

PLATTE RIVER POWER AUTHORITY
Minutes
Regular Meeting of the Board of Directors
Thursday, August 27, 2009

The Platte River Power Authority Board of Directors' meeting convened at 9:00 a.m. on Thursday, August 27, 2009, in the Platte River Power Authority boardroom.

BOARD MEMBERS:

Present: Mayor Bill Pinkham¹ and Bob Goehring of Estes Park; Mayor Doug Hutchinson² and Brian Janonis representing Fort Collins; Mayor Gene Pielin³ (Secretary) and Ralph Mullinix (Chairman) representing Loveland; and Mayor Roger Lange 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; Vicki Priddle, Corporate Services; and Dave Smalley, Financial Services.

OTHER PLATTE RIVER STAFF IN ATTENDANCE:

Human Resources Manager, Dave Green; Executive Assistant, Esther Velasquez; Treasury Manager, Julie Depperman; Controller, Ed Doherty; and Senior Project Engineer, Bill Emslie.

GUESTS AND MEMBERS OF THE PUBLIC:

None.

ACTIONS:

- (1) **Call to Order.** Chairman Mullinix convened the meeting at 9:00 a.m.
- (2) **Approval of the Regular Meeting Minutes of July 23, 2009.**

Director Lange moved to approve the meeting minutes of July 23, 2009; Director Roiniotis seconded the motion. Motion passed 6-0 with Director Mullinix abstaining since he did not attend the July meeting.

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

¹ Arrived at 9:03 a.m.

² Arrived at 10:25 a.m.

³ Arrived at 9:06 a.m.

(4) **Consent Agenda.** There were two items on the consent agenda. None required action.

- Longmont Area Economic Development Council Letter of Thanks
- City of Fort Collins Economic Development Support Letter of Thanks

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

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

Market Manipulation Audit. The 2005 Energy Policy Act gave the Federal Energy Regulatory Commission broader jurisdiction, including jurisdiction over market manipulation by municipal utilities. As a result, the Platte River Board of Directors adopted a market manipulation policy explicitly prohibiting any activity that would constitute market manipulation. The policy specifies bi-annual market manipulation audits. In accordance with the policy, the Platte River internal auditor conducted an audit and provided a clean report with no indication of market manipulation.

Button Rock Hydro. Staff is continuing to work with the Governor's Energy Office to modify the Federal Energy Regulatory Commission (FERC) licensing authority to allow for state licensing in lieu of federal licensing for small hydropower facilities. In addition, the GEO is working with the State Engineer's Office on the details of licensing authority.

Staff is hopeful that the CREBs application filed with the IRS in July, seeking federal funding authorization for Button Rock, will return positive results within the next six months.

An agreement with the North Poudre Irrigation Company, dating from the 1970s, allows Platte River to store effluent received from Fort Collins in Fossil Creek Reservoir if and when it cannot be pumped to the Rawhide Energy Station. A proposed amendment to the agreement will allow Platte River the option of leasing excess water from the reservoir to third parties. The water stored in Fossil Creek Reservoir is at risk when the reservoir spills. The proposed amendment will assist Platte River in managing excess water and limit losses associated with spills from the reservoir.

Organic Contract and Power Supply agreements. On August 10, Mayor Doug Hutchinson sent a memo to the Fort Collins City Council outlining changes in the draft documents and asking staff and the city attorney to review the revised language to see if it meets the needs of the City of Fort Collins. To date, Counsel has not received any feedback on the revised language.

Until all four parties execute the contracts, the ongoing issue of municipal generation is uncertain.

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

Federal. Currently Congress is in recess but the most pressing topic may be health care with climate change moving to a back burner for now.

The House-passed climate change bill included a Renewable Electricity Standard of 20 percent by 2020 that applies to retail utilities selling more than four million megawatt hours annually. None of the Platte River owner municipalities meets this threshold. The emissions reductions under the cap-and-trade portion of the bill are three percent below 2005 levels by 2012, 17 percent by 2020, 42 percent by 2030, and 83 percent by 2050. The bill establishes an allowance system for the utility sector and contains a five percent withholding to cover program or other costs and carve outs for other specific sectors. As the bill is currently written, Platte River estimates it would receive about half of the allowances needed for municipal and surplus sales. The annual acquisition cost of allowances equates to additional expenses of \$20 to \$30 million in 2012 for Platte River, assuming the KEMA estimate of \$20 per allowance. The bill also includes a New Generation Performance Standard for any new sources over 25,000 tons of CO₂.

At a recent LPPC meeting, attendees discussed various aspects of the bill being evaluated by the Senate. On a positive note, eliminating allowances for non-emitters would be an improvement. In addition, ten Senators wrote the President urging him not to approve any legislation that would be detrimental to the U.S. economy.

There is a new Senate draft, authored by Senator Cantwell (WA) that is 100 percent auction based for allowances. The auction would be administered by the Department of Energy (DOE) and does not include financial sector marketers in the allowance trading process. Proceeds from the auction would be returned to the public and used for targeted energy research. LPPC, APPA and others are following the progress of this bill and seeking to determine if it has any support. Other bills are expected and the main bill from the Environment and Public Works Committee is expected to be out by September 8, 2009. Senators Boxer and/or Reid would like to have a bill on the Senate floor by the end of September.

Director Pinkham mentioned that Senators McCain and Udall recently visited Rocky Mountain National Park and stated that they are interested in studying the park systems and potential impacts of climate change. Both Senators voiced their disappointments with the House-passed climate bill. In addition, both Senators advocated the future need for increased nuclear and renewable power production.

Mayor Lange recommended sending a joint letter to Senators Udall and Bennet from the four Mayors addressing the climate change bill (once one is introduced), since the letter from the General Manager did not result in a meeting with the two U.S. Senators and Mayors during recent work sessions in Colorado.

(8) July Financial Report. The Chief Financial Officer presented the July financial review.

Highlights. Rawhide and Craig performed well for the month of July. The decrease in loads resulted in below-budget municipal revenues and surplus sales exceeded budget; however, lower market prices continue. Tri-State provided their own gas under the Tri-State contract resulting in decreased revenues and lower natural gas expense. Craig Unit 3 was down for a week and Platte River provided energy deliveries of 15,000 MWh under the shaft share agreement. As expected, capital projects continue to lag.

Net income of \$1.0 million was reported for the month of July. This was \$0.2 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 \$14.6 million during July and were \$1.4 million below budget. Municipal sales were \$1.5 million below budget due to 10.7 percent below-budget energy deliveries and 11.6 percent below-budget billing demand resulting from the cooler weather and general economic conditions. The system peak demand for the month was 576 MW versus a budget projection of 652 MW. Contract surplus sales were \$0.3 million below budget with Tri-State opting to buy their own gas. Short-term surplus sales were \$0.4 million above budget with higher-than-projected energy sales partially offset by lower 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 July totaled \$10.4 million and were \$1.2 million below budget. Fuel expense was the largest variance at \$0.8 million below budget due to lower-than-projected natural gas expenses. Purchased power was also below budget primarily due to supplying Tri-State \$0.4 million of outage assistance under the shaft share exchange agreement. Production expenses were \$0.1 million above budget and transmission and administrative and general expenses were right at budget.

Debt expense of \$2.7 million was \$0.2 million below budget primarily due to lower interest expense resulting from redeeming the S-1 Bonds in April.

Capital expenditures in July totaled \$3.8 million and were \$3.4 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 July was 4.6 percent above budget. Rawhide Unit 1 reported a net plant capacity factor of 94.2 percent and the Craig units reported

net plant capacity factors of 92.2 percent and 93.1 percent for Units 1 and 2, respectively. The peaking units generated 10,416 MWh and wind generation during the month was 781 MWh.

(9) Investment Review. Treasury Manager, Julie Depperman reported on the investment portfolio as of July 31, 2009.

The Platte River Investment Report, included in the Board materials, provides detailed information by fund of each security that Platte River held as of July 31, 2009. Additionally, a copy of Platte River's Investment Policy was included.

Leading economists characterize the financial crisis of 2007 - 2009 as the most serious financial crisis since the Great Depression.

The global effects of the failure of key businesses and declines in consumer wealth are estimated in the trillions of U.S. dollars. There have been substantial financial commitments incurred by governments and a significant decline in economic activity. Multiple factors contributed to the crisis, including the growth of the housing bubble, ease of consumer credit, overleveraging of balance sheets, financial innovation and complexity, and the boom and collapse of investment banks and hedge funds (the shadow banking system).

As a result, over 100 mortgage lenders declared bankruptcy during 2007 and 2008. The government took over large institutions such as AIG, BearSterns, Fannie Mae, and Freddie Mac that were on the verge of failure. Of significant concern to Platte River was the solvency of Fannie Mae, Freddie Mac, and AIG. In addition, there have been problems with money market accounts including Colorado local government investment pools. Variable rate debt obligations repriced at historical highs. Moreover, the unemployment rate increased to 9.4 percent, the highest in 26 years. An estimated 6.7 million jobs have been lost since the recession began.

As a result, the federal government has been engaged in a far-reaching and expensive stimulus effort. To date, the U.S. government has committed over \$11 trillion dollars to bailout programs; with \$2.8 trillion spent according to CNN's bailout tracker.

The downturn has negatively affected the stock market. In October 2007, the Dow Jones Industrial Average reached its highest point of 14,165. The recent low, in March 2009, of 6,547 is the lowest close since 1997. Platte River does not invest its regular investment portfolio in equities but a substantial portion of the Platte River pension plan is invested in the equity market and its value has declined.

Platte River does invest in short-term fixed income securities. In 2006 and 2007, interest rates were around 5 percent for federal funds and two-year treasuries, the rates are now around .25 percent and 1 percent, respectively which has had a negative impact on investment earnings.

As a governmental entity in the state of Colorado, Platte River is required to follow state statutes when investing. Investment parameters include ensuring cash and short-term

investments are available to meet immediate cash-flow needs as well as longer-term capital needs and reducing risk by diversifying the portfolio.

Current fund balances total approximately \$182 million. However, over 50 percent of the total balance is held in the Series HH capital project fund. The HH funds need to be invested short-term and liquid to pay for remaining transmission projects. The balance in the HH project fund is expected to decline to zero by March 2011.

Excluding the HH project fund investment, the remaining \$81 million portfolio is invested in a mix of U.S. Treasury Notes, Corporate Notes (FDIC insured), Certificates of Deposit, different types of governmental agency securities, and Local Government Investment Pools (LGIP).

The Merrill Lynch custom index is used as a benchmark for performance; the investment portfolio is currently outperforming the index. Performance is based on total return. Total return is comprised of interest, realized gains and losses, and unrealized gains and losses.

Looking forward: Economists project interest rates will increase gradually in 2010. The construction fund balance is anticipated to decline. Debt management and capital fund balances are projected to grow modestly next year. Due to smaller overall portfolio size and low interest rates, interest earnings are projected to decrease.

(10) Pension Funding Accounting Policy. The Chief Financial Officer spoke about recommended modifications to the Pension Funding Accounting Policy.

During the rate analysis a few months ago, staff began looking at alternatives to lessen rate pressure in coming years. Pension plan funding contribution projections for next year increase substantially. The 2010 funding calculation includes \$4.5 million for the base contribution and an additional funding charge of \$3.1 million. The additional charge is assessed when the projected ratio of the fair value of the assets to the actuarial present value fall below 100 percent of the liability.

This policy would allow spreading the expense over a ten-year period rather than in one year. The money would still be funded in that year, but would be accounted for over a ten-year period.

This accounting method is permissible under Statement of Accounting Standards No. 71, *Accounting for the Effect of Certain Types of Regulation*.

Director Lange moved to approve Resolution No. 19-09—Expense Recognition Accounting for Pension Funding Policy; Director Pinkham seconded the motion. Motion passed 7-0.

(11) **Capital Projects/Ten-year Plan.** Division Managers Mike Dahl and Jason Frisbie provided an overview of transmission, substation, and generation projects over the next several years.

Transmission and substation projects:

- Work on the next phase of the Dixon Creek–Horseshoe 230 kV project is expected to begin in 2010. Workers will rebuild the existing WAPA line at an estimated cost of \$13.6 million.
- Work on the Horseshoe substation project begins in 2010, completion in the spring or summer of 2011, at an estimated cost of \$6.2 million.
- The Longmont transmission project, a two-year project, will likely cost \$47.4 million.
- Expected cost of the Fordham substation expansion (2010 and 2011) is \$4.5 million.
- Completion of the 2010 Portner transmission project will be \$9 million and the substation \$1.9 million.
- Work on the joint-effort Loveland East Substation expansion project will be completed in 2010. Platte River staff and contractors will do the work and Loveland will reimburse Platte River for the low-voltage side of the project. Platte River's cost for the high-voltage side of the project is estimated at \$1.8 million.
- Oil circuit breaker replacements are expected to cost \$650,000. These breakers are 30 to 40 years old and should be replaced before they fail.
- Timberline substation—the city wants to add a distribution delivery transformer. Platte River's share of the costs to expand the bus work will be \$713,000. In 2015, staff anticipates replacing the bank of single-phase transformers at a cost of \$4 million. In 2018, an additional 230 kV transformer will be added at a cost of \$6 million.
- The Boyd substation transformer addition in 2012 will cost \$4 million.
- Currently the LaPorte substation has a 230 kV line running past the substation and one 230 kV line from Rawhide into the substation where it is reduced down to a 115 kV line and runs into Fort Collins. Both PSCo and Tri-State connect and use the substation to serve load. The substation will be converted from a 230 kV