



With Long-Term Fossil Commitments, Colorado Electricity Wholesaler Is Alienating Cost-Conscious Co-ops

Tri-State Currently Plans Using Coal Through 2050 and Expanding Into Gas; Projected Rate Increases of 55% by 2050; Member Resistance Persists

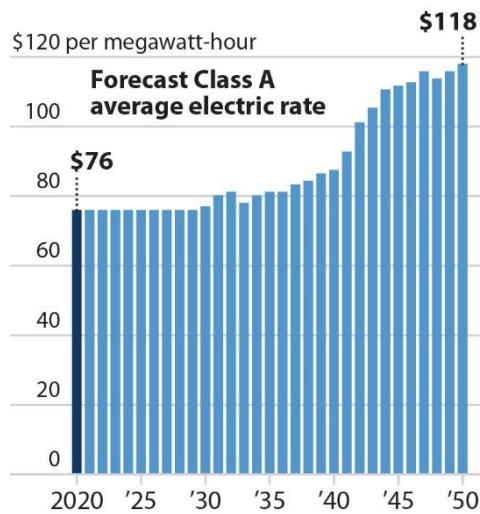
Executive Summary

As electricity-generation markets continue to shift rapidly away from coal and toward other sources of generation, a major power wholesaler in the western United State faces an insurrection among member co-ops seeking better access to renewable energy, more affordable rates, and more say in how they buy or produce power.

The wholesaler, Westminster, Colorado-based **Tri-State Generation and Transmission Association**, also has angered and alienated member co-ops with its combative management style. Two co-ops—**Kit Carson Electricity Cooperative** in Taos, New Mexico, and **Delta-Montrose Electricity Association** in Montrose, Colorado—have already paid exit fees collectively of almost \$100 million to leave Tri-State. Two others in Colorado—**La Plata Electric Association** in Durango and **United Power** in Brighton—are trying to negotiate agreements to procure or generate their own electricity. Others among Tri-State’s 42-member roster of small-town co-ops have also been questioning their ties to Tri-State.

Tri-State Rate Forecast: 55% Increase by 2050

Although it plans to keep electric rates flat for the next decade, Tri-State expects to increase them significantly starting in 2030. It also plans to add new gas plants while keeping some high-cost coal generation.



Source: Tri-State

IEEFA

Tri-State Is Committed to Coal Through the 2030s and Plans a Major Expansion Into Gas

Tri-State has lagged in keeping up with power-generation trends. This despite desires by several of its largest member co-ops to integrate cheaper renewables

more rapidly and despite state policies in Colorado and New Mexico that support a faster transition from fossil-fired power. An April 2020 Tri-State filing with the **Federal Energy Regulatory Commission (FERC)** includes projections that have the company continuing to get 65% of its electricity from coal-fired sources through the early years of the 2020s. Then—even after its coal plants at Craig, Colo., have closed—Tri-State intends to get a combined 25% of its power from **Springerville Generation Station Unit 3** in Arizona and **Laramie River Station** in Wyoming through the 2030s. The FERC filing also has Tri-State expanding its gas-fired power combustion to account for as much as 20% of its power production from 2030-2040. While some major utilities in the West have set goals of 45% to 50% renewable energy by 2030—and 100% renewables by 2045 or 2050—and are now strategizing exactly how to achieve these goals. Though Tri-State says it plans on getting 50% of its power from renewables by 2024, it has yet to say how it will get there.

Tri-State Power Is Expensive, and Tri-State Plans to Charge Even More in the Years Ahead

While Tri-State has portrayed itself publicly as a company on the vanguard of a fast-moving national transition toward cheaper power, it plans annual rate increases beginning in 2030 that will raise wholesale prices by 55% in the ensuing 20 years, increases brought on in part by debt tied to coal. Tri-State's \$76-per-megawatt hour (MWh) cost to members, which already exceeds market norms, will hit \$118 per MWh by 2050. A good part of the increase Tri-State envisions will come from its debt-laden ties to coal and expansion into gas, but in comparison, costs across the industry are actually falling with the rise and expansion of zero-fuel-expense power generation.

Tri-State Has Poisoned the Well, Damaging Member Trust

Tri-State has aggressively tried to protect its primacy over members through proceedings at the **Colorado Public Utilities Commission (PUC)**, FERC, and Colorado state courts. In doing so, it has infuriated some member co-ops. Tri-State has recently adopted a strategy of “regulator shopping,” seeking to bypass state rules by taking legally questionable steps to qualify for federal regulatory oversight. Members see it as a betrayal of local values and are now asking about the true purpose of Tri-State, why its executives are paid so much, and who exactly gains when Tri-State clings to an outdated model of high-priced power generation.

Tri-State Is Risking Its Survival as a Regional Power Generator

Tri-State's business model is so outdated that it could drive the association out of power generation entirely, leaving it with the sole task of providing transmission of electricity.

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Overview: Member Discontent Is Growing

Tri-State Generation and Transmission Association is a Denver area-based electricity wholesaler of regional importance whose 42 members have service territories that cover a total of 200,000 square miles in four states. In 2019, Tri-State's distribution member co-ops served 624,000 retail meters that included "suburban and rural residences, farms and ranches, and large and small businesses and industries."¹ It is the fourth-largest wholesale co-op in the country.²

In 2019, after slowly adding renewable generation, Tri-State appointed a new chief executive, who began shaping a sharper pivot marked by the January 2020 announcement of plans to abandon coal-fired generation in Colorado and New Mexico. The shift was described in a two-page "Responsible Energy Plan."³

The company's public relations campaign around this plan has been notable for its omissions, however, leaving out salient details about Tri-State's ongoing and long-term dedication to coal and gas, as described in this report. Meanwhile, Tri-State's leadership has escalated its war with member co-ops by embracing expensive legal and regulatory battles to keep restive members in line. Those legal efforts are ongoing.

Five years ago, Tri-State had 44 member co-ops in four states. (The company's name is rooted in its origins as an electricity wholesale incorporated in 1952 serving Colorado, Nebraska and Wyoming; it later expanded into New Mexico). Today, it has 42 co-op members after the recent departure of two members, both of which fled after citing rising costs of membership, onerous restrictions on self-generation, and a Tri-State executive suite culturally and strategically at odds with rank-and-file co-ops. Two more are openly fighting to get out, and others—especially in Colorado and New Mexico—are watching developments with keen interest. (Three non-coop member have joined in the past year or so as part of Tri-State's regulatory strategy).

Tri-State Remains Committed to Coal-Fired Generation for Another 30 Years

Out of Step With Fast-Changing Electricity Markets

Tri-State's power-generation plans through 2050 show it will continue to rely on coal even as electricity markets move swiftly toward other, less costly forms of generation. This belies the public relations campaign by Tri-State that portrays itself as being on the vanguard of a fast-moving national transition away from coal.

The company's plans are detailed in an April 2020 filing with the **Federal Energy**

¹ Tri-State Generation and Transmission Association. 2019 Form 10-K. March 12, 2020, p. 16.

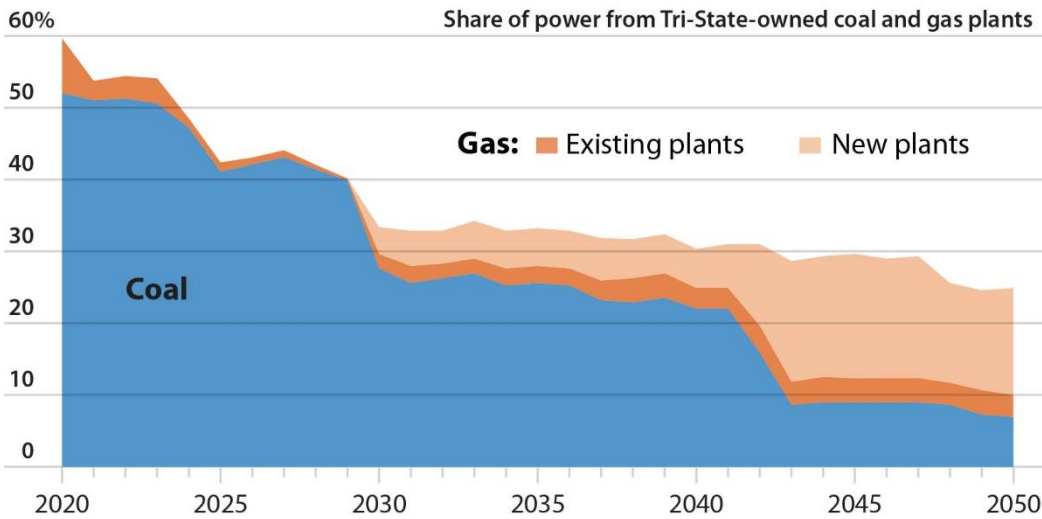
² National Cooperative Bank. *The NCB Co-op 100 Reports Top Producing Cooperatives with Revenues of \$222.2 Billion*. October 7, 2019.

³ Tri-State. *Responsible Energy Plan Highlights*. January 2020.

Regulatory Commission,⁴ which projects that Tri-State will get more than 50% of its electricity from coal-fired sources through the early 2020s—mainly from its stakes in **Springerville Generation Station** in Arizona and **Laramie River Station** in Wyoming (Tri-State owns 25.7% of the 1,625-megawatt (MW) Springerville plant and 27.1% of the 1,710MW Laramie River plant).⁵ A decade from now, Tri-State projects it will still rely on Springerville and Laramie River for more than 20% of the power it sells to members, much of it to Colorado members.⁶ Tri-State predicts that proportion won't drop until the 2040s. (Tri-State gets additional coal-fired power through contracts with other companies, notably **Basin Electric**).

Tri-State Plans Heavy Coal Use, Gas Expansion Through 2050

Contrary to many members' desire for cleaner and more affordable energy, Tri-State currently plans to remain heavily dependent on coal and gas.



Source: Tri-State filing with the Federal Energy Regulatory Commission (FERC)

IEEFA

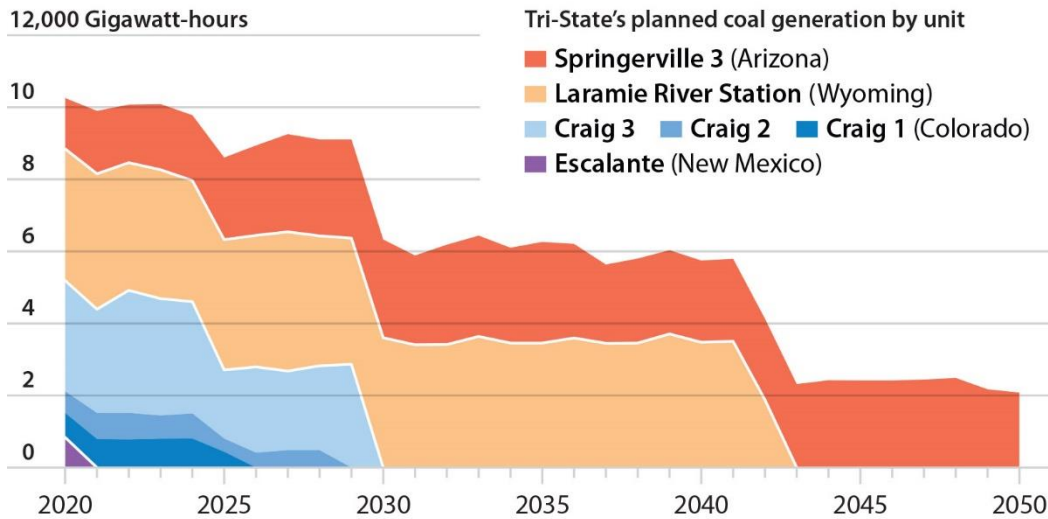
⁴ Dentons US LLP. *Re: Tri-State Generation and Transmission Association Inc. Initial Filing of Rate Schedule FERC No. 281*. April 13, 2020.

⁵ S&P Global Market Intelligence data

⁶ Colorado PUC. *Proceeding No. 20M-0218E. Initial Comments of Western Resource Advocates*. September 8, 2020.

Tri-State Expects to Keep Coal Generation for Decades

Despite retirements of coal plants in New Mexico and Colorado, Tri-State plans to continue getting power from plants in Arizona and Wyoming.



Source: Tri-State filing with the Federal Energy Regulatory Commission (FERC)

IEEFA

Neither plant—Springerville nor Laramie River—is operating at robust capacity factors today, an indication that both are already failing to compete cost-wise in power markets. During the first half of 2015, Laramie River reported an average monthly capacity factor of 68%; during the first half of 2020, it was 51.1%. During the first half of 2015, Springerville reported an average monthly capacity factor of 69.7%; during the first half of 2020, it was 42.2%. This disparity could be explained by the economic turndown caused by the coronavirus pandemic but for the fact that it is part of a deeper-seated trend. Laramie River's full-year capacity factor in 2015 was 71.6%; in 2019 it was 60.3%. Springerville's full-year capacity factor in 2015 was 70.6%; in 2019 it was 55.9%.⁷

In other words, both plants are being used less as market share is taken from them by cheaper forms of generation. This trend will persist as Springerville and Laramie River become relatively costly to run. Competition will impinge on the plants' productivity as they age, driving up maintenance expenses. Laramie River will be 59 years old by 2040, the date through which Tri-State plans on continuing to pull electricity from it; Springerville will be 34.

Tri-State's commitment to Springerville and Laramie actually understate Tri-State's long-term overexposure to coal because it does not include the company's power purchases in Colorado, Nebraska, and Wyoming from Basin Electric, which account for an additional 10% of Tri-State generation over the next 20 years owing to long-term contracts between Tri-State and Basin. (Tri-State's entanglement with coal is further complicated by its hundreds of millions of dollars in debt tied to coal-fired generation).

⁷ S&P Global Market Intelligence data.

In short, Tri-State currently remains committed to coal for at least a quarter of its generation over the next two decades—power that it will buy or produce and then sell to members from economically uncompetitive coal-burning plants in the West, the Southwest and the Upper Midwest. This approach is vastly out of step with markets that are leaving coal behind, as noted in an IEEFA March research brief describing how investor-owned utilities continue to move away from coal and cooperative and municipal utilities are reconsidering their historical support for coal-fired generation.⁸ The effects of this shift will further undermine the competitiveness of coal-fired generation in the short and the long term as the coal industry continues to be beleaguered by market forces, policy mandates and electricity customer preferences.

The **Energy Information Administration (EIA)** sees the electricity industry dropping out of coal and taking up renewables at a far faster rate than what Tri-State has publicly embraced.⁹ **Moody's Investors Service** emphasizes "ESG-related concerns," in investor alerts highlighting growing risks around environmental, social and governance issues that further tilt the odds against the coal industry by squeezing its access to debt capital.¹⁰ Wall Street itself is much more bullish on renewables, as can be seen in the performance of exchange-traded funds like **First Trust Global Wind Energy ETF**. The fund was up 85% in early November over the past five years; **Invesco Solar ETF** gained 76%. Meanwhile, the **Dow Jones U.S. Coal Index** has dropped 76% over the same period of time.

Wood Mackenzie, citing the prevalence of cheap natural gas and renewables, sees the collapse of coal lasting, driven by the behavior of the utility industry itself:

*"Previously, many utilities, particularly in the Midwest, chose to self-dispatch their coal units even when they were not the lowest-cost generation available, on the grounds that cycling the units' output up and down increased maintenance costs. Recently that has changed, and **coal plants are operating much more as the marginal units on the grid ... it looks as though the pandemic has accelerated the decline of coal.** The outlook for coal demand now depends on policy decisions in large emerging economies, and particularly in China."¹¹*

Moody's warned in late 2020 of the risks of investing in natural gas-fired generation—as Tri-State plans to do—while underinvesting in more cost-effective renewables.¹² While gas once was seen as a bridge fuel from coal to renewables, utilities now have begun moving directly from coal to renewables.^{13,14} Tri-State, by

⁸ IEEFA. [U.S. Coal Outlook 2020: Market Trends Pushing Industry Ever Closer to a Reckoning](#). March 2020.

⁹ EIA. [Annual Energy Outlook 2020](#). January 22, 2020.

¹⁰ Moody's. [Coal outlook stays negative amid declining earnings, investors' intensifying ESG concerns](#). Jan. 22, 2020.

¹¹ Wood Mackenzie. [The historic decline of U.S. coal](#). May 29, 2020.

¹² E&E News. [Pipeline, CO₂ fights could cut gas use for decades — report](#). Oct. 2, 2020.

¹³ S&P Global Market Intelligence. [Natural gas bridge now looks 'shorter and narrower.'](#) October 6, 2020.

¹⁴ IEEFA. [Utilities are now skipping the gas 'bridge' in transition from coal to renewables](#). July 1, 2020.

comparison, plans a gas buildout. It has little gas-generation capacity today but plans between 10% and 20% of its power generation by the 2040s. That shift, because of its capital-intensive requirements, will contribute significantly to higher rates for member co-ops.

Indeed, Tri-State's long-term strategy puts it at severe odds with member co-ops eager to follow the example set by **Kit Carson Electric Cooperative** which left Tri-State in 2016. Kit Carson wanted to shift from coal toward renewables and to become a more locally- and civically-run co-op instead of being micromanaged from afar. This is proving beneficial to Kit Carson's customers.¹⁵

The same issues over which Kit Carson clashed with Tri-State caused another co-op (**Delta-Montrose Electricity Association**) to leave in 2020. Their departure and other changes roiling the traditional models for producing and distributing electricity have caused two other members (**La Plata Electric Association** and **United Power**) to consider leaving Tri-State.

Cost, choice and pricing predictability overlap these exits and potential exits. According to complaints filed with the Public Utilities Commission (PUC) of Colorado, the motivations to leave are interwoven with weariness of Tri-State's "organizational culture of arrogance," its "hollow and tired" arguments against change, its public relations campaign of "misdirection and misrepresentation,"¹⁶ and a staff that deals "fraudulently and in bad faith" with member co-ops.¹⁷

Sentiments expressed in court and regulatory filings by breakaway co-ops show a desire to achieve the same thing Kit Carson gained in a power-supply agreement it signed with another provider after severing ties with Tri-State.

"We will have paid significantly less in wholesale rates, accessed much lower rates by building generation inside our own community and off the transmission system, created jobs and increased tax [revenues] in our territory, and done what we believe is right for our community and our environment, all with a partner that is aligned with our goals and with whom we enjoy working."¹⁸

¹⁵ IEEFA. [How Kit Carson Electric Engineered a Cost-Effective Coal Exit](#). April 2019.

¹⁶ Colorado PUC. [Joint Response of La Plata Electric Association Inc. and United Power Inc. to Exceptions to Recommended Decision No. R20-0502](#). August 6, 2020.

¹⁷ District Court, Adams County, Colorado. [United Power Inc. v. Tri-State Generation and Transmission Association Inc., Mico Inc., Ellgen Ranch Company, and Olson's Greenhouses of Colorado LLC](#). Complaint for Declaratory Relief and Damages. May 4, 2020.

¹⁸ IEEFA. [How Kit Carson Electric Engineered a Cost-Effective Coal Exit](#). April 2019.

Tri-State Power Is Expensive, and Tri-State Plans to Charge Even More in the Years Ahead

Wholesale Price Increases Totaling 55%

Tri-State's reliance on coal can only drive ratepayer prices up, as coal has become increasingly more expensive even while other forms of generation, especially renewables, have declined.¹⁹

In contrast to declining prices for renewables, Tri-State projects substantial price increases in the next 30 years and is already charging members more than market norms (see the chart on page 15). While its projected rates remain flat through the 2020s—mainly as part of the company's strategy of buying time with members—rates increase almost every year after that, through 2050, when they hit \$118MWh. That will amount to a 55% increase over 2020.

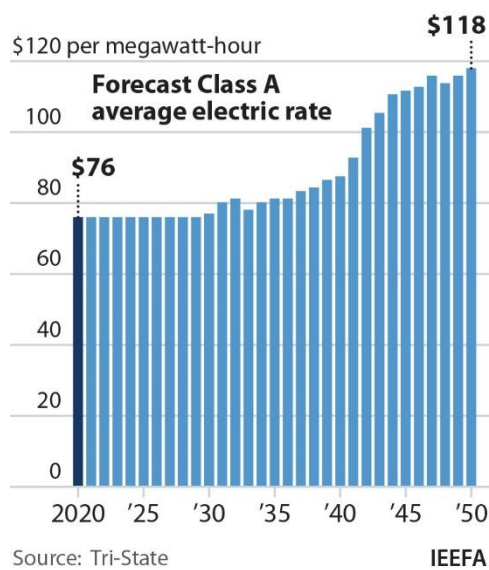
Tri-State wholesale prices to its members are already high, at \$76/MWh. **Lazard**, which publishes an annual report on pricing around competing forms of generation, calculates in its October 2020 update that coal-fired generation nationally runs from \$65-\$159 per MWh compared with \$29-\$38 per MWh for utility-scale solar, \$26-\$54 per MWh for wind, and \$44-\$73 per MWh for baseload gas-fired generation.²⁰ The region Tri-State serves isn't materially different in this respect.

In a December 2018 filing with the **Colorado Public Utilities Commission**, Delta-Montrose Electric Association (DMEA) minced few words about its fear of being shackled to Tri-State until 2040 under the terms of the contract that bound the two:

"DMEA, and by extension its member-owners, have wholesale power supply options available to them that are significantly less expensive and environmentally cleaner than Tri-State's power supply. Through its Board of Directors, DMEA has a fiduciary responsibility to consider and pursue these alternative power supply options so as to stabilize and control its member-owners' retail rates. For more than a decade, DMEA, and by extension its

Tri-State Rate Forecast: 55% Increase by 2050

Although it plans to keep electric rates flat for the next decade, Tri-State expects to increase them significantly starting in 2030. It also plans to add new gas plants while keeping some high-cost coal generation.



¹⁹ Bloomberg New Energy Finance. [Scale-up of Solar and Wind Puts Existing Coal, Gas at Risk](#). April 28, 2020.

²⁰ Lazard. [Levelized Cost of Energy and Levelized Cost of Storage](#). October 19, 2020.

member-owners, have wholesale power supply options available to them that are significantly less expensive and environmentally cleaner than Tri-State's power supply. For more than a decade, DMEA has pressed Tri-State to stabilize its electric rates and to let DMEA develop more local, cost-effective renewable resources. Tri-State has been unreceptive to these efforts, limiting DMEA's development of local renewable generation, and the average price paid by Tri-State's member cooperatives has increased by 56% since 2005. DMEA and other rural cooperatives have watched as other Colorado utilities—including those serving urban areas—take advantage of declining wholesale costs to move to cheaper and cleaner power sources. Meanwhile DMEA member-owners have paid Tri-State's increases through their electric bills, with those increases in turn inhibiting economic development and growth in the rural economy.”²¹

Tri-State responded to the complaint by demanding Delta-Montrose pay \$322 million for its departure, a number that effectively blocked the exit by Delta-Montrose. In 2019, a \$62.5 million exit fee was agreed upon, however, and on July 1, 2020, Delta-Montrose formally left the Tri-State consortium. (The departure negotiations were similar to those between Tri-State and Kit Carson. Tri-State first demanded a \$137 million exit charge but then agreed to \$37 million, a figure it later described as “fair and equitable.”)²²

The two exit fees established a precedent that has not gone unnoticed by regulators or other Tri-State member cooperatives seeking similar deals. Tri-State, for its part, has demanded a \$1.25 billion exit fee from United Power, a towering figure compared to the \$275 million recommended this past summer by a Colorado PUC administrative law judge.²³ Tri-State has refused to discuss an exit fee with La Plata.

Tri-State clearly recognizes that more member defections would pose an existential threat to the generation co-op itself. Yet members will very likely continue to push for termination of their current contracts, which run through 2050, because they are seen as too expensive *and* counter to desires for more local control and increased renewables.

Tri-State Has Poisoned the Well, Damaging Member Trust

Dodging State and Local Oversight by Getting FERC Involved

Rather than work with members, it appears Tri-State is trying to maintain and consolidate its primacy through a legal strategy via a series of petitions and filings before the Colorado PUC, the Federal Energy Regulatory Commission (FERC) and

²¹ Colorado PUC. [Delta-Montrose Electric Association v. Tri-State Generation and Transmission Association Inc. Complaint](#). December 6, 2018.

²² *Ibid.*

²³ Colorado PUC. [Joint Response of La Plata Electric Association Inc. and United Power Inc. to Exceptions to Recommended Decision No. R20-0502](#). August 6, 2020.

Colorado courts.

This strategy turns in part on regulatory shopping by Tri-State. Until this year, Tri-State was primarily regulated at the state level. Tri-State now says it wants just one regulator—FERC.

To gain federal oversight, Tri-State in 2019 successfully recruited three non-utility members. The legality of their inclusion is at issue. One was a company called **MIECO**, whose sign-on was part of the basis of FERC’s jurisdiction over Tri-State,²⁴ although “Tri-State told MIECO that the purpose of it becoming a Tri-State member was for Tri-State to become FERC rate-regulated.”²⁵ MIECO, an oil-and-gas-trading firm in suburban Denver, does not buy Tri-State electricity. Nor do the other two new non-utility members—**Olson’s Greenhouses of Colorado**, a flower wholesaler located a few miles north of Denver, and **Ellgen Ranch Company** in northwest Colorado. Conflicts of interest complicate the legality of the MIECO and Ellgen memberships. MIECO sells gas to Tri-State, and the latter “rents land from a wholly owned subsidiary of Tri-State (**Colowyo Coal Co., L.P.**)”²⁶

All three new members are said in a United Power lawsuit to have “joined as part of a conspiracy to obtain FERC jurisdiction under false pretenses,”²⁷ Their inclusion marks the first and only time in the 67-year history of Tri-State that it has taken on non-utility members.

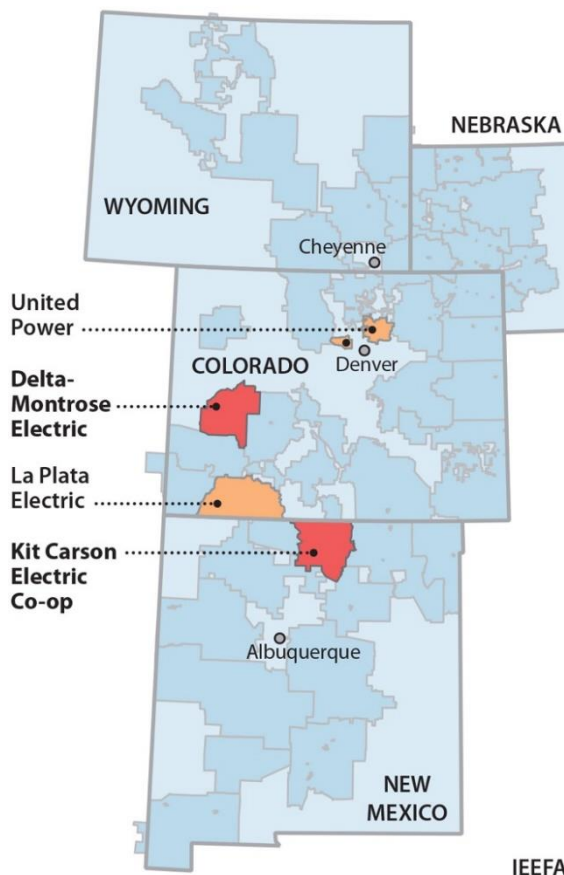
Tri-State’s strategy to obfuscate and delay appears designed to quell further membership attrition. The company has far deeper pockets than any of its members, so it can field a bigger and better-financed corps of lawyers. Total legal costs, which accrue back to rate-paying customers, already have run into the millions of dollars.

The Colorado PUC in October set aside pleas from La Plata and United to block Tri-State’s regulator shopping, essentially punting the issue to state courts. But

A Shake-Up Among Tri-State Members

In 2016, the Kit Carson Electric Cooperative, in Taos, N.M., left the Tri-State Generation and Transmission Association, saying it could get cheaper power on its own from renewables. In 2020, the Delta-Montrose Electric Association in Colorado also left. Two other members in Colorado are currently in a contentious battle with Tri-State over their membership.

Tri-State G&T members’ service areas



²⁴ S&P Global Market Intelligence. [Colo. PUC dismisses complaints by 2 Tri-State members seeking to leave co-op](#). October 30, 2020.

²⁵ District Court, Adams County, Colorado. [United Power Inc. v. Tri-State Generation and Transmission Association Inc., Mieco Inc., Ellgen Ranch Company, and Olson’s Greenhouses of Colorado LLC. Complaint for Declaratory Relief and Damages](#). May 4, 2020.

²⁶ *Ibid.*

²⁷ *Ibid.*

Colorado is probably where Tri-State's fate will play out the soonest, given that 18 of its 42 co-op members are located in Colorado and given that Tri-State is responsible for most co-op electricity sales in the state.²⁸ The Colorado PUC has signaled that it may yet take up the case, depending on the result of the court fight.²⁹

Putting regulators at a safe remove from the front lines in Colorado, Nebraska, New Mexico, and Wyoming may not be to the benefit of co-ops. Under the federal oversight scheme, Tri-State members must get regulatory support from an agency based in Washington D.C. whose staffers have little if any familiarity with rural electric co-ops under the Tri-State rubric. While Tri-State has moved to regulation from afar as one way to mitigate unfavorable public policy, FERC oversight is by no means a slam dunk, as the agency—not known for being especially well synchronized with market forces—“will have no choice but to address the industry's transition.”³⁰

In fact, Tri-State faces serious generation compliance problems in Colorado and New Mexico. Both states have renewable energy requirements in place or are moving to put such requirements in place along timelines that Tri-State is not on track to meet because of its commitment to coal and its planned expansion into gas-fired generation.

Tri-State's regulatory maneuver to gain federal oversight also provoked immediate ire from seven prominent Colorado state legislators. An excerpt from the September 28 letter to the Colorado PUC from the legislators:

*“We believe Tri-State can best serve its Colorado customers when being held accountable by Coloradans. **Issues affecting the state implementation of policy goals and rural Coloradans should be decided here in Colorado and not in Washington, D.C., where it will be difficult for local stakeholders to participate.**”³¹*

Tri-State in its proceedings has sharpened divisions with member co-ops who want accelerated change. This deepening divide can be seen in filings with Colorado regulators in which Tri-State repeatedly has been described as a bully that imposes self-serving edicts in a fashion that ensures executive-suite comfort at the expense of small-town co-ops.

Members question why the CEO makes more than \$2.5 million annually;³² why four senior vice presidents have received or are receiving annual compensation packages reaching as much as \$829,771;³³ why Tri-State pays one supportive board member

²⁸ Clean Cooperative. [Tri-State policies are limiting Colorado communities from developing local renewable energy projects](#). January 2018.

²⁹ &P Global Market Intelligence. [Colo. PUC dismisses complaints by 2 Tri-State members seeking to leave co-op](#). October 30, 2020.

³⁰ Utility Dive. [Trump's FERC may need to shift course on clean energy, though Biden's road will not be easy](#). October 27, 2020.

³¹ Colorado General Assembly. [Letter to Colorado PUC](#). September 28, 2020.

³² Tri-State Generation and Transmission Association. [2019 Form 10-K](#). March 12, 2020, p. 106.

³³ *Ibid*, p. 104.

as much as \$13,000 per month in meeting-attendance fees;³⁴ why Tri-State’s executive team and board lag standards in ethnic and gender diversity;³⁵ and—more fundamentally—what true purpose Tri-State serves and who gains if Tri-State clings to an outdated model of high-priced power generation.

Excerpts from some of the filings by former members or members seeking to change or escape their ties with Tri-State:

- “Tri-State listens to no one. Not its members, not even its regulators.”³⁶
- “Tri-State believes it can set exit charges how it wants.”³⁷
- “Tri-State members, including LPEA and United Power, pay inflated power rates that are then used to pay millions of dollars annually to Tri-State executives and the legion of lawyers Tri-State employs to bully, intimidate, and threaten those who disagree with its worldview.”³⁸
- “[Members are] lacking confidence in Tri-State’s ability to close the gap between its wholesale rates and those of the broader market.”³⁹

Breakaway members also question why Tri-State touts a voluntary-membership policy—one of the cornerstones in its founding—while simultaneously refusing to allow member co-ops to leave, a contradiction that has served to heighten member anger at the status quo.⁴⁰ In fairness to Tri-State, co-op members themselves are partly responsible for the situation because their boards agreed, at the time, to long-term contracts with Tri-State in 2006. That said, contract renegotiations occur across all industries. And to its credit, Tri-State has not been entirely resistant to modernization.

Also in fairness to the company, in October it showed an interest in aligning its long-term planning with market realities by proposing “multiple scenarios” that include room for “aggressive levels of renewable energy additions and energy storage, allow for demand-side management, limit thermal additions, [and] allow for retirement of existing resources.”⁴¹ Tri-State has offered few details, however, about how it intends to revise its long-term planning. In its most recent public announcement, the company promised aggressive emissions reductions under a plan it says it would

³⁴ *Ibid*, p. 108.

³⁵ Tri-State Generation and Transmission Association. [Tri-State 2019 Annual Report](#). March 2020.

³⁶ Colorado PUC. [Joint Response of La Plata Electric Association Inc. and United Power Inc. to Exceptions to Recommended Decision No. R20-0502](#). August 6, 2020, page 1.

³⁷ Colorado PUC. [Delta-Montrose Electric Association v. Tri-State Generation and Transmission Association Inc. Complaint](#). December 6, 2018, page 13.

³⁸ Colorado PUC. [Joint Response of La Plata Electric Association Inc. and United Power Inc. to Exceptions to Recommended Decision No. R20-0502](#). August 6, 2020, page 2.

³⁹ Colorado PUC. [Delta-Montrose Electric Association v. Tri-State Generation and Transmission Association Inc. Complaint](#). December 6, 2018.

⁴⁰ Tri-State Generation and Transmission Association. [2019 Investor Presentation](#). 2019.

⁴¹ Colorado PUC. [In the Matter of the Commission’s Consideration of the Existing Resources of Tri-State Generation and Transmission Association Inc. Prior to Its Initial Electric Resource Plan Filing Pursuant to 40-2-134, C.R.S.](#) October 2, 2020.

publish on Dec. 1, 2020. The announcement avoided addressing co-op problems with Tri-State pricing and the sourcing of Tri-State's power.⁴²

Tri-State's Days as a Power Generator May Be Numbered

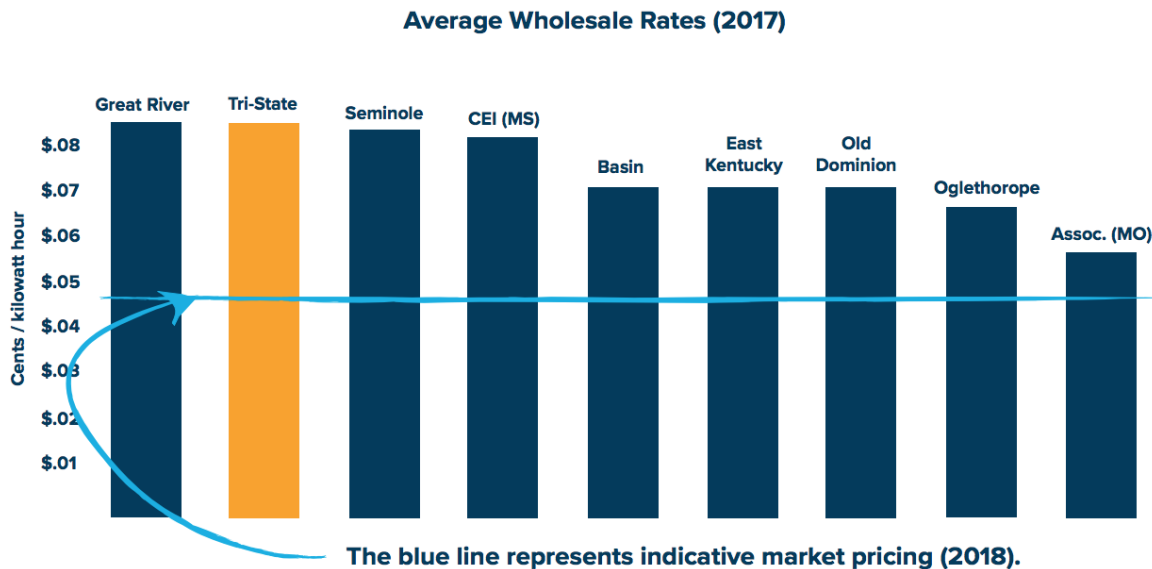
The departures negotiated by Kit Carson and Delta-Montrose demonstrated to other member co-ops that they need not be tied to Tri-State for years to come. While the price of exit was not insignificant for the two members, they saw it as well worth the cost for gaining choice over power sources, more certainty of pricing and more freedom to develop local resources. (Kit Carson and Delta-Montrose had similar all-requirement contracts to 2040, but all remaining member co-ops signed 50-year contracts.)

The Kit Carson and Delta-Montrose departures also demonstrate dissatisfaction with Tri-State across different communities. Kit Carson serves a Taos area that is culturally diverse, generally progressive, and includes a mix of Anglo, Native and Latino populations. Its economy is driven primarily by tourism and the arts. Delta-Montrose provides power to a community whose population is not as diverse with an economy more closely tied to agriculture and mining. Yet both cooperatives wanted out for the same reasons. A similar pattern can be seen in the breakaway initiatives by La Plata and United Power. La Plata serves the area in and around Durango, a college mountain town in southwestern Colorado near the Four Corners area of Arizona, Colorado, New Mexico, and Utah. United serves Brighton, a Denver suburban and partly rural area more than 350 miles away. Durango and Brighton—like Taos and Delta-Montrose—are also culturally and economically different but share a common desire for greater local control over their power supply.

The moves toward greater autonomy by Tri-State members have grown increasingly informed by sophisticated local campaigns to gain more local control over how to get electricity and what to pay for it. The Delta-Montrose 2018 annual report included the following chart (shown here as it appeared in the report),⁴³ which got to the heart of the matter.

⁴² Tri-State. [Colorado Gov. Polis joins Tri-State to announce greenhouse gas reduction goals](#). November 12, 2020.

⁴³ Delta-Montrose Electric Cooperative. [2018 Annual Report](#). May 31, 2019.



Tri-State’s wholesale power prices simply became too out of line with “indicative market pricing,” or wholesale prices reported for other co-ops. Its restrictions on locally produced power were seen as too onerous, too. An excerpt from the Delta-Montrose annual report captured a grassroots discontent with Tri-State and the reason for the co-op’s desired exit:

“What we pay Tri-State for electricity is the number one factor impacting your bill. In fact, it accounts for 64% of every single dollar you pay us. If what we pay Tri-State every year goes up, your rates aren’t far behind. We won’t settle for that when there are more affordable and more flexible power suppliers out there.”

The co-op’s follow-up annual report for 2019 celebrated its coming break with Tri-State, which had by then been announced,⁴⁴ the report noted that Tri-State remained “an important partner in ensuring reliable power is delivered to our local communities.” That statement was a nod to where Tri-State’s true value most likely now lies: In becoming a transmission company rather than a power-generation company. That distinction will not be lost on other member co-ops. (In July, Delta-Montrose “flipped the switch,”⁴⁵ formally replacing Tri-State’s power with electricity from **Guzman Energy**, a private supplier.)

Delta-Montrose’s break was important also for its impact on Tri-State’s revenue. Where Kit Carson accounted for about 2% of Tri-State member businesses, Delta-Montrose made up about 4%.⁴⁶ United, the biggest Tri-State member by size of

⁴⁴ *Ibid.*

⁴⁵ Delta-Montrose Electric Cooperative. [Delta-Montrose Electric Association \(DMEA\) announced today it has completed the transition with its new energy partner.](#) July 2, 2020.

⁴⁶ Clean Cooperative. [Tri-State policies are limiting Colorado communities from developing local renewable energy projects.](#) January 2018.

power purchases, accounts for almost 17% of Tri-State’s member revenues.⁴⁷ La Plata, the third largest, accounts for 6%.⁴⁸ If La Plata and United successfully break away, Tri-State will have lost almost 30% of its member revenue base during a short period. The current Tri-State business model (power generation and power transmission) might not survive such a blow.

Additional rumblings of discord are being heard among Tri-State members not mentioned in this report, most notably in New Mexico and Colorado, where member co-ops have historically and collectively accounted for about 80% of Tri-State’s revenue.

Conclusion

While Tri-State leaders have seemed to see relationships with its members as largely transactional— “just business”— member co-ops perceive the company’s executive behavior as high-handed and its ties to Tri-State too costly to continue and long overdue for restructuring.

Change is imperative.

Member disagreement with Tri-State over its commitment to fossil fuels will likely force the company to update its strategy. One possible outcome is that Tri-State’s role in the years ahead may simply become a “wires and poles” provider. Another is that it will become less committed to coal and gas and more responsibly invested in renewables.

⁴⁷ Dentons US LLP. [Re: Tri-State Generation and Transmission Association Inc. Initial Filing of Rate Schedule FERC No. 281](#). April 13, 2020.

⁴⁸ Clean Cooperative. [Tri-State policies are limiting Colorado communities from developing local renewable energy projects](#). January 2018.

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