

Utilities Board Meeting Minutes
Wednesday, June 20, 2007
Blue River Board Room
5th Floor, Plaza of the Rockies South Tower
121 S. Tejon

Utilities Board Members Present: Chair Lionel Rivera, Vice Chair Larry Small, Board Members Darryl Glenn, Tom Gallagher, Jerry Heimlicher, Scott Hente, Jan Martin, Randy Purvis, and Margaret Radford.

Staff Members Present: Jerry Forte, Patricia Kelly, John Fredell, Sherri Newell, Edward Easterlin, Susan Presti, Carl Cruz, Jeanne Brown, Dave Padgett, Andy Colosimo, Stella Chan, Monica Whiting, Bill Cherrier, Lisa Rosintoski and Nancy Schneider.

I. Call to Order

The meeting was called to order by Chair Rivera.

II. Minutes

The minutes of the May 16, 2007 Utilities Board meeting were approved.

III. Recognition/Customer Comment

Chief Executive Officer Jerry Forte reported that the President's Council on Service and Civic Participation created the President's Volunteer Service Award in 2003, which honors those Americans who have made serving a central part of their lives. He added that 26 Springs Utilities employees received the award for their volunteer commitment to one or more nonprofit organizations in 2006. He stated that these employees volunteered 100 or more hours in 2006.

Community Relations Manager Susan Presti called forward the employees who received the awards at the 2007 Pikes Peak Regional Volunteer Day Awards Luncheon on May 15, 2007. The employees recognized were Kellie Braun, Jeanne Brown, Scott Campbell, Lynn Dougherty, Kristin Flannery, Daryl Hartnett, John Hessong, Doug Howell, Diane Johnson, Emily Keller, Melissa Kellione, Lou Kelly, Steve Knopp, Kris Kortuem, Kevin Lusk, Cindy Newsome, Daniel Peterson, Susan Presti, David Reinecke, Steven Smith, Robin Spaulding, Denise Sulski, Chase Vendl, Joe Watson, Don Wilaby, and Tony Woodrum. Ms. Presti emphasized that these volunteer hours were above and beyond any time volunteered through any Community Focus Fund projects.

There was no customer comment.

IV. Governance Monitoring Reports

A. Annual Report on Executive Limitation (EL) 6 – Financial Planning/Budgeting

There were no comments or questions.

B. Chief Executive Officer's Communication Executive Limitation (EL) 8 – Communication and Support to the Board

Mr. Forte reported that on May 1, 2007, a national 811 "Call Before You Dig" number was established. He stated that this advancement provides the general public and excavators an easy to remember universal number to call for utility locates before digging. He noted that Springs Utilities has a comprehensive on-going public communication campaign to get the word out. He introduced Field Service Department Manager Carl Cruz, who stated that Springs Utilities locates and marks nearly 300,000 lines every year.

Chair Rivera asked if Springs Utilities had imposed many fines. Mr. Cruz reported that it has imposed about \$150,000 in fines since Colorado Springs City Council approved a Civil Penalties program in 2003.

Mr. Forte introduced Environmental Services Manager Dave Padgett, who reported there had been several calls from customers concerning a wastewater odor. Mr. Padgett stated the odor was not coming from a Springs Utilities facility, but was coming from a Cherokee Metropolitan Water District facility. He stated that the District was working on diffusers and an algae problem and they were hopeful that it would soon be resolved.

Chair Rivera asked if there had been any exceedences or fines imposed to the District. Mr. Padgett responded there probably were not. Chair Rivera asked if Springs Utilities had any calls from neighbors to the south. He stated that if they did, they should inform them as well. Mr. Padgett stated he did not believe the problem would be noticed that far south.

Board Member Radford asked how many customers Cherokee served, and Mr. Padgett stated it was about 17,000.

Mr. Forte reminded Board members of the VIP dedication of the J.D. Phillips reclamation facility on July 13. He reported that the City Council is also scheduled to meet with the Pueblo City Council and various county commissioners on July 20, and as a result he recommended postponement of the governance workshop that had been scheduled for that date. Chair Rivera agreed.

V. Discussion/Action Items

A. 2008 Strategic Planning Process Executive Limitation (EL) 6 – Financial Planning/Budgeting

Jerry Forte began the presentation by reviewing the planning process, mission, vision, strategic destination, and values.

Strategic Planning and Deployment Manager Jeanne Brown presented the approach for the 2008-2012 strategic business planning process. She reported that a core team has been formed that will review strategic objectives, initiatives, measures and targets, and incorporate results. The core team will then share results with the Utilities Board on September 19.

Ms. Brown stated that deployment and monitoring will include monthly internal performance reviews, Utilities Board governance monitoring reports, bi-annual internal performance reviews, and quarterly individual performance reviews.

Board Member Martin asked who was on the core team, and Ms. Brown stated it consisted of about twelve senior managers who make up a broad and comprehensive representation of the entire organization.

B. 2008 Financial Planning/Budget Presentation Executive Limitation (EL) 6 – Financial Planning/Budgeting

Jerry Forte reviewed the converging challenges Springs Utilities faces at this time; including the escalating cost of business, renewable energy mandates, transmission constraints, aging infrastructure, and access to water.

Chief Financial Officer Edward Easterlin then reviewed the 2008 sales forecast and financial planning information including 2008 sales forecast assumptions, operating revenue comparison, contributions-in-aid revenue comparison, fuel operations and maintenance (O&M) expenses, non-fuel O&M expenses, capital expenditures, fixed cost coverage, days of working capital, customer bill projections, and 2008 rate drivers.

Chair Rivera asked for a ballpark figure on how much it costs a new home for tap fees for water and wastewater, and Mr. Easterlin reported it would be about \$7500 for water and \$1500 for wastewater.

Mr. Forte concluded by stating that converging challenges identified last year continue to apply financial pressure to the organization. Additional challenges are adding to the pressures, such as slower population and sales growth and escalating costs of doing business.

Mr. Forte reported that in preparation for the budget, the action plan includes non-fuel O&M targeted reductions in response to reduced revenues, with a \$5 million reduction in administrative and general, \$2 million reduction in electric, \$1.5 million in wastewater.

He noted that these targets represent the best case scenario. He stated that at the same time Springs Utilities will continue the Labor Optimization initiative, which included the reduction of 43 positions in 2007, with approximately 40 positions reduced per year between 2008 and 2011; continue the Capital Optimization initiative, and a natural gas prepayment program.

Mr. Forte stated that next steps would include submission of a preliminary budget to the City Auditor with rate filings on September 7; budget filing to Utilities Board on October 5; rate filings to City Council on October 9, rate hearing, budget first reading and final Annual Operating Plan presentation to Utilities Board on October 17; rate hearing and budget first reading to City Council and Final Operating Plan presentation to Utilities Board on November 13; and budget second reading and approval to City Council and Council decision on 2008 rates on November 27.

Board Member Hente expressed concern that Springs Utilities has encouraged conservation; and if the rates are raised, there will be a problem in perception with ratepayers and the reasons will need to be explained very carefully. Chair Rivera stated that we need to be sure to explain that what is driving the increase is in the increase in wastewater rates.

Board Member Gallagher asked why the additional capacity purchases needed are not shown in the presentation. Mr. Easterlin reported that for planning purposes the numbers are there; but until the organization knows the additional capacity needs they are handling the additional needs through purchased power and trying to be more efficient and effective with the resources we have.

Chair Rivera stated that he wanted to make sure that the impact that climate change legislation could have on our customers is made clear to the public. Mr. Forte noted that depending on how legislation is enacted, it could seriously erode Springs Utilities' competitive advantage, and could result in a huge amount of rate pressure in electric service.

A break was taken from 2:30 p.m. to 2:45 p.m.

C. Legislative Update
Executive Limitation (EL) 8 – Communication and Support to the Board

Government Affairs Manager Andy Colosimo gave an update on current legislative issues. He reported that the last date for the governor to act on legislation was June 4. He reported that Springs Utilities tracked 68 total bills this session, and that climate change issues are of most concern going into the future. He reported Springs Utilities' staff met with the Governor's climate officer on May 24.

He stated that next year one or more climate change bills are expected, and the Governor's staff is accessible and interested in working with Springs Utilities and others on new legislation. He reported there is a lot going on in the area of renewable energy and climate change at the federal level, and Springs Utilities' staff will be aggressively working on legislation as these issues come forward.

**D. Residential Wastewater Rate Methodology
Executive Limitation (EL) 12 – Pricing of Products and Services**

Mr. Forte reported that Springs Utilities is recommending a change in the residential wastewater rate methodology. He noted that this is essentially a revenue neutral change, but it would be a more effective way to price wastewater charges, and is also best management practice. Pricing Manager Stella Chan outlined the current methodology, as well as the changes being considered for determining residential wastewater rates. She explained that this change was being proposed because it results in more equitable cost recovery for customers, and because this would more closely link the sales forecast to actual volumes treated. She stated this would also help customers understand the logic used in calculating their rates.

Ms. Chan stated the next steps would be to communicate the changes during the July and August time frame, and also communicate with customers in December to remind them that the new methodology will be effective January 2008. She reported that Springs Utilities' recommendation is to revise residential customer rate methodology; assess billing system capability; modify rate methodology based on assessment results; and to implement the desired methodology pending a billing system assessment, as follows:

- wastewater billing units equal to water consumption for the winter period of November through March
- wastewater billing units for the summer period of April through October equal to the average of winter period or actual water consumption, whichever is less
- There would be some exceptions and adjustments required for customers without a history of the full 5-month winter volumes necessary to calculate the summer period average.

Board Member Purvis asked her to describe impacts to those customers who reside here in the summer months and live somewhere else in the winter. Ms. Chan reported there will be exceptions they need to think through before they put this into the system. In response to a question from Board Member Purvis regarding the slides that were presented, Ms. Chan noted that the differences shown reflected an average residential bill, not a typical bill; and the end result would still be revenue neutral.

Board Member Martin stated that she thought one of the real positives of this is that the customer will have some control over their bill that did not exist before. Board Member Small stated he sees it as another incentive to conserve water, so it is a double benefit; and he likes it.

Chair Rivera reported that as he doesn't see any objections, Springs Utilities could go forward with this on the rate case.

**E. Value Added Products and Services Executive Limitation Modifications
Board-CEO Linkage (BL) 5 – Monitoring CEO Performance**

Mr. Forte stated that Springs Utilities was at this time presenting some cleanup relating to a decision that was made by the Utilities Board to eliminate some of our value added products and services. Customer Service Department Manager Monica Whiting reviewed each of the modifications Springs Utilities was proposing to the Executive Limitations (EL's) as a result. These changes included changes to EL 7 - Financial Condition and Activities; EL 9 – Treatment of Consumers; EL 12 – Pricing of Products and Services; and EL 14 – Community Investment. She stated that the purpose of these changes would be to align with business operations by exiting value-added products and services, the elimination of non-regulated accounting, and to focus on core business, and the 5-year Operating Plan does not include development of value-added products & services

She stated that Springs Utilities' staff recommended the Utilities Board accept the changes as proposed.

Chair Rivera noted that in some cases what used to be called value added are now part of regulated services, such as pole attachments. Vice Chair Small asked if some of the principles in EL 14 recommended for elimination were contained elsewhere in the policies. Ms. Whiting stated that they would be retained in EL 12; prohibitions 6, 7 and 8.

Board Member Gallagher asked how the partnership with Front Range would be regulated in view of these changes, stating he felt it would make them "murky". Mr. Forte stated that Springs Utilities' staff felt it would do the opposite; that those are still revenues that come into electric, and would be more closely aligned with core business. General Manager of Financial Services Bill Cherrier explained that Front Range Power earnings are regulated and our earnings received do come back as a benefit to our customers.

Board Member Hente made a motion to accept the recommended changes. Vice Chair Small seconded the motion and it passed with a unanimous voice vote.

VI. General Board Discussion

Board Member Gallagher reported that he heard from a customer who doesn't like other people having her social security number, as she feels it is protected personal information. He asked if there were a way a customer could contract services and not provide that information. Chief Customer Officer Kelly Means there is an alternative if the customer doesn't want to give her social security number. He also noted that with the new system there will soon be more alternatives available to customers.

VII. Executive Session

Upon discussion of the Board, the Utilities Board meeting was adjourned and the Executive Session was convened at 3:40 pm. City Attorney Pat Kelly read the language in the agenda describing the proposed Executive Session. Chair Rivera polled the Board Members. All answered aye, and the consent for holding an Executive Session was unanimous.

VIII. Adjournment

The meeting was adjourned at 5:35 p.m.