 Test Year Rate Case order, unanticipated legal and utility consolidation fees and continued expenses associated with the Sarbanes-Oxley Act of 2002. Increased fuel costs, while recovered through a fuel cost recovery process impacted the bottom line in the form of increased interest expense. We used the line of credit to supplement cash flow while we recovered the additional fuel costs, which caused additional interest expense. We expect to "catch up" on the recovery of these costs in 2009 through the fuel recovery process.



*A Chugach crew installed new aircraft warning balls on the 115-kilovolt transmission line in Turnagain Pass.*

Total energy sales to retail, wholesale and economy energy customers amounted to 2,785,705 megawatt-hours (MWh) in 2008. These sales, along with other revenue, produced

total revenues of \$288,292,112 for the year. This compared to 2,611,097 MWh of energy and \$257,443,919 of revenue in 2007. Retail sales decreased in 2008 from 2007, however, wholesale sales increased and economy sales rebounded back to a level similar to 2006. The significant increase in revenues in 2008 was primarily attributed to

increased fuel costs, which were offset by an increase in fuel expense on our financial statements. Revenues from economy energy sales do not contribute to the bottom line, but serve to mitigate some of the increased fuel and purchased power costs throughout the year.

Chugach exceeded its Indenture of Trust financial performance target of a 1.10 Margins for Interest/Interest (MFI/I) ratio. The indenture mandates certain financial performance standards we must meet in order to provide bond investors comfort with their long-term investment in Chugach. Our actual MFI/I for 2008 was 1.28.

Chugach maintained the landmark Equity to Total Capitalization ratio of above

30 percent that we initially achieved in 2007, and still returned over \$3.1 million of capital credits to our retail and wholesale members. Maintaining an equity ratio above 30 percent allows greater flexibility in financial planning under the terms of the indenture.

In 2008, the world experienced the meltdown of the financial markets. Chugach took steps early in 2008 to insulate itself against this consequence by entering into a \$300 million unsecured credit facility that is being used to "back stop" a Commercial Paper short term financing program. The credit facility is provided by a consortium of four banking institutions – National Rural Utilities Cooperative Finance Corporation (NRUCFC), Key Bank National, CoBank and US Bank. These banks agreed to provide financing to Chugach up to a \$300 million limit should the commercial paper market fail. NRUCFC and CoBank have previously financed Chugach's capital expansion program through loans and bond financing. Chugach obtained very favorable financing terms on the credit facility, which are no longer attainable in today's financial markets.



*Chugach bills for damages to its facilities.*



We further bolstered our liquidity position by maintaining and utilizing \$82.5 million of short-term borrowing capacity through lines of credit with NRUCFC and CoBank.

Chugach updated the three bond rating agencies and obtained two "Commercial Paper" ratings necessary to establish the program. Our underlying long-term ratings are currently "A-" and "A3." Our Commercial Paper composite rating is "A1/P2."

of long-term variable rate debt, the pricing of which, had become unpredictable in the market. We used our NRUCFC line of credit to finance the redemption. Early in 2009, we converted this refinancing into a commercial paper transaction at even more attractive interest rates. We added some long-term debt through this refinancing because the terms of the line of credit transaction were extended which required us to classify the debt at year end as long-term.

Chugach continued to explore with other Railbelt utilities the potential creation of an energy corporation organized for the purpose of providing for unified generation and transmission needs in the Alaska Railbelt.

Joint efforts with Anchorage Municipal Light and Power for the financing and construction of a new, fuel efficient generating plant advanced with the signing of various agreements and the purchase of land and initial components of the generators. This effort will

continue through to the successful completion of the project anticipated in 2013.

Chugach expended approximately \$29 million on total capital expansion and system improvement projects in 2008. These projects were funded by internally generated funds, lines of credit and commercial paper instruments.

We continue

*"In 2008, the world experienced the melt-down of the financial markets. Chugach took steps early in 2008 to insulate itself against this consequence."*

The Finance and Audit committees continued to be very active in accounting and financial matters of the association. Emphasis continued in the area of testing the effectiveness of Chugach's internal control system as required by the Sarbanes-Oxley Act of 2002.

Certification of the effectiveness of these systems is required to be made by the Chief Executive Officer and Chief Financial Officer for 2008. Our independent audit firm will attest to the effectiveness of the system during their audit of our 2009 financial statements.

Chugach continued prudent debt management practices in 2008. In March, we redeemed approximately \$30 million



*Chugach installed a new customer payment station in its Member Services lobby.*



*P.J. Hill*  
Treasurer

to monitor all financial markets in anticipation of the upcoming 2011 and 2012 refinancing efforts on our publicly traded long-term debt. We also expect to convert some of the commercial paper outstanding balance to long-term debt in 2010.

Chugach continued to operate and maintain the system that provides reliable and lowest cost power possible to our members from Homer to Fairbanks. In furtherance of this endeavor, we updated and expanded our Financial Management Plan covering a 10-year period in an effort to incorporate all recent information into our planning efforts.

*P.J. Hill*

## *Report of Independent Registered Public Accounting Firm*

The Board of Directors  
Chugach Electric Association, Inc.

We have audited the accompanying balance sheets of Chugach Electric Association, Inc. as of December 31, 2008 and 2007, 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, 2008. 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, 2008 and 2007, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

March 9, 2009

Anchorage, Alaska

## Chugach Electric Association, Inc. Balance Sheets December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
		<u>Assets</u>
Utility Plant (notes 1 d, 3, 11 and 12):		
Electric plant in service	\$821,462,475	\$805,631,207
Construction work in progress	25,151,072	17,712,884
Total utility plant	<u>846,613,547</u>	<u>823,344,091</u>
Less accumulated depreciation	(389,002,139)	(367,391,921)
Net utility plant	<u>457,611,408</u>	<u>455,952,170</u>
Other property and investments, at cost:		
Nonutility property	24,461	24,461
Special Funds	264,427	768,041
Investments in associated organizations (note 4)	12,177,769	11,993,378
Total other property and investments	<u>12,466,657</u>	<u>12,785,880</u>
Current assets:		
Cash and cash equivalents, including repurchase agreements of \$9,639,446 in 2008 and \$9,730,078 in 2007	7,491,302	6,209,936
Special deposits	114,930	125,117
Fuel cost under-recovery (note 1n)	11,788,078	0
Accounts receivable, less provision for doubtful accounts of \$408,632 in 2008 and \$541,368 in 2007	33,019,372	31,355,481
Materials and supplies	28,806,641	28,422,088
Prepayments	1,544,025	1,357,980
Other current assets	272,357	264,501
Total current assets	<u>83,036,705</u>	<u>67,735,103</u>
Deferred charges, net (notes 5 and 13)	<u>23,577,199</u>	<u>21,252,965</u>
Total assets	<u><u>\$576,691,969</u></u>	<u><u>\$557,726,118</u></u>
		<u>Liabilities, Equities and Margins</u>
Equities and margins (notes 6 and 7):		
Memberships	\$1,390,413	\$1,345,013
Patronage capital	142,009,998	138,713,338
Other	10,366,588	9,252,085
Total equities and margins	<u>153,766,999</u>	<u>149,310,436</u>
Long-term obligations, excluding current installments (notes 8 and 9):		
Bonds payable	270,000,000	299,600,000
National Bank for Cooperatives promissory notes payable	41,419,847	45,823,500
National Rural Utilities Cooperative Finance Corporation promissory notes payable	42,963,659	0
Total long-term obligations	<u>354,383,506</u>	<u>345,423,500</u>
Current liabilities:		
Current installments of long-term obligations (notes 8 and 9)	4,403,653	10,106,804
Promissory notes payable	2,860,000	0
Short-term obligations	7,500,000	0
Accounts payable	6,999,140	7,935,566
Consumer deposits	2,410,980	2,403,051
Fuel cost over-recovery (note 1n)	0	1,596,010
Accrued interest	6,158,927	6,304,609
Salaries, wages and benefits	5,481,621	5,953,873
Fuel	28,494,211	22,337,653
Other current liabilities	1,666,521	3,680,212
Total current liabilities	<u>65,975,053</u>	<u>60,317,778</u>
Deferred compensation	264,427	768,041
Deferred credits (note 5)	2,301,984	1,906,363
Total liabilities, equities and margins	<u><u>\$576,691,969</u></u>	<u><u>\$557,726,118</u></u>

See accompanying notes to financial statements.

Chugach Electric Association, Inc.  
 Statements of Operations  
 Years Ended December 31, 2008, 2007 and 2006

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues (notes 1m, 2 and 13)	\$288,292,112	\$257,443,919	\$267,542,713
Operating expenses:			
Fuel (note 13)	137,894,553	106,023,734	120,280,509
Power production	16,718,777	16,171,717	15,050,338
Purchased power	31,486,621	33,947,828	25,979,919
Transmission	5,841,405	6,781,166	6,283,845
Distribution	12,398,832	13,716,105	12,134,087
Consumer accounts	5,396,662	4,899,878	4,982,313
Administrative, general and other charges	20,014,239	21,776,968	21,728,555
Depreciation	30,829,276	29,049,627	28,529,763
Total operating expenses	<u>260,580,365</u>	<u>232,367,023</u>	<u>234,969,329</u>
Interest expense:			
On long-term obligations	21,309,900	24,239,343	24,459,852
On short-term obligations	1,669,376	90,648	0
Charged to construction-credit	(446,479)	(617,194)	(448,978)
Net interest expense	<u>22,532,797</u>	<u>23,712,797</u>	<u>24,010,874</u>
Net operating margins	<u>5,178,950</u>	<u>1,364,099</u>	<u>8,562,510</u>
Nonoperating margins:			
Interest income	553,362	710,480	879,481
Capital credits, patronage dividends and other	679,438	810,677	597,068
Total nonoperating margins	<u>1,232,800</u>	<u>1,521,157</u>	<u>1,476,549</u>
Assignable margins	<u>\$6,411,750</u>	<u>\$2,885,256</u>	<u>\$10,039,059</u>

Chugach Electric Association, Inc.  
 Statements of Changes in Equities and Margins  
 Years Ended December 31, 2008, 2007 and 2006

	<u>Memberships</u>	<u>Other Equities and Margins</u>	<u>Patronage Capital</u>	<u>Total</u>
Balance, January 1, 2006	\$1,250,398	\$7,603,376	\$136,185,378	\$145,039,152
Assignable margins	0	0	10,039,059	10,039,059
Retirement of capital credits	0	0	(5,106,817)	(5,106,817)
Unclaimed capital credit retirements	0	346,821	0	346,821
Memberships and donations received	47,235	350,650	0	397,885
Balance, December 31, 2006	<u>1,297,633</u>	<u>8,300,847</u>	<u>141,117,620</u>	<u>150,716,100</u>
Assignable margins	0	0	2,885,256	2,885,256
Retirement of capital credits	0	0	(5,289,538)	(5,289,538)
Unclaimed capital credit retirements	0	681,254	0	681,254
Memberships and donations received	47,380	269,984	0	317,364
Balance, December 31, 2007	<u>1,345,013</u>	<u>9,252,085</u>	<u>138,713,338</u>	<u>149,310,436</u>
Assignable margins	0	0	6,411,750	6,411,750
Retirement of capital credits	0	0	(3,115,090)	(3,115,090)
Unclaimed capital credit retirements	0	963,133	0	963,133
Memberships and donations received	45,400	151,370	0	196,770
Balance, December 31, 2008	<u>\$1,390,413</u>	<u>\$10,366,588</u>	<u>\$142,009,998</u>	<u>\$153,766,999</u>

See accompanying notes to financial statements.

## Chugach Electric Association, Inc. Statements of Cash Flows Years Ended December 31, 2008, 2007 and 2006

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<u>Cash flows from operating activities:</u>			
Assignable margins	\$6,411,750	\$2,885,256	\$10,039,059
Adjustments to reconcile assignable margins to net cash provided by operating activities:			
Depreciation and amortization	35,858,305	32,426,335	31,494,702
Capitalized interest	(559,090)	(891,443)	(1,328,459)
Property (gains) losses, net	2,231	16,748	(13,919)
Write-off of deferred charges	18,000	4,439	406,239
Investments in associated organizations	(184,390)	(105,872)	(108,989)
Changes in assets and liabilities:			
(Increase) decrease in assets:			
Accounts receivable	(1,663,891)	1,544,090	(5,463,293)
Fuel cost under-recovery	(11,788,078)	0	1,781,833
Materials and supplies	(384,553)	(2,997,595)	(1,614,802)
Prepayments	(186,046)	129,986	313,138
Special deposits/other	2,331	98,159	115,889
Deferred charges	(6,640,741)	(2,773,198)	(4,873,727)
Increase (decrease) in liabilities:			
Accounts payable	(1,673,495)	(124,362)	276,837
Consumer deposits	7,929	185,438	237,328
Fuel cost over-recovery	(1,596,010)	1,295,443	300,567
Accrued interest	(145,682)	(59,491)	3,448
Salaries, wages and benefits	(472,252)	(67,600)	647,977
Fuel	6,156,558	6,178,870	(1,964,356)
Other liabilities	(12,484)	(1,525,783)	947,674
Deferred credits	55,070	16,646	(264,655)
<b>Net cash provided by operating activities</b>	<b>23,205,462</b>	<b>36,236,066</b>	<b>30,932,491</b>
<u>Investing activities:</u>			
Extension and replacement of plant	(29,065,107)	(27,253,296)	(18,986,067)
<b>Net cash used in investing activities</b>	<b>(29,065,107)</b>	<b>(27,253,296)</b>	<b>(18,986,067)</b>
<u>Financing activities:</u>			
Proceeds from short-term obligations	7,500,000	0	0
Proceeds from long-term obligations	38,560,006	0	0
Repayments of long-term obligations	(35,303,151)	(9,001,795)	(8,325,687)
Memberships and donations received	70,761	76,969	7,413
Retirement of patronage capital and estate payments	(4,027,156)	(3,273,914)	(4,241,093)
Net receipts of consumer advances for construction	340,551	(419,008)	(192,737)
<b>Net cash (used in) provided by financing activities</b>	<b>7,141,011</b>	<b>(12,617,748)</b>	<b>(12,752,104)</b>
Net changes in cash and cash equivalents	1,281,366	(3,634,978)	(805,680)
Cash and cash equivalents at beginning of period	\$6,209,936	\$9,844,914	\$10,650,594
Cash and cash equivalents at end of period	\$7,491,302	\$6,209,936	\$9,844,914
Supplemental disclosure of non-cash investing and financing activities			
Retirement of plant (net of salvage)	\$9,027,644	\$9,473,461	\$8,240,458
Notes payable on land	\$2,860,000	\$0	\$0
Extension and replacement of plant included in accounts payable	\$2,656,989	\$2,084,120	\$3,503,009
Non-cash capital credit retirements	\$1,089,142	\$921,649	\$737,293
Patronage capital retired and estate payments included in other current liabilities	\$415,345	\$2,416,552	\$1,322,577
Supplemental disclosure of cash flow information – interest expense paid, excluding amounts capitalized	\$21,536,503	\$23,772,288	\$24,086,565
See accompanying notes to financial statements.			

Chugach Electric Association, Inc.  
Notes to Financial Statements  
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(1) Description of Business and Significant Accounting Policies

a. Description of Business

Chugach Electric Association, Inc. (Chugach) is the largest electric utility in Alaska. Chugach is engaged in the generation, transmission and distribution of electricity to directly serve retail customers in the Anchorage and upper Kenai Peninsula areas. Through an interconnected regional electrical system, Chugach's power flows throughout Alaska's Railbelt, a 400-mile-long area stretching from the coastline of the southern Kenai Peninsula to the interior of the state, including Alaska's largest cities, Anchorage and Fairbanks.

Chugach also supplies much of the power requirements of three wholesale customers, Matanuska Electric Association, Inc. (MEA), Homer Electric Association, Inc. (HEA) and the City of Seward (Seward). Chugach's retail and wholesale members are the consumers of the electricity sold.

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

b. Management Estimates

In preparing the financial statements, 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, deferred charges and credits, unbilled revenue and the estimated useful life of utility plant. Actual results could differ from those estimates.

c. 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 Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation (SFAS No. 71)*.

SFAS No. 71 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. The regulatory assets or liabilities are then reduced as the cost or credit is reflected in rates.

d. Utility Plant and Depreciation

Additions to electric plant in service are recorded at original cost of contracted services, direct labor and materials, indirect overhead charges and capitalized interest. For property replaced or retired, the book value of the property, plus removal cost, less salvage, is charged to accumulated provision for depreciation. Renewals and betterments are capitalized, while maintenance and repairs are charged to expense as incurred.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144)*, certain utility plant is reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable in rates. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

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

	Annual Depreciation Rate Ranges					
	01/01/2005-05/31/2008			06/01/2008-12/31/2008		
Steam production plant	2.55%	-	3.24%	4.45%	-	5.85%
Hydraulic production plant	1.63%	-	3.00%	1.22%	-	3.00%
Other production plant	3.32%	-	9.81%	3.77%	-	10.56%
Transmission plant	1.72%	-	5.26%	1.61%	-	6.67%
Distribution plant	2.10%	-	9.98%	1.95%	-	9.77%
General plant	2.23%	-	27.25%	1.25%	-	26.11%
Other	2.75%	-	2.75%	2.75%	-	2.75%

An update to depreciation rates was included in a general rate case filed by Chugach with the RCA on September 29, 2006. On April 1, 2008, the RCA issued Order 21, which allowed Chugach to revise its depreciation rates effective June 1, 2008. See Note (2) – "Regulatory Matters – 2005 Test Year General Rate Case (Docket U-06-134)."

The most significant change resulting from the 2005 Depreciation Study update approved by the RCA in Order 21 was a reduction of the useful life of the steam plant from forty years to thirty years, which caused an increase in the rates for steam production plant. The useful life of the hydraulic production plant at Cooper Lake was extended to 2057 to coincide with the expiration of the fifty year FERC license for the Cooper Lake facility. This resulted in a decrease in the depreciation rates for most hydraulic production plant. Other factors that drove modifications to the depreciation rates included changes in surviving original cost, survivor curves and net salvage percentages.

e. Capitalized Interest

Allowance for funds used during construction (AFUDC) and interest charged to construction - credit (IDC) are the estimated costs during the period of construction of equity and borrowed funds. AFUDC and IDC are non-cash credits, which represent the estimated cost of funds used to finance the construction of utility plant. AFUDC and IDC are applied to applicable projects during construction. AFUDC and IDC include the net cost of borrowed funds and a rate of return on other funds when used and is recovered through rates as utility plant is depreciated. Chugach capitalized such funds at the weighted average rate (adjusted monthly) of 5.1% during 2008, 6.3% during 2007 and 6.1% during 2006.

Chugach Electric Association, Inc.  
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(1) **Description of Business and Significant Accounting Policies (continued)**

*f. Investments in Associated Organizations*

The loan agreements with CoBank, ACB (CoBank) and National Rural Utilities Cooperative Finance Corporation (NRUCFC) require as a condition of the extension of credit, that an equity ownership position be established by all borrowers. Chugach's equity ownership in these organizations is less than 1%. These investments are non-marketable and accounted for at cost. Management evaluates these investments annually for impairment.

*g. Fair Value of Financial Instruments*

SFAS No. 107, *Disclosures About the Fair Value of 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 (notes 8 and 9).

*h. Cash and Cash Equivalents*

For purposes of the statement of cash flows, Chugach considers all highly liquid debt instruments with a maturity of three months or less upon acquisition by Chugach to be cash equivalents. Chugach has an Overnight Repurchase Agreement with First National Bank Alaska (FNBA). Each day the balance is invested by FNBA and Chugach receives varying interest rates for our investment pursuant to our Overnight Purchase Agreement. The Overnight Repurchase Agreement account had an average balance in 2008 and 2007 of \$3,725,224 and \$8,179,484, at an average interest rate of 1.43% and 3.13%, respectively.

*i. 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.

*j. Materials and Supplies*

Materials and supplies are stated at average cost.

*k. Deferred Charges and Credits*

In accordance with SFAS No. 71, Chugach's financial statements reflect regulatory assets and liabilities. Continued accounting under SFAS No. 71 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 rate making purposes and future revenue will be provided to permit recovery of the previously incurred cost. Management believes Chugach's operations currently satisfy these criteria. However, 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 the financial position and results of operations. Deferred charges, primarily representing regulatory assets, are amortized to operating expense over the period allowed for rate making purposes. Deferred credits, primarily representing regulatory liabilities, are amortized to operating expense over the period allowed for rate making purposes. It also includes nonrefundable 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.

*l. Patronage Capital*

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

*m. 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 \$10,024,312 and \$8,300,461 of unbilled retail revenue at December 31, 2008 and 2007, respectively. Wholesale revenue is recorded from metered locations on a calendar month basis, so no accrual is made. Chugach's tariffs include provisions for the flow through of gas costs according to existing gas supply contracts, as well as purchased power costs.

*n. Fuel and Purchased Power Costs*

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 surcharge process, which is adjusted quarterly to reflect increases and decreases of such costs. Revenues are adjusted for differences between projected recoverable fuel costs and amounts actually recovered through rates. Fuel costs were under-recovered by \$11,788,078 in 2008 and over-recovered by \$1,596,010 in 2007. Total fuel and purchased power costs in 2008, 2007, and 2006 were \$169,381,174, \$139,971,562, and \$146,260,428, respectively.

*o. 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.

Chugach Electric Association, Inc.  
Notes to Financial Statements  
December 31, 2008 and 2007

(1) Description of Business and Significant Accounting Policies (continued)

p. 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, 2008, 2007 and 2006 was in compliance with that provision. In addition, as described in "Note (13) - Commitments, Contingencies and Concentrations," Chugach collects sales tax and is assessed gross receipts and excise taxes which are presented on a net basis in accordance with Emerging Issues Task Force (EITF) No. 06-3 "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement."

q. Recently Issued Accounting Pronouncements

SFAS No. 141R "Business Combinations"

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141R, "Business Combinations." SFAS No. 141R replaces FASB Statement No. 141, "Business Combinations." This statement retains the requirements in SFAS No. 141 that the acquisition method of accounting be used and for an acquirer to be identified for each business combination. This statement defines the acquirer and establishes the acquisition date. This statement applies only to business combinations in which control was obtained by transferring consideration. By applying the same method, this statement improves the comparability of the information about business combinations provided in financial reports. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. Chugach will begin application of SFAS No. 141R on January 1, 2009, and it does not expect to have a material effect on our results of operations, financial position, and cash flows.

SFAS No. 161 "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133"

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133." SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. SFAS No. 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008. Chugach will begin application of SFAS No. 161 on January 1, 2009, and does not expect it to have a material effect on our results of operations, financial position, and cash flows.

FSP FAS No. 157-2 "Effective Date of FASB Statement No. 157"

In February 2008, the FASB issued FSP FAS No. 157-2, "Effective Date of FASB Statement No. 157." FSP FAS No. 157-2 deferred the effective date of applying SFAS No. 157 to nonfinancial assets and nonfinancial liabilities, from financial statements issued for fiscal years beginning after November 15, 2007, to fiscal years beginning after November 15, 2008. FSP FAS No. 157-2 is effective upon issuance. Chugach will begin application of SFAS No. 157 to nonfinancial assets and nonfinancial liabilities on January 1, 2009, which is not expected to have a material effect on our results of operations, financial position, and cash flows.

FSP FAS No. 142-3 "Determination of the Useful Life of Intangible Assets"

In April 2008, the FASB issued FSP FAS No. 142-3, "Determination of the Useful Life of Intangible Assets." FSP FAS No. 142-3 amends SFAS No. 142, "Goodwill and Other Intangible Assets," to define the factors to be considered in developing the renewal or extension assumptions used to determine the useful life of the recognized intangible assets under SFAS No. 142. SFAS No. 142 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and early adoption is prohibited. Chugach will begin application FSP FAS No. 142-3 to intangible assets on January 1, 2009, which is not expected to have a material effect on our results of operations, financial position, and cash flows.

EITF No. 08-5 "Issuer's Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement"

In September 2008, the FASB's EITF ratified EITF No. 08-5, "Issuer's Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement." EITF No. 08-5 establishes how to treat the debt issued with a third-party credit enhancement that is inseparable from the debt instrument. In September 2008, the FASB's EITF reached a consensus to change the effective date of EITF No. 08-5 to be effective on a prospective basis for the first reporting period beginning on or after December 15, 2008. The FASB ratified this consensus at its September 24, 2008 meeting. Therefore, Chugach will begin application of EITF No. 08-5 on January 1, 2009, which is not expected to have a material effect on our results of operations, financial position, and cash flows.

r. Fair Values of Assets and Liabilities

On January 1, 2008, Chugach adopted the provisions of SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements for fair value measurements.

Fair Value Hierarchy

In accordance with SFAS No. 157 Chugach groups its financial assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

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

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

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

The table below presents the balance of Chugach's non-qualified deferred compensation plan measured at fair value on a recurring basis.

Total	Level 1	Level 2	Level 3
\$264,427	\$264,427	\$0	\$0

Chugach had no Level 2 or level 3 assets or liabilities measured at fair value on a recurring basis.



Chugach Electric Association, Inc.  
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(2) **Regulatory Matters****Revision to Current Depreciation Rates (Docket No. U-04-102)**

Chugach implemented new depreciation rates effective January 1, 2004, based on an update of the 1999 Depreciation Study utilizing Electric Plant in Service balances as of December 31, 2002. The 2002 Depreciation Study was submitted to the RCA for approval on November 19, 2004. On March 9, 2005, the RCA ruled in Order No. 2 that depreciation rates may not be implemented without prior approval of the RCA.

In Order No. 9 dated January 10, 2006, the RCA ruled substantially in Chugach's favor by approving the 2002 Depreciation Study with certain changes to the proposed depreciation rates. The main effect of this decision was to allow Chugach to revise its depreciation rates effective January 1, 2005. Because Chugach did not request changes to the electric rates charged to our customers based on the proposed new depreciation rates, there was no immediate electric rate impact.

Wholesale customers MEA and HEA were active in the proceeding. Subsequently, MEA and HEA filed an appeal of the RCA's decision in Superior Court, see "Footnote 5, Legal Proceedings – Matanuska Electric Association, Inc. (MEA) v. State of Alaska, Regulatory Commission of Alaska, Superior Court Case No. 3AN-06-8243 Civil." HEA later dismissed its appeal leaving MEA's claim focusing mainly on the question of whether implementation of the new depreciation rates as of January 1, 2005 constituted illegal retroactive rate making. Oral argument before the Superior Court was held on July 15, 2008. On July 21, 2008, the Court issued a decision affirming the RCA's January 10, 2006 decision.

**2005 Test Year General Rate Case (Docket U-06-134)**

On September 29, 2006, Chugach filed a general rate case based on a 2005 test year with the RCA. Overall revenues were proposed to increase \$2.8 million in the initial filing. A settlement agreement reached in July 2007 between several of the intervenors and Chugach was accepted by the RCA in Order No. 15. On April 1, 2008, the RCA issued Order No. 21 in Docket U-06-134. In this Order, the RCA approved the rates from the Settlement Agreement among Chugach, HEA and Seward that it had previously accepted. MEA did not join the Settlement Agreement and this Order addressed the issues that it had raised. The effect of Order 21 is that overall revenues will decrease by 0.8%, or \$0.9 million, with retail base rate revenue decreasing by 4.8%, or \$4.2 million and wholesale base rate revenue increasing by 11.0%, or \$3.3 million. Order No. 21 was effective June 1, 2008.

On April 21, 2008, Chugach filed a Petition for Reconsideration of Order 21. Chugach asked the RCA to reconsider its decisions regarding the allocation of long-term debt and interest expense and the requirement for specific scenarios in Chugach's Financial Management Plan (FMP). Chugach also proposed corrections to the RCA calculation of the debt allocator it ordered. No other parties filed for reconsideration of the order.

On May 21, 2008, the RCA issued Order No. 22. The RCA revised the long-term debt allocator from 67.12% to 68.46%. This finding increased MEA's revenue requirement to Chugach by \$107,818. The RCA reaffirmed its requirement for FMP scenarios.

On May 30, 2008, the RCA issued Order No. 23, accepting Chugach's compliance filing and approving tariff sheets that incorporate the RCA's findings in Order No. 22.

On June 4, 2008, MEA filed a Petition for Reconsideration of Order No. 23, expressing several concerns about Chugach's computation of depreciation expenses.

On September 16, the RCA issued Order No. 24. The RCA reviewed comments submitted by MEA, however, the RCA found that depreciation calculations by Chugach were reasonable.

On October 1, Chugach submitted three Financial Management Plan scenarios to the Commission in compliance with Order No. 21 in U-06-134. The three scenarios contained in the filing were: Scenario 1: Wholesale relationships continue into the future; Scenario 2: Firm wholesale relationships terminate and are replaced with interruptible sales; and, Scenario 3: Firm wholesale relationships terminate and are not replaced with interruptible sales. On November 7, 2008, the RCA issued Order No. 25, accepting Chugach's Financial Management Plan as filed and closing docket U-06-134.

(3) **Utility Plant**

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

	2008	2007
Electric plant in service:		
Steam production plant	\$60,462,671	\$60,462,671
Hydraulic production plant	19,597,661	20,262,890
Other production plant	137,480,817	133,235,755
Transmission plant	247,685,063	245,914,683
Distribution plant	242,489,152	230,074,513
General plant	46,634,280	47,962,159
Unclassified electric plant in service <sup>1</sup>	60,348,939	60,954,644
Other	<u>6,763,892</u>	<u>6,763,892</u>
Total electric plant in service	821,462,475	805,631,207
Construction work in progress	<u>25,151,072</u>	<u>17,712,884</u>
Total electric plant in service and construction work in progress	<u>\$846,613,547</u>	<u>\$823,344,091</u>

<sup>1</sup>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.

Chugach Electric Association, Inc.  
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(4) Investments in Associated Organizations

Investments in associated organizations include the following at December 31:

	<u>2008</u>	<u>2007</u>
National Rural Utilities Cooperative Finance Corporation	\$6,095,980	\$6,095,980
CoBank, ACB	6,022,743	5,841,631
NRUCFC capital term certificates	42,196	39,708
Other	<u>16,850</u>	<u>16,059</u>
Total Investments in Associated Organizations	<u>\$12,177,769</u>	<u>\$11,993,378</u>

The Farm Credit Administration, CoBank's federal regulators, requires minimum capital adequacy standards for all Farm Credit System institutions. CoBank's loan agreements require, as a condition of the extension of credit, that an equity ownership position be established by all borrowers. Chugach's investment in NRUCFC similarly was required by Chugach's financing arrangements with NRUCFC.

(5) Deferred Charges and CreditsDeferred Charges

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

	2008	2007
Debt issuance and reacquisition costs	\$5,254,072	\$6,215,899
Refurbishment of transmission equipment	179,013	188,272
Studies	15,194	729,392
Beluga Gas Compression	4,918,909	5,441,205
Cooper Lake Relicensing / projects	5,857,388	5,919,899
Fuel supply negotiations	1,257,993	225,076
Major overhaul of steam generating unit	4,530,550	787,711
Other regulatory deferred charges	177,103	313,183
Environmental matters and other	<u>1,386,977</u>	<u>1,432,328</u>
Total deferred charges	<u>\$23,577,199</u>	<u>\$21,252,965</u>

Deferred charges, or regulatory assets, not currently being recovered, consisted of the following at December 31, 2008 and 2007:

	2008	2007
Fuel supply negotiations	\$1,092,828	\$37,195
Studies	15,194	729,392
Beluga Gas Compression	0	5,441,205
Cooper Lake Relicensing	5,857,388	5,919,899
Other regulatory deferred charges	177,103	313,183
Debt issuance costs	<u>626,628</u>	<u>0</u>
Total deferred charges	<u>\$7,769,141</u>	<u>\$12,440,874</u>

We believe all the regulatory assets that are not currently being recovered are probable of recovery in the future based upon prior recovery of similar costs allowed by our regulator. Deferred charges are amortized over the life of the underlying asset.

Deferred Credits

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

	2008	2007
Refundable consumer advances for construction	\$1,545,081	\$1,204,530
Estimated initial installation costs for meters	141,712	121,342
Post retirement benefit obligation	593,600	558,900
Other	<u>21,591</u>	<u>21,591</u>
Total deferred credits	<u>\$2,301,984</u>	<u>\$1,906,363</u>

Chugach Electric Association, Inc.  
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(6) Patronage Capital

Chugach has a Board approved capital credit retirement policy, which is contained in Chugach's Financial Management Plan. This establishes, in general, a plan to return the capital credits of wholesale and retail customers based on the members' proportionate contribution to Chugach's assignable margins. At December 31, 2008, Chugach had \$142,009,998 of patronage capital (net of capital credits retired in 2008), which included \$135,598,248 of patronage capital that had been assigned and \$6,411,750 of patronage capital to be assigned to its members. Approval of actual capital credit retirements is at the discretion of Chugach's Board of Directors. Chugach records a liability when the retirements are approved by the Board of Directors. The Amended and Restated Indenture and the CoBank Master Loan Agreement prohibits Chugach from making any distribution of patronage capital to Chugach's customers if an event of default under the Amended and Restated Indenture or CoBank Master Loan Agreement exists. Otherwise, Chugach may make distributions to Chugach's members in each year equal to the lesser of 5% of Chugach's patronage capital or 50% 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% of Chugach's total liabilities and equities and margins.

Capital credits retired were \$3,115,090, \$5,289,538, and \$5,106,817 for the years ended December 31, 2008, 2007, and 2006, respectively. The outstanding liability for capital credits authorized but not paid was \$415,345 and \$2,416,552 at December 31, 2008 and 2007, respectively.

Following is a five-year summary of anticipated capital credit retirements:

Years ending December 31	Total
2009	\$ 3,300,000
2010	\$ 0
2011	\$ 0
2012	\$ 0
2013	\$ 0

During 2008, the Board of Directors approved the deferral of capital credit retirements after 2009 due to the construction of new generation and the anticipated loss of wholesale load in 2014.

(7) Other Equities

A summary of other equities at December 31 follows:

	<u>2008</u>	<u>2007</u>
Nonoperating margins, prior to 1967	\$23,625	\$23,625
Donated capital	1,300,277	1,148,907
Unclaimed capital credit retirement <sup>1</sup>	<u>9,042,686</u>	<u>8,079,553</u>
Total other equities	<u>\$10,366,588</u>	<u>\$9,252,085</u>

<sup>1</sup>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.

(8) Debt

Long-term obligations at December 31 are as follows:

	<u>2008</u>	<u>2007</u>
CoBank 2, 5.50% fixed rate note maturing in 2010, with interest and principal payable monthly; unsecured	\$3,500,000	\$5,500,000
CoBank 3 and 4, 2.27% variable rate notes maturing in 2022, with interest payable monthly and principal due annually beginning in 2003; unsecured	38,462,805	39,803,530
CoBank 5, 2.27% variable rate note maturing in 2012, with interest and principal payable monthly; unsecured	3,860,695	4,726,774
2001 Series A Bond of 6.55%, maturing in 2011, with interest payable semi-annually March 15 and September 15; unsecured	150,000,000	150,000,000
2002 Series A Bond of 6.20%, maturing in 2012, with interest payable semi-annually February 1 and August 1; unsecured	120,000,000	120,000,000
2002 Series B Bond of a rate set for 28-day auction periods, with interest payable monthly and principal due annually, redeemed in 2008; unsecured	0	35,500,000
NRUCFC line of credit, \$29.7 million at 2.75% and \$13.3 million at 5.00%, with interest payable monthly and principal due 2010; unsecured	42,963,659	0
Total long-term obligations	<u>\$358,787,159</u>	<u>\$355,530,304</u>
Less current installments	4,403,653	10,106,804
Long-term obligations, excluding current installments	<u>\$354,383,506</u>	<u>\$345,423,500</u>

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(8) Debt (continued)

Covenants

Chugach is required to comply with all covenants set forth in the Amended and Restated Indenture, dated April 1, 2001, which became effective January 22, 2003. The indenture initially governing the outstanding CoBank, 2001 Series A, 2002 Series A and 2002 Series B bonds, provided that the bonds were secured by a mortgage on substantially all of Chugach's assets so long as any amounts were outstanding to CoBank on bonds issued under the indenture. Upon the retirement of the then outstanding bonds on January 22, 2003, the 2001 Series A, 2002 Series A and 2002 Series B bonds (collectively, the Bonds) became subject to the Amended and Restated Indenture pursuant to which the Bonds became unsecured obligations of Chugach.

Chugach is also required to comply with the Master Loan Agreement, which covers the CoBank 2, 3, 4 and 5 promissory notes, between Chugach and CoBank dated December 27, 2002, pursuant to which CoBank and Chugach replaced the CoBank 2, 3, 4 and 5 bonds issued to CoBank with the above stated unsecured promissory notes not governed by the indenture. CoBank returned the old CoBank bonds to Chugach on January 22, 2003.

Chugach is also required to comply with the Credit Agreement, between Chugach and NRUCFC dated October 10, 2008, which covers loans and extended credit associated with Chugach's commercial paper program, in an aggregate principal or face amount not exceeding \$300 million at any one time outstanding.

Chugach is also required to comply with other covenants set forth in the Reimbursement and Indemnity Agreement with MBIA Insurance Corporation, which insures the outstanding 2001 Series A and 2002 Series A bonds and the Revolving Line of Credit Agreement with NRUCFC.

Security

On January 22, 2003, the Bonds became general unsecured and unsubordinated obligations. Under the Amended and Restated Indenture, Chugach is prohibited from creating or permitting to exist any mortgage, lien, pledge, security interest or encumbrance on Chugach's properties and assets (other than those arising by operation of law) to secure the repayment of borrowed money or the obligation to pay the deferred purchase price of property unless Chugach equally and ratably secures the Bonds subject to the Amended and Restated Indenture, except that Chugach may incur secured indebtedness in an amount not to exceed \$5 million or enter into sale and leaseback or similar agreements.

Rates

The Amended and Restated Indenture 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 Amended and Restated 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. The CoBank Master Loan Agreement also requires Chugach to establish and collect rates reasonably expected to yield margins for interest equal to at least 1.10 times interest expense. The NRUCFC Revolving Line of Credit Agreement requires Chugach to maintain an average Times Interest Earned Ratio (TIER) of not less than 1.10. The NRUCFC Credit Agreement requires Chugach to maintain a minimum margins for interest of at least 1.10 times interest charges for each fiscal year, calculated using the average margins for interest of the two best years out of the three fiscal years most recently ended. Margins for interest generally consist of Chugach's assignable margins plus total interest expense.

Distributions to Members

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

Maturities of Long-term Obligations

Long-term obligations at December 31, 2008, mature as follows:

Year ending December 31	Sinking Fund	Sinking Fund	Principal Maturities	
	Requirements	Requirements	CoBank Promissory Notes	Total
	2001 Series A Bonds	2002 Series A Bonds	NRUCFC Line of Credit	
2009	0	0	4,403,653	4,403,653
2010	0	0	47,081,687	47,081,687
2011	150,000,000	0	2,851,501	152,851,501
2012	0	120,000,000	2,693,543	122,693,543
2013	0	0	2,076,355	2,076,355
Thereafter	0	0	29,680,420	29,680,420
	<u>\$150,000,000</u>	<u>\$120,000,000</u>	<u>\$88,787,159</u>	<u>\$358,787,159</u>

Chugach Electric Association, Inc.  
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(8) Debt (continued)Lines of credit

Chugach maintains a \$7.5 million line of credit with CoBank. On October 22, 2008, the Board of Directors approved a resolution to renew this line of credit. The line of credit was also renewed by CoBank, extending the expiration date to October 31, 2009, and is subject to annual renewal at the discretion of the parties. Chugach utilized this line of credit in the first quarter of 2008 and had \$5.5 million outstanding at March 31, 2008. In April and May of 2008, Chugach had additional line of credit activity, however, in June of 2008, Chugach paid off the outstanding balance. In August and September of 2008 Chugach borrowed \$7.5 million on this line of credit, which represented the balance at December 31, 2008. At December 31, 2007, there was no outstanding balance on this line of credit. The CoBank Master Loan Agreement requires Chugach to establish and collect electric rates reasonably expected to yield margins for interest equal to at least 1.10 times interest expense, to achieve a funded debt to operating cash flow ratio not greater than 8 to 1 and achieve an equity to total capitalization ratio greater than 22%. The borrowing rate is calculated using the CoBank Base Rate on the first business day of the week plus 3%. The average borrowing rate for 2008 and 2007 was 3.82% and 6.47%, respectively.

In addition, Chugach had an annual line of credit of \$50 million available with NRUCFC until October 9, 2008, when Chugach reduced this line of credit to \$45 million. The reduction to the borrowing limit was temporary in order that a full \$300 million commitment on an unsecured credit agreement backstopping Chugach's Commercial Paper program, described further in Note 8, could be met. On December 22, 2008, this line of credit was increased to \$75 million, which represented the borrowing limit at December 31, 2008, however, pursuant to the terms of the Amendment to Revolving Line of Credit Agreement with NRUCFC, this line of credit shall be permanently reduced to \$50 million upon the earlier of January 1, 2010 or the date Chugach pays down this line of credit to an outstanding balance of not more than \$50 million. In March of 2008 Chugach borrowed \$29.7 million on this line of credit to redeem the outstanding principal amount and pay accrued interest on the 2002 Series B Bonds. The borrowing rate at December 31, 2008, on this transaction was 2.75%. Chugach utilized this line of credit in the fourth quarter of 2008 and had a balance of \$43.0 million at December 31, 2008. Chugach did not utilize this line of credit in 2007 so there was no outstanding balance at December 31, 2007. The borrowing rate is calculated using the total rate per annum as may be fixed by NRUCFC and will not exceed the Prevailing Prime Rate, plus one percent per annum. At December 31, 2008 and 2007, the borrowing rate was 5.00% and 6.40%, respectively. The NRUCFC Revolving Line Of Credit Agreement requires that Chugach, for each 12-month period, for a period of at least five consecutive days, pay down the entire outstanding principal balance. The NRUCFC line of credit expires October 14, 2012. Repayment of this line of credit is due on January 1, 2010, and is therefore classified as long-term. Chugach repaid this line using its Commercial Paper program, see Note 15 – "Subsequent Events."

The CoBank and NRUCFC lines of credit are immediately available for unconditional borrowing.

Notes payable

In December of 2008, Chugach acquired property near its Anchorage headquarters for, among other purposes, construction of an additional electrical generation facility. The total purchase price of the property was \$4,860,000 which included a \$75,000 non refundable earnest money payment, a \$1,925,000 down payment and a \$2,860,000 promissory note bearing interest at six percent per annum payable in two installments. A payment of \$1,000,000 is due no later than March 15, 2009, and the final payment of \$1,860,000 plus accrued interest is due no later than June 30, 2009. Chugach has the right to prepay any amount of the note in full at any time without penalty. The promissory note is secured by a deed of trust on the property.

Financing

Over the next five years Chugach anticipates incurring significant amounts of capital expenditures due to the construction of a gas fired generation unit, on-going capital needs and refinancing of certain existing debt. In March of 2008 we issued a Request For Proposal (RFP) for a three to five year interim finance facility. Commercial paper will be issued under this requested facility and will act as a bridge until Chugach converts Commercial Paper balances to long term debt in 2010 and to refinance the 2011 and 2012 Series A bonds. A recommendation to adopt a proposed financing plan was approved by the Board of Directors on June 25, 2008. The commercial paper program is backed by a \$300 million Unsecured Credit Agreement between NRUCFC, KeyBank, CoBank and US Bank. At closing, the Credit Agreement was priced with an all-in drawn spread of London Interbank Offered Rate (LIBOR) plus 60 basis points, along with a 17.5 basis points facility fee. The credit agreement was executed on October 10, 2008, and expires on October 10, 2011. Chugach began issuing short term Commercial Paper in the first quarter of 2009, see Note 15 – "Subsequent Events".

2002 Series B Bonds

The 2002 Series B Bonds (the "Auction Rate Bonds") had a maturity date of February 1, 2012. The applicable interest rate for any 28-day auction period was the term rate established by the auction agent based on the terms of the auction. The Auction Rate Bonds could have been converted, in Chugach's discretion, to a daily, seven-day, 35-day, three-month or a semi-annual period or a flexible auction period. The Auction Rate Bonds were not subject to redemption at the option of the bondholders under any circumstances. Chugach could elect to redeem the bonds and was required to redeem the bonds in pre-established incremental amounts over time through a sinking fund. The Auction Rate Bonds were subject to a remarketing agreement on a best efforts basis, however in the event of unsuccessful remarketing, the bonds would be returned to the bondholders and would continue as auction rate bonds subject to a maximum auction rate (15%). Under no circumstances would Chugach have been obligated to pay off the Bonds in the event of an unsuccessful remarketing effort. Chugach had not provided any protection to the bondholders in the event of an unsuccessful remarketing, therefore, Chugach had classified the Bonds as long-term, with the exception of the mandatory sinking fund payment. The average interest rate for the Bonds in 2008, 2007, and 2006 was 4.87%, 5.34%, and 5.07%, respectively.

Certain events affecting bond insurers, including Chugach's bond insurer, MBIA, had injected some level of uncertainty regarding the success of the auction process. By the terms of the auction securities agreement, should an attempt to reset the interest rate on Chugach's auction rate bonds fail because there was insufficient bids to establish a market-based price, the interest rate on Chugach's 2002 Series B Bonds would have been set utilizing an "Auction Mode Multiple" as defined in Exhibit A to Appendix 2 to Eleventh Supplemental Indenture (Auction Procedures Description).

The "Auction Mode Multiple" as of any Auction Date was a percentage of the Index in effect on such auction date (in Chugach's case, a percentage of the one month LIBOR). That percentage was based on the Prevailing Rating of the 2002 Series B Bonds in effect at the close of business on the Business Day immediately preceding the Auction Date.

In Chugach's case, the Auction Mode Multiple was based on MBIA's AAA rating and would have been 150% of one-month LIBOR. That rate would have stayed in effect for 28 days, followed by another auction. On February 20, 2008, the auction was held and failed to obtain sufficient clearing bids. Therefore, the current bondholders continued to hold the bonds and the rate on the 2002 Series B Bonds was set at 4.677% and stayed in effect until March 20, 2008. The failure of the auction did not constitute an event of default under any financing arrangement.

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(8) Debt (continued)2002 Series B Bonds (continued)

On March 5, 2008, bondholders were notified of the intent of Chugach to redeem the entire outstanding principal amount of the 2002 Series B Bonds. The Board of Directors authorized the redemption using funds obtained from one or more new borrowings under Chugach's existing lines of credit with CoBank or NRUCFC.

On March 20, 2008, Chugach redeemed the \$29.6 million outstanding principal amount of the 2002 Series B Bonds using our NRUCFC line of credit at an initial rate of 3.46%. Repayment of the NRUCFC line of credit is due on January 1, 2010. Accordingly, outstanding borrowings continue to be classified as long-term. Management intends to repay this line using its Commercial Paper program described earlier in this note and is currently monitoring the commercial paper market.

The following table provides information regarding auction dates and rates:

<u>Auction Date</u>	<u>Interest Rate</u>
January 23, 2008	5.06%
February 20, 2008	4.68%

(9) Fair Value of Long-Term Obligations

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

	2008		2007	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Long-term obligations (including current installments)	\$358,787	\$371,213	\$355,530	\$371,868

Fair value estimates are dependent upon subjective assumptions and involve significant uncertainties resulting in variability in estimates with changes in assumptions. The fair value of long-term debt has been determined using discounted future cash flows at borrowing rates currently available to Chugach.

(10) Employee Benefit PlansPension Plans

Pension benefits for substantially all union employees are provided through the Alaska Electrical Pension Trust Fund and the Alaska Hotel, Restaurant and Camp Employees Health and Welfare and Pension Trust 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.

The costs for the union plans were approximately \$2.9 million, \$2.9 million, and \$2.5 million in 2008, 2007, and 2006, respectively. Chugach has no responsibility for any unfunded benefit obligation of the Plan at this time.

Pension benefits for non-union employees are provided by the National Rural Electric Cooperative Association (NRECA) Retirement and Security Program, a multi-employer plan. Chugach makes annual contributions to the pension plan equal to the amounts accrued for pension expense. Chugach contributed \$1.8 million, \$1.9 million, and \$1.6 million in 2008, 2007, and 2006, respectively, to the NRECA plan. Chugach has no responsibility for any unfunded benefit obligation of the Plan at this time.

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, 2008, 2007, and 2006 were \$3.5 million, \$3.3 million, and \$2.9 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, 2008, 2007, and 2006 totaled \$1.9 million, \$1.9 million, and \$2.0 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, 2008, 2007, and 2006 were \$91.8 thousand, \$142.1 thousand, and \$85.4 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 \$15,500, \$15,500, and \$15,000 in 2008, 2007, and 2006 respectively. Chugach does not make contributions to the plan.

Deferred Compensation

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

Deferred compensation accounts are established for the individual employees, however, they are considered to be owned by Chugach until a distribution is made. The amounts credited to the deferred compensation account, including gains or losses, are retained by Chugach until the entire amount credited to the account has been distributed to the participant or to the participant's beneficiary. The balance of the Program for the years ending December 31, 2008, 2007 and 2006 was \$264,427, \$768,041 and \$645,582, respectively.

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(10) Employee Benefit Plans (continued)Potential Termination Payments

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

(11) Bradley Lake Hydroelectric Project

Chugach is a participant in the Bradley Lake Hydroelectric Project (Bradley Lake). Bradley Lake was built and financed by the Alaska Energy Authority (AEA) through State of Alaska grants and \$166,000,000 of revenue bonds. Chugach and other participating utilities have entered into take-or-pay power sales agreements under which shares of the project capacity have been purchased and the participants have agreed to pay a like percentage of annual costs of the project (including ownership, operation and maintenance costs, debt service costs and amounts required to maintain established reserves). Under these take-or-pay power sales agreements, the participants have agreed to pay all project costs from the date of commercial operation even if no energy is produced. Chugach has a 30.4% share of the project's capacity. The share of debt service exclusive of interest, for which Chugach has guaranteed, is approximately \$36 million. The share of annual interest expense on that debt service is approximately \$3.6 million. Upon the default of a Bradley Lake participant, and subject to certain other conditions, AEA, through Alaska Industrial Development and Export Authority, 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%. Upon default, Chugach could be faced with annual expenditures of approximately \$5.1 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 surcharge rate making process.

The following represents information with respect to Bradley Lake at June 30, 2008 (the most recent date for which information is available). Chugach's share of expenses was \$4,746,965 in 2008, \$4,816,790 in 2007, and \$4,219,321 in 2006 and is included in purchased power in the accompanying financial statements.

	Proportionate	
(In thousands)	Total	Share
Plant in service	\$ 203,226	\$ 61,781
Long-term debt	112,454	34,186
Interest expense	7,577	2,303

Other electric plant represents Chugach's share of a Bradley Lake transmission line financed internally and Electric Plant Held for Future Use.

(12) Eklutna Hydroelectric Project

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

Plant in service in 2008 includes \$2,476,755, net of accumulated depreciation of \$816,606, which represents Chugach's share of the Eklutna Hydroelectric Plant. In 2007 plant in service included \$2,540,275, net of accumulated depreciation of \$719,186. Chugach and AML&P jointly operate the facility. Each participant contributes their proportionate share for operation, maintenance and capital improvement costs to the plant, as well as to the transmission line between Anchorage and the plant. Under net billing arrangements, Chugach then reimburses MEA for their share of the costs. Chugach's share of expenses was \$886,261, \$712,552, and \$638,465 in 2008, 2007, and 2006, respectively and is included in power production and depreciation in the accompanying financial statements. Chugach provides personnel for the daily operation and maintenance of the power plant. AML&P performs major maintenance at the plant. Chugach personnel perform daily plant inspections, meter reading, monthly report preparation, and other activities as required.

(13) Commitments, Contingencies and ConcentrationsContingencies

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.

Long-Term Fuel Supply Contracts

Chugach has long-term fuel supply contracts from various producers at market terms. These contracts will expire at the end of the currently committed volumes or the contract expiration dates of 2015 and 2025. The committed 215 Billion cubic feet (BCF) for the 2015 contract is expected to run out by mid 2010. The 180 BCF commitment for the 2025 contracts is expected to run out in early 2011. Chugach is currently working with Cook Inlet producers on future natural gas supply contracts. A gas term sheet was approved by Chugach's Board of Directors on February 25, 2009. In 2008, 91% of our power was generated from gas, compared to 93% and 90% in 2007 and 2006 respectively. 76% of the gas-fired power was generated at Chugach's Beluga Power Plant compared with 85% in 2007 and 87% in 2006.

Fuel is purchased directly from Marathon Oil Company, ChevronTexaco, AML&P and ConocoPhillips. The following represents the cost of fuel purchased from these vendors as a percentage of total fuel costs for the years ended December 31:

	2008	2007	2006
Marathon Oil Company	49.7%	46.4%	49.2%
Chevron Texaco	19.1%	20.4%	19.4%
Anchorage Municipal Light & Power (AML&P)	15.4%	16.1%	15.7%
ConocoPhillips	15.8%	16.9%	15.7%

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(13) Commitments, Contingencies and Concentrations (continued)

Concentrations

Approximately 70% of Chugach's employees are represented by the International Brotherhood of Electrical Workers (IBEW). Chugach has three Collective Bargaining Unit Agreements (CBA) with the IBEW which expire on June 30, 2010.

Chugach is the principal supplier of power under long-term wholesale power contracts with MEA and HEA. These contracts represented \$104.6 million or 37% of sales revenue in 2008, \$93.4 million or 37% in 2007, and \$90.1 million or 34% in 2006. The HEA contract expires January 1, 2014, and the MEA contract expires December 31, 2014. All rates are established by the RCA.

Legal Proceedings

**Matanuska Electric Association, Inc. (MEA) v. State of Alaska, Regulatory Commission of Alaska, Superior Court Case No. 3AN-06-8243 Civil**

On May 17, 2006, MEA appealed and on May 30, 2006, HEA cross appealed the RCA's decision in Docket No. U-04-102, see "Footnote 3, Regulatory Matters – Revision to Current Depreciation Rates (Docket No. U-04-102)." On appeal, MEA claimed the RCA's decision dated January 10, 2006, to authorize Chugach to implement new depreciation rates as of January 1, 2005, constituted illegal retroactive rate making. MEA further contended that the RCA's reliance on avoidance of regulatory lag as a basis for its decision was improper. MEA also challenged certain of the RCA's discovery rulings. Chugach joined the State of Alaska in defending the RCA's rulings. HEA stipulated with the other parties to dismiss its cross appeal which the Court granted by order dated September 11, 2007. Oral argument was held on July 15, 2008, and on July 21, 2008, the Court issued a decision affirming the RCA's January 10, 2006 decision. The time for MEA to appeal the Superior Court's decision to the Alaska Supreme Court has now expired.

Regulatory Cost Charge

In 1992, the State of Alaska Legislature passed legislation authorizing the Department of Revenue to collect a Regulatory Cost Charge from utilities to fund the governing regulatory commission, which is currently the RCA. The tax is assessed on all retail consumers and is based on kilowatt-hour (kWh) consumption. The tax is collected monthly and remitted to the State of Alaska quarterly. The Regulatory Cost Charge has changed since its inception (November 1992) from an initial rate of \$0.000626 per kWh to the current rate of \$0.000362, effective July 1, 2008. The tax is reported on a net basis and the tax is not included in revenue or expense.

Sales Tax

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

Gross Receipts Tax

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

Excise taxes

Excise taxes on Chugach fuel purchases are paid directly to our gas producers and are recorded under "Fuel" in Chugach's financial statements and are not directly passed through to our consumers.

Underground Compliance Charge

In 2005 the Anchorage Municipal Assembly adopted an ordinance to require utilities to convert overhead distribution lines to underground. To comply with the ordinance, Chugach must invest two percent of gross retail revenue in the Municipality of Anchorage annually in moving existing distribution overhead lines underground. Consistent with State of Alaska undergrounding requirement, Chugach is permitted to amend its rates by adding a 2% surcharge 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 implemented the surcharge in June 2005. Chugach's liability was \$468,173 and \$571,530 for this surcharge at December 31, 2008 and December 31, 2007, respectively and will use the funds to offset the costs of the projects.

Environmental Matters

The Clean Air Act and Environmental Protection Agency (EPA) regulations under the act (the "Clean Air Act") establish ambient air quality standards and limit the emission of many air pollutants. Some Clean Air Act programs that regulate electric utilities, notably the Title IV "acid rain" requirements, do not apply to facilities located in Alaska. In 2008 the EPA vacated regulations to limit mercury emissions from fossil-fired steam-electric generating facilities.

New Clean Air Act regulations impacting electric utilities may result from future events or may result from new regulatory programs that may be established to address problems such as global warming. While we cannot predict whether any new regulation will occur or its limitation, it is possible that new laws or regulations could increase our capital and operating costs. We have obtained or applied for all Clean Air Act permits currently required for the operation of our generating facilities.

In March 2007, Chugach conducted emissions testing at the Bernice Lake Power Plant which indicated that two of the gas turbines at the facility were exceeding the New Source Performance Standards (NSPS) emission limit for nitrogen oxides (NOx). Chugach voluntarily limited the power output of these turbines to ensure interim compliance with the NSPS regulations until a water injection system to control NOx emissions from the turbines was installed and operational. With the water injection system, Chugach is able to fully utilize the power output from these turbines while complying with the NSPS regulations.

The Alaska Department of Conservation (ADEC) issued a Notice of Violation (NOV) on March 26, 2008 regarding the NSPS NOx emission limit exceedances. Chugach has entered into a settlement with ADEC regarding the NOV for the past NSPS non-compliance. As part of the settlement, Chugach has agreed to pay a civil penalty of \$112,161 to ADEC. We are currently in the process of resolving the final details of the settlement agreement and anticipate a conclusion in the first quarter of 2009.

Chugach is subject to numerous other environmental statutes including the Clean Water Act, the Resource Conservation and Recovery Act, the Toxic Substances Control Act, the Endangered Species Act, and the Comprehensive Environmental Response, Compensation and Liability Act and to the regulations implementing these statutes. We do not believe that compliance with these statutes and regulations to date has had a material impact on our financial condition or results of operation. However, new laws or regulations, implementation of final regulations or changes in or new interpretations of these laws or regulations could result in significant additional capital or operating expenses.



**Chugach Electric Association, Inc.**  
**Notes to Financial Statements**  
**December 31, 2008 and 2007**

**(13) Commitments, Contingencies and Concentrations (continued)**

Generation Commitments

Chugach is in the process of developing a gas-fired generation plant on land currently owned by Chugach near its Anchorage headquarters. The generation plant will be developed jointly with AML&P. Chugach and AML&P signed Participation, Operation and Maintenance (O&M) and Lease Agreements (Agreements) for this project on August 28, 2008. On November 17, 2008, Chugach executed a gas turbine purchase agreement for the purchase of three gas turbines with an option for a fourth turbine with General Electric Packaged Power (GEPP). In December of 2008, Chugach purchased land adjacent to its Anchorage headquarters. This land will be used as a project laydown area and to relocate materials and equipment previously located on the site of the new power plant. Chugach is currently preparing purchase documentation for engineering, procurement and construction services to be awarded in 2009.

Chugach made a payment of \$5.1 million in 2008 and will make progress and milestone payments of \$23.5 million and \$22.8 million in 2009 and 2010, respectively, pursuant to its purchase agreement with GEPP.

**(14) Quarterly Results of Operations (unaudited)**

	<u>2008 Quarter Ended</u>			
	<u>Dec. 31</u>	<u>Sept. 30</u>	<u>June 30</u>	<u>March 31</u>
Operating Revenue	\$83,640,633	\$70,297,168	\$62,483,023	\$71,871,288
Operating Expense	74,389,389	66,066,452	58,789,189	61,335,335
Net Interest	<u>5,911,966</u>	<u>5,605,569</u>	<u>5,384,524</u>	<u>5,630,738</u>
Net Operating Margins	3,339,278	(1,374,853)	(1,690,690)	4,905,215
Non-Operating Margins	<u>807,390</u>	<u>152,127</u>	<u>121,691</u>	<u>151,592</u>
Assignable Margins	<u>\$ 4,146,668</u>	<u>\$(1,222,726)</u>	<u>\$(1,568,999)</u>	<u>\$5,056,807</u>

	<u>2007 Quarter Ended</u>			
	<u>Dec. 31</u>	<u>Sept. 30</u>	<u>June 30</u>	<u>March 31</u>
Operating Revenue	\$69,809,448	\$57,053,772	\$59,127,575	\$71,453,124
Operating Expense	62,808,159	53,280,744	55,162,909	61,115,211
Net Interest	<u>5,770,903</u>	<u>5,960,305</u>	<u>5,962,574</u>	<u>6,019,015</u>
Net Operating Margins	1,230,386	(2,187,277)	(1,997,908)	4,318,898
Non-Operating Margins	<u>766,720</u>	<u>250,880</u>	<u>233,637</u>	<u>269,920</u>
Assignable Margins	<u>\$ 1,997,106</u>	<u>\$(1,936,397)</u>	<u>\$(1,764,271)</u>	<u>\$4,588,818</u>

**(15) Subsequent Events**

Commercial Paper

Over the next five years Chugach anticipates incurring significant amounts of capital expenditures due to the construction of a gas fired generation unit, on-going capital needs and the refinancing of \$150 million of 2001 Series A Bonds that is due March 15, 2011, and \$120 million of 2002 Series A Bonds due February 1, 2012. Commercial paper will be issued to act as a bridge until Chugach converts Commercial Paper balances to long term debt in 2010 and to refinance the 2011 and 2012 Series A bonds. Chugach's Commercial Paper program is backed by a \$300 million Unsecured Credit Agreement, executed on October 10, 2008, between NRUCFC, KeyBank, CoBank and US Bank. The agreement expires on October 10, 2011, however, at this time, management intends to renew this agreement although the terms may be different. On January 30, 2009, Chugach issued \$36.0 million of commercial paper to repay its NRUCFC line of credit. On February 5, 2009, Chugach issued \$10.0 million of commercial paper to repay the balance of its NRUCFC line of credit. Our commercial paper can be repriced between one and two hundred and seventy days. The following table provides information regarding average commercial paper balances outstanding (dollars in millions), as well as corresponding weighted average interest rates:

<u>Month</u>	<u>Average Balance</u>	<u>Weighted Average Interest Rate</u>
January 2009	36.0	1.17
February 2009	44.6	1.48

Lines of credit

**NRUCFC**

Chugach had an annual line of credit of \$50 million available with NRUCFC until October 9, 2008, when Chugach reduced this line of credit to \$45 million. On December 22, 2008, this line of credit was increased to \$75 million, however, pursuant to the terms of the Amendment To Revolving Line of Credit Agreement with NRUCFC, this line of credit shall be permanently reduced to \$50 million upon the earlier of January 1, 2010 or the date Chugach pays down this line of credit to an outstanding balance of not more than \$50 million. In January of 2009 Chugach had additional line of credit activity and had a balance of \$38 million on January 30, 2009, when we repaid \$30.0 million on this line of credit by issuing commercial paper under our Commercial Paper program. Consequently, effective January 30, 2009, Chugach's borrowing limit on its NRUCFC line of credit was permanently reduced to \$50 million. In February of 2009 Chugach repaid the remaining balance on this line of credit by issuing commercial paper.

**CoBank**

On February 27, 2009, Chugach repaid \$4.5 million and on March 3, 2009, Chugach repaid the \$3.0 million balance on its CoBank line of credit.

Power Delivery is responsible for delivering safe and reliable power through its Engineering & Operations functions.



*Chugach crews relocated overhead lines for a Department of Transportation road improvement project along Crow Creek Road in Girdwood.*

part of a larger multi-year project to link the Retherford Substation south of Dimond Center and the University Substation south of Tudor Road. Chugach began working on the project in July and the line was energized in October.

The final piece of the link between the Retherford and University substations is the construction of a 138-kilovolt transmission line along O'Malley Road. Chugach continues to work on permitting and easement acquisition for these projects. The project also includes placing a new 34.5-kilovolt subtransmission and existing 12.5-kilovolt distribution lines underground along O'Malley Road between the

New Seward Highway and Elmore Road. Construction is planned for 2009.

Chugach received state approval of a grant using \$312,000 from the Federal Emergency Management Agency to do additional tree clearing along the Hope distribution line. Work

started in mid-August and crews worked through the end of November. Chugach removed 1,605 trees in 2008 and will continue the work in 2009.

In May the legislature approved a \$200,000 appropriation to help Chugach with a project to relocate a portion of the single-phase distribution line along the Hope Highway. The line was originally built in 1967 and has experienced

many outages due to harsh weather, avalanches and falling trees. In the fall of 2008 Chugach began right

of way clearing for the new line. In early-December Chugach's electrical contractor started the project to relocate 2.2 miles of line that had been problematic due to its location in dense forest and difficult-to-access terrain. The new line now located along the highway is about a half-mile shorter than the previous section of line and much easier to access.



*Crews performed maintenance on a transformer at the University Substation in 2008.*

Chugach continued to replace existing overhead lines with new underground cable and spent nearly \$3 million on several conversion projects in 2008. The conversion of a line primarily along 32nd Avenue between Patterson and Muldoon roads was one of the projects completed. It was part of a

multi-year project to replace about two miles of overhead 3-phase distribution line with buried cable in East Anchorage. Chugach spends 2 percent of its 3-year average of gross retail revenues received from sales within the Municipality on overhead-to-underground conversion projects to comply with a municipal ordinance.



*Chugach installed a service to the new Target store located on King Street.*

A project to build a segment of 138-kilovolt transmission line along Elmore Road between 104th Avenue and Abbott Road is

New residential service installations continued at a slower pace through December 2008, and ended with the fewest in more than a decade. There were 574 new residential service installations in 2008, compared to 782 in 2007. Chugach also installed 170 new commercial services, the same as in 2007.



*Chugach relocated a portion of the distribution line along the Hope Highway.*

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



*Chugach crews performed an internal alignment on the gas turbine of Beluga Unit No. 7 during a major overhaul of the unit.*

Beluga Unit No. 8 was returned to service in mid-September after completion of a \$4.5 million major overhaul that included extensive work on a variety of systems. The unit was subsequently taken out of service in mid-November after discovery of a leak on the main steam line. Chugach completed the repairs and the unit was returned to service in mid-December.

At the Beluga Power Plant, Chugach also performed annual inspections on Unit Nos. 1, 3, 5 and 6, a controls upgrade and hot gas path inspection on Unit No. 2, and a \$6.7 million major overhaul on Unit No. 7. Annual inspections were also done on International Unit Nos. 1, 2 and 3 and Bernice Lake Power Plant Unit Nos. 3 and 4.

Chugach signed a participation agreement with Anchorage Municipal Light & Power (AML&P) for the Southcentral Power Project (SPP), as well as the operation and maintenance agreement and land lease. Chugach ordered the gas turbines for the joint project. The SPP will be a highly efficient, gas-fired, combined-cycle power plant located near Chugach's Anchorage headquarters and is expected to be operational in 2013. Chugach will own 70 percent of the 183-mega-watt project and AML&P 30 percent. Chugach's share of the cost is estimated to be \$256 million.



*Chugach performed a major overhaul of Beluga Unit No. 8, a steam unit that is fueled from the waste heat from Unit Nos. 6 and 7.*

Cooper Lake Unit No. 2 was taken out of service in July due to a damaged turbine. The rotor assembly was removed and disassembled. Some components were shipped to the Lower 48 for repair, reassembly and alignment. The remaining parts were shipped to the Bernice Lake Power Plant to be cleaned, inspected and repaired. Chugach anticipates that the unit will be returned to service in early 2009.

Chugach started the second phase of the SCADA/ Energy Management System (EMS) migration project that will upgrade a 10-year-old computer-based control system. The upgrade is

another joint project with AML&P as both are upgrading their SCADA/EMS systems. The upgrades will provide for improved system support and regular software upgrades, as well as additional flexibility in meeting power system operational challenges. The



*Chugach removed an old deaerator unit, which removes air from steam, during the 2008 Beluga Unit No. 8 major overhaul.*

SCADA/EMS system provides for monitoring and control of Chugach's transmission, generation and distribution assets. An earlier joint SCADA project with AML&P enhanced backup control.



*Chugach's SCADA system is a critical component of its Power Control Center.*

## Administration

Administration is responsible for Chugach's Administrative Services, Information Services, Member Services, Commercial & Community Relations, Safety, energy efficiency and conservation functions.

Chugach joined forces with sister utility Anchorage Municipal Light & Power (AML&P) to develop and launch Smart

Power, part of an energy conservation program to benefit customers through education and discount coupons to help purchase compact fluorescent lamps (CFLs). Chugach also began allowing members to drop off used residential CFLs.

With a continued emphasis on safety, Chugach saw improvements in some of its work safety statistics in 2008. In 2008 the number of recordable incidents dropped from 27 to 23. An incident is



*Chugach works hard to provide a high level of customer service to its members while delivering reliable and reasonably priced energy.*

considered recordable based on three key criteria – restricted duty, lost time or medical treatment beyond first aid. Vehicle accidents also decreased, down from six in 2007 to two in 2008.



In its effort to inform members and the public about electrical safety, Chugach continued its television and print advertising. In addition, Chugach gave 15 public safety presentations throughout the year.

Chugach is also implementing a program to further promote employee safety that requires individuals working on live electrical equipment to wear special protective clothing that will protect them if they are caught in an electrical arc flash.



*Chugach – as part of its Smart Power Program – worked closely with Brown's Electric to develop a program to help customers purchase CFLs.*

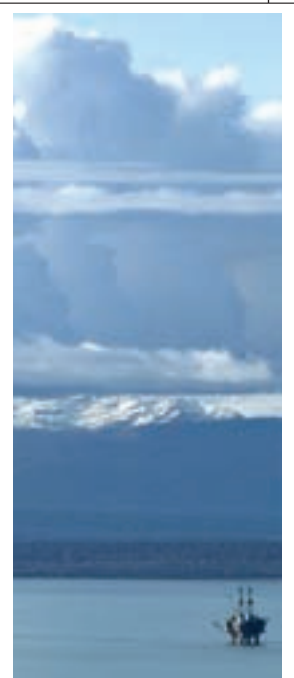
## Strategic Planning & Corporate Affairs

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

Major efforts for 2008 included working with other Railbelt utilities on potential joint operating arrangements.

Successes to date include the new Southcentral Power Plant where Chugach and AML&P will jointly build a new 183-megawatt combined cycle power plant.

Chugach participated with the Alaska Energy Authority (AEA), other Railbelt utilities and numerous stakeholders to complete the Railbelt Electric Grid Authority study. The recommendations from this study have led to introduction of legislation that will create a Railbelt-wide generation



*Chugach depends on Cook Inlet natural gas for 90 percent of the kilowatt-hours it generates in an average year.*

and transmission organization that will serve all six Railbelt utilities from Fairbanks to Homer.

Chugach has led the charge to deliver reasonably priced fuel to our members. Chugach supports new exploration and development in Cook Inlet and is working with the state and producers to reach a balance between price and incentives to spur new production. We hope to bring

## Finance

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

The Finance Division was extremely busy in 2008, successfully meeting several significant objectives. Chugach continued to comply with the Sarbanes-Oxley Act of 2002, ensuring that adequate internal controls were in place and tested. The establishment of a \$300 million un-

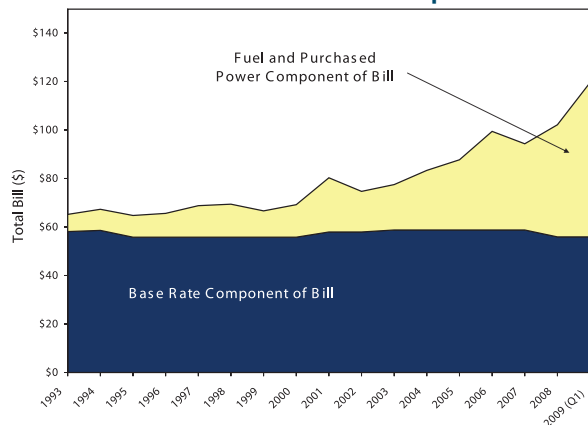
secured credit facility in October and the related development of a similar sized commercial paper program will help ensure Chugach has access to capital markets to meet near-term financing objectives. Over the next three years, Chugach will likely refinance approximately \$270 million of existing long-term debt, as well as issue a similar amount of new long-term debt on its portion of a joint generation project with Anchorage Municipal Light & Power. Both the commercial paper pro-

gram and the credit facility are critical to ensuring access to low-cost interim financing.

During 2008 Chugach successfully concluded a rate case and lowered base rates for retail customers by approximately 4.8 percent. This was reflected in revised rates approved by the RCA, and implemented on June 1, 2008. However, higher natural gas costs, limitations on hydroelectric output and outages on some of the most efficient units on the system led to higher monthly bills for customers later in the year.

Chugach sought and received RCA approval of interconnection tariffs for non-utility generators, successfully resolved the Matanuska Electric Association (MEA) capital credit court action and revised the Bradley Lake wheeling rates. Chugach collaborated with MEA on a wholesale contract amendment to facilitate adding small hydro projects to the grid. Chugach was also engaged in the discussion as the RCA, Railbelt utilities and other interested parties considered whether federal Public Utility Regulatory Policy Act standards were appropriate for Alaska.

**Monthly residential bill total, by component  
Based on 700 kwh consumption**



The above graph shows Chugach has maintained relatively flat base rates for nearly 15 years; however, rising gas prices have caused bills to increase.

new gas contracts to the Regulatory Commission of Alaska within the first quarter of 2009.

Chugach also was successful in obtaining state funding to update the Susitna hydroelectric project studies. The AEA led the effort and results of the study should be available soon. Undertaking hydroelectric and other renewable projects are one way to protect our future from rising natural gas prices.



Chugach employees in the Accounting, Finance and Regulatory Affairs & Pricing departments.

## Kilowatt-hours sold

2008	2.79 Billion kwh
2007	2.61 Billion kwh
2006	2.75 Billion kwh

## Retail kwh

2008	1.21 Billion kwh
2007	1.21 Billion kwh
2006	1.23 Billion kwh

## Wholesale kwh

2008	1.32 Billion kwh
2007	1.31 Billion kwh
2006	1.26 Billion kwh

## Economy energy kwh

2008	256.1 Million kwh
2007	93.8 Million kwh
2006	263.0 Million kwh

## Cost per residential kwh in December\*

2008	13.49 Cents/kwh
2007	12.299 Cents/kwh
2006	13.04 Cents/kwh

\*Not including the customer charge and the 2 percent MOA underground charge

## Cost of 700 kwh of residential service in December\*

2008	\$102.42
2007	\$94.51
2006	\$99.69

\*Includes customer and energy charges, fuel surcharge and regulatory cost charge. Does not include 2 percent MOA undergrounding charge

## Total revenue/non-operating margins

2008	\$289.5 Million
2007	\$259.0 Million
2006	\$269.0 Million

## Expenses

2008	Fuel costs \$137.9 Million	\$283.1 Million
2007	Fuel costs \$106.0 Million	\$256.1 Million
2006	Fuel costs \$120.3 Million	\$258.9 Million

## Services at year-end

2008	80,682
2007	80,297
2006	79,736

## Generation source by kwh

2008	91% Natural Gas	9% Hydro
2007	93% Natural Gas	7% Hydro
2006	90% Natural Gas	10% Hydro

## Margins

2008	\$6.4 Million
2007	\$2.9 Million
2006	\$10.0 Million

## Outage statistics

Chugach averaged 2.57 outage hours per customer in 2008, higher than the 2.04 hours in 2007. The 5-year average for customer outage hours increased to 2.36 hours in 2008, up from the 2.24 hours in 2007.

Chugach uses various generation resources to ensure reliable, affordable power. Chugach owns 530.1 megawatts of installed capacity at Chugach-owned facilities. The unit ratings shown are taken at 30 degrees Fahrenheit. Chugach also takes power from the state-owned Bradley Lake hydroelectric project near Homer and from Homer Electric Association's gas turbine at Nikiski. In 2008, 91 percent of the kilowatt-hours Chugach generated came from natural gas units and the other 9 percent from hydroelectric resources.



## 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	1972	64.8
No. 5	1975	68.7
No. 6	1975	79.2
No. 7	1978	80.1
No. 8	1981	53.0
TOTAL		385.00



## 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



## Eklutna

Located along the Knik River and jointly owned with Anchorage 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



## Cooper Landing

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



## Bernice Lake

Located near Nikiski on the Kenai Peninsula; units are natural gas combustion turbines.

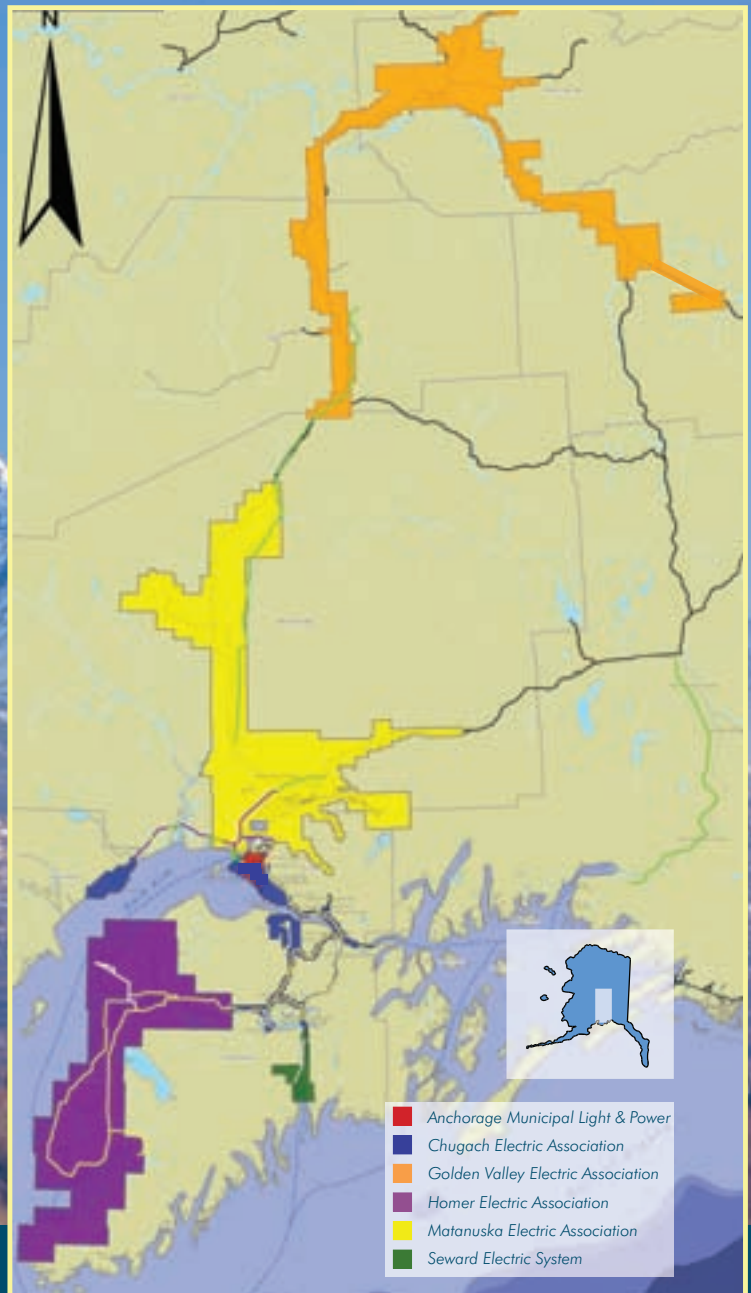
Units	Commissioned	Power Rating (megawatts)
No. 2	1971	19.0
No. 3	1978	26.0
No. 4	1981	22.5
TOTAL		67.5

## The Railbelt

Chugach power flows to nearly three-fourths of Alaska's population. Chugach serves nearly 80,700 retail service locations in an area extending from Anchorage to the Northern Kenai Peninsula, and from Whittier on Prince William Sound to Tyonek on the west side of Cook Inlet. Chugach provides power for Alaskans from Homer to Fairbanks through wholesale and economy energy sales to Homer Electric Association, the City of Seward, Matanuska Electric Association and Golden Valley Electric Association. On occasion, Chugach sells to, or buys energy from, Anchorage Municipal Light & Power.

Chugach owns 530.1 megawatts of installed generation capacity at five power plants. Chugach operates 2,217 miles of energized line. Chugach has 533 miles of transmission line – which includes 128 miles of leased transmission lines and Chugach's share of the jointly-owned Eklutna transmission line. Chugach also has 916 miles of overhead distribution line and 768 miles of underground distribution line.

Chugach set its 2008 system peak load on Dec. 31, when demand hit 468.7 megawatts in the hour ending at 6 p.m. The temperature at the time at Chugach headquarters was minus 6 degrees. Power sales for the year totaled 2.8 billion kilowatt-hours.



## Contact Info

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