

MINUTES OF REGULAR BOARD MEETING OF HOLY CROSS ENERGY

DECEMBER 14, 2022

A regular meeting of the Board of Directors of Holy Cross Electric Association, Inc., a/k/a Holy Cross Energy (hereinafter called “Holy Cross”), a Colorado cooperative association, was held at the main office at 3799 Highway 82 in Garfield County, Glenwood Springs, CO, on December 14, 2022, at 9:03 a.m. The meeting was held on WebEx with Board members and staff appearing electronically. Notice of the meeting was given in accordance with Colorado law and the bylaws of Holy Cross.

Agenda Item 1: Roll Call. Chair David C. Munk called the meeting to order and reported that all seven Directors were present being Robert H. Gardner, Kristen N. Bertuglia, David C. Munk, Adam Quinton, Keith E. Klesner, David S. Campbell, and Alexander DeGolia. Staff attending included Bryan J. Hannegan, President and Chief Executive Officer; David Bleakley, Vice President – Engineering; Cody O’Neil, Vice President—Operations; John Rowley, Vice President - Human Resources; Sam Whelan, Vice President—Finance; and Jenna Weatherred, Vice President—Member and Community Relations. Also attending was General Legal Counsel Michael A. Westbrook and Manuel Gomez. Also present on WebEx was Kyle Farley.

Agenda Item 2: Adjourn Previous Board Meeting. Chair Munk adjourned the meeting of the Board of Directors originally convened on November 16, 2022, and then continued to today’s meeting. [09:04]

Agenda Item 3: Public Comment. Chair Munk asked for comments of members of the public present. No comments were received from Kyle Farley. [09:05]

Agenda Item 4: Employee Recognition.
December Service Recognition:

Josh Hejtmanek, Journey Lineworker in Operations at Glenwood Springs is celebrating 20 years of service. Glenn Wysocki,

Senior Inspector in our Construction Engineering Department in Glenwood Springs is celebrating 15 years of service.

Recent New Hires, Promotions and Departures:

Austin Walck joined us on November 14, as an Equipment Operator in Glenwood Springs. Phil Armstrong joined us on November 28, as Manager, Power Supply in Glenwood Springs.

Carlos Sandoval joined us on December 5, as a Member Services Representative I in our Avon Location.

Eric Arnette has been promoted to Manager, Information Technology. He previously held the position of Senior Network Administrator. This took effect December 1.

Seth Perry, Business & Data Analyst departed from Holy Cross on November 17. We wish him all the best in his next adventure.

Wes MacCachran, Software & Systems Specialist III departed from Holy Cross on December 1. We wish him all the best in his next adventure. [09:15]

Agenda Item 5: Consent Calendar. The following informational items were presented to the Board in the form of written reports and memoranda:

- a. Minutes of November 16, 2022, Regular Meeting
- b. Treasurer's Report
- c. Safety Committee Minutes
- d. Diversity, Equity, and Inclusion Committee Minutes
- e. Power Supply Report
- f. System Reliability Report
- g. Community Energy Systems Report
- h. Member Participation Report
- i. Legislative and Regulatory Report
- j. Attorney's Report
- k. Board Committee Reports
 - i. Communications
 - ii. Finance
 - iii. Governance
 - iv. Strategic Issues
- l. Directors' Reports
 - i. Western United Electric Supply Corporation
 - ii. Colorado Rural Electric Association
 - iii. National Rural Electric Cooperative Association
 - iv. National Rural Utilities Cooperative Finance Corporation

Questions posed by Board members were answered by staff members. Upon motion duly made, seconded, put to a vote and unanimously carried, it was

RESOLVED, that the items on the Consent Calendar be approved as presented. [9:33]

Agenda Item 6: Staff Reports. The Staff Reports had been delivered to the Board members prior to the meeting. Questions from Board members were answered by staff members. [9:52]

Agenda Item 7: Fiscal Year 2023 Planning.

- a. Key Performance Indicators. President and CEO Hannegan and Vice President Whelan made a verbal and visual presentation. As described in the HCE Strategic Plan, the Board uses specific and measurable KPIs to regularly evaluate progress towards meeting HCE's strategic goals and objectives, as follows:
 - On a monthly basis, the Board reviews progress against the current year's KPIs using the table provided in each month's Staff Reports (available in Call to Order).
 - At the end of each calendar year, the Board reviews the list of KPIs and sets new targets for each for the coming year with the input of HCE staff.

In general, HCE uses KPIs that are in broad use across the industry, allowing for benchmarking against other utilities. A table of proposed KPIs, along with previous and current year actuals for each, is included in the materials presented to the Board.

After the presentation was concluded and questions posed by board members were answered, upon motion duly made, seconded, put to a vote and unanimously carried, it was

RESOLVED, that the table of Key Performance Indicators (KPIs) for 2023 be adopted as presented. [11:08] [A break was taken. 11:08 to 11:26] During the break, Director DeGolia briefly left the meeting.

b. 2023 Work Plan Initiatives. President and CEO Hannegan and Vice President Weatherred made a verbal and visual presentation. At its November 2022 meeting, the Board reviewed nine proposed 2023 Work Plans developed by the HCE staff to guide their strategic activities intended for the year. Feedback obtained from the Board at that meeting has been incorporated into the finalized Work Plans (in Call to Order. Proposed specific changes to the 2023 Work Plan are as follows:

Diversity Equity and Inclusion: \$2,000 added for additional DEI Committee-sponsored outreach events.

Energy Assistance: Significant rewrite to include focus on WE CARE program eligibility (not bill payment assistance), and to include outreach and program development for HCE's elderly membership. Budget request increased to match expended scope.

Financial Sustainability: Minor editorial corrections.

Wildfire Risk Mitigation: Reordering of tasks on chronological order.

Questions from Board members were asked, and senior staff answered the questions. During the presentation, Director DeGolia rejoined the meeting. [11:48] Upon motion duly made, seconded, put to a vote and unanimously carried, the following resolution was adopted:

RESOLVED, that the proposed 2023 Work Plans be approved as amended. [12:04] A break for lunch was taken. [12:04 to 13:15]

c. Wage and Compensation Adjustment. Vice President Rowley made a verbal and visual presentation about the appropriate adjustment to be applied to the salary and wage ranges for Holy Cross Employees in 2023. The Employer's Council has compiled the following data: Consumer Price Index (CPI; inflation), Employment Cost Index, and salary information and projections based on national, state and industry data. As described in their 2023 projected salary increase slide, the Resort Areas (which HCE considers the most relevant for its service territory) is projecting average increase in wages paid from 5.0%-5.4%. HCE also looks at the Western Slope data which ranges from 4.3% -4.6% and the All-Colorado data which ranges from 4.4% - 4.5%. Accordingly, Staff recommended a Wage and Compensation Adjustment of 5.25% for 2023. This adjustment would apply to all Salary Grades and Wage Ranges as defined in the HCE Compensation Plan. This value would also be the basis for the Merit Matrix used to determine individual employee compensation adjustments considering the employee's position within the wage range and the employee's performance during the previous calendar year. For Lineworkers and Apprentices, the Wage and Compensation Adjustment would be applied uniformly. No action was taken or required by the Board as the proposed adjustment to the salary and wage ranges for Holy Cross employees in 2023 is incorporated into the 2023 Operating Budget. Questions from Board members were asked, and senior staff answered the questions. [13:35]

d. Operating Capital Budget. Vice President Whelan gave a presentation about the 2023 Budget and Capital Plan that includes an Operating Budget with total operating revenue at \$158.4 million (including ECA and deferred revenue) and total cost of service at \$143.9 million. Operating margin is forecast to be \$9.8 million in 2023 (consistent with a 5.25% rate of return, the middle of the range outlined in Corporate Policy 5.2, Financial Planning and Management, at Section 2.5). Total margin (including non-operating revenues) is forecast to be \$10.5 million. The Operating Budget includes:

- A \$10.0 million increase in operating revenues due to increases in:

- o Deferred revenue of \$2.6 million
- o Electric revenue of \$4.4 million, including ECA of 0.754 c/kWh
- o Guzman revenue of \$2.9 million
- A \$6.9 million increase in power supply expenses, due to:
 - o Demand budget in line with recent experience
 - o Increases in the formula rates from PSCo
 - o Cost escalators in existing contracts
 - o Reduced volumes from WAPA
 - o Increased costs from Guzman, partially offset by the increased Guzman revenue
- A \$3.4 million increase in labor expenses, due to:
 - o Understated 2022 actuals due to vacancies
 - o 5.25% wage pool adjustment
 - o Removal of district differential pay gap (phased in through three years)
- A \$2.9 million increase in non-labor operating expenses, including:
 - o \$1.9 million increase in transmission expense
 - o \$0.4 million increase in depreciation due to projected capital cycle

A summary of the proposed Operating Budget for 2023, along with the projected year-end financial results, along with a list of items that could be adjusted in the budget to improve operating margins and reduce the ECA in 2023 had been delivered to the Board members prior to the meeting. Mr. Whelan also presented the proposed Capital Budget. The proposed 2023 Capital Budget is \$35.8 million for 2023, including \$7.7 million in carried over capital budget allocated but unspent in 2021 and 2022, \$3.0 million in capital spending associated with the “TIE Agreement” with Xcel – Colorado, and \$6.0 million in capital spending associated with the dedicated USDA Rural Energy Savings Loan Program funds HCE is utilizing for our Power+ program.

This net capital request (ex-carry over, TIE, and RESP) of \$19.0 million is in line with previous years’ (2021-2022) capital budgets. At a high level, the 2023 Capital Budget request includes:

- \$1.7 million for Comanche 3 (auxiliary boiler due to units 1&2 shutting down)
- \$10.0 million for general maintenance (replacement)
- \$1.4 million for system improvement projects (reliability)
- \$1.2 million for smart grid improvement
- \$1.9 million for fire mitigation efforts
- \$1.2 million for costs associated with the Avon-Gilman Transmission Line Project
- \$1.7 million for transmission upgrades related to our solar + storage RFP projects
- \$2.7 million for fiber network expansion
- \$2.8 million for replacement of vehicles and boom trucks

A summary of the proposed Capital Budget for 2023 had been delivered to the Board members prior to the meeting.

During the discussion, Chair Munk asked attendee and member of the public Kyle Farley to introduce himself. [14:15]

After discussion by the Board, upon motion duly made, seconded, put to a vote and unanimously carried, the following resolution was adopted:

RESOLVED, that the HCE Board of Directors authorize the deferral of 2022 revenue that is above the target operating margin (estimated at \$4 million) into 2023, in accordance with Corporate Policy 5.2; and

FURTHER RESOLVED, that the draft 2023 Operating and Capital Budgets be approved as amended. [14:50]

Agenda Item 8: Old Business. None. [14:51]

Agenda Item 9: New Business. None [14:51]

Agenda Item 10: Executive Session. Upon motion duly made, seconded, put to a vote and unanimously carried, the following resolution was adopted:

RESOLVED that the Board enter executive session to consider documents or testimony given in confidence generally relating to personnel matters and legal advice. All staff members remained in the Board room.

No action was taken by the Board to make final policy decisions or adopt or approve any resolution, rule, regulation, or formal action, any contract, or any action calling for the payment of money.

Upon motion duly made, seconded, put to a vote and unanimously carried, the following resolution was adopted:

RESOLVED that the Board exit executive session. [15:28]

Agenda Item 11: Items for Future Agendas. President and CEO Hannegan presented a list of subjects that will be considered in the upcoming monthly board meetings. Discussion about the subjects and any additions ensued. [15:33]

New Agenda Item: Executive Session-Second Session. Upon motion duly made, seconded, put to a vote and unanimously carried, the following resolution was adopted:

RESOLVED, that the Board enter executive session to consider documents or testimony given in confidence generally relating to personnel matters. All staff members remained in the Board room.

No action was taken by the Board to make final policy decisions or adopt or approve any resolution, rule, regulation, or formal action, any contract, or any action calling for the payment of money.

Upon motion duly made, seconded, put to a vote, and unanimously carried, the following resolution was adopted:

RESOLVED, that the Board exit executive session. [15:36]

Discussion continued regarding items for future Agendas (Agenda Item 11). [15:42]

Agenda Item 12: Continuation of Board Meeting. Chair Munk continued the meeting at 15:42 p.m. until Wednesday, January 18, 2023, at 9:00 a.m. The next meeting will be held by WebEx.

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Secretary – Alexander DeGolia

APPROVED:



Chair – David C. Munk

2023 Holy Cross REA Board Meeting Schedule [Third Wednesday of each month]
January 18, 2023—WebEx
February 15, 2023—in person—Cooley Mesa
March 15, 2023—WebEx
April 19, 2023—in person—Glenwood
May 17, 2023—WebEx The Annual Meeting of Members will be held on June 15, 2023, at The Arts Campus at Willits [TACAW], 400 Robinson Street, Basalt, CO 81621
June 21, 2023—in person
July 19, 2023—WebEx
August 16, 2023 (strategic planning)—in person
September 20, 2023—WebEx
October 18, 2023—WebEx
November 15, 2023—WebEx
December 20, 2023—in person