



**We energize and serve our communities**

December 4, 2006

J.M. Schafer, Executive Vice President/ General Manager  
Tri-State Generation and Transmission Association, Inc.  
PO Box 33695  
Denver, CO 80233-0695

Dear J.M.:

At our last board meeting, the Board of Directors of Delta Montrose Electric Association (DMEA) unanimously decided to not sign the extended wholesale power contract with Tri State. It has been determined that the future needs of our members are not being met by Tri State and that a ten year contract extension as proposed by Tri State, is not in the best interest of DMEA.

Our decision to not sign the extension is based on several issues as listed below:

1. DMEA needs the ability to participate in local, renewable generation projects that will promote rural economic advancement in our service territory and that will promote energy sustainability for our members and our nation. We need the ability to own or participate in renewable generation in an amount that exceeds the current 5% limitation of the Tri State contract. We need the ability not to be penalized if we "self-certify" with regard to Colorado's RPS Amendment 37 or with regard to any other future state or federal laws written to promote dispersed/renewable generation.
2. DMEA needs the ability to "subscribe"(purchase) specific and defined amounts of generation capacity from Tri State in order to fulfill our future generation needs. This form of generation purchase from a G&T has been approved by RUS and CFC and is used elsewhere and is determined by DMEA to be the most fair method for the members of Tri State. If properly administered, this method will not burden the Tri State family with cross member subsidies.

We are alarmed that the major portion of Tri State's current generation construction plan provides power for a few members' large industrial/indeterminate loads. This generation is being built "on the backs" of all Tri State system's farmers and rural communities and presents a huge risk to the Tri State members. It is important that these large industrial users pay directly for their new generation using a new rate structure crafted just for them so that the rural members are not saddled with stranded assets if these large loads were to disappear. Although, Tri State has not provided its members such a method of billing from its 44 members in the past, other G&T's are addressing this issue in an acceptable manner and DMEA requests the same consideration.



3. DMEA needs Tri State to seriously engage in a comprehensive energy efficiency program administered at the G&T level. Significant savings could be realized on behalf of the members if Tri State would engage more extensively in such programs.
4. In order to properly exercise our fiduciary responsibility, and in accordance with the Wholesale Electric Service Contract section 8 (TRANSFER BY THE MEMBER) the DMEA Board of Directors hereby request the formula for calculating DMEA's "pro rata portion" of Tri State's outstanding indebtedness. We also request a projected listing of the related assets said payment would provide to DMEA and the justification/reconciliation of said list.

Sincerely,

Les Renfrow, Board President  
Delta Montrose Electric Association

Cc: Hub Thompson, Chairman , Tri-State G&T  
Tri-State Member Systems  
DMEA Board of Directors

## Frequently Asked Questions With Answers Regarding DMEA Board Decision Not to Sign Extension of All Power Requirements Contract with Tri-State Generation and Transmission Cooperative.

The Facts: DMEA recently informed its power supplier, Tri-State, that it would not extend its all-requirements power contract from the present expiration date of 2030 to the year 2040. The deadline Tri-State has set for its 44 member co-operatives to sign this extended contract is April 1, 2007.

Question: What is an all-requirements power contract?

Answer: It is an agreement between Tri-State and its 44 owners – co-ops like DMEA – that requires Tri-State to supply all of our power needs. It also requires the co-ops to use Tri-State as our sole supplier of electricity.

Q: Does DMEA's refusal to sign this contract as of April 1 mean DMEA's 30,000 member-owners will be cut off from electricity?

A: Absolutely not. DMEA's present contract requires Tri-State to supply us with all of our power needs through the year 2030.

Q: That seems long enough. Why does Tri-State want to extend its contract another 10 years?

A: Because Tri-State has decided to spend at least \$5 billion on three new power plants. It says it needs an extended contract in order to borrow that money. The lenders want to know that Tri-State will have customers for the new power.

Q: Well, if Tri-State needs to build new power plants, shouldn't DMEA help?

A: The DMEA board unanimously believes that Tri-State needs one new plant. But it does not agree that Tri-State should borrow that money from Wall Street. In the past, Tri-State and all 900 or so rural co-operatives have borrowed most of their money at low rates through the federal government. DMEA believes that Tri-State has added millions of dollars to the electric bills you will pay over the next few decades.

Q: Is Wall Street borrowing the only reason for refusing to extend the contract?

A: We wish it were. Tri-State is also planning to build old technology coal-fired power plants. And it is placing the first two plants in Kansas, hundreds of miles from DMEA. We think Tri-State should build the first plant using coal-fired power technology that will be usable far into the 21<sup>st</sup> century.

Q: Why look so far ahead?

A: If Tri-State builds old style plants, DMEA believes that new regulations will require it to spend huge amounts of money to remodel those plants. That's what happened with Tri-State's

plants at Craig and Hayden. It makes more sense to build right in the first place, rather than do costly remodeling later on.

Q: Will DMEA's position help the coal industry?

A: Yes. If power plants modernize, and burn clean, then demand for coal will be strengthened.

A2: Yes. If power plants don't modernize, and burn coal cleanly, the coal industry will be put in danger as its markets decrease.

Q: I remember that DMEA's last power supplier, Colorado-Ute – went bankrupt in 1991. Does the DMEA board's position have anything to do with that bankruptcy?

A: It looks like the same deal to us. Colorado-Ute built power plants to meet an oil shale boom that never developed. At the time, DMEA objected, but we were out-voted by the other members of Colorado-Ute. DMEA was right, but it didn't matter. Colorado-Ute went bankrupt, Montrose lost many jobs at the Ute headquarters, and DMEA lost millions of dollars in the equity it had in Ute.

Q: Are we in another boom?

A: We think the current economic growth is much more diverse and stable. But one part of this growth disturbs DMEA. Tri-State is building these new plants in large part to power compressors and pipelines for the natural gas industry.

Q: Aren't these gas fields stable customers? After all, we need more and more energy?

A: Yes and no. Right now, it is cheaper for a gas producer to use electricity to power its compressors, while it puts the gas it produces into the pipeline. But as Tri-State's new plants and transmission lines force up the cost of electricity, it will become cheaper for the gas companies to install their own gas-powered compressors and generators at the well pads and along the pipelines.

Q: What happens then?

A: You and I will be left to pay higher electric rates as these huge customers disconnect from the electric power system.

Q: Is there an answer to this part of the problem?

A: We think so. Tri-State should change its rules, so that the gas industry and other customers that could disconnect from the system pay upfront for the cost of new power plants. We don't think it is fair to force DMEA's member-owners to guarantee the financing of power plants for the gas industry. We went through that with the oil shale industry.

Q: What else does DMEA want Tri-State to do?

A: We want the new, extended contract to limit DMEA's obligation to only as much additional power as we project we will need for our own use. Such arrangements are becoming common in the world of electric co-operatives.

Q: Anything else on your negotiating list?

A: We left the most important thing for last. DMEA wants the right to use local suppliers of electricity to provide part of our local needs. We know that DMEA's service territory has lots of potential electric power supplies. There is waste wood from a large local sawmill and from the clearing of tamarisk and other weed trees. The coal mines are venting methane gas into the atmosphere that could produce electricity. The manure from three dairy cows can be turned into enough methane to power two houses, and our service territory has several thousand dairy cows. Many of our towns' municipal water systems could generate hydropower. And the water project planned for the Grand Mesa could produce a large amount of hydroelectricity.

Q: Isn't it expensive to produce power on a small scale? Aren't coal-fired power plants the way to go?

A: Big plants used to be cheap. The bigger they were, the cheaper they were. But now they're getting very expensive. And big cross-country transmission lines are hard to build at any price, and take a long time to force through communities that don't want them. The answer may be to put those lines all underground, at which point transmission costs become astronomical.

Q: Are there local benefits to small power generators?

A: Yes. Small, dispersed generators would support our local industry, like the coal mines and logging industry and agriculture. They would benefit us all by producing jobs and taxes and investment here. And they would make our local communities more self-reliant.

Q: Can't DMEA connect to local generators under its current contract?

A: Technically, the contract allows us to produce five percent of our own power. But the agreement is filled with loopholes that would let Tri-State block such projects. In addition, in the past, when a local company has come up with a proposal to generate large amounts of power here, Tri-State has offered to buy that power at a very low rate. Frankly, Tri-State has never shown much interest in diversifying its power sources. DMEA doesn't have much wind. But our sister co-ops in eastern Colorado, Nebraska, Wyoming and New Mexico have lots of wind. But Tri-State especially opposes wind power even though Xcel has hooked up huge amounts of wind for its urban customers.

Q: It sounds hopeless.

A: Far from it. We at DMEA are full of hope. First, we are not alone in refusing to extend the contract. We've been communicating with the other 43 co-operatives and a surprising number see things similar to the way DMEA sees them. Moreover, Tri-State and the co-ops are not alone in the world. And the world is changing rapidly. Pressure is building fast on Tri-State from citizens, regulators, state legislators and governors to modernize its thinking and its technology. DMEA is not the only one looking far down the road. What we see many others see. There's nothing exceptional about DMEA. None of us wants to saddle our children and our children's children with debt and old technology.

Q: What can I do?

A: Call DMEA to learn more. Or call your local director. We'd all love to hear from you. And think of inviting a DMEA board member or staff to visit your Rotary or Kiwanis or community group or company or city council or water district to answer any questions you may

have and to tell us how you see things. Whether you meet during the day or in the evening or on weekends, we will be there, happily.

Democracy isn't easy. It takes lots of work, and that work starts at the grassroots.

Please join DMEA in bringing better decision-making and a freely functioning economic market into Tri-State's boardroom.

Signed:

The Board of Directors and General Manager of Delta-Montrose Electric Association.

Your locally owned electric co-operative.

Here since 1938 for the people of Delta and Montrose counties.