2010 Annual Report

Chugach Electric Association, Inc.

Contents

Printed on recycled paper with soy-based ink

Cover: Chugach contract crews realigned a 138-kilovolt transmission line at the International Substation.

Left: Chugach performed repairs on one of the 230-kilovolt transmission lines from Beluga.

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.

CHUGACH
POWERING ALASKA'S FUTURE

Year in Review

Early in the year Chugach recruited volunteers to test monitors to determine how they might impact a customer's energy use. The project was funded in part by a grant from the Alaska Energy Authority.

In February the board approved extensions to the collective bargaining agreements covering the Office and Engineering, Generation and Outside Plant bargaining unit personnel.

Chugach used the Internet as the primary means of distributing the annual report in advance of the 2010 Annual Membership Meeting. The April 29 event saw 233 members register for the meeting. Slightly more than 15 percent of the 66,375 Chugach members of record voted. Susan Reeves and P.J. Hill were elected to 3-year terms on the board of directors. The members approved five proposed bylaw amendments.

Top: Tower rescue training is one of many safety programs at Chugach.

Bottom: Board Chair Jim Nordlund cut the ribbon at an official re-opening of the remodeled Chugach headquarters lobby.

In April a bill allowing electronic voting in cooperative elections passed the legislature and was subsequently approved by the governor. Chugach was one of the co-ops supporting the legislation and will allow electronic voting in its upcoming elections.

In May the Regulatory Commission of Alaska (RCA) approved a contract between Chugach and Marathon Alaska Production to provide gas for the utility from April 1, 2011 through March 31, 2013, with two possible extensions (the first for nine months has already been executed).

Chugach prepared property just west of its headquarters building to house its relocated operations yard. The old yard is part of the site for the Southcentral Power Project (SPP), expected to be in operation by late-2012. Chugach signed the engineering, procurement and construction contract with SNC-Lavalin Constructors for the project in June. SPP will be a gas-fired, 183-megawatt, combined-cycle power plant. It is a joint project between Chugach and Municipal Light & Power. The utilities will own 70 and 30 percent, respectively.

Chugach customers benefited from a refinancing of the bonds that helped pay for the Bradley Lake project, the largest hydroelectric plant in the Railbelt. The utilities that take power from the project pay the annual debt service on the bonds sold by the state to help finance the project. The Alaska Energy Authority approved a request to issue replacement bonds to lower the debt service. The sale closed July 1.

An unusually wet summer added extra water to reservoirs of Southcentral hydroelectric projects. The National Weather Service recorded 6.42 inches of rain in Anchorage from June 1 through Aug. 24, about 13 percent above the normal 5.69 inches. In 2010 Chugach generated 11 percent of its kilowatt-hours from hydroelectric resources, and 89 percent from natural gas units.

In September the RCA accepted the settlement agreements Chugach had reached with its wholesale customers, helping to resolve an outstanding rate case. Among other things, the agreements set new rates for both retail and wholesale customers and resolved depreciation issues.

In November Chugach employees took an LED lighting educational program to participating schools. The goal was to educate children on energy use and conservation.

In December the board appointed Doug Robbins, a retired petroleum geologist and manager, to fill a vacancy created by the passing of Director Pat Kennedy in October.

The Alaska Railbelt Cooperative Transmission and Electric Co. was incorporated in December. Five Railbelt electric utilities formed the co-op to provide a framework for collective action on regional generation and transmission issues.

Chugach finished the year with only two recorded lost-time accidents – its best safety record in years. The Northwest Public Power Association subsequently recognized the achievement with a 2010 award for the best safety record for a company of its size.

Chairman's Report

Jim Nordlund
Board Chair

Striving to keep electric rates low through utility cooperation and the modernization of generation equipment was a focus for Chugach throughout 2010.

After efforts to form a Railbelt-wide generation and transmission organization stalled in the legislature last year, five of the six Railbelt electric utilities formed their own cooperative known as the Alaska Railbelt Cooperative Transmission and Electric Company (ARCTEC). The Railbelt is a single electric grid, yet there are six separate utilities providing service to approximately 250,000 customers. This leads to an expensive and inefficient generation system which costs the ratepayers more. Chugach has championed the effort to better "rationalize" the Railbelt grid by fostering cooperation among the various utilities. ARCTEC provides a framework for a collective approach to the most expensive parts of our business. It provides a unified voice on regional electric issues. Incorporated in December of 2010, ARCTEC is a young organization, but one with great potential. Nurturing its growth and evolution in the coming years will be critical to its success.

Cooperation at the local level has led to the groundbreaking for the new Southcentral Power Project (SPP). The costs and output of the plant will be shared 70/30 by Chugach and Municipal Light & Power, respectively. SPP will be an efficient 183-megawatt, combined-cycle natural gas-fired power plant. Combustion emissions including CO_2 will be much lower, and savings in gas costs will be an estimated $30 million in its first year alone due to state-of-the-art turbines. SPP will be constructed over the next two years.

We cannot rely entirely on natural gas, however, due to declining Cook Inlet reserves, the Chugach board has a long-term goal of shifting from our current reliance on fossil fuel to one where more power comes from renewable resources. Today, about 90 percent of the electricity we sell comes from burning natural gas, with the other 10 percent from hydroelectric projects. In 2008 the Chugach board adopted a goal of changing our generation mix from 90/10 to 10/90.

Ninety percent reliance on renewable energy is an ambitious goal that will be difficult to achieve without a large hydroelectric project. We are supportive of the work of the Alaska Energy Authority to evaluate the potential for new hydro projects in the Railbelt, including their decision that efforts should be focused on developing a project on the Susitna River at a site called Watana. We appreciate the support of the governor and legislators to at least begin the permitting process for this project.

However, Watana generation is at least 10 years away. In the meantime, Chugach will stair-step its way towards the 90 percent renewable level. The Anchorage-area is blessed with some of the best renewable resources in the world, including water, wind, geothermal and tides. We are considering projects that would divert more water into the reservoirs of existing hydro projects. A viable wind project at Fire Island lies at our doorstep. Chugach has been in confidential negotiations with the developer, Cook Inlet Region Inc., which should be concluded soon. At the base of Mount Spurr lies a promising geothermal project, and developers are testing the tremendous currents of Cook Inlet with innovative tidal generation designs.

As we sail into the uncharted waters of our energy future, I am proud to say that you could have no better crew on board than the staff at Chugach. Whether it is the specialized workers that operate, maintain and repair our large turbines and generators; or the linemen that install and maintain our lines, often in the worst weather; or the courteous and helpful staff that provide the highest rated customer service; or the engineers and other professional staff that assist the board in making critical decisions; you, the members, own a top-notch cooperative that is leading the vision for Alaska's energy future.

The Executive Staff

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

CEO's Report

Bradley Evans
CEO

Rarely has Chugach had a year when it achieved so much on so many fronts as it did in 2010. Our successes came in the areas of gas supply and storage, efficient power plant construction, the legislative and regulatory arenas, refinancing, work force safety and system reliability.

In 2010 we finalized negotiations with Marathon Alaska Production on a contract subsequently approved by the Regulatory Commission of Alaska (RCA). The initial period of the contract was for 24 months, running from April 2011 through March 2013. The contract allows two extensions – the first of which has been executed – providing gas through the end of 2013. The second could extend the agreement for another year. The agreement complements a contract with ConocoPhillips approved in 2009 that provides varying amounts of gas into 2016.

Chugach actively pursued gas storage options in 2010 and chose to negotiate for services from a project that will convert a partially depleted gas reservoir on the Kenai Peninsula into a gas-storage project. If all goes as planned, injections could begin by mid-2012, allowing withdrawals during the winter of 2012-2013. The project will help regulate gas use and enhance supply security.

Securing a critical air permit in December from the Department of Environmental Conservation helped keep the Southcentral Power Project (SPP) on schedule. Chugach is constructing SPP on behalf of itself and Municipal Light & Power, with the costs and output to be shared 70/30, respectively.

Chugach sought and received advance assurance from the RCA that the cost of the major contracts for SPP would be recoverable in future rates. To its credit, the RCA understood that its decision could lead to better project financing by removing perceived risk in the marketplace.

The decision on rate assurance for SPP expenses, coupled with a sound business strategy to address the changes we foresee in our relationships with wholesale customers and others in the coming years, were important as we reshaped our debt portfolio. Chugach executed a $275 million refinancing at historically low interest rates. The transaction closed on Jan. 21, 2011, following months of effort. The bonds carry a weighted average interest rate of 4.57 percent. Most of the proceeds will be used to pay off existing higher-interest debt as it comes due in 2011 and 2012, thereby lowering borrowing costs.

In a separate action, we led an effort to refinance the bonds that helped build the Bradley Lake hydro project. Chugach customers alone will save more than $700,000 from the lower interest rates achieved in the refinancing.

Our 2010 legislative issues remained focused on the big picture: fuel supply, more hydro power, and a regional approach to generation & transmission concerns. We continued advocating for state oversight of a Cook Inlet Resource Management Plan to ensure continued gas flow. We were pleased with new exploration incentives the legislature provided – an idea we supported in Juneau. In addition, with support from Chugach and others, the legislature provided funds for the Alaska Energy Authority to investigate options for a major new Railbelt hydroelectric project.

And finally, here are two things that say much about the efforts of our work force. We finished 2010 with our best lost-time accident record in years, and power was on 99.98 percent of the year for the average customer.

Any one of the above accomplishments would have been noteworthy. Together, they marked 2010 as a very successful and busy year for Chugach.

Jim Nordlund
Chairman

Jim Nordlund is the Alaska state director of USDA Rural Development, as well as the owner of Nordlund Carpentry, LLC. He was elected to the board in 2006 and re-elected in 2009. Nordlund is a former legislator and state director of Public Assistance. He is chairman of the board and serves on the board's Audit, Finance, and Operations committees. Nordlund is the Cooperative Finance Corp. voting delegate. He is a National Rural Electric Cooperative Association (NRECA) Credentialed Cooperative Director.

Janet Reiser
Vice Chair

Janet Reiser is the managing partner of Salus Management Services and managing member of Jet Enviro De-Icing, LLC. She was elected to the board in 2008. She serves as chair of the board's Operations Committee, and is the board liaison to the Renewable Energy Committee and the Southcentral Power Project. Reiser is the NRECA alternate voting delegate. She is an NRECA Credentialed Cooperative Director and has earned her Board Leadership Certificate. She has a Bachelor of Science degree in chemical engineering.

Susan Reeves
Treasurer

Susan Reeves is the managing member of Reeves Amodio LLC, where she practices law. Reeves was elected to the board in 2010. She serves as the chair of the Finance Committee and is a member of the Audit Committee.

P.J. Hill
Secretary

P.J. Hill is a retired professor from the School of Business and Public Policy at the University of Alaska Anchorage. He is also an economic consultant and a commercial fisherman. He was elected to the board in 2007 and re-elected in 2010. Hill chairs the board's Audit Committee and is the vice chair for the Finance Committee. He is the electronic voting liaison for the Joint Utility Selection Committee and the NRECA voting delegate. He is an NRECA Credentialed Cooperative Director.

Rebecca Logan
Director

Rebecca Logan is the general manager for the Alaska Support Industry Alliance. She was appointed to fill a board vacancy in 2007 and elected to the board in 2008. She is the vice chair of the board's Operations Committee and serves on the Audit Committee. Logan is the board liaison to Chugach's Election Committee. She chaired the Joint Utility Task Force and is Chugach's Alaska Power Association representative.

Doug Robbins
Director

Doug Robbins is a retired petroleum geologist and manager from Marathon Oil. Robbins holds a Master's degree in geology. Robbins was appointed to fill a board vacancy in 2010. He serves on the board's Operations, Audit and Finance committees.

Elizabeth Vazquez
Director

Elizabeth (Liz) Vazquez is a supervising Administrative Law Judge (Hearing Examiner) with the State of Alaska. She has a law degree from The Cornell Law School and two Masters of Business Administration. She was elected to the board in 2005 and re-elected in 2008. Vazquez serves on the board's Operations and Finance committees. She is the board liaison to Chugach's Bylaws Committee, and the alternate voting delegate for the Cooperative Finance Corp. Vazquez is an NRECA Credentialed Cooperative Director and has earned her Board Leadership Certificate.

Seated from left: P.J. Hill, Secretary; Jim Nordlund, Chair; and Rebecca Logan.

Standing from left: Doug Robbins; Susan Reeves, Treasurer; Janet Reiser, Vice Chair; and Elizabeth Vazquez.

In Memory of Elizabeth "Pat" Kennedy
Pat Kennedy, a Chugach director elected to the board in 2009, passed away Oct. 23, 2010. Kennedy was a retired attorney who served multiple terms on the board and on many board committees.

Susan Reeves
Treasurer

In 2010, Chugach improved and strengthened its financial position, established streamlined, simplified procedures at the Regulatory Commission of Alaska (RCA), entered into contracts with gas suppliers and provided funding and performed site preparation for a new, more efficient power plant that will reduce emissions by approximately 25 percent.

Chugach ended 2010 with $5.4 million in margins. Margins are a cooperative's bottom line or revenues in excess of current costs. Though our margins were slightly lower than our 2010 budget, this amount was comparable to our margin performance in 2009. These solid margins reflect and are the result of numerous process improvements associated with damage claims, freight receiving and tracking, credit card reconciliation and lobby re-design to achieve efficiencies and improve member satisfaction. Chugach exceeded its financial performance standard of a 1.10 Margin for Interest/Interest (MFI/I) ratio we must meet to reassure the bond investors who have made a long-term investment in Chugach. Our MFI/I for 2010 was 1.26 and our equity ratio was 34.7 percent.

Total energy sales to retail, wholesale and economy energy customers were 2,706,609 megawatt-hours in 2010, compared to 2,536,676 in 2009. Retail and wholesale sales were down in 2010, primarily because the weather was warmer than anticipated in the first quarter of the year and because of our customers' individual efforts to conserve energy. However, economy sales rebounded from the prior year's decline, due to a new contract executed with Golden Valley Electric Association. Total revenue was $258.3 million, significantly less than the $290.2 million of revenue in 2009. This reduction in revenue was due primarily to lower fuel and purchased power costs that resulted in lower prices to our customers.

In 2010, we successfully completed all aspects of the 2008 Test Year Rate Case and implemented the Simplified Rate Filing process. This is expected to allow Chugach to adjust rates in a more routine and efficient manner.

Chugach's strong, consistent financial performance and these favorable outcomes in our regulatory environment proved to be very valuable, as two bond rating agencies reaffirmed our underlying long-term ratings of "A-" and "A3" in the fourth quarter of 2010. Our financial performance, those affirmations and the RCA's pre-approval of a significant portion of construction costs associated with the Southcentral Power Project (SPP) contributed to successful refinancing efforts in November. Not only did Chugach renew its $300 million credit facility used to "backstop" its commercial paper program, it successfully refinanced $270 million of bullet debt maturing in 2011 and 2012. The new amortizing debt carries a weighted average interest rate of 4.57 percent, which is much lower than the 6.55 percent and 6.20 percent on the maturing debt.

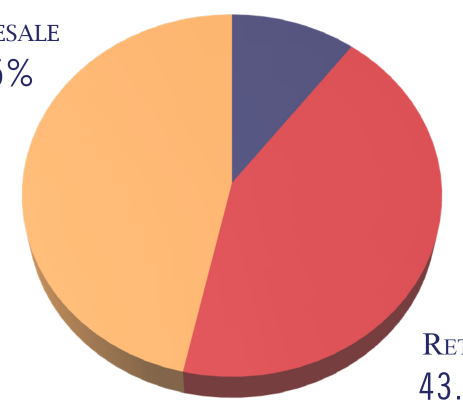
Chugach expended approximately $74.9 million on total capital expansion and system improvement projects in 2010. A significant portion was associated with SPP. Chugach executed several agreements and received an air emissions permit from the Alaska Department of Environmental Conservation in 2010. Chugach continued to finance expenditures associated with SPP by issuing commercial paper, ending 2010 with $98.5 million of commercial paper outstanding. The average monthly interest rate on commercial paper ranged from 0.26 to 0.37 percent in 2010. These attractive interest rates coupled with the long-term refinancing is expected to save our members millions of dollars in interest expense in the future. We continue to monitor all financial markets in anticipation of converting some of the outstanding commercial paper to long-term debt.

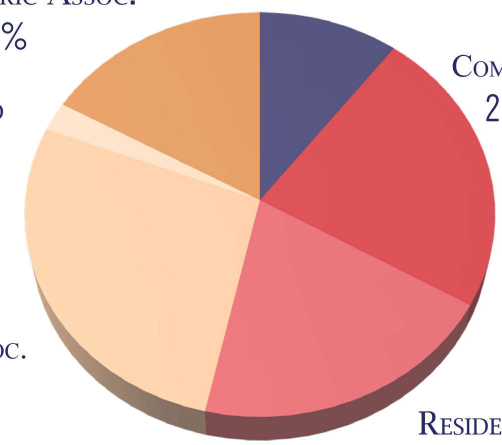
Chugach continued to operate and maintain our production, transmission and delivery system that provides reliable and low-cost power to our members. To help assure that we will have fuel to meet our needs, we negotiated a new long-term natural gas supply contract with Marathon Alaska Production, LLC (MAP) approved by the RCA in May of 2010. The new MAP contract will provide gas beginning April 1, 2011 to Dec. 31, 2013, with the first extension option already exercised. A second contract option could extend the contract through Dec. 31, 2014.

Susan E Reeves

BY KILOWATT-HOURS

TOTAL: 2,706,609,416

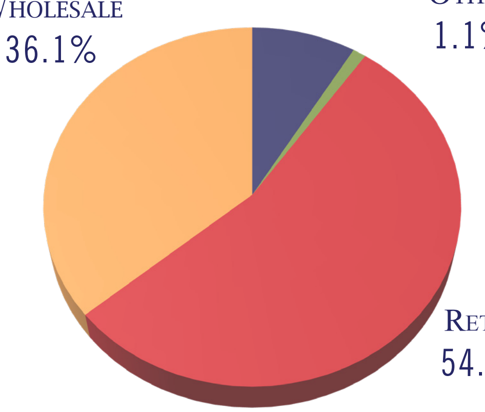


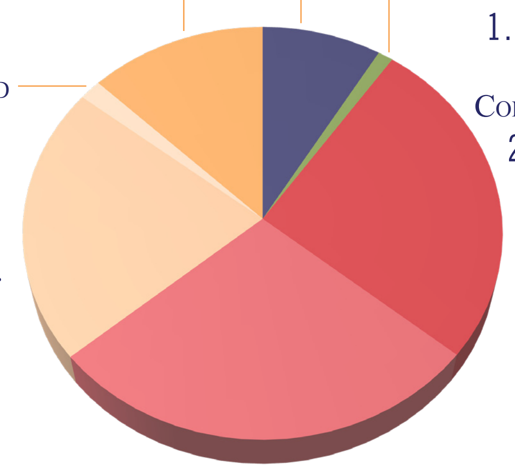


Overview | Detail

BY OPERATING REVENUES

TOTAL: $258,325,345





Overview | Detail

Kilowatt-hours sold

2010 2.71 Billion kwh
2009 2.54 Billion kwh
2008 2.79 Billion kwh

Wholesale kwh

2010 1.26 Billion kwh
2009 1.28 Billion kwh
2008 1.32 Billion kwh

Cost per residential kwh
in December*

2010 11.82 Cents/kwh
2009 13.01 Cents/kwh
2008 13.49 Cents/kwh

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

Total revenue/ non-operating margins

2010 $259.4 Million
2009 $291.1 Million
2008 $289.5 Million

Service locations at year-end

2010 81,339
2009 81,047
2008 80,682

Margins

2010 $5.4 Million
2009 $5.7 Million
2008 $6.4 Million

Retail kwh

2010 1.17 Billion kwh
2009 1.18 Billion kwh
2008 1.21 Billion kwh

Economy energy kwh

2010 278.1 Million kwh
2009 76.9 Million kwh
2008 256.1 Million kwh

Cost of 700 kwh
residential service in December*

2010 $90.76
2009 $99.04
2008 $102.42

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

Expenses

2010 Fuel costs $111.7 Million — $254.0 Million
2009 Fuel costs $136.4 Million — $285.4 Million
2008 Fuel costs $137.9 Million — $283.1 Million

Generation source by kwh

2010 89% Natural Gas — 11% Hydro
2009 90% Natural Gas — 10% Hydro
2008 91% Natural Gas — 9% Hydro

Outage statistics

Chugach averaged 1.71 outage hours per customer in 2010, lower than the 2.30 hours in 2009. The 5-year average for customer outage hours decreased to 2.33 hours in 2010, down from the 2.39 hours in 2009.

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, 2010 and 2009, 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, 2010. 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, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

March 30, 2011
Anchorage, Alaska

Balance Sheets
December 31, 2010 and 2009

Assets	2010	2009
Utility Plant (notes 1d, 3, 10 and 11):		
Electric plant in service	$853,933,739	$834,467,734
Construction work in progress	100,787,482	48,383,610
Total utility plant	954,721,221	882,851,344
Less accumulated depreciation	(446,582,318)	(420,464,808)
Net utility plant	508,138,903	462,386,536
Other property and investments, at cost:		
Nonutility property	84,735	24,461
Special Funds	395,833	345,792
Investments in associated organizations (note 4)	12,163,097	12,333,936
Total other property and investments	12,643,665	12,704,189
Current assets:		
Cash and cash equivalents, including repurchase agreements of $12,008,821 in 2010 and $3,026,893 in 2009	12,070,713	3,503,765
Special deposits	211,858	125,037
Fuel cost under-recovery (note 1n)	2,371,631	278,164
Accounts receivable, less provision for doubtful accounts of $307,169 in 2010 and $397,815 in 2009	35,140,119	35,810,543
Materials and supplies	35,974,170	29,990,618
Prepayments	1,925,424	1,261,897
Other current assets	256,290	246,380
Total current assets	87,950,205	71,216,404
Deferred charges, net (notes 5 and 12)	20,994,955	22,037,407
Total assets	$629,727,728	$568,344,536

Liabilities, Equities and Margins	2010	2009
Equities and margins (notes 6 and 7):		
Memberships	$1,474,869	$1,432,054
Patronage capital	149,543,952	144,228,221
Other	10,823,463	10,660,322
Total equities and margins	161,842,284	156,320,597
Long-term obligations, excluding current installments (note 8):		
Bonds payable	270,000,000	270,000,000
National Bank for Cooperatives bonds payable	34,450,318	37,301,819
Total long-term obligations	304,450,318	307,301,819
Current liabilities:		
Current installments of long-term obligations (note 8)	2,851,500	4,118,028
Commercial Paper	98,500,000	51,500,000
Accounts payable	18,860,926	10,212,105
Consumer deposits	5,225,729	5,492,950
Fuel cost over-recovery (note 1n)	0	3,511,422
Accrued interest	6,049,531	6,067,630
Salaries, wages and benefits	6,733,842	5,956,320
Fuel	21,569,538	14,658,058
Other current liabilities	1,872,314	1,234,371
Total current liabilities	161,663,380	102,750,884
Deferred compensation	395,833	345,792
Deferred credits (note 5)	1,375,913	1,625,444
Total liabilities, equities and margins	$629,727,728	$568,344,536

See accompanying notes to financial statements.

FINANCIAL STATEMENTS

Statements of Operations
Years Ended December 31, 2010, 2009 and 2008

	2010	2009	2008
Operating revenues (notes 1m, 2 and 12)	$258,325,345	$290,247,308	$288,292,112
Operating expenses:			
Fuel (note 12)	111,718,947	136,416,761	137,894,553
Power production	18,248,656	16,406,911	16,718,777
Purchased power	26,691,968	35,690,476	31,486,621
Transmission	5,697,446	5,709,578	5,841,405
Distribution	12,216,252	12,740,381	12,398,832
Consumer accounts	5,323,551	5,259,348	5,396,662
Administrative, general and other charges	21,434,273	20,518,688	20,014,239
Depreciation	32,636,108	32,130,434	30,829,276
Total operating expenses	233,967,201	264,872,577	260,580,365
Interest expense:			
Long-term debt and other	21,014,387	21,207,600	22,979,276
Charged to construction	(1,008,689)	(601,251)	(446,479)
Interest expense, net	20,005,698	20,606,349	22,532,797
Net operating margins	4,352,446	4,768,382	5,178,950
Nonoperating margins:			
Interest income	310,964	250,958	553,362
Allowance for Funds Used During Construction	83,966	145,281	112,611
Capital credits, patronage dividends and other	662,633	495,727	566,827
Total nonoperating margins	1,057,563	891,966	1,232,800
Assignable margins	$5,410,009	$5,660,348	$6,411,750

See accompanying notes to financial statements.

Statements of Changes in Equities and Margins
Years Ended December 31, 2010, 2009 and 2008

	Memberships	Other Equities and Margins	Patronage Capital	Total
Balance, January 1, 2008	$1,345,013	$9,252,085	$138,713,338	$149,310,436
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	1,390,413	10,366,588	142,009,998	153,766,999
Assignable margins	0	0	5,660,348	5,660,348
Retirement of capital credits	0	0	(3,442,125)	(3,442,125)
Unclaimed capital credit retirements	0	213,527	0	213,527
Memberships and donations received	41,641	80,207	0	121,848
Balance, December 31, 2009	1,432,054	10,660,322	144,228,221	156,320,597
Assignable margins	0	0	5,410,009	5,410,009
Retirement of capital credits	0	0	(94,278)	(94,278)
Unclaimed capital credit retirements	0	90,320	0	90,320
Memberships and donations received	42,815	72,821	0	115,636
Balance, December 31, 2010	$1,474,869	$10,823,463	$149,543,952	$161,842,284

See accompanying notes to financial statements.

Statements of Cash Flows
Years Ended December 31, 2010, 2009 and 2008

	2010	2009	2008
Cash flows from operating activities:			
Assignable margins	$5,410,009	$5,660,348	$6,411,750
Adjustments to reconcile assignable margins to net cash provided by operating activities:			
Depreciation	32,636,108	32,130,434	30,829,276
Amortization and depreciation cleared to operating expenses	5,457,480	4,755,265	5,029,029
Allowance for funds used during construction	(83,966)	(145,281)	(112,611)
Property losses, net / other	74,726	(121,417)	(182,159)
Write-off of inventory, deferred charges and projects	210,596	1,461,349	18,000
Changes in assets and liabilities:			
(Increase) decrease in assets:			
Accounts receivable	670,424	35,367	(2,427,101)
Fuel cost under-recovery	(2,093,467)	11,509,914	(11,788,078)
Materials and supplies	(6,061,005)	(1,407,931)	(384,553)
Prepayments/Other assets	(448,456)	298,537	(183,715)
Deferred charges	(1,511,639)	(2,522,027)	(6,640,741)
Increase (decrease) in liabilities:			
Accounts payable	339,929	169,466	(1,673,495)
Consumer deposits/Other liabilities	2,434,124	515,513	758,655
Fuel cost over-recovery	(3,511,422)	3,511,422	(1,596,010)
Accrued interest	(18,099)	(91,297)	(145,682)
Salaries, wages and benefits	777,522	474,699	(472,252)
Fuel	6,911,480	(13,836,153)	6,156,558
Deferred credits	(70,335)	11,219	55,070
Net cash provided by operating activities	41,124,009	42,409,427	23,651,941
Investing activities:			
Extension and replacement of plant	(74,875,800)	(38,100,312)	(30,276,605)
Net cash used in investing activities	(74,875,800)	(38,100,312)	(30,276,605)
Financing activities:			
Payments of notes payable	0	(2,860,000)	0
Payments for debt issue costs	(1,493,572)	0	0
Proceeds from short-term obligations	47,000,000	66,998,000	7,500,000
Proceeds from long-term obligations	0	0	38,560,006
Repayments of short-term obligations	0	(22,998,000)	0
Repayments of long-term obligations	(4,118,029)	(47,367,312)	(35,303,151)
Memberships and donations received	205,956	21,624	70,761
Retirement of patronage capital and estate payments	(146,596)	(3,022,246)	(4,027,156)
Net receipts of consumer advances for construction	870,980	931,282	1,105,570
Net cash provided by (used in) financing activities	42,318,739	(8,296,652)	7,906,030
Net changes in cash and cash equivalents	8,566,948	(3,987,537)	1,281,366
Cash and cash equivalents at beginning of period	$3,503,765	$7,491,302	$6,209,936
Cash and cash equivalents at end of period	$12,070,713	$3,503,765	$7,491,302
Supplemental disclosure of non-cash investing and financing activities			
Retirement of plant (net of salvage)	$6,666,875	$991,011	$9,027,644
Notes payable on land	$0	$0	$2,860,000
Extension and replacement of plant included in accounts payable	$14,054,396	$5,712,404	$2,656,989
Non-cash capital credit retirements	$0	$331,987	$1,089,142
Patronage capital retired and estate payments included in other current liabilities	$388,463	$503,237	$415,345
Supplemental disclosure of cash flow information – interest expense paid, including amounts capitalized	$19,173,013	$19,710,442	$21,536,503

See accompanying notes to financial statements.

(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 in conformity with generally accepted accounting principles, 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, "Topic 980 - Regulated Operations."

FASB ASC 980 provides for the recognition of regulatory assets and liabilities as allowed by regulators for costs or credits that are reflected in current rates or are considered probable of being included in future rates. Our regulated rates are established to recover all of our specific costs of providing electric service. In each rate filing, rates are set at levels to recover all of our specific allowable costs and those rates are then collected from our retail and wholesale customers. The regulatory assets or liabilities are then reduced as the cost or credit is reflected in earnings. See Note (1k) – "*Deferred Charges and Credits.*"

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 depreciation. Renewals and betterments are capitalized, while maintenance and repairs are normally charged to expense as incurred.

In accordance with FASB ASC 360, "Topic 360 – Property, Plant, and Equipment," certain 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

	01/01/05	-	05/31/08	06/01/08	-	10/31/10	11/01/10	-	12/31/10
Steam production plant	2.55%	-	3.24%	4.45%	-	5.85%	4.81%	-	7.04%
Hydraulic production plant	1.63%	-	3.00%	1.22%	-	3.00%	1.06%	-	3.00%
Other production plant	3.32%	-	9.81%	3.77%	-	10.56%	3.98%	-	10.15%
Transmission plant	1.72%	-	5.26%	1.61%	-	6.67%	1.58%	-	7.86%
Distribution plant	2.10%	-	9.98%	1.95%	-	9.77%	2.17%	-	9.63%
General plant	2.23%	-	27.25%	1.25%	-	26.11%	1.57%	-	20.00%
Other	2.75%	-	2.75%	2.75%	-	2.75%	2.75%	-	2.75%

On November 1, 2010, the RCA approved revised depreciation rates effective November 1, 2010. See Note (2) – "*Regulatory Matters – Revision to Current Depreciation Rates (Docket U-09-097).*" Chugach's depreciation rates include a provision for cost of removal. Given that the estimated timing and amount cannot be reasonably estimated, Chugach does not record a separate liability for its obligation associated with the retirement of plant.

e. Capitalized Interest

Allowance for funds used during construction (AFUDC) and interest charged to construction - credit (IDC) are the estimated costs of the funds used during the period of construction from both equity and borrowed funds. AFUDC and IDC are applied to specific projects during construction. AFUDC and IDC uses the net cost of borrowed funds and a rate of return on member's equity when used and is recovered through rates as utility plant is depreciated. Chugach capitalized such funds at the weighted average rate (adjusted monthly) of 4.8 percent during 2010, 4.9 percent during 2009 and 5.1 percent during 2008. Chugach capitalized actual interest expense and related fees associated with the construction of the Southcentral Power Project (SPP).

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 percent. These investments are non-marketable and accounted for at cost. Management evaluates these investments annually for impairment. No impairment was recorded during 2010, 2009 and 2008.

g. Fair Value of Financial Instruments

FASB ASC 825, "Topic 825 – Financial Instruments," requires disclosure of the fair value of certain on and off balance sheet financial instruments for which it is practicable to estimate that value. The following methods are used to estimate the fair value of financial instruments:

Cash and cash equivalents - the carrying amount approximates fair value because of the short maturity of those instruments.

Consumer deposits - the carrying amount approximates fair value because of the short refunding term.

Long-term obligations - the fair value is estimated based on the quoted market price for same or similar issues (note 8).

Deferred compensation – the fair value is based on the quoted market price for identical instruments traded in active exchange markets.

h. Cash and Cash Equivalents

For purposes of the statement of cash flows, Chugach considers all highly liquid instruments with a maturity of three months or less upon acquisition by Chugach to be cash equivalents. Chugach has 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 2010 and 2009 of $5,092,665 and $4,103,891, at an average interest rate of 0.14 percent and 0.17 percent, 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 FASB ASC 980, Chugach's financial statements reflect regulatory assets and liabilities. Continued accounting under FASB ASC 980, requires that certain criteria be met. We capitalize all or part of costs that would otherwise be charged to expense if it is probable that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for ratemaking purposes and future revenue will be provided to permit recovery of the previously incurred cost. Management believes Chugach's operations currently satisfy these criteria. Chugach regulatory asset recoveries are embedded in base rates approved by the RCA. Specific costs incurred and recorded as Regulatory Assets, including the amortization period for recovery, are approved by the RCA either in standard SRFs, general rate case filings or specified independent requests. The rates approved related to the regulatory assets are matched to the amortization of actual expenditures recognized on the books. The regulatory assets are amortized and collected through rates over differing periods depending upon the period of benefit as established by the RCA. Deferred credits, primarily representing regulatory liabilities, are amortized to operating expense over the period allowed for ratemaking purposes. It also includes refundable contributions in aid of construction, which are credited to the associated cost of construction of property units. Refundable contributions in aid of construction are held in deferred credits pending their return or other disposition. If events or circumstances should change so the criteria are not met, the write off of regulatory assets and liabilities could have a material effect on Chugach's financial position or results of operations.

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 $8,612,454 and $9,417,906 of unbilled retail revenue at December 31, 2010 and 2009, 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 recovery of gas costs according to gas supply contracts, as well as purchased power costs.

n. Fuel and Purchased Power Costs Recovery

Expenses associated with electric services include fuel used to generate electricity and power purchased from others. Chugach is authorized by the RCA to recover fuel and purchased power costs through the fuel surcharge process, which is adjusted quarterly to reflect increases and decreases of such costs. We recognize differences between projected recoverable fuel costs and amounts actually recovered through rates. The fuel cost under/over recovery on our Balance Sheet represents the net accumulation of any under or over collection of fuel and purchase power costs. Fuel cost under-recovery will appear as an asset on our Balance Sheet and will be collected from our members in subsequent periods. Conversely, fuel cost over-recovery will appear as a liability on our Balance Sheet and will be refunded to our members in subsequent periods. Fuel costs were under-recovered by $2,371,631 in 2010 and over-recovered by $3,233,258 in 2009. Total fuel and purchased power costs in 2010, 2009, and 2008 were $138,410,915, $172,107,237, and $169,381,174, 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.

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, 2010, 2009 and 2008 was in compliance with that provision. In addition, as described in *"Note (12) - 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 FASB ASC 605-45-50, "Topic 605 - Revenue Recognition – Subtopic 45 - Principal Agent Considerations – Section 50 - Disclosure."

Chugach applies a more-likely-than-not recognition threshold for all tax uncertainties. FASB ASC 740 only allows the recognition of those tax benefits that have a greater than fifty percent likelihood of being sustained upon examination by the taxing authorities. Chugach's management reviewed Chugach's tax positions and determined there were no outstanding, or retroactive tax positions, that were not highly certain of being sustained upon examination by the taxing authorities.

Management has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements for all periods presented. Chugach's evaluation was performed for the tax periods ended December 31, 2006 through December 31, 2010 for U.S. Federal Income Tax, the tax years which remain subject to examination by major tax jurisdictions as of December 31, 2010.

q. Consumer deposits

Consumer deposits are the amounts certain customers are required to deposit to receive electric service. Consumer deposits for the years ended December 31, 2010 and 2009, totaled $2.1 million and $2.4 million, respectively. Consumer deposits also represent customer credit balances as a result of prepaid accounts. Credit balances for the years ended December 31, 2010 and 2009 totaled $3.1 million and $3.0 million, respectively.

r. Recently Issued Accounting Pronouncements

ASC Update 2010-29 *"Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations (a consensus of the FASB Emerging Issues Task Force)*

In December 2010, the FASB issued ASC Update 2010-29, "Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations (a consensus of the FASB Emerging Issues Task Force)." ASC Update 2010-29 clarifies the pro forma information disclosure requirements of public entities that enter into business combinations that are material on an individual or aggregate basis. This update is effective for the first annual reporting period beginning on or after December 15, 2010. Chugach will begin application of ASC 2010-29 on January 1, 2011, which is not expected to have any effect on results of operations, financial position, and cash flows.

ASC Update 2010-06 *"Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements"*

In January 2010, the FASB issued ASC Update 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements." ASC Update 2010-06 applies to all entities that are required to make disclosures about recurring or nonrecurring fair value measurements and expands the disclosure requirements based on the measurement Level. This update is effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for certain Level 3 transactions. Those transaction disclosure requirements are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Chugach began application of ASC Update 2010-06 to the financial statements for the period ended March 31, 2010, which did not have a material effect on our results of operations, financial position, and cash flows. Chugach will begin application of the Level 3 transaction disclosures on January 1, 2011, which is not expected to have any effect on results of operations, financial position and cash flows.

SFAS 167 "*Amendments to FASB Interpretation No. 46(R)*"

In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 167, "Amendments to FASB Interpretation No. 46(R)." SFAS No. 167 applies to all entities except for those identified in FIN 46(R), "Consolidation of Variable Interest Entities," as well as entities previously considered qualifying special-purpose entities, as the concept of these entities was eliminated by SFAS No. 166, "Accounting for Transfers of Financial Assets." SFAS No. 167 amends FIN 46(R) to require additional disclosures regarding an entity's involvement in variable interest entities. SFAS No. 167 is effective for interim and annual reporting periods beginning after November 15, 2009. Chugach began application of SFAS No. 167 on January 1, 2010, which did not have any effect on our results of operations, financial position, and cash flows.

In December 2009, the FASB issued ASC Update 2009-17, *"Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities,"* an adaptation of SFAS No. 167 into the Codification. To view the adapted content, see FASB ASC 810-10-30, for the Initial Measurement Section of Subtopic 10, and FASB ASC 810-10-65, for the Transition and Open Effective Date Information Section of Subtopic 810-10. The update did not have any effect on our results of operations, financial position, and cash flows.

SFAS 166 "*Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140*"

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140." SFAS No. 166 applies to all entities and amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 140 was amended to enhance the disclosure requirements as well as to define some of the terms and measurements to be used, by removing the concept of a qualifying special-purpose entity and the exception from applying FIN 46, "Consolidation of Variable Interest Entities," to qualifying special-purpose entities. SFAS No. 166 is effective for interim and annual reporting periods beginning after November 15, 2009. Chugach began application of SFAS No. 166 on January 1, 2010, which did not have any effect on our results of operations, financial position, and cash flows.

In December 2009, the FASB issued ASC Update 2009-16, *"Accounting for Transfers of Financial Assets,"* an adaptation of SFAS No. 166 into the Codification. To view the adapted content, see FASB ASC 860-10-40, for the Derecognition Section of Subtopic 10, and FASB ASC 860-10-65, for the Transition and Open Effective Date Information of Subtopic 860-10. The update did not have any effect on our results of operations, financial position, and cash flows.

FAS 164 "*Not-for-Profit Entities: Mergers and Acquisitions – Including an amendment of FASB Statement No. 142*"

In April 2009, the FASB issued SFAS No. 164, "Not-for-Profit Entities: Mergers and Acquisitions – Including an amendment of FASB Statement No. 142." SFAS No. 164 applies to the combination of not-for-profit entities meeting the definition of a merger or acquisition, with specific exceptions. SFAS No. 164 provides guidance on the accounting and disclosure of these combinations. SFAS No. 164 is effective for annual reporting periods beginning after December 15, 2009. Chugach began application of SFAS No. 164 on January 1, 2010, which did not have any effect on our results of operations, financial position, and cash flows.

In January 2010, the FASB issued ASC Update 2010-07, *"Not-for-Profit Entities (Topic 958): Not-for-Profit Entities: Mergers and Acquisitions,"* an adaptation of SFAS No. 164 into the Codification. To view the adapted content, see FASB ASC 954-805 for the Business Combinations Subtopic of Topic 954, FASB ASC 958-805 for the Business Combinations Subtopic of 958, FASB ASC 805-10-15 for the Scope and Scope Exceptions Section of Subtopic 805-10, FASB ASC 805-50-15 for the Scope and Scope Exceptions Section of Subtopic 805-50, and FASB ASC 350-10-65 for the Transition and Open Effective Date Information Section of Subtopic 350-10.

s. Fair Values of Assets and Liabilities

Fair Value Hierarchy

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

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes 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 and Overnight Repurchase Agreement assets measured at fair value on a recurring basis at December 31, 2010, and December 31, 2009.

	Total	Level 1	Level 2	Level 3
December 31, 2010				
Deferred compensation	$395,833	$395,833	$0	$0
Repurchase agreement	$12,008,821	$0	$12,008,821	$0
December 31, 2009				
Deferred compensation	$345,792	$345,792	$0	$0
Repurchase agreement	$3,026,893	$0	$3,026,893	$0

Chugach had no Level 3 assets or liabilities measured at fair value on a recurring basis. Fair value estimates are dependent upon subjective assumptions and involve significant uncertainties resulting in variability in estimates with changes in assumptions. The fair value of long-term debt has been determined using discounted future cash flows at borrowing rates currently available to Chugach. The fair value of cash and cash equivalents, accounts receivable and payable, and other short-term monetary assets and liabilities approximate carrying value due to their short-term nature.

t. Presentation of Financial Information

For the year ended December 31, 2010, Chugach recorded a reclassification to more accurately present accounts receivable and consumer deposits for the year ended December 31, 2009. The reclassification represents customer credit balances as a result of prepaid accounts previously included as a reduction to accounts receivable and now included as consumer deposits. The impact was to increase accounts receivable and consumer deposits by $3.0 million in 2009.

For the year ended December 31, 2010, Chugach recorded a reclassification to present the amount of capitalized interest previously included as a reduction of cash provided by operating activities and now included as an increase of cash used in investing activities. The impact was to increase cash provided by operating activities and increase cash used in investing activities by $601,251 in 2009 and $446,479 in 2008.

(2) Regulatory Matters

2008 Test Year General Rate Case (Docket U-09-080)

On June 23, 2009, Chugach filed a general rate case with the RCA to increase base rate revenue by $4.2 million, with increases of $2.7 million to Chugach retail customers and $1.5 million to wholesale customers. Base rates charged to retail customers increased 3.3 percent and base rates charged to wholesale customers HEA, MEA and Seward increased 7.8 percent, 2.0 percent and 9.7 percent, respectively.

The RCA named the Attorney General and Chugach's wholesale customers HEA, MEA and Seward parties to the docket.

On October 9, 2009, the RCA granted Chugach's original request that the proposed rates go into effect on an interim and refundable basis. On October 15, 2009, the RCA consolidated Docket U-09-080 (General Rate Case) and Docket U-09-097 (Depreciation Study Update, explained below).

Chugach reached a settlement with its wholesale customers, HEA, MEA and Seward, which resolved issues in both the general rate case and the depreciation study update. The settlement, along with a request to vacate schedule, was filed with the RCA on May 21, 2010. On June 2, 2010, the RCA granted the request to vacate schedule. A final order in the consolidated case is explained below.

Revision to Current Depreciation Rates (Docket U-09-097)

In accordance with a stipulation with its wholesale customers, HEA and MEA, Chugach filed on August 31, 2009, an updated depreciation study based on plant balances as of December 31, 2008. The RCA opened Docket U-09-097 to consider Chugach's updated depreciation study. The RCA named Chugach's wholesale customers HEA, MEA and Seward parties to the docket.

As indicated in the discussion under the 2008 Test Year General Rate Case above, the RCA consolidated the depreciation study update with the general rate case. A hearing was held in June of 2010, which addressed unresolved depreciation issues between Chugach and the Attorney General, who acts as the public advocate on behalf of rate payers in RCA cases.

On September 16, 2010, the RCA issued a final order in the consolidated case (2008 Test Year General Rate Case and Revision to Current Depreciation Rates), accepting the settlements with its wholesale customers, HEA, MEA and Seward and resolving depreciation issues disputed by the Attorney General, which resulted in no change to the depreciation rates contained in the settlement agreements.

On September 28, 2010, Chugach filed revised tariffs in compliance with the settlement agreements, refund calculations, and a plan for refunding its customers the difference between the amounts paid under the interim and refundable rates and the amounts established by the settlement agreements. As a result of the RCA accepting the settlement agreements and resolving depreciation issues, Chugach refunded its wholesale and retail customers approximately $0.7 million, including interest.

On November 1, 2010, the RCA materially accepted Chugach's compliance filing. Base rate changes were approved effective November 1, 2010.

Request for Participation in the Simplified Rate Filing Process

On December 15, 2009, Chugach submitted a request to the RCA for approval to implement the Simplified Rate Filing (SRF) process for the adjustment of base energy and demand rates in accordance with Alaska Statute 42.05.381(e). Chugach requested that base rate adjustments under SRF be completed on a semi-annual basis, utilizing the twelve months ended June and December as the test periods in each year. Chugach requested that its initial SRF be submitted on the June 2010 test year for rate adjustments, if necessary, during fourth quarter, 2010.

Under SRF, base rate increases are limited to 8 percent over a 12-month period and 20 percent over a 36-month period. Chugach is still permitted to submit general rate case filings while participating in the SRF process. However, during these periods, rate adjustments under SRF would temporarily cease. Utilization of SRF will allow Chugach to more efficiently adjust base rates in response to lower sales resulting from both energy conservation and technological improvements. Chugach is also interested in SRF as a means to expedite the rate adjustment process with the goal of timely cost recovery and lower adjudicatory costs.

On April 21, 2010, the RCA opened docket U-10-20 to consider Chugach's request to implement the simplified rate filing process. A technical conference was held on June 1, 2010, to discuss guidelines that Chugach should follow in future simplified rate filings. All parties agreed to modify the deadline for a final order to July 26, 2010.

A public hearing was held on July 19, 2010. The parties to the docket entered into a stipulation on the outstanding issues in the case and the RCA issued a bench order at the hearing approving the stipulation. A formal written order was issued on July 26, 2010.

On September 28, 2010, Chugach filed its initial filing under this process to decrease base rate revenue by $0.2 million, with increases of 0.2 percent to Chugach retail customers and 0.3 percent to Seward and decreases of 0.6 percent and 1.2 percent to HEA and MEA, respectively. The RCA approved Chugach's Simplified Rate Filing on November 4, 2010, for base rate changes effective November 15, 2010.

Natural Gas Contract Submittal

On April 2, 2010, Chugach submitted a new long-term natural gas supply contract with Marathon Alaska Production, LLC (MAP), to the RCA. The new MAP contract will provide gas beginning April 1, 2011, terminating March 31, 2013. MAP has two contract extension options that can be exercised during the first year of the initial contract. MAP extended the contract to December 31, 2013, by exercising the first contract extension on January 12, 2011. The second contract option could be exercised by December 31, 2011, and would extend the contract through December 31, 2014. The total amount of gas under contract is estimated at 26 billion cubic feet (BCF) for the initial two year term of the contract with volumetric and delivery terms to be determined for each contract extension period that could provide up to an additional 16 BCF through December 31, 2014. The RCA approved the gas supply contract effective May 17, 2010.

Net Metering Regulations

On June 16, 2010, regulations establishing net metering requirements for certain electric utilities became effective. Net metering allows a customer to install and use certain types of renewable generation to offset their monthly usage and sell excess power to their serving utility at the utility's avoided generation cost. The net metering requirements adopted by the RCA apply to Chugach and nine other Alaska electric utilities. The RCA's order limits customer generation to units up to 25 kilowatts and installations must comply with approved interconnection standards. Chugach has approved interconnection standards and non-firm buy-back rates in its tariff. On June 17, 2010, Chugach filed with the RCA the final summary tariff necessary to implement net metering. The RCA approved the tariff effective August 2, 2010.

Southcentral Power Project (SPP)

On June 30, 2010, Chugach filed a petition with the RCA for advance determination of decisional prudence and assurance of cost recovery for the Southcentral Power Project. The petition requested regulatory assurance of future recovery in rates of the contract amounts Chugach has already executed. Recovery would begin after an appropriate rate proceeding is completed such that recovery of SPP costs begin coincident with the date the SPP goes into service. Chugach determined that substantial benefit could flow to our members if certain advance regulatory approvals were obtained to provide additional assurances to potential lenders. Public hearings were held in September of 2010. On October 5, 2010, the RCA concluded that Chugach may include in future rates $197 million in costs attributable to three principal contracts to build the SPP when the plant becomes used and useful. The RCA found that "it is in the public interest to provide cost recovery assurance" to Chugach regarding these costs. Chugach's share of the project cost is estimated to be $256 million, as budgeted. Chugach will request approval of the additional costs associated with the project in a future general rate case that is expected to be filed in 2012.

(3) Utility Plant

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

Electric plant in service:	2010	2009
Steam production plant	$60,462,671	$60,462,671
Hydraulic production plant	20,402,466	20,315,628
Other production plant	134,400,210	132,645,379
Transmission plant	248,084,767	247,810,006
Distribution plant	249,408,094	242,798,640
General plant	49,275,336	47,756,148
Unclassified electric plant in service[1]	80,498,560	71,053,056
Intangible plant	4,710,912	4,710,912
Other	6,690,723	6,915,294
Total electric plant in service	853,933,739	834,467,734
Construction work in progress[2]	100,787,482	48,383,610
Total electric plant in service and construction work in progress	$954,721,221	$882,851,344

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

[2]The amount associated with the construction of the SPP included in construction work in progress was $84.9 and $26.5 million at December 31, 2010 and 2009, respectively.

(4) Investments in Associated Organizations

Investments in associated organizations include the following at December 31:

	2010	2009
National Rural Utilities Cooperative Finance Corporation	$6,095,980	$6,095,980
CoBank, ACB	6,003,555	6,174,680
NRUCFC capital term certificates / Other	63,562	63,276
Total Investments in Associated Organizations	$12,163,097	$12,333,936

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

(5) Deferred Charges and Credits

Deferred Charges

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

	2010	2009
Debt issuance and reacquisition costs	$2,851,601	$3,439,420
Refurbishment of transmission equipment	160,495	169,754
Feasibility Studies	334,853	111,121
Beluga Gas Compression	3,053,198	3,772,461
Cooper Lake Relicensing / projects	6,052,811	6,119,493
Fuel supply negotiations	1,467,986	1,587,238
Major overhaul of steam generating unit	3,020,092	3,775,114
Other regulatory deferred charges	2,757,644	1,721,180
Environmental matters and other	1,296,275	1,341,626
Total deferred charges	$20,994,955	$22,037,407

Deferred charges, or regulatory assets, not currently being recovered in rates charged to consumers, consisted of the following at December 31, 2010 and 2009:

	2010	2009
Fuel supply negotiations	$203,231	$1,444,789
Studies/Other	334,853	111,122
Cooper Lake Unit 1 Major Overhaul	1,356,489	1,053,269
Cooper Lake Relicensing	491,091	438,380
Rate case costs	0	14,315
Financing costs	350,380	0
Total deferred charges	$2,736,044	$3,061,875

We believe all regulatory assets not currently being recovered in rates charged to consumers are probable of recovery in the future based upon prior recovery of similar costs allowed by our regulator. The recovery of regulatory assets is requested in SRF rate adjustments filed with the RCA on a semi-annual basis. In most cases, deferred charges are recovered over the life of the underlying asset.

Deferred Credits

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

	2010	2009
Refundable consumer advances for construction	$447,025	$857,322
Estimated initial installation costs for meters	89,208	120,185
Post retirement benefit obligation	824,700	593,600
Other	14,980	54,337
Total deferred credits	$1,375,913	$1,625,444

(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, 2010, Chugach had $149,543,952 of patronage capital (net of capital credits retired in 2010), which included $144,133,943 of patronage capital that had been assigned and $5,410,009 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 Second Amended and Restated Indenture of Trust and the CoBank Amended and Restated Master Loan Agreement prohibit Chugach from making any distribution of patronage capital to Chugach's customers if an event of default under the Second Amended and Restated Indenture of Trust or CoBank Amended and Restated Master Loan Agreement exists. Otherwise, Chugach may make distributions to Chugach's members in each year equal to the lesser of 5 percent of Chugach's patronage capital or 50 percent of assignable margins for the prior fiscal year. This restriction does not apply if, after the distribution, Chugach's aggregate equities and margins as of the end of the immediately preceding fiscal quarter are equal to at least 30 percent of Chugach's total liabilities and equities and margins.

Capital credits retired were $94,278, $3,442,125, and $3,115,090 for the years ended December 31, 2010, 2009, and 2008, respectively. The outstanding liability for capital credits authorized but not paid was $388,463 and $503,237 at December 31, 2010 and 2009, respectively.

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:

	2010	2009
Nonoperating margins, prior to 1967	$23,625	$23,625
Donated capital	1,453,305	1,380,484
Unclaimed capital credit retirement[1]	9,346,533	9,256,213
Total other equities	$10,823,463	$10,660,322

[1]Represents unclaimed capital credits that have met all requirements of section 34.45.200 of Alaska's unclaimed property law and has therefore reverted to Chugach.

(8) Debt

Long-term obligations at December 31 are as follows:	2010	2009
CoBank 2, 5.50% fixed rate note matured in 2010, with interest and principal payable monthly	$0	$1,500,000
CoBank 3 and 4, 2.61% variable rate notes maturing in 2022, with interest payable monthly and principal due annually beginning in 2003	35,402,290	36,999,447
CoBank 5, 2.61% variable rate note maturing in 2012, with interest and principal payable monthly	1,899,528	2,920,400
2001 Series A Bond of 6.55%, maturing in 2011, with interest payable semi-annually March 15 and September 15	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	120,000,000	120,000,000
Total long-term obligations	$307,301,818	$311,419,847
Less current installments	2,851,500	4,118,028
Long-term obligations, excluding current installments	$304,450,318	$307,301,819

Covenants

Chugach was required to comply with all covenants set forth in the Amended and Restated Indenture, dated April 1, 2001, and effective January 22, 2003. Effective January 20, 2011, Chugach is required to comply with all covenants set forth in the Second Amended and Restated Indenture of Trust that now secures the 2011 Series A Bonds and the 2011 promissory note to CoBank, which has replaced the outstanding CoBank 3, 4 and 5 promissory notes.

Chugach was also required to comply with the Master Loan Agreement between Chugach and CoBank dated December 27, 2002, which governed the outstanding CoBank 3, 4 and 5 promissory notes. On January 19, 2011, CoBank and Chugach replaced the CoBank 3, 4 and 5 promissory notes with a promissory note that is governed by the Amended and Restated Master Loan Agreement, which is now secured by the Second Amended and Restated Indenture of Trust dated January 20, 2011.

Chugach is also required to comply with the 2010 Credit Agreement, between Chugach and NRUCFC, Bank of America, N.A., KeyBank National Association, JPMorgan Chase Bank, N.A., Bank of Montreal, CoBank, ACB, Goldman Sachs Bank USA, Bank of Taiwan, Los Angeles Branch and Chang Hwa Commercial Bank, Ltd., Los Angeles Branch dated November 17, 2010, governing loans and extensions of credit associated with Chugach's commercial paper program, in an aggregate principal amount not exceeding $300 million at any one time outstanding.

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

Security

Under the Amended and Restated Indenture of Trust, Chugach was 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 secured the Bonds subject to the Amended and Restated Indenture, except that Chugach was permitted to incur secured indebtedness in an amount not to exceed $5 million or enter into sale and leaseback or similar agreements.

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

Rates

Under the Amended and Restated Indenture of Trust, dated April 1, 2001, Chugach was required, 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 occurred any material change in the circumstances contemplated at the time rates were most recently reviewed, the Amended and Restated Indenture required 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 Second Amended and Restated Indenture of Trust, which became effective on January 20, 2011, also requires Chugach, subject to any necessary regulatory approval, to establish and collect rates reasonably expected to yield margins for interest equal to at least 1.10 times total interest expense. If there occurs any material change in the circumstances contemplated at the time rates were most recently reviewed, the Second Amended and Restated Indenture of Trust requires Chugach to seek appropriate adjustment to those rates so that they would generate revenues reasonably expected to yield margins for interest equal to a least 1.10 times interest charges, provided, however, upon review of rates based on a material change in circumstances, rates are required to be revised in order to comply and there are less than six calendar months remaining in the current fiscal year, Chugach can revise its rates so as to reasonably expect to meet the covenant for the next succeeding twelve-month period after the date of any such revision.

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

The NRUCFC Revolving Line of Credit Agreement requires Chugach to maintain an average Times Interest Earned Ratio (TIER) of not less than 1.10.

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

Distributions to Members

The Amended and Restated Indenture and the CoBank Master Loan Agreement prohibited 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 could make distributions to Chugach's members in each year equal to the lesser of 5 percent of Chugach's patronage capital or 50 percent of assignable margins for the prior fiscal year. This restriction did not apply if, after the distribution, Chugach's aggregate equities and margins as of the end of the immediately preceding fiscal quarter were equal to at least 30 percent of Chugach's total liabilities and equities and margins.

The Second Amended and Restated Indenture of Trust, which became effective on January 20, 2011, and the CoBank Amended and Restated Master Loan Agreement, which became effective on January 19, 2011, prohibits Chugach from making any distribution of patronage capital to Chugach's customers if an event of default under the Second Amended and Restated Indenture of Trust or CoBank Amended and Restated Master Loan Agreement exists. Otherwise, Chugach may make distributions to Chugach's members in each year equal to the lesser of 5 percent of Chugach's patronage capital or 50 percent of assignable margins for the prior fiscal year. This restriction does not apply if, after the distribution, Chugach's aggregate equities and margins as of the end of the immediately preceding fiscal quarter are equal to at least 30 percent of Chugach's total liabilities and equities and margins.

Maturities of Long-term Obligations

Long-term obligations at December 31, 2010, mature as follows:

Year ending December 31	Principal Maturities 2001 Series A Bonds	Principal Maturities 2002 Series A Bonds	Principal Maturities CoBank Note	Total
2011	150.000.000	0	2.851.500	152.851.500
2012	0	120,000,000	2,693,543	122,693,543
2013	0	0	2,076,355	2,076,355
2014	0	0	2,266,145	2,266,145
2015	0	0	2,473,110	2,473,110
Thereafter	0	0	24,941,165	24,941,165
	$150,000,000	$120,000,000	$37,301,818	$307,301,818

Lines of credit

Chugach maintained a $7.5 million line of credit with CoBank, ACB (CoBank). The line of credit expired on October 31, 2009. Chugach did not renew this line of credit upon its expiration date due to unused carrying costs, its lack of use and the existence of the NRUCFC line of credit and commercial paper borrowing capacity. The borrowing rate is calculated using the CoBank Base Rate on the first business day of the week plus 3 percent. The borrowing rate at December 31, 2010 and 2009 was 2.61 percent and 2.24 percent, 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, could be met. 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 was reduced to $50 million on January 30, 2009.

Chugach did not utilize this line of credit in 2010 and therefore, had no balance at December 31, 2010. Chugach utilized this line of credit in the first quarter of 2009 and had a balance of $38 million on January 30, 2009, when we repaid $30.0 million by issuing commercial paper under our Commercial Paper program. In February of 2009, Chugach repaid the balance on this line of credit by issuing additional commercial paper.

The borrowing rate at December 31, 2010 and 2009 was 5.25 percent and 4.95 percent, respectively and 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. 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.

The NRUCFC line of credit was immediately available for unconditional borrowing.

Commercial Paper

Over the next two years, Chugach anticipates financing increased capital expenditures due to the construction of a natural gas fired generation plant and on-going capital needs and plans to refinance $150 million of 2001 Series A Bonds due March 15, 2011, and $120 million of 2002 Series A Bonds due February 1, 2012.

On November 17, 2010, Chugach replaced the $300 million unsecured Credit Agreement executed on October 10, 2008, which was due to expire on October 10, 2011. The 2010 Credit Agreement with National Rural Utilities Cooperative Finance Corporation (NRUCFC), Bank of America, N.A., KeyBank National Association, JPMorgan Chase Bank, N.A., Bank of Montreal, CoBank, ACB, Goldman Sachs Bank USA, Bank of Taiwan, Los Angeles Branch and Chang Hwa Commercial Bank, Ltd., Los Angeles Branch, will expire on November 17, 2013. The Credit Agreement is used to back Chugach's Commercial Paper program, which will act as a bridge until Chugach converts commercial paper balances to long-term debt. The 2010 Credit Agreement was priced with an all-in drawn spread of one month LIBOR plus 150 basis points, along with a 25 basis points facility fee (based on an A-/A3 unsecured debt rating). Chugach had $98.5 and $51.5 million of commercial paper outstanding at December 31, 2010 and 2009, respectively. Our commercial paper can be repriced between one day and two hundred and seventy days.

The following table provides information regarding monthly average commercial paper balances outstanding (dollars in millions), as well as corresponding weighted average interest rates:

Month	Average Balance	Weighted Average Interest Rate
January 2010	54.2	0.26
February 2010	57.1	0.26
March 2010	60.2	0.27
April 2010	59.8	0.28
May 2010	59.0	0.32
June 2010	58.7	0.37
July 2010	58.6	0.33
August 2010	60.8	0.33
September 2010	67.6	0.31
October 2010	71.4	0.31
November 2010	77.4	0.30
December 2010	87.5	0.31

Financing

On January 21, 2011, Chugach issued $90,000,000 of First Mortgage Bonds, 2011 Series A, due March 15, 2031 and $185,000,000 of First Mortgage Bonds, 2011 Series A, due March 15, 2041 for the purpose of refinancing the 2001 and 2002 Series A Bonds due March 15, 2011, and February 1, 2012, respectively, and for general corporate purposes. The 2011 Series A Bonds due March 15, 2031, will bear interest at 4.20% per annum, payable semi-annually on March 15 and September 15 of each year commencing on September 15, 2011. Principal on the 2011 Series A Bonds due March 15, 2031 will be paid in equal annual installments beginning March 15, 2012, resulting in an average life of approximately 10 years. The 2011 Series A Bonds due March 15, 2041, will bear interest at 4.75% per annum, payable semi-annually on March 15 and September 15 of each year commencing on September 15, 2011. Principal on the 2011 Series A Bonds due March 15, 2041 will be paid in equal annual installments beginning March 15, 2012, resulting in an average life of approximately 15.5 years. The bonds and all other long-term debt obligations are secured by a lien on substantially all of Chugach's assets.

Chugach had a term loan facility with CoBank. Loans made under that facility were evidenced by promissory notes governed by the Master Loan Agreement, which was effective January 22, 2003. On January 19, 2011, Chugach and CoBank amended and restated the existing Master Loan Agreement. The existing obligations under the existing loan are evidenced by the 2011 CoBank Note, which is governed by the Amended and Restated Master Loan Agreement dated January 19, 2011 and secured by the Second Amended and Restated Indenture.

Fair Value of Debt Instruments

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

	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term obligations (including current installments)	$307,302	$315,401	$311,420	$330,358

(9) Employee Benefit Plans

Pension 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 $3.0 million, $3.0 million, and $2.9 million in 2010, 2009, and 2008, 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 $3.1 million, $2.1 million, and $1.8 million in 2010, 2009, and 2008, 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, 2010, 2009, and 2008 were $3.7 million, $3.4 million, and $3.5 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, 2010, 2009, and 2008 totaled $2.2 million, $2.1 million, and $1.9 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, 2010, 2009, and 2008 were $124.1 thousand, $99.7 thousand, and $91.8 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 $16,500, $16,500, and $15,500 in 2010, 2009, and 2008 respectively, and allowed catch-up contributions for those over 50 years of age of $5,500, $5,500, and $5,000 in 2010, 2009, and 2008 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, 2010, 2009 and 2008 was $395,833, $345,792 and $264,427, respectively.

Potential Termination Payments

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

(10) 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 percent share, or 27.4 megawatts as currently operated, of the project's capacity. The share of Bradley Lake indebtedness for which we are responsible is approximately $33 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 percent. Upon default, Chugach could be faced with annual expenditures of approximately $5.3 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 ratemaking process.

On July 1, 2010, AEA issued $28,800,000 of Power Revenue Refunding Bonds, Sixth Series, for purposes of refunding $30,640,000 of the Fifth Series Bonds. The refunded Fifth Series Bonds were called on August 2, 2010. The refunding resulted in aggregate debt service payments over the next eleven years in a total amount approximately $3.3 million less than the debt service payments which would have been due on the refunded bonds. Refunding the Fifth Series Bonds resulted in an economic gain of approximately $2.4 million. Chugach's share of these savings will be approximately $714,300, which represents the reduction in debt-service costs recorded as purchased power expense.

The following represents information with respect to Bradley Lake at June 30, 2010 (the most recent date for which information is available). Chugach's share of expenses was $5,120,958 in 2010, $5,152,716 in 2009, and $4,746,965 in 2008 and is included in purchased power in the accompanying financial statements.

(In thousands)	Total	Proportionate Share
Plant in service	$ 191,550	$ 58,231
Long-term debt	101,424	30,833
Interest expense	6,393	1,943

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

(11) 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 percent), MEA (16.7 percent) and Anchorage Municipal Light & Power (AML&P) (53.3 percent).

Plant in service in 2010 includes $2,386,571, net of accumulated depreciation of $996,593, which represents Chugach's share of the Eklutna Hydroelectric Plant. In 2009 plant in service included $2,397,677, net of accumulated depreciation of $898,649. 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 $664,747, $615,060, and $886,261 in 2010, 2009, and 2008, respectively and is included in power production and depreciation expense in the accompanying financial statements. AML&P performs major maintenance at the plant. Chugach provides personnel for the daily operation and maintenance of the power plant, who perform daily plant inspections, meter reading, monthly report preparation, and other activities as required.

(12) Commitments, Contingencies and Concentrations

Contingencies

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

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 expired in 2010. The 180 BCF commitment for the 2025 contracts is expected to run out in early 2011. The RCA approved a gas supply contract between Chugach and ConocoPhillips Alaska, Inc. and ConocoPhillips, Inc. (collectively "COP"), effective August 21, 2009. The new contract provides gas beginning in 2010 and will terminate December 31, 2016. The total amount of gas under the contract is now estimated to be 62 BCF. The RCA approved a new long-term natural gas supply contract with MAP effective May 17, 2010. The new MAP contract will provide gas beginning April 1, 2011, terminating March 31, 2013. MAP has two contract extension options that can be exercised during the first year of the initial contract. MAP extended the contract to December 31, 2013, by exercising the first contract extension on January 12, 2011. The second contract option could be exercised by December 31, 2011, and would extend the contract through December 31, 2014. The total amount of gas under contract is estimated at 26 billion cubic feet (BCF) for the initial two year term of the contract with volumetric and delivery terms to be determined for each contract extension period that could provide up to an additional 16 BCF through December 31, 2014. These contracts fill 100 percent of Chugach's unmet needs through December 2013, approximately 50 percent of Chugach's unmet needs through December 2014, approximately 60 percent in 2015 and approximately 29 percent in 2016. In 2010, 89 percent of our power was generated from gas, compared to 90 percent and 91 percent in 2009 and 2008 respectively. Of that gas-fired power, 78 percent was generated at Chugach's Beluga Power Plant in 2010 compared with 83 percent in 2009 and 76 percent in 2008.

In 2010, fuel was purchased directly primarily from Marathon Oil Company, Chevron/UNOCAL, AML&P and COP. The following represents the cost of fuel purchased from these vendors as a percentage of total fuel costs for the years ended December 31:

	2010	2009	2008
Marathon Oil Company	24.1%	44.6%	49.7%
Chevron/UNOCAL	26.4%	20.9%	19.1%
AML&P	14.2%	16.7%	15.4%
ConocoPhillips (COP)	35.1%	17.8%	15.8%

Concentrations

Approximately 70 percent 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. We also have an agreement with the Hotel Employees and Restaurant Employees (HERE). All agreements were due to expire on June 30, 2010. On February 24, 2010, the Board of Directors approved three year extensions of all three IBEW CBA's. The three extensions provide no wage increase in the first year and wage increases tied to changes in the Consumer Price Index (CPI) in the second and third years, with a floor on the minimum increase and a cap on the maximum increase. The wage increases also have an indirect connection to Chugach's financial performance. The contract extensions expire on June 30, 2013. On April 28, 2010, the Board of Directors approved a three year extension of the HERE agreement. The extension contains an increase in the employer health and welfare contribution in each year of the extension but does not provide for a wage or pension increase. The contract extension expires on June 30, 2013.

Chugach is the principal supplier of power under long-term wholesale power contracts with MEA and HEA. These contracts represented $89.1 million or 35 percent of sales revenue in 2010, $112.6 million or 39 percent in 2009, and $104.6 million or 37 percent in 2008. The HEA contract expires January 1, 2014, and the MEA contract expires December 31, 2014. Non-renewal of these contracts could have a negative impact on the rates charged to other Chugach customers. Notification was made by MEA and HEA that neither organization intends to renew these contracts, however, MEA has recently advised Chugach that it desires to open discussions regarding power sales possibilities beyond 2014. All rates are established by the RCA.

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 $0.000552, effective July 1, 2010. 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.

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 percent 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 $726,209 and $0 for this surcharge at December 31, 2010 and December 31, 2009, 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.

New Clean Air Act regulations impacting electric utilities may result from future events or may result from new regulatory programs. On October 30, 2009, the EPA published new federal regulations requiring the mandatory reporting of greenhouse gases from all sectors of the economy. Chugach is subject to this new regulation, which is not expected to have a material effect on our results of operations, financial position, and cash flows. While we cannot predict whether any additional new regulation would occur or its limitation, it is possible that new laws or regulations could increase our capital and operating costs. We have obtained or applied for all Clean Air Act permits currently required for the operation of our generating facilities.

Chugach is subject to numerous other environmental statutes including the Clean Water Act, the Resource Conservation and Recovery Act, the Toxic Substances Control Act, the Endangered Species Act, and the Comprehensive Environmental Response, Compensation and Liability Act and to the regulations implementing these statutes. We do not believe that compliance with these statutes and regulations to date has had a material impact on our financial condition 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.

Generation Commitments

Chugach is in the process of developing a natural gas-fired generation plant on land owned by Chugach near its Anchorage headquarters. SPP will be developed and owned by Chugach and AML&P as tenants in common. Chugach will own and take approximately 70 percent of the new plant's output and AML&P will own and take the remaining output. Chugach will proportionately account for its ownership in the SPP. On November 17, 2008, Chugach executed a gas turbine purchase agreement for the purchase of three gas turbines with General Electric Packaged Power (GEPP). During 2009 Chugach executed several amendments associated with its purchase agreement with GEPP, which included the purchase of a spare engine for maintenance purposes. Chugach executed an Owner's Engineer Services Contract on May 12, 2009. On January 5, 2010, Chugach executed a Services Contract for the shipment of the combustion turbine generators and related accessories. On February 25, 2010, Chugach purchased land adjacent to its Anchorage headquarters for the laydown of equipment displaced by the new power plant. On April 13, 2010, Chugach executed a steam turbine generator (STG) purchase agreement. On June 18, 2010, Chugach executed an Engineering, Procurement, and Construction (EPC) contract with SNC-Lavalin Constructors, Inc. (SLCI). On August 27, 2010, Chugach executed a Once Through Steam Generator (OTSG) equipment contract with Innovative Steam Technologies (IST). Chugach amended the contract for transportation of combustion turbine generators on September 28, 2010, to include transportation of the steam turbine generator. On December 20, 2010, Chugach received a construction permit from the Alaska Department of Environmental Conservation allowing the project to begin construction in spring of 2011 as planned. On March 15, 2011, Chugach received its initial building permit from the Municipality of Anchorage. Chugach made payments of $74.3 in 2010 and $25.0 million in 2009, with additional payments of $153.7 million expected in 2011, pursuant to all these contracts.

(13) Quarterly Results of Operations (unaudited)

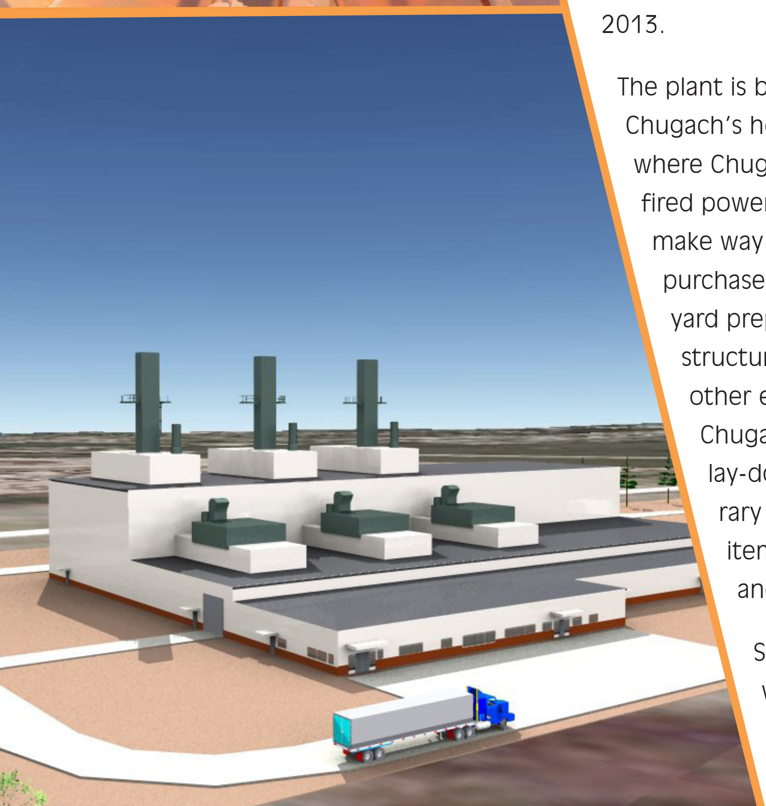
2010 Quarter Ended

	Dec. 31	Sept. 30	June 30	March 31
Operating Revenue	$73,895,221	$58,274,912	$59,444,167	$66,711,045
Operating Expense	65,584,673	55,445,222	55,716,842	57,220,464
Net Interest	5,015,213	4,949,813	5,023,767	5,016,905
Net Operating Margins	3,295,335	(2,120,123)	(1,296,442)	4,473,676
Nonoperating Margins	753,600	110,850	98,250	94,863
Assignable Margins	$ 4,048,935	$(2,009,273)	$(1,198,192)	$4,568,539

2009 Quarter Ended

	Dec. 31	Sept. 30	June 30	March 31
Operating Revenue	$74,025,693	$63,565,392	$69,239,153	$83,417,070
Operating Expense	64,737,009	60,092,648	65,798,407	74,244,513
Net Interest	5,013,421	5,122,410	5,164,488	5,306,030
Net Operating Margins	4,275,263	(1,649,666)	(1,723,742)	3,866,527
Nonoperating Margins	577,889	140,868	61,508	111,701
Assignable Margins	$ 4,853,152	$(1,508,798)	$(1,662,234)	$3,978,228

Power Supply



Top: Chugach performed an inspection on a turbine bearing on Beluga Unit 6.

Middle: Chugach replaced a steel plate inside a high pressure steam drum, part of the Beluga Unit 6 boiler.

Bottom: An artists rendering of the Southcentral Power Project.

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

Chugach began preparation to build one of its largest projects after years of planning, the Southcentral Power Project (SPP). The $369 million SPP is a joint project between Chugach and Municipal Light & Power (ML&P) to construct a 183-megawatt, combined-cycle gas-fired power plant that will be owned by the utilities 70/30, respectively. The project will have three natural gas-fired turbine-generators, plus a steam turbine-generator that makes power from the hot exhaust of the gas units.

SPP will be a highly efficient plant, using only about three-fourths of the gas to make a kilowatt-hour compared to the system average today, with an expected fuel cost savings for Chugach and ML&P customers of about $30 million for 2013.

The plant is being built on land at Chugach's headquarters complex, where Chugach has operated a gas-fired power plant since 1964. To make way for the plant, land was purchased and a new operations yard prepared to store Chugach's structures, transformers and other equipment. In addition, Chugach prepared an SPP lay-down parcel for temporary storage of construction items, equipment staging and construction parking.

SNC-Lavalin Constructors was awarded the SPP engineering, procurement and construction contract. Construction will occur primarily in 2011 and 2012, with start-up at the end of 2012 and commercial operation at the beginning of 2013.

Chugach performs yearly major maintenance projects on the utility's generation units. In 2010 those projects included annual inspections, combustion inspections, a major overhaul of Bernice Power Plant Unit No. 3, and a hot gas path inspection on Bernice Unit No. 4.

Chugach completed installation of a new SCADA Energy Management System in January of 2010. The new system, which uses current technology, replaced one installed in the late 1990s. The system is used by dispatchers and engineers to manage Chugach's Transmission, Generation and Distribution Operations. The project was a joint effort with ML&P, which also replaced their SCADA Energy Management System.

In addition to replacing the SCADA system, Chugach replaced the original Uninterruptible Power Supply (UPS) system for the SCADA installed at the headquarters building in the early 1980s. The UPS is a battery bank and power inverter that keeps the SCADA system energized for several hours in the event of a loss of power. Due to the importance of the SCADA system, a UPS is critical to ensure that there is a constant source of power. The UPS is a backup not only for SCADA but also for Chugach's Information Services computers. The IS equipment supports all of Chugach computers, including the customer information system, billing systems, company financials and work management programs.

Power Delivery

Power Delivery is responsible for delivering safe and reliable power from the generators to Chugach's members through its Engineering, Substation & Line Operations functions. Chugach has a great record of responding to restore power with a well-trained work force. In addition, work continues to improve overall reliability and minimize outages through various maintenance and construction activities.

Chugach uses a comprehensive reliability-centered maintenance program, including predictive maintenance techniques and technology, to find and repair defective equipment before a failure. One effort in 2010 was at the Sand Lake Substation where significant overheating was detected in a piece of equipment. Follow-up testing showed indications of internal arcing. A transformer load tap changer was removed from service and replaced before a failure caused an outage. Following oil testing, Chugach crews installed a dry-out system on a transformer at the O'Malley Substation. The system separates and removes water from the mineral oil used as an insulating medium in the transformer, helping to prevent premature equipment failure.

Cable injection projects continued as Chugach saw a significant increase in failures for cable installed in the 60s, 70s and 80s. Crews rehabilitated nearly four miles of cable in 13 subdivisions across the Anchorage Bowl, at a cost of about $584,000. Chugach continues to identify and select cables for rehabilitation with an average of 7-10 projects each year. Injecting cables averaged about $17 per foot compared to an average of $142 per foot for cable replacement.

Chugach continued its aggressive line clearing program in 2010. Using $250,000 of a $400,000 grant funded primarily by from the Federal Emergency Management Agency, Chugach cleared trees along about five miles of the Hope Highway right of way. Crews removed unhealthy or dead trees that had the potential to fall on the power line and cause an outage. Through its regular clearing program Chugach cleared 193 miles of distribution line that included nearly the entire Hope area, as well as some areas in the Anchorage Bowl. Transmission lines were included in the clearing project for 2010, with 30.6 miles being cleared between the Hope Substation and the Cooper Lake Power Plant. Chugach was given a permit to clear about a mile of line in Powerline Pass that had not been cleared for years at the same time Chugach repaired a damaged structure.

Chugach continued to be responsive to the needs of its newest members, providing 429 new residential service installations. Chugach also completed 132 commercial service installations.

In order to meet future needs, work continued on a new switchyard that will be built in conjunction with and provide a link to the Southcentral Power Project. The International Substation switchyard, adjacent to the project, will feed power to Chugach's 138-kilovolt system and Municipal Light & Power's 115-kilovolt system. By the end of the year, the final design and permitting for the substation improvements were underway and all of the major equipment had been ordered. Construction will start in 2011, with completion in 2012.

Top: Chugach installed a dry-out system on a transformer at the O'Malley Substation to help prevent premature equipment failures.

Middle: Chugach substation crews performed routine breaker maintenance.

Bottom: Chugach contractor crews assembled an H-frame crossarm on the Seward transmission line repair project.

The Finance division is responsible for Chugach's accounting, finance, regulatory affairs and risk management functions.

During 2010, the Finance division worked hard to obtain attractive long-term financing that would ensure the replacement of $270 million of bullet debt maturing in early 2011 and 2012. In addition, a $300 million commercial paper backstop facility was renewed to support the interim financing of the Southcentral Power Project (SPP) being constructed at Chugach's headquarters complex. Chugach has been able to borrow interim funds at or around 0.30 percent throughout much of 2010 as well as financing 20-year and 30-year long-term debt at a weighted interest rate of 4.57 percent. The success of these financing activities is the direct result of Chugach's solid financial performance.

In addition, Chugach was successful in obtaining pre-approval of a significant portion of the construction costs associated with the SPP from the Regulatory Commission of Alaska (RCA). In October, the RCA concluded "it is in the public best interest to provide cost recovery assurance" to Chugach, allowing Chugach to include in future rates $197 million in costs associated with three principal contracts to build the power plant as soon as the plant becomes used and useful. The advanced approval enhanced Chugach's credit quality and was a significant factor for Chugach in the refinancing of its 20-year and 30-year long-term debt.

Top: Regulatory Affairs and Finance worked closely together to oversee Chugach's financial health.

Middle: Chugach members registered at the 2010 Annual Meeting and Election.

Bottom: Chugach employees participated in the Anchorage Chamber of Commerce Clean-up Day.

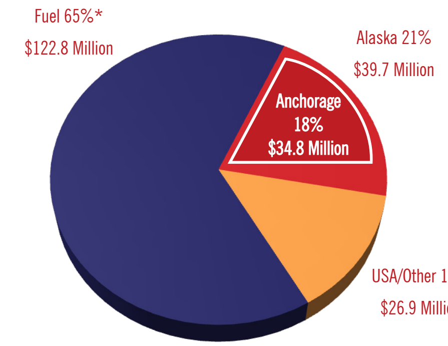
In November, the RCA materially accepted base rate changes for the combined 2008 Test Year General Rate Case and the Revision to Current Depreciation Rates. As a result of the RCA accepting settlement agreements and their final ruling in the case, Chugach issued refunds to the wholesale customers during the fourth quarter. A plan to issue interim rate refunds to retail customers was approved by the RCA prior to year end and approximately $185,000 was refunded in the first quarter of 2011.

Chugach's Finance division is an active participant in the Natural Gas Storage Cost Recovery Docket which came before the RCA in 2010. At a hearing in November, Cook Inlet Natural Gas Storage Alaska (CINGSA) requested a Certificate of Public Convenience and Necessity (CPCN). The commission, at the conclusion of this process, issued a CPCN to CINGSA. In early 2011, the commission held a hearing and issued an order on rate calculations and processes. The storage facility is expected to be operational in 2012.

Throughout the first half of the year, Chugach worked with the RCA on its request for approval to implement the Simplified Rate Filing (SRF) process for the adjustment of base energy and demand rates in accordance with Alaska statutes. The purpose of SRF is to streamline the rate adjustment process through routine filings that update underlying cost and sales information utilizing commission-approved ratemaking methodologies. In July, the RCA issued an order granting Chugach's request to implement the SRF process for rate adjustments on a semi-annual basis. Chugach's initial SRF was filed in September and resulted in a 0.2 percent system base rate reduction effective Nov. 15, 2010.

Administration is responsible for Chugach's Administrative Services, Information Services, Member Services, and energy efficiency and conservation functions.

Chugach's 2010 procurement of goods and services totaled $189.4 million. Of that, $122.8 million – 65 percent of the total expenditures – was for fuel for power production. Of the remaining $66.6 million, Chugach spent $39.7 million in Alaska, with $34.8 million being spent within the local Anchorage economy. Goods and services include materials and supplies for routine operations and maintenance, major maintenance, capital projects, the cost of utilities and professional services.



*Includes fuel used to run Nikiski No. 1

A lobby remodel to better serve customers and improve traffic flow was the outcome of Chugach employees doing a business process redesign based, in part, upon member traffic that increased more than 5 percent in 2009. Construction started in March and in July Chugach celebrated a grand re-opening complete with a ribbon-cutting ceremony.

Chugach launched its SmartPower energy efficiency program in 2008. In 2010, Chugach expanded the program and recruited about 90 volunteers to participate in an energy efficiency research project called "Watt Busters." Participants used on-site energy monitors to provide an understanding of their usage and show where they could lower their energy use. Thirty commercial building customers of Chugach and Municipal Light & Power used a commercial component to monitor electric, gas and air quality systems.

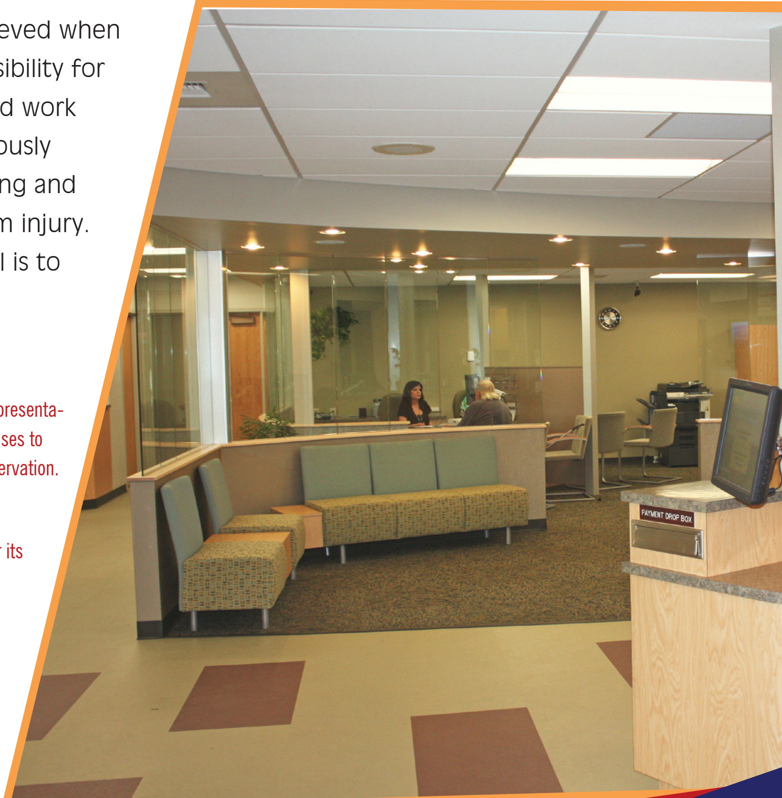
An outreach program to the Anchorage School District used presentations by Chugach employees to educate students on lighting and conservation. Focusing on fourth grade classes, students were encouraged to bring in incandescent holiday lights and exchange them for light-emitting diode (LED) light strands. The outreach was part of the SmartPower program that Chugach continues to expand. Classes competed for prizes for the students as well as an energy audit of their school.

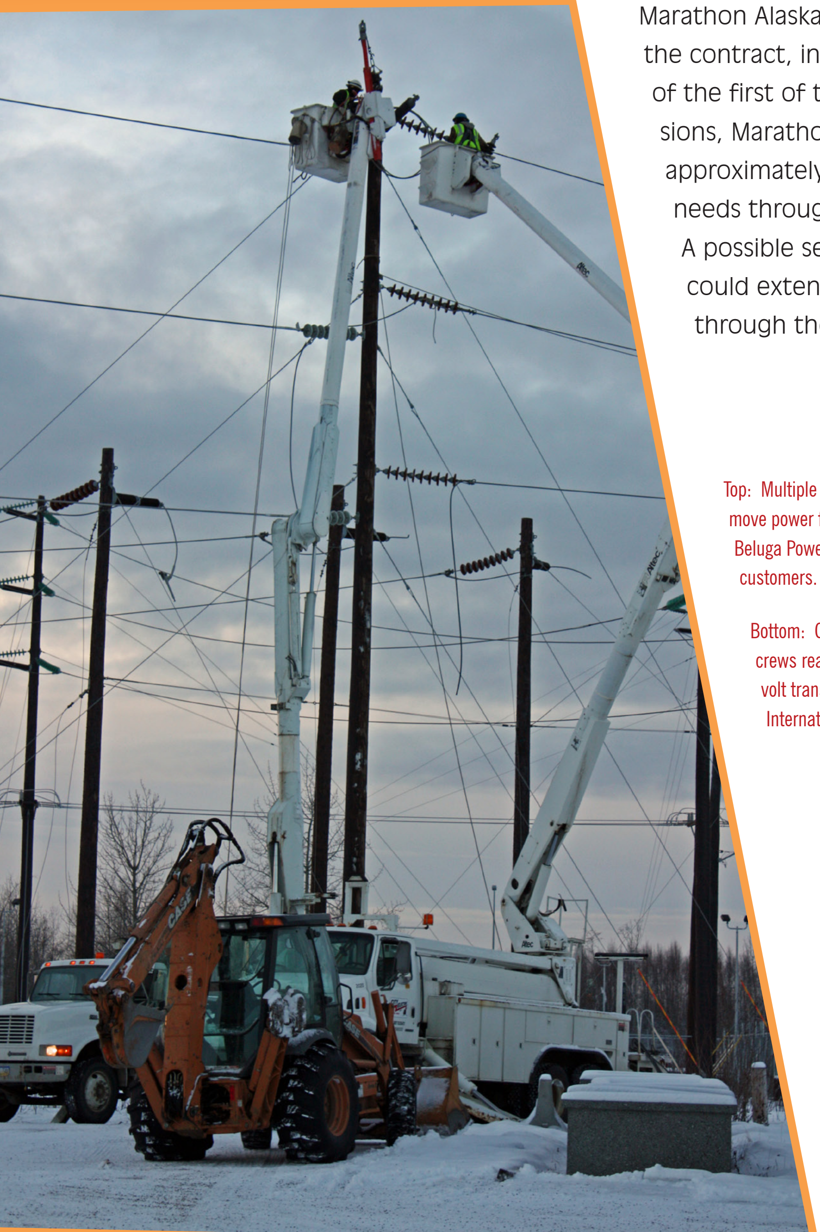
In 2010, Chugach achieved its best safety record in years by having only two lost-time injuries. This record can only be achieved when employees take responsibility for their personal safety and work in a manner to continuously assess what can go wrong and protect themselves from injury. Chugach's ongoing goal is to have zero injuries.

Top: Chugach participated in several presentations to Anchorage School District classes to educate students on lighting and conservation.

Middle: Chugach continued its SmartPower program with an open house for its members.

Bottom: Chugach's Member Services lobby underwent a major renovation.





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

Gas supplies are a topic of concern for Railbelt utilities, and Chugach continues to look for ways to minimize the use of gas while seeking ways to work renewable energy into the electrical grid.

In 2010, Chugach negotiated, and the Regulatory Commission of Alaska approved, a new gas contract with Marathon Alaska Production. With the contract, including the approval of the first of two possible extensions, Marathon will now meet approximately half of Chugach's needs through December 2013. A possible second extension could extend the contract through the end of 2014. The Marathon contract complements one with ConocoPhillips that provides gas into 2016.

In looking for renewable energy projects for its members and the Railbelt, Chugach analyzed the economics and integration challenges of the proposed Fire Island wind project to negotiate for satisfactory pricing and operational characteristics, and developed relationships and maintained communications with active renewable energy developers. In addition, Chugach helped advance a prospective "right sized" hydro project on the Susitna River. Chugach also prepared and submitted three Alaska Energy Authority renewable energy grant applications, all of which were recommended for at least partial funding totaling nearly $1.7 million. Grants will be awarded in 2011 if funded by the legislature and governor.

Chugach negotiated an economy energy power sales agreement with Golden Valley Electric Association. The agreement calls for Chugach to provide Golden Valley with a minimum of 20 megawatts of power for a 3-year period with an option to extend the agreement for an additional two years. These economy energy sales contribute about $4 million annually toward operating and maintenance expenses and margins.

In 2010 Chugach used the Internet as the primary means to distribute annual reports to its members. In an effort to offer another option for members to participate in elections, Chugach and other cooperatives achieved a change in state statutes to allow for electronic voting, and the board approved its use for the 2011 election.

Top: Multiple transmission lines move power from Chugach's Beluga Power Plant to Railbelt customers.

Bottom: Chugach contract crews realigned a 138-kilovolt transmission line at the International Substation.

Chugach uses various generation resources to ensure reliable, affordable power. Chugach has 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-fired unit at Nikiski. In 2010, 89 percent of the kilowatt-hours Chugach sold came from natural gas units and the other 11 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	1976		79.2
No. 7	1978		80.1
No. 8	1981		53.0
		TOTAL	385.00

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

Cooper Lake

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

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

Eklutna

Located along the Knik River and jointly owned with Municipal Light & Power and Matanuska Electric Association. Chugach's share is 30 percent, up to an 11.7-megawatt maximum. Units are hydro turbines.

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

International

Located off International Airport Road in Anchorage; units are natural gas combustion turbines.

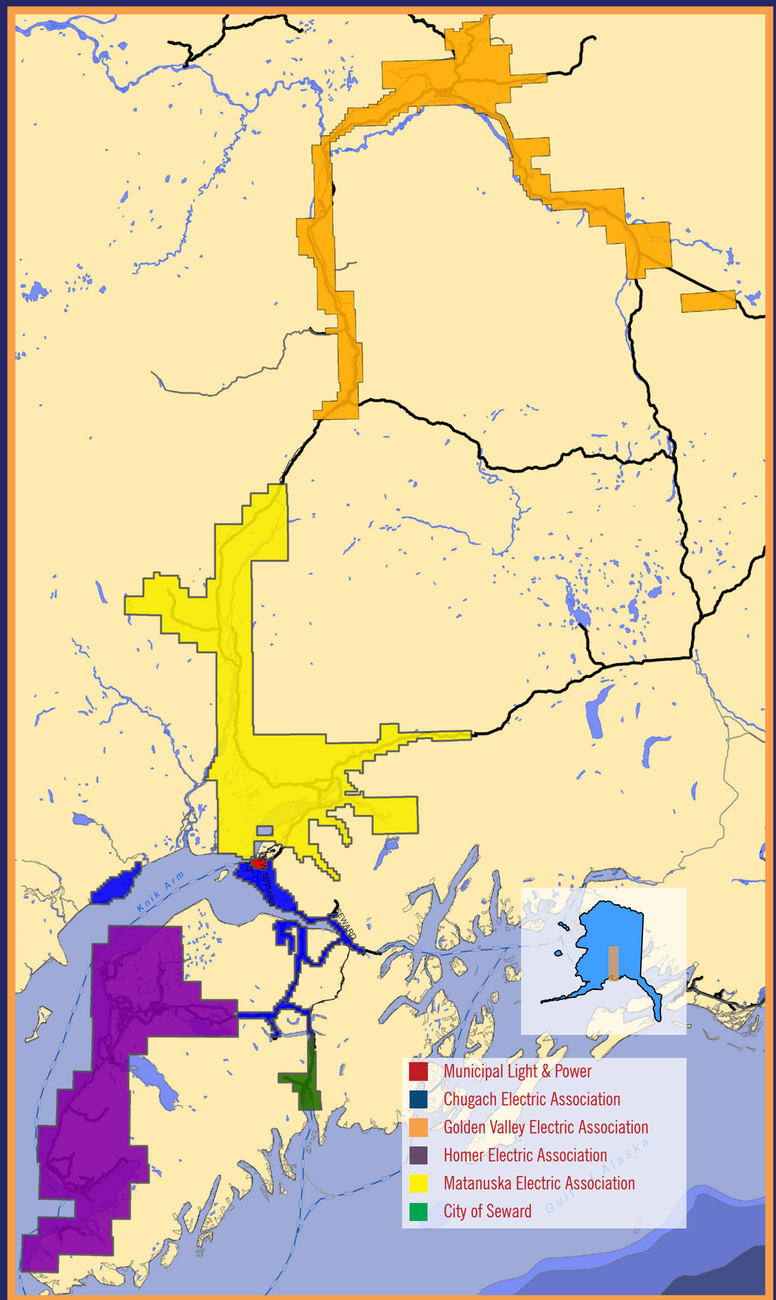
Units	Commissioned		Power Rating (megawatts)
No. 1	1964		14.1
No. 2	1965		14.1
No. 3	1969		18.5
		TOTAL	46.7

The Railbelt

Chugach power flows to nearly three-fourths of Alaska's population. Chugach serves 81,339 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, Municipal Light & Power.

Chugach owns 530.1 megawatts of installed generation capacity at five power plants. Chugach operates 2,232 miles of energized line. Chugach has 539 miles of transmission line – that includes 128 miles of leased transmission lines and Chugach's share of the jointly-owned Eklutna transmission line. Chugach also has 914 miles of overhead distribution line and 779 miles of underground distribution line.

Chugach set its 2010 system peak load on Dec. 21, when demand hit 454 megawatts in the hour ending at 6 p.m. The temperature at the time at Chugach headquarters was zero degrees. Power sales for the year totaled 2.7 billion kilowatt-hours.



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