HIGHLINE ELECTRIC ASSOCIATION
ANNUAL MEETING OF MEMBERS
March 28, 2023

The Annual Meeting of the members of Highline Electric Association was held at the Phillips County Events Center, Holyoke, Colorado at 6:30 P.M. on March 28, 2023.

President Michael Bennett called the meeting to order. Attorney Williamson recorded the minutes of the meeting.

INVOCATION

Al Smith of the First Baptist Church of Holyoke gave the invocation.

PLEDGE OF ALLEGIANCE

President Michael Bennett led the members and guests in the Pledge of Allegiance.

DETERMINATION OF QUORUM

President Michael Bennett reported that there were 175 members registered for the meeting and that is sufficient to constitute a quorum for conducting any business that may come before the meeting including the election of Directors.

INTRODUCTION OF DIRECTORS AND GUESTS

Director Lueck introduced the members of the Board of Directors, their spouses, and guests.

NOTICE OF ANNUAL MEETING

Secretary Merlin Prior read the Notice of the Annual Meeting of Members and proof of publication and mailing.

MINUTES OF THE 2022 ANNUAL MEETING

It was properly moved, seconded, and carried that the reading of the minutes of the Annual Meeting of Members held March 29, 2022 be waived and that they be approved as written.

ELECTION OF DIRECTORS

Attorney Williamson reported that there were three vacancies on the Board of Directors. There are two vacancies in District 1 and one vacancy in District 2. Pam Stieb and Brad Stromberger, incumbents, filed the only petitions for District 1. Aaron Sprague, incumbent, filed the only petition for District 2. Williamson introduced the members nominated for the vacancies. He explained that because there was only one candidate for each vacancy, a voice vote would be appropriate. It was properly moved, seconded, and carried that the nominees for the vacancies on the Board of Directors be elected to that office to serve for a term in accordance with the bylaws of the Association.

MANAGER’S REPORT

President Bennett introduced Highline General Manager Dennis Herman. Manager Herman thanked members for coming to the Annual

Meeting. Herman introduced the Highline employees and thanked them for their service to the Cooperative.

Herman introduced Highline's Chief Financial Officer, Jim Jackson. Jackson presented the 2022 Financial Report.

Highline purchased 529,533,755 kWh in 2022. The vast majority, 523,575,466 kWh, was from Highline's power supplier, Tri-State Generation and Transmission. 2,279,807 kWh were purchased from a waste heat recovery project. 3,628,689 kWh were generated from Highline's solar generation subsidiary company. The total purchases were an increase of 65 million kWh compared to 2021. Highline's sales and purchases of electricity are highly dependent on weather, which compared to 2021 was hotter.

The Cooperative sold 494,775,616 kWh, an increase of 65 million kWh from 2021. Irrigation accounted for the largest share at 59.1% of the total kWh sold. Large Commercial followed with 23.1%, residential 13.4% and small commercial 4.4%.

Operating Revenues for 2022 were $55,589,977, which is an increase of $4.4 million compared to 2021. The increase in revenue is mainly due to increased sales in the irrigation class due to weather being hotter than 2021. Highline's major lender, the Rural Utilities Service, allows Highline to defer revenue in years of exceptionally strong margins and recognize the deferred revenue in subsequent years. In years 2018 and 2019 Highline recognized $300,000 and $1,000,000 respectfully of deferred revenue.

Highline's operating margins in 2022 were $184,255 after the deferment of $2 million of revenue. Margins in the year 2021 were $283,491 with no adjustment for deferred revenue. Highline's operating margins in 2020 were $1,699,074 before the deferment of $1.7 million in revenue and a negative $926 after deferment of revenue. In 2019 Highline had a negative $1,934,906 of operating margins before the recognition of $1,000,000 of deferred revenue, making operating margins a negative $934,906. In 2018 Highline had a negative $162,828 operating margins, and a positive $137,172 after the recognition of $300,000 in deferred revenue. In 2017 Highline had operating margins of $150,716.

Deferring revenue and still having a negative operating margin in years 2019 and 2020, Highline was still able to meet all mortgage requirements. The most stringent of these requirements is OTIER, or operating time's interest earned ratio. OTIER is a function of interest on long term debt, operating margins, and cash received from Tri-State for capital credit retirements. Highline's mortgage requires that OTIER, when averaged over two years, remains above a minimum level.

Highline's operating margins are generated from the sale of electricity to the members. There are other, non-operating margins that Highline receives from cooperatives in which Highline is a member. Tri-State represents Highline's largest investment in other cooperatives.

Highline's total margins for 2022 were $723,511. This is comprised of: the Highline generated operating margins of $184,255 and $326,867 that were generated by memberships in Tri-State, Western United, CoBank and CFC, and $212,388 in interest and other non-operating income.

In 2022 the Board of Directors approved a capital credit refund that included 100% of outstanding Highline capital credits from 2006 and 100% of the outstanding Tri-State capital credits from 2001, for a total general retirement of $1,454,429.

The following is a summary of Highline's capital credit allocations and refunds since 1948:

Highline has accrued capital credits over $113 million. Highline has refunded to estates $7 million and the general refund in 2022 was $1,454,429. Refunds in prior years were $50.4 million, which including last year's retirement, totals $51.8 million returned to members since 1948.

Highline's members' capital credit balance is $54.3 million, of which $13.9 million is comprised of equity in Highline, and $40.4 million represents equity in Tri-State and other cooperatives.

Highline is currently on a fifteen-year retirement cycle for Highline capital credits and as Tri-State retires capital credits to Highline, Highline retires those back to the membership.

Highline ended 2021 with $11,122,914 in cash and investments, an increase compared to 2021. This increase was mainly due to increased sales in the irrigation class and, similar to 2017, 2018, and 2020, drawing down on loans while the interest rate was favorable.

Highline ended 2022 with an equity level of 44.6%. Equity measures the extent that members have financed plant in lieu of borrowed capital.

The cooperative has 5,173 miles of line and 10,988 meters, which averages a little over two meters per mile of line. The national average for cooperatives is six meters per mile of line. Highline is a rural system, a mature system, and a slow growing system. These factors require rebuilding or replacing distribution plant as it reaches the end of its useful life.

In a fast-growing system, much of the system plant is new. In a mature system like Highline, Highline budgets for upgrades and rebuilds to maintain reliable service to the members.

Highline's utility plant ended the year valued at $118 million, which is a $3.5 million increase over last year. In the last six years Highline has spent $13.4 million to maintain or rebuild the system plant to meet members' needs.

Although Highline didn't add to the total miles of line in 2022, Highline did do a lot of maintenance work. Highline installed or changed out 1,098 poles, 48,320 feet of Overhead conductor, 10,360 feet of underground conductor, 136 overhead transformer and 20 underground transformers. Highline also replaced numerous other items such as insulators, anchors, arrestors, and other smaller items to continue providing reliable electric service.

In 2021, a member, on average, experienced outages throughout the year which lasted in total 97.5 minutes. As a comparison, for 2021, the national average was 208 minutes of outages, so Highline is far below that average. The year 2022 shows that

Highline had an average outage time of 125 minutes per member, an increase over 2021.

The cost to maintain Highline’s plant and make sure electricity is available was 18% of Highline’s total expenses in 2022. Depreciation and interest were another 10%, and Highline’s cost of wholesale power was 72% of Highline’s expenses last year.

Jackson recognized Highline’s employees for working safely. Highline’s last lost-time accident was in 2016. Highline was awarded a safety achievement award and safety accreditation award from Highline’s National Safety program, recognizing Highline’s dedication to providing a safe work environment.

Dennis Herman gave his General Manager’s report.

As a borrower of the Rural Utilities Service, which is the successor of the Rural Electrification Administration, through the US Department of Agriculture, Highline is eligible to participate in the Rural Economic Development Loan and Grant, or REDLEG, program. REDLEG is really two distinct programs: the Rural Economic Development Loan Program and the Rural Economic Development Grant Program. The loan program allows Highline to borrow funds and reloan them to an ultimate recipient for economic development purposes. When the loan is repaid to Highline, Highline repays the USDA. The grant program functions the exact same way up until the point when the ultimate recipient repays the loan to Highline. Under the grant program, these funds remain at Highline and establish a revolving loan fund that can then be used to fund other economic development projects. Highline had two successful grant applications under the program to help fund the Crook Fire and Community Hall in 2007 and the Melissa Memorial Hospital in Holyoke in 2006. Highline just completed a third application under the REDLEG program that will provide funding to the main street clinic for the Haxtun Hospital District. The result of these three projects together is a revolving loan fund with over $1 million available to fund local economic development projects. Today, there are six loans outstanding with a combined principal balance of $268,000.

Highline now offers loans to members for the purpose of implementing energy efficiency improvements through the USDA’s Rural Energy Savings Program. This program provides loan funds for a variety of energy efficiency upgrades ranging from building envelope improvements to high efficiency appliances. Loan terms include interest rates as low as 3% and terms up to ten years. Loan payments are added to your monthly electric bill. It is the goal of the program that the energy savings from the improvement more than offsets the amount of the loan payment. More information and loan applications are available on our website at www.hea.coop.

Recent enhancements to Highline’s Beneficial Electrification and Efficiency Rebate program include the addition of outdoor power equipment and electric vehicle charger installation rebates. The outdoor power equipment rebates are available for electric mowers, snow blowers, leaf blowers, chainsaws, pruners, trimmers, pressure washers and bicycles, including a rebate of up to $1,000 for electric riding mowers. Another recent addition is a rebate of up to $375 for a highly efficient heat pump water heater. This rebate can be combined with available tax credits.

Highline utilizes over 170 miles of 69,000-volt transmission lines to deliver power to several substations throughout the service territory. Highline is in the process of replacing a significant portion of this line including 17 miles near Sterling. Highline is also planning to replace seven miles of this high voltage line near Champion. Work on this replacement will take place over the next few years.

Highline is not immune to the supply chain issues and inflationary pressures that are impacting everyone. Lead times have increased dramatically for almost everything Highline buys from vehicles to poles and transformers. Highline is working with material suppliers in an attempt to work through these challenges with minimal operational disruptions.

Highline is taking steps to increase physical security at its facilities in response to recent copper thefts in the area and attacks on substations around the country. Initial steps include the installation of video surveillance equipment.

Working together with Tri-State and the Colorado Energy Office as partners, Highline completed the installation of an electric vehicle DC fast charging station at the Wagon Wheel Conoco in Julesburg last year. Through the use of internal batteries, the charger connects to Highline’s grid as a 20-kW load and is then able to deliver a 150-kW charge to a vehicle. This technology reduces Highline’s wholesale power costs as well as the infrastructure investment needed to serve the charging station.

Highline purchased its first all-electric fleet vehicle last year with the acquisition of a Ford Lightning pickup. The pickup has a range of 300 miles. Members are invited to kick the tires and get behind the wheel of the Lightning.

The passage of the Infrastructure Investment and Jobs Act, or IIJA, and the Inflation Reduction Act, or IRA, over the last few years has established a number of new grant programs and tax credits that Highline is eligible to apply for that can be used to upgrade its electric system. Highline staff has worked to identify funding streams within the IIJA and IRA and eligible infrastructure projects within the service territory. The National Rural Electric Cooperative Association, or NRECA, is Highline’s national organization and they have been organizing cooperatives together across the country to apply for these grant programs.

Highline has joined together with other coops through this partnership to submit grant applications to assist with the upgrade of the electric infrastructure, including: reclosers, metering infrastructure, system operation software, transmission line replacements and distribution line replacements.

In addition to these grid upgrade projects, Highline is evaluating the feasibility and economic viability of distributed solar projects across the service territory. Between grant funds and loan forgiveness programs, distributed generation projects offer an economic opportunity.

Highline is currently monitoring two important bills at the Colorado legislature. The first of these bills would create a resource adequacy reporting requirement for any electric utility that serves meters within the state. Resource adequacy is an industry term that just means that as an electric utility you have to complete the planning to ensure that you have the generation necessary to serve your load. This bill is necessary because not all load serving utilities in the state have a resource adequacy requirement today, and it would begin to level the playing field for those entities. This is especially concerning as one utility that fails to plan adequately can have a negative impact on the entire grid.

SB23-198 addresses a somewhat similar issue. This bill would set targets for all utilities in the state to meet for greenhouse gas reductions in future years. Herman is generally supportive of both bills as they tend to extend requirements that have applied to Tri-State to other utilities in the state. There is always a risk, however, that one bad amendment could drastically change the intent and impact of the bill.

There continue to be a few lingering issues at Tri-State that have the potential to have a large impact on Tri-State and, by extension, Highline.

Two of the biggest unresolved issues at Tri-State hinge on the outcome of two dockets at the Federal Energy Regulatory Commission, or FERC. When Tri-State came under FERC regulation they filed a process and a formula to calculate the termination payment that any Tri-State member would have to pay to exit their contract early. All of Tri-State's utility members have all-requirements contracts with terms expiring in 2050. The methodology that Tri-State proposed to calculate this termination payment has been heavily contested and litigated at the commission. A hearing was held in front of one of the commission's administrative law judges who issued an opinion. Unfortunately, this interim decision left many questions unanswered. The commission is expected to issue their final decision in this docket this year. Regardless of the outcome of the commission's decision, it is likely that it will get appealed to the courts.

This decision has the potential to have a large impact on Highline. If the ultimate decision allows members to exit Tri-State without paying a fair contract termination payment, it could result in upward rate pressure for Highline and the other remaining members of Tri-State. As of now, three Tri-State members have given the required two-year notice of their intent to leave Tri-State.

There is a second docket pending at FERC that would determine the buy down payment amount that a member must pay if they wish to self-supply a portion of their load above the 5% self-supply limit that is allowed in the contract. This case, which poses the same risks to Tri-State and remaining members, will go to hearing before an administrative law judge within the next few months.

Each Tri-State member appointed a representative to serve on a rate design committee. This committee met monthly for over a year to thoroughly vet all of the components of Tri-State's rate to the members. The result of the committee's work was a rate recommendation that was made to the Tri-State board. The Tri-State board will review the recommendation from the committee for the next few months and ultimately submit a rate design to the FERC. This new rate will go into effect in January of 2024. It is very likely that a handful of Tri-State's members will protest the rate design, resulting in what will ultimately be a multi-year process before the rate is finalized. The rate, as it is currently being considered, would be based on the 2024 budget. This, along with a few of the changes recommended by the rate design committee, are likely to affect Highline's cost of wholesale power.

Highline's wholesale cost of power was 72% of Highline's expenses for 2022, which amounts to $40 million. Any wholesale rate increase is going to have an impact on Highline's retail rates.

Deferred revenue is an accounting mechanism, approved by Highline's lenders, that allows Highline to set revenue aside into an approved account in years when it is not needed to meet Highline's mortgage covenants then bring it back, or recognize it, in years when Highline doesn't have adequate revenue.

Highline has utilized deferred revenue extensively over the last few years resulting in $4.4 million set aside. The advantage of this process is that Highline can use it to offset upcoming rate increases.

While it's too early to tell, it's possible that Highline could see a 10% rate increase from Tri-State next year due to the combination of the new rate design and general inflationary pressures. While 10% is possible, that it is a worst-case scenario.

With the deferred revenue, Highline can smooth the impact of a 10% rate increase and spread the impact out over several years. While the situation will continue to change and evolve, Highline's projection right now is that Highline will need a 2% rate increase in 2024 after deferred revenue is utilized.

Herman answered members' questions from the floor.

<u>SCHOLARSHIPS</u>

President Bennett reported that Highline will award several scholarships this year to graduating seniors in Highline's service territory. These are funded through unclaimed and discounted capital credits. This year's winners were:

$1,000 Basin Electric-Member Cooperative Consumer:
Amber Lambert of Sterling High School

$1,000 Renewable Highline Electric Association:
Ethan Schneller of Holyoke High School
Jack Willeke of Otis High School

$1,000 Highline Electric Association:
Monte Cook of Merino High School
Kyra Hernandez of Caliche High School
Nolan Japp of Fleming High School
Kally Kirkwood of Fleming High School
Elise Krogmeier of Holyoke High School
Ana Lockard of Lonestar High School
Seth Marick of Caliche High School
Alex (Lexi) Schafer of Fleming High School

$500 Tri-State G&T/Highline Electric Association:
Tanner Gerk of Caliche High School
Alyssa Lock of Haxtun High School

DRAWING FOR PRIZES

Drawings for prizes were conducted and HEA Board Members delivered prizes to each winner in the audience. The grand prize of $2,500 was not awarded because the member whose name was chosen randomly, Darin Kipp, was not present.

ADJOURNMENT

There being no further business to come before the meeting, the meeting was adjourned.

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President Secretary

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