PLATTE RIVER POWER AUTHORITY

Minutes

Regular Meeting of the Board of Directors

Thursday, October 28, 2010

The Platte River Power Authority Board of Directors' meeting convened at 9:00 a.m. on Thursday, October 28, 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; Mayor Bryan Baum and Tom Roiniotis representing Longmont; Mayor Doug Hutchinson[1] (Vice Chairman) and Brian Janonis representing Fort Collins.
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; Controller, Ed Doherty; Manager of Internal Audit Becky Avery; Financial Planning Manager, Wade Hancock; Facilities and Security Manager, Jeff Menard; and Senior Accounting Analyst, Shelley Nywall.

GUESTS AND MEMBERS OF THE PUBLIC:

Mr. Rob MaCoy, Partner, and Ms. Jodi Cates Senior Manager from BKD; Mr. Dan Lasher from the City of Longmont; Mr. Stephen Yurash a Fort Collins resident and member of the Fort Collins Electric Board; 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 September 30, 2010.

Chairman Mullinix asked for a motion to approve the meeting minutes of September 30, 2010. Director Pinkham moved to approve the meeting minutes; Director Gutierrez seconded the motion. Mayor Bryan Baum abstained because he was absent at the September 30, 2010, meeting. Motion passed 6-0.

(3) Public Comment. Mr. Eric Sutherland began to comment on changes to Tariff 7, the renewable energy tariff, when Chairman Mullinix asked if he would save his comments until later in the meeting when the agenda item is discussed so that his comments would be

[1] Mayor Doug Hutchinson arrived at 9:04 a.m.

more pertinent to the subject. Since Mr. Sutherland had no other comments, he agreed to wait until that agenda item was covered to comment.

With no other members of the public electing to comment, the Chair moved to the next agenda item.

[Mayor Doug Hutchinson arrived at 9:04 a.m.]

(4) Audit Committee Report. Committee Chair Janonis mentioned that the Audit Committee met earlier this morning to review the audit schedule and plan. Director Janonis then presented the BKD engagement letter to Board Chair Mullinix to sign, engaging BKD to complete the annual audits. Director Janonis introduced BKD to provide a summary of the presentation made by BKD earlier this morning.

Mr. Rob MaCoy stated that in accordance with Platte River's governance policy, partners are rotated every five years and that he is replacing Mr. Dennis Yockey as the new audit partner.

Mr. MaCoy presented an overview of the pre-audit letter, which discusses the planning and timing of the year-end audit. The following areas of significant risks of material misstatement due to error or fraud were identified: management override of controls, revenue recognition, FASB ASC Topic 980—Regulated operations (formerly FAS 71), valuation of investments, and debt transactions.

Ms. Jodi Cates, Senior Manager stated that the audit team would be onsite next week to begin interim fieldwork, evaluate internal controls, assess risks, and gather information to develop the audit plan. The team will return at the end of January to audit the financial statements. The final report will be presented to the Board of Directors at its March meeting.

As a follow up Mr. MaCoy mentioned that there have been no significant changes in auditing standards; however, there was a small change in accounting standards: accounting for intangible assets and reporting for derivative instruments. Mr. MaCoy mentioned that changes to GASB 53 (accounting for intangible assets) would likely have little or no impact on Platte River.

The BKD audit team will meet one-on-one with certain members of management and Board members to cover any issues of fraud.

Committee Chair Janonis asked the General Manager to provide a summary of the Audit Committee meeting. The General Manager raised the issue of the future of the Audit Committee. Presently, information presented by BKD at Audit Committee meetings is covered again at Board meetings. The Committee does not see value in continuing this duplicative effort. With only two Audit Committee members currently serving, staff and Committee members recommend audit issues be brought before the Board of Directors and that the Audit Committee be disbanded.

Mayor Doug Hutchinson agreed that having the Audit Committee does not seem to add value and would support disbanding the Committee.

Chairman Mullinix inquired about the value of the Committee meeting more often rather than disbanding it entirely.

Mr. MaCoy stated that without having a robust internal audit department, meeting more often would not add value and since BKD is not involved in the auditing process from March to November he did not see any reason to maintain a separate committee.

Mayor Pinkham agreed that it seemed reasonable to disband the Audit Committee, but wanted to know how communication would be handled. Mr. MaCoy and Ms. Cates stated that according to BKD's professional standards any matters of fraud would be brought directly to the Board of Directors and not having an Audit Committee would not affect that communication.

With no further comments, Director Mullinix directed staff to bring a resolution of dissolution before the Board at its December meeting.

(5) 2011 Proposed Annual Budget (First Public Hearing). Chairman Mullinix asked Ed Doherty to present changes to the 2011 Proposed Annual Budget prior to the opening of the public hearing.

Budget changes since the September Board of Directors meeting are as follows:

The Proposed Annual Budget was updated to include the results of the new official load forecast. The updated load forecast includes the results of summer season Municipal sales and revised assumptions. Minor changes to the budget include revisions to Municipal sales, surplus sales, purchased power, and fuel expense. These changes increased projected net income by $10,982. The updated Annual Budget projects total revenues to be $187.4 million; total expenditures $198.7 million; and a Board contingency of $20.0 million. Net income is $6.3 million and debt service coverage remained the same at 1.65 times.

The first Public Hearing is today. There is no Board meeting in November; the second Public Hearing and Board adoption is scheduled for December 9.

Chairman Mullinix opened the public hearing at 9:20 a.m., and stated that the 2011 Proposed Annual Budget for Platte River Power Authority was delivered to the Board of Directors in accordance with applicable law.

Legal notices were published announcing that the Proposed Budget has been made available to the public for inspection and that public hearings will be held October 28, today, and December 9, in order for the Board to receive public comment on the Proposed Budget prior to final adoption of the Budget by the end of the year.

The Chair asked if any members of the public wished to comment on the 2011 Annual Budget.

With no members of the public commenting, the Chairman closed the public hearing at 9:21 a.m.

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

At the September Board meeting, the Board adopted Resolution No. 14-10, which expresses opposition to proposed ballot initiatives 60 and 61 amending the Colorado Constitution. Following adoption, a press release was issued that garnered ample coverage by the local press. Current polling seems to suggest that the majority of voters are opposed to Amendments 60 and 61, as well as Proposition 101.

A simmering dispute among property owners adjacent to the Rawhide Energy Station has recently threatened to involve Platte River. Twenty-two properties adjoin the unimproved Bandana Lane at the western end of the Rawhide property line. The easement is one of necessity for some of the properties on the east side of the road. Property owners have begun fencing areas of Bandana Lane creating access uncertainty among the neighbors, which is unavoidably pulling Platte River into the dispute. Counsel will continue to monitor this situation and keep the Board appraised.

Director Janonis asked about a possible schedule on the Memorandum of Understanding with Anheuser-Busch, Inc. and asked if the matter is progressing.

The Chief Financial Officer stated that Anheuser-Busch, Inc. has been working with the City of Fort Collins on how to handle return flows. Negotiations with A-B began in 2002 and have not progressed very rapidly; it is unlikely that this matter will be resolved before the end of the year.

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

With the upcoming election, there is likely to be plenty of speculation over the next three months surrounding the next session of Congress. It is unlikely that any energy or climate legislation will move in the near future, including during the lame duck sessions in November and December.

Last week, the General Manager had the opportunity to meet with Environmental Protection Agency (EPA) staff to discuss Best Available Control Technology (BACT) guidance. Information on what, if any, BACT applies to greenhouse gases has been very limited, but it is very likely the details will be released after the elections. EPA staff indicated that the BACT guidance would be an anticlimactic, reasonable approach to solving the problem. Several white papers are expected to be released in conjunction with the BACT guidance.

Additionally, General Manager Brian Moeck and a few colleagues met with Environmental Protection Agency staff to discuss coal combustion residuals (coal ash). Although nothing definitive was communicated, they mentioned receiving 185,000 comments so far on the rule. The comment period will conclude at the end of November. A discussion about the beneficial uses of coal ash with EPA staff allowed utility sector representatives to express numerous concerns over classifying coal ash as hazardous, which would likely negatively impact the beneficial use market.

Earlier this week, the North American Electric Reliability Corporation issued a press release and report on four of the EPA proposed rulemakings and their impact on the electric grid. A portion of the press release read: "Results of this assessment show a significant potential impact to reliability should the four Environmental Protection Agency (EPA) rules be implemented as proposed."

(8) September Financial Report. The Chief Financial Officer reported on the September financial results.

Net income of \$0.3 million was reported for the month of September. This represents a \$0.4 million below-budget variance resulting from below-budget operating revenues partially offset by below-budget operating expenses. Net income for the year of \$3.6 million has fallen \$0.9 million below budget.

Operating revenues totaled \$14.0 million during September and were \$0.6 million behind budget. Above-budget municipal sales were more than offset by below-budget surplus sales. Municipal sales exceeded budget by \$0.1 million as energy deliveries were over budget by 2.4 percent but offset by 0.9 percent lower demand. Short-term surplus sales were \$0.6 million below budget due to lower-than-projected MWh sales and selling price. Contract sales were \$0.1 million below budget with Tri-State taking no energy during the month.

Interest and other income was \$0.1 million below budget with lower-than-budgeted interest earnings during the month. The variance is due to the continuation of low interest rates.

Operating expenses excluding depreciation in September totaled \$10.6 million and were slightly below budget. Below-budget fuel and production expenses were partially offset by above-budget purchase power, transmission, and administrative and general costs. Fuel was \$0.2 million less than budget due to lower generation output from the generating units.

Purchase power was $0.1 million over budget and was required to meet peak loads. Transmission and administrative and general expenses combined were $0.1 million above budget due to timing of payments and demand side management expenses.

Debt expense of $2.3 million was slightly below budget for the month. Debt service coverage was 1.57 times versus the budget of 1.79 times for September and year-to-date is 1.54 times versus the budget of 1.61 times.

Capital additions totaled $8.9 million in September and exceeded budget by $6.0 million. This variance is due to the delivery of materials for the transmission projects earlier than estimated. Year-to-date capital additions total $53.5 million and are $1.6 million ahead of budget.

Resource output from the thermal units during September was 2.5 percent below budget. Although availability factors during the month were near 100 percent for Rawhide Unit 1 and the Craig Units, generation was held back due to the lack of demand for energy on the surplus sales market and regional transmission constraints. Rawhide Unit 1 reported a net capacity factor of 89.6 percent and the Craig Units reported a combined net capacity factor of 89.5 percent. Wind generation for the month totaled 4,476 MWh and the peaking units were not run.

(9) 2011 Proposed Rate Tariffs. Dave Smalley and John Bleem provided a brief summary of the recommended changes to the Tariffs.

Tariff—Schedule 1: FIRM RETAIL POWER SERVICE, which contains the monthly demand and energy rates for firm resale power service, is recommended to increase on average 6.1 percent as presented to the Board of Directors at the May 2010 meeting. Based on the current cost of service allocation between demand and energy, the energy rate is expected to increase 14.4 percent and demand rate decrease 0.9 percent. It is anticipated that future rate increases will also be heavily weighted toward the energy component as variable (energy) costs are increasing more than fixed (demand) costs. The monthly demand rate will decrease from $12.53 to $12.42 per kilowatt-hour of Billing Demand. The monthly energy rate will increase from $0.0202 to $0.0231 per kilowatt-hour for all energy supplied. The average rate increase per megawatt-hour for Estes Park is 6.7 percent, Fort Collins is 6.1 percent, Longmont is 6.0 percent, and Loveland is 5.9 percent.

Tariff—Schedule 3: PARALLEL GENERATION. The information that the owner municipalities are required to collect and provide to Platte River concerning Small Facilities has been simplified and clarified. An avoided cost is posted for Qualifying Facilities as defined in Section 201 of the Public Utilities Regulatory Policies Act. These costs would only apply if such facilities seek to sell electricity to Platte River.

This tariff applies to non-utility generation (distributed generation). Most of the roughly 100 generators located throughout the Municipalities are small solar systems. The changes to this tariff are mostly administrative in nature to provide clarity.

The approved tariffs will be effective January 1, 2011. There is a thirty-day notification requirement.

At this time, the Chair asked Mr. Sutherland if he wished to comment on Tariff—Schedule 7: RENEWABLE ENERGY SERVICE.

Mr. Sutherland stated that currently Tariff 7 is an additional rate on top of Tariff 1 (wholesale rates). As costs associated with Tariff 1 increase, the cost of renewable energy also increases. He stated that according to a *Denver Post* article, Jason Frisbie was quoted to have said that coal prices are continuing to increase. Mr. Sutherland stated that the increasing cost of coal does not influence the cost of renewable energy, and therefore, the tariff should be changed. Mr. Sutherland also stated that Renewable Energy Credits methodology is flawed, as is the way in which the owner communities purchase/support renewable energy. And, that the Board of Directors should consider long-term planning.

Director Janonis asked John Bleem to speak to the issue of an additional rate for Tariff 7.

John Bleem said that the Tariff 7 rate is charged as a premium and is calculated by netting the benefits of renewable energy relative to its costs. The difference between costs and benefits sets the premium rate. For example, as wind comes into the system the tariff model estimates the value of the wind energy (reduced fuel costs and other benefits) and compares this to the cost of the wind (purchase price, etc.) to calculate the rate premium. If coal costs increase, the premium for renewable service will decrease. A carbon tax or other charge for greenhouse gas emissions would also decrease the premium.

The cities can reduce the amount of renewable energy they request in the future. Platte River requires renewable service request letters that commit each city to specific levels on a long-term basis. These commitments allow Platte River to go out and acquire resources to meet the combined needs of the cities. The last commitments were made a few years ago and resources have been acquired to meet these commitments. As the cities' needs for renewable supply increase in the future, a portion of the new needs could come from sources such as solar systems located within the cities.

Director Janonis said that the City of Fort Collins has a larger share of renewables, but also receives a larger share of the benefits.

Chairman Mullinix stated that any Municipality has the opportunity to bring inequity issues before this Board or the respective city council. Mr. Mullinix agreed that long-term planning is essential and is reflected not only in the Organic Contract, but also in the manner in which the Board conducts business on a regular basis.

Director Janonis moved to approve Resolution No. 15-10—2011 Rate Tariffs; Director Gutierrez seconded the motion. Motion passed 8-0.

(10) Load Forecast and Summer 2010 Report. Mike Dahl and Wade Hancock gave a brief overview of the draft Operating Plan.

Every year staff provides an update on the summer energy usage and long-term forecast. The loads were steady throughout the 2010 summer season although not as high as forecasted, missing the forecasted peak load.

The 2010 load and resource comparison for the month of July included the following resources: Colorado River Storage Project (CRSP) hydro, Loveland Area Projects (LAP) hydro, Rawhide, Craig, and the peaking units. As load increased, natural gas usage increased. Tri-State did not call on the generation capacity this year due to cooler weather and having enough resources to cover their load. If Rawhide had been out of service, staff would have called on Tri-State to provide 100 megawatts of shaft sharing. Additionally, Western could provide another 46 megawatts if it were available on the system.

Peaking generation was budgeted for limited natural gas usage in June, but with the tube leaks at Rawhide and the outage at Craig, natural gas usage in June was significantly higher than estimated.

Natural gas prices continue to fluctuate and are trending down, which affects surplus sales prices. Fortunately, the cost to generation from baseload coal units is low enough to generate net revenue to offset income requirements.

Financial Planning Manager, Wade Hancock provided an overview of the 2011 Official Load Forecast and how it impacts loads and resources compared to the 2010 forecast.

Forecast methodology involves independent forecasts generated monthly. Demand and energy are forecast separately. The twenty-four (ten-year) forecasts are combined to create the load forecast. To account for the impacts of demand side management (DSM) programs on forecasts, the Official Forecast incorporates DSM savings estimates for both energy and peak demand.

Platte River uses an econometric model to develop long-term demand and energy forecasts. Econometric modeling uses historical data and multiple forecasts of independent variables to project the growth of a dependent variable. Platte River's econometric model uses population, weather, and employment to project demand and energy growth in the Municipalities. Weather tends to drive the short-term, while employment and population drives the long-term. The econometric model has been in use since 2004, but independent variables in weather, economy, and demand side management forecasting have become more difficult. For the second year in a row, staff is using the long-term econometric growth rates for energy based on 2009/2010 actual values and demand based on five-year load factors.

Past methodology calculations on average have a deviation of one percent to two percent. Annual energy growth rates are slower than previously projected. The 2010 actuals through August 2010 show growth for energy, billable peaks, and annual peak. Annual peak in 2010 was 615 megawatts, in 2007 it was 635 megawatts, and in 2009 576 megawatts.

For load planning, the forecast is adjusted for demand side management, the Tri-State capacity sale of 50 megawatts (expiring in May 2012), required reserves, and losses. For resources and resource planning: Rawhide, Craig, CRSP, LAP, and peaking. Considering the new load forecast and existing resources, there is a surplus in every year and the reserve margin is above 20 percent until 2018. For planning purposes, the addition of a new resource is anticipated in approximately 2018.

In summary, forecast uncertainty continues, and independent variables will continue to be updated and assessed.

General Manager Brian Moeck stated that details of the Integrated Resource Plan and methodology would be discussed at Board meetings prior to June 2011 when the five-year Plan is submitted to Western Area Power Administration. During those discussions resource planning may be adjusted.

Mayor Pinkham inquired about how the model incorporates an economic recovery.

Mr. Hancock responded that Woods and Pool provides economic data for both population and employment. The numbers they have provided do show some recovery.

Chairman Mullinix inquired about how a restructured wholesale rate scenario would fit into the equation.

John Bleem stated that the common demand side management programs—operated by Platte River in all the cities—are included in the forecast, but individual Municipal programs are not. The impact of a new wholesale rate would need to be evaluated, but likely would not impact the common programs significantly, since they save energy across most hours of the year. A new rate could have a larger impact on programs that seek only to reduce peak.

Director Roiniotis stated that it is difficult to estimate the impacts of plug-in electric vehicles, LED lighting, etc., but that staff has made a great effort to try to fine-tune the forecast and he is appreciative of those efforts.

(11) Executive Session. Director Roiniotis moved to go into executive session for purposes of receiving information on the status of Rawhide coal contract modifications, determining if further negotiations are warranted and if so, providing direction to the negotiators.

The General Counsel has 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 10:28 a.m.

Regular Session reconvened at 10:56 a.m.

Upon reconvening the Regular Session, Jason Frisbie stated that the Board of Directors directed staff to pursue fixing 50 percent of the 2013 coal price with Kennecott Coal Sales LLC, and to pursue amending the pricing trigger in the contract to reflect an annual average versus pricing set on a one-day index. Under the contract amendment as negotiated Platte River can lock up to 100 percent of coal based on Argus weekly physical pricing for prompt year and for all coal not priced under the lock provision, pricing will be based on weekly Argus average of prompt year for the year prior to the contract year. Negotiated pricing is available during the term of the contract.

Staff recommends approving execution of the amended contract, including lock provisions and twelve-month average pricing mechanism. Staff will pursue a one-third future pricing strategy, if negotiable.

The Chair stated he would entertain a motion to approve Resolution 16-10.

Director Pinkham moved to approve Resolution No. 16-10—Rawhide Coal Contract Modifications; Director Hutchinson seconded the motion. Motion passed 8-0.

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

At the last Board of Directors meeting, a request was made to update the average wholesale rate comparison within the State of Colorado. A handout on this issue was provided. Additionally, a second graph from the Colorado Association of Municipal Utilities (CAMU) shows average monthly residential billing survey data. The owner municipalities' rates are favorable by comparison. The fourth item handed out was an article that ran in *Public Power Daily* on the extension of the Organic Contract.

The General Manager has been working with other members of the Yampa Project on possible revisions to the Yampa Participation Agreement. All owners have agreed in concept that removal of the "opt out" language from the agreement seems reasonable and would be favored by all. Xcel Energy was not as eager to make the change because they are in the process of introducing a plan to the Public Utilities Commission (PUC) to comply with the new clean air, clean jobs bill. When Xcel resolves the details of its new plan, then the Yampa owners can continue discussions toward amending the Participation Agreement.

Jason Frisbie mentioned that the mercury removal system is being tested at Rawhide this week and preliminary indications are showing the technology is meeting expectations. No mechanical issues have arisen yet and it appears that if the system performs as tested, state mercury removal requirements can be met. The activated carbon feedstock is expensive—approximately one dollar per pound, so testing has been somewhat limited. So far, ash samples are very similar to those taken prior to installation of the system. Ash vendors are cautiously optimistic that the ash can continue to be used for beneficial purposes.

Director Hutchinson inquired about the state timeline for mercury removal implementation and how Platte River compares to other coal-fired generators and how much removal will cost on an annual basis.

John Bleem stated that Platte River volunteered to implement the program two years earlier than required. The rule requires that most coal units meet mercury removal requirements by 2014 and 2018. Platte River will meet the requirements in 2012. Originally, annual mercury removal costs were estimated to be around $2 million per year. From preliminary tests, it appears that costs may be less. More time is needed to confirm performance and cost of the system, as well as to evaluate impacts on overall Rawhide operations.

Mayor Gutierrez asked who purchases coal ash from Rawhide and the types of beneficial usage.

Mr. Bleem responded that beneficial uses include feedlot soil stabilization, landscaping, and construction materials such as retaining block for walls. Initially staff had concerns that the mercury removal process would change the color of the ash or change the chemical properties such that buyers would no longer be interested in the product. So far, the chemistry and color has not been an issue, but more testing is needed. The beneficial use market will likely change significantly if the Environmental Protection Agency deems coal ash hazardous.

Board Member Comments. None.

Adjournment. With no further business, the meeting adjourned at 11:25 a.m. The next regular Board meeting is scheduled for Thursday, December 9, 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 10 day of December, 2010.

Assistant Secretary

PLATTE RIVER POWER AUTHORITY
CORPORATE SEAL
PR
COLORADO