PLATTE RIVER POWER AUTHORITY

Minutes

Regular Meeting of the Board of Directors

Thursday, July 23, 2009

The Platte River Power Authority Board of Directors' meeting convened at 8:59 a.m. on Thursday, July 23, 2009, in the Platte River Power Authority boardroom.

BOARD MEMBERS:

Present: Mayor Bill Pinkham and Bob Goehring of Estes Park; Mayor Doug Hutchinson and Brian Janonis representing Fort Collins; Mayor Gene Pielin (Secretary) representing Loveland; and Mayor Roger Lange and Tom Roiniotis representing Longmont.
Absent: Ralph Mullinix
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; Vicki Priddle, Corporate Services; and Dave Smalley, Financial Services.

OTHER PLATTE RIVER STAFF IN ATTENDANCE:

Senior Project Engineer, Bill Emslie; Executive Assistant, Esther Velasquez; Energy Services Specialist, Adam Perry; Energy Services Specialist, Mike Rubala; Energy Services Manager, Paul Davis; and Treasury Manager, Julie Depperman.

GUESTS AND MEMBERS OF THE PUBLIC:

City of Fort Collins Light & Power Operations Manager, Steve Catanach; and Customer and Employee Relations Manager, Patty Bigner.

ACTIONS:

(1) Call to Order. Vice-Chairman Hutchinson convened the meeting at 8:59 a.m.

(2) Approval of the Regular Meeting Minutes of May 28, 2009.

Director Pinkham moved to approve the meeting minutes of May 28, 2009; Director Lange seconded the motion. Motion passed 7-0.

(3) Public Comment. No members of the public attended.

(4) Consent Agenda. There was one item on the consent agenda.

General Counsel, Joe Wilson, provided a brief explanation of the intergovernmental agreement (IGA) between the City of Fort Collins and Platte River. The IGA will be ready to sign once the parties agree to a term. No substantive changes to the draft distributed to the Board are proposed at this time. Counsel requested approval of Resolution 16-09 authorizing the General Manager to execute an agreement with the City of Fort Collins to jointly fund expenses incurred by the City of Fort Collins to develop a residential energy saving pilot program in conjunction with Positive Energy Inc.

Director Roiniotis moved to adopt Resolution No. 16-09—Energy Efficiency IGA with Fort Collins; Director Goehring seconded the motion. Motion passed 7-0.

(5) Items pulled from the Consent Agenda. None.

(6) Retirement Committee Report. Retirement Committee Chairman Lange provided an update on the May Retirement Committee meeting. The Committee discussed several possible modifications to the Employees' Pension Plan including closing the Plan for new hires and replacing it with a defined contribution plan.

The Committee directed staff to focus on developing a defined contribution plan. Costs under a defined contribution plan are easier to control since the employer can set the annual contribution limit thus reducing funding volatility. The Committee also agreed the current Plan would remain in place for all existing employees. Staff is working with the Plan actuary to develop a plan that could be implemented as early as January 2010.

(7) Legal Counsel Report. The General Counsel provided an update on current legal activities.

The Button Rock project is progressing and it appears that the Governor's Energy Office (GEO) is supportive. Later in this meeting, staff will request approval to submit a CREBs application.

Amendment 54, adopted by Colorado voters in November 2008, will likely go to the Supreme Court in the near future. Denver District Court issued a preliminary injunction that essentially stays the substance of Amendment 54 on constitutional grounds. Depending on how this issue is resolved, Platte River may have to modify its contracts.

Organic Contract and Power Supply agreements. In early June, the Loveland City Council approved the documents in a form absent the Fort Collins changes. The good news is that all four owner municipalities have approved the documents; the bad news is that the language is inconsistent. Consequently, Counsel condensed the revisions presented by the City of Fort Collins and in so doing attempted to clearly state the environmental stewardship responsibility of Platte River, remove redundancy, and remove potential ambiguity, specifically references to "sustainability," a term which is not clearly defined. The amended language was provided to the City of Fort Collins attorneys and the utility directors. Counsel is hopeful the revised language will be satisfactory to all four owner municipalities. Mayor Hutchinson stated that he would endeavor to work with the Fort Collins Council to come to an agreement on the contract language.

(8) Legislative and Regulatory Update. The General Manager provided an update on legislative and regulatory issues.

The latest Colorado Association of Municipal Utilities legislative report, prepared by Mr. Dan Hodges the new Executive Director of CAMU, was distributed.

Federal. The American Clean Energy and Security Act (ACES) was voted out of committee and the House passed the bill 219 to 212. The bill now moves on to the Senate. A draft bill from the Senate may come as early as the second week of September; Senator Reid has asked for all the committee work to be complete by the end of September.

A summary prepared by the Colorado Association of Municipal Utilities was included in the Board materials. The four-page summary provides details of what the bill means for Colorado's municipal utilities. Moreover, the APPA has assembled a fifty-page document outlining various aspects of the bill and the impacts to public power. The cap-and-trade portion of the bill is complex and would take effect in phases. The emissions reductions standard would be three percent below 2005 levels by 2012, 17 percent by 2020, 42 percent by 2030, and 83 percent by 2050. As studied and noted in the Platte River Climate Action Plan, meeting the 20 percent by 2020 reduction equates to approximately a 16 percent wholesale rate impact, approximately a 12 percent retail increase. The most complex part of the bill is carbon allowances. An allowance is a permit to emit one ton of CO_2 per year. An estimated 40 percent of emissions come from the electric sector, and under the bill, the federal government would retain five percent of allowances and auction them to offset costs, the details of which are still vague.

Currently, it appears that two-thirds of allowances will be awarded to the Local Distribution Companies (owner municipalities) based on emissions from the energy acquired from the generator (Platte River). Unfortunately, an additional one-third of allowances is needed to meet the cap—approximately one million allowances. The first issue will be determining if the owner municipalities should grant their allowances to Platte River in a manner similar to current federal hydropower allocations. Currently, one ton of carbon is estimated to cost about $20 per ton (a conservative estimate), which equates to an additional $20 million in electric costs to customers by 2012.

Offsets are an alternative to allowances. There will be international and domestic offset programs available. Offsets are also very complex and could possibly include, but not be limited to, replanting or not harvesting forests in various regions and countries.

Unfortunately, the emissions reductions targets in the bill are not based on available technology, further complicating how to meet these goals. It is fundamental that this be a global effort. If only the U.S. adopts this standard, the environmental benefits could be negligible.

The General Manager expressed concerns to representatives from both the House and Senate about the Waxman-Markey bill not being properly vetted. He expressed that Platte River supports reducing greenhouse gases, but is convinced reductions should be technology based to eliminate unnecessary and excessive costs to consumers. As the bill currently stands, owner municipality customers will roughly see a 24 percent increase in rates by 2020. Higher increases are anticipated in later years.

According to informed sources, the Senate version of a climate and energy bill is likely to be significantly different from the Waxman-Markey bill.

(9) **May and June Financial Reports.** The Chief Financial Officer presented the May and June financial review as well as an update on natural gas hedging.

Highlights. Rawhide performed well, but had one curtailment due to a step-up transformer. Nonetheless, it had a 91.1 percent capacity factor. Craig had below budget generation due to curtailments to repair the primary air fan and a boiler tube leak. Peaking generation was used because of the curtailments. A decrease in loads resulted in below-budget municipal revenues and low market prices continue to hold down surplus sales.

May Results:

Net income was $900,000, which is $300,000 under budget. This is resulting from below-budget operating revenues and interest and other income partially offset by below-budget operating and debt expenses.

Operating revenues totaled $13.6 million during May and were $0.6 million below budget. Municipal sales were $0.3 million below budget due to 5.4 percent below-budget energy deliveries and 3.5 percent below-budget billing demand. Contract surplus sales were $0.2 million below budget with Tri-State scheduling no energy for the month; short-term surplus sales were $0.1 million below budget, with higher-than-budgeted energy deliveries at a lower-than-projected average sales price.

Interest and other income was $0.3 million below budget for the month due to lower-than-budgeted interest earnings on investments and lower cash reserves.

Operating expenses excluding depreciation in May totaled $9.5 million and were $0.3 million below budget. Fuel expense was $0.2 million below budget due to down time on Units 1 and 2 at Craig. Transmission expenses were also $0.2 million below budget largely due to the delay in the ancillary services charge from Xcel. The below-budget expenses were partially offset by above-budget purchased power of $0.1 million.

Debt expense of $2.8 million was $0.2 million below budget primarily due to calling the S-1 Bonds in April. As a result of this pay off, interest expense will be below budget the remainder of the year.

Capital expenditures in May totaled $4.3 million and were $7.4 million below budget due to project scheduling differences. A large portion of the transmission projects budgeted for 2009 will be re-budgeted for 2010.

Resource output from the thermal units during May was right at budget. Excellent performance was reported from Rawhide Unit 1 with a net plant capacity factor of 94.4 percent. The Craig units both experienced maintenance problems in May with Unit 1 curtailed for primary air fan repairs and Unit 2 for the repair of boiler screen tubes. Capacity factors of 78.4 percent and 83.7 percent were reported for Craig Units 1 and 2, respectively. Wind generation during the month was 2,028 MWh and the peaking units generated 2,315 MWh.

June Results:

Net income of $0.5 million was reported for the month of June. This was $0.6 million behind budget as the result of below-budget operating revenues and interest income partially offset by below-budget operating and debt expenses.

Operating revenues totaled $13.5 million during June and were $1.6 million below budget. Municipal sales were $1.1 million below budget due to 8.7 percent below-budget energy deliveries and 9.8 percent below-budget billing demand resulting from the cooler weather and economic conditions. The system peak demand for the month was 536 MW versus a budget projection of 594 MW. Contract surplus sales were $0.3 million below budget with Tri-State scheduling no energy for the month and short-term surplus sales were $0.2 million below budget with lower-than-projected sales prices.

Interest and other income was $0.2 million below budget for the month due to lower-than-budgeted interest earnings on investments resulting from lower cash reserves and lower interest rates.

Operating expenses excluding depreciation in June totaled $9.6 million and were $1.2 million below budget. Fuel expense was the largest variance at $0.8 million below budget due to down time at the Craig Units and lower-than-projected use of the peaking units. Production expenses were $0.2 million below budget, transmission was $0.1 million below budget and administrative and general expenses were $0.2 million below budget. The below-budget expenses were partially offset by $0.1 million above-budget purchased power.

Debt expense of $2.7 million was $0.2 million below budget primarily due to calling the S-1 Bonds in April.

Capital expenditures in June totaled $3.0 million and were $5.0 million below budget due to project scheduling differences. As previously stated, a large portion of the transmission projects budgeted for 2009 will be re-budgeted for 2010.

Resource output from the thermal units during June was 3.9 percent below budget. Generation from Rawhide Unit 1 was above budget with a net plant capacity factor of 91.1 percent. The Craig units both experienced maintenance problems in June with Unit 1 curtailed for primary air fan repairs and Unit 2 down for four days to repair a boiler tube leak. Capacity factors of 77.6 percent and 76.3 percent were reported for Craig Units 1 and 2, respectively. The peaking units generated 2,634 MWh and wind generation during the month was 1,543 MWh.

Platte River's Gas Hedging Strategy is intended to reduce price volatility on a portion of expected gas requirements. Gas usage is projected for the coming year, and then 50 percent of summer on-peak estimates are hedged. While the cost of gas hedged is protected, weather and load conditions can expose Platte River to volume risk. Gas prices have been very volatile over the last few years and hedging has helped mitigate the risk of increases in natural gas costs.

(10) Transmission Projects Update. The Division Manager, Electric Operations, provided an update on the work in Longmont and Fort Collins.

These two underground transmission projects currently under construction will be completed by the summer of 2011. A company specializing in dewatering wells was hired to pump out the area (approximately 200,000 gallons of water per day) so construction could begin. Once the boring work is complete, sections of concrete piping can be laid, transmission inserted, vaults installed, and cabling completed.

(11) Button Rock Update. The Division Manager, Customer & Environmental Services, spoke briefly about the Button Rock hydro project.

The potential Button Rock hydropower project is located beneath Price Reservoir. The existing Button Rock dam facility, built in the 1960s, is an ideal physical site for a small hydropower project. The project is estimated at 2.7 megawatts capacity and produces about 7,000 megawatt-hours, or the equivalent of one-third of the energy from Medicine Bow. Challenges to the project are Federal Energy Regulatory Commission (FERC) dam safety regulations, land use permitting, wheeling/transmission and project cost. In the 1980s, a small hydro exemption was sought and obtained, but not pursued because it was considered too costly. Platte River reconsidered the project in the 1990s, but determined it was still too costly compared to wind generation. In 2006, the project was considered for a CREBs application, but was not pursued since the application was not funded and wind generation was a lower cost option. Despite the fact that challenges remain, staff recommends submitting another CREB application. In addition, staff will continue to explore funding sources like the Governor's Energy Office and will pursue exemption from FERC jurisdiction.