

EXTERNAL AFFAIRS/MEMBER RELATIONS/COMMUNICATIONS AND PUBLIC AFFAIRS

1. Safety

- a. There was one Restricted Workday case and one Non-Lost Time injuries/illnesses in November. The Non-Lost Time illness was an employee that contracted COVID and it was traced back to TS Headquarters which then becomes reportable to OSHA.

2. Environmental and Regulatory Activities

- a. For November 2021, 27 air, water, and waste areas environmental compliance reports were submitted to the Colorado Department of Public Health and Environment (CDPHE), New Mexico Environment Department (NMED) and the Environmental Protection Agency.
 - i. November was a lighter month for reporting.
- b. Agency inspections.
 - i. The CDPHE did an on-site inspection at Rifle Station
 - ii. There was an on-site Facility Response Plan inspection and Government Initiative Unannounced Exercise drill conducted by the EPA at Knutson Station, Knutson Station was found to be in compliance with the federal regulations.

3. Government Relations

- a. The Government Relations report will be added to our drive as soon as I receive it.

4. Member Relations

- a. TS Member Relations activities report was provided.

5. Corporate Communications

- a. TS Corporate Communications activities report was provided.

6. Affiliated Organizations Reports

- a. CREDA – next meeting will be January 2022
- b. Mid-West – no report for December 2022

REGULAR BOARD MEETING, COMMITTEE MEETINGS

The December 2021 Regular Board and Committee Meetings were hybrid with 3 directors attending virtually. There was no press, a handful of Member's Staff and a director from Carbon Power & Light attending in-person. Carbon Power & Light is working on having each of their directors attend one TS Committee/Regular Board meeting to get an insight on TS.

Due to the short time between the TS and LPEA monthly Board Meetings this month, the December 2021 Meeting Highlights and the December 2021 Board Report might not be received before the deadline, (to be added to DirectorPoint), but will be added to our drive if received after the deadline.

Tri-State Board of Directors

December 2021 Meeting Highlights



2021 Patronage Capital Refund Approved

The Tri-State Board of Directors approved the payment of a patronage capital refund (or retirement) in the amount of \$10 million to the members. Patronage capital represents each member's ownership and investment in Tri-State, and is an accumulation over the years of the net margins allocated to the members. Including 2021, Tri-State has returned approximately \$140 million to its members over the past six years.

- Tri-State operates at cost – collecting enough revenue to operate and invest in capital projects – and when it has money left over, it's allocated back to our member as patronage capital. When all financial goals are met, the Board votes to return the patronage capital to members.
- The 2021 retirement maintains compliance with all indenture requirements and financial goals and is consistent with the Board's current financial plan.
- The patronage capital (\$10 million) comes from margins allocated to members in 2004.

2022 Budget and Long-Term Financial Forecast (LTFF)

Pat Bridges, CFO, presented the 2022 Capital and Operating Budgets and the 2022-2031 Long-Term Financial Forecast (LTFF) to the Board of Directors. The 2022 Budget and LTFF are a forecast that represents the revenues and expenditures necessary to achieve Tri-State's mission, values, objectives, and the implementation of our strategic initiatives. Both forecasts include the announced 4% wholesale rate reduction for utility members (2% in March 2021 with another 2% reduction coming in March 2022) that was agreed to by FERC, while meeting the targets of Tri-State's Responsible Energy Plan (REP).

- The Board approved the 2022 Capital and Operating Budgets, which will lower the Class A Rate by 2% in March 2022. Highlights of the budgets include:
 - After several years of being flat, the cost to operate the association (Operating Budget) will decrease to \$1.16 billion.
 - The operating budget achieves the financial goals established by the Tri-State Board to ensure continued financial strength of the association.
 - The capital expenditures budget of \$138M reflects a \$40M decrease from the 2021 capital expenditures budget, while continuing to ensure system reliability.
- The 2022 LTFF projects income, expenses, margins, and rates for the next 10 years and is based on numerous assumptions regarding the future (many provided by outside sources). Although it is based on what Tri-State believes are the best estimates available at the current time, actual results are likely to vary from the forecasts. Highlights of the LTFF include:
 - Class A Rates were flat between 2017-2020 and then lowered in 2021. The LTFF assumes our rates will decrease a total of 4% by 2022 and remain flat through 2028. This is achieved through the recognition of previously deferred revenue.
 - In 2028, the LTFF reflects the need to begin building significant new generation and transmission resources to implement the Responsible Energy Plan. Significant cost reductions and other operational alternatives are being considered to mitigate the future rate pressure and maintain stable rates. These mitigating factors are not yet reflected in the forecast.
 - The LTFF also recognizes the implementation of the partial requirements open season, which resulted in the allocation 203MW of self-supply capacity to three members
 - As in previous years, variables influencing the forecast include: operational costs; fuel and purchased power costs; capital expenditures; member, non-member and market sales; and use of deferred revenue.
- Tri-State understands that reducing rates is a priority for the association and will continue to work to ensure members are competitively positioned to provide energy at the most affordable price possible.

Transmission Expansion in Eastern Colorado

Joel Bladow, SVP Transmission, and Chris Pink, Vice President Transmission Engineering, presented a proposed plan to enhance Tri-State's transmission capabilities in Eastern Colorado. The plan would make room for new generation resources proposed in Tri-State's Responsible Energy Plan, increase reliability in the region and further integrate transmission capabilities between Wyoming, Colorado and New Mexico.

- Bladow and Pink explained to the Board the limitations and future needs for transmission in Eastern Colorado. The existing system cannot handle the amount of renewable resource additions needed to support Tri-State's Responsible Energy Plan.
- Staff evaluated several transmission alternatives, including participation in Xcel's Colorado Power Pathways project, and concluded the best and least-cost approach was to invest approximately \$240M in incremental upgrades to Tri-State's existing system.
- The Board was receptive to this approach and will be asked to approve the plan in the upcoming months.

This month's highlights

- 2021 Patronage capital refund
- 2022 Budget and Long-Term Financial Forecast
- Transmission expansion in eastern Colorado
- Fiduciary duty and Wholesale Contract
- Legislative outlook for 2022
- Reg Rudolph named Chief Energy Innovations Officer
- Government Relations report
- Operations and financial performance
- Meetings and events

From the Chairman

The return of capital remains one of the many benefits of membership in our cooperative and of our business model. At this month's board meeting and after much discussion, the directors authorized the return of \$10 million in patronage capital to the membership, which was the amount set in the 2021 budget.

This month the board received fiduciary duty and wholesale electric service contract training. Understanding our fiduciary duties is critical to our cooperative board governance role, including how to manage the dual fiduciary duties to our distribution systems and to Tri-State. Our wholesale electric service contracts are central to our association and each member system. I believe it is important that we review these issues regularly for both our new and longer-serving directors. I appreciate the board's engagement on these matters, and please reach out to me, Tri-State counsel or your system's counsel with any questions or if ever you have any concerns.

We also discussed how the board directors can support ACRE, which helps engage candidates for office on both sides of the aisle that support electric cooperative interests. If you currently participate in ACRE, thank you. I encourage all of our directors to consider support for the ACRE program.

The last month has been busy, and I'm proud to have been able attend the ribbon cutting for the 200-megawatt Niyol Wind Energy Center in eastern Colorado. I also participated in Basin's well-attended 60th annual meeting, where the members welcomed new General Manager Todd Telesz.

In anticipation of the rate filing we will make at FERC in September 2023, we are forming a Rate Design Committee, which is under Board Policy 315. The committee includes Tri-State board directors, member system directors or member CEOs from each utility member. The first committee meeting will be held in February. I also want to thank Governance Review Committee Chair Thaine Michie and the members of the committee who continue their review of the role of the chairman and the board.

Our next strategic planning session will be held February 1-2. Staff has proposed topics including the Strategy Map and Responsible Energy Plan, RTOs, energy as a service, cost reduction, hydrogen development, formulary rates, federal legislation and FERC issues.

Finally, I want to congratulate Julie Kilty on her re-election to the Wyoming Rural Electric Association board.

To our board directors, fellow members and staff, may you and your families have a wonderful holiday and prosperous New Year. As I work to serve you as best I can, please do not hesitate to reach out to me at 575-430-2995 or tim.rabon@tristategt.org — *Tim*

From the CEO

I want to express my appreciation to the board for their diligent work in reviewing the 2022 consolidated budget and the 2022 Long-Term Financial Forecast. Notably, both Tri-State's operating costs and capital expenditures are decreased in 2022, even as we stay focused on reliably serving the needs of the members and fully implementing our 4% wholesale rate reduction in March 2022. As we look forward, we forecast flat rates through 2028 with the recognition of deferred revenue, and we will be focused on mitigating rate pressures beyond 2028. We continue to work through our cost reduction process, and I look forward to reporting our progress at our February strategic planning session.

The board received an important update from SVP Transmission Joel Bladow and his team on the transmission expansion in eastern Colorado that will be necessary to support our Responsible Energy Plan. Even as we consider how we can participate in a western regional transmission organization, these transmission additions will be critical to meet the members' goals.

Last week, I had the opportunity to go visit with the Transmission Maintenance teams working on critical maintenance on the Boone-Lamar line in southeast Colorado. Tri-State teams from all three transmission maintenance regions worked safely together, even through the Thanksgiving holiday, to get this important work done, as loads were lower and the weather was mild. I so greatly appreciate their dedication to serving the members, and each other.

I want to thank Barbara Walz and her Government Relations team for their preview of the 2022 legislative sessions. Our industry is greatly impacted by the actions of our elected officials, and I am proud to have such a talented team to represent our collective interests and educate our leaders on the value of our cooperative system.

I also want to recognize our teams that responded to a simulated attack on the grid as part of the national GridEx exercise last month. With cyber and physical security issues a growing concern, we continue to refine our processes and strengthen our defenses in response to potential threats.

For a few years now, we have been exploring how to expand the programs and services we offer our members through beneficial electrification, energy efficiency, local generation and demand response. We're taking a big step forward to advance this strategic priority with San Isabel Electric Association's CEO, Reg Rudolph, joining Tri-State in January as Chief Energy Innovations Officer. Reg will lead efforts on energy services that maximize economic and environmental value to our membership.

I look forward to seeing the member system CEOs at our meeting on January 18-19.

As the holidays draw near, I'm ever mindful and grateful for my colleagues at each member system, the leadership of our board, the talents of our Tri-State staff, and the love of our families. Have a Merry Christmas and Happy New Year. We are here to serve you, and if we can be of assistance, please contact me any time at 303-254-3535 or dhighley@tristategt.org — *Duane*

Operations and Financial Performance

October 2021 operations performance

- Coal fleet generation was 75% availability & 43% of total power supply.
- Gas and oil fleet generation were above budget and accounted for 6% of total power supply.
- Renewable generation accounted for 30% of total power supply and 40% of member load.
 - Tri-State had 559 MW of utility-scale wind and solar capacity. In October, the average capacity factor for these resources was 39%, with 364 MW (65% of potential output) available at Tri-State's peak.
- Other purchased power (unspecified) was 21% of total power supply.
- Member energy sales volumes were 7.3% under budget and non-member energy sales volumes were 136% over budget.

View the [Operations Report](#) on the directors' BoardBooks app and the Member Information Center.

October 2021 financial performance

- Member Electric Sales were 8.8% lower than budget, primarily due to the 2% rate reduction.
- Non-Member Sales were 197.4% above budget as Tri-State realized positive impacts of market conditions. On a per MWh basis, sales to non-members were higher than budgeted.
- Purchased Power was 40.3% higher than budget primarily due to increased natural gas costs and decreased generation from our steam generating stations.
- Fuel costs were 16.3% higher than budget primarily resulting from the combustion turbines producing energy at a greater amount than budgeted and an increase in natural gas prices.
- Transmission expense was greater than budget as additional transmission expense was incurred to move the power purchased.

View the [Financial Results](#) on the directors' BoardBooks app and the Member Information Center.

Board Update

2021 Patronage capital refund approved

The Tri-State Board of Directors approved the payment of a patronage capital refund (or retirement) in the amount of \$10 million to the members. Patronage capital represents each member's ownership and investment in Tri-State, and is an accumulation over the years of the net margins allocated to the members. Including 2021, Tri-State has returned approximately \$140 million to its members over the past six years.

- Tri-State operates at cost – collecting enough revenue to operate and invest in capital projects – and when it has money left over, it's allocated back to our members as patronage capital. When all financial goals are met, the board votes to return the patronage capital to members.
- The 2021 retirement maintains compliance with all indenture requirements and financial goals and is consistent with the board's current financial plan.
- The patronage capital (\$10 million) comes from margins allocated to members in 2004.

Based on members' current payment instructions, capital credit retirement payments will be processed on Dec. 16, 2021 and/or Jan. 20, 2022, with the default date being Dec. 16, 2021. Members may specify either date, or both to split the retirement payment.

- Members should contact Jeremy Koepf (ext. 3556), Chris Johnson (ext. 1338) or Andy Walls (ext. 7108) and follow-up with an email to CashGroup@tristategt.org on or before Dec. 13, 2021, at 5 PM MST to specify the date(s) to receive the retirement.
- Members participating in the Member Power Bill Prepayment program may also make a request for the retirement to be credited to the prepayment account on the same dates listed above.
- If prepayment is chosen, it will begin earning interest on the day the member's check would have been sent.

View the [Patronage Capital Refund presentation](#) on the directors' BoardBooks app and the Member Information Center.

2022 Budget and Long-Term Financial Forecast

Pat Bridges, CFO, presented the 2022 Capital and Operating Budgets and the 2022-2031 Long-Term Financial Forecast (LTFF) to the Board of Directors. The 2022 Budget and LTFF are a forecast that represents the revenues and expenditures necessary to achieve Tri-State's mission, values, objectives, and the implementation of our strategic initiatives. Both forecasts include the announced 4% wholesale rate reduction for utility members (2% in March 2021 with another 2% reduction coming in March 2022) that was agreed to by FERC, while meeting the targets of Tri-State's Responsible Energy Plan (REP).

- The board approved the 2022 Capital and Operating Budgets, which will lower the Class A Rate by 2% in March 2022. Highlights of the budgets include:
 - After several years of being flat, the cost to operate the association (Operating Budget) will decrease to \$1.16 billion.
 - The operating budget achieves the financial goals established by the Tri-State board to ensure continued financial strength of the association.
 - The capital expenditures budget of \$138M reflects a \$40M decrease from the 2021 capital expenditures budget, while continuing to ensure system reliability.
- The 2022 LTFF projects income, expenses, margins, and rates for the next 10 years and is based on numerous assumptions regarding the future (many provided by outside sources). Although it is based on what Tri-State believes are the best estimates available at the current time, actual results are likely to vary from the forecasts. Highlights of the LTFF include:
 - Class A Rates were flat between 2017-2020 and then lowered in 2021. The LTFF assumes our rates will decrease a total of 4% by 2022 and remain flat through 2028. This is achieved through the recognition of previously deferred revenue.
 - In 2028, the LTFF reflects the need to begin building significant new generation and transmission resources to implement the Responsible Energy Plan. Significant cost reductions and other operational alternatives are being considered to mitigate the future rate pressure and maintain stable rates. These mitigating factors are not yet reflected in the forecast.
 - The LTFF also recognizes the implementation of the partial requirements open season, which resulted in the allocation of 209 megawatts of self-supply capacity to three members.

- As in previous years, variables influencing the forecast include: operational costs; fuel and purchased power costs; capital expenditures; member, non-member and market sales; and use of deferred revenue.
- Tri-State understands that reducing rates is a priority for the association and will continue to work to ensure members are competitively positioned to provide energy at the most affordable price possible.

View the [2022 Consolidated Budget](#) on the directors' BoardBooks app and the Member Information Center.

View the [Long-Term Financial Forecast](#) on the directors' BoardBooks app and the Member Information Center.

Transmission expansion in eastern Colorado

Joel Bladow, SVP Transmission, and Chris Pink, Vice President Transmission Engineering, presented a proposed plan to enhance Tri-State's transmission capabilities in Eastern Colorado. The plan would make room for new generation resources proposed in Tri-State's Responsible Energy Plan, increase reliability in the region and further integrate transmission capabilities between Wyoming, Colorado and New Mexico.

- Bladow and Pink explained to the board the limitations and future needs for transmission in Eastern Colorado. The existing system cannot handle the amount of renewable resource additions needed to support Tri-State's Responsible Energy Plan.
- Staff evaluated several transmission alternatives, including participation in Xcel's Colorado Power Pathways project, and concluded the best and least-cost approach was to invest approximately \$240M in incremental upgrades to Tri-State's existing system.
- The board was receptive to this approach and will be asked to approve the plan in the upcoming months.

Fiduciary duty and Wholesale Electric Service Contract review

On a regular basis, staff holds educational sessions on topics of importance to the board. This month, Ken Reif discussed the fiduciary duties of a cooperative board member and the Wholesale Electric Service Contract (WESC), covering the following topics:

- The three duties of all cooperative directors, including: loyalty, due care, and not to usurp an opportunity of the cooperative;
- Fiduciary duty of dual directors on "overlapping" boards;
- The appropriate course of action when a director does not believe they can meet their fiduciary duties to both the distribution cooperative and Tri-State, which may include seeking legal counsel;
- The history of the WESC and how it has evolved;
- Tri-State's obligation to serve and members' obligation to purchase under the contract; and
- The association bylaws and how they impact the activities of Tri-State and its members.

View the [presentation](#) on the director's BoardBooks app and the Member Information Center.

Legislative outlook for 2022

Barbara Walz, Senior Vice President, Policy & Compliance, and the Tri-State Government Relations team provided their annual legislative briefing to the board. They previewed the upcoming legislative sessions, including the changes from redistricting, and provided a Congressional update.

View the [presentation](#) on the director's BoardBooks app and the Member Information Center.

Government relations report

The December [government relations report](#) can be found on the directors' BoardBooks app and in the Member Information Center.

Reg Rudolph named Chief Energy Innovations Officer

On Dec. 2, Tri-State announced that Reg Rudolph will join its senior leadership team in the newly created role of Chief Energy Innovations Officer. Rudolph will lead the development and implementation of competitive energy services that deliver value and optimize the interactions between consumers, the cooperative's 42 member distribution systems and Tri-State.

Rudolph brings to this role 30 years of electric utility experience, with 24 years as a distribution system CEO. For the past 13 years, he served in the role of chief executive officer at Tri-State member San Isabel Electric Association, where he created Empower, an energy services program that works with its consumers to develop customized solutions that maximize economic and environmental value. Rudolph brings a deep understanding of consumer and industry needs, adding perspective as Tri-State and its members plan for the future.

Read Tri-State's [press release](#).

Meetings and events

- January Committee and Board Meetings:
 - **All meetings are virtual in January**
 - Executive Committee – Mon, Jan. 3, at 3 p.m.
 - Engineering & Operations Committee – Tues., Jan. 4 at 8 a.m.
 - External Affairs & Member Relations Committee – Tues., Jan. 4 at 10:30 a.m.
 - Finance & Audit Committee – Tues., Jan. 4 at 1:30 p.m.
 - Board of Directors Meeting – Wed., Jan. 5 at 8:30 a.m.

- Member CEO Town Hall, Mon., Dec. 13 at 10 a.m., virtual
- Member CEO Meeting, Jan. 18-19, Tri-State Headquarters