

Boulder Feasibility Analysis

July 11, 2011

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COO**

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www.utilipoint.com



Credentials

- PE, CBA, 20 years industry experience
- Involved in most major municipalization cases in past 12 years
- Testified on separation and valuation
- Direct experience in solar, wind, conventional generation, transmission, distribution, retail

Case	Forecast	Result
Jefferson County, WA	\$100+ million	\$103 million
S Daytona, FL	\$17.5 million	\$15.5 million
Winter Park, FL	\$11 million in losses	\$11.6 million in losses

"It is interesting to note that during the election campaign of 2008, a PSE consultant issued a report saying all of PSE's assets in this county would cost a little over \$100 million. Another consultant, hired by the PUD, said the cost would be much less – \$66 million.

Turns out the PSE consultant, Bob Bellemare, was almost dead on. The negotiated price is \$103 million."

PT Leader (newspaper), Port Townsend, WA, May 5, 2010

Boulder Municipal Utility Feasibility Report

June 8, 2011 (Robertson-Bryan, Inc)

- Not a full inventory (no meters)
- Insufficient PILOT
- No Going Concern and Stranded Costs
- No debt payments in first 2 years
- Solar, DSM and other program replacement and potential compensation owed

Condemnation Statute

“C.R.S. §§ 40-9.5-201 to 40-9.5-207 describes the procedure for a municipality to annex land within a cooperative electric association’s (co-op) service territory. While these statutes are not controlling, they are instructive in determining the process for taking clients or property from investor-owned utilities. ...Just compensation must include:

- The present-day reproduction cost of the facilities being acquired, less depreciation; and
- The cost of constructing new co-op facilities, necessitated by the municipality’s condemnation of the co-op’s existing facilities; and
- ***An annual payment, made for ten years, of twenty-five percent of the municipality’s revenues from the sale of electric power to customers formerly served by the co-op; and***
- ***An annual payment, made for ten years, of five percent of the municipality’s revenues from the sale of electric power to customers within the annexed territory but acquired following annexation.”***

\$350+
million

SOURCE: Attachment A, “Responses to May 10 Study Session Questions”,
(http://www.bouldercolorado.gov/files/Energy/BEF_SS_June14_AttA.pdf), page A-6

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Cost to form a Utility

	(\$ million)	City Study	Possible
Assets		\$121	Up to \$150
Separation		\$15	Up to \$90
Startup		\$45	\$45
Going Concern		0	Up to \$350
Stranded Cost		0	Up to \$300
Other (smart grid/DSM/PV)		0	Up to \$100
Cash Reserve		\$40	\$40
Capitalized Interest		\$33	0
Debt Service Fund		\$29	\$60
Underwriting		\$3	\$6
Total		\$286	

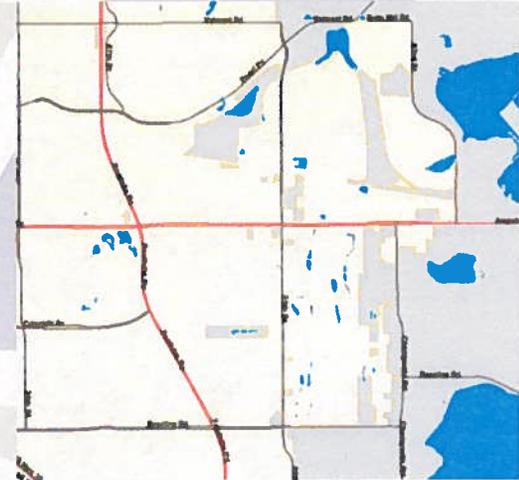
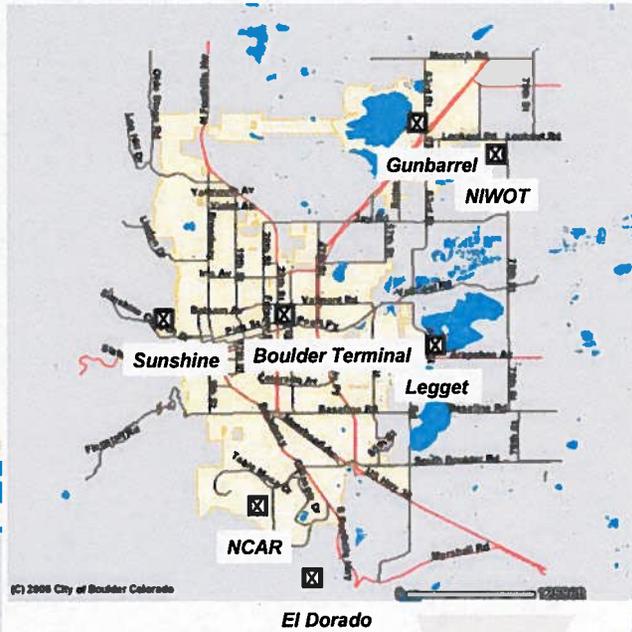
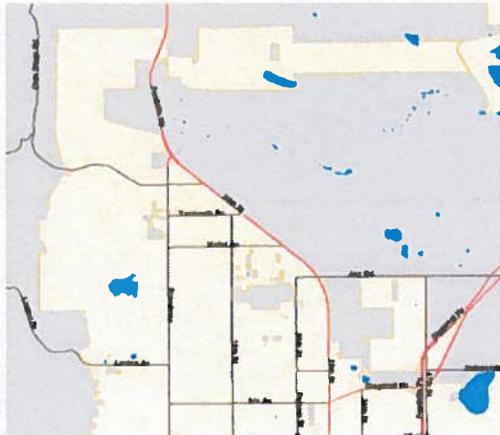
Going Concern

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Terminal
Debt Free Net Cash Flow	\$ 45.4	\$ 39.8	\$ 37.8	\$ 40.1	\$ 43.0	\$ 40.5	\$ 40.0	\$ 34.6	\$ 35.4	\$ 31.9	\$ 398.9
Terminal Value @ 0% growth											
8% Present Value Factor, half-year	96.2%	89.1%	82.5%	76.4%	70.7%	65.5%	60.6%	56.1%	52.0%	48.1%	48.1%
Present Value	\$ 43.7	\$ 35.4	\$ 31.2	\$ 30.6	\$ 30.4	\$ 26.5	\$ 24.3	\$ 19.4	\$ 18.4	\$ 15.4	\$ 192.0
Total Present Value (\$ million)	\$ 467.3										
Less Asset Value	\$(121.3)										
Going Concern Value	\$ 346.0										

Stranded Cost

Year	CMVE	RSE	SCO	Stranded Cost
2013	\$8.2	\$42.4	\$34.3	\$336
2014	\$8.6	\$42.4	\$33.9	\$316
2015	\$10.8	\$42.4	\$31.6	\$297
2016	\$7.3	\$42.4	\$35.1	\$278
2017	\$8.9	\$42.4	\$33.5	\$255
2018	\$8.4	\$42.4	\$34.0	\$233
2019	\$14.6	\$42.4	\$27.8	\$209
2020	\$13.4	\$42.4	\$29.0	\$190
2021	\$13.7	\$42.4	\$28.7	\$169
2022	\$25.5	\$42.4	\$17.0	\$147
2023	\$25.0	\$42.4	\$17.4	\$137
2024	\$24.3	\$42.4	\$18.2	\$125
2025	\$24.0	\$42.4	\$18.5	\$112
2026	\$24.3	\$42.4	\$18.1	\$99
2027	\$24.5	\$42.4	\$18.0	\$84
2028	\$24.1	\$42.4	\$18.3	\$70
2029	\$23.9	\$42.4	\$18.6	\$54
2030	\$23.4	\$42.4	\$19.0	\$37
2031	\$23.3	\$42.4	\$19.1	\$19

Separation

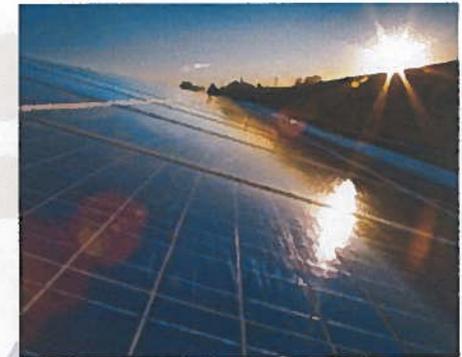


Boulder Smart Grid/Solar/DSM

SmartGridCity™ - \$44.5 million

Solar Rebates - \$38.5 million,
11.2 MW, 1841 customers

DSM - \$5.5 million in 2010



Fees/Taxes to Replace

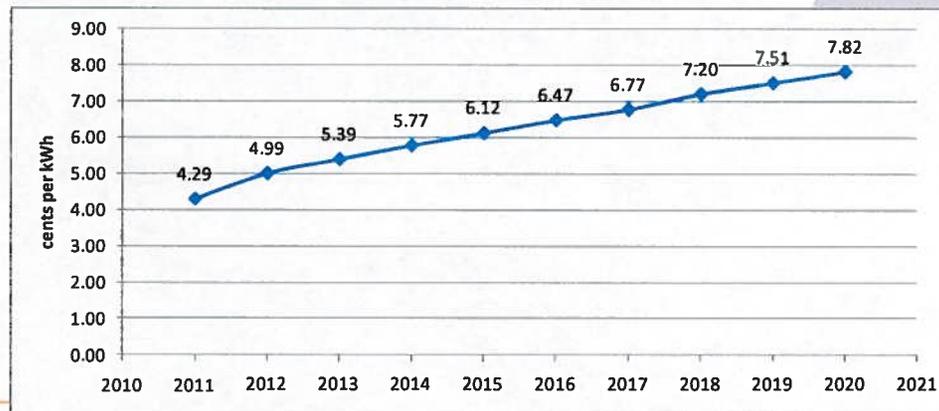
Electric and Gas fee/tax revenues to Boulder

Franchise Fees	\$4,371,150
City Property Taxes	\$220,169
Property Tax to BVSD	\$2,778,644
Sales Tax	\$4,180,397
Use Tax	\$96,736
CAP Tax	\$1,835,391
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Total	\$13,482,487

Additional study required but electric is 80% of total utility revenues and June 8 study only included PILOT for franchise fee only but was based on city's revenue projection (not PSCo)

Operating Costs

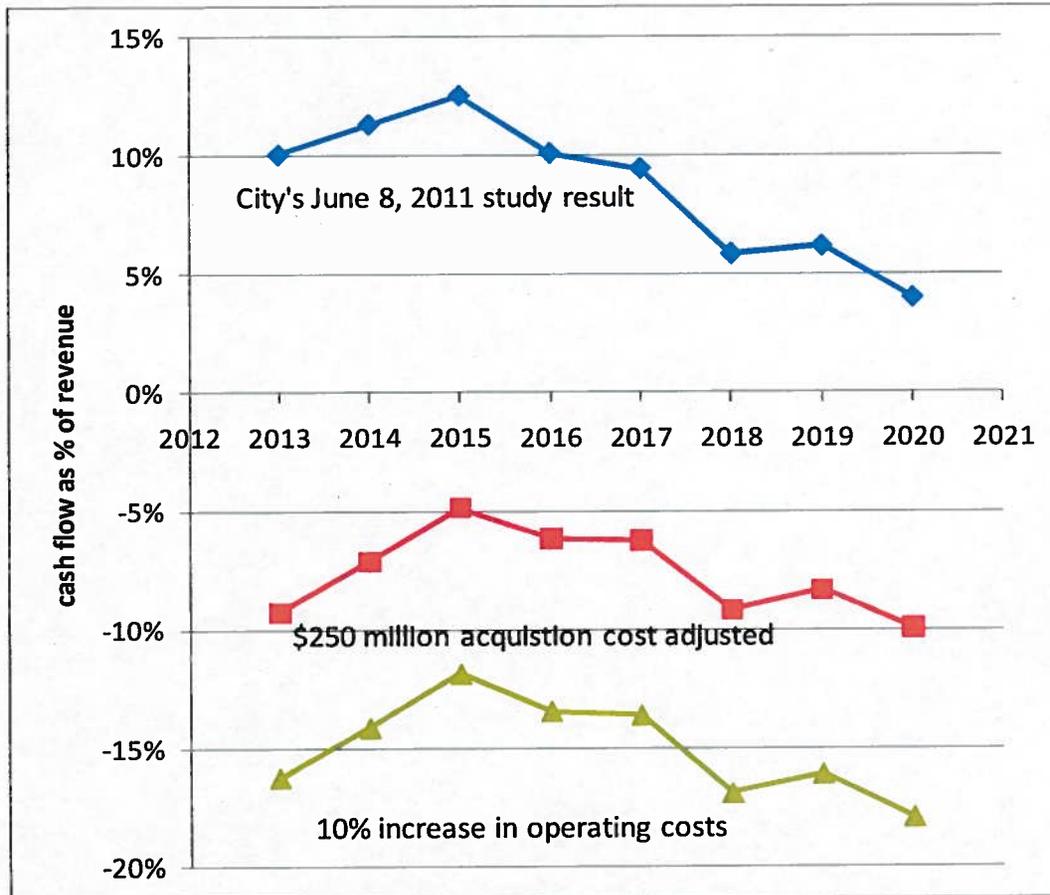
- City assumes least-cost approach (no emission reductions)
- Budget of \$340/customer, many munis are \$400+ , not adequate to replace existing PSCo Solar/DSM programs
- Wholesale cost projections



June 8, 2011 Study Adjustments

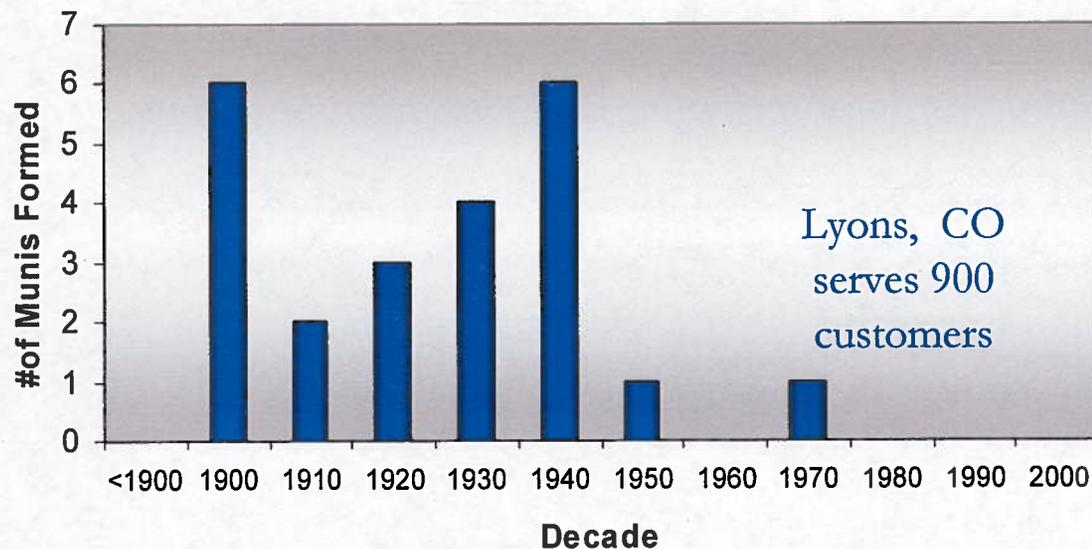
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
City's Net Cash Flow Forecast	\$ 45.4	\$ 39.8	\$ 13.1	\$ 15.4	\$ 18.3	\$ 15.8	\$ 15.3	\$ 9.8	\$ 10.6	\$ 7.2
PILOT Franchise Fee adjustment	(\$1.2)	(\$1.0)	(\$0.2)	(\$0.3)	(\$0.4)	(\$0.3)	(\$0.3)	(\$0.1)	(\$0.2)	(\$0.1)
PILOT other tax adjustment	(\$4.0)	(\$4.0)	(\$4.0)	(\$4.0)	(\$4.0)	(\$4.0)	(\$4.0)	(\$4.0)	(\$4.0)	(\$4.0)
Conventional Bonding Adjustment	(\$21.5)	(\$21.5)	\$3.2	\$3.2	\$3.2	\$3.2	\$3.2	\$3.2	\$3.2	\$3.2
Acquisition Cost \$250 Million Scenario	(\$24.7)	(\$24.7)	(\$24.7)	(\$24.7)	(\$24.7)	(\$24.7)	(\$24.7)	(\$24.7)	(\$24.7)	(\$24.7)
10% increase in wholesale and operating	(\$7.6)	(\$8.7)	(\$9.4)	(\$10.2)	(\$10.9)	(\$11.6)	(\$12.3)	(\$13.2)	(\$13.9)	(\$14.7)
Adjusted Net Cash Flow	(\$13.6)	(\$20.2)	(\$22.0)	(\$20.5)	(\$18.5)	(\$21.6)	(\$22.8)	(\$28.9)	(\$28.9)	(\$33.0)

Study Financial Results



- ▲ Declining financial benefits with time
- ▲ Annual losses of \$33 million in 2020

CO Municipals Formation Date



- ▲ Most existing Colorado municipals formed in early 1900's
- ▲ Mirrors U.S.

Source: APPA

Location	Utility	Date	Result
Counties in WA State	Puget Sound Energy	2009	Skagit and Whidbey Island defeated in public vote, Jefferson County approved in public vote, currently forming utility at cost of over \$100 million, 40% higher than original estimate.
Yolo County, CA	PG&E	2006	Defeated in public vote
Iowa City, IA	Mid American	2005	Defeated 67% -33%
Pueblo, CO	Aquila	2005	Defeated in Council
Belleair, FL	Progress Energy FL	1999-2005	Litigation completed but defeated by public vote, 54%-46%.
Winter Park, FL	Progress Energy FL	1999-2005	Completed, recorded financial losses through 2010
Casselberry, FL	Progress Energy FL	1999-2004	Litigation completed but new franchise with Progress signed
Elk City, OK	AEP	2002	Defeated: 55% - 45%
Wagner, SD	NorthWestern	2002	Defeated: 63% - 37%
Watford City, ND	Montana Dakota Utilities	2001	Referendum failed
San Francisco, CA	PGE	2001	Referendum failed
Wichita, KS	Western Resources	2001	Stopped after rate decrease
Hermiston, OR	Scottish Power/PacifiCorp	2001	Completed
Lakewood, NY	Niagara Mohawk	2000	Stopped after \$14 M stranded cost ruling
Lakewood, WA	Puget Sound Energy	2000	Defeated in Council
Sloan, NY	New York State Electric & Gas	2000	Referendum Failed
Las Cruces, NM	El Paso Electric	2000	Defeated – Negotiated Settlement
Buffalo, NY	Niagara Mohawk	1998	Defeated in Council

▲ Many try, most fail

▲ Recent cases arbitration or voluntary

▲ Last condemnation was Hermiston, OR but ended in voluntary sale

Summary

- Reasonable increase in acquisition cost or operating cost makes results financially negative
- Long process with uncertain outcomes and no clear path to achieving the City's goals