

EXTERNAL AFFAIRS/MEMBER RELATIONS/COMMUNICATIONS AND PUBLIC AFFAIRS

1. Safety

- a. There was one Non-Lost Workday Cases in November 2022.
 - i. A Transmission South employee cut a finger on his right hand
- b. Due to the increase in safety issues, TS in implementing a revision to the safety program.

2. Environmental and Regulatory Activities

- a. For November 2022, 18 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.
- b. Agency inspections.
 - i. On-site air quality inspections were conducted by CDPHE at the New Horizon Mine and Rifle Station. TS complied with a records request following the inspection at New Horizon Mine.

3. Government Relations

- a. The Government Relations report can be found at the following link
https://drive.google.com/file/d/1lemzn7pO_Cgqe9tFPqZ2Ac4yNSj8vpgm/view?usp=share_link
- b. Evan Jurkovich (TS Senior Manager, Energy Policy and Federal Affairs) provided a report on the request for Information Response to the Rural Business-Cooperative Service and RUS dealing with the Inflation Reduction Act (IRA) Listening Session and Comments.

4. Member Relations

- a. TS Member Relations activities report was provided.

5. External Affairs Committee Report

- a. Reg Rudolph provided a written report on Energy as a Service.

6. Corporate Communications and Public Affairs

- a. TS Corporate Communications and Public Affairs activities report was provided.

7. Affiliated Organizations Reports

- a. Reports were given for the Statewides that had meetings since TS's last Board Meeting.

REGULAR BOARD MEETING AND COMMITTEE MEETINGS

This month the Committee and Board Meetings were in person.

The “**December 2022 Board Report**” is not included in the board documents due to not being received before the LPEA Board Docs deadline. It will be emailed out as soon as possible. The “Board Highlights” provided in the past will be combined with the Board Report and going forward the Board Highlights will be discontinued. Additional Tri State documents may be found in the Board Drive, please remember that these documents are confidential and may not be shared.

This month's highlights

- 2023 Capital and Operating Budgets approved
- \$10 million patronage capital refund approved
- Fiduciary duty and Wholesale Electric Service Contract review
- Direct assignments analysis to be provided to members
- Education Session on Organized Markets
- Procurement process overview
- Government Relations Report
- Meetings and Events

From the Chairman

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 2022 budget. The return of capital remains one of the many benefits of membership in our cooperative and of our business model. We also approved the 2023 budget, and in accordance with our stated rate settlement, wholesale rates to members are unchanged. With continued inflationary pressures, and despite strong efforts from staff to mitigate these pressures through focused cost-reduction efforts, we will continue to evaluate our comeback wholesale rate filing and whether it may be necessary to increase wholesale rates prior to 2024.

As has been our custom, in December the board received fiduciary duty and wholesale electric service contract training. It is critically important for directors to understand our fiduciary duties to our cooperative board governance roles, including how to manage the dual fiduciary duties to both our distribution systems and to Tri-State. It's also important, as we do our vital work, to understand our wholesale electric service contracts, which are central to our association and each member system. Please reach out to me, Tri-State counsel or your system's counsel with any questions or if ever you have any concerns about our fiduciary duties or questions about our contracts.

This month, the board discussed how to improve our board's monthly review of board policies. We are proposing a change to Board Policy 303 in January, which would create a 36-month review cycle, with more frequent review if needed, by a new Board Policy Review Committee consisting of four Tri-State directors, one from each of the standing committees. Policies requiring changes or requested by a member or director still would be brought to the appropriate review committee and then forwarded to the Board with a recommendation, when necessary. The new committee would review a smaller number of policies at one time and in greater depth, exploring questions such as the need for the policy, whether policies can be combined, and how we group, number and format policies. Charlie Abel, Mark Daily, Julie Kilty and Kohler McInnes have agreed to take up this work, and Julie Rech in our legal team will support the committee.

Cooperatives exist in a world that often is impacted by public policy. Our 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. If you have questions, please contact Amy Robertson or Bob Frankmore.

In the first week of January, Tri-State directors, presidents of our member system boards and member CEOs, and non-utility members should watch for the annual bylaw review memo, which will be from General Counsel Jay Sturhahn. Also note that our next meeting will be a virtual Board meeting only, without committees, and is scheduled for Jan. 10.

To our board directors, fellow members and staff, may you and your families have a Merry Christmas 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 its diligent work in reviewing the 2023 consolidated budget. The budget anticipates using the remaining deferred revenue, and the board was clear on its expectations that every effort needs to be taken to work within it, and continue to manage costs, so that we do not slide into negative margins or violate our financial goals.

I want to thank the Southwest Power Pool's (SPP's) Mike Ross, who presented to the board on SPP, its performance and the work it is doing in the West. We will continue to report on organized market issues monthly as we draw closer to a decision point next year on our participation in the expansion of the SPP regional transmission organization into the Western Interconnect.

We remain vigilant in protecting our critical infrastructure from physical or cyber threats, and are monitoring recent attacks on the electric system. Bulk power transmission organizations are a heavily regulated industry that strictly comply with all North American Electric Reliability Corp. (NERC) security standards. Substations and other grid equipment are assessed based on criticality, and then protected with security measures that match the risk. We work closely with federal, state and local partners to respond to security events, such as participating on the Electricity Sub Sector Coordinating Council (ESCC).

As part of my work with the ESCC, I am co-chairing its Wildfire Working Group. To allow blanket access to U.S. Forest Service (USFS) and Bureau of Land Management (BLM) land to facilitate utility right-of-way maintenance, we have been meeting with the USFS and BLM to promote the development of Master Special Use Permits (MSUP). There is a meeting next month in Washington, D.C. with BLM, the U.S. Department of Energy and White House leaders. To improve all of our work with BLM, I ask members to share with me any issues you have had with the agency and if any you might be willing to share those issues with our federal government partners at this meeting. NRECA will be coordinating the co-op message, but I would like to share your names with them if any of you are willing to tell your story.

We discussed with the board and Rate Design Committee our upcoming transmittal of direct assignment analysis information to each member, and we will discuss how we developed the assets for direct assignment with the member CEOs next week.

Following the passage of the cooperative provisions in the Inflation Reduction Act (IRA), we have been meeting with leaders in the U.S. Department of Agriculture to follow-up on potential funding and how the rules will be written to allocate funds that support the energy transition. We will pursue these funds in support of a cost-effective clean energy transition for our membership. We also want to ensure that Tri-State's early adoption of emissions reductions and plant closures, resulting in stranded assets, will be recognized in the rules. We submitted 18 pages of comments on the implementation of the IRA.

We continue to work for a process leading to an acceptable resolution with United Power. In recent meetings with our ratings agencies, their concern remains around the uncertainty on the contract termination payment, if it will cover a member's debt covenant obligation, and the potential for downgrades and that could affect our ability to borrow at competitive costs. We should get an answer from the FERC next summer, and we are working to make sure we can maintain our investment grade credit ratings.

I want to thank the Government Relations team for their preview of the 2023 legislative sessions. Our membership and Tri-State are greatly impacted by the actions of our elected officials, and we benefit from such a talented team that can represent our collective interests and educate our leaders on the value of our co-op system.

As we close out the year and 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 2022 operations performance

- Coal fleet generation was at 90% availability and 58% of total power supply.
- Gas and oil fleet generation were above budget and accounted for 4% of total power supply.
- Renewable generation accounted for 27% of total power supply and 32% of member load.
- Tri-State had 759 MW of utility-scale wind and solar capacity with an average capacity factor of 31%, with 130 MW (17% of potential output) available at Tri-State's peak.
- Other purchased power (non-renewable) was 11% of total power supply.
- Member energy sales volumes were 0.1% over budget and non-member energy sales volumes were 30.7% over budget.

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

October 2022 financial performance

- Non-member electric sales and other sales were 53.0%, higher than budget primarily due to selling excess power on the open market. Both term and spot market sales were greater than budget.
- Purchased Power was 8.7%, higher than budget primarily due to Other Purchases being over budget, offset by reduced renewable energy purchases. Other purchases were lower than budget; however, volume was higher than budget.
- Fuel and Production was 33.2%, higher than budget primarily due to higher natural gas prices on average at the non-coal fired units over budgeted price and the volume of fuel purchased was higher than budgeted.

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

Board Update

2023 Capital and Operating Budgets approved by board

Sarah Scherm, Senior Manager Financial Planning and Analysis, presented the 2023 Capital and Operating Budgets to the Board of Directors. The 2023 Budget is a forecast that represents the revenues and expenditures necessary to achieve Tri-State's mission, values, objectives, and the implementation of our strategic initiatives.

- The board approved the 2023 Capital and Operating Budgets. Highlights of the budgets include:
 - The cost to operate the association (Operating Budget) will increase to \$1.25 billion.
 - The capital expenditures budget of \$211M will fund the work needed to continue to ensure system reliability.
 - The budgets also anticipate the use of \$46M in deferred revenue, which results in a net margin of \$1.6M for the year.
 - The board also approved the waiver of Board Policy 503, Section A 1., to allow for a budgeted Debt Service ratio in 2023 of 1.1.

View the [2023 Consolidated Budget presentation](#) on the directors' BoardBooks app and the Member Information Center.

\$10 million patronage capital refund approved

At its December meeting, the Tri-State board authorized the retirement of \$10 million in patronage capital. 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 2022, Tri-State has returned approximately \$150 million to its members over the past seven 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.
- Board Policy 503 provides that the return of retained patronage capital in excess of the Equity to Capitalization Ratio (ECR) goal may be refunded so long as Tri-State maintains sufficient liquidity to cover cash needs of the company as required. Board Policy for ECR is 24%, and ECR is projected to be 25.67% with the \$10 million patronage capital refund.
- 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. 15, 2022, and/or on Jan. 19, 2023, with the default date being Dec. 15, 2022.

- Members may specify either date or both, should a member wish to split its retirement.
- 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, 2022, at 5 p.m. MST to specify the date(s) to receive your retirement.
- Members participating in the Member Power Bill Prepayment program also may 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 presentation](#) on the directors' BoardBooks app and the Member Information Center.

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, General Counsel Jay Sturhahn discussed the fiduciary duties of a cooperative board member and the Wholesale Electric Service Contract (WESC), covering the following topics:

- The fiduciary duties of all cooperative directors, including: loyalty, due care, and not to usurp an opportunity of the cooperative.
- The Fiduciary duty of dual directors on "overlapping" boards in the unique context of generation and transmission cooperatives and their constituent member distribution systems, with a director serving on the boards of directors of both the distribution system and the G&T.
 - Directors owe the same fiduciary duties to the distribution system and to the G&T. In most cases, the interest of both organizations align.
 - Under Colorado law, "the director owes fiduciary duties to both associations and shall not be required to give priority to a fiduciary duty the director owes to one association over the duties the director owes to the other association." C.R.S. § 40-9.5-110.5(2)(b)
 - The appropriate course of action, when a director does not believe they can meet their fiduciary duties to both the distribution system and Tri-State, which may include seeking legal counsel and/or recusal.
- The WESC discussion included the history of the WESC and how it has evolved, and Tri-State's obligation to serve and members' obligation to purchase under the contract. There was also a discussion of partial requirements membership.

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

Direct assignments analysis to be provided to members

Following an administrative law judge's initial decision on the four reserved issues at Federal Energy Regulatory Commission (FERC), Tri-State is evaluating radial facilities to determine if these facilities can be classified according to FERC standards as *integrated facilities*. Depending on FERC's decision, Tri-State could no longer automatically roll into its wholesale rate the costs of all radial lines and substations owned by Tri-State.

FERC has an *Any Degree of Integration Test*, where a radial facility need only meet one of the five Mansfield Factors to be considered integrated into a transmission provider's transmission system. Facilities that fail all five Mansfield Factors must be considered Direct Assigned.

Tri-State has assembled a team of engineering and technical staff to review each Member Delivery Point and associated assets.

- Staff has completed a portion of the direct assignment analyses and, in an effort to allow time for Member review, will start providing those to Members as they are completed.
- Staff will hold a technical session covering the analysis process in more depth at the Dec. 12 Member CEO Town Hall

View the [Direct Assignment presentation](#) on the directors' BoardBooks app and the Member Information Center.

Education Session on Organized Markets

The External Affairs/Member Relations Committee presented an education session on the Southwest Power Pool (SPP) and organized markets, with SPP Sr. Vice President, External Affairs and Stakeholder Relations Mike Ross providing an overview of the SPP's functions.

- Ross discussed how the mission of SPP and Tri-State are aligned, and how SPP's governance structure is similar to the cooperative model, with extensive members and stakeholder facilitation and a focus on reliability.
- The SPP regional transmission organization's (RTO) operating region includes 552,885 square miles, with 18 million people, 1,162 generating plants and 6,140 substations in its reliability coordinate footprint, and 70,025 miles of transmission.
- SPP's services include reliability coordination, balancing authority, transmission service/tariff administration, market operation, transmission planning and training.
- The SPP Western Reliability Coordination Service, which monitors the grid and coordinates regional responses to reliability, was launched in 2019, and includes many western utilities and transmission providers, including Tri-State, and provides services in areas of Arizona, Colorado, Montana, Nebraska, New Mexico, South Dakota, Utah and Wyoming.
- SPP operates several markets, including:
 - Transmission Service: Participants buy and sell use of regional transmission lines that are owned by different parties.
 - Integrated Marketplace: Participants buy and sell wholesale electricity in day-ahead and real-time.
 - Day-Ahead Market commits the most cost-effective and reliable mix of generation for the region.
 - Real-Time Balancing Market economically dispatches generation to balance real-time generation and load, while ensuring system reliability.
 - Western Energy Imbalance Service (WEIS) Market: Contract-based, real-time balancing market in the western interconnection (as of Feb. 1, 2021). Tri-State was an initial member of the WEIS.

- SPP identifies annual savings of \$1.4 billion in its integrated marketplace, with the lowest wholesale energy costs in the nation (\$30/MWh), with the facilitation of renewable energy production from 3,000 MW in 2009 to 30,000 MW today.
- In the West, the WEIS energy imbalance market (EIM) was launched in 2012, and provides efficient real-time energy dispatch and savings. The WEIS launched with seven participants, including Tri-State, Basin, Deseret G&T Cooperative, Municipal Energy Agency of Nebraska (MEAN) and several WAPA regions. Colorado Springs Utilities has joined the WEIS, and Public Service Company of Colorado (Xcel), Black Hills Colorado and Platt River Power Authority will join in April 2023, resulting in 100% of Tri-State’s load in an RTO or EIM.
- The SPP RTO offers significantly greater offerings than the WEIS or SPP’s Markets+.

Differences in SPP Offerings and RTO

	WEIS	Markets+	RTO Membership
Real-time balancing	✓	✓	✓
Day-ahead unit commitment		✓	✓
Reserve Sharing			✓
Regional planning			✓
Consolidated Balancing Authority			✓
Reliability Coordination			✓
Resource Adequacy			✓
Transmission Service Provider			✓

- The SPP RTO has 115 members, including 22 G&Ts. Its 2021 energy production includes 35% wind, 35% coal, 20% natural gas, 6% nuclear, 4% hydro and less than 1% solar. Since 2014, 284 million metric tons of CO₂ have been displaced by wind energy, and overall CO₂ emissions have fallen 24% since the SPP Integrated Marketplace’s launch in 2014.

View the [SPP Overview presentation](#) on the directors’ BoardBooks app and the Member Information Center.

Procurement process overview

At the board meeting, Senior Manager Supply Chain Services (SCS) Ashley Perkins provided an overview of Tri-State’s procurement processes, including accounts payable, purchasing, contracts and transmission inventory.

- Tri-State processes 15,000 purchase orders and contracts annually. SCS tracks initial requisitions and change orders to make sure board approvals and authority amounts under Board Policy 515 are not exceeded.
- SCS is centralizing procurement, and shall be Tri-State’s authorized purchasing agent, with responsibility for all vendor negotiations.
- Perkins discussed the current state of procurement processes, and the future state with adoption of modern best practices with central procurement, utilization of Oracle and strategic sourcing, all of which will streamline process, increase efficiencies and deliver the lowest overall total cost.

View the [Procurement presentation](#) on the directors’ 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.

Meetings and events**Member CEO Town Hall**

- Monday, Dec. 12, 10 am (virtual)

Member Communications Advisory Council

- Wednesday, Dec. 14, 9 a.m. (virtual)

Rate Design Committee

- Wednesday, Jan. 4, beginning at 8 a.m.

January Board Meetings

- Tuesday, Jan. 10 (virtual)
- There will be no committee meetings in January.

Member CEO Meeting

- Jan. 18-19