

RESOLUTION NO. 2020-03

A RESOLUTION REGARDING TRANSITION TO A COMMUNITY OWNED ELECTRIC UTILITY

WHEREAS, the Pueblo City Council in November 2017 initiated the process to evaluate whether the City could successfully provide electric utility service and in August 2018 engaged a consultant to evaluate legal, technical and financial requirements necessary for the City to assume control of the electric utility services provided by Black Hills/Colorado Electric Utility Company, LP ("Black Hills"), with the consultant's evaluation resulting in a Phase 1 Municipal Electric Utility Feasibility Study ("Phase 1 Study") and a Phase 2 Municipal Electric Utility Feasibility Study ("Phase 2 Study"); and

WHEREAS, the Phase 2 Study points out that a community owned electric utility can provide current City electric customers with significant savings in the range of 10-14% and includes the benefit of local control over power supply resource type, rates, local programs and key decision making; and

WHEREAS, pursuant to the Phase 2 Study, a conservative estimate for the total cost to acquire all Black Hills' distribution system statewide (334 million dollars), separation and stranded costs (446 million dollars) and other costs for legal, start-up, and working capital (88 million dollars) is 868 million dollars; and

WHEREAS, under current rates Black Hills generates between 250 and 260 million dollars in gross revenue. The Phase 2 Study estimates operating expenses for the System to be 157 million dollars (including payments to governments in lieu of taxes) providing net revenues of between 93 million and 103 million dollars available to service debt and make annual system improvements of 30 million dollars. This level of net revenues provides sufficient capacity to cover revenue bonds of 900 million to 1 billion dollars; and

WHEREAS, the Phase 2 Study indicates that the transition to a community owned electric works is financially feasible, with significant rate savings over a 20-year period; and

WHEREAS, the Board of Water Works of Pueblo, Colorado ("Pueblo Water") has made significant effort to validate the findings of the Phase 2 Study; and

WHEREAS, the City has considered the information contained in the Phase 1 and Phase 2 Studies, conducted public hearings, and decided to submit Ballot Question 2A to the City voters on May 5, 2020, in order to terminate the existing electric works franchise and initiate the process of establishing a water and power works operated by Pueblo Water; and

WHEREAS, under Ballot Question 2A, Pueblo Water, in operating the water and power works, will retain its independence with its governing board who were elected by Pueblo voters, retain its status as an enterprise (an exception to Tabor and without any power to tax), and retain its ability to issue revenue bonds payable from all net revenues of the system; and

WHEREAS, Pueblo Water's plans for establishing the power works include conducting engineering studies and evaluating possible distribution and power supply options, estimated at two (2) to three (3) years to complete, and the forced negotiated sale of power assets from property owners will require three (3) to five (5) years to complete. The process involves the Colorado Public Utilities Commission, the Colorado State Judicial System and the Federal Energy Regulatory Commission and is expected to cost 10 million dollars; and

WHEREAS, Pueblo Water has established its ability to provide a reliable quality water supply; and

WHEREAS, in the last decade, Pueblo Water expended more than 70 million dollars for the acquisition of future water supplies and 58 million dollars for water system improvements and during this same period of time has improved its bond ratings to, with two upgrades, AA rated revenue bonds all while maintaining the lowest water rates of all major utilities along Colorado's front range; and

WHEREAS, Pueblo Water has received and responded to a number of inquiries regarding the transition to a community owned electric utility and has prepared the attached document entitled "Frequently Asked Questions" in order to provide this information to its customers; and

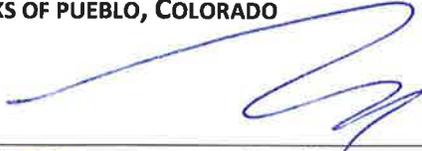
WHEREAS, Pueblo Water has evaluated the transition to a community owned electric utility and is prepared to move forward to establish and operate a water and power works for the benefit of Pueblo citizens.

NOW, THEREFORE, BE IT RESOLVED, THAT:

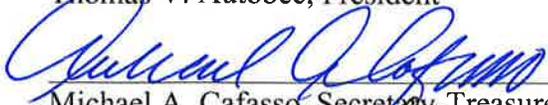
- 1. Pueblo Water supports the passage of Ballot Question 2A.**
- 2. Pueblo Water believes it is in the best interest of the community to transition from an investor owned electric utility to a community owned electric utility and is prepared and willing to lead this effort.**
- 3. Pueblo Water believes its plan, as designed, will benefit Pueblo citizens for years to come by providing a path to lower electric rates, should the community wish to support Ballot Question 2A.**
- 4. Pueblo Water believes this will have a positive impact on Pueblo economic development efforts and that the community owned utility model is the best way to align the motivations of the organization with that of its customers.**
- 5. The Frequently Asked Questions document, attached hereto, is hereby approved and made a part of this Resolution.**

ADOPTED THIS 17TH DAY OF MARCH 2020

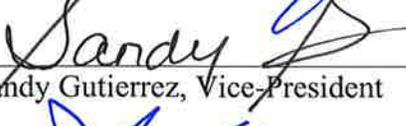
BOARD OF WATER WORKS OF PUEBLO, COLORADO



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FREQUENTLY ASKED QUESTIONS

What does the passage of Ballot Question 2A mean?

If Pueblo citizens vote to pass the 2A ballot measure in a special election on May 5, 2020, it will have two outcomes: First, it will end the franchise agreement with Black Hills. It also will amend the City charter to allow the Board of Water Works to operate an electric utility along with a water utility.

If the franchise agreement is ended, does that mean Black Hills will no longer provide electric service to Pueblo?

No. Simply ending the franchise agreement does not mean Black Hills cannot serve Pueblo. They will continue to serve Pueblo's electric needs until a community owned electric utility is in operation.

During the period of time the Board of Water Works is establishing the community owned electric utility, will the City still receive franchise fees?

Yes. The current agreement states that if the agreement is ended, Black Hills must collect and remit to the City, fees equivalent to the franchise fees collected under the franchise agreement.

Why must the City charter be amended by a vote of the people for the Board of Water Works to lead this project?

Currently the charter only provides the Board of Water Works with the power to operate a water system. In order to lead the project, we must also have the authority to operate an electric system.

How long will this process take?

An exact date for completion of the project is not known due to the variables involved in negotiations and the legal process, but it is anticipated to take five to eight years.

Will water rates go up because of this endeavor?

No, water rates will not be raised beyond normal regularly anticipated rate increases.

Will electric rates go down immediately?

While there is absolutely no doubt that rates will be lower in the long-term than staying with Black Hills, it is currently unknown whether they can be lowered immediately. The ability to lower rates immediately will be dependent upon the ultimate acquisition price.

Will taxes go up?

No. The acquisition price will be funded through revenue bonds not tax-based general obligation bonds. Pueblo Water is an enterprise and cannot tax its customers.

My electric bill is around \$130 per month. If we have rate savings of 10%, that only amounts to \$13 per month. Is the effort worth it?

It's true that the savings for individual residential customers will be small but imagine a 10% savings for large businesses that pay \$1 million to \$3 million per year in electric bills – the savings is significant. Considering gross revenues of \$250 to \$260 million annually, a 10% savings means \$25 to \$26 million stays in the region.

Why are rates lower under a community owned structure versus an investor owned structure?

Community owned businesses do not have to pay income taxes, large corporate salaries, or provide a return to shareholders. Rather, they provide a return to their customers in the form of lower rates.

Will the Board of Water Works handle the day-to-day operations of the new electric system?

No. A third party contractor will handle the day-to-day operations of the electric system. The Board of Water Works will be responsible for oversight of that contract, long-term planning, and setting rates. A Request for Proposal will be sent out to determine the third-party contractor. The Board of Water Works will retain the flexibility to undertake day-to-day operations in the future.

What happens to Black Hills' employees?

The electric utility system will require the same skills of the expert and dedicated employees that operate it today. Consequently, it is anticipated that the third-party contractor hired to handle the day-to-day operations of the system will seek to hire the existing employees to provide these services.

Does the Board of Water Works intend to purchase the generation and transmission assets owned by Black Hills?

The preferred plan contemplates acquiring the distribution assets of Black Hills. However, the ballot language allows for acquisition of the generation and transmission assets should it make economic sense to do so. Generation assets are used to produce power, transmission assets are used to carry produced power to the distribution system, and the distribution system is used to deliver power to customers.

Under what scenario would it make sense to take over the generation and transmission assets?

Acquiring just the distribution system will require us to pay for "stranded assets." The payment for stranded assets will be to compensate Black Hills' shareholders for lost revenue that would have been generated by their generation and transmission assets. This compensation is only for lost revenue and Black Hills keeps the generation and transmission assets. After comparing the stranded assets costs to the costs to acquire the generation and transmission assets, it may make sense to pay for and acquire those assets rather than pay stranded assets costs and receive nothing in return.

If the Board of Water Works doesn't purchase the generation assets, how will they supply power?

If only distribution assets are purchased, then we will enter into a purchase power agreement with a third-party power producer to supply power.

Will power purchased from a third party power provider cost more than what we are paying Black Hills?

No. A request for information was solicited to numerous third-party power producers as part of the phase II feasibility study. The responses received indicate a lower cost of power than what Black Hills' current portfolio produces.

Will there be any service interruptions during the process?

No. A smooth transition will be coordinated and ultimately approved by the Colorado Public Utilities Commission.

Does Pueblo Water's vision include renewable energy sources?

Yes, Pueblo water is committed to attaining the community's clean energy goals.

Trying to municipalize has been a nightmare for Boulder. Why would Pueblo's efforts be any better or easier?

We've learned from Boulder's struggles, and while these projects appear to be similar, they are different in many ways. Ballot Question 2A provides us with flexibility to structure and successfully complete the project. However, it should be understood that this process will not be easy and will require the commitment of the community to see it through.

What if something unexpected happens and you cannot create a deal that will ultimately lower costs for customers?

The sole reason for the Board of Water Works to lead this initiative is to provide value and ultimately lower electric rates for our customers. While we don't believe something will happen to preclude us from achieving that goal – if it does, we will delay the project until such time we can provide a deal that benefits customers. The changes to the charter do not preclude us from keeping Black Hills as the power provider until an alternative electric utility is in place.

Does the Board of Water Works have the expertise to lead this project?

Yes, the Board of Water Works has a long history of successfully navigating long complex utility projects.