



A Touchstone Energy® Cooperative 

January 1, 2011

Major Events of 2010

1} Operational and financial results

Tri-State closed its 2010 books with \$1.2 billion in total operating revenue and \$77.1 million in net margins. In addition, the member co-ops received \$20 million in capital credits, marking the 22nd consecutive year Tri-State has returned capital credits to its members. Energy sales to the 44 member systems reached a record 15 million megawatt-hours, while non-member sales totaled 3.9 million megawatt-hours. Tri-State's member peak demand for the year occurred in July, topping out at 2,568 megawatts, up nearly 5 percent from the previous year's peak of 2,447 megawatts. The association's baseload coal plants – used to meet its members' requirements and off-system obligations – operated at approximately 88 percent capacity availability throughout the year, which exceeds the national average.

2} 2011 budget/rates

Tri-State's board of directors approved the association's 2011 operating budget of \$1.2 billion, the majority of which is allocated to fixed cost items such as leases, taxes and financing expenses and committed costs which include fuel, contract and market purchases and power delivery costs. Tri-State's rate schedule remains unchanged for 2011, with the average wholesale rate to its member co-ops holding steady for the third year in a row at approximately 6.5 cents per kilowatt-hour. Tri-State's strong fiscal position, which was recognized with an upgrade of its financial rating, helped support the issuance of \$500 million in bonds to provide low-cost financing for the association's capital projects.

3} Renewable resources come on-line

Geared toward further diversifying Tri-State's generation resource mix, two major utility-scale renewable energy projects from which Tri-State purchases power came to fruition toward the end

of the year, when the Kit Carson Windpower project and the Cimarron Solar Facility both became operational in November. Both projects serve as excellent examples of Tri-State's ability to harness and utilize some of the many natural resources available in the West. First to come on-line was the Kit Carson Windpower facility, located just outside the town of Burlington on the eastern Colorado Plains. The 51-megawatt project consists of 34, 1.5-megawatt General Electric turbines spread across a 6,000-acre area. Duke Energy owns and operates the wind farm; Tri-State is purchasing the electric output under a 20-year power purchase agreement with Duke. The 30-megawatt Cimarron Solar project – one of the largest of its kind in the United States – came on-line within weeks of the new wind farm. The 250-acre facility in northeast New Mexico consists of 500,000 thin-film photovoltaic panels produced by First Solar, Inc. The project is owned and operated through a partnership between Southern Company and Turner Renewable Energy; Tri-State is purchasing the electricity generated at the solar plant under a 25-year power purchase agreement.

4) Resource planning

Tri-State continues to develop a number of resource options to reliably and cost-effectively meet its members' and the region's long-term power requirements. Given regulatory and marketplace uncertainties, the association is considering a wide range of fuels and technologies, including coal, natural gas, nuclear and renewable options. In 2010, the association developed a required resource plan filing for the Colorado PUC and the Western Area Power Administration that is foundational for future business decisions. The filing was developed with significant public input and review through several public participation meetings that were held to receive comments from interested parties. The plan was ultimately reviewed and approved for filing by Tri-State's board of directors.

5) Delivery point policy changes

A major undertaking impacting Tri-State's power delivery operations began when the association's board adopted changes to policies aimed at providing consistent, system-wide delivery point voltage practices to all of its member co-ops. The "low-side delivery point" policy changes assign all existing transmission equipment – 100 kilovolts and higher – under Tri-State's ownership and maintenance oversight. The policy changes are largely driven by evolving

federal regulatory compliance standards that are placing increasing legal obligations on electric utilities, as well as Tri-State and member efforts to help streamline the process of meeting those standards. Hundreds of transformers will be transitioned from the members to Tri-State over a three-year to four-year period, which also is expected to create efficiencies and provide significant long-term value to the members.

6} Transmission improvements

Tri-State maintenance crews and contractors had a busy year engaged in numerous transmission and substation projects aimed at strengthening and improving the association's power delivery system. Key among those projects is the Nucla-Sunshine upgrade in southwestern Colorado. After a decade-long delay, contractors began construction in June on the 51-mile, 115-kilovolt project that will provide much needed reliability and improved service to the Telluride region. Tri-State also moved forward with several other transmission projects, including a partnership to construct needed power lines from southern Colorado's San Luis Valley to Pueblo, as well as the development of new power paths from New Mexico into southwest Colorado. Also included in its long-range plans are a number of other large projects that support reliability, growth and the interconnection of new generation resources.

7} Investing in technology

Tri-State continues to make investments in technology development, with a focus on preserving coal-based power as a responsible and affordable option. With several public and private partners, Tri-State continued its participation in a major carbon sequestration assessment project in northwestern Colorado near its Craig Station. As an active member of the Electric Power Research Institute, the association is a participant in several national research efforts, including serving as the host for a potential solar augmentation project at Tri-State's coal-based Escalante Station in New Mexico. In 2010, the association also received an EPRI technology transfer award for its Greenhouse Gas Management Roadmap.

8} EEC program's silver anniversary

An effort that has been providing energy efficiency opportunities for a quarter of a century is Tri-State's Energy Efficiency Credits program. The program – which provides end-use consumers

with financial incentives to purchase and install energy efficient electric heating and cooling systems, appliances, motors and other technologies – has consistently grown throughout its 25 years of existence. The net result to Tri-State has been a cumulative savings of more than 75 megawatts in demand and 80,000 megawatt-hours in energy over the life of the program. In 2010, Tri-State returned \$1.3 million to electric co-op consumers and businesses that made the decision to “plug in and save.”

9} Flight team soars

In August, the Occupational Safety and Health Administration notified Tri-State’s flight operations team that they became members of the Voluntary Protection Program (VPP). The VPP recognizes companies that have achieved exemplary health and safety management systems and that maintain injury and illness rates below the national average for their industry.

10} Business analytic capability strengthened

Throughout the year, Tri-State developed several significant projects to enhance and mature its forecasting, analytic and risk assessment capabilities. Notable among these were: implementing a financial forecasting system that will produce the operating budget, but also give a monthly forward view of costs and revenues 20 months into the future; an energy trade identification and capture system to support the energy and financial position; and a long-range probabilistic business analytic tool to assess future rates and risk profiles under an increasingly uncertain future.