

# Boulder's Energy Future Today

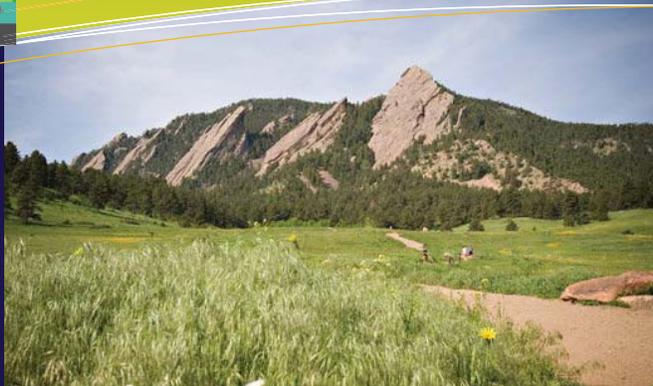
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## Municipalization Charter Requirements

The city must meet these criteria, at a minimum, to form a local electric utility:

- Rates cannot exceed Xcel's rates at the time of acquisition.
- Revenues must be sufficient to pay for operations and debt, plus an amount equal to 25% of debt payments.
- System reliability must be ensured.
- The city must have a plan to show it can reduce greenhouse gas emissions and increase renewable energy sources.
- The city's information must be verified by an independent, third-party analyst.



March/April 2013  
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## City Council moves municipalization study into Phase 2

Two months after a city analysis showed that municipalization charter metrics (see sidebar) could be met, City Council on April 16 authorized staff to continue exploring the possible creation of a local electric utility. The vote to move forward immediately triggered Phase 2 of the work plan.

"The results revealed in Phase 1 by city staff, consultants and the groups of community volunteers was incredible and invaluable, and really set the table for Phase 2," said executive director of Energy Strategy and Electric Utility Development Heather Bailey. "Thanks to everyone's dedicated and insightful work, by August 2013, we should know with high likelihood if forming a local electric utility will be feasible or if Boulder will need to follow another path to achieve community climate change goals."

Over the next four months, all five previously modeled municipalization options and the Xcel Baseline - Status Quo Option will be rigorously examined and the modeling behind them will be updated with new, more in-depth information. These models will be re-run to ensure that all factors and associated risks are as well known as possible before council makes a final decision about whether to proceed with the municipalization exploration study or take an off-ramp and explore alter-

nate ways to achieve the community's energy goals.

Work in Phase 2 is expected to be intense. Community working groups that were established in Phase 1 will continue to be utilized as the city digs deeper into the study, as will the engineering, legal and financial consultants who have been providing technical expertise.

**Phase 2 will involve intense work to refine the options and reveal in-depth information that may allow the city to move forward with acquisition and associated legal proceedings, if directed by City Council.**

The city continues to welcome community and stakeholder feedback related to this initiative. Detailed information, including the modeling inputs, is available at [www.BoulderEnergyFuture.com](http://www.BoulderEnergyFuture.com). To increase the study's transparency, a new webpage has been created to explain the modeling process and to provide more detailed context about what went into creating each option. The outcome of this work will affect everyone who lives and works in Boulder, even if we stay with Xcel Energy, and the city wants to hear what you think.



## Municipalization: Know the Facts

There's a lot of information circulating about Boulder's municipal-ization exploration study, some of which is accurate and some which is not. The following are facts that have been verified by city analysis.

1. A local electric utility could meet more than 50% of Boulder's energy needs with renewable sources while maintaining the same (or better) costs and reliability as Xcel.

2. Providing stable electric rates and strengthening the Boulder economy are as important as our community's environmental goals. Creating a local electric utility doesn't require choosing one value over another.

3. To ensure reliability and quality service, a local electric utility would serve approximately 5,800 properties in portions of Boulder County. The city would acquire related Xcel assets, but individuals' property in these areas would not be annexed or condemned. These customers would enjoy the benefits of a cleaner and more innovative utility.

4. The city has analyzed and projected costs and associated rates for a local utility for its first 20 years. Bills for city and county customers could be lower than those they would pay to Xcel, on average, for this entire time frame.

5. A Boulder electric utility would make infrastructure decisions that preserve or enhance current reliability levels. It would hire seasoned crews or companies to maintain its system. And it would enter into mutual aid agreements with local and regional partners to bring customers back on line quickly after bad weather or other emergencies.

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## Key elements of the phase 2 work plan

So what exactly will happen in Phase 2? From now until late July/early August, city staff, legal and engineering consultants, and community stakeholders and volunteers will be refining and enhancing the work from Phase 1 that led to the creation of the options for achieving our community's energy goals. Work will focus on completing the due diligence and appropriate legal and engineering steps that resulted from council's decision to proceed on April 16. In addition, the community will dive into the discussion about how the utility board should be governed (see below), and an independent review of the options for moving forward will be conducted (see below).

### Service Area Analysis and Transition Planning

City attorneys and retained legal and engineering experts will prepare formal appraisals and identify precise locations where the city's proposed service area will separate from Xcel's and the new equipment that will need to be built in order to successfully split from Xcel's distribution system. The city will also consult applicable regulatory agencies, like the Colorado Public Utilities Commission (PUC), to help ensure a smooth and seamless transition for all customers of the two utilities should City Council decide to form the municipal electric utility. The PUC has jurisdiction over Xcel and can require the company to cooperate in the transition process to avoid disruption of service and duplication of facilities.

### "Should we" analysis: Is enough value added?

Work in Phase 1 focused on determining if the city could meet the requirements set by the voter-approved charter language (page 1 sidebar), also known as the "can we" analysis. These requirements were known as "the metrics" and included parameters around rates, renewables and reliability that were quantifiable and measured against the current Xcel system.

Work in Phase 2 will center around questions that include "should we" municipalize and form a local electric utility and is there enough value added to the Boulder community by forming a city-operated electric utility. Similar to Phase 1, this portion of the municipalization study will compare the status quo relationship with Xcel Energy. Unlike Phase 1, this analysis will be conducted qualitatively rather than

quantitatively because there may not be established figures with which to compare the two paths.

Instead of looking at each of the five municipal-ization options individually, this portion of the project will consider municipalization more holistically to determine if Boulder and its potential electricity customers would be better served by a city-operated utility than by the status quo. The community adopted City Charter and the council-adopted Energy Future goals and objectives provide the basis for factors that will be analyzed for each possible path. The city will utilize the services of the existing community working groups that were established in Phase 1, but will also give new community members the opportunity to participate if interested. Send an email to [energyfuture@bouldercolorado.gov](mailto:energyfuture@bouldercolorado.gov) if you're interested in this portion of the study.

### Governance analysis: Managing the utility

An area of concern for potential customers of the utility relates to governance of the utility and how diverse interests could be represented. Staff proposes to address this issue, in part, by forming a community working group on governance, similar to the groups organized in Phase 1, to gather input from any potential customer of a local electric utility. Issues that need to be addressed include how to provide greater customer choice, ensuring that all service area residents both inside and outside of the city are part of decision-making, and discussing what level of authority council would assign to the advisory board. This working group will begin to outline these details in Phase 2 and explore the pros and cons of different governance structures. Community members interested in participating on the governance working group are encouraged to contact [energyfuture@bouldercolorado.gov](mailto:energyfuture@bouldercolorado.gov) and tell us a little about their qualifications and why they're interested in helping.

### Third-party independent evaluation

An independent third-party will review the phase 1 modeling to determine whether the process and assumptions support the conclusion that the city could meet the charter requirements. Charter section 178 states, "The City Council shall establish a light and power utility only if it can demonstrate, with

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verification by a third-party independent expert, that the utility can acquire the electrical distribution system in boulder..." This expert will not be selected or supervised by anyone working under the supervision of the executive director of the energy future project. To maintain independence from the municipalization study, the process will be undertaken by a project manager appointed by the City Manager's Office. However, it will be important for the expert to have access to and support from these individuals and the consultants to the city.

A Request for Proposals (RFP) was issued on April 17; this document is available on the Energy Future website. Proposals from interested parties are due by April 29, and finalists will be selected by May 3. The finalists' proposals will be available for viewing and for public comment from May 3 to May 10. Finalists will also give a public presentation and answer questions from 5 to 7 p.m. on Wednesday, May 8, in the West Senior Center, 909 Arapahoe Ave. The city will announce the firm(s) selected to complete the evaluation on May 16. The evaluator's final report will be presented to City Council at a Study Session on July 23.

**Condemnation/acquisition proceedings**

Prior to council consideration in August about whether to proceed with condemnation and acquisition proceedings, city staff will provide council with the following items in an effort to address the most significant risks and costs related to municipalization. With this information, it is expected that council will be able to determine whether to take an off-ramp or move forward with condemnation:

- Results of the 3rd-party independent evaluator verification.
- Requirements from bond rating agencies to issue investment-grade debt.
- Clarification of Federal Energy Regulatory Commission (FERC) requirements.
- Final inventories and appraisals of the assets needed to form a municipal electric utility.
- A qualitative analysis ("should-we" answer) of the potential benefits of municipalization.

If and when a decision is made to condemn,

remaining off-ramps would be limited to situations under which the Charter requirements could not be met. To initiate condemnation, the city must be ready to form the utility and issue bonds to pay what it offers to Xcel for its property, or if Xcel rejects the offer, what the court determines is the value of the property identified by the city. To make that decision in a confident and informed manner, council will need to have verification of the third-party independent expert as well as guidance from FERC and the city's FERC legal counsel regarding stranded costs.

After moving into condemnation proceedings, City Council could abandon the process if a catastrophic or significant unexpected event occurs, but the city might be required by the court to pay some or all of Xcel's attorney's fees and costs. In August, if council decides to pursue acquisition of Xcel's electrical facilities needed for the proposed service area, the city will move into Phase 3 of the work plan, which will be dedicated to the formation of a local electric utility concurrent with the acquisition proceedings.



The community and staff discussed the options for moving forward at a public open house on March 13.

**How long is Phase 2?**

Phase 2 is expected to take approximately four months. Staff will return to council at a Study Session on July 23 and a public meeting on August 1 with detailed results of all the items described in this article and a report from the City of Boulder/Xcel Energy task force on partnership options (see page 4). City Council is expected to choose an option, or options, to move forward with or direct staff to take an off-ramp and explore alternatives to municipalization.

6. The city continues to explore governance models that will give all customers a strong voice in a local electric utility. So that a variety of views are represented, three of the nine-member electric utility advisory board seats are already open to non-city residents, including business owners and county residents who work in Boulder.

7. Boulder can only proceed with creating a local electric utility if it can meet strict financial requirements previously approved by voters. City Council will have to pursue alternatives if the costs of acquiring and separating from Xcel's system are too high to meet these conditions.

8. The city is open to a partnership with Xcel Energy, either as part of, or instead of, municipalization. Community and staff members are participating in a task force process to explore a variety of ways the utility could help our community achieve its goals.

9. Boulder is lagging behind other cities, like Denton, Texas, a college town, and Aspen, in our use of renewable energy. Xcel utilizes wind power to meet state mandates - not because it has decided to stop investing in coal. The grid can handle more renewable energy than Xcel has planned.

10. Boulder is not the first community to create a municipal utility, but is in a unique position to build the most efficient, environmentally sensitive, reliable utility in the country.

For more detailed information on these facts and others, visit [BoulderEnergyFuture.com](http://BoulderEnergyFuture.com) and select "Municipalization: Know the Facts."

## Denton, TX: On the road to becoming the utility of the future

At a council meeting on April 16, Denton Municipal Electric's (DME) Chief Operating Officer Mike Grim provided a presentation that outlined the numerous opportunities available to a municipally operated electric utility and shared the utility's successes. Mr. Grim was invited to speak because of the similar demographics between Boulder and Denton, TX, where DME has operated since 1905.

According to Mr. Grim, local control of the utility allows DME to provide low and stable rates, increased economic and business development, energy portfolio control, high reliability, and risk mitigation.

Since 2006, Denton has transformed its energy portfolio from primarily coal produced power to over 55% renewable energy in the utility's annual load. In addition, DME provides generous rebate programs to increase local generation and efficiency. DME's rates have consistently been below that of traditional investor-owned utilities, and its last rate increase occurred in 2005. The American Public Power Association (APPA) has recognized Denton each of the last three years as one of the top utilities that demonstrate high proficiencies in reliability, safety, work force development and system improvement.

Local control of the power supply allows for decisions based on customer needs and wants. DME is a great example of what a municipal electric utility can do for its customers. For more information on DME and Denton, Texas, visit [www.CityofDenton.com](http://www.CityofDenton.com).

## The Charter's guiding principles on rates; provisions require more than rate parity on day one

Colorado utilities with the lowest rates tend to be municipally owned, serving relatively compact service territories, having access to relatively inexpensive federal power sources and benefiting from low-cost municipal financing. Boulder voter-approved charter language around forming a local electric utility includes many provisions to ensure fair and equitable rate structure not only at time of acquisition, but throughout the lifespan of the local electric utility.

### **Rate guidelines established in Charter (taken directly from the Charter language):**

A municipal electric utility will only be formed if rates do not exceed those rates charged by Xcel Energy at the time of acquisition and that such rates will produce revenues sufficient to pay for operating expenses and debt payments, plus an amount equal to 25 percent of the debt payments.

Once this utility is formed, the utility will operate in a fiscally responsible manner, always being mindful that every expenditure will be reflected in customers' rates and will affect household budgets and business profitability. The utility will, while always honoring its obligations to bondholders, strive to maintain rate parity with any investor-owned utility whose service area would include the City of Boulder.

These rates are designed to create a fair and equitable distribution among all users of the costs, replacement, maintenance, expansion, operations of facilities, energy, and energy conservation programs for the safe and efficient delivery of electric power to city residents and other customers. The utility will consider the effects of its programs, policies, and rates in the development of programs for low-income customers.

The City Council will by ordinance fix, establish, maintain, and provide for the collection of such rates, classes of rates, fees, or charges for electric service and other utility services furnished by the city. The council, when setting utility rates, will make sure the utility produces revenues at least sufficient to pay the cost of operation and maintenance of said utilities in good repair and working order. It will also consider electricity rates of surrounding and similarly situated communities and use best efforts to set competitive utility rates and fix rates for which electric service will be furnished for all purposes. Rates shall be as low as good service will permit, consistent with the guiding principles set forth.

## City/Xcel create task force on partnership options

Since December, when the city issued a paper that outlined possible options for working together to meet community goals, city staff has met with executives from Xcel on several occasions to develop a process for discussing a partnership to create the utility of the future.

In March 2013, Xcel proposed the creation of a task force that would engage with Xcel executives, city staff and other experts when needed, to discuss possible paths to forming such a partnership. Xcel and the city jointly selected Boulder residents and representatives of Boulder businesses to serve on the task force. The task force members represent diverse backgrounds and perspectives and are committed to exploring a variety of possibilities. A complete list of participants is available on the Energy Future website. Task force meetings began in April and are expected to continue bi-weekly through July. Meetings are not open to the public, but approved meeting minutes will be posted at [www.BoulderEnergyFuture.com](http://www.BoulderEnergyFuture.com) as they become available.

### **Additional Opportunities to Provide Feedback:**

- Online comment form - [www.BoulderEnergyFuture.com](http://www.BoulderEnergyFuture.com)
- Send an email to [energyfuture@bouldercolorado.gov](mailto:energyfuture@bouldercolorado.gov)
- Invite city staff to present at your event or regularly-scheduled meeting

