

Commission Members Present: Dan Herlihey, Dave Kavanagh, David Schneider (Vice Chair), Gary Hausman, Gene Packer (Chairman), Larry Roos, Jennifer Gramling, Randy Williams

City Staff Members: Alicia Calderón, Allison Bohling, Alan Krcmarik, Christine Schraeder, Garth Silvernale, Gretchen Stanford, Jim Lees, John Beckstrom, Kim Frick, Kim O'Field, Larry Howard, Michelle Stalker, Roger Berg, Tracey Hewson

Guest Attendance: Mark Beauchamp via video conference

CALL TO ORDER: Gene Packer called the meeting to order at 4:03 pm.

APPROVAL OF MINUTES: Gene asked for a motion to approve the minutes of the July 27, 2016 meeting.

Motion: Dan Herlihey made the motion to approve the minutes of the July 27, 2016 meeting.

Second: Dave Schneider seconded the motion. The minutes were approved unanimously.

NEW EMPLOYEE INTRODUCTION – Travis Johnson

REGULAR AGENDA

Item 1: Target Minimum Cash Reserve and Self-Generating Rate Design – Jim Lees The purpose of this item is to get a recommendation from the Loveland Utilities Commission on a proposed new methodology for calculating a minimum target cash reserve for the Power Utility and get a recommendation on a proposed 2017 rate design for Residential Self-Generating customers.

Original Proposed Recommendation: Make a recommendation to City Council to approve the proposed change to the methodology for calculating the Minimum Target Cash Reserve, change the proposed rate increases in 2019 and 2020 from 3.0% per year to 4.0% per year and to approve the proposed rate design for 2017 Residential Self-Generating customers.

New Recommendation: Adopt a motion to support the recommendation made at the July, 27, 2016 LUC meeting. Which was to adopt a rate increase of 6.5% for 2017 to City Council.

Motion: Randy Williams made the motion.

Second: Dave Kavanagh seconded the motion.

Larry Roos, Gene Packer, Jennifer Grambling, Dan Herlihey ~~abstained from the motion~~ voted against this motion. Due to the tie-vote. This motion did not pass and a new recommendation was made.

New Recommendation: Adopt a motion to rescind the recommendation made at the July 27, 2016 LUC meeting to recommend a 6.5% rate increase for 2017 and make a new recommendation of a 5.7% rate increase for 2017 to City Council.

Motion: Gary Hausman made the motion.

Second: Larry Roos seconded the motion. The motion was approved unanimously

New Recommendation: Make a recommendation to City Council adopt the 2017 proposed cash reserve policy that was made by staff and Utility Financial Solutions.

(Please see the four-component approach by staff and Utility Financial Solutions below on how to determine the cash reserves for the electric utility.)

1) A Percentage of Operating and Maintenance (O&M) Expenses Excluding

Depreciation and Purchased Power Expense: This typically varies between 30 days' worth of O&M expenses and 90 days' worth, depending on how frequently utility bills are generated. Since Loveland bills monthly, the percentage to apply here would be 30 days/365 days, or 8.2%.

2) A Percentage of the Value of Assets: This typically ranges from 1% - 3%, depending on the ages of the utility's system. Since Loveland's system is considered relatively new (< 50% depreciated), the percentage applied to the asset value is 1%.**3) A Percentage of Operating and Maintenance (O&M) Expenses Excluding Depreciation and Purchased Power Expense:** This typically varies between 30 days' worth of O&M expenses and 90 days' worth, depending on how frequently utility bills are generated. Since Loveland bills monthly, the percentage to apply here would be 30 days/365 days, or 8.2%.**4) A Percentage of the Value of Assets:** This typically ranges from 1% - 3%, depending on the ages of the utility's system. Since Loveland's system is considered relatively new (< 50% depreciated), the percentage applied to the asset value is 1%.**1) A Percentage of Operating and Maintenance (O&M) Expenses Excluding**

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2) A Percentage of the Value of Assets: This typically ranges from 1% - 3%, depending on the ages of the utility's system. Since Loveland's system is considered relatively new (< 50% depreciated), the percentage applied to the asset value is 1%.**3) A Percentage of the Total of the Five-Year Capital Plan for Rehabilitation Capital Projects (excludes growth-related projects):** This typically is set to 20% of the five-year total of the CIP excluding growth-related projects. But, since Loveland has a second fund balance within the Power Utility (the Plant Investment Fee Fund Balance, for growth-related projects), Utility Finance Solutions is comfortable with setting this percentage at 10%.**4) A Percentage of Annual Purchased Power Expense:** This percentage is set to cover one month's worth of purchased power expense, and the month that is used is the highest monthly bill for the year. For Loveland, that month is July, and the July bill makes up 10.5% of the total annual purchased power expense.

Motion: Larry Roos made the motion.

Second: Dave Schneider seconded the motion. The motion was approved unanimously.

New Recommendation: Adopt a motion to rescind the recommendation made at the July 27, 2016 LUC meeting and approve the new recommended projected rate increase as presented on slide 14 of Utility Financial Solutions' presentation. (Page 14 of the presentation is shown below.)

3) A Percentage of Operating and Maintenance (O&M) Expenses Excluding

Depreciation and Purchased Power Expense: This typically varies between 30 days' worth of O&M expenses and 90 days' worth, depending on how frequently utility bills are generated. Since Loveland bills monthly, the percentage to apply here would be 30 days/365 days, or 8.2%.

4) A Percentage of the Value of Assets: This typically ranges from 1% – 3%, depending on the ages of the utility's system. Since Loveland's system is considered relatively new (< 50% depreciated), the percentage applied to the asset value is 1%.**5) A Percentage of the Total of the Five-Year Capital Plan for Rehabilitation Capital**

Projects (excludes growth-related projects): This typically is set to 20% of the five-year total of the CIP excluding growth-related projects. But, since Loveland has a second fund balance within the Power Utility (the Plant Investment Fee Fund Balance, for growth-related projects), Utility Finance Solutions is comfortable with setting this percentage at 10%.

Projection Summary (with Optional rate track)

Fiscal Year	Projected Rate Adjustments	Projected Revenues	Projected Expenses	Adjusted Operating Income ^[1]	Projected Cash Balances	Capital Improvements (less PIF)
2017	5.70%	\$ 64,233,811	\$ 62,485,106	\$ 2,365,041	\$ 9,735,148	\$ 11,004,350
2018	5.00%	68,276,725	65,697,011	3,196,051	10,258,334	8,151,060
2019	4.00%	72,075,555	69,081,505	3,610,386	11,267,591	8,746,600
2020	4.00%	76,130,186	72,311,797	4,434,725	12,333,872	10,045,519
2021	3.00%	79,750,483	73,985,654	6,381,164	17,485,051	8,527,695
Recommended Target in 2017				\$ 4,741,881		
Recommended Target in 2021				\$ 5,288,842		
Recommended MINIMUM Target in 2017					\$ 12,536,352	
Recommended MINIMUM Target in 2021					\$ 13,585,111	



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2018	5.00%	68,276,725	65,697,011	3,196,051	10,258,334	8,151,060
2019	4.00%	72,075,555	69,081,505	3,610,386	11,267,591	8,746,600
2020	4.00%	76,130,186	72,311,797	4,434,725	12,333,872	10,045,519
2021	3.00%	79,750,483	73,985,654	6,381,164	17,485,051	8,527,695
Recommended Target in 2017				\$ 4,741,881		
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Recommended MINIMUM Target in 2017					\$ 12,536,352	
Recommended MINIMUM Target in 2021					\$ 13,585,111	



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Motion: Dave Schneider made the motion.

Second: Gary Hausman seconded the motion. The motion was approved unanimously.

New Recommendation: Adopt a motion to approve the proposed rate design for 2017 Residential Self-Generating customers.

Motion: Dave Schneider made the motion.

Second: Gary Hausman seconded the motion. The motion was approved unanimously.

Comments: Roos enquired if the projection summary minimum target values include Plant Investment Fees (PIF) values. Lees stated that they do not include the PIFs.

Lees provided an update to the board that as of Friday, July 12, 2016, Platte River Power Authority changed their electric wholesale rate from 4% to 3%. Roos asked why they are pushing out the cost. Gretchen Stanford stated that this is for new headquarters as well as to help with funding for the Windy Gap Firming Project.

Packer asked what our previous amount of cash reserve was. Lees stated that it was about 56 days or 15%, the increase proposed is about 22% or 80 days of operating reserves. The change from 15% of operating expenses to 22% would increase the minimum cash reserves by \$3.2 million - \$3.7 million.

Schneider asked about how the new amended proposed rate track would move LWP closer to true cost of service. Beauchamp stated that LWP is moving closer to true cost of service while minimizing impacts for our customers. Beauchamp also stated that because true cost of service rates change frequently, it is difficult to offer customers true cost of service, but LWP is very close to offering these

rates. Staff and board reviewed the pros and cons of the 5.7% increase versus the 6.5% including sensitivity and risk factors. Alicia Calderón mentioned that LWP has already passed the 6.5% increase and would need to amend LUC's original proposal.

Bauchamp asked for the board's thoughts on the proposed changes to the self-generation rate. Roos asked what our average residential customer produces in kilowatts (kW). Staff stated it is about 3.7 kW. Christine Schraeder reviewed the DC capacity of the solar units being installed by residents. Schneider expressed his opinions about self-generation. Roos asked how the generation rates are calculated, Bauchamp reviewed the formula and data taken into consideration.

Gretchen Stanford stated that net-metering has come a long way. LWP needs to revamp net-metering contracts and become more transparent to our customers and be able to compare current rates. Board and staff want customers to figure out what is right for them. Board and staff continued to discuss this topic and current communication challenges with our current customers.

Williams and Schneider mentioned they would like to see the previous recommendation of an increase of 6.5% stay so LWP can use the extra funding to increase our cash reserves. Kavanagh asked for clarification on slide four. Lees stated that the cost of service is based on 2017 projections. Kavanagh asked how that compares to the monthly electric financial statement. Lees reviewed the difference between the two values.

Item 2: Acceptance of 0.85 Shares of the Louden Ditch to Water Bank – Greg Dewey and Kim Frick

Request to deposit 0.85 shares of Louden Irrigating Canal and Reservoir into the City's Water Bank

Recommendation: Adopt a motion finding that the requirements set forth in City Code Section 19.04.080 have been met, and that acceptance of the Louden Irrigating Canal and Reservoir shares into the City of Loveland Water Bank is in the City's best interest and should be completed.

Motion: Randy Williams made the motion.

Second: Gary Hausman seconded the motion. The motion was approved unanimously.

Comments: Schneider asked when LWP would go to Water Court again. Larry Howard mentioned they would like to go in the next year or two. Frick mentioned the documents that have been reviewed. Staff reviewed who brought forth the share.

Item 3: Acceptance of 1 Share of the Louden Ditch to Water Bank – Greg Dewey and Kim Frick Request to deposit 1 share of Louden Irrigating Canal and Reservoir into the City's Water Bank.

Recommendation: Adopt a motion finding that the requirements set forth in City Code Section 19.04.080 have been met, and that acceptance of the Louden Irrigating Canal and Reservoir shares into the City of Loveland Water Bank is in the City's best interest and should be completed.

Comments: This item was tabled until the September 21, 2016 meeting.

STAFF REPORTS

Item 4: Terminal Raw Water Storage Discussion – Larry Howard The City can benefit from having downstream raw water storage to capture reusable effluents from the Wastewater Treatment Plant. This water may then be used to exchange upstream so it may be used in the Water Treatment Plant or to meet return flow obligations under the terms and conditions of the City's decrees.

Staff Report only. No action required.

Comments: Howard reviewed the clean-up process that took place at this location after the flood and that it is located about 1,000 feet below the Wastewater Treatment Plant. Schneider expressed his support. Howard reviewed the flexibility this option would provide LWP in the future.

Herlihey asked if this reservoir was identified in the reservoir study that was completed a few years back. Howard stated that no it was not; it was too small. Roos asked how expensive this project may be to complete. Howard reviewed the possible contributing factors in cost and estimated the project to cost about \$8 million and informed the board that it would come from the Raw Water Fund. Lees defined what the Raw Water Fund is.

COMMISSION/COUNCIL REPORTS

Item 5: Commission/Council Reports

- Agenda Meeting Ideas for Fort Collins Joint Meeting & Next Steps – Gene Packer
- Alternate Member Discussion – Gene Packer

Packer asked for feedback from the board about possibly bringing on another alternate board member. Schneider mentioned that if there is a qualified candidate he is open to the idea. Stanford mentioned that if we have two qualified candidates we can bring one on as an alternate member, if the board votes in agreement. Kavanagh reviewed his positive feedback on his experience as an alternate board member.

The board passed around a handout from Roos regarding his thoughts on possible meeting topics for the joint meeting with the Fort Collins Energy Board. Stanford mentioned that she recommend a conference call for those staff and board members involved to flesh out the details and the goals of the meeting. Schneider expressed his opinions on the goals that would be relevant to include in the discussion in the meeting.

Kavanagh asked if Fort Collins staff would attend the joint meeting. Stanford mentioned the goal was more for the boards to get together. Schneider mentioned it may be a good idea at some point to include the other surrounding cities in the future.

Hausman mentioned that it may be a good idea to have a meeting with all our partners in the future, something similar to what we do with the Tri-City Meeting. Packer asked the board for more feedback and he will bring that to the discussion to the meeting with our counterparts in Fort Collins. Stanford mentioned that it may be beneficial for LWP to make a list of what staff is currently partnering with Fort Collins on. Board and staff agreed to hold the regular LUC meeting if need be in addition to the joint meeting with Fort Collins.

Dan Herlihey: Nothing to report

Dave Kavanagh: Asked where public information can be found about broadband initiative. Stanford stated LWP is working to get this information available online as soon as possible.

Dave Schneider: Nothing to report

Gene Packer: Provided an update on John Rust's health condition. Roos summarized his recent discussions with Rust. Packer summarized his recent visit with Chris Watkins at the Fort Collins-Loveland Water District. Board and staff briefly discussed the history of the Fort Collins-Loveland Water District.

Gary Hausman: Nothing to report

Jennifer Gramling: Nothing to report

Larry Roos: Nothing to report

Randy Williams: Nothing to report

Council Report: On Councilor Troy Krenning's behalf, Gretchen Stanford provided an update on City Council items related to the Water and Power Department which have been seen by the City Council during their normal meetings scheduled since the last LUC meeting.

LOVELAND UTILITIES COMMISSION

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Windy Gap Firming Project Water Storage – a resolution to negotiate up to additional 3,000 AF of storage space. Administrative action item.

Howard provided a verbal update on potential next steps for LWP's participation in the Windy Gap Firming Project.

City Council Study Session – August 9, 2016

Nothing of interest to W&P.

City Council Regular Meeting – August 16, 2016

Approval of the Downtown Development Authority (DDA) Election & Ballot question.

DIRECTOR'S REPORT

Item 6: Director's Report – Gretchen Stanford

Comments: Stanford provide a verbal update on the recent staffing changes. Schneider expressed his thoughts on the recent changes. Howard reviewed the recent openings on Northern Water's board of directors.

INFORMATION ITEMS

Item 7: Financial Report Update – Jim Lees This item summarizes the monthly and year-to-date preliminary financials for July 2016.

Staff Report only. No action required.

ADJOURN The meeting was adjourned at 6:30 pm. The next LUC Meeting will be September 21, 2016 at 4:00 pm.

Respectfully submitted,
Allison Bohling
Recording Secretary
Loveland Utilities Commission