Municipalization Exploration Project:
Options for Moving Forward

City Council Meeting

April 16, 2013

www.BoulderEnergyFuture.com

Introduction

- How we got here and why it matters
  - Community's proven commitment to climate action
  - Knowledge gained during first years of efficiency efforts
  - Focus now on addressing the carbon intensity of our supply
- City of Boulder and Xcel Energy Working Group
- Municipalization findings
- Third-party evaluator

Third-party Evaluator

<u>2013</u>

4/29	Proposals due
5/3	Finalists selected and proposals posted
5/3-10	Public comments accepted
5/8	Interview firms; public presentation by firms
5/16	Award RFP

Agenda

- Staff Presentation
- Presentation from Mike Grim of Denton, TX: Potential Opportunities For a Locally Owned Electric Utility
- Council Questions
- Public Hearing
- Council Discussion
- Council Action

Actions Council is Being Asked to Authorize Tonight

1. City Attorney's Office continuing due diligence for acquisition
   - Prepare formal appraisals to tighten estimate of fair market value (FMV)
   - Ceiling of $150M modeled

Actions Council is Being Asked to Authorize Tonight

2. City Attorney's Office taking clarifying actions before regulatory agencies

- Seek input, information, clarification from Federal Energy Regulatory Commission (FERC)
- Consult with Colorado Public Utilities Commission (PUC) on transition plan

Actions Council is Being Asked to Authorize Tonight

3. City Manager taking actions to facilitate financing

- Must be able to issue bonds for good-faith negotiations

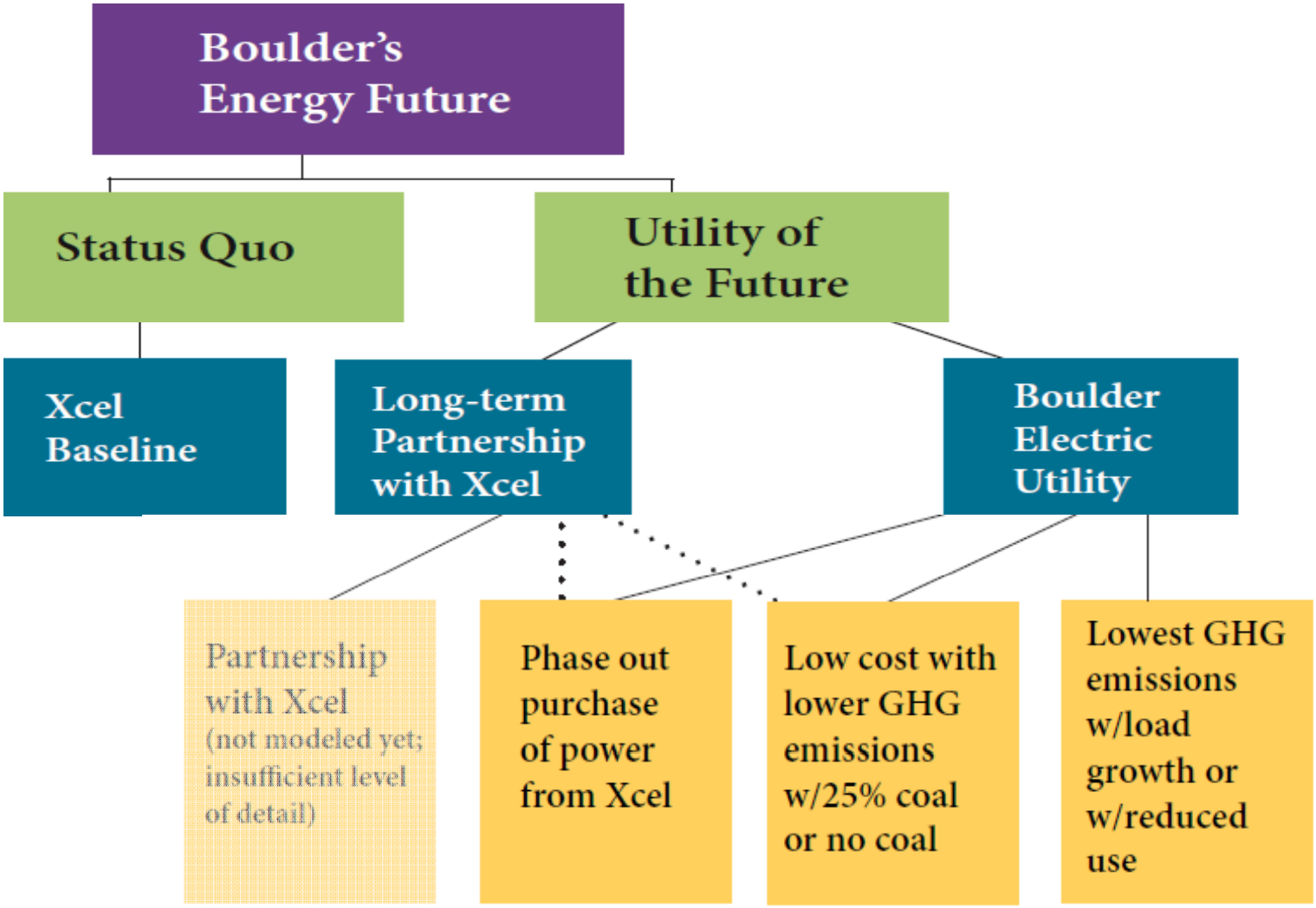
Actions Council is Being Asked to Authorize Tonight

4. Staff to conduct analysis necessary for evaluating the added value of a municipal electric utility
   - Council feedback on the Framework (Att. F)
   - Additional analysis as defined in Phase 2 of the work plan

Analysis to Inform Recommended Actions

- Recap of Feb. 26 study session
- Answers to key questions from council
- Public outreach and input

Analysis: Options Modeled



Analysis: Key Findings from Modeling

A local electric utility is likely to:

- Under some options, offer customers equal or lower rates over 20 years
- Maintain or exceed current reliability
- Reduce GHG emissions by more than 50%
- Obtain more than 50% of electricity from renewable resources
- Provide path for strong economic development

Analysis: Key Issues

Reliability: ability to maintain dependable service with a high penetration of renewables and response during emergencies/disasters

- The system can handle more renewables
- Boulder's 50+% would increase total to 6% on system
- Firmed by natural gas
- Balanced by regional balancing authority
- U.S. and European communities already > 50%
- Contracted services for operations & maintenance
- Mutual aid agreements

Analysis: Key Issues

Skepticism about positive outcomes from city's analysis, especially related to acquisition and stranded costs

- Strong legal position on stranded costs
- Phase Out Option = stranded cost risk mitigation
- Xcel indicated system would cost $150 million
- Off-ramps exist prior to condemnation

Analysis: Key Issues

Concern about the possibility of higher rates in later years

- Stable rates and economic vitality are fundamental goals
- Charter guiding principles on rates
- Only pursue options that achieve rate parity
- Many municipal utilities have rates lower than IOU
- Municipal utility can customize rates
- Transfer of funds is limited

Analysis: Key Issues

Impact of serving customers outside the city

- Approximately 5,800 properties
- Only acquire necessary Xcel assets; no annexation
- County customers would enjoy same benefits as city
- City acting within the law
- We have heard from county customers who support municipalization
- No plans to charge county customers higher rates

Analysis: Key Issues

Governance structure of the utility board

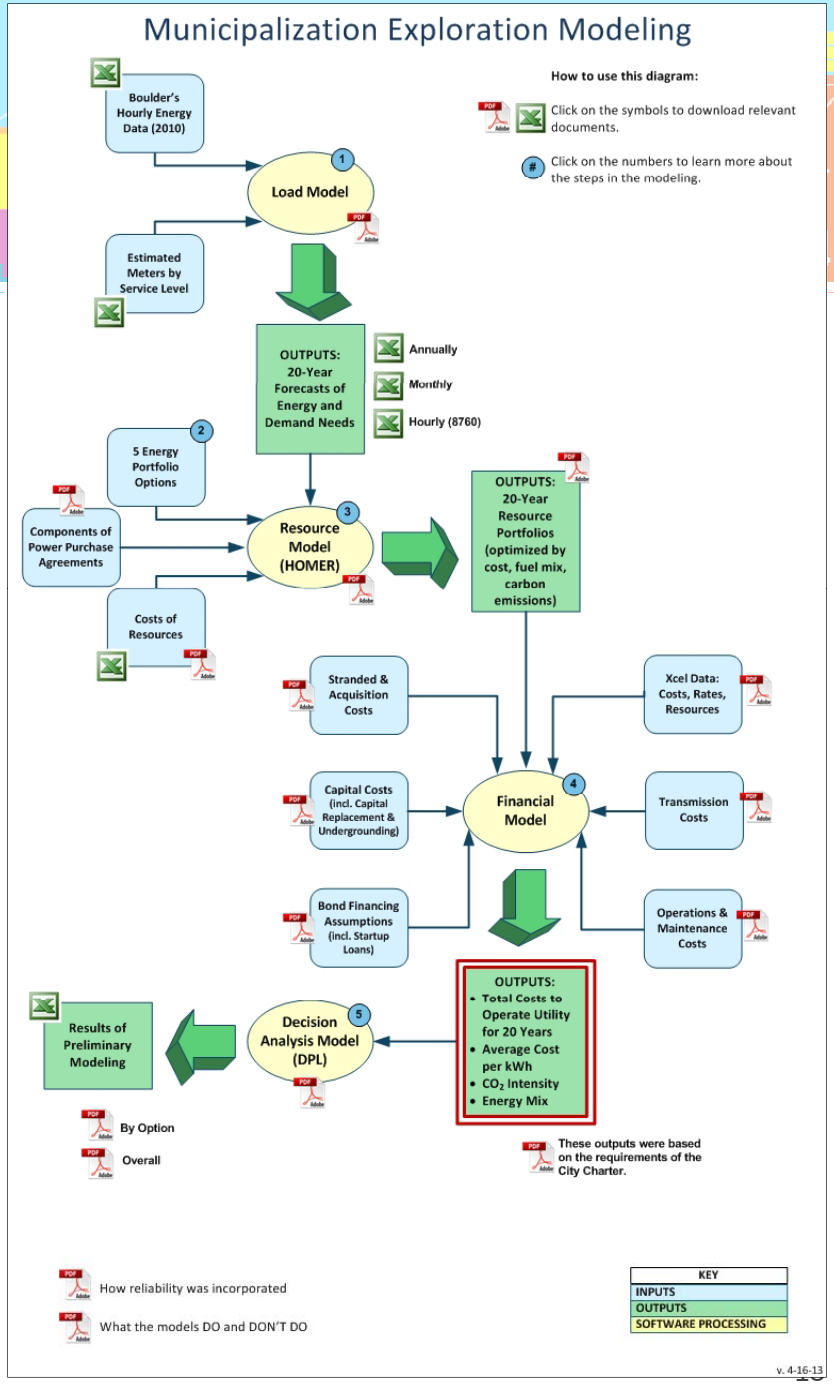
- All customers will have a strong voice – Board and City Council
- 3 of the 9 seats on board open to non-city residents
- Governance community working group in Phase 2

Next Steps: Work Plan

- **Work with Xcel on partnership ideas**
- **Modeling data on the web**
- **Phase 2: Before the Acquisition Ordinance (April – July)**
  - Analyze "value add" of municipalization
  - Proceed with legal steps
  - Initiate financing discussions with bond agencies
  - Explore governance options
- **If council decides not to move forward, an alternate schedule will be proposed.**

Modeling Data on the Web

- Connect the dots
- Under construction
- Update as necessary
- Visit:
  www.BoulderEnergyFuture.com



Next Steps: Framework for Value Add Analysis

RELIABLE ENERGY

		Paths to the Electric Utility of the Future	
Objectives	Baseline: Status Quo with Xcel Energy	Formation of a Local Electric Utility	Formation of a New Partnership with Xcel Energy

Community safety, convenience, and prosperity all depend on the reliable delivery of electric power. The utility will deliver reliable electric power. The utility's foremost responsibilities will be to provide electric power that is high quality and dependable, support economic vitality, prevent service outages, and respond promptly to any service outage. Art. XIII, §178(c)(1).
• Uses industry standard criteria (CAIDI, CAIFI, SAIDI, SAIFI) to track, predict and model system reliability; ensure strict compliance with the North American Electric Reliability Corporation (NERC), the federal agency charged with enforcing reliability standards for utilities. Goal 1d.
	[SAMPLE RESPONSE]
	• Current reliability performance is in the top half of United States power providers based on standard industry criteria.
	  o System Average Interruption Duration Index (SAIDI): 85
	  o System Average Interruption Frequency Index (SAIFI): 0.85
	• No known deficiencies in Xcel compliance with the North American Electric Reliability Corporation (NERC) regulations.
	• Current reliability performance is not as good as Colorado Front Range municipal power providers such as Ft. Collins and Longmont.
	• Reliability performance improvement might be secured through additional Colorado PUC regulation, provided other Colorado customers support such regulation.
		[SAMPLE RESPONSE]
		OPPORTUNITIES:
		• City Council established reliability metrics that meet or exceed current Xcel reliability performance, including SAIDI and SAIFI and compliance with NERC regulations.
		• Costs have been incorporated in the financial model for 1) separating from the Xcel system, 2) start-up of the utility, 3) capital replacement, 4) energy resources, and 5) the human, organizational and financial resources that would be needed for ongoing administration, operation, maintenance, monitoring, control, dispatch, project management, customer service and response.
		• Reliability performance improvement, for example through meeting APPA Reliable Public Power Provider (RP3) compliance, could be secured based on support of Boulder customers.
		• Financial modeling incorporates funding to secure improved reliability through the undergrounding of distribution circuits or other methods.
		
		RISKS:
		• Startup and staffing of the new local electric utility will need to be carefully planned and executed to assure there are no disruptions in reliability.
		
		OBSTACLES:
		• Validity of financial assumptions and modeling may affect financial capacity to secure improved reliability.
			OPPORTUNITIES:
			
			RISKS:
			
			OBSTACLES:

Next Steps: Work Plan

- **Phase 3 Acquisition: (begin Aug. 2013)**
  - Good faith negotiations to acquire property
  - Develop strategic direction and implementation plan, including financing, resources, services, governance, transition agreement

- **Phase 4 Finance and Operations: After Phase 3 (anticipated 2015/2016)**
  - Pay for system and receive title to assets
  - Finalize contracts, rates, programs, services
  - Implementation of Boulder Electric Utility

Next Steps: Proposed Meetings, Study Sessions

- July 23 City Council Study Session
  - Qualitative Analysis
  - Additional research and analysis results
  - 3rd Party Evaluation results
  - City of Boulder/Xcel Energy Working Group report
- July 23 Special City Council Meeting
  - Condemnation ordinance – 1st reading
- August 6 City Council Meeting
  - Condemnation ordinance – 2nd reading

Denton, TX:Potential Opportunities for a Locally Owned Municipal Utility

- Presentation from Mike Grim of Denton, TX

Questions, Public Hearing, Discussion and Action

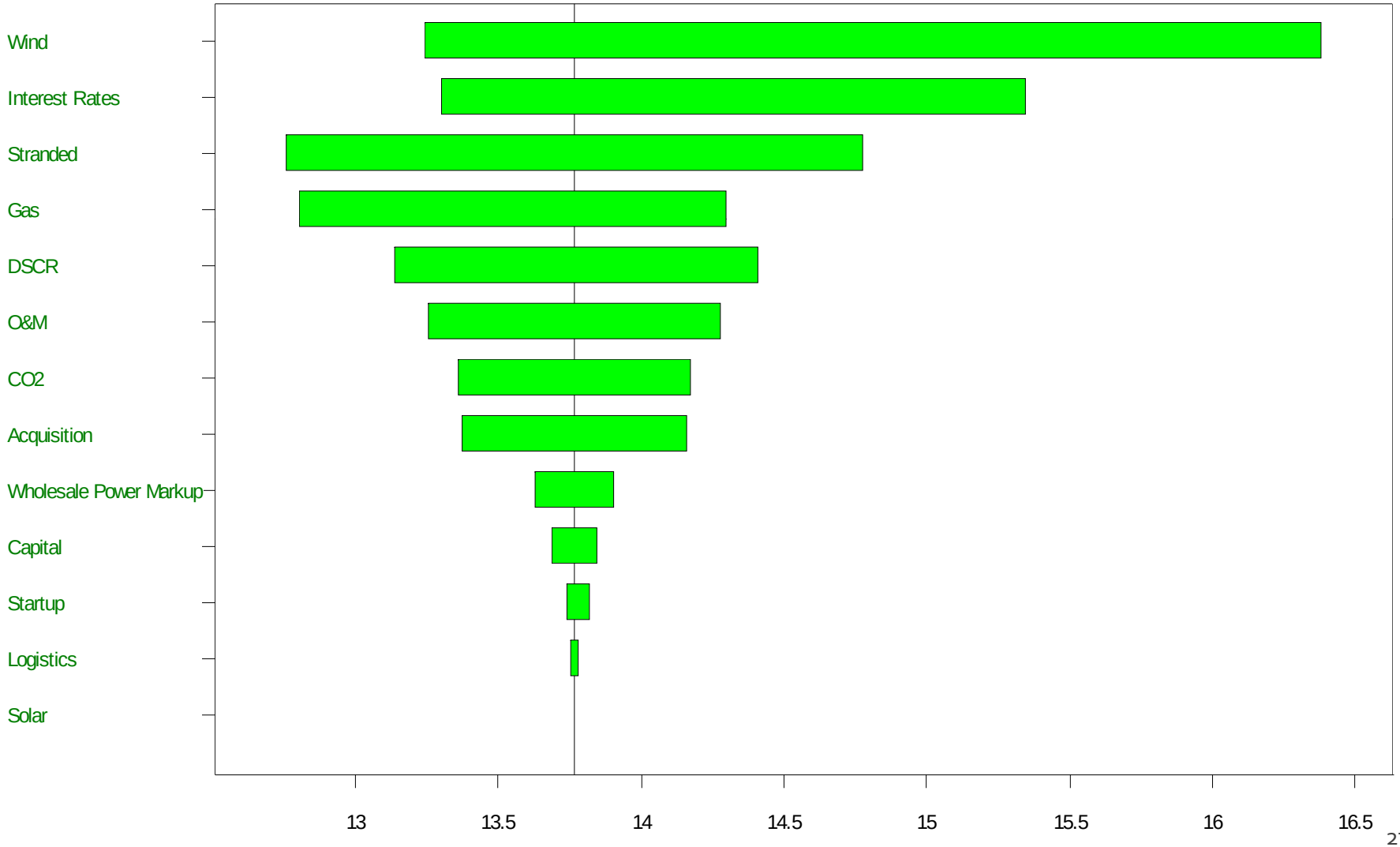
- Question & Answer Period
- Public Hearing
- Council Discussion
- Council Action

Council Action

Staff requests council consideration of this matter and action in the form of the following motion:

- Motion to direct city staff to move forward with the next steps to explore the formation of a municipal electric utility including:
- Authorizing the City Attorney's Office to continue the due diligence required before council could take formal action to acquire property for a municipal electric utility.
- Authorizing the City Attorney's Office to initiate and pursue or intervene in any action before regulatory agencies to clarify rights and obligations of the city.
- Authorizing the City Manager to pursue meetings with rating agencies and other actions to facilitate financing of a municipal electric utility.
- Directing staff to conduct the analysis necessary for evaluating the types and sufficiency of "added value" a municipal electric utility would provide.

Supplemental Slide

EXAMPLE: Sensitivity Analysis

Low Cost Option (cents per kWh)