



July 23, 2019

Chairman Jeffrey P. Ackermann
Comr. Frances A. Koncilja
Comr. John C. Gavan
1560 Broadway, Suite 250
Denver, Colorado 80202

Re: Tri-State's Transition to a Cleaner Energy Portfolio

Dear Chairman Ackermann and Commissioners Koncilja and Gavan:

I am writing to you for two purposes. First, I want to inform you that earlier today Tri-State submitted its tariff package to the Federal Energy Regulatory Commission (FERC) at the direction of our board and for the purpose of regulating the association's rates. Second, and more important, it is my privilege to provide an update on Tri-State's plans and early steps to transition to a cleaner energy portfolio.

As you know, earlier this month the Tri-State Board of Directors voted overwhelmingly to take steps to become subject to FERC rate regulation. In reaching this decision, our members were diligent in their consideration of this issue and posed many questions to clarify and inform the ultimate determination. Attached for your information is a Question and Answer summary that succinctly addresses many of the issues Tri-State's members considered.

I would like to take this opportunity to reiterate why Tri-State's members determined this is the appropriate action for the association to take:

- As a generation and transmission cooperative serving members in four states and operating facilities in five states, it makes sense for Tri-State's rates to be regulated by a single agency that has the authority to consider the interests of all of Tri-State's members across all four states, rather than seek standard outcomes from separate state regulatory agencies that can consider only the interests of the members located in their respective state.
- Regulation of Tri-State's wholesale power rates by FERC will make Tri-State's regulatory treatment consistent with that of other electric utilities in this region, including Xcel Energy/Public Service Company of Colorado, Black Hills Energy, Public Service Company of New Mexico, PacifiCorp/Rocky Mountain Power, Southwestern Public Service Company, and El Paso Energy. FERC regulates not only the wholesale power rates of each of these utilities but also the wholesale power rates of other generation and transmission cooperatives that operate in multiple states across the nation.





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- Having one regulator for wholesale rates and rate-related issues will allow Tri-State to focus more time and resources on our transition to a cleaner energy portfolio and bring us into alignment with standard industry practices.

I would also like to address some of the questions and concerns that you have raised recently with respect to this decision:

- Tri-State's decision to become subject to FERC rate regulation was not in response to the Formal Complaint filed by Delta-Montrose Electric Association (DMEA), nor was it an attempt to divest this Commission of its jurisdiction in that proceeding. Tri-State has been considering the possibility of FERC rate regulation since 2010, long before DMEA filed its complaint in December 2018. Like the 2012 and 2013 protests of Tri-State's wholesale rate in New Mexico and the 2013 rate complaint filed with this Commission, DMEA's complaint was another example of the risk of differing state regulatory treatment that Tri-State now seeks to resolve by having one regulator for all rate-related matters.
 - Tri-State did not decide to move forward with the steps necessary to become FERC rate regulated until earlier this month, at the direction of our board. Prior to that, this was only an option being considered by the board. Tri-State recognized that becoming subject to FERC rate regulation during the pendency of the DMEA complaint proceeding could have jurisdictional implications; however, the outcome of those implications was far from certain and, in any event, has been resolved by the recent settlement with DMEA.
- Future wholesale rate disputes may be subject to FERC jurisdiction but, again, Tri-State's members determined that authority makes sense and is in their best interests for the reasons discussed above.
- Tri-State's members will continue to enjoy procedural and substantive protections through FERC jurisdiction. Any member may intervene in a Tri-State rate filing at FERC, and may file their own complaint over Tri-State's rates, with no cost to file.
- FERC regulation of Tri-State's rates does not pre-empt this Commission's jurisdiction over Tri-State's resource planning as set forth in SB19-236. Tri-State remains committed – and required – to work with this Commission on



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resource planning, and with the Air Quality Control Commission on the state's plan for reducing carbon emissions.

- Similarly, FERC regulation of Tri-State's rates does not pre-empt this Commission's jurisdiction over Tri-State's facilities and Tri-State will continue to work with the Commission in connection with Certificates of Public Convenience and Necessity.

The Tri-State Board's decision to move to FERC rate regulation complements their decision in June 2019 to pursue an ambitious transition to a cleaner energy portfolio. We are already making real and meaningful progress in this transition.

While it may seem trivial to some, I believe the most significant outcome from the board's July meeting is their adoption of a new mission statement for the association. Through this change, we're simplifying and clarifying our focus: "Tri-State's mission is to provide our member systems a reliable, affordable and responsible supply of electricity in accordance with cooperative principles." This mission dictates our new direction for Tri-State, our members and employees, and reflects how seriously we take this new direction.

In addition to our new mission statement, the board approved the following actions to further the association's clean energy transition:

1. Developing a Responsible Energy Plan to comply with aggressive carbon reduction, renewable energy and resource planning requirements, ensure reliability and affordability, and strive to lower wholesale rates while maintaining our strong financial position.
2. Engaging with former Colorado Governor Bill Ritter and the Center for the New Energy Economy to facilitate a stakeholder process that will help inform and contribute to the development of Tri-State's Responsible Energy Plan which, in turn, will be coordinated with Tri-State's electric resource plan to be filed with this Commission.
3. Creating more flexibility for our members to develop local renewable energy projects by revisiting the types of memberships and contracts we offer.
4. Increasing our renewable resources through new wind and solar projects as evidenced by last month's request for proposals for more renewable energy projects beyond our existing 475MW.



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5. Exploring opportunities with solar and energy services providers to make more community-scale solar, energy storage and electric vehicle infrastructure available to our members at lower cost.
6. Announcing the retirement of Nucla Station, a coal-fired power plant in Western Colorado, in early 2020 following the exhaustion of its on-site fuel supply. To support the affected community through this transition, Tri-State will provide \$500,000 in economic development funding spread across five years.

The steps we have already taken as an association toward our cleaner energy portfolio reflect our genuine commitment to this transition. I sincerely hope you can see that Tri-State is not just giving “lip service” to the state’s clean energy goals, nor are our actions just a “PR campaign.” We are already making real progress and achieving real results.

As I have said publically, these actions do not fit the false narrative portrayed by some that Tri-State is unwilling to change and we are stuck in the past. The Tri-State board has provided a targeted directive to increase renewables and reduce carbon dioxide emissions while striving to lower the association’s wholesale power rate. This directive and our actions to implement it do not sit well with those who have hoped to profit off other narratives, but that does not make those narratives true.

Our board is confident that, as a not-for-profit cooperative, we can accomplish their directive and the state’s goals sooner and at a much lower cost than by working with a for-profit entity. We believe Tri-State offers the best option and value to our members wanting to transition to cleaner energy and we are uniquely qualified to do it more rapidly and cost-effectively than others.

I hope you recognize the amount of change that has already occurred at Tri-State and are supportive of our efforts. I look forward to working with you and the state to transition Tri-State into the wholesale power producer of the future. I would welcome the opportunity to meet with any of you to discuss this further.

Sincerely,

A handwritten signature in black ink, appearing to read "Duane D. Highley".

Duane D. Highley, P.E.
Chief Executive Officer

DDH/dk

