



TRI-STATE G&T

A Touchstone Energy[®]
Cooperative



New Mexico Legislature Water & Natural Resources Committee



The Cooperative Model and Tri-State Overview

Tri-State G&T Overview



- Consumer-owned, not-for-profit wholesale power supplier owned by 43 member cooperatives
- Formed by its members in 1952
- Governed by a member-elected board
- Consumers include farmers, ranchers and other rural business owners who can least afford to pay for increased electricity rates

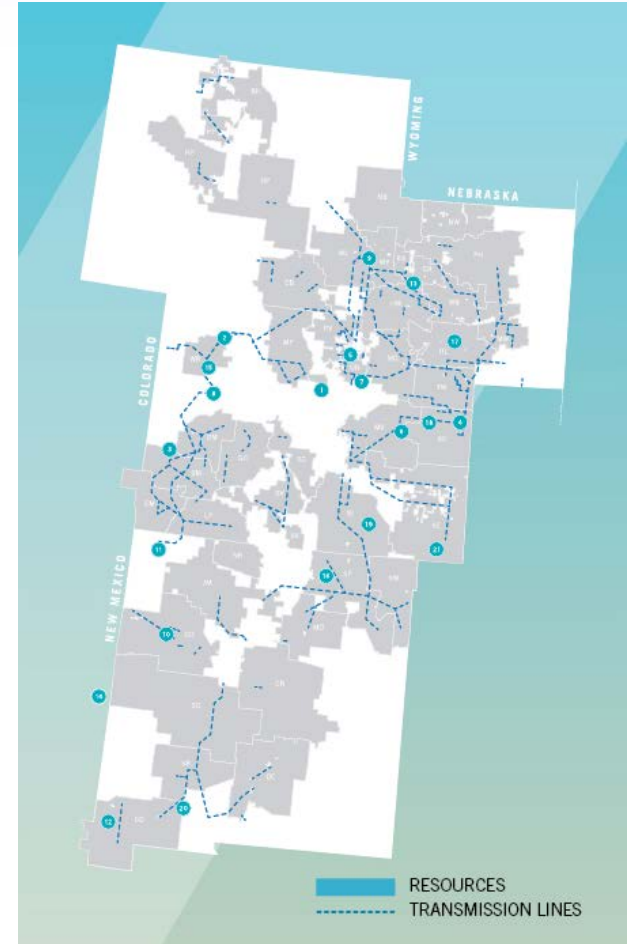
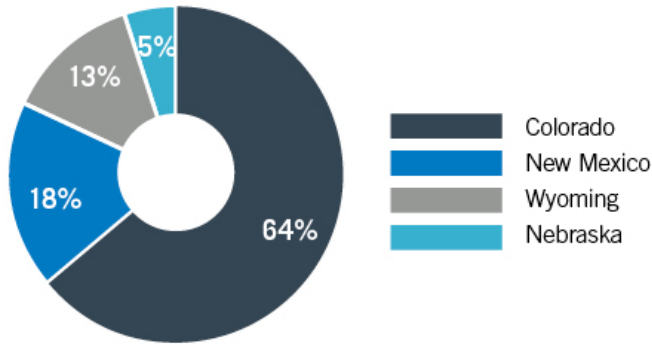


Tri-State G&T Overview



- Serves 1.5 million member-owners across 200,000 square miles
- 5,535 Miles of transmission line
- Employs more than 1,500 people across the four state service territory

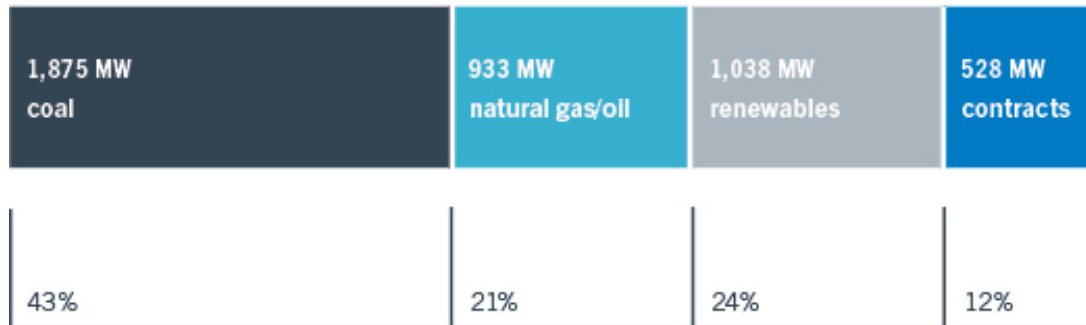
MEMBER SALES BY STATE



Sources of Generation (Capacity as of 12/31/2016)



- Tri-State is able to meet our members' needs, manage risks and stabilize the costs of power generation by maintaining a diverse generation portfolio
- Fleet includes owned-generation resources, long-term purchase power contracts and market purchases.



TOGETHER WITH OUR MEMBER SYSTEMS, WE DELIVERED 27 PERCENT OF OUR ENERGY FROM RENEWABLE SOURCES IN 2016.

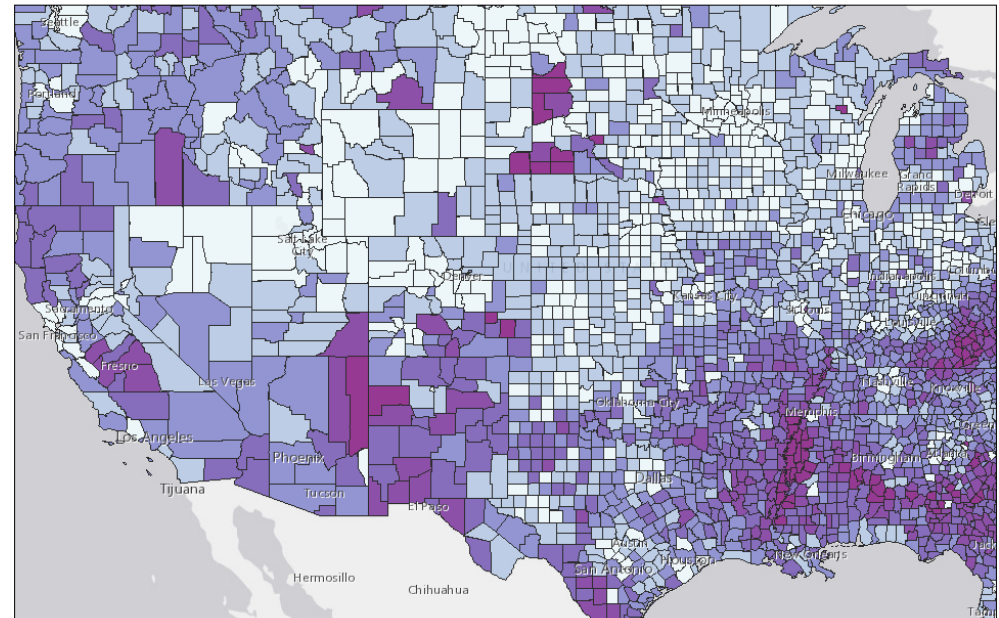


Diverse Membership

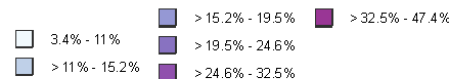


- Tri-State's Members serve:
 - Very rural areas and very dense suburbs
 - Some of the poorest and wealthiest counties in the nation, which results in different priorities
 - Farmers, ranchers and other rural small business owners in addition to large industrial operations

2015 All Ages in Poverty



October 25, 2017



1:18,489,298
0 160 320 640 mi
0 245 490 980 km
Get it here: dx.doi.org/10.1080/15487717.2017.1381111
Source: U.S. Census Bureau, Small Area Income and Poverty Estimates. Copyright U.S. Census Bureau.

The Cooperative Model



- Cooperatives are democratically member controlled
- Our association is member-owned and member-governed. One member, one vote
- Our board includes representatives from all 43 members
- Unlike investor owned utilities whose rates include profit margins for their shareholders, cooperatives operate on a not-for-profit basis and have cost-based rates
 - The difference between cooperatives and investor owned utilities is recognized in New Mexico statute (NMSA 62-3-2(A)(3))
- Any revenues in excess of expenses (margins) are allocated back to the members (capital credits)
- Because cooperatives are owned by their consumers, there is an inherent interest to keep rates as low as possible



We operate according to our core principles, which are recognized and followed by cooperatives around the globe.

1. Voluntary and open membership
2. Democratic member control
3. Members' economic participation
4. Autonomy and independence
5. Education, training and information
6. Cooperation among cooperatives
7. Concern for community

Types of Electric Utilities



	Electric Member Cooperatives (Tri-State, Springer, Southwest)	Investor Owned Utilities (PNM, SPS/Xcel, EPE)	Municipal Electric Utilities (Farmington Electric Utility System, City of Gallup)
Ownership	Member-consumer owned	Owned by shareholders	Owned by municipality
Business Model	Not-for-profit, net margins retained or distributed to members	For profit, net income retained or paid as dividends	Not-for-profit, net margins retained for capital improvements or other general government purposes
Rates	Rates established by Board of Directors with simple majority vote	Rates established through litigated rate case approved by state PUC	Rates established by city council or town board
Regulatory Oversight	Minimal state, federal regulation on rates	Rates regulated by state commission	No state, federal regulation on rates
Regulatory Body	Board elected by and accountable to member-consumers	State regulatory commission appointed and accountable to courts	City Councils/Town Boards elected by citizens
Customer profile	Sell power to member owners under long-term contracts	Sell power to end-use customers in franchised service territory	Sell power to end-use customers within city limits and occasionally outside of those borders
Customer Density	Serve low density areas (1-11 consumers/mile of line)	Serve high density areas (35+/- consumers/mile of line)	Serve high density areas (35+/- consumers/mile of line)

Tri-State's Wholesale Power Contract



Wholesale Power Contracts

- In place with our members:
 - 42 member contracts extend to **2050** (96.7 percent of member sales)
 - 1 member contract extends to **2040** (3.3 percent of member sales)

Contract Obligations

- Contracts obligate Tri-State's members to pay all of Tri-State's costs and expenses, including debt service, associated with owning and operating its power supply business

Contract Flexibility

- Each member is allowed the option to provide up to 5 percent of its energy requirements from generation they own or control, such as distributed or renewable
- As of March 31, 2017, 18 members have made such an election, totaling approximately 113 MW or 2.6 percent of total generation capacity
- Allows member flexibility

Tri-State's Rate Design



- Tri-State's *Class A Rate* is a “postage stamp” rate, meaning all Tri-State members have the same rate design and are charged the same rate.
 - Capital and operations costs are shared no matter where facilities are built or operated. For instance, Colorado members help pay for Escalante's costs and Wyoming members pay to comply with New Mexico's RPS
- Tri-State's rate design process and policy is designed to work with its members in an inclusive manner, identify their needs and make changes as needed
- The process was revised in 2014 to ensure every member has an opportunity to provide input on rates to the board through the Rate Design Committee
- The current rate design was developed in May 2015 by the committee
 - Nine months of reviewing the cost of service and assessing various options
 - Committee unanimously approved a set of recommendations
 - Tri-State Board of Directors approved in September 2015
 - Based on 45 percent demand to 55 percent energy split
- The rate structure went into effect on January 1, 2016
- Rates were implemented without protest

History in New Mexico



- Tri-State merged with Plains Electric G&T in 2000
- Tri-State Serves 11 of New Mexico's cooperatives
- Rates established by our Board of Directors are generally not subject to regulation by federal, state or other governmental agencies
- As a result of legislative compromise surrounding the merger, Tri-State is required to submit its rates to the NMPRC for informational purposes
- If three or more of our New Mexico Members file a qualified request for review, the NMPRC has regulatory authority over rate increases in the state

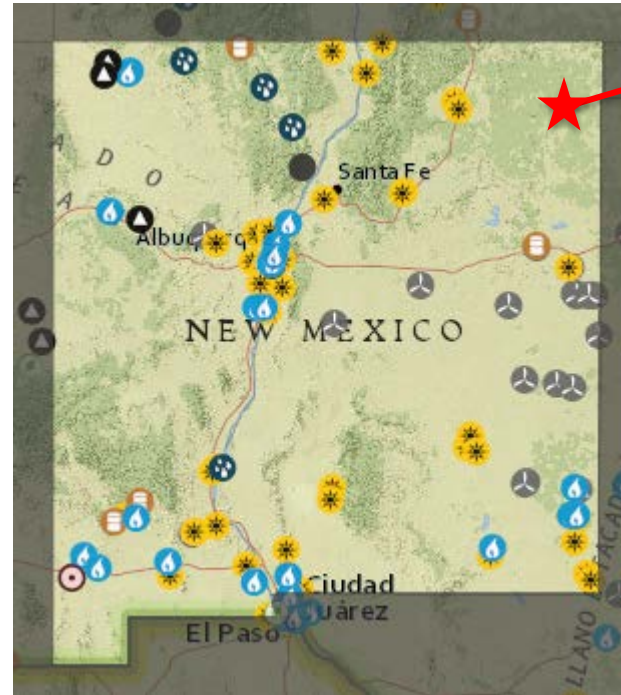


The Cooperative Difference and Proposed Solutions

Why Cooperatives are Different



- Serving remote areas where OXY's operations are located is a costly endeavor
 - Not near any major generation
 - High load factor and power quality requirements
 - Very low density per line mile
 - Self-generation not economical



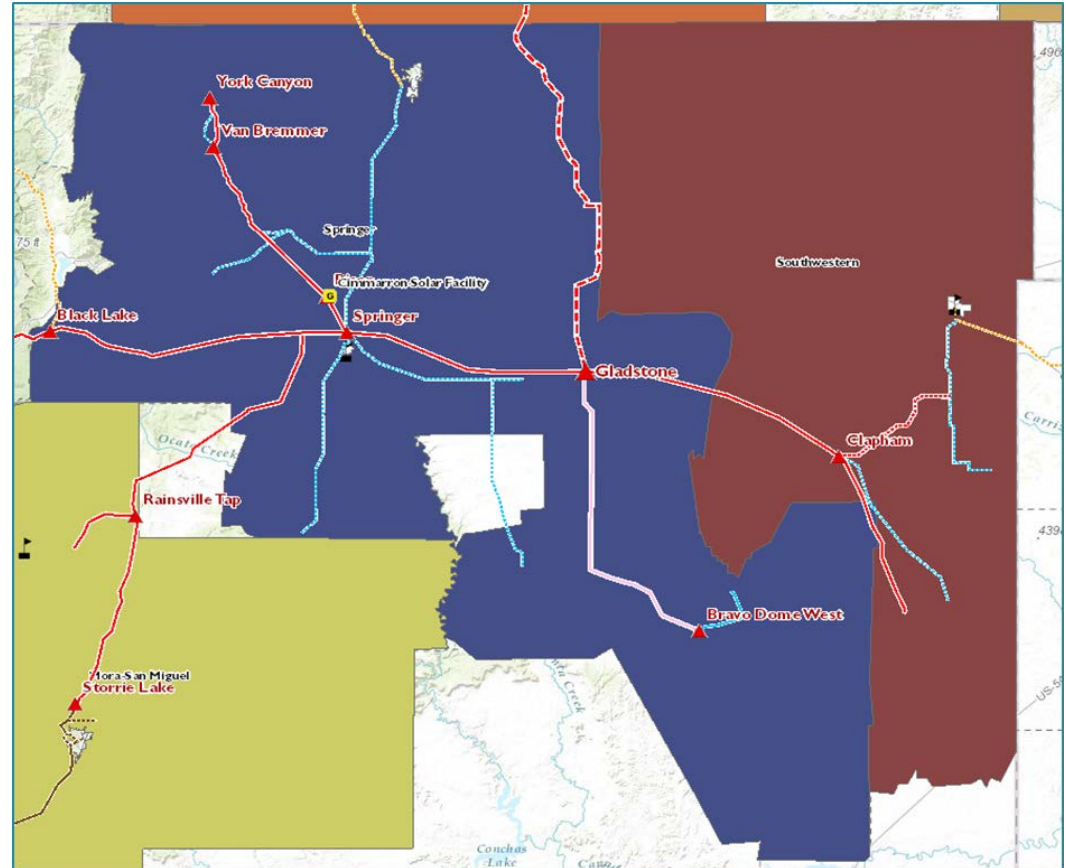
OXY's Bravo
Dome
Operations

Source: U.S. Energy Information Administration. New Mexico State Profile and Energy Estimates. Profile Overview. <https://www.eia.gov/state/?sid=NM>

Why Cooperatives are Different



- Specific Projects in Northeast New Mexico include:
 - Walsenburg-Gladstone 230 kV Line
 - Clapham SVC Projects
 - Bravo-Dome-West Gladstone 230 kV line
 - York Canyon capacitors
 - Gladstone 230/115 kV substation
 - Gladstone phase shifter
 - Gladstone reactors and capacitors
 - Springer sub CB replacements



Tri-State's Proposed Solution



- There is no need for legislation or further regulation
- Tri-State understands the impact and the importance rates have on **ALL of its members**, which is why it 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 it provides competitive.
 - The 2018 consolidated budgets for the association **does not include a rate increase** for the second time in three years.
 - 2018 budget includes approximately \$15 million to build a “rainy day” fund to reduce or avoid the need to raise rates.
 - The long-term forecast anticipates small rate increases (below the level of inflation) over the next five years.



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