PLATTE RIVER POWER AUTHORITY

Minutes

Regular Meeting of the Board of Directors

Thursday, May 27, 2010

The Platte River Power Authority Board of Directors' meeting convened at 9:03 a.m. on Thursday, May 27, 2010, in the Platte River Power Authority boardroom.

BOARD MEMBERS:

Present: Mayor Bill Pinkham[1] and Reuben Bergsten of Estes Park; Mayor Doug Hutchinson and Brian Janonis representing Fort Collins; Mayor Cecil Gutierrez (Secretary) and Ralph Mullinix (Chairman) representing Loveland; and Mayor Bryan Baum and Tom Roiniotis representing Longmont.
Absent: None
Quorum present? Yes

PRESENT FROM PLATTE RIVER'S MANAGEMENT STAFF:

General Manager, Brian Moeck; and General Counsel, Joe Wilson. Division Managers: John Bleem, Customer & Environmental Services; Mike Dahl, Electric Operations; Jason Frisbie, Power Production; and Dave Smalley, Financial Services.

OTHER PLATTE RIVER STAFF IN ATTENDANCE:

Executive Assistant, Esther Velasquez; Human Resource Manager, Dave Green; Marketing and Community Relations Manager, Jon Little; and Environmental Services Manager, Dave Ussery.

GUESTS AND MEMBERS OF THE PUBLIC:

City of Fort Collins Customer and Employee Relations Manager, Patty Bigner; City of Fort Collins Light & Power Operations Manager, Steve Catanach; City of Fort Collins Financial Manager, Bill Freeman; and Fort Collins resident Eric Sutherland.

<u>ACTIONS:</u>

(1) Call to Order. Chairman Mullinix convened the meeting at 9:03 a.m.

(2) Approval of the Regular Meeting Minutes of April 29, 2010.

Director Hutchinson moved to approve the meeting minutes of April 29, 2010; Director Baum seconded the motion. Motion passed 6-0. Mayor Cecil Gutierrez abstained because he did not attend the April meeting.

(3) Public Comment. Mr. Eric Sutherland thanked Platte River for the gift of trees to Bennett elementary school.

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[1] Mayor Pinkham arrived at 9:12 a.m.

Mr. Sutherland also made comments about demand side management programs.

(4) **Consent Agenda.** There was one item for approval on the Consent Agenda:

- BKD Communication Letter: Audit of the Platte River Employees' Pension Plan

Director Roiniotis moved to approve the Consent Agenda; Director Gutierrez seconded the motion. Motion passed 7-0.

(5) **Legal Counsel Report.** General Counsel reported the following:

Organic Contract and Power Supply Agreements. There have been some positive developments recently. Brian Moeck, Jason Frisbie, and Joe Wilson attended the May 18 Fort Collins City Council meeting. Both agreements were unanimously approved by City Council on first reading. Second reading is scheduled for Tuesday, June 01, 2010. Upon approval by the City of Fort Collins, it is likely the other municipalities will begin the approval process. Current documents approved by Fort Collins were sent to the attorneys in the other municipalities. Tentatively, Loveland Council will hear the matter on July 6 and Longmont and Estes Park are scheduled to review the documents on July 13. [Subsequent to the meeting, we learned that Estes Park rescheduled their consideration to July 27.]

[Mayor Bill Pinkham arrived at 9:12 a.m.]

Assignment of Wind Power PPA. Silver Sage Windpower LLC, the corporate entity with which Platte River has a 12-megawatt power purchase agreement (PPA), would like to assign the PPA as collateral for the purposes of a debt financing. Platte River staff has been working with the lender to ensure the consent documents do not erode any of Platte River's protections under the PPA. Staff is also reviewing proposed use of a letter of credit rather than a corporate guarantee for security associated with the PPA.

Oil and Gas Development at Rawhide. Recent oil and gas exploration activities in Weld and Larimer counties has sparked the interest of industry developers. A number of developers have inquired about the possibility of entering into oil and gas leases with Platte River for exploration and development of these resources on the 4,400 acres of land at the Rawhide Energy Station. Staff is investigating the mineral rights and it appears that Platte River owns mineral rights to approximately 700 acres. Staff has met with the City of Fort Collins, which owns a significant amount of land near Rawhide, to discuss possible development options. Leasing would produce a lease payment and the possibility of royalty payments, but staff is proceeding circumspectly to assure that prospective development will not affect operations. This process is lengthy and it is unlikely any development will occur within the next two years; however, staff will provide updates to the Board as they become available.

(6) Legislative and Regulatory Report. The General Manager reported on recent developments at the national level.

Federal. As anticipated, the draft of the American Power Act was released last week. Similar to the House climate bill passed last summer, the American Power Act is a cap-and-trade program, which begins in 2013 and seeks to reduce greenhouse gases by essentially the same levels as the House bill—17 percent below 2005 levels by 2020 and 83 percent in 2050. There are more allowances in the American Power Act that will be allocated initially to the electric sector's local distribution companies (LDCs) based 75 percent on historical emissions and 25 percent on electricity sales. No entity will receive more allowances than are necessary to meet the declining cap thus preventing a windfall of allowances by utilities that do not have carbon emissions. Merchant coal generators will receive allocations first and the remainder will go to the LDCs. Auctioned allowances will have a soft collar price from $12 to $25 and will be allotted quarterly by the Environmental Protection Agency. These are just some of the main provisions of the proposed bill, which will be analyzed in more detail over time.

Entities such as APPA have expressed concerns and are requesting the bill contain better consumer protections. Some of the auction revenue is dedicated for deficit reduction and two-thirds of the remainder is to be returned to consumers. The remaining one-third is allotted for research and development of new technologies. There are considerable incentives to invest in natural gas, nuclear, and on- and off-shore drilling. It appears that state and regional programs will be preempted by this legislation; however, it does not prevent states from implementing programs more stringent than the federal legislation.

Six Senate committees are scheduled to review, debate, and provide input on this bill by June 6, 2010. Currently, it looks unlikely that this bill will pass the Senate this year. Nonetheless, if a bill emerges from the Senate, the Speaker of the House has stated she will work through the conference committee to find common ground.

The General Manager has accepted another assignment with APPA—on the APPA Climate Task Force. This assignment will provide additional insight into upcoming legislation and regulation.

On the regulatory side, the Environmental Protection Agency (EPA) is working on a parallel path to regulate greenhouse gases under the Clean Air Act. Regulation of large stationary sources is scheduled to begin in January 2011. Initially the regulation only applies to sources currently subject to PSD permitting, which would apply to Platte River only if there were any major modifications of existing generation resources or new generation resources built. Only greenhouse gas increases of 75,000 tons per year or more would trigger a review of Best Available Control Technology (BACT) requirements. However, BACT compliance technology is yet to be determined. Again, it appears that this regulation would not impact Platte River unless an additional resource is brought on line or modifications are made to existing plants.

The General Manager introduced Environmental Services Manager, Dave Ussery, to discuss the EPA's new coal ash rules. The new rules are a direct result of Tennessee Valley Authority's (TVA) large coal ash release. The EPA is considering two options for dealing with coal ash: regulate under Subtitle C hazardous special waste or Subtitle D solid waste.

Since the early 1980s, the Environmental Protection Agency has considered various options to deal with coal ash by-products. In 1999, it was determined that coal combustion residuals (CCRs) were not hazardous. In 2000, the Environmental Protection Agency began looking into how CCRs were handled in various states.

TVA held coal ash slurry in a large containment reservoir. Due to poor design and structural weakening, the dam failed releasing coal ash slurry into the Clinch and Emory rivers. The type of spill that happened at TVA is essentially impossible at Rawhide because the ponds are small, at grade level, and do not have dams. Secondly, the ponds at Rawhide are transfer ponds, not permanent containment ponds.

At Rawhide, the majority of the coal ash is handled in a dry form and is contained in a dry-ash monofill. Only the bottom ash is handled in a wet form. The proposed regulation focuses on impoundments and would only apply to the bottom ash transfer ponds at Rawhide. On average Rawhide produces 10,000 tons of bottom ash and 70,000 tons of fly ash per year. In March, Platte River's environmental staff responded to requests for information from the Environmental Protection Agency regarding ash management at Rawhide.

Under Subtitle C, there would be increased scrutiny of the monofill which would become classified a hazardous waste monofill. The counties and states would be saddled with the enormous undertaking of permitting and regulating these sites. Potential requirements under Subtitle C could include lining the bottom of the monofill, which would be very costly for Platte River and of limited value due to an underlying stratum of impermeable shale. Currently, it appears that the sales of coal ash for beneficial use (such as concrete block) will not be regulated under Subtitle C. It seems inconsistent that the same ash stored in a monofill is handled differently than if it is used in aggregate construction materials.

Under Subtitle D, increased monitoring and reporting requirements would exist. It is likely that the bottom ash ponds would have to be drained, residuals removed, and the ponds lined before they could continue to be used. Another proposed requirement is that the ponds must be abandoned within five years. The costs of the new bottom ash pond requirements would be significant.

At the Craig Station, coal ash is hauled back to Trapper Mine and is used for reclamation purposes. Mine reclamation is not addressed under this regulation.

Staff will continue to monitor new developments and report any concerns to the Board of Directors.

State issues. Community Relations Manager Jon Little reported on current state legislative issues. The following developments took place before the state legislature adjourned on May 19.

The legislature focused on three main areas this session: balancing the budget, Governor Ritter's environment and energy agenda, and future planning.

HB10-1190 – A tax exemption for retail purchases of electricity by manufacturing facilities was suspended for two years for the period commencing March 1, 2010, and ending June 30, 2012.

HB10-1001 – The 30 percent Renewable Portfolio Standard and distributed generation mandate for investor owned utilities (Xcel Energy and Black Hills Power Corp.) was signed by Governor Ritter on March 22, 2010.

On April 19, 2010, Governor Ritter signed HB10-1365 requiring investor-owned utilities that own coal-fired electric generating units to submit an emission reduction plan to the PUC to shut down or convert to natural gas units covering 900 megawatts of the utility's coal-fired units.

HB10-1328 creates a special district to help provide new energy improvements to owners of eligible real property who voluntarily join the district. HB10-1342 Directs the PUC to adopt new rules under which standard offers can apply to solar generation facilities that are beneficially owned by ten or more customers at a shared location. Both of these bills were sent to the Governor in mid-May.

SB-180 creates an eleven-member smart grid task force to gather information and report to the general assembly. The Colorado Association of Municipal Utilities (CAMU) has recommended John Romero, Colorado Springs Utilities General Manager for Acquisitions, Engineering and Planning and City of Fort Collins Light & Power Operations Manager, Steve Catanach as municipal utility representatives.

State Ballot Initiatives. The General Counsel mentioned that there has been continuing discussion surrounding two sets of ballot initiatives that may be on the November ballot.

The first set of initiatives deals with potential modifications to the state Renewable Portfolio Standard (RPS).

Titles 58, 59, 95, 96, 97, and 98 would affect Platte River, the Municipalities or both. Initiatives 58 and 59 involved changes to the existing RPS that were considered "pro-utility" although both municipal utility and cooperative utility groups opposed placement on the ballot. Initiative 97 would have established a threshold for carbon dioxide (CO_2) emissions in the year 2025. Initiative 95 would have removed the 40,000-customer threshold from the RPS. All of these initiatives went though the title setting process, but the proponents for initiatives 95-98 and the proponents for 58 and 59 reached a compromise: none of the initiatives will proceed to signature collection and thus will not be on the November ballot.

The second set of initiatives deal with potential tax and finance restrictions. If adopted, Proposition 101, Amendment 60, and 61 would significantly impact the Municipalities. Amendments 60 and 61 would affect Platte River by subjecting it to property taxation and limiting bond issuances to ten years with a required vote of the public. In Platte River's case, it is unclear who the public would be for such an election.

Typically, resolutions that come before the Platte River Board are operational in nature; however, under the Fair Campaign Practices Act there is an opportunity for the Platte River Board of Directors to adopt a resolution in opposition to these initiatives if it so chooses.

At the April Board meeting, the issue of the agreement with Moffat County for impact payments was brought up; specifically, how would this agreement work if Amendment 60 were adopted. Since then, Counsel has reviewed the agreement and has been in contact with the Moffat County attorney. The agreement does allow for termination upon one-year's written notice. With the uncertainty as to whether or not this initiative will pass, Counsel does not believe it would not be beneficial to exercise the right to terminate at this time. Nonetheless, if the agreement were terminated only after passage of Amendment 60, there could be contractual and legal obligations associated with making impact payments as well as property tax obligations. The Moffat County attorney spoke with budget staff and the county assessor and assured Counsel that Platte River would not be required to make double payments. Counsel noted that the Moffat County attorney was retiring in June of 2010 and further communications will be necessary.

(7) April Financial Report. The Chief Financial Officer reported on the April financial results.

Net income for the month of April reflected a loss of $3.0 million compared to a budgeted loss of $2.1 million. The below-budget variance was the result of lower-than-projected operating revenues partially offset by lower operating expenses. During the month, a planned one-week maintenance outage was completed on Rawhide Unit 1. A net loss of $0.7 million is reported year-to-date, $0.5 million less than the budgeted loss of $1.2 million.

Operating revenues totaled $11.9 million during April and were $1.5 million behind budget. Municipal sales were $0.6 million below budget with billing demand 4.8 percent and energy deliveries 3.8 percent below budget. Short-term surplus sales were $0.9 million below budget due to a 25 percent lower-than-projected average selling price and 16 percent below-budget energy deliveries. Contract sales to Tri-State were right at budget.

Interest and other income was $0.1 million under budget due to lower-than-projected interest income.

Operating expenses excluding depreciation in April totaled $11.7 million and were $0.5 million below budget. Purchased power was $0.6 million below budget due to outage assistance supplied to Tri-State during the month. Fuel was $0.3 million below budget as a result of lower-than-projected thermal generation. Production expenses were above budget by $0.5 million as the result of higher maintenance costs at Rawhide.

Debt expense of $2.6 million was right at budget for the month. Debt service coverage in April was 0.13 times versus the budget of 0.55 times. Debt service coverage year-to-date is 1.26 times, which is slightly above budget.

Capital additions totaled $5.8 million for the month, $0.9 million behind budget as the result of payment timing differences.

Resource output from the thermal units during April was 8.3 percent below budget. Rawhide's generation output was 11.4 percent below budget due to the maintenance outage and transmission restrictions, which limited generation delivery from Rawhide. Craig's generation was 3.9 percent below budget due to the Craig Unit 2 scheduled March outage extending into April and additional curtailments in April. Rawhide Unit 1 reported a net plant capacity factor of 62.3 percent, Craig Unit 1 reported 99.1 percent, and Craig Unit 2 reported 77.7 percent. The peaking units produced 508 MWh and wind production was 5,502 MWh during the month.

(8) Load and Resources Planning—Summer 2010. Electric Operations Division Manager, Mike Dahl, reported on summer resource planning.

Each spring a staff member provides a load forecast summery for the upcoming summer. This year the anticipated municipal peak load is estimated to be 636 megawatts. Tri-State is expected to take 70 megawatts under the capacity contract (approximately $20 million in revenues). The reserve obligation is anticipated to be 42 megawatts and Platte River transmission losses are expected to be 12 megawatts for a total load obligation of 760 megawatts.

On a summer peak day, the following resources are planned: 90 megawatts of WAPA hydropower; 280 megawatts from Rawhide; 154 megawatts from Craig Station; 65 megawatts each from two of the smaller gas units (A through D), and 128 megawatts from the large gas unit (Unit F). 65 megawatts each from the two remaining smaller gas peaking units would be held in reserve.

In the event Rawhide is out of service, a 100-megawatt shaft sharing agreement with Tri-State could be called upon and additional generation from the gas units would be available.

For the past several years, Platte River has made natural gas hedges expectantly locking in a market price and providing a buffer in the event of unexpected price spikes.

According to the National Oceanic and Atmospheric Administration (NOAA), the three-month temperature forecast shows a slight chance of above average temperatures.

(9) Wholesale Rate Projections—Strategic Financial Plan. The Chief Financial Officer provided the current 2011 projected rate increase and five-year financial projections.

The current projection is at 6.1 percent, down from 6.7 percent projected last fall.

The intent of the Strategic Financial Plan (SFP), last approved by the Board in 2008, is to provide long-term financial stability, maintain access to low-cost capital, provide stable and competitive wholesale rates, and effectively manage financial risk.

Strategic Financial Plan primary goals in rate setting are to maintain minimum debt service coverage of 1.5 times and net income at $6 million. Other targets include maintaining access to low-cost capital, maintain adequate operating, required, and capital reserves and provide stable and competitive wholesale rates, a debt to equity ratio of 50/50, limit variable rate debt to 35 percent of total debt and implement risk management programs and prudently invest capital.

A 2009 wholesale rate comparison shows Platte River's average wholesale rate at $42 dollars per megawatt hour compared to Tri-State at $65, Arkansas River Power Authority (ARPA) at $84, and Xcel Energy at $89. The 2009 Colorado Association of Municipal Utilities (CAMU) Residential Survey and CAMU Large Customer Survey lists the municipalities of Longmont, Loveland, Fort Collins, and Estes Park with some of the lowest rates in the state.

Wholesale rate financial projections for the next six years are as follows: 6.1 percent in 2011, 6.0 percent in 2012 and 2013, no increases in 2014 and 2015, and 1.0 percent in 2016. However, the Rawhide coal contract is set to go to index based pricing in 2013 and carbon dioxide (CO_2) legislation will also likely impact costs in those years. Other regulations or legislation are also possible.

Director Mullinix pointed out that although Platte River has the lowest rates in the state; customers still experience increased costs when rates are raised.

At the Board's direction, Platte River has smoothed rate increases over the past several years to lessen the impact.

The components of the 6.1 percent increase in 2011 rate are net interest cost of 30 percent, O&M expense of 22 percent, decreased surplus sales of 22 percent, depreciation of 16 percent and fuel and A&G expense of 9 and 0.6 percent, respectively.

Non-firm surplus sales prices have continued to trend downward and if the trend continues, it will add additional rate pressure in upcoming years. Concurrently, surplus sales revenues are expected to decline $3.8 million in 2011 due to a reduction in the amount of energy available to sell. Tri-State revenues are decreasing $1.1 million as a result of the scheduled capacity sale reduction.

O&M expenses are anticipated to increase by $2.4 million due to a Craig Unit 1 scheduled maintenance outage, a reduction in the capitalizing labor cost at the completion of transmission capital projects, and mercury mitigation and general O&M costs. Fortunately, some of the costs will be offset by decreases in pension and benefits expenses.

With the culmination of work on the transmission projects, interest expense is anticipated to increase by $2.9 million as the associated interest on the Series HH Bond will no longer be capitalized. In addition, interest income is anticipated to be $1.1 million lower as interest rates continue to be at historic low levels.

Depreciation expense is estimated to increase $1.6 million in 2011. Approximately $41 million in plant additions in 2010 for the Fort Collins Portner, Harmony – Boyd transmission line, and the Loveland East transformer and mercury removal system. An additional $115 million in plant additions in 2011 for the Fort St. Vrain and Dixon Creek – Horseshoe transmission projects, and the Fordham and Horseshoe substation additions will also increase depreciation expense.

There are many caveats to these projections including: more firm 2011 budget numbers, changing market prices, future outage costs, environmental regulation/legislation changes, municipal load growth forecasts, further refinement to interest income assumptions, future pension plan investment returns, Rawhide coal costs beyond 2012, transmission lease revenues, and mercury mitigation costs.

Platte River currently collects 54.4 percent of municipal revenues from demand and 45.6 from energy. Platte River uses a model that allocates expenses as demand or energy and applies a four-year average to smooth out the rate of change between the two. The current cost model indicates that in 2011, energy rates should increase 14.4 percent and demand rates decrease 0.9 percent, for an average rate increase of 6.1 percent. Individual level rates range from 5.9 percent in Loveland to 6.7 percent in Estes Park. The trend of increasing energy charges relative to demand charges is expected to continue in future years.

Staff will continue working on the 2011 budget, update the load forecast, review other modeling assumptions, and return in October of this year with recommended changes to Tariff 1 and other tariff schedules for Board approval at that time. Staff will also continue the study of potential wholesale rate structure changes.

Director Mullinix stated that the current rate structure with high demand charges has caused customers to focus on peak demand to reduce their costs, but if the rate structure changes toward higher energy charges, it is essential to help customers adjust.

Director Bergsten commented that years ago the more energy customers used, the lower their rates were, but as energy usage increased more resources were needed to meet the demand and as developing new resources became more costly, energy conservation became popular to reduce costs. The four cities need to determine what the focus should be going forward.

Director Roiniotis stated that there has been a desire to better align the wholesale rate structure with the wholesale supply costs. Anytime the load curve is flattened, the load factor is improved and thus allows the ability to have capacity without adding additional resources. The current infrastructure is utilized more efficiently, but the complication lies with incentive-based ratemaking and aligning it with the wholesale rate structure.

John Bleem mentioned that the wholesale rate study is focused on three fundamental components: revenue requirements, simplicity, and equity. With the current rate structure, municipalities or their customers who are able to reduce loads at time of peak are receiving significant savings relative to reduced supply costs. This misalignment is the primary driver for suggesting a change to the current structure.

Director Roiniotis also stated that having a "pure rate" on the residential side would require putting all cost in a residential service charge and having a small incremental energy charge that would change on an hourly basis. However, an individual on a fixed income and utilizing a very small amount of energy would be charged an excessive amount, while another individual that uses large amounts of energy would receive a break. Rate structure design is an art and it will take a great deal of work to create a rate structure that is equitable.

The General Manager mentioned that the wholesale rate design study is focused on determining how costs can be aligned with the rate. Staff will continue to meet with municipal staffs to gather information and will work with a rate consultant to develop possible structure options that can be brought back to the Board of Directors for review and discussion.

(10) Executive Session. Director Roiniotis moved that the Board of Directors go into Executive Session for the purposes of receiving information on the status of Rawhide fuel contract negotiations and determining a position relative to such negotiations and instructing negotiators.

The General Counsel advised that an Executive Session is authorized in this instance pursuant to Colorado Revised Statutes, Section 24-6-402, subsection (4)(e); provided that no formal action will be taken during the Executive Session. Director Gutierrez seconded the motion. Motion passed 8-0.

The Board went into Executive Session at 11:38 a.m. The Board reconvened in regular session at 12:15 p.m.

(11) Management Report. The General Manager reported on the following items:

Xcel Energy recently changed to a tiered summer rate. Beginning June 1, 2010, and continuing through August, residential rates will be tiered; the first 900 kilowatt-hours will be 9.8 cents per kilowatt-hour and anything above 900 will be 14 cents per kilowatt-hour. This is an estimated 2.5 percent increase to residential customers with the anticipated result being a reduction in energy consumption during the summer months.

Mayor Hutchinson mentioned that this summer Fort Collins City Council is considering the possibility of tiered rates. Xcel's new residential tiered rates and the Platte River rate structure discussion is timely. Director Hutchinson mentioned that the City adjusted the tiered water rates in Fort Collins and he is very interested in determining if tiered electric rates will actually bring about the sought-after results.

The wholesale rate study was covered earlier in the meeting, but the General Manager mentioned that a meeting has been scheduled with municipal staffs to continue the discussion.

A draft resource options white paper, included in Board materials, was prepared and presented to Fort Collins City Council on May 11. At the Board's direction, staff will update this document with potential rate impacts pertinent to each individual Municipality. Chairman Mullinix requested staff provide the information to all the Municipalities.

Mayor Hutchinson expressed appreciation to staffs' responsiveness and professionalism in providing information at the council meeting. The discussion and materials provided was informative and beneficial.

Board Member Comments. None.

Adjournment. With no further business, the meeting adjourned at 12:22 p.m. The next regular Board meeting is scheduled for Thursday, July 29, 2010, at 9:00 a.m. in the Platte River Power Authority boardroom, 2000 East Horsetooth Road, Fort Collins, Colorado.

AS WITNESS, I have executed my name as Assistant Secretary and have affixed the corporate seal of the Platte River Power Authority this 29 day of July, 2010.

Assistant Secretary

PLATTE RIVER POWER AUTHORITY
CORPORATE SEAL
COLORADO