



HOLY CROSS ENERGY

2023 Strategic Plan



Executive Summary



For more than 80 years, Holy Cross Energy (HCE) has safely provided reliable and affordable electricity to its members and their communities. Changes in electricity technology and new and increasing consumer demands bring both opportunities and challenges to HCE as it strives to continue its proud tradition of quality service and member focus.

Foremost among these is HCE's commitment to reducing its contribution to climate change, propelled by the call of many communities served by HCE for increasingly cleaner and more sustainable power.

As a result, over the past several years, HCE has updated its Strategic Plan, reflecting extensive consultation and collaboration between HCE's Board of Directors and its employees, as well as significant gathering of input from key stakeholders and communities HCE serves. This updated Strategic Plan articulates a Vision and Mission for HCE as follows:



— OUR VISION

Holy Cross Energy is leading the responsible transition to a clean energy future.

— OUR MISSION

Holy Cross Energy provides safe, reliable, affordable, and sustainable energy and services that improve the quality of life for our members and their communities.

Strategic Goals

The updated Strategic Plan also identifies six Strategic Goals that will guide the future activities of HCE towards fulfilling its new Vision and Mission for the benefit of its members:

GOAL 1

Provide clean electricity to our members.

GOAL 2

Operate a safe, modern, reliable, resilient and secure electric distribution system.

GOAL 3

Promote, enable, and accelerate electrification, energy efficiency and member distributed energy resources.

GOAL 4

Enable long run financial sustainability by obtaining sufficient revenue, containing cost increases, and maintaining a strong balance sheet.

GOAL 5

Provide outstanding and equitable service and value to all HCE members and their communities.

GOAL 6

Be an exceptional employer of choice in our region.

These Strategic Goals were developed following a comprehensive analysis of HCE's strengths, weaknesses, opportunities, and threats ("SWOT" analysis) as well as an assessment of "enterprise risks" that might interfere with HCE's ability to fulfill its Vision and Mission.

That assessment identified significant opportunity to expand HCE's services through beneficial electrification, e.g. the use of electricity for heating, cooling and transportation. Enterprise risks identified included potential regulatory or economic shift, the risk of wildfire, and the arrival of retail competition and distributed energy resources. HCE's strengths in power supply, community leadership and financial health help position the organization for the future with a strong culture of innovation, safety, and member engagement and partnership to mitigate these risks. For each Strategic Goal, specific Objectives were also identified to guide future priority work activities over the next several years.

These Strategic Goals and Objectives were then translated into a series of Key Performance Indicators (KPIs) that guide annual budgets and work plans. HCE will provide frequent updates at community events throughout the year and provide an Annual Report on progress toward the Vision and Mission., HCE will also regularly review and update this Strategic Plan as warranted.

Taken together, these actions will provide an open and transparent view of HCE's strategy, execution and performance to all members, as befits their status as owners of the cooperative.

I. Honoring HCE's Proud History

In 1939, a small group of farmers and ranchers in Western Colorado joined together to pursue “the miracle of electricity” for the rural farming areas of the upper Eagle Valley and the sparsely settled ranch areas of Pitkin County. Their efforts found success in the incorporation of the Holy Cross Electric Association (subsequently called Holy Cross Energy or HCE) on November 29, 1939 through the filing of papers with the Colorado Secretary of State



Over the next few years, funding was secured from the federal Rural Electrification Administration, along with the first office location in Basalt and the first “REA” employees. In the spring of 1941, wholesale contracts for power supply were negotiated and construction of power lines began in both the Roaring Fork and Eagle river valleys. These lines served over 200 members from delivery points in Minturn and Aspen once the “turning on of the lights” took place in the first week of September that year.

Over the next ten years, HCE grew to encompass additional service territory in the rural areas of the Grand Valley as well as acquire the aging generators and delivery system serving Gypsum and Eagle. HCE extended its system to the Four Mile, Spring Valley and Crystal River areas, built into the Frying Pan River Valley, Woody Creek, Dotsero and up to Sweetwater. By the end of the 1940s HCE had eight full-time staff and served over 1,000 members with 259 miles of line.

A new radio communications system was installed throughout the area in 1951 and expansion into Aspen occurred later in 1953. By 1960, HCE had grown to serve over 2,000 members and had implemented its first capital credits program.

Over the next decade, HCE found itself growing rapidly to provide electric service to the nascent Vail Corporation, taking on significant risk and deploying underground power lines almost overnight in time for Vail’s opening in 1962. Continued development of ski areas in Aspen and at Sunlight Peak powered HCE’s expansion through the 1960s. By 1982, HCE had moved into a new headquarters building in Glenwood Springs, one it still calls home today.

HCE survived the bankruptcy of its wholesale power provider, Colorado-Ute, in the early 1990s and developed new power supply and transmission agreements with Public Service

Company of Colorado (PSCo) with far-reaching flexibility that is unique among Colorado electric utilities. During the 2000s, HCE negotiated with PSCo to purchase an 8% ownership share in the Comanche Unit 3 coal-fired power plant that began operations in early 2010 after several years of planning and construction. Over the next decade, HCE established itself as an environmental leader among electric utilities by

- Executing a robust residential and commercial energy efficiency program with annual savings goals as a percentage of total kWh consumed each year;
- Establishing a ground-breaking feed-in tariff to support wind energy development in Colorado, along with local hydro and solar PV projects;
- Hosting the first community solar garden project in Colorado within HCE’s territory
- Actively supporting aggressive state-level Renewable Energy Standards; and
- Investing in power purchase agreements with emerging clean energy technologies, including Colorado’s first coal mine methane recovery and biomass generation projects; and
- Introducing new rebates and net metering programs to further support local solar PV development.

In response to increasing concerns raised by members and HCE-served communities over the financial, operational and environmental risks posed by climate change, in September 2018, HCE’s Board of Directors formally adopted new long-term goals for the environmental sustainability of the HCE power supply.



HCE's "Seventy70Thirty" goals aimed to increase the clean and renewable energy content of its power supply to at least 70% and reduce the greenhouse gas emissions from HCE's power supply by 70%, relative to 2014 levels. To meet those goals, HCE subsequently announced in late 2019 a two-way power purchase agreement with Guzman Energy in which HCE's share of Comanche Unit 3 would be swapped for the output of a new wind energy resource to be built in Colorado, along with low-carbon energy available in the bilateral market.

In the future, HCE must continue to safely provide affordable and reliable electric power to its members and communities, while addressing the changing landscape in which it operates. HCE is

rightly being challenged to provide electric service in an increasingly sustainable manner, and in a way that recognizes the diversity of needs among its more than 43,500 members.

Furthermore, the HCE electric system faces an increasing array of risks to continued operation, whether they be from natural hazards such as winter storms or wildfire, or human hazards associated with cybersecurity. These new demands force a rethinking of the traditional role of the electric utility in the broader society and necessitate a continued focus on strategic planning as HCE enters the second decade of the 21st Century.

II.

Defining the HCE Vision and Mission

In August 2017, the HCE Board of Directors and staff leadership met to review the existing Strategic Plan, including the vision, mission, and core values developed by HCE employees during the summer of 2012. Participants engaged in a brainstorming session to describe important characteristics for HCE to exhibit in the future, and then identified priority characteristics as follows:

- Safe
- Reliable
- Environmentally Responsible / An Environmental Leader
- Fiscally Responsible / Cost-Competitive
- Good Employer with Great Employees
- Community Partner
- Valuable to Members





For each of the desired characteristics listed above, the Board and staff leadership also developed Key Performance Indicators (KPIs) to provide specific targets for near-term work plans and new initiatives. These KPIs serve as a form of performance-based regulation when used by the Board to assess progress, reward performance, and guide investment decisions and operational actions.

In subsequent discussions held in late 2017 and early 2018, the Board and staff leadership composed a new mission statement for HCE that directly incorporated these seven desired characteristics, as follows:

Holy Cross Energy provides safe, reliable, affordable, and sustainable energy and services that improve the quality of life for our members and their communities.

Adopted by the HCE Board in May 2018, it is a blend of both the new and the old, recognizing the expanded role of the electric utility as both a provider of critical services and as a force for good in the community. The focus on both energy and services acknowledges the changing nature of the HCE business model: it has been said that consumers don't want commodity electricity so much as they want "cold beer and warm showers", i.e., the services that electricity provides - comfort, function, mobility, health and welfare, connectivity, and more. If there is a better way to provide these services, such as through distributed resources rather than grid supply, these approaches must be investigated.

In parallel, the Board and staff leadership also developed and adopted a new vision statement to guide our future activities and strategic direction:

Holy Cross Energy is leading the responsible transition to a clean energy future.

Every word of this vision statement has an intended meaning. For example, “leading” means that, whereas most electric utilities have been historically slow to adopt new technology, HCE will be among the first to explore new opportunities and innovations. The use of the word “responsible” acknowledges that HCE must continue to honor its commitment to safety, affordability and reliability while it maintains the financial health of the organization. The phrase “transition” recognizes that HCE is in the early days of its journey towards the destination of a clean energy future;

particularly given the long lead times required to modify the capital investments and assets HCE possesses.

The destination of “clean energy future” means a modernized, interactive and decarbonized electric grid that serves as a backbone of a more sustainable economy for our region. This modernized electric grid will be the centerpiece of HCE’s position as a national leader for member-owned rural electric cooperatives and utilities overall. HCE’s rich history of serving its diverse and engaged membership will continue through a strong member focus, resilient business practices and grid services, and equitable programs. This progress and innovation will enable all members to be part of and be proud of a clean energy future as delivered by a member-focused, member-owned utility.



The Core Values

The core values remain unchanged, having been developed by HCE employees during an intensive period from 2012-2013. During discussions, all agreed that these core values still embodied the ideal for how HCE should collectively deliver on its vision and mission:

■ Safety

We are committed to the safety and welfare of all employees and the general public through education, awareness, training and prevention. Each one of us is responsible and accountable for identifying, preventing and correcting workplace safety issues. Individual and collective safety within this organization depends on each one of us!

■ Teamwork

We develop teams throughout the organization that foster mutual support, synergy, opportunity, continuous learning and achievement of common goals. We strive to create a teamwork environment that builds on the strength of each individual employee (including their talents, skills, interests and expertise).

■ Accountability

Regardless of our role, we each take ownership and responsibility for creating a strong and effective organization. We are accountable as individuals, as employees of HCE as a whole, and as members of the community for our ethical conduct, compliance with HCE's Rules and Regulations and policies, and we embrace responsibility for our words and actions.

■ Integrity

We strive for equity and fairness in our decision-making and in our treatment of one another and are committed to being honest in both our internal and external working relationships. We hold ourselves accountable for following through on our commitments and "walking our talk."

■ Respect

We take pride in the diversity and uniqueness of our employees and members, and we recognize that differences ultimately make us stronger as an organization. We strive to treat each other and our members with the highest degree of dignity, empathy and trust.

■ Service

We are committed to meeting customer needs and expectations, both internal and external, with determination, creativity, respect and enthusiasm.



While each of these Core Values is equally important, HCE emphasizes a culture of “Leadership at All Levels” that directly challenges the typical top-down leadership paradigm found in most electric utilities. HCE’s Board and staff recognize that, regardless of an employee’s position, they can lead their peers, managers, employees and members every day.

Employee teams (composed typically at the group or department level) are expected to define their goals and work plans, considering this Strategic Plan and its long-term objectives as expressed through Key Performance Indicators (KPIs). These employee teams are expected to hold each other accountable for achieving their work plans with

available resources and budgets, and for working collaboratively as one team - “one Holy Cross” - to do whatever it takes to continuously improve HCE’s ability to serve its members and their communities.

Taken together, the HCE vision, mission and core values form the backbone of the cooperative and its strategic direction. These statements define HCE’s ambition for the future: who it will be, what it will do, and how it will do it. Along with the annual KPIs and work plans proposed by HCE staff and adopted by the Board before the start of each year, they provide the framework for ensuring that HCE will continuously strive to serve our members better.

III.

Assessing the Changing Landscape

Guided by the above framework, HCE implemented several strategic initiatives, affecting all aspects of the cooperative. The most ambitious of these was the Seventy70Thirty plan, a commitment to source at least 70% of future power supply from clean and renewable resources (up from 39% in 2017) and reduce future greenhouse gas emissions by at least 70% from 2014 levels, with no increase in power supply costs relative to the existing baseline.

HCE also implemented initiatives to improve operational safety as well as cyber and physical security, and HCE is taking steps to harden the distribution grid and reduce the risk of wildfire ignition from the system. New efforts were initiated to advance beneficial electrification, both through electric transportation (with the Charge at Home/Charge at Work program) as well as through energy-efficient and demand-responsive buildings, appliances, and end-user devices.

Finally, HCE substantially increased community engagement and partnerships through monthly Brats & Kilowatts outreach events, and through greater participation in community-based efforts to improve resilience and sustainability.

Yet, as quickly as HCE implemented necessary changes to keep pace with the changing industry and the changing needs of its members, the world changed just as quickly. Communities within the HCE service territory took on ambitious new sustainability goals that were focused not only on electricity consumption but also on transportation and buildings-related emissions as well. In response to these goals, HCE is actively partnering

with its communities to help them meet their sustainability goals through active participation, collaboration, and support from the HCE Board and HCE employees.

Technology cost and performance for wind, solar, batteries, electric vehicles and other distributed energy resources continued to improve in response to advancements in new materials and chemistries, advances in controls, maturing of energy markets, continued federal and state tax incentives, and economies of scale in manufacturing and production. Challenges to system integrity from natural hazards such as wildfires and extreme weather events and the frequency of cyber events affecting electric power systems have also steadily increased.

The political landscape in Colorado changed as well, as an active legislature and Governor's office passed sweeping energy legislation in 2019 that set new statewide greenhouse gas targets, advanced the electrification of the State's economy, expanded the mandate for the Public Utilities Commission, and introduced new requirements affecting electric utilities.

Given these developments, the HCE Board and staff leadership found it timely to conduct an expanded two-day strategic planning retreat during the summer of 2019. In advance of the retreat itself, participants completed a survey that included:

- (1) an assessment of HCE’s strengths, weaknesses, opportunities and threats (“SWOT analysis”)
- (2) an “enterprise risk assessment” to identify and make plans to mitigate those risks that if left unaddressed could significantly limit HCE’s ability to deliver on its Vision and Mission.

The SWOT analysis and enterprise risk assessment were used as inputs to the development of the Strategic Goals and Objectives outlined in the following sections of this Plan. As described in Section VI, the Board reviews the enterprise risk assessment each year during its annual strategic planning retreat and makes changes to this Plan as deemed necessary to respond to the changing landscape.

Strengths

- Power Supply
- Member Engagement and Partnership
- Leadership
- Cooperative Culture
- Innovation
- Reliability/Safety
- Financial Health
- Diversified and Decentralized Supply

Weaknesses

- Rate Design and Structure
- Corporate Culture
- Limited Organizational Capacity

Opportunities

- Beneficial Electrification/Services
- Rate Design and Structure
- Renewable/Clean Power
- Member Engagement
- Broadband

Threats

- Legislative and Regulatory
- Resilience – Cyber and Climate Change
- Liability – Fire, Legal, etc.
- Rising Costs
- Grid/Load Defection
- Managing Variable Resources

Table 1: Results of SWOT Analysis

Based on Board and staff leadership inputs to the enterprise risk assessment, and the in-person discussion conducted at the strategic planning retreat, the following items were identified as most important to consider in any future revised strategy for HCE:

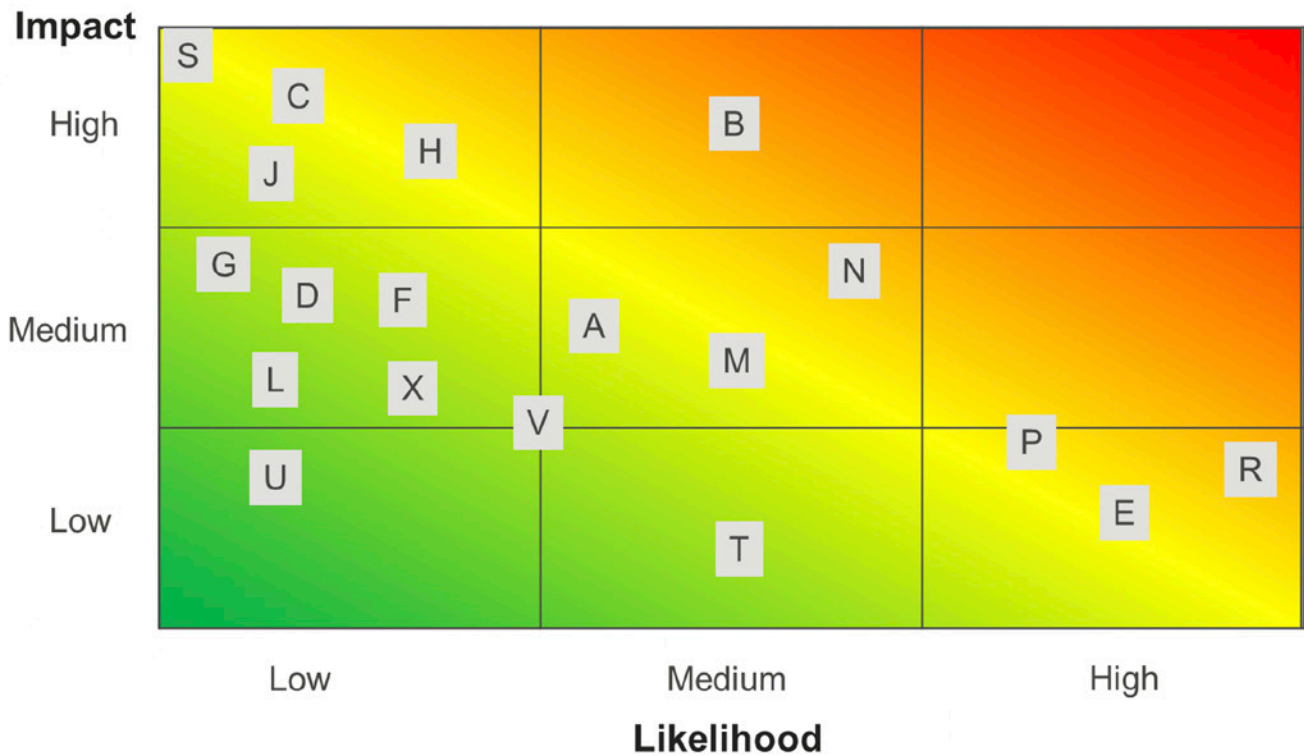


Figure 1: Results of Enterprise Risk Assessment

- A - Cybersecurity
- B - CCA/ Retail Competition
- C- Fire Liability
- D - Legal Liability
- E - Economic Downturn
- F - Reputation Event
- G - Information Systems Failure
- H - Major Outage
- J - Serious Safety Incident
- L - Comanche 3 Failure
- M - Power Supply Contracts
- N - DER Competition
- P - Cost Increases
- R - Legislative / Regulatory
- S - Druptive Technology
- T - Execution Risk
- U - Change Management
- V - Staff Retention / Succession
- X - Compliance Violation

IV.

Charting the Future

Inspired by the HCE vision and mission and informed by the results of regular SWOT analysis and the enterprise risk assessments, the HCE Board and staff leadership review on an annual basis what HCE's future strategic objectives should be over the next 5-10 years. As of the most recent review, the following strategic objectives have been identified, along with corresponding goals for each:

GOAL 1

Provide clean electricity to our members

At the time of its announcement in September 2018, HCE's Seventy70Thirty plan was among the most ambitious electric utility clean energy plans in the United States. Following the announcement, HCE has worked to secure new additional wind and solar resources while selling off the energy output from HCE's share of output from the Comanche Unit 3 coal-fired power plant. As these new wind and solar projects come online in the next few years, HCE should attain its Seventy70Thirty goals ahead of schedule, while honoring its commitment to maintain power supply



costs at or below the levels they would have been.

Since that time, the State of Colorado set a more ambitious Greenhouse Gas (GHG) Pollution Reduction Roadmap with a goal of reducing electric sector GHG emissions 80% by 2030 relative to 2005 levels, and the State legislature has followed with enactment of legislation with similar goals. Other Colorado utilities have since followed with clean energy plans of their own, and in December 2020, HCE announced more ambitious carbon-free electricity goals that will meet HCE members' desire for a clean energy future, as follows:

Objective 1.1 - Obtain 100% clean energy for HCE's power supply by 2030

To reach this objective, HCE will continue to partner with its members to incorporate new, clean, dispatchable resources into its power supply mix, and effectively integrate a wide range of options for flexible consumption of electricity by the homes, buildings, vehicles, and other resources HCE serves.

Energy storage will play an increasingly significant role, both as large grid-tied resources and as smaller distributed resources. These resources will

need to be cost-effective and controlled by HCE, either directly or through financial incentives, to allow HCE to deliver needed energy and services while maintaining service reliability with a high level of variable wind and solar power supply.

Objective 1.2 - Achieve net-zero GHG emissions across all HCE operations by 2035

To reach this objective, HCE will need to address its ownership share in the Comanche 3 coal-fired power plant, HCE's largest source of greenhouse gas emissions. HCE will also need to account for and eliminate all its greenhouse gas emissions associated with its own energy use (onsite electricity, fuels and chemicals used in its operations), as well as any emissions associated with travel, community events and other HCE-directed activities.

It will be more difficult to eliminate all GHG emissions related to HCE's materials and supply chain, given the necessity to maintain a functional electricity distribution grid. Additional greenhouse gas offset projects, like HCE's existing coal mine methane recovery project in Somerset, could help HCE meet this objective.



GOAL 2

Operate a safe, modern, reliable, resilient, and secure electric distribution system



The core objective of any electric utility is to safely deliver reliable electric power to its consumers, and this remains HCE's priority. In the past this has been accomplished through a system that was designed and built to handle the "peak load", the highest consumption level expected at any time over a calendar year.

This approach to grid planning resulted in a distribution system with enough capacity to handle current electricity consumption levels which have remained flat for the past ten years, despite consistent population growth and economic development in the HCE service territory.

HCE has also invested significantly and consistently in routine maintenance, repair and replacement of distribution system assets as they fail or reach the end of their useful life. As a result, the reliability of the HCE system is in the top quartile of all distribution utility systems in the United States.

The utility industry's emphasis on the ability to handle a "peak load" has changed as technology has changed. With the rise in adoption of distributed energy resources (DERs), the stresses on distribution system assets may change as these DERs interact with the HCE grid in new and more frequent ways.

In addition, the 2018 Lake Christine Fire which affected the HCE-served communities of El Jebel and Basalt highlighted the possibility that the HCE distribution system may need additional resilience to maintain service in the face of natural or human hazards like wildfires, winter storms, equipment failure, or cyber-attacks. These stressors, as well as increasing dependence by society on electricity, lead us to set new strategic objectives in this area as follows:

Objective 2.1 - Improve SAIDI/SAIFI scores to be in the top 10% among U.S. cooperatives

To reach this objective, HCE will need to increase its focus on distribution grid modernization for both operations and planning purposes. New technologies and approaches, such as the use of uncrewed aerial vehicles (UAVs or "drones") can help monitor and assess the condition of distribution grid assets and expand use of predictive maintenance to replace aging equipment and infrastructure before it fails and causes an outage.

Continued investments in equipment that can "sectionalize" parts of the distribution system may limit the extent of outages when they occur, and

additional switching capability can allow more rapid restoration of service where it can be done without putting employees or members in harm's way. Through data analytics and machine learning, HCE can develop greater visibility into the state of its distribution grid in both time and space. This may allow HCE to identify the need for additional grid services provided by local, distributed energy resources as HCE-owned assets, or in collaboration with its members as "behind the meter" as member-owned resources.

The net effect of these and other investments and innovations will be to reduce the average duration of interruptions (SAIDI) and the average frequency of interruptions (SAIFI) seen by members each year.

Objective 2.2 - Investigate ways that HCE can provide members and served communities with additional options for resilient electric service

HCE's transmission and distribution grid features several areas served by "radial" lines that provide one primary source of supply for the members in that part of HCE's service territory. The failure of equipment or infrastructure along these lines could result in a loss of service for an extended period.

To increase the resilience of its delivery system, HCE will need to identify vulnerable parts of the grid and work with HCE members, communities and first responders to implement measures that can provide a second source of electric supply if the main HCE grid is no longer available. These measures may include new transmission or distribution connections to other parts of the regional electric grid, new switching capability that allows power to be re-routed around the failure point in the grid, or backup generation onsite or within the potentially affected community that could operate as a "microgrid" in the absence of a



grid connection.

Such measures would be useful not only for unplanned outages that may occur for various reasons, but also for planned outages required to replace key grid components or to mitigate the risk of fire ignition from the HCE electrical system. As there is no widely accepted resilience metric in use, the current availability and utilization of multiple supply options will be evaluated and increased over time.

Objective 2.3 - Expand HCE's existing grid infrastructure maintenance and safety programs to significantly reduce the risk of fire ignitions caused by HCE's infrastructure.

The impacts of wildfires can be significant, including a loss of life and property, reduction in economic activity due to closure and evacuation, and damage to critical infrastructure such as roads, bridges or utility equipment needed for

public safety and health. The great majority of wildfires are started by lightning or human activities (unattended campfires, discarded cigarettes, arson, etc.). However, uninsulated lines, transformers, and other electric equipment can also initiate wildfires during high winds, when falling trees or flying debris can strike them and spark flames.

In three out of the last five years (2018-2022), a significant wildfire has occurred in some portion of the HCE service territory. Although none of these fires were found to have originated from HCE's electric system, the risk of wildfire ignition from HCE's infrastructure remains important to mitigate.

Since 2018, HCE has expanded upon existing maintenance and safety programs with additional and more frequent equipment inspections and vegetation clearing in high-risk areas. HCE has also modified the operations of the electric system to reduce the chance of an electrical

fire in any part of its service territory placed under a “burn ban” or “red flag warning” by local authorities. HCE has deployed fire detection cameras on its communications towers and partnered with local fire authorities to increase our collective first response capability, and HCE is investigating the potential for line replacements and undergrounding as risk mitigation measures in high-risk areas of our service territory.

While no measure HCE takes can eliminate the risk of fire ignition from its infrastructure, HCE can act responsibly to ensure that it can safely provide electric service while protecting the safety of the communities and members it serves.

Objective 2.4 **Take steps to defend HCE and its members against the growing threat of cyber-physical attack on HCE’s grid infrastructure and supporting systems.**

The electric grid has become a major target for more frequent and more sophisticated cyber-attacks from nation-states and cyber criminals. Cyber incidents that damage highly specialized equipment could disrupt HCE’s ability to provide electric service to its members. HCE’s ability to operate as a business could be compromised if a cyberattack impaired or destroyed essential systems and/or data required for billing, metering, or other critical functions. HCE’s reputation could be impacted in the event of a cyber-attack that compromises the security of personally identifiable information (PII) maintained by HCE about the members it serves. Often times a cyber-attack is preceded by a physical security compromise that aids the attacker in deploying the malware or compromised device that allows access to the target system despite defenses in place to protect against cyber-attack.



To defend against the potential for cyber or physical security compromise, HCE will need to continually evaluate and improve its cyber defenses through regular cyber and physical security assessments, compliance with available standards and best practice protocols, continuous monitoring of network communications, employee training and awareness, tabletop exercises and incident response plans, and other related activities conducted by a dedicated workforce of HCE cybersecurity professionals. At the same time, the physical security of HCE facilities will need to be continually reviewed for improvements to limit access to our network and critical systems that are often the target for adversaries or cyber criminals.

Achieving this Strategic Goal and its Objectives will realize the opportunities associated with increased member confidence in the reliability, resilience and security of the HCE electric system and enable a broader use of new technologies for beneficial electrification and expanded energy services. In addition, a modernized and resilient electric system will be better able to manage the risk of higher costs associated with DER integration as members increasingly adopt these technologies.

GOAL 3

Promote, enable, and accelerate electrification, energy efficiency and member distributed energy resources

For many years, the efficient use of electricity has been a priority for HCE leadership and its members. This helps achieve environmental goals (through reduced use of fossil fuels for electric generation and deferred investment in generating capacity) and helps members reduce their monthly energy bills. Advances in the efficiency of appliances, motors and pumps, lighting, and building insulation, as well as more aggressive local building codes have driven consistent reductions in electricity demand across the United States.

Specific HCE programs – home and business building energy audits, rebates for efficient appliances and lighting retrofits, and grants for commercial efficiency projects – helped reduce members’ energy costs and keep overall electric sales flat for the past decade. As the HCE energy mix shifts to a greater proportion of clean and renewable resources, the environmental justification for the efficient use of electricity is being replaced with a call for more beneficial electrification: the increased use of electricity to replace fossil fuel use in transport, buildings, commercial and industrial applications.

These opportunities have the benefits of increasing HCE’s electricity sales, allowing a more efficient use of the grid, reducing members’ total energy costs, and enabling lower-cost options for reducing greenhouse gas emissions in other sectors of the economy. In some cases, these opportunities can be designed to provide flexibility to the grid if the additional demand can be coordinated with grid needs for use (or non-use) of



resources at a given place and time. To fully take advantage of these opportunities, the following strategic objectives have been identified:

Objective 3.1

Develop and implement electrification programs that encourage the increase of electricity consumption as a replacement for other fuels.

Low-cost and increasingly cleaner electricity is an attractive fuel for transportation, building heating and cooling, and industrial processes. Through rebates, rate and tariff design, and innovative programs, HCE can encourage the expanded use of electricity for these new purposes in a way that results in net cost savings to the member, net emissions reductions, or both.

One example of a current activity in this area is HCE's Charge at Home and Charge at Work programs supporting electric transportation by using rebates to remove barriers to accessing electric vehicle (EV) charging infrastructure. Future activities could include expanded support for air-source heat pumps and other building components and appliances that encourage new uses of electricity instead of fossil fuels. Growth in consumption from these new uses can offset ongoing reductions in energy use from energy efficiency, preserving HCE revenue while achieving multiple valuable outcomes for members.

Objective 3.2 - Support members in their efforts to use electricity more efficiently.

HCE last conducted a study of energy efficiency savings potential in 2013, and at that time set an ambitious goal of obtaining 0.5% per year in savings through its program efforts. This goal was met for each of the five years 2014-2018 largely as a result of a substantial number of snowmaking upgrades and commercial LED lighting retrofits, supported by HCE's free energy audits and rebate programs administered as part of the WeCARE (With Efficiency, Conservation and Renewable Energy) program.

Given the saturation in these approaches, it is unlikely that the current 0.5% per year rate of additional energy efficiency savings will be maintained. Energy efficiency gains in existing building stock will need to come from new sources, such as large winter electric loads (e.g. heat tape, heated driveways, streets, and sidewalks) that are a significant source of winter energy demand.

Objective 3.3 - Support members in their desire to provide their own clean power, improve resilience & enhance control over their electricity usage while partnering with them to enhance our ability to integrate intermittent bulk power supply.

Advances in DERs such as solar PV, stationary batteries, and "smart" electricity consuming devices located "behind the meter" on member premises are increasingly able to provide important grid services that can help HCE use its grid infrastructure assets more proficiently in a way that can also save money for members.

Inverter-based technologies (PV, batteries) can be signaled to provide varying amounts of power depending on system needs for various grid services, and consumption loads can be signaled to modify their demand up or down to help HCE avoid additional costs, maintain local power quality, or system function. As demonstrated by the Basalt Vista project, groups of DERs, including batteries and other forms of energy storage, can be coordinated to function as a virtual power plant that provides the same value and functionality that was once provided by quick-start gas turbines. Rates and tariff options, such as HCE's new Peak Time Rebate program, can be designed to engage and compensate members that provide these DER services.

Achieving this Strategic Goal and its Objectives will realize the opportunity available to help HCE increase member satisfaction, engagement, and cooperation through providing new and innovative services, programs, and rate designs. Doing so will help manage the risk of declining electric sales and economic downturn, enable lower cost operations, and allow for collaboration (rather than competition) with local DER providers.

GOAL 4

Enable long run financial sustainability by obtaining sufficient revenue, containing cost increases, and maintaining a strong balance sheet.

In addition to operating safely, and providing reliable service, HCE provides low cost energy to its members and the communities it serves. This is especially challenging for electric utilities like HCE that serve rural areas where the cost of electric infrastructure is spread over fewer members, and for those members for whom monthly electricity bills are a larger percentage of their income.

More fundamentally, an electric cooperative like HCE is owned by the people that it serves, and its owners demand fiscal responsibility and good stewardship of their invested resources. Thus, HCE must use sound business and financial practices to minimize the costs of electric service. HCE does this by seeking cost-competitive power supply, being efficient with operating expenses (primarily labor and benefits, but also travel, consumables and other non-labor costs), and optimizing capital improvements to ensure HCE spends no more than necessary to provide the level of service and resilience identified elsewhere in this strategic plan.

HCE also needs to manage debt load wisely to minimize interest expense, and properly balance the use of debt versus equity when considering large infrastructure projects or new ventures. As is the case for all electric cooperatives, margins are reinvested in the cooperative to fund capital needs and returned to members once they are eligible for return. To ensure continued financial stability and success, we set strategic objectives as follows:

Objective 4.1 - Maintain electric cost of service in the lowest third of all Colorado utilities

Despite its relatively small size and dispersed member base, HCE is one of the top three cooperatives in the State in terms of the number of meters served. HCE is also presently in the lowest third of all Colorado utilities for residential, commercial and industrial cost of service. This is a result of relatively low-cost power supply portfolio from PSCo and Guzman Energy and unusually strong (capable?) power supply contracting flexibility. A long history of sound fiscal management and preventative maintenance have also helped provide a stable long-term rate trajectory.

Power supply costs make up nearly one-half of HCE's total cost of service, so savings there can exert downward pressure on electric rates. In addition, HCE's transmission sharing agreement with PSCo helps to reduce costs associated with HCE's transmission assets and provides HCE access to generation resources located anywhere on the PSCo system with no additional transmission charges.

HCE will also need to ensure that employee salaries and benefits remain competitive but do not rise unnecessarily, and that growth in non-labor costs is contained and justified. HCE staff leadership will need to know their budgets and monitor spending against targets, taking corrective action where necessary to meet budgetary goals.



Objective 4.2 - Grow equity to be greater than 40% of total assets by 2023

Adherence to lender-required loan covenant metrics enables HCE's access to low-cost capital through its primary lender, the Cooperative Finance Corporation (CFC). One important metric is the equity-to-total-assets ratio, a measure of the indebtedness of a company and thus its financial health. Too much debt can weigh down an operating budget with large interest payments, putting the cooperative at risk if there should be a downturn in revenue from electric sales. In HCE's case, a large amount of debt is tied up in Comanche Unit 3 loans that are currently on a schedule to be fully paid off in 2042.

However, HCE expects to take on more debt in the near term to fund the construction of a transmission line project in the upper Eagle River Valley, reducing equity to total assets ratio. To maintain this financial ratio near its current level of 40% (as desired by CFC), HCE could pay off and retire other existing debt expiring in the next few years with margins gained from conservative spending or additional revenues from electric sales and services.

Objective 4.3 - Transition the HCE business model away from commodity-based electric sales model to a more financially sustainable service-based electric delivery model

For much of the past century, electric utilities such as HCE have generated revenue from sales of commodity electricity per kilowatt-hour. Growth in electric sales as the U.S. economy grew rapidly was more than sufficient to offset cost increases and needs for capital investment and related debt service to maintain the physical grid infrastructure.

With the rise of distributed energy resources such as solar PV, consumers are now free to generate their own electricity and reduce electric sales from the utility. Similarly, advances in energy efficiency technologies, codes and standards are reducing the growth in demand for electricity in both new and existing applications.

As a result, the steady growth in consumption of commodity electricity can no longer be relied upon to ensure the financial sustainability of the electric utility. HCE has begun to investigate other business models that could yield it the necessary financial revenue it needs to maintain the electric delivery system, without relying on growing commodity sales of electricity in the future.

A business model built around the delivery of electricity (regardless of where and how it was generated) offers a promising avenue for HCE to sustainably become a “distribution system operator” rather than a seller of commodity electricity.



Achieving this Strategic Goal and its Objectives will allow HCE to more effectively manage the risks associated with an economic downturn and the resulting loss of electric sales, helping to avoid cost increases that would increase the risk of competition from DERs and/or other retail providers. A stronger balance sheet allows for new investments in programs and services that can increase member engagement, helping to realize HCE opportunities for expanded member service and collaboration.

GOAL 5

Provide exceptional service and value to all members and communities

HCE members have always counted on HCE to be there in times of need – during outages, when connecting a new service, or when considering a new rate option – and HCE has always delivered when called upon. All HCE employees take pride in delivering a high level of member service with every action undertaken by HCE member service representatives, operations, accounting, and engineering teams who interact with members every day.

However, as technologies develop and member demands become more complex, HCE will be challenged to serve members in new and innovative ways. Whether they want electric service delivered with HCE poles and wires, or service delivered at their premises with a mix of distributed energy resources, members demand the very best from HCE as both members and owners of the cooperative.

To meet these needs, HCE will need to adopt the mindset of a “member-centric utility”; one that takes an open mind to resource development and service delivery, looking at all assets and approaches to best meet member needs. HCE will offer a broad range of energy services through multiple avenues, including in-person and online pathways, and will take special care to make sure that the benefits HCE provides are available equitably to all segments of its membership.

Finally, consistent with cooperative principles, HCE will look for opportunities to foster the sustainable development of the communities it serves, by

partnering readily and directly with community leaders, civic organizations, and local industries to find collaborative solutions that allow all to succeed. To carry out these important initiatives, the following strategic objectives have been established:

Objective 5.1 - Achieve and maintain an ACSI score in the top 10% of all utilities.

The American Customer Satisfaction Index (ACSI) is a well-recognized measure of customer satisfaction used in many industries across the United States. First published in 1994, the ACSI is based entirely on consumer evaluations of the quality of service delivered. The ACSI uses a 0-100 scale with 100 being best.

With a most recent score of 88, HCE is among the top quartile of electric utilities in the country, and well above the national average for all economic sectors of 76. As with all businesses, however, survey results regularly uncover additional opportunities for improvement in reliability of service, timeliness of interaction with HCE staff, value of the services provided, and level of community engagement.

Consistent with that feedback, HCE will be continuously working to streamline processes and improve the ease and quality of the most common “customer journeys”, such as paying a bill, or requesting connect/disconnect of service. HCE will also be looking to provide new and innovative options for members to use that reduce costs, expand the benefits of HCE electric service, and meet emerging member interest in clean and affordable transportation, heating and cooling.

Objective 5.2 - Increase member engagement and participation through expanded member outreach and program design to reach all major segments of our membership.

Leading electric cooperatives ensure all member needs and priorities are reflected in operations, program design, and governance. HCE ensures a healthy organization by encouraging member participation in elections, sharing of member energy service needs and preferences, and developing programs that respond to member needs.

To this end, HCE will drive member engagement and participation through regular public and member events, Director elections, public access to Board Meetings and the Annual Meeting, HCE gives its members the opportunity to learn about programs and provide input, to participate in the governance of the cooperative as owners, and to help shape the future of the products and services HCE offers.

Going forward, these efforts will focus on increasing the participation of all segments of our membership, exploring new options to reach HCE members in ways that are tailored to their communities, needs, and preferences., HCE will particularly focus on among those groups of members who have been underrepresented in HCE programs to date, such as the Latinx community, seniors, and those who are economically vulnerable to increasing energy costs.



Objective 5.3 - Identify program opportunities to reduce the energy burden faced by HCE’s low-and moderate-income members and communities.

In general, low-income households spend a disproportionately larger portion of their income on home energy costs (e.g. electricity, natural gas, and other home heating fuels) than other households. This “energy burden” can force tough choices between paying energy bills and buying food, medicine, or paying for education, retirement, or other important needs.

To reduce this energy burden for those most in need, HCE presently offers weatherization assistance to income-qualified members through a partnership with Energy Outreach Colorado, and HCE’s Sustainable Solar program helps reduce electric bills for income-qualified members by providing them free access to locally-generated renewable energy for up to 50% of their monthly electric bill. HCE also provides energy efficiency incentives and rebates for all members (including low- and moderate-income members) through its WE CARE program.

Well designed and inclusive programs that focus on low- and moderate-income (LMI) members and communities can help reduce this energy burden and assist HCE members with the high cost of living in the areas HCE serves. Helping financially challenged members and local non-profit organizations in the HCE service territory is not only the right thing to do, but strengthens local families and communities, which benefits the HCE membership overall.

Achieving this Strategic Goal and its Objectives will enable HCE to realize additional opportunities to provide increased value to members through new programs, services, and rate offerings, creating additional member engagement and satisfaction in a virtuous cycle. Increasing the participation of HCE members in new programs and partnerships can help manage cost of electric service for both HCE and the individual member.

GOAL 6

Be an exceptional employer of choice in the region

HCE's talented employees come to work every day looking for ways to continuously improve the affordability, reliability and quality of the services it provides to members. These employees have fun, take care of one another, and work together for the common good.

HCE's reputation for competitive pay and benefits, and emphasis on empowerment, accountability and responsibility creates a positive employee culture that brings out best efforts. HCE provides numerous training and educational opportunities to ensure safe performance of work-related activities, and to ensure mental and physical well-being. HCE encourages life-long learning and varied career pathways for its employees.

HCE draws applicants from beyond its immediate area, allowing it to source the best talent for the changing needs of its business and the members it serves. Sustaining this will require continued effort, focused on strategic objectives such as the following:

Objective 6.1 - Obtain safety performance that meets or exceeds the top-quartile performance for Colorado cooperatives on a consistent, ongoing basis.

HCE is committed to safety as a fundamental value. HCE requires that its employees approach their daily activities with an intense focus on conducting them safely, regardless of what job function or role in the organization they hold. HCE strives every day to ensure that members and employees go home safely to their loved ones. It focuses on raising awareness of workplace hazards and encouraging training on safety practices that can reduce exposure and protect against risk.

To that end, HCE will continue to strive to reduce the number of safety incidents and the severity of those incidents. HCE will learn from those incidents that do occur, as well as "near-misses", and strive to create a safety culture that engages all employees in frequent communication. The cooperative will ensure that employees have the best available training on best practices, protective equipment, and knowledge and awareness of hazards, and will work to continually educate members and the public on the hazards inherently present in the delivery of energy and its related services.

Objective 6.2 - Deliver continuous improvement in employee culture

To continue providing the highest level of service to members and their communities, HCE must be able to recruit and retain the best employee talent. Highly talented employees seek employers who will empower them, set a clear vision and mission, and provide a sense of ownership and involvement in the organization.

Consistency of procedures, rules, and norms is vitally important to create a stable and healthy work environment. High performing employees and employers are flexible and willing to change as business needs evolve. For the past several years, HCE has conducted internal surveys on these aspects of employee culture and will continue to do so in the future. Informed by those survey results, HCE will look to continue to communicate a shared mission that motivates and inspires, empower employees to exhibit leadership at all levels, and provide career development and cross-training to enable the agile workforce it needs to adapt to changing times.

Objective 6.3 - Strive to recruit, retain, and develop a workforce that reflects the diversity and talents of the communities HCE serves.

HCE is fortunate to have a service area that includes a diverse, well-educated, and talented population. HCE will continue to strengthen its workforce and leadership, in the service of its members, by better accessing all of its communities as sources of new talent, in order to ensure that HCE's employees reflect the diversity found in the communities HCE serves. With a more diverse workforce and an inclusive culture HCE can maximize its creativity, innovation, and productivity. In addition, HCE will be better placed



to ensure that the perspectives of its various communities are brought to bear in everything that it does. All this will enhance the quality of service HCE provides and make a stronger connection between HCE's staff and its members.

Achieving this Strategic Goal and its Objectives will enable HCE to continue to attract top talent, building on its strengths with respect to leadership and quality of workforce. At the same time, investments in a strong safety culture help mitigate the enterprise risks of a serious safety incident or legal exposure that could result in increased costs of operation and reduced member confidence in HCE and the quality of services it provides.

V.

Measuring Progress

Going forward, the strategic objectives identified above will be translated into a series of Key Performance Indicators (KPIs) that will guide annual budgets and work plans for each HCE department and will be reported on at each Board meeting. This allows for an open and transparent dialogue between HCE's staff and its Board of Directors on work in progress, and can help identify any needs for additional resources, focus, or budget to accomplish the intended outcomes.



Preference will be given to KPIs that are in broad use within the electricity industry, allowing for easy benchmarking of HCE's performance against others. KPIs should also be relatively easy to measure from available data, and not unduly complex. KPIs that are controllable by HCE alone will be used and not those that are dependent on the performance of others.

At the end of each year, the Board will review progress against the current year's KPIs and set new targets for the coming year with the input of staff. The Board can also add, modify, or delete the KPI definitions or calculations in future years. This approach to performance-based regulation by the HCE Board is a new and innovative way to ensure that HCE continues to meet the needs of its members, while remaining financially and environmentally sustainable well into the future.

VI.

Revisiting the Strategy

No strategic plan can endure unchanged in the face of the inevitable changes with the passage of time. New technologies, legislative or regulatory initiatives, new competitors, change in member wants and needs, unanticipated external events or economic cycles: any one or all of these can interfere with the orderly execution of existing strategy. For that reason, it will be important to view this strategic plan as a living document, one that is reviewed and revised on a regular basis.

Throughout the year, HCE will host community events in various parts of its service territory to share new and ongoing activities with members, and to seek feedback on the major elements of this strategic plan. All HCE members and community leaders will be encouraged to attend and make their voices heard.

Each year HCE will report on its progress towards the strategic objectives and KPIs in the form of an Annual Report to the Membership. This Annual Report will also include financial information for the calendar year completed: balance sheet, financial statements, and comparison of HCE rates against other Colorado utilities.

It will also include a list of key accomplishments for the year, across all Departments in accordance with work plans. The elements of this Report will be provided online and reviewed in person with those attending the Annual Meeting of Members to offer a yearly snapshot of the health of the cooperative.



Each August, the HCE Board and staff leadership will review the enterprise risk assessment (described in Section III, above) and consider changes in circumstance that may warrant a new look at one or more specific enterprise risks. The HCE Board and staff leadership may also modify the Strategic Goals and Objectives and/or KPIs as needed to address the changing landscape. The Board may direct staff leadership to amend and re-publish this Strategic Plan accordingly.

Taken together, these actions will provide an open and transparent view of HCE's strategy, execution and performance to all members, as befits their status as owners of the cooperative.

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