

HIGHLINE ELECTRIC ASSOCIATION
ANNUAL MEETING OF MEMBERS
March 26, 2019

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 26, 2019.

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

INVOCATION

Father Jerry Rohr 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 240 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

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

MINUTES OF THE 2018 ANNUAL MEETING

It was properly moved, seconded and carried that the reading of the minutes of the Annual Meeting of Members held March 20, 2018 be waived and that they be approved as written.

ELECTION OF DIRECTORS

Attorney Williamson reported that there were four vacancies on the Board of Directors. There was one vacancy each in Districts 1, 2, 3, and 4. Leo Brekel, incumbent, filed the only petition for District 1. Steve Oestman, incumbent, filed the only petition for District 2. Ted Carter, incumbent, filed the only petition for District 3. Merl Miller, incumbent, filed the only petition for District 4.

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.

INTRODUCTION OF 2018 WASHINGTON YOUTH TOUR DELEGATE

Jessie Heath introduced the winner of the 2018 Washington D.C. Youth Tour, Lauren Bergner, Holyoke High School. Lauren gave a presentation with the aid of pictures from her trip. She thanked Highline for the experience.

2018 YOUTH CAMP

Jessie Heath introduced the student participants at the Rural Electric Leadership Camp at Clark, Colorado, near Steamboat Springs, Colorado. They were Karsen Blochowitz, Revere High School, Jordan Nail, Revere High School, Kassidy Porter, Holyoke High School, and Brooke Stromberger, Caliche High School. Heath played a video of Elijah speaking about his experience. The students spoke about their experiences at the camp and presented pictures of their trip. They thanked Highline for the opportunity.

MANAGER'S REPORT

President Bennett introduced Highline General Manager Mark Farnsworth. Manager Farnsworth thanked members for coming to the Annual Meeting. Farnsworth introduced the Highline Staff.

Farnsworth thanked employees for their efforts every day in providing service to Highline members and showed a picture of Highline linemen working during a storm.

Farnsworth introduced Dennis Herman. Herman presented the Financial Report.

Highline purchased 519,445,311 kWh in 2018 from Highline's power supplier, Tri-State G&T. This was up 37 million kWh compared to 2017.

Highline sold to members, 487,614,787 kWh, an increase of 40 million from 2017. Large commercial accounted for the largest share of kWh purchases with 42.2% of the kWh sold. Irrigation followed with 41%, residential at 12.6% and small commercial with 4.2% of the kWh sold.

Operating Revenues for 2018 were \$55,068,493 which is an increase of \$2.8 million over 2017. The increase in revenue is due to the increase in kWh sales to Highline's oil and gas customers. The Rural Utilities Service allows Highline to defer revenue in one year and recognize it in subsequent years. In 2018, Highline recognized \$300,000 of the \$2,000,000 in revenue that Highline had deferred in 2013 and 2015. Highline's current budget calls for \$1.5 million of the remaining deferred revenue to be recognized this year, and the remaining \$200,000 to be recognized in 2020.

Highline's operating margins in 2018 were (\$162,828) before the recognition of deferred revenue, and \$137,172 after the recognition. With this operating margin, Highline was able to

meet all Highline's mortgage requirements. The most stringent of these requirements is OTIER, or operating time's interest earned ratio. Highline's mortgage requires that Highline's OTIER, when averaged over two years, remains above a minimum level. Highline's operating margin in 2018 was enough to keep Highline in good standing with Highline's lenders.

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

Highline margins for 2018 were \$2,395,973. This is comprised of: the Highline generated operating margins of (\$162,828); the deferred revenue recognition of \$300,000; \$1,818,059 that were generated by Highline's memberships in Tri-State, Western United, CoBank and CFC, and \$440,742 in interest and other non-operating income. The bottom-line margin of \$2,395,973 is allocated to members as capital credits.

In 2018 the Board of Directors approved a capital credit refund that included 100% of outstanding Highline capital credits from 2003, 84% of outstanding Highline capital credits from 2004, 100% of the outstanding Tri-State capital credits from 1995 and 65% of the outstanding Tri-State capital credits from 1996 for a total general retirement of \$2,175,429. Highline also retired estates totaling \$136,141 in 2018 for a total of \$2,311,771 retired to Highline's members.

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

- Highline has accrued capital credits of over \$109 million.
- Highline has refunded \$6.1 million to estates over this time period. Highline's general refund in 2018 was \$2,311,771.
- Refunds in prior years were \$40.2 million.
- \$48.7 million has been returned to Highline's members since 1948.

Highline's Members' capital credit balance is \$59 million, of which \$15.5 million is comprised of equity in Highline and \$43.6 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 returns that money to Highline's members through retiring Tri-State capital credits.

Highline ended 2018 with cash and Investments of \$13.5 million.

Highline continues to maintain a strong balance sheet. Highline ended 2018 with an equity level of 51.2%. Equity measures the extent that members have financed plant in lieu of borrowed capital.

Highline built 7.4 miles of new line in 2018. Highline has 5,168 miles of line, 10,444 meters and averages two meters per mile. 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. That requires rebuilding or replacing distribution plant as it reaches the end of its useful life.

Highline's utility plant ended the year valued at \$105.3 million, which is a \$600,000.00 increase over last year. In the last 6 years Highline has spent \$13 million to maintain or rebuild Highline's system plant to meet the members' needs.

The cost to maintain Highline's plant and make sure electricity is available was 16% of Highline's total expenses in 2018. Depreciation and interest were another 9% and Highline's cost of wholesale power was 75% of Highline's expenses last year. What happens at the generation and transmission level with Tri-State has a very large impact on the bill Highline sends to its members.

Mark Farnsworth gave his General Manager's report.

Farnsworth reviewed Highline's DART, or Days Away, Restricted or Transferred, rate.

Highline takes reliability very seriously. In 2018 Highline had several weather-related outages, more than prior years. Highline had power available 99.5% of the time. Highline's five-year average is 99.98%.

While Highline can't control the weather, Highline is constantly updating Highline's system to provide better service. In 2018 Highline rebuilt the towns of Ovid and Crook, hired a contractor to inspect over 7,000 distribution and transmission poles and replaced 107 of those poles. That increases the life of that line for another 10 to 20 years. Highline also rebuilt nine miles of line in 2018. Highline identifies projects to rebuild on a yearly basis to keep the system up-to-date.

Highline is also upgrading the sectionalizing of Highline's power lines. Highline will have completed or will complete in 2019, 20 of Highline's 23 distribution substations. Highline is installing new or rebuilt breakers on Highline's system that open in the case of a fault. Highline put breakers on the line so only a small segment of line would shut down instead of all 20 miles. With new services and increased loads in Highline's service territory Highline is working constantly on improving reliability.

Farnsworth reviewed the status of Highline's AMI metering system buildout. Highline is building an interconnected communication system with Y-W Electric Association, Inc. to provide redundancy for Highline's member-owners as part of Highline's shared services agreement. When the AMI system is built out Highline will read all of Highline's meters from the office. This will increase Highline's efficiency and provide better service.

With AMI, Highline now can see an outage when it happens and, in some cases, can roll a truck before members even know they lost electricity. In the case of a storm the AMI mapping system will show the outages which will help Highline to determine where Highline needs to start looking for problems.

Highline's AMI system only knows if a member has electricity and what the usage is. Highline doesn't know, and doesn't care, how you are using the electricity in your home or business.

Tri-State, Highline's power supplier is 75% of Highline's expenses. Tri-State has had no rate increases the last two years and is projecting flat rates for the next three years. That has helped Highline to keep rates steady in 2018 and 2019.

Highline has not increased rates to cover Highline's internal costs in the last five years, the rate increases Highline has had were to cover the increased cost of power from Tri-State. In those five years the CPI has increased by 7.5%. Highline's employees have worked hard to control costs. Highline sees potential upward rate pressures for 2020 because of inflation and potential legislation in the Colorado Legislature.

Highline had a couple of events in 2018 that changed Highline's assets and increased Highline's cash more than budgeted. Tri-State merged with two other G&T's over the years. Because of those mergers there were some inequities in member costs. To address those inequities, Highline sold Highline's 115kV transmission line and substation transformers to Tri-State. The net book value of those assets was \$1.9 million.

Highline was serving an area in Dundy County that was in Southwest Public Power District's service territory. Some of those services were from the 1980's. Southwest built new line and requested that those services be transferred back to them. The depreciated cost of those assets was \$245,000. When added to the Tri-State transfer, a total of \$2.2 million was added to cash in 2018.

The new Farm bill allows Highline to pay down some high interest Federal Financing Bank notes that Highline had not been able to prepay in the past. Highline has placed those into what is called the Cushion of Credit program and will prepay \$4.3 million. That will reduce Highline's blended interest rate to approximately 3.19%, more than a percent lower than Highline's blended interest rate in 2014.

Highline applied for and received financing from the USDA's Rural Energy Savings Program. The government shut down has delayed the funds arrival, but Highline is confident that Highline will soon have the funds available. The program will allow members to make energy efficiency improvements such as windows HVAC equipment, LED lighting and appliance upgrades to your home or businesses.

In 2018, Highline's Trailblazer waste heat site netted \$149,000 for Highline and \$2.4 million since inception.

Highline currently has 32 member-owners with net metering sites. As net metered renewable systems are added behind the meter the subsidization of these systems by the other members of Highline grows. This subsidization will need to be addressed by legislation in the near-term in Colorado and Nebraska. Highline also offers green power credits to Highline's members who do not want to build their own renewable energy systems but want to support renewable energy.

Highline is pursuing a 1.5 Megawatt utility-scale solar project next to Highline's Platte substation near Sterling. The project is scheduled to be completed in the fourth quarter of 2019 and is projected to save \$750,000 over the life of the project.

Highline takes very seriously the responsibility of providing power to Highline's member-owners. It's more complex than what you hear on the news. Farnsworth showed a graph showing the duck curve in California. What it shows is that as roof-top or behind the meter solar comes on during the daylight hours the load that needs to be supplied by the utility drops. There is a need for 14,000 plus Megawatts of electricity to keep the lights on as the sun sets.

On this day California met the 14,000 megawatts needed to keep the lights on. Of the power needed, California imported 36% whose source is not identified. They used hydro for 15% of the need and thermal provided 49% of the 14,000 megawatts needed. Thermal is coal or natural gas fired power plants. The utility is required to have those 14,000 megawatts available when the sun sets.

Farnsworth showed a slide that shows the impact of renewable energy on a distribution system feeder line. If this was on a Highline power line, Highline would need to meet the needs of Highline's member-owners when solar is not generating. That means Highline's power supplier needs to keep enough generation spinning to provide when renewable energy disappears from the grid. Tri-State still must have backup power available in case of periods with no renewable generation. What is the cost for providing that backup generation? Can you use batteries behind your meter? Yes, but there is still the same problem as with utility-scale battery technology. You will be charging those batteries when the sun is shining. If it's cloudy you are not charging the batteries or providing the power needed for your home or business. One option being utilized is to charge those batteries at night using hydro, natural gas or coal generation when costs are lower.

Renewables are getting cheaper. Batteries will become more efficient and there will be new technology in the future to address these issues. It's complex and there are no easy answers currently. As Highline's business model evolves it is Highline and Tri-State's job to keep the power available and affordable for Highline's members.

Tri-State has been in the news lately and has not been getting positive press. One of the complaints is that Tri-State has not embraced renewable energy. In 2007, Tri-state had 17% renewables and 58% coal in their resource mix. In 2018, Tri-State had 32% renewables and 47% coal. What no one says is that this is the highest percentage of renewables by Colorado utilities or other G&T's across the nation. Tri-State has two new projects that when completed will jump their renewable energy percentage to 35%. Other utilities are getting the press. Tri-State is delivering.

This being Farnsworth's last Annual Meeting as General Manager, he told the members the following:

As many of you know I will be retiring in the middle of this year. You have a solid Board of Directors and great employees whose goals have not changed and will not change as a new General Manager takes over.

It has been a pleasure and a great honor to serve you over the last 16 and a half years. While I haven't made everyone happy, I will miss this job, the Board, employees and the members. Thank you for the opportunity to serve you. I

would like to say thank you to my wife Sheryl, she has stuck through thick and thin, grumpy and not so grumpy.

Farnsworth thanked members for attending the meeting and took questions.

SCHOLARSHIPS

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:
Reid Kaiser of Sterling High School

\$1,000 Renewable Highline Electric Association:
Elijah Meakins of Haxtun High School
Kaylee Camblin of Holyoke High School

\$1,000 Highline Electric Association:
Kathleen Masters of Sterling High School
Brooklyn Bohler of Sterling High School
Dawson Knode of Haxtun High School
Kinlie Lewis of Caliche High School
Alexia Hernandez of Caliche High School
Joey Gerk of Haxtun High School
Brooke Sigmon of Fleming High School

\$1,000 Highline Electric Association Lineman's School:
Colby Purkeypile of Holyoke High School

\$500 Tri-State G&T/Highline Electric Association:
Paul Brophy of Yuma High School
Kenzie Grauberger of Caliche 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, Gordon Thomas, was not present.

ADJOURNMENT

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

President

Secretary