

PLATTE RIVER POWER AUTHORITY

Minutes

Regular Meeting of the Board of Directors

Thursday, September 30, 2010

The Platte River Power Authority Board of Directors' meeting convened at 9:00 a.m. on Thursday, September 30, 2010, in the Platte River Power Authority boardroom.

BOARD MEMBERS:

Present: Mayor Bill Pinkham and Reuben Bergsten representing Estes Park; Mayor Cecil Gutierrez (Secretary) and Ralph Mullinix (Chairman) representing Loveland; Tom Roiniotis representing Longmont; Mayor Doug Hutchinson (Vice Chairman) and Brian Janonis representing Fort Collins.

Absent: Mayor Bryan Baum

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:

Finance Assistant, Brandi Cross; Human Resource Manager, Dave Green; Controller, Ed Doherty; Senior Accounting Analyst, Shelley Nywall; Treasury Manager, Julie Depperman; Associate Counsel, Caroline Schmiedt; Financial Planning Manager Wade Hancock; Marketing & Community Relations Manager, Jon Little.

GUESTS AND MEMBERS OF THE PUBLIC:

City of Fort Collins, Steve Catanach; City of Fort Collins, Patty Bigner; City of Loveland, Bob Miller; and Fort Collins resident Eric Sutherland.

ACTIONS:

(1) Call to Order. Chairman Mullinix convened the meeting at 9:00 a.m.

(2) Approval of the Regular Meeting Minutes of August 26, 2010.

Chairman Mullinix asked for a motion to approve the meeting minutes of August 26, 2010. Director Gutierrez moved to approve the meeting minutes; Director Pinkham seconded the motion. Mayor Doug Hutchinson and Brian Janonis abstained because they were absent at the August 26, 2010, meeting. Motion passed 5-0.

(3) Public Comment. Fort Collins resident Mr. Eric Sutherland offered the following comments. Mr. Sutherland passed out a copy of an email that he sent to Board members prior to the Board meeting. Mr. Sutherland discussed two points: the discrepancy between costs and the wholesale pricing model for electric utilities and the difficulties in trying to address the differential between wholesale and retail costs. Mr. Sutherland suggested that

taxation could be used as a buffer between the wholesale cost and the retail pass through. Chairman Mullinix requested Mr. Sutherland keep his comments in direct reference to Platte River and not the City of Fort Collins. Mr. Sutherland objected to the interruption and continued with his presentation stating that Fort Collins is grossly under taxing retail sales of electricity. Longmont was also mentioned in this context. He indicated that the level of taxation is much smaller in a municipality than it is in companies such as Tri-State and REAs. He suggested that the additional taxation would improve the economic sustainability in the communities and would allow a buffer needed to make sure that any differential between the cost and price structure could be absorbed.

Chairman Mullinix asked if any other members of the public wished to speak. No other members of the public offered comment.

General Counsel, Joe Wilson introduced Platte River's Associate Counsel, Caroline Schmiedt.

General Manager, Brian Moeck introduced four Platte River employees currently participating in the Leadership Development Program (LDP): Wade Hancock, Financial Planning Manager; Travis Ray, Instrument and Electrical Supervisor; Steve Retterath, Maintenance Technician; and Dave Zander, Fuel Handling Operator. He also introduced Brandi Cross, Finance Assistant who was filling in for Esther Velasquez.

Director Hutchinson commented on the citizen's suggestion to increase utility taxes and corresponding transfers to the Fort Collins General Fund (PILT). Director Hutchinson stated that the Fort Collins City Council does not support making use of increased PILT payments on utility bills to solve a problem that is well beyond any reasonable increase. He agreed with the Chair that this was an issue that should have been brought before Fort Collins City Council.

(4) Retirement Committee Report. The Committee Chair Pinkham provided an overview of the August 26, 2010, Retirement Committee meeting.

Watershed Investment Consultants provided a review of the June 2010 quarterly investment performance. During the quarter, Plan assets decreased from \$55.9 million to \$53.6 million, this included an investment loss of \$3.6 million. The return for the quarter was -6.4 percent, slightly underperforming the benchmark. Year to date thru June 2010, the plan's return was -3.4 percent.

Watershed provided an asset allocation review and recommended revisions to the allocation targets. Based on uncertainty in the marketplace, specifically high unemployment and potential sovereign debt defaults, the consultants recommended reducing equity exposure and increasing the Plan's allocation to hedge funds and real estate. The committee agreed to gradually reduce the equity exposure from 60 percent to 50 percent by year-end and to cap the fixed income exposure at 20 percent. The hedge fund and real estate allocations will each increase from 10 percent to 15 percent.

BKD recently completed their audit of the Employees' Pension Plan (*now referred to as the Defined Benefit (DB) Plan*) for the year ending December 31, 2009.

- The Plan's financial statements received a clean audit opinion.
- The BKD Post Audit Letter is a required communication of significant matters related to the audit by BKD to the Retirement Committee. The letter reported no unusual accounting policies or accounting methods and no audit adjustments.
- The committee accepted the report and recommended it be presented to the Board. The committee recommended a motion to accept the report.

Director Janonis asked if the plan's assumption for an eight percent rate of return is too high given current market conditions. The Retirement Committee discussed this at its last meeting and plans to discuss the issue further at the next retirement committee meeting.

Director Janonis asked about current funding in the plan versus the amounts reported in the annual report. The 2010 budget for pension funding is \$7.5 million; the 2011 budget will be stepping down to \$4.4 million due to strong returns earned in 2009. The contributions, over the years, have ranged from as low as \$200,000 to as high as \$7.5 million. To address the funding volatility for future years, Platte River closed the pension plan to new employees as of September 1, 2010, and created a new defined contribution plan. In addition, Platte River made a change in accounting policy to mitigate the rate impact from the high contribution levels. Director Hutchinson moved to approve the Employee's Pension Plan Financial Report; Director Gutierrez seconded the motion; motion passed 7-0.

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

On September 22, 2010, Platte River's internal auditor, in accordance with Platte River's Statement of Policy Prohibiting Market Manipulation, completed the semiannual market manipulation audit. No instances of market manipulation were found. The audit involved a questionnaire to all employees involved in market activities and a random screening of the phone calls engaged in by marketers.

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

It does not appear that any significant climate legislation will advance during the remainder of this session of Congress. Focus has shifted to the Environmental Protection Agency, which is soon to release guidance and or rules concerning controlling greenhouse gases under provisions of the Clean Air Act. It is anticipated that Best Available Control Technology (BACT) will be required for new units and major modifications to existing units after January 1, 2011. BACT is yet to be defined.

The EPA recently issued two proposals for new regulation of Coal Combustion Residuals (CCRs). Platte River would like to continue to manage coal ash in the same safe manner as in the past.

Ballot Initiatives–Resolution of Opposition. The General Counsel led a discussion concerning a resolution in opposition to Amendments 60 and 61. At the last Board meeting, the Board unanimously proposed Counsel draft a resolution opposing Amendments 60 and 61, which was included in the September Board packet. The Board has the authority to adopt a resolution regarding these amendments as outlined in the Fair Campaign Practices Act. The draft resolution explains how these initiatives would impact the organization. Amendment 60 would subject Platte River to property tax, which currently could amount to additional expenses of \$23 million and estimated rate increases of 15 percent.

Amendment 61 would remove the decision making authority from the Board on the issuance of debt and will leave it up to public election. Also, Amendment 61 will limit the period for debt to ten years. Currently, Platte River typically bonds for 30 years. Reducing the time period for repayment to ten years would have significant rate affects and create some unintended consequences in terms of ratepayer obligations.

If the Board were to adopt the resolution, Platte River would issue a press release regarding the action of the Board. Platte River would provide a copy of the resolution and press release to the campaign groups organized to oppose the initiatives. Additionally, the Board action would be discussed at a business meeting with employees.

Director Hutchinson commented on the impact described in the resolution and agreed that it would be a detriment to Platte River. Director Pinkham also agreed and was thankful for the information.

Director Roiniotis commented that in Longmont retail electric rates would increase by 13 percent and would increase water rates by 56 percent.

City of Fort Collins passed a resolution opposing Amendment 60 and 61. Poudre Fire Authority also unanimously passed a resolution opposing the amendments, as did Loveland. All of Estes Park’s districts have passed resolutions opposing the amendments as well.

Chairman Mullinix asked for a motion to adopt Resolution No. 14-10–Ballot Initiatives–Resolution of Opposition. Director Hutchinson moved to adopt the resolution. Director Pinkham seconded the motion. Motion passed 7-0.

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

Net income for the month of August was \$1.8 million. This represents a \$0.3 million above-budget variance resulting from below-budget operating expenses partially offset by above budget net financing costs. Net income for the year has increased to \$3.3 million and continues to lag budget by \$0.6 million.

Operating revenues during August were right at budget. Municipal sales were \$0.2 million over budget with energy deliveries up 2 percent and billing demand down 1 percent, respectively. Short-term surplus sales were \$0.1 million below budget, due to below budget sales price offset by above-budget energy deliveries. Contract sales were also below budget \$0.1 million due to energy deliveries.

Interest and other income was \$0.1 million under budget in August with lower-than-budgeted interest earnings.

Operating expenses were below budget \$0.2 million with purchased power above budget by 7 percent. Fuel expense was under budget by \$0.2 million for August due to the coal pile survey which required no adjustment. Production expenses were below budget, operations and maintenance expenses were under budget by 7 percent. Transmission expenses were over budget and administrative and general expenses were above budget.

Debt expense was slightly below budget for the month. Debt service coverage was above budget 5 percent.

Capital additions totaled \$4.1 million in August and exceeded budget by \$0.3 million. This variance is due to a catch up on the transmission projects. Year-to-date capital additions total \$44.5 million and are \$4.4 million below budget.

Resource output from the thermal units during August was 4.2 percent above budget. Rawhide Unit 1 reported excellent performance for the month with a net capacity factor of 96.2 percent. Craig Units 1 and 2 also ran well with net capacity factors of 93.4 percent and 95.9 percent, respectively. The peaking units generated 6,189 MWh and wind generation totaled 3,517 MWh during August.

Investment Review Platte River's Treasury Manager, Julie Depperman reviewed the investment program.

The investment report provided in the Board packet lists all of the securities that Platte River held as of August 31, 2010. The presentation included charts depicting trends in short-term interest rates. Rates are lower than they have been in over thirty years and the reductions have significantly reduced investment earnings. As a governmental entity, Platte River is required to follow State statutes when investing, which limits the types of securities and the length of the maturity. Maintaining adequate liquidity and diversifying the portfolio are key objectives. Platte River currently has \$120 million in cash and investments, including \$30 million held in the HH project fund. Due to the use of cash financing to fund the Unit F peaking unit and the use of cash to pay off the Series S1 variable rate debt, portfolio balances have declined from over \$200 million in 2006 to a projected \$99 million (excluding the HH Project fund) at the end of 2010. For 2011, investment earnings are expected to continue declining due to low interest rates and a lower total reserve balance.

Chairman Mullinix suggested pooling the investments of the Municipalities with Platte River for better leverage. Dave Smalley responded that from a short-term perspective, the use of local government investment pools provides liquidity while extending maturities and providing higher returns. Due to requirements set forth in State statutes, home rule cities have more flexibility when investing than Platte River. Staff will review advantages and disadvantages of pooling investments.

(8) 2011 Proposed Annual Budget. Controller, Ed Doherty presented the Proposed 2011 Budget.

Director Pinkham commented that he appreciated the workmanship and professionalism of the clarity, layout, and format of the budget.

The 2011 Budget results in net income of \$6.3 million, down 3.7 percent from 2010, and debt service coverage of 1.65 times, the same as 2010. Net debt outstanding is projected to decrease to \$256.6 million with the Municipalities equity increasing to \$452.6 million. This gives an improved debt to equity ratio of 36 percent debt and 64 percent equity. The Rate Stabilization fund is holding at \$20 million and the Capital and Debt Management reserves are dropping to \$26.2 million.

The 2011 Budget includes the 6.1 percent rate increase discussed earlier in 2010. The increase is required because of a decrease in surplus sales revenues due to lower prices and lower contract sales; a decrease in interest income due to historic low interest rates and lower cash reserves; an increase in production expenses primarily for the Craig Unit 1 maintenance outage; and an increase in interest expense due to lower capitalized interest.

On the positive side, pension expenses are decreasing in 2011 as are medical and dental expenses and several other expenses. Also, capital additions will be down significantly.

The 2011 Proposed Annual Budget projects total revenues to be \$187.4 million, up \$2.6 million over the 2010 Budget. Total expenditures are projected to be \$198.7 million, down \$33.5 million from the 2010 budget due to lower transmission capital additions.

The \$187.4 million in revenues are made up of municipal revenues, surplus sales, and other revenues. Municipal revenues are projected to increase \$9 million in 2011 due to the rate increase and a projected load increase of 0.5 percent. The budgeted peak in 2011 is projected to be 637 MW, the same as the 2010 budget although the peak in July 2010 came in below budget at 615 MW.

Surplus sales are made up of contract sales to Tri-State, short-term surplus sales and wheeling revenues. Contract sales to Tri-State will decrease \$1.4 million in 2011. The final step down in the contract from 70 MW to 50 MW will take place on June 1, 2011. Short term sales are expected to decrease by \$3.4 million due to a lower projected selling price and lower MWh

available for sale with the upcoming Craig outage. There are no changes in wheeling revenues, much of which includes two long-term contracts through 2012.

Chairman Mullinix asked if it would be advantageous for Platte River to sell the Craig-Bonanza line. Mike Dahl commented that we currently earn revenue from the line and have occasionally used the line for our own transmission. Platte River can look into the possibility of selling its portion of the line.

Other revenues include interest income, which is projected to decrease \$1.4 million due to lower interest rates, and other income projected to decrease \$0.1 million due to fewer fiber leases.

The 2011 expenditures are projected to be \$198.7 million and include operating expenses, debt expense, and capital additions. Operating expenses are 69 percent of the total expenditures and include purchased power, fuel, production, transmission, and administrative and general expenses.

Purchased Power is projected to decrease by \$0.8 million as the result of lower purchases required for outage assistance with no Rawhide outage scheduled in 2011 and lower reserve purchases. However, a WAPA CRSP rate increase of six percent is anticipated on October 1, 2011, and the replacement power outage accrual increased due to the addition of one week to the duration of the 2012 outage.

Fuel expense is increasing by \$0.8 million due to the projected price for natural gas increasing from \$5.00/mmbtu to \$5.19/mmbtu. Coal and transportation costs are expected to increase two percent. In addition, new costs in 2011 for dust suppression for rail cars will add about \$0.3 million to the budget.

Production expenses are expected to increase \$1.3 million dollars. The largest increase is for the six-week maintenance outage for Craig Unit 1. There is also an increase in the mercury removal costs at Rawhide and required rail car maintenance. The 2010 mercury removal costs represent a partial year. These costs will be higher in 2012 because 2012 is a higher scrub year. After 2012, Platte River does not anticipate that mercury removal costs will continue to rise, rather operating cost will likely stabilize. Wind turbine maintenance is increasing \$0.1 million and \$0.3 million has been added to the systems operations budget for early hires in anticipation of retirements. These positions require NERC certification prior to filling the position.

Transmission expenses are projected to decrease \$0.2 million with lower wheeling expenses for the wind purchases and lower joint project expenses. Also, administrative and general expenses are expected to decrease \$0.3 million due to lower pension and medical and dental costs offset by an increase in security maintenance costs. Staffing numbers for 2011 are not changing from the 2010 budget. A 2.5 percent pool for potential wage adjustments and the temporary funds for early hires in anticipation of retirements have been included in the budget.

Debt expense makes up 15 percent of the total expenditure budget and is projected to increase by \$1.1 million. This increase is the result of less interest expense being capitalized as transmission capital projects are completed offset by a decrease in principal payments.

Capital additions are projected to total \$31.1 million in 2011, a decrease of \$35.5 million from the 2010 budget. The largest decrease is due to the projected completion of two of the three major transmission projects next year. Production additions total \$9.3 million and include heavy equipment replacements and system improvements at Rawhide. Other production projects include \$1.5 million for the Windy Gap Firming Project and \$4.3 million for Yampa additions. Transmission additions are budgeted for \$20.8 million, and general additions are budgeted at \$1.0 million.

The budget schedule is as follows:

- Board work session – September 30, 2010
- Public hearing and budget discussion – October 28, 2010
- Public hearing and Board adoption – December 9, 2010
- File budget with the state – December 31, 2010

Director Hutchinson requested clarification on the \$20 million contingency appropriation listed in the budget. Mr. Doherty responded that the \$20 million contingency appropriation provides Platte River flexibility in budgeting for unexpected expenses that may arise during a given year. Any use of the contingency appropriation requires Board approval.

Discussion was held regarding the possibility of cutting capital projects. Currently most of the capital projects are either almost complete or have already been postponed or cut back as far as they can be. Mike Dahl explained the rationale for completing the transmission and substation projects currently under construction. It was explained that debt was issued in early 2009 to fund the projects and that most of the construction contracts have been executed.

General Manager, Brian Moeck mentioned that the next major capital project to be debt financed is the Windy Gap Firming Project. Platte River's participation in the firming project might be a subject of future discussion if the Board wishes to defer the expenditure.

Chairman Mullinix asked for detail on the temporary new hires. Ed Doherty explained that based on surveys it has been indicated that three experienced dispatchers may be retiring in 2011. Platte River will have to hire replacements prior to the retirement of experienced dispatchers to adequately train new people and obtain necessary NERC certification.

Director Janonis requested a list of the positions that have been terminated and have not been replaced. General Manager, Brian Moeck will work with staff to get this information compiled and sent to Board members.

The Board also requested a statewide wholesale rate comparison chart. John Bleem will compile the data and send the information to the Board members.

(9) 2011 Draft Operating Plan. General Manager, Brian Moeck gave a brief overview of the draft Operating Plan.

The Operating Plan will be finalized and presented for approval of the Board in December. A summary of Platte River activities and list of key issues can be found on the first few pages of the Plan. This document gives considerable detailed information that supports the 2011 Budget.

Director Pinkham commented on the Operating Plan and its information. The amazingly high workload that goes along with keeping Platte River in compliance was quite shocking. He also noted that the information about Platte River obtaining gold status with Climate Wise for sustainability in 2011 would be very helpful to Estes Park.

(10) Integrated Resource Plan. John Bleem presented an overview of the next Integrated Resource Plan (IRP) process. This plan is scheduled to be completed over the next eight months.

Platte River has developed IRPs since the mid-1990s and filed these with Western Area Power Administration (WAPA). The next IRP is due in June 2011. Between now and then, Platte River will work with the Municipalities and the Board to develop key components of the IRP. No new resources are needed during the term of the next IRP (2012 to 2016), but the plan will include an updated load forecast, plans for DSM and renewable energy, possible updates to existing resource planning criteria and other long-term planning issues. A public information process will also be part of the IRP effort. A final IRP will be presented for Board approval at the May 2011 Board meeting. Updates on progress toward the IRP completion will be provided to the Board on a regular basis.

(11) Executive Session. Director Roiniotis moved to go into executive session to discuss Oil and Gas Development Lease Options.

The General Counsel advised that an Executive Session is authorized in this instance pursuant to Colorado Revised Statutes, Section 24-6-402, subsection (4)(a); provided that, no formal action will be taken during the Executive Session. Director Gutierrez seconded the motion. Motion passed 7-0.

The Board went into Executive Session at 11:40 a.m.
Regular Session reconvened at 12:21 p.m.

(12) Management Report. The General Manager provided an update on the following:

The Yampa Project Participation Agreement has a provision that would allow any of the project owners to opt out of the project by giving notice to the other owners prior to June 1,

2011. PacifiCorp has suggested that the opt-out language be removed. The owners of the Yampa Project are currently reviewing a proposed amendment to the agreement.

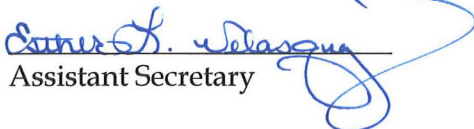
The American Public Power Association (APPA) has had a Climate Change Task Force in place for several years and has now created a working group of 11 CEOs to develop a position for promoting climate legislation in the next congressional session. The working group has discussed a straw man proposal that would set a future performance standard for coal-fired plants. A Performance Standard model might set a limit for coal plants of a certain age based on GHG emissions of a new combined cycle gas plant, for example. Further discussion of developing a public power proposal will occur in November.

Director Hutchinson requested clarification on the status of demand side management customer rebates. John Bleem described the general approach to provision of rebates for Common Programs (those offered by Platte River in all the Municipalities). The customer pays a portion of the project cost and Platte River pays the rest through a rebate. Platte River's budgeted funds for these types of programs have all been committed and in order to keep the programs operating, the Municipalities have offered to provide additional funds. The joint DSM team is working to coordinate program costs and other planning issues for the common programs going forward.

Board Member Comments. Director Hutchinson requested on behalf of the Fort Collins City Council that Platte River post the draft Board of Directors' meeting minutes on the web site at the same time that the draft minutes are given to the Board of Directors. Staff will try to incorporate this request with upgrades to the web site.

Adjournment. With no further business, the meeting adjourned at 12:39 p.m. The next regular Board meeting is scheduled for Thursday, October 28, 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 1st day of November, 2010.


Assistant Secretary

