

Utilities Board Meeting Minutes
Wednesday, June 18, 2008
Blue River Board Room
5th Floor, Plaza of the Rockies South Tower
121 S. Tejon

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

Staff Members Present: Jerry Forte, Ken Burgess, Sherri Newell, Tom Black, Edward Easterlin, Bruce McCormick, Dawn Roth, Jeff Ripple, Jim Rosintoski, Brian Leach, Andrew Colosimo, Bill Cherrier, Joe Holmes, Lisa Rosintoski, and Nancy Schneider.

I. Call to Order as Utilities Board

The Utilities Board meeting was called to order by Chair Rivera.

II. Minutes

The minutes of the May 21, 2008 Utilities Board meeting were approved.

III. Recognition/Customer Comment Period

A. American Heart Association Gold Recognition and Workplace Innovation Award

Chair Rivera reported that Colorado Springs Utilities was recently selected to receive the 2008 American Heart Association Gold level Fit Friendly company award as well as the 2008 Workplace Fitness Innovation Award.

Chief Executive Officer Jerry Forte introduced American Heart Association Heart Walk Director Kim Miller and Colorado Springs Utilities Human Resources General Manager Sandi Yukman. Ms. Miller stated that the American Heart Association began these programs in an attempt to reduce inactivity in the culture of America today. She reported that Colorado Springs Utilities is the second company in Colorado to receive the gold level recognition and the first to receive the Workplace Fitness Innovation award in Colorado Springs.

Ms. Yukman called forward Karin Hollohan, Tamara Kirk, Brenda Light, Madelyn Witt, and Patricia McLaughlin to be recognized for their participation in the oversight, administration, and operations of the Colorado Springs Utilities wellness program.

B. 16th African American Youth Leadership Conference

Chair Rivera reported that Colorado Springs Utilities and the DELTA Team received a plaque of appreciation for outstanding partnership in the 16th Annual African American Youth Leadership Conference that took place at Colorado College.

Mr. Forte introduced DELTA Team Co-Chair Nick Verdi and asked him to come forward, along with other DELTA Team members who were present, to be recognized. Mr. Verdi introduced Queen Brown, President of Queen Brown and Associates. Ms. Brown reported that the conference was about empowering and educating youth in the community, who learn about social responsibility and future commitments. She thanked Colorado Springs Utilities and the DELTA team for their participation in the event.

Customer Comment:

There were no customer comments.

IV. Governance Monitoring Reports

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

General Manager of Information Technology Dawn Roth introduced Tech Support Lead Jeff Ripple, who was the project manager on the Print Strategy Implementation Project that was completed on April 9, 2008. Ms. Roth stated the printer fleet was reduced by more than 300 devices and the annual hard cost savings total was \$221, 541. She reported the carbon dioxide footprint was reduced by 88,150 pounds per year.

Board Member Heimlicher asked Colorado Springs Utilities' staff to communicate with the City of Colorado Springs and Memorial Hospital and share information about this project with them, in the hopes that a similar project could reduce costs for them as well. Chair Rivera stated that he would report on this project and substantial savings at the upcoming Conference of Mayors.

Electric Planning Managing Engineer Jim Rosintoski reported on the Santa Fe substation that is serving the downtown area. He reported that a new substation was energized at the corner of Santa Fe and Royer Street; this substation will serve electric load in the downtown area for many years.

Lead Environmental Scientist Bryan Leach reported on a current project Springs Utilities is working on with ACME Brick Company to use Drake's bottom ash in the brick making process, as well as partnering with Separation Technologies to beneficiate fly ash for use in the road mix industry.

Government Affairs Manager Andrew Colosimo reported on the Climate Security Act that will serve as the starting point for next year's climate debate. He reported that this bill would have tremendous financial impacts but would achieve negligible environmental benefits.

Financial Services General Manager Bill Cherrier gave an update on Springs Utilities' gas pre-payment program. He stated that this program has resulted in a significant economic opportunity for Springs Utilities' customers.

Board Member Radford left at 2:00 p.m.

V. Discussion/Action Items

A. Utilities Policy Advisory Committee Executive Limitation (EL) 5 – Compensation and Benefits Assignment Governance Process (GP) –8 – Board Committee Structure

Utilities Policy Advisory Committee (UPAC) Chair Kathleen Hatten gave a presentation on the Executive Limitation (EL) 5 – Compensation and Benefits Assignment given to UPAC by the Utilities Board. She reported that after studying the issue, UPAC's recommendations to the Utilities Board are the following:

Changes in the EL 5 language (in italics):

With respect to employment, compensation, and benefits to employees, consultants, contract workers and volunteers, the Chief Executive Officer shall not cause or allow jeopardy to fiscal integrity or public image. Accordingly, the CEO shall not:

Administer compensation and benefits that fail to address individual accountability, motivate and reward for knowledge and skills, *attract and retain quality employees*, encourage organization flexibility and responsiveness, or are inconsistent with the geographic, *organizational size and appropriate* professional markets for the skills employed.

2009 Proposed Pay for Performance Program Modifications:

Phase I

- Change pay mechanics:
 - Revise rating thresholds/ performance rating scale
 - Establish performance review guidelines for rating distributions
 - Change program name to "Incentive Pay"

Proposed Program Strategies:

Phase 2 – 2010 Implementation

- Maintain an incentive program
- Comprehensive incentive program review
- Explore targeted incentive programs

Ms. Hatten noted that UPAC's conclusions were that the Pay for Performance Program drives organizational alignment; from a private sector perspective the metrics are well thought out; that Colorado Springs Utilities shouldn't go too fast in redesigning the program, as it is recognized by peers as best in class; that the program is structurally sound, and it rewards individual performance and increases accountability.

Chair Rivera and Board Members Heimlicher, Glenn, Martin, Purvis, and Gallagher all agreed that they wished to see more information on specific ratings to include definition of each of the five ratings, percentage of employees who are in each rating, comparisons with other employee groups (particularly public utilities), and the distribution of payouts. Board Member Heimlicher also asked that they be provided with the scope of what UPAC did examine as part of this assignment.

Chair Rivera directed UPAC and Colorado Springs Utilities to bring the EL language changes to the Utilities Board for a decision. The information requested by Board members is to be provided and discussed at that time as well.

A break was taken from 3:05 p.m. to 3:20 p.m.

B. Energy Outlook
Executive Limitation (EL) 13 – Infrastructure

Chief Energy Services Officer Tom Black and Lead Energy Trader Joe Holmes gave a presentation titled "Energy Outlook." Mr. Black opened the presentation by stating they would review Springs Utilities' energy programs including commodities, coal contracts and market, electric (purchased power) market, natural gas, and the projected impacts of each of these areas. Mr. Holmes reviewed several programs at Springs Utilities that could help mitigate the high cost of energy. Mr. Black reported in summary that global energy demand is driving market prices; commodity prices have increased by double and triple digits; the cost of electricity is expected to double over the next eight years; costs associated with climate change will drive prices even higher; and renewable energy costs are increasing. He noted that additional demand and supply options are being considered through the Springs Utilities' EIRP process.

Chair Rivera left at 3:41 p.m. Board Member Purvis chaired the remainder of the meeting.

C. Budget Adjustments
Executive Limitation (EL) 6 – Infrastructure

Board Member Glenn stated that he needed to leave the meeting, but he wanted to communicate that he will want to see information on corporate memberships and will also want to consider a potential freeze for pay for performance for 2008.

Darryl Glenn left at 4:00 p.m.

Mr. Forte, Mr. Black, Chief Planning and Finance Officer Edward Easterlin and Chief Water Services Officer Bruce McCormick gave a presentation on budget adjustments Springs Utilities will be undertaking as a result of revenue shortfalls due to a weak national economy, reduction in local building activity, reduction in growth rate, and lower water usage. Mr. Forte reviewed the utility regulatory structure, the enhanced benefits of being a public utility, the vision and mission of Springs Utilities, the 2008 strategic landscape, the current status of residential building permits, and Springs Utilities' current financial status. He reported that today's presentation was to review changes that need to be made right now for 2008.

Mr. Easterlin reviewed local economic data including single family building permits, as well as 2008 challenges to financial stability. He reported that Springs Utilities' revised estimate of the revenue shortfall is \$44.6 million, rather than the \$48.1 million as reported in May. He reviewed a summary of 2008 enterprise budget reductions and then turned the presentation over to Mr. Black and Mr. McCormick, who reviewed reductions by energy and water services respectively.

Mr. Forte concluded the presentation by thanking the many employees who worked very hard to come up with solutions to the revenue shortfall. He stated there could be a modest recovery in late 2009, but noted that there will likely be an increased cost pressure on rates, the rate of inflation will increase and the rate of growth in sales will be reduced.

Mr. Forte reported that Springs Utilities would be taking the following steps going forward:

- Maintain financial stability:
 - Implement 2008 cost reductions
 - File 2008 Water Rate Case
- Implement revised Planning and Rate Case processes
 - Economic and financial conditions monitored monthly
- Additional cost mitigation needed in 2009-2010
 - Labor and Capital Optimization initiatives continue to provide proactive cost flexibility
- Present EL 6 report for 2009-2013
 - July 16
- 2009 Budget Presentation
 - November 19

Board Member Gallagher reported that he questions Springs Utilities' intention to cancel the 2008 water tour. Board Member Heimlicher stated he thought Springs Utilities could go without the water tour for one year.

VI. General Discussion

There was no general discussion.

VII. Adjournment

The meeting was adjourned at 5:06 p.m.