

HIGHLINE ELECTRIC ASSOCIATION  
ANNUAL MEETING OF MEMBERS  
March 21, 2017

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 21, 2017.

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

INVOCATION

Pastor Max Hines 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 176 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 following members to the Credentials and Election Committee: Mike Poe, Larry Abby, Jack Rhodes, Gene Bittner, Kip Struckmeier, and David Krueger.

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 Michael Bournia.

MINUTES OF THE 2016 ANNUAL MEETING

It was properly moved, seconded and carried that the reading of the minutes of the Annual Meeting of Members held March 22, 2016 be waived and that they be approved as written.

ELECTION OF DIRECTORS

Attorney Williamson reported that there were three vacancies on the Board of Directors. There were two vacancies in District 1 and one vacancy in District 2. There were three petitions filed for the two District 1 seats, and one petition for the District 2 seat.

Williamson introduced the members nominated for the vacancies:

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

- a. Brad Stromberger
- b. Pamela J. Stieb
- c. Michael Bournia

District 2 - Phillips or Yuma County, CO

- a. Aaron Sprague

Williamson asked if any of the nominees wished to address the assembly. Stromberger, Stieb and Bournia each addressed the assembly.

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

#### PRESENTATION TO STROMBERGER FAMILY

President Bennett presented a token of Highline's appreciation to the family of former Director Mark Stromberger who passed away while serving on the Board of Directors.

#### INTRODUCTION OF 2016 WASHINGTON YOUTH TOUR DELEGATE

Jessie Doleshall introduced the winner of the 2016 Washington D.C. Youth Tour, Kristi Cook, Merino High School. Kristi gave a presentation with the aid of a slide show. She thanked Highline for the experience.

#### 2016 YOUTH CAMP

Jessie Doleshall introduced the student participants at the Rural Electric Leadership Camp at Clark, Colorado, near Steamboat Springs, Colorado. They are Kristi Cook and Kodie Krueger-Wettstein, Caliche. Kristi and Kodie gave a presentation with the aid of a slide show. They thanked Highline for the opportunity.

#### TRI-STATE GENERATION AND TRANSMISSION

Mike McInnes, Tri-State CEO, gave a presentation regarding Tri-State.

#### 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 427,177,849 kWh in 2016 from its power supplier, Tri-State G&T. This was down 29 million kWh compared to 2015.

Highline sold to its members 395 million kWh, a decrease of 27 million from 2015. Irrigation accounted for the largest share of kWh purchases with 50.3% of the kWh sold. Large commercial followed with 29.7%, residential at 14.8% and small commercial with 5.2% of the kWh sold.

Operating Revenues for 2016 were just over \$46.8 million which was a decrease of \$838,000 from 2015. The decrease in revenue is largely due to the decrease in kilowatt-hour sales to Highline's irrigation customers. Highline has deferred \$2,000,000 in revenue over the last four years. The current plan calls for \$800,000 of this deferred revenue to be recognized in 2017, \$400,000 in 2018 and the remaining \$800,000 in 2019.

Highline's operating margins in 2016 were \$403,556. With this operating margin, Highline was able to meet all of its 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 the OTIER, when averaged over two years, remains above a minimum level. Highline's operating margin in 2016 was sufficient to keep us in good standing with 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 that we are members of. Tri-State represents Highline's largest investment in other cooperatives.

Highline margins for 2016 were \$1,869,998. This is comprised of: the Highline generated operating margins of \$403,556; \$1,226,456 that was generated by its memberships in Tri-State, Western United, CoBank and CFC, and \$239,986 in interest and other non-operating income. The bottom line margin of \$1,869,998 is allocated to Highlines's members as capital credits.

In 2016 the Board of Directors approved a capital credit refund that included 100% of outstanding Highline capital credits from 2000 and 2001; 100% of the outstanding Tri-State capital credits from 1994 and 21% of the outstanding Tri-State capital credits from 1995 for a total general retirement of \$1,652,397. Highline also retired estates totaling \$234,034 in 2016 for a total of \$1,886,431 retired to members.

Highline has accrued capital credits of \$102 million. Highline has refunded to estates \$5.39 million over this time period and again Highline Electric's general refund in 2016 was \$1,652,397. Refunds in prior years were \$36.7 million totaling \$43.7 million returned to members since 1948.

Member capital credit balance is \$58.5 million of which \$17.6 million is comprised of equity in Highline and \$40.8 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 ended 2016 with cash and Investments of nearly \$11.5 million.

Highline continues to maintain a strong balance sheet. Highline ended 2016 with an equity level of 51.7% or 53.3% when we consider 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. Highline will stay in the 50% equity range but currently it is cheaper to borrow funds than to have members finance Highline plant.

Highline built 3 miles of new line in 2016; we have 5,170 miles of line, 10,367 meters and 2.01 meters per mile. The national average for cooperatives is 6 meters per mile of line. We are 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 we budget for upgrades and rebuilds to maintain reliable service to our members.

Highline's utility plant ended the year valued at \$101.3 million, which is a \$2.1 million increase over last year. In the last 5 years Highline has spent \$13.6 million to maintain or rebuild our system plant to meet member needs.

The cost to maintain Highline's plant and make sure electricity is available, basically the cost of running Highline, was 18% of total expenses in 2016. Depreciation and interest was another 11% and the cost of wholesale power was 71% 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.

Manager Farnsworth continued his report.

The last 8 years Highline has faced mandates, cost increases and other issues that have changed business, and not always in a positive way.

Highline's business is changing, and Highline must adapt to meet the needs of members.

Farnsworth introduced the to three topics he would cover. Rate Stability, Renewable Energy and Technology, in particular AMI.

Highline's Board is concerned about mandates and other changes in the business model. Highline must plan for the potential impacts on its rates. One tool Highline uses is a Revenue Deferral Plan.

A Revenue Deferral Plan is a tool to smooth the rate increases forecasted in the next few years. The revenue deferral plan is approved by Highline's banker, RUS. Highline allocates capital credits in the year earned so all members will have capital credits allocated and retired just as if no revenue deferral plan is used. The cash is then set aside in a specified account to be used in the year it is approved to be brought back. There is no ability for the deferred revenue to be used except as the Revenue Deferral Plan allows.

If Highline has a dryer than normal year Highline's large irrigation load will drive higher than budgeted margins. From

those higher than budgeted margins Highline deferred \$1.2 million in 2013 and \$800,000 in 2015. Based on Long Term Financial Forecasts from Tri-State Highline had anticipated using those deferred revenue dollars in 2015, 2016 and 2017. Tri-State has worked hard to reduce or manage costs. Tri-State's hard work coupled with Highline's own belt tightening resulted in not needing to use the revenue deferral plan in 2015 and 2016.

Highline received approval from its Banker to update its revenue deferral plan to utilize those dollars in 2017, 2018 and 2019. Highline's power costs from Tri-State are over 70% of its expenses and will influence how Highline will use these dollars. Highline plans to utilize \$800,000 in 2017, \$400,000 in 2018 and as needed the remaining \$800,000 in 2019.

Since 2009 the Trailblazer Waste-Heat generation site has brought \$2,237,284 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.

Highline has offered rebates and the ability to net meter to members since 2008. SB-252 as signed into law, mandates that Highline must get a certain portion of electricity from distributed generation behind member meters. SB-46 then allowed Highline to utilize community solar for the same mandate.

One option that Highline provides is a Do-it-yourself solar array kit for behind member meters. If members are interested in solar this option will allow them to install a solar array themselves. This solar kit provides all members need except concrete blocks for mounting the array on and for ballast. Members will need a licensed electrician to connect the solar array to their electrical system, otherwise they can set it up themselves.

One reason Highline chose this kit is its low voltage operation. Members can safely install the system without concern of being electrocuted. Seemed like a good thing. Highline will install a kit on March 29th at the office so members can inspect the array. If members are interested they can stop by the office in Holyoke to watch the installation.

Highline has applied for money from the USDA's Renewable Energy Savings Program to provide on bill financing if members so choose. Highline has not gotten final approval at this time. When Highline does we will be able to offer members an option to purchase the solar kit for little or no money down. The loan will be for ten years with members systems paid off at the end of the ten years. The output from the solar array will offset the energy portion of members Highline power bill.

Highline is working with the Rocky Mountain Institute and five other cooperatives to acquire utility scale solar and community solar. The Request For Proposal (RFP) aggregates 16.75 MW's of solar. This will lower the cost to each of the participating cooperatives. Highlines cost for two or three MW's of solar would be higher if we did not have the option to aggregate with the five other cooperatives.

Highline is not committed to purchasing any solar project if the Board of Directors 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 members.

Under Highline's all requirements contract with Tri-State Highline can purchase up to 5% of its energy needs from renewable energy. Highline has two objectives with this RFP. One is 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 members who wish to buy renewable energy but can't or do not want a solar array behind the meter.

The RFP's will be returned to RMI April 25th. Highline will review the winning RFP and decide over several months if it is financially feasible to proceed with one or more projects. If the Board approves proceeding it will be commercially available in 2018.

Highline has offered several new options for its members the last couple of years. Besides online bill pay, bank draft and echeck, an app is available for paying bills using smart phones. Members can contact Highline on its Facebook page if so desired or can also just give the office a call.

Highline has used an Automated Meter Reading system for the last 18 years. It was state of the art when purchased but not so much now. It used Highline power lines to communicate. Highline has used it to control line devices such as capacitors and breakers. Highline uses it for irrigation load control and have read some meters with the system. It was problematic reading meters and provided limited information and has reached the end of its useful life.

Highline has invested in new technology called automated metering infrastructure or AMI. The company Highline has chosen to partner with is called Sensus. Sensus uses point to point radio frequency technology. There are two RF technologies utilized by utilities. One is a mesh system and the other is the point to point system that Sensus utilizes.

Highline is in the first stages of implementation. Starting with a Proof of Concept which will be the installation of 200 meters and integration into the billing system. If that works, Highline will begin commercial installation in October. Highline will then complete buildout over three years using Highline employees to keep costs down.

The new technology will provide valuable benefits to members and to Highline.

The new AMI system will provide hourly usage information that can be used by members to help control power bills. Members will be able follow usage and make changes in electricity use.

Highline will be able to know within a few hours or days if there is a problem with meters or equipment is malfunctioning. Highline will be able to look backward and in real time when usage changes. Members can then review practices and find what is causing high power bills.

Highline will be able to offer to members a Pre-Pay Option. A member using Prepay will be able to add money to their accounts by logging onto the pre-pay option. If members come into the office and want to transfer a service or do a final billing Highline can read the meter at that moment and be able to finalize requests at that time.

Load Control Verification or off-peak irrigation. Highline has the ability to do load control verification with this system as well as provide members with information to control pivots.

This AMI system will provide options to Highline to control costs. Highline will be able to read all meters from the office. The backbone system for AMI will bring new and more efficient methods for Distribution Automation. Over time this will provide quicker outage recovery or more efficient utilization of the system.

Highline is continuing to work with Y-W Electric to provide backup for each co-op. Providing affordable and reliable electricity is important to Highline. It will also help with substation security to remote substations.

Highline's AMI system will integrate well with renewable energy and the needs that members may have in future years with new technology on member side of the meter.

The information that will be provided by Highline's ability to remotely read meters will help Highline in the future to design rates that can better align with the needs of members. There will be numerous benefits for Highline and members into the future.

There have been some concerns about privacy voiced with utilities. Highline will be only reading the kWh and demand usage from the meter. Highline has no devices in homes to spy on members. Highline does not care how you use electricity except being able to provide hourly usage information if members are concerned about power bills.

Residential meters are set to read once every hour but only sends the information every four hours. Commercial meters read every 15 minutes and send that information hourly.

The meters send the information in one-second bursts. There have been some concerns about radio frequencies and their effects on the human body. Radio waves are measured using milliwatts per Square Centimeter.

A cell phone at the ear output is 1000 to 5000 milliwatts. A microwave oven from 2 feet is 50 to 100 milliwatts and within two inches of a microwave, 5000 Milliwatts.

A smart meter, always on from three feet is 40 Milliwatts, always on from ten feet is 4 milliwatts. The Sensus technology that sends in short one-second bursts will be equivalent to the output of an FM radio. All the equipment is safe for humans to use.

Highline will have many studies and other information available if members are concerned. Some of these studies are from the Federal Communications Commission, the Environmental Defense Fund and the World Health Organization. It is safe technology

made even more so by not sending radio frequency signals nonstop.

Highline's commitment is to provide reliable and affordable electricity to members as it transitions in the future.

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  
Austin Herman of Holyoke High School

\$1,000 Highline Electric Association:  
(Accredited Line School)  
Keegan Mann of Fleming High School

\$1,000 Highline Electric Association:  
(Four Year College or University)  
Tyler Camblin of Holyoke High School  
Kristi Cook of Merino High School  
Logan Fetzer of Haxtun High School  
Shaylee Heathers of Chase County High School  
Jessica Sigmon of Fleming High School

\$1,000 Highline Electric Association:  
(Two Year or Technical School)  
Jadin Bussell of Chase County High School  
Brittany Fetzer of Haxtun High School  
Colin Mertens of Merino High School  
Colbey Stumpf of Caliche High School

\$500 Tri-State G&T/Highline Electric Association:  
Madison White of Revere High School  
Kayla Zink of Caliche High School

#### DIRECTOR ELECTION

President Bennett announced the results of the Director election:

District 1 - Logan, Washington, Weld and Morgan County, CO  
Winners:  
a. Brad Stromberger  
b. Pamela J. Stieb

District 2 - Phillips or Yuma County, CO  
Winner: Aaron Sprague

#### 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, Mark Millage, was not present.



ADJOURNMENT

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

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President

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Secretary