

HIGHLINE ELECTRIC ASSOCIATION
ANNUAL MEETING OF MEMBERS
March 20, 2018

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 20, 2018.

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

INVOCATION

Pastor Alan Strauss 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 231 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.

APPOINTMENT OF CREDENTIALS AND ELECTION COMMITTEE

President Bennett appointed the members to the Credentials and Election Committee.

INTRODUCTION OF DIRECTORS AND GUESTS

Director Prior 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 2017 ANNUAL MEETING

It was properly moved, seconded and carried that the reading of the minutes of the Annual Meeting of Members held March 21, 2017 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. Jim Lueck, incumbent, filed the only petition for District 1. Mike Bennett, incumbent, filed the only petition for District 2. There were three petitions filed for the District 3 seat by incumbent David Kinnison, Nancy Berges and Kirk Sittner. Merlin Prior, incumbent, filed the only petition for District 4.

Williamson introduced the members nominated 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
- b. Nancy Berges
- c. Kirk Sittner

District 4 - Chase, Perkins or Dundy County, NE

a. Merlin Prior

Williamson asked if any of the nominees wished to address the assembly. Kinnison, Berges and Sittner each addressed the assembly.

President Bennett asked the Credentials and Election Committee to collect the ballots and to oversee the counting of the ballots.

INTRODUCTION OF 2017 WASHINGTON YOUTH TOUR DELEGATE

Jessie Heath introduced the winner of the 2017 Washington D.C. Youth Tour, Regan Van Overbeke, Holyoke High School. Regan gave a presentation with the aid of a slide show. She thanked Highline for the experience.

2017 YOUTH CAMP

Jessie Heath introduced the student participants at the Rural Electric Leadership Camp at Clark, Colorado, near Steamboat Springs, Colorado. They are Kristi Cook, Merino, Elijah Meakins, Haxtun High School, Brooke Sigmon, Fleming High School, and Abigail Ruch, Ralston Valley High School. Heath played a video of Elijah speaking about his experience. Kristi and Brooke spoke about their experiences at the camp and presented a slide show. 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.

Farnsworth introduced Dennis Herman. Herman presented the Financial Report.

Highline purchased 482,193,523 kWh in 2017 from Highline's power supplier, Tri-State G&T. This was up 55,000,000 kWh compared to 2016.

Highline sold to members 447,852,892 kWh, an increase of 53,000,000 from 2016. Irrigation accounted for the largest share of kWh purchases with 49.9% of the kWh sold. Large commercial followed with 32.6%, residential at 13.1% and small commercial with 4.5% of the kWh sold.

Operating Revenues for 2017 were \$52,274,000 which was an increase of \$5,400,000 over 2016. The increase in revenue is due to the increase in kilowatt-hour sales to Highline's irrigation and oil and gas customers. Highline has deferred \$2,000,000 in revenue over the last five years. Highline's current plan calls for \$1,000,000 of this deferred revenue to be recognized in 2018, \$170,000 in 2019 and the remaining \$830,000 in 2020.

Highline's operating margins in 2017 was \$150,716. With this operating margin, Highline was able to meet all of Highline's 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 Highline's OTIER, when averaged over two years, remains above a minimum level. Highline's operating margin in 2017 was sufficient to keep Highline in good standing with its 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 member of. Tri-State represents Highline's largest investment in other cooperatives.

Highline margins for 2017 were \$2,687,801. This is comprised of: the Highline generated operating margins of \$150,716; \$2,231,631 that was generated by Highline's memberships in Tri-State, Western United, CoBank and CFC, and \$310,308 in interest and other non-operating income. The bottom line margin of \$2,687,801 is allocated to members as capital credits.

In 2017 the Board of Directors approved a capital credit refund that included 100% of outstanding Highline capital credits from 2002, 62% of outstanding Highline capital credits from 2003 and 56% of the outstanding Tri-State capital credits from 1995 for a total general retirement of \$1,766,038. Highline also retired estates totaling \$230,407 in 2017 for a total of \$1,996,445 retired to Highline's members.

Since 1948, Highline has accrued capital credits of \$107,000,000. Highline has refunded to estates \$5,670,000 over this time period. Refunds in prior years were \$38,400,000 totaling \$45,800,000 returned to Highline's members since 1948.

Highline's member capital credit balance is \$59,200,000 of which \$15,700,000 is comprised of equity in Highline and \$43,500,000 represents equity in Tri-State and other cooperatives.

Highline is currently on a 15-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 2017 with cash and Investments of just over \$17,000,000.

Highline continues to maintain a strong balance sheet. Highline ended 2017 with an equity level of 48.7% or 50.3% when Highline considers the effects of the deferred revenue. Equity measures the extent that members have financed plant in lieu of borrowed capital.

Highline built 17 miles of new line in 2017; Highline has 5,187 miles of line, 10,367 meters and averages 2 meters per mile. The national average for cooperatives is 6 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.

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 Highline's members.

Highline's utility plant ended the year valued at \$104,600,000, which is a \$3,300,000 increase over last year. In the last 5 years Highline has spent \$12,400,000 to maintain or rebuild Highline's system plant to meet members' needs.

The cost to maintain Highline's plant and make sure electricity is available, basically the cost of running Highline, was 16% of Highline's total expenses in 2017. Depreciation and interest was another 10% and Highline's cost of wholesale power was 74% 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 we send to members.

Manager Farnsworth continued his report.

It has been 80 years since Highline was incorporated. In May of 1935 President Franklin Roosevelt signed the Executive Order 7037 creating (REA) the Rural Electrification Administration. There were intense fights in Congress and it wasn't until May of 1937 that the Rural Electrification Act was signed into law by President Roosevelt.

It was in the spring of 1937 that the pioneers in Highline's communities shared the dream and began the work to bring electricity to the farms in Highline's area. Their efforts resulted in Highline being incorporated in 1938. It was August of 1939 that Highline was allotted \$85,000 to build 100 miles of line to begin electrifying the rural areas of northeast Colorado and southwest Nebraska.

The first services were energized February 20, 1940. Highline has grown from 101 miles of line to 5,187 miles. From 189 meters to 10,366 meters. From 288,000 kWh sold in 1940 to over 447,000,000kWh in 2017. From \$8,752 of revenue to \$52,274,000 in 2017.

The 100 meters designated in the original loan were for line to be built from Paoli to Lamar. In 1944 The President of the Board, Harry Andrews and Manager Tom Puryear were on business in Washington D.C. and they were told that their vision was changed. It now was from Sterling to McCook between the Platte River and Republican Rivers. That was an overwhelming task. But Harry Andrews took the challenge. This was said about Harry Andrews. In traveling about the country there was always a hill ahead of him and he wanted to see what was on the other side of the hill.

When he got to the top of that hill he saw a farm and that farm needed electricity just as badly as the farm that they had just left. Beyond that farm was another hill and beyond that hill another farm and on and on, all of the farmers needing and wanting the blessing of electricity.

He knew the challenge was too big for the 1940's but as he met with other communities, those communities joined the vision for electric service to their farms and from that enlarged vision Southwest PPD, Y-W Electric and part of Prairie Land in Northeast Kansas were formed.

Highline has a 3,500 square mile service territory serving parts of six Colorado counties and four counties in Nebraska. There has been 80 years of vision with men and women giving of their time and energy to continue the vision of these early founders of Highline. Involvement of members of Highline will be invaluable as Highline looks to the future.

Another notable event in Highline's history is the formation of Tri-State G&T in 1952. Highline, along with several other rural cooperatives were facing a shortage of electricity. Meetings were held and the decision was made to form Tri-State. They have been a reliable partner for 65 years.

Many remember the spring storm of 1977. Members may remember the 100 mile an hour wind gusts, the 18-foot drifts and over 9000 poles on the ground. The damage in Northeast Colorado totaled \$43 million and Highline's loss was \$3,500,000.

The spring storm of 2001 happened a few months before Farnsworth became the Manager of Highline. The loss of 1500 poles cost close to the same \$3,500,000.

Highline members might wonder why Highline ended 2017 with so much cash. \$17,243,727 at the end of 2017. As Herman mentioned, Highline has spent \$12,400,000 or almost \$2,500,000 per year over the last five years in maintaining and rebuilding member's electrical system. Highline has two options to fund Highline's operations, one is thru borrowing the funds or thru Highline's rates.

Highline developed a four-year work plan which is approved by Highline's lenders. Highline then does the work and as Highline finishes, Highline sends documentation to Highline's lenders and Highline can draw down funds at that time. Highline finished over \$10,000,000 of work and had not drawn down loan funds from Highline's lender. Highline's work plan was set to expire and Highline chose to draw down \$10,392,000 at an interest rate of 2.6%. A 2.6% interest rate is lower than Highline's members can borrow funds.

One of the impacts of drawing down that much cash is the impact on Highline's equity. As members can see in this graph Highline has fallen below 50% equity. Highline's policy is to maintain a 50% equity on a year to year basis. The staff recommended and the Board accepted falling below this guideline for 2017. Highline's 2018 budget shows Highline close to or meeting the 50% equity ratio at the end of 2018.

Highline's goal is reliable and affordable electricity for Highline's members. Highline spends approximately \$2,500,000 per year in O&M. Farnsworth has not seen the final number yet but Highline will show between a 99.8% and 99.9% availability of power in 2017. No outages is Highline's goal but weather, wear and tear and critters keep that from reality.

Highline used a revenue deferral plan in prior years to smooth rate increases. In President Bennett's report that was on the table he mentions that Highline's operating margins in 2017 were \$996,500 above budget. Highline was planning to use deferred revenue in 2017 to meet that goal but the sale of 55,000,000 kWh above budget helped Highline meet that goal without using deferred revenue.

Tri-State G&T shares the same concerns for reliable and affordable electricity to their members as we do. As mentioned in Director Leo Brekel's Tri-State report Highline did not have a rate increase from Tri-State in 2018.

Two priorities set by the Tri-State Board stress the importance of competitive rates and cost management. Tri-State understands the impact and the importance rates have on the Tri-State membership and Highline's member-owners. Tri-State is continuing to take steps to cut costs, increase revenues and manage its operations more efficiently to minimize rate increases and keep the cost of wholesale power competitive.

As members know, Highline did not have a rate increase in 2018.

Farnsworth compared Tri-State's forecasted rate increases to its actual increases and the resulting Highline financial decisions.

The Board and Staff at Highline understand and take seriously the importance of the Agricultural community to Highline and the impact of low commodity prices. Highline will do what Highline can to keep rates affordable.

There is a lot of information and misinformation concerning renewable energy. Farnsworth shared several headlines regarding renewable energy issues.

While coal use in the US is falling, Europe as a whole has imported 28.4 million short tons of coal compared with 19,300,000 short tons the previous year, according to federal data. Many of the leaders of European Nations bashed President Trump when he pulled out of the Paris Accord, yet they increased imports of coal.

As members read in the Tri-State Report by Director Brekel, the Tri-State energy mix in 2017 was 30% renewable. In 2007 renewables made up 17% of the energy supplied by Tri-State. In ten years Tri-State's energy sales grew by 20% and renewables have grown to 30%. That 30% includes federal hydro, wind, solar and Tri-State member systems projects like Highlines Trailblazer Waste Heat project. That is the largest percentage of renewables in G&T's across the country and one of the highest of any utility in the U.S. As Leo shared in his report, Tri-State is not anti-renewable. They are all about reliable and affordable electricity and will make business decisions that meet that goal.

Since 2009, Highline's Trailblazer Waste-Heat generation site has brought \$2.3 million to Highline's bottom line. It has been a good project.

Highline offers Green Power Credits to members who want to offset their usage with renewable energy but are not interested in building wind or solar systems behind their meter. If members have questions about a wind or solar system please contact Highline and staff will work with members to help with any decisions members make.

At last year's Annual Meeting Farnsworth introduced a Do It Yourself solar array that Highline was going to offer to Highline's members. That has not happened for two reasons. First, the manufacturer of the solar panels went bankrupt. Highline is concerned about the long-term viability of equipment Highline endorses. Highline is reviewing the options for the future.

The second reason is Highline was going to offer on-bill financing utilizing Renewable Energy Savings Program money from the USDA. Highline applied in early 2017, received notice in August that Highline was granted the monies and as of today that money has not been released. Highline will continue to review the options to be the provider of choice for Highline's members.

Last year Highline was working with the Rocky Mountain Institute and five other cooperatives to acquire utility scale solar and community solar through a Request for Proposal. At this time three cooperatives are looking at projects including Highline.

Highline has two objectives with this RFP. One is for a solar project that will provide savings to the Highline members over the next 20 to 25 years from renewable energy. The second objective is to provide an option for Community solar to Highline's members who wish to buy renewable energy but can't or do not want a solar array behind their meter.

Highline is currently waiting for pricing to determine if Highline will move forward. Two things happened that have affected pricing. The 30% solar tariff on imported solar panels and changes in the new Tax Bill impacted the pricing for Highline's project. Highline should know the pricing within the next 30 days and determine if the project is feasible.

Highline will not commit to construct a solar project if Highline does not believe that it is financially feasible. The Board of Directors is not opposed to renewable energy it just needs to make financial sense to Highline and Highline's members.

Farnsworth reported on the status of Highline's Advanced Metering Infrastructure project. Highline will use radio frequency technology to read meters remotely from Highline's office. Highline is in the functional testing stage and will begin commercial installation in May or June. Highline will start in the eastern part of Highline's service territory and it will take three years to build out the AMI system.

There have been some concerns about privacy voiced with utilities. Highline will only read the kWh and demand usage from members' meters. We have no devices in members' homes to spy on members. Highline doesn't care how members use electricity

except being able to provide hourly usage information if members are concerned about their power bills.

The meters are set to send readings once every hour. Why is that important?

There has been discussion on radio frequencies and possible health issues. If members are concerned about radio frequencies this graph gives perspective. The RF from electronic devices are measured in milliwatts. If people spend about 30 minutes a day on a cell phone, that means a person would spend 7.6 days per year on cell phone calls. A Sensus meter used by Highline communicates for 1.02 seconds each day. just over six minutes per year.

Members are exposed to radio frequency in daily life just about everywhere. Some examples include: the radio station members listen to at home or in their automobile, members' microwave, the automatic doors at a grocery store, cell and cordless phones, baby monitors and garage door openers, among others. All of these devices work on radio frequencies.

Cell phones are held to a person's ear. Smart meters are typically located 20 to 100 feet from the member's home. If members have any questions about the technology Highline is using, members can call Mr. Farnsworth.

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 are:

\$1,000 Basin Electric-Member Cooperative Consumer:
Regan Van Overbeke of Holyoke High School

\$1,000 Renewable Highline Electric Association:
Kaycee Binder of Branson School Online
Chadron Coffield of Yuma High School

\$1,000 Highline Electric Association:
Brynn Abernathy of Sterling High School
Kirstyn Fritzler of Sterling High School
Sandra Lockard of Lone Star High School
Taylor Hendrix of Holyoke High School
Alli Keisel of Fleming High School
Kayla Schilke of Chase County School
Sydney Sorensen of Caliche High School
Lauren Whittington of Fleming High School

\$500 Tri-State G&T/Highline Electric Association:
Ruthie Garnas of Julesburg High School
Ashleigh Hendrix of Wray 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, Kay Dana, was not present.

DIRECTOR ELECTION

President Bennett announced the results of the Director election:

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

Winner: Jim Lueck

District 2 - Phillips or Yuma County, CO

Winner: Mike Bennett

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

Winner: David Kinnison

District 4 - Chase, Perkins or Dundy County, NE

Winner: Merlin Prior

ADJOURNMENT

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

President

Secretary