

Financial Working Group
Meeting Summary

Nov. 7, 2012, 8-10 am
Fishbowl Conference Room
1777 Broadway

Present: Yael Gichon, Kelly Crandall, Sarah Huntley, Cheryl Pattelli, Heather Bailey, Nick Rancis, David Becker, Steve Pomerance, Sam Weaver (by phone), Dan Powers, Jim Barrett (by phone), Joshua Putterman Alison Burchell, Frank Selto and Lynda Gibbons.

Facilitator: Heather Bergman

Objectives:

- Agreement on purpose and ground rules
- Present work plan and data catalogue
- Identify preliminary list of questions for Financial Advisor
- Agree on tasks and assignment

Purpose of the group:

The group reviewed the proposed purpose of the group. Yael ran through the purpose statement (see attached) and explained that the group will be providing research and data to analyze whether the financial requirements under the Charter can be met under different municipalization scenarios. She said the financial model the city has used is being modified and will be able to show 20-year cash flows and answer the questions that are likely to be asked by credit agencies for bond ratings and decision makers who will need to calculate trade-offs. She told the group the city is in the process of hiring a financial advisor. She indicated it would be important to be able to explain the assumptions behind all data points. Lastly, Yael confirmed that the group understands that acquisition and stranded costs will not be a part of this working group's discussion, as these are considered confidential and privileged attorney-client issues. Joshua said it would be helpful if possible to at least have a conceptual envelope of acquisition costs. Heather Bailey responded that the legal team is working to establish a range that can be plugged into the model. She said that data would hopefully be available in January. Dan asked if the purpose of the group was vetted by City Council. Heather Bailey indicated it was a staff-developed purpose to guide the work necessary to be able to make an informed recommendation to elected officials.

Ground rules:

Heather Bergman reviewed the ground rules and protocols (see attached). Yael explained that the members of the group are individuals who either came forward and expressed an interest in getting involved or were recommended by other volunteers. The city attempted to assign individuals to working groups based on their expertise. Heather Bergman indicated that there would be no alternates, so if someone misses a meeting, that perspective won't be included. Conference call options will be made available for each meeting. Heather Bergman reviewed the participant responsibilities. The group had no objections to these rules. Yael reviewed the consensus-building framework, telling the group that she hopes consensus will be reached on all issues but staff is committed to documenting alternative viewpoints when they exist. Staff will be using the input of this working group, as well as consultants to the city, to develop a recommendation. Heather Bergman explained that in the facilitation world, consensus does not always mean that everyone loves every finding, but that everyone "can live with it"

and feels like objections have been heard and shared. Yael also pointed out that all of this group's work needs to be verified by a third-party so complete documentation will be essential. The group had no objections to this framework. Group members then discussed whether individuals who cannot attend meetings can weigh in by email. Yael said she supports email communication because she does not want to miss out on expertise but indicated that she might assign deadlines for communication about certain topics to keep the discussion moving. Heather Bergman said to remember that sometimes tone is difficult to convey in email communications. The group did not express concerns about this. Lastly, Heather Bergman said that the group will be given an opportunity to review summaries and provide feedback, but that drafts should be considered drafts and not shared outside the group until they are finalized.

- **Follow up task:** Develop finalized working group protocols

Agenda items:

Work plan, timeline and model overview (see attached)

Sam questioned what level of detail will be necessary and how the group will be taking into account or setting the ultimate goals. Yael indicated that the model will help guide the level of detail and that we will have conversations about how this group's work will tie into the Resource Modeling Group's work in terms of goals, especially those related to renewables and local generation. Heather Bailey explained that each group will be looking at baselines, as well as answering questions about how much better we can do and what will it cost. Those costs will have to be factored into the financial model so that informed decisions can be made.

Steve made a comment about the purpose statement, which does not address alternate scenarios for the future. He said he believes it will be important to both address the Charter requirements and the question about whether this is worth doing. He suggested that be clarified. He also said that the test about average cost per kilowatt hours is only useful on day one, because other factors can come into play in the future. Steve said the role of the third-party verifier, versus the council, still feels vague to him.

Nick asked if the financial advisor will be a part of this group or do his/her work separately. Yael said it would depend on the issues, but that a nexus between the advisor and the group would be valuable.

Yael reviewed the timeline, saying that it is already November and there is a lot of data to be collected this month. She said the other priority was to make sure the team comes up with a solid list of questions for the financial advisor. She then went over the goals for December, January and February (see attached).

Sam Weaver said he thinks it will be important to be clear about what staff means by its recommendation, particularly if the recommendation is to proceed with municipalization. What does that look like?

Frank Selto inquired whether the city's Excel model will be made available to group members. Yael referred the team to the cost model summary. Frank said the numbers are important, but the formulas behind the numbers are very important and that he will need access to that. Frank said he assumes that a lot of the figures are based on revenue projections and it will be essential to look at how those were developed. Yael asked how Frank might approach conducting a sales forecast model. Frank said it can be

complicated and needs to be credible. It should include aspects about different customers, what their needs are and how they are likely to react to different prices. Yael said she would share the inputs that have been considered so far and those that still need to be acquired as the team reviews the data catalogue.

Allison asked the team to quickly get through the work plan so that the group can dig into the key questions.

Heather Bailey told the group that the model can be shared with the exception of figures that will be determined through the legal process, but that a range will be provided and that range can be plugged into the model.

Yael indicated that the Resource Modeling Group will be utilizing HOMER to develop its recommendations and that the financial model will need to be able to take into account any inputs from HOMER. Yael said the financial advisor typically does his/her own modeling work and can vet this group's model to make sure everything a credit agency might look at is incorporated into the city model.

Frank requested the legal definitions about each of the Charter requirements. Heather Bailey said there is no bond resolution yet but that the city would be working with financial advisor to develop the criteria and metrics that would go into those legal documents. Frank said it is important that this group know what those are.

Yael said the model is intended to be plug and play, so that different inputs can be included based on the group's assumptions.

Follow up tasks:

- Refine purpose document to clarify how alternative scenarios are incorporated into this phase of the work, what a recommendation will look like from this process, and what model scenarios are happening in this phase versus future phases as well as what tests would be considered for future scenarios.
- Question for financial advisor: What criteria and metrics would eventually go into a bond resolution?
- Work with City Attorney's Office on model access question.

Data

Yael reviewed the existing reports that the city has considered. She offered to make paper copies available to anyone who requests them.

Frank asked if the city has decided to operate the utility completely or outsource. Yael indicated that this decision has not been made. Steve asked if we are in contact with Dennis Eastman who could provide outsourcing estimates. Heather Bailey indicated that Dennis is an advisor to the overall project.

Nick asked what revenue information the city has from Xcel. Kelly indicated that the most recent reports are from 2010. These do not include detailed breakdowns.

A question was asked about data that could be available from other municipal utilities. Yael said staff is endeavoring to get operating budgets from Fort Collins and Colorado Springs and the APPA's

benchmarks documentation. The group will need to agree how to scale all of this data to reflect what Boulder's situation will likely be.

Nick indicated the things that will hurt the assessment the most are the things you don't know that you don't know.

Joshua volunteered to call Marin County to see what data is available there that could be helpful.

Yael explained the current draft budget and the way she has grouped considerations into operations and maintenance (ongoing costs), start up costs associated with acquisition, debt parameters and other assumptions, including capital improvements that may be needed, population growth, target revenue margins, annual load growth, inflation, etc.

Steve inquired whether there is a prioritization structure for how this work will be done. He expressed concerns about the timeline and the level of accuracy that might be reached by March. Joshua suggested the group comb the data and determine if it is realistic or not or ask others who might know. Steve said the problem is that you could get into the weeds quickly and that it is important to focus on the right questions first, specifically "the big ones that will matter in March." Yael agreed that prioritizing will be important as will understanding which assumptions would have the biggest impacts. The level of certainty can evolve over time, but needs to be communicated each step of the way. Sam weighed in based on his modeling experience that you can identify the areas that have really high sensitivities to them. He suggested that it would be good if the Resource Modeling Group could tell the Financial Group where there are the most concerns. For example, the cost of natural gas could be critical.

Steve indicated that some issues are likely to be the same as Xcel, for example, the price of gas. He suggested that it will be important to understand the costs that are unrelated to anything that Xcel might or might not do. Some independent modeling is relevant and some is not relevant. Joshua said the model should not be static and that bandwidths could be very helpful. Allison said it is important to understand that baseline costs are likely to be the same as Xcel's at the beginning but that we will need to be able to explain how these may or may not change as we reduce our dependency on current sources of energy.

Follow up:

- Schedule joint financial and resource working group meetings to clarify what is being handled in each group, places of intersection (cost/benefit of DSM) and prioritization for this phase (including how goals for carbon will be handled in this process).

Risk analysis introduction

Kelly explained that part of the decision analysis process will be to identify these areas discussed above. Kelly told the group her role is to implement a decision analysis process to help develop a limited number of strategies that could both pass the Charter standards and add varying amounts of value to the status quo. These strategies need to take into account financial, legal, technical, etc. Plans could evolve, but decisions should be seen as an irrevocable commitment of resources. The decisions that are made are likely to achieve some of the community's goals but not necessarily all of them, so it will be important to consider trade-offs and associated benefits and risks. Kelly told the group the staff is working with a decision analyst with significant experience with utilities. Internally, he and the team are

trying to identify the factors and understand how they could influence each other. She explained that some of this needs to be kept private at this point because of the potential impact on litigation. Frank indicated that he likes the definition of risk. He asked if the consultant will generate the probabilities. Kelly said he would help the city develop probabilities some of which will be quantitative and some of which will be more along the lines of high, medium and low. Joshua wanted to know if the group would have the ability to comb the quantitative probability assumptions. Kelly said she would be cautious about sharing those that are linked to legal work but that she will share the information she can.

Follow up to data gathering conversation

Yael returned the group to the discussion about data gathering. Yael said that it is important to understand which data points have the largest scale, such as operations and power purchases costs, so these might help the group prioritize its key areas of focus.

Frank asked if the city could identify the items that could have avoided costs if outsourcing were to be considered by the city. Yael said staff could do this.

Sam said there should probably be an additional category related to generation. Would there be incentives for solar or a gas plant, etc. It would be important to determine how future capital costs and related maintenance/upkeep would factor into overall costs.

Follow up task:

- Identify which operations items costs could be avoided through outsourcing.

Financial analysis brainstorm

Steve asked that we be provided with some information on the structure of the proposed financing (bond laddering, interest rates currently, etc.) and how power purchase agreements that might be available to the City are structured (capacity/Kwh, take or pay, whatever) as well as the current forecasts for those numbers (e.g. the WECC 10 year forecasts). These are some of the big ticket items that we will need to take into account, so we need to know this stuff.

Sam said he wants to know the costs and resulting benefits related to DSM programs since that will have to go into the resource mix. Heather Bailey said that might not be this person's expertise.

Joshua said he wanted to know the discount rate for basic NPV and advanced NPV and how that translates into payback over time. He said this might be more qualitative than quantitative. Heather Bailey said this is definitely something that is being worked on. Frank indicated that he would like the rate to be a comparably risky rate to what a private utility might have. The group agreed to discuss this more.

Allison said while this might be out of this person's area, she would like to have a sense of the carbon costs and costs/benefits associated with energy efficiency and DSM measures. Frank asked if the model should incorporate the social cost of carbon. Allison said she believes there would be value to that because the city is not trying to be Xcel in 2020. Joshua asked if the city would be looking at monetizing offsets, which has not worked in some other situations. Allison said there should be some additional conversation about this. Yael indicated that the March recommendation will need to include the carbon content of our fuel, but that this discussion is likely to take place later in the consideration. Dave wanted

to know if we'd be looking at power alternatives to get a range of costs. Yael indicated that the Resource Modeling Group would be doing this.

Steve would like some basics on the debt service ratio and ways to calculate it. Cheryl said she suspected the credit agencies' definitions will prevail.

Jim said it will be important to understand the methodology about environmental costs. Yael said this would likely occur later and not in the next couple of months.

Frank said he is interested in sales forecasting and he wants to know from the consultant what is state of the art in terms of municipal sales forecasting. Heather Bailey said that the city does not have the data that other municipal utilities have (specifically, historic load data, since Xcel won't share it) and that the city will need to determine how to calculate this. Frank said it will need to pass muster by a third-party verifier. Steve said Boulder may be interested in considering factors that don't have a role in traditional sales forecasting because this is not going to be a business that should grow as fast as it can.

Joshua said he would like to talk to the financial advisor about the discount rate and the return on investment expectations.

Allison said she'd like a small working group to meet with the financial advisor to go through the half dozen ways we should approach these questions for the new energy economy utility of the future. Heather Bailey said she thinks this might be premature and would be better for January and February. Allison asked how the group would sub for that kind of data input in the meantime. Yael said the work at hand is to set up the model so this information can be plugged in. Placeholders will be important. Allison said any proceed-no proceed "time race," the group needs to be further along than setting up the model. Heather Bergman said she thought the information would be available before March.

Follow up tasks:

- Set up meeting with financial advisor and working group
- Questions for financial advisor –
 - Structure of the proposed financing (bond laddering, interest rates currently, etc.) and how power purchase agreements that might be available to the City are structured (capacity/Kwh, take or pay) as well as the current forecasts for those numbers (e.g. the WECC 10 year forecasts).
 - Discount rate for basic NPV and advanced NPV and how that translates into payback over time as well expectations of return on investment
 - Discussion of a comparably risky rate to what a private utility might have.
 - Basics of debt service coverage and how it needs to be calculated
 - Sales forecasting advice

Assign Tasks

Yael shared her starting point list of tasks. She asked for volunteers to look at these individually and share their findings with the group over email between now and the next meeting.

Steve Pomerance said he needs to understand the central question and who is making the decision. Joshua said he would try to get data that Marin looked at for acquisition because that could give the team a roadmap and the assumptions they made. Heather Bailey said it is important to understand that

each of these case studies is different. The entity that makes the decision at the end of day will be City Council but that they need the information about whether it meets the Charter requirements and what else different strategies would bring to the table (including associated costs) in terms of adding value.

Sam said he would take on the piece that interfaces with the Resource Modeling Group, i.e. the cost of generation.

Nick said he thinks it is important to add technology research to the budget and that he would like to explore that.

Frank said he would like to diagnose the Excel spreadsheet. He said he would like to get input from a variety of experts on ranges so that he can help quantify the risk of failure. Jim said he would like to join Frank in reviewing the Excel spreadsheet.

Dan said he would like to correlate this proposed operations budget to the operations budget they use at Western Disposal.

Allison said she could help Frank with determining appropriate ranges and help Sam interface with the Resource Modeling Group. Allison said she would align budget categories with FERC accounts.

Heather Bergman asked if anyone was willing to assess staff's thoughts about the \$32.5 million assigned to start up costs. Steve suggested that staff talk with Dennis Eastman about this.

Steve said he could research assumptions about growth (not load growth, but population growth). Frank said he would collaborate on that.

Joshua said he'd like to review the other assumptions that Marin put into their consideration. Allison said she'd also like for him to look at Delaware and Winter Park, Fla. Joshua said he was particularly interested in load growth projections.

Heather Bergman asked what would happen to areas that were not taken on by volunteers. Yael said that work would fall to city staff.

Lynda and Dave said they would look at the list and see what remains and would offer support where they can.

The team set Nov. 28 as a deadline for any work product.

Next meeting: The next meeting is currently scheduled for Dec. 5, but at least one member has said she cannot attend then. Yael committed to sending out a quick poll to see whether other dates would be better for a larger number of members.

Follow up tasks:

- Schedule next meeting
- Members should review this section to be clear on what they signed up for.
- Staff should assess unassigned tasks and determine they will get done; this could involve additional assignments to team members
- Items not on original task list
 - Factor in future capital costs as well as upkeep and maintenance
 - Flag items with highest sensitivity

- Staff creates a list of assumptions and methodologies/calculation approaches that we need feedback on (ex: IRR or bond coverage ratio).
- Organize data and flag items that are critical so the group can vet them.