



**Golden Spread
Electric Cooperative, Inc.**

A Touchstone Energy™ Cooperative 

Q4 2015

Golden Spread Gazette



Member Satisfaction Survey

Golden Spread will be conducting the 2016 Member Satisfaction Survey in mid-January. A portion of each Member's employees will be surveyed so please watch for this survey to be emailed to you directly from NRECA. Your participation in the survey is a valuable part of the success of Golden Spread Electric Cooperative.

Mustang Station:

The Steam Turbine rotor for Mustang Station Unit 3 has returned to site fully repaired and has been installed. Ongoing alignment and setup is underway, with an expected completion date in early January. Dynamic testing of the newly installed rotors and controls is occurring with thorough check-outs being completed at each step of the process. We expect Unit 3 to be fully operational by mid-January.

Work is currently underway on the Mustang Station Unit 5 Generator Step-Up transformer (GSU) to replace the recently failed transformer with the spare. In addition work is underway to remove the damaged transformer and prepare for its replacement. We expect Unit 5 to be operational by the end of January.



Grid Switching efforts at Antelope Elk Energy Center:

Several significant activities related to the ERCOT Integration are progressing, the most noteworthy of which are the Antelope 230 kV and Elk 345 kV switchyard modifications that are necessary to accomplish the grid switching of units between the Southwest Power Pool and Electric Reliability Council of Texas. In addition, AEEC also is proud to announce the completion of modifications to the control room at the plant.





2016 Budget Update

The Golden Spread Board approved the 2016 Budget and resulting System Service Rate (SSR) during the November meeting. The SSR establishes the various rate components that the 16 Members will be billed throughout 2016, with the exception being the fuel and purchased power energy cost (FPPEC) which is estimated monthly and finalized in a second month true up. The Golden Spread SSR formula rate reconciles the rates to actual cost and usage after the operating year closes, with budget rates in effect during the year.

The total 2016 budget requires an estimated \$448 million in revenue from the 16 Members to recover all Golden Spreads costs and margin requirements. The 2016 margin component is set at \$15 million down from \$35 million in 2015. As Golden Spread approaches the end of its large capital expansion plan, the equity requirements are less, resulting in the reduction. The reduction to the margin component still allows Golden Spread to maintain solid financial metrics while providing competitive wholesale rates.

Major budget assumptions include \$3.00/MMbtu natural gas cost, 7.4 million MWh Member energy sales, and a June 1, 2016 commercial operation date for Elk 2&3. The various expense and usage assumptions calculated an average rate of \$60.39/MWh for 2016. Please contact John Eichelmann (jeichelmann@gsec.coop) or Larry Shields (lshields@gsec.coop) for questions regarding the 2016 rates.

RPSA Agreement

The GSEC Board has approved Golden Spread's plan to exercise its option to terminate the long term power purchase from Southwestern Public Service Company (SPS) under the Replacement Power Sales Agreement (RPSA) Contract. SPS has been notified that GSEC will terminate the contract effective June 1, 2017, which was the earliest date allowed by the contract. The primary factors leading to this decision were a decline in the future natural gas prices, lower GSEC Southwest Power Pool (SPP) demand forecasts, and anticipated capacity reserve requirement rule changes in SPP.

Natural gas prices have fallen significantly in the last year, and are now expected to be in the \$3/MMBtu range for 2017-2018, causing the SPS RPSA contract to become quite costly. Given the current demand forecast, anticipated purchase options and uncertainty in SPP reserve requirements, gas prices would have to rise to an annual average of \$6/MMBtu for the SPS RPSA contract to break even.

Terminating the SPS RPSA contract is expected to result in a net cost savings of \$15 Million for Golden Spread's Members.

NRECA Audit

We are happy to report that GSEC participated in the NRECA Participant Review, and based on the auditor's report, there were no significant findings and no further action is required. The Participant Review is conducted by NRECA once every four years on each system participating in the Retirement Security (RS) Plan, 401(k) Pension Plan and Medical Plan.

The purpose of the Participant Review is to confirm that all employees who are eligible to participate in NRECA's Retirement Security (RS) Plan, 401(k) Pension Plan and Medical Plan are properly enrolled and that employee contributions are consistent with elections and plan terms.

The next planned Participant Eligibility Review will occur no earlier than 2020.

Risk-Based Registration Criteria – Member Deactivation

Golden Spread has been working with its Members to reduce their NERC requirements. After an initial rejection and further discussions with the Southwest Power Pool Regional Entity (SPPRE) staff, on October 30, 2015 Bailey County received written notification from SPPRE that they were deactivated as a Distribution Provider (DP) based on the number of MWs “directly connected” to the Bulk Electric System (BES) being less than 75MW. The effective date of Bailey’s DP deactivation is March 19, 2015, the date of the Risk-Based Registration (RBR) Order.

After Bailey’s DP deactivation, other registered Members that met the criteria of less than 75 MWs “directly connected” to the BES were informed that they may begin the deactivation process. Based on the 2014 NCP peak loads >100kV – these Members were:

- Lyntegar – SPP
- Taylor – ERCOT

Lyntegar requested DP deactivation in the SPPRE and the deactivation process was smoother and much faster, i.e., Lyntegar’s deactivation request was submitted to SPPRE on December 1, 2015 and Lyntegar received notification of deactivation on December 7, 2015.

GSEC is currently working with Taylor Electric to provide documentation needed for DP deactivation in the Texas Regional Entity (TRE) based on the recent change in DP registration criteria.

In addition and with regards to the FERC ruling on the Load Serving Entity (LSE) elimination (*dated October 15, 2015*) – Regional Entities will soon begin initiating the deactivation/deregistration process for the LSE function.

If you have any questions, please contact Cassie Williams at cwilliams@gsec.coop.

Strategic Planning: Natural Gas Market Presentation

Michael Zenker, Managing Director of Research at NextEra Energy Resources, gave a presentation to the GSEC Board of Directors at this year’s Strategic Planning Session. His presentation covered natural gas availability and future price implications



Mr. Zenker reported that fracking and horizontal drilling, have revolutionized the oil and natural gas business in the U.S. today. Large amounts of readily available natural gas indicates that the price of natural gas will likely remain very low for at least the next 10 years. Substantial numbers of wells in the Utica and Marcellus shale deposits in Ohio and Pennsylvania are supplying virtually all the growth in the US natural gas supply. This is largely due to increased drilling efficiencies that have resulted in new wells being drilled today that are half the cost of those drilled just 4 years ago.

While increased supply and resulting cheap natural gas is displacing significant coal generation in our electric industry, additional natural gas demand will be needed to offset this tremendous supply before higher prices are expected. Additional demand for natural gas can come from coal plant retirements and other impacts of the EPA Clean Power Plan. Also, new demand will come from natural gas exports, pipelines being built to Mexico, new LNG terminals exporting to other continents, and new industrial facilities especially along the gulf coast. Despite these increased demands, Mr. Zenker stated that NextEra believes natural gas prices are still projected to remain low.

Since GSEC is dependent upon low cost and abundant supplies of natural gas, this news is promising. However, potential risks exist that could affect the natural gas supply, including increased regulations as result of linking earth quake activity to injecting the water used in fracking and potential underground water contamination. GSEC staff continues to keep a vigilant eye on the issues and is working to establish key risk indicators that will alert us to changes in the natural gas markets.

Elk Update



The construction of Elk Station Units 2 and 3 is progressing well. All of the underground work has been completed. At the current schedule, startup testing on units 2 and 3 is expected to start in early February which is on target for a May 2016 commercial

operation date. On another note, Elk Station Unit 1 underwent its first borescope inspection this quarter. The "Beast" was given a clean bill of health with all combustion hardware looking fantastic!

Interruptible Load Reduction Rider Changes

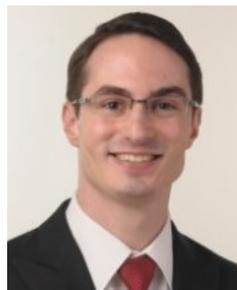
In November, the Golden Spread Board approved changes to the interruptible Load Reduction Rider (ILRR) program that allow for contract termination by the Member Cooperatives or Golden Spread under the following conditions: (1) if changes in applicable regulatory, ERCOT, or SPP requirements require interruption under the ILRR program for reasons other than system emergencies, the Member may terminate its participation in the program effective upon receipt of written notice to Golden Spread; (2) if changes in applicable regulatory, ERCOT, or SPP requirements eliminate or substantially reduce the capacity value that is allowed for the interruptible load under the ILRR program, Golden Spread may terminate the program effective upon receipt of written notice to the Member. If you have any questions regarding these changes, please contact Shane McMinn at smcminn@gsec.coop.

Annual Strategic Planning Session

Golden Spread Electric's Board of Directors held a strategic planning session on October 12th & 13th to review key trends in the Utility industry and understand implications to Golden Spread and Members. The session was started with three leading external speakers presenting key strategic topics facing our industry today.

- **John Wallace, CEO, Grand Canyon EC Association, Inc.** kicked off the meeting with a presentation describing the Arizona solar environment and the challenges facing the organization and state related to how not to deal with roof top solar.
- **Joe Scalise, Head of the North American Utilities Practice, Bain & Co.** presented trends in the Utility industry including how companies are responding to key challenges such as regulatory changes, distributed generation, and changes in consumer trends.
- **Michael Zenker, Managing Director of Research, NextEra Energy Resources** presented an Energy Market Outlook with gas supply trends with the prediction of continued lower natural gas prices and the economic implications for the industry. See article on page 3 for more information.

During Day 2 the Board focused discussion on building flexibility into the current Wholesale Power Contract to meet the challenges in this changing energy environment.



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