

HIGHLINE ELECTRIC ASSOCIATION
ANNUAL MEETING OF MEMBERS
March 24, 2015

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 24, 2015.

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

INVOCATION

Gordon Penfold, Pastor of the First Baptist Church in Holyoke, gave the invocation.

DETERMINATION OF QUORUM

President Michael Bennett reported that there were 200 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.

PLEDGE OF ALLEGIANCE

Director Jim Lueck led the members and guests in the Pledge of Allegiance.

INTRODUCTION OF DIRECTORS AND GUESTS

Director Lueck introduced the members of the Board of Directors, their spouses, retired Highline employees, 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 Michael Bournia.

MINUTES OF THE 2014 ANNUAL MEETING

It was properly moved, seconded and carried that the reading of the minutes of the Annual Meeting of Members held March 25, 2014 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 resulting from the expiration of the terms of office of presently serving directors. There was one vacancy each in Districts 1, 2, 3, and 4. Each incumbent director for Districts 1, 2, and 4 filed a petition. One member, David Kinnison, filed a petition for District 3. There were no other petitions. Therefore, there is no contest for the vacancies on the Board of Directors for Districts 1-4. Attorney Williamson introduced the only candidates for the vacancies:

District 1 - Logan, Washington, Weld and Morgan County, CO

a. Jim Lueck

District 2 - Phillips or Yuma County, CO

a. Mike Bennett

District 3 - Sedgwick County, CO or Deuel County, NE

a. David Kinnison

District 4 - Chase, Perkins or Dundy County, NE

a. Merlin Prior

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 2014 WASHINGTON YOUTH HIGHLINE'S DELEGATE

Jessie Doleshall introduced the winner of the 2014 Washington D.C. Youth Tour, Deborah Kurtzer. Deborah gave a presentation with the aid of a slide show. She thanked Highline for the experience.

2014 YOUTH CAMP

Jessie Doleshall introduced the student participants at the Rural Electric Leadership Camp at Clark, Colorado, near Steamboat Springs, Colorado. They are Shayln Johnson, Brandon Struckmeyer, Anna Ruch, and Dylan Kotch. Doleshall read comments from Struckmeyer, Ruch, and Kotch, who were unable to attend the meeting. Shayln Johnson gave a presentation with the aid of a slide show. She 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, including Nancy Berges, who has been an employee at Highline for 50 years.

Farnsworth thanked employees for their efforts every day in providing service to Highline members.

Farnsworth introduced Dennis Herman. Herman presented the Financial Report.

Highline purchased 388,523,429 kilowatt-hours in 2014 from Tri-State G&T. This was down 45 million kilowatt-hours from 2013.

Highline sold to its members 355,000,000 kilowatt-hours, a decrease of 41 million from 2013. Irrigation accounted for the largest share of kWh purchases with 52.5% of the kilowatt-hours sold. Large commercial followed with 23.8%, residential at 17% and small commercial with 6.7% of the kilowatt-hours sold.

Operating Revenues for 2014 were just over \$42 million which was a decrease of \$4.6 million from 2013. The decrease in revenue is largely due to the decrease in kilowatt-hour sales to irrigation customers. Highline deferred \$1.2 million in revenue in 2013 with the intent of bringing \$400,000 back per year in 2014 -

2016. It was not necessary to bring in the planned \$400,000 in 2014 in order to meet Highline's loan covenants, so the Highline Board of Directors amended the revenue deferral plan with RUS to recognize \$400,000 in 2015 and \$800,000 in 2016.

Highline operating margins in 2014 were \$113,995. With this operating margin, Highline was 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 its OTIER, when averaged over two years, remains above a minimum level. Highline's operating margin in 2014 was sufficient to keep it in good standing with its lenders.

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

Highline margins for 2014 were \$2,287,056. This is comprised of: the Highline generated operating margins of \$113,995; \$1,968,575 that was generated by memberships in Tri-State, Western United, CoBank and CFC, and \$204,486 in interest and other non-operating income. The bottom line margin of \$2,287,056 is allocated to Highline's members as capital credits.

In 2014 the Board of Directors approved a capital credit refund that included the balance of 1999 and 10% of 2000 Highline capital credits, and the balance of 1993 and 50% of 1994 Tri-State capital credits for a total general retirement of \$2,371,594. Highline Electric Association also retired estates totaling \$133,941 in 2014 for a total of \$2,505,535 retired to members.

Since 1948, Highline has accrued capital credits of \$99 million and refunded to estates \$4.81 million over this time period. General Refunds in prior years were \$32.6 million totaling \$39.8 million returned to members since 1948.

Highline members' capital credit balance is \$59.2 million of which \$18 million is comprised of equity in Highline and \$41.2 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 members through retiring Tri-State capital credits.

Highline Electric Association ended 2014 with cash and Investments of \$9 million.

Highline continues to maintain a strong balance sheet. Highline ended 2014 with an equity level of 53.3% or 54.4% when including the effects of the deferred revenue. Equity measures the extent that members have financed plant in lieu of borrowed capital. Highline has an Equity Management Plan that calls for a minimum of 50% equity.

The cost to maintain the plant and make sure electricity is available, i.e. the cost of running Highline, was 19% of Highline's total expenses in 2014. Depreciation and interest was

another 11% and cost of wholesale power was 70% 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 members.

Herman finished up by sharing with members a few changes that will be coming in the next couple of weeks. These changes include the updating of Highline's online account management tools and the release of Highline's mobile application. While Highline's online account management tools definitely have a new look and feel, the changes that Highline is the most excited about is the ability to associate multiple electric accounts with one online login. Once members register with the new online login, members can associate all of their accounts with that login as long as they have their account number and meter number or account number and old online password.

The new online account management tools also allow members to sign up for alert notifications. These notifications are configurable by members and will generate an email for certain events. These events range from invoice available to payment received. Highline's new mobile application is available now for apple or android devices by searching for Highline Electric in the app store.

Manager Farnsworth informed members about Highline's contest for the Thank a Lineman - Appreciation Day, April 13, 2015. Members, students, businesses, schools and organizations that receive their electricity from HEA are encouraged to write a short tribute to these first responders, who restore power in the most challenging of weather situations.

Farnsworth presented a look at historical kilowatt-hour sales over the last ten years, with the addition of irrigation and gas compression loads and their contribution to sales over the same time frame. From 2005 through 2010 things were pretty constant with compression loads growing on an annual basis.

Highline expects variability in irrigation because of the weather but did not see the same issue with compression loads. The variability members now see in the compression load is because of the growth of oil and gas in the Midwest and eastern parts of the U.S.

Irrigation sales of 186.5 million kWh in 2014 was almost 65 million kWh lower than 2013 and 123 million kWh lower than in 2012. While there is no normal for annual irrigation sales, the average over the past 10 years is 220 million kWh per year.

Highline's large gas compression loads purchased 19 million more kWh in 2014 than they did in 2013, leaving Highline with a net decrease in sales of 41 million kWh from 2013. Budgeting does get interesting with the variability Highline has had the last three years.

Highline built four miles of new line in 2014; Highline has 5,157 miles of line, 10,438 meters and 2.02 meters per mile. The national average for cooperatives is six meters per mile of line. Highline is a rural system and a mature system. Highline is not forecasting much growth in the future.

In 2013 Highline supplied electricity to members 99.99% of the time. Highline believes that is a minimum standard and Highline is working hard to maintain or improve that standard.

Highline's utility plant ended the year valued at \$97.4 million which is a \$5.2 million increase over last year. In the last five years Highline has averaged over \$3 million a year to maintain or rebuild its system plant to meet members' needs.

In 2015 Highline has projects in the Crete, Sedgwick, Julesburg, Crook and Iliff substations. Highline is replacing 6.5 miles of the Holyoke to Amherst 69 kV transmission line, four miles of Iliff distribution line as well as replacing 135 poles that are not up to Highline's standards. Highline also has 10 miles of distribution line for an industrial customer and two oil compression projects being updated or newly built plus members' requests for new or upgraded services.

As part of Highline's planning process HEA developed a 10-year Long Range Work Plan and a 4-year Construction Work Plan. Highline will be developing a new Long Range Work Plan and Construction Work Plan in 2015.

Highline did not have rate increases in 2014 and 2015. Highline has worked hard at keeping costs down, but 70% of expenses are the cost of power. Tri-State has done a good job of keeping their costs in line but they are faced with regulatory costs mandated on them.

As part of the budgeting process Highline staff and Directors discuss in depth the potential future forecasted rate increases from Tri-State. Tri-State had forecasted an increase in rates for 2015 but was able to offset the rate increase with refinancing of debt.

In the next four years Tri-State has forecasted rate increases in the 15% range. Environmental as well as transmission needs to serve Tri-State members will drive those increases.

Highline's Board of Directors asked the question, how can Highline keep future increases as minimal as possible? One tool to use is revenue deferral. Last year Highline had set up a revenue deferral plan utilizing operating margins from 2013 which were considerably above budgeted expectations.

This allowed the deferring of \$1,200,000 to future years. Tri-State had forecasted rate increases in 2015 and 2016 and those have now moved out to 2017 and 2018. Highline will bring those deferrals back in future years to offset costs.

Revenue deferral will not be used to keep rates artificially low but to manage Highline's costs in the goal of keeping our members power bills affordable. Highline has seen these kinds of forecasts in the past and Highline is using revenue deferral to manage upward cost pressures.

In 2014 Senate Bill 252 was signed into law by Governor Hickenlooper. SB-252 requires Highline to get a portion of kWh sales from behind the meter. This would mean small scale renewables that Highline would net meter. In calculations last year it was estimated Highline would need to install 271 small solar units.

Highline had estimated costs to meet the mandate at \$1,084,000. If Highline divides that by 10,438 meters that would mean each member would pay about \$104 per meter to subsidize the distributed generation requirements of SB-252.

In this year's legislative session CREA introduced Senate Bill 46 which as designed would allow Highline and other CREA members to manage mandated costs for distributed generation. Two components would benefit Highline. The first would remove any kWh usage that is considered industrial, which lowers the amount Highline would need to acquire. The second would allow the use of solar gardens to take benefit of the economies of scale from a larger solar facility.

A solar garden would allow Highline to place a number of solar panels in one location and allow our members to get credit for the solar unit instead of having a solar unit at each person's house. It's just cheaper to have all the solar panels at one location instead of 271 separate locations.

Highline had requested that the language in the bill would apply to wind and hydro as well as solar. That did not happen because the solar industry wants to protect their market share. This seems a little self-serving. There is another bill being floated that would open up the "solar garden" concept for wind and hydro.

As was stated last year Highline is not against renewable energy Highline just doesn't think it should be subsidizing some members over other members.

Since its inception in 2009 the Trailblazer Generation waste heat facility has generated \$1,930,560 to the membership of Highline. Unfortunately since the growth of the oil and gas industry in the Midwest and Eastern United States the savings in the last two years is much less than prior years. All members receive the benefit of the energy generated from this renewable energy facility.

Highline will stay involved in assessing options because Highline works for its members and its goal is reliable and affordable power bills.

There are several issues that Highline's Board has spent time discussing in the last year and their impacts on the future.

Fossil Fuels & Renewable Energy

It has been said that fossil fuels will soon run out. The fracking of shale formations has changed that prophecy once again. The U.S. is awash in natural gas and oil. The problem is there may not be enough refineries to process the oil. If fracking expands world-wide there will be ample oil for decades. President Jimmy Carter announced in 1977 that "we could use up all the proven resources of oil in the entire world by the end of the next decade." The ingenuity of American business coupled with technology has changed this false reality.

It has been predicted that battery storage technology will be viable within the next five years. That has the ability to be a game changer for the business model of electric utilities. Will environmental desires or politics move us from low-cost fossil

fuels to more expensive renewables? Highline is discussing how to manage for that question now in the Board Room.

Employees

In 2015 Highline will have four or five employees retire. David Churchwell, our former Operations Manager moved to KC Electric based in Hugo to be their General Manager. Those employees will take over 125 years of institutional knowledge with them. Change can be good just different than what Highline is used to. Highline has prepared for those changes.

Technology

Technology is changing quickly and Highline needs to stay abreast of the opportunities that technology can provide. New technology can bring value to Highline but technology can bring additional costs. Highline is discussing the benefits, issues and costs with new technology in our Boardroom.

Cyber Security

Highline is becoming aware of cyber security issues as technology develops. Highline is asking our vendors for more proof that they have ramped up security for the programs they use. Highline is doing the same with internal programs at Highline. Highline will do its best to protect its members' personal information.

EPA Clean Power Program

The last item is the EPA'S Clean Power Program. The mandates of this program will cause rate increases for Highline's members. Highline is working closely with Tri-State to manage the program as best it can.

The Highline mission statement is to provide members with reliable, high quality electricity and other needed services which will improve their economic and social well-being and provide significant long-range benefit for the communities, state and nation.

Farnsworth introduced Patrick Bridges, the Senior Vice President and Chief Financial Officer for Tri-State G&T, who shared with members some of Tri-State's concerns. He reviewed Tri-State's business structure. He reviewed the terms of Tri-State's RUS debt refinance and the potential effects of the EPA Clean Power Plan.

Farnsworth entertained questions from the members.

Farnsworth thanked the Highline Board of Directors, employees and their spouses, and members.

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 are:

\$1,000 Basin Electric-Member Cooperative Consumer

Timmi Keisel of Fleming High School

\$1,000 Highline Electric Association:

(Four Year College or University)

Emily O'Neal of St. Mary's Academy

Makenna Wallin of Chase County High School

Rachel Frantz of Fleming High School

Saige Herbert of Fleming High School

Bryony Trump of Sterling High School

Jessica Hartman of Chase County High School

\$1,000 Highline Electric Association:

(Two Year or Technical School)

McCall Etl of Fleming High School

Austin Yahn of Caliche High School

Teisha Coffield of Lone Star High School

Drew Whittington of Fleming High School

\$500 Tri-State G&T/Highline Electric Association:

Jayden Durbin of Haxtun High School

Megan Vieselmeyer of Holyoke High School

DRAWING FOR PRIZES

Drawings for prizes were conducted at various times throughout the meeting. The progressive prize was not awarded because the member whose name was chosen randomly, David Wood, was not present.

ADJOURNMENT

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

President

Secretary