

Holy Cross Energy Corporate Policies

Financial Planning and Management

Policy Number: 5.2

Original Effective Date: November 18, 2020

Revised Dates:

1. OBJECTIVE

1.1 To define financial rules and guidelines that express the expectations of the Board of Directors' ("Board") of Holy Cross Electric Association, Inc., a/k/a Holy Cross Energy ("Holy Cross") regarding HCE's financial planning and management that ensures a sound financial position for the Association and provides for the security of its financial resources.

1.2 Holy Cross is organized under the laws of the State of Colorado and will at all times be operated on a cooperative not-for-profit basis for the mutual benefit of its members and patrons. In addition to these legal requirements, Holy Cross is guided in its operations by regulations and operational practices prescribed by various regulatory bodies and/or lender(s). Beyond these legal, regulatory, and lending requirements, Holy Cross has an obligation to its members and patrons to ensure the financial integrity of the Association so it can continue to serve its members.

2. POLICY

2.1 Financial Reports. In order to maintain a sound financial position and provide for the most effective management and security of the financial resources of HCE, the Board directs the President and CEO to create and update or see to the creation and updating of the following planning reports and documents (hereinafter "reports"). These reports shall be created and updated on a regular basis with frequencies not more than the timeframes in the table below. All reports shall be reviewed by the Board. Note that from time to time there may be other planning reports not included below that may be necessary to meet this Policy's intent.

Report	Frequency
Long Term Financial Plan	Annual
Operating Budget	Annual
Capital Budget	Annual
Audit	Annual
Cost of Service Model	As needed, but at least every 3 years

2.1.1 Long Term Financial Plan. The Board, in collaboration with the President and CEO, shall be responsible for developing a Long Term Financial Plan that contains projections and metrics for a period not less than 10 years. This Plan will help guide decisions on revenue sufficiency, rates, capital investments, capital structure and other large financial decisions. The Plan will help guide the development of the annual Operating and Capital Budgets. The long-term financial plan shall be updated annually to include the outcomes of the most recent calendar year and the current year's approved budget.

2.1.2 Operating Budget. Based on the planning documents and the financial goals identified in this Policy, management shall prepare or cause to be prepared an annual Operating Budget. The operating budget will include expenditures for Power Supply, Labor, Non-Labor Expenses, Depreciation, Interest payments and Margin as deemed necessary to maintain the desired level of service to members. The Operating Budget shall be prepared annually for the Board's approval.

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2.1.3 Capital Budget. Based on the planning documents and the financial goals identified in this Policy, management shall prepare or cause to be prepared an annual Capital Budget. The capital budget will include expenditures for Generation, Transmission, Distribution, General Plant, and Special Projects as deemed necessary to maintain the desired level of service to members. The Capital Budget shall be prepared annually for the Board's approval.

2.1.4 Audit. An annual audit of the Association's finances shall be conducted by the Board Audit Committee in accordance with Article V, Section 8 of the HCE Bylaws.

2.1.5 Cost of Service Study. At least once every three years, the President and CEO shall commission an update of HCE's Cost of Service model, either by HCE staff or by an outside consultant, and report to the Board on any changes thereto, including recommendations for changes to HCE's electric rates.

2.2 Electric Rate Comparison. At least once each year, the President and CEO or their designee shall provide a report to the Board that compares HCE's electric rates to those of other Colorado utilities based on data collected by the Colorado Association of Municipal Utilities (CAMU). HCE shall strive to have the lowest rates in all rate classes among Colorado-based electric cooperatives.

2.3 Equity Ratio. In order to maintain an optimal cost of capital, meet lender requirements and receive lender discounts, HCE shall strive to achieve an equity ratio of 40% or greater, as defined by total equity divided by total assets.

2.4 Debt Service Coverage. In order to minimize the risks associated with insolvency, HCE shall strive to achieve a Debt Service Coverage ratio of 1.35 or greater, as defined by total operating income divided by the sum of annual debt and interest payments.

2.5 Operating Margin. In order to ensure sufficient revenue to maintain equity and pay capital credits to members, HCE shall include in its annual Operating Budget a margin that represents a Rate of Return on Net Rate Base that equals 5.25 % plus or minus 0.25 %, as defined in HCE's Electric Service Tariffs, Rules and Regulations.

2.6 Minimum Cash Balance. In order to provide sufficient cash for maintaining HCE's operations, HCE shall maintain a minimum cash balance of \$5.0 million on a rolling twelve-month average.

2.7 Capital Credits. Subject to the provisions of Corporate Policy 5.1, Capital Credits, the Board shall, at its sole discretion, allocate and retire capital credits in a manner and amount it may determine from time to time consistent with cooperative operating principles and Federal and State law.

2.8 Short Term Debt. HCE shall maintain one or more lines of credit for short-term operating purposes with an aggregate amount not to exceed \$34,000,000.

2.9 Long Term Debt. The aggregate amount of all loans drawn or available to be drawn by HCE shall not exceed the \$275,000,000 maximum debt limit established by the Board and contained in HCE's mortgage documents.

2.10 Investments. To maintain sufficient liquidity in order to ensure payment of current liabilities as they become due, HCE may choose to utilize one of the following investment opportunities for its general funds:

- FDIC or NCUA insured accounts, taking into consideration the limits associated with these types of insured accounts.
- CFC Daily Liquidity Fund - a flexible investment account that allows cooperatives to invest and earn a return on short-term cash surpluses.
- CFC Commercial Paper - provides a short-term investment option for surpluses that yield competitive returns.

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- CFC Select Notes - flexible, short-term investment products that allow cooperatives to earn a return on short-term cash surpluses. The senior unsecured debt securities provide the advantage of a higher rate of return than other CFC short-term investment products—like the CFC Daily Liquidity Fund and CFC Commercial Paper—due largely to a longer minimum investment time and a higher minimum trade amount.
- CFC Medium-Term Notes (MTNs) - unsecured debt securities with terms generally ranging from 10 to 24 months. MTNs provide an opportunity for cooperatives to earn a more attractive interest rate on general funds that are available for a longer-term investment than the CFC Daily Liquidity Fund or CFC Commercial Paper.
- CFC Member Capital Securities (MCS) - allow members to invest in CFC, strengthen CFC's capital base, and support CFC's ability to provide funding in the future.

2.11 Revenue Deferral. In the event that HCE runs an operating margin surplus beyond that needed to satisfy the provisions of section 2.5 of this Policy, the Board may choose to defer such excess revenue to future years in order to avoid or eliminate the need for future rate increases or help cover the cost of unanticipated events. Such deferred revenue shall be recognized up to but no more than 5 years after the initial date of deferral.

2.12 Resolution of Conflicts. If more than one of the financial goals described in Sections 2.2 through 2.9 of this Policy conflict with one another to such a degree that the Long Term Financial Plan cannot reasonably achieve all of them at the same time, the President and CEO shall communicate such conflict(s) to the Board for it to resolve.

3. RESPONSIBILITY

3.1 The Board will be responsible for the administration of and compliance with this Policy.

3.2 The President and CEO shall ensure this Policy is adhered to by Holy Cross employees.