

The intent of this letter is to clarify and correct some statements made to the Durango City Council at the meeting of August 2, 2011 regarding the Franchise Agreement between LPEA and the City of Durango.

First, some history in brief:

LPEA is an electric cooperative owned by the people it serves, including the residents and businesses in the City of Durango. LPEA began serving rural member/owners in the area in 1939 when Investor Owned Utilities (IOUs), then serving the town and cities, would not expend the funds to serve these rural areas because there was no profit in it. Similar scenarios were occurring all across the United States, and electric cooperatives became part of the fabric of the country. LPEA's service territory grew in 1975 when the IOU in the area was sold by its parent company. LPEA bought the portion of that IOU's system in Archuleta and La Plata Counties and in part of San Miguel County.

In the late 50s and early 60s the electric cooperatives on the Western Slope of Colorado, which were all buying their needed power from IOUs, banded together to form and build their own Generation and Transmission Company (G&T) called Colorado Ute Electric Association, to get away from reliance on the IOUs. Colorado Ute built the needed generation plants and transmission lines, and had launched construction on a third generator at the Craig power plant to meet the growing electrical needs of the Western Slope stimulated by the oil shale development underway at that time. On a Monday, now called Black Monday for the entire Western Slope, the oil shale development was stopped. Not only did that drastically impact all the Western Slope communities, but in the long run, it caused Colorado Ute to go bankrupt. Craig #3 did come on line, but the power needs had disappeared. Over the course of the bankruptcy, Colorado Ute's assets were purchased by several utilities, though Public Service Co. of Colorado and Tri-State G&T were the main purchasers. As it turned out, the Craig #3 became the golden egg, or an asset, due to growth in Colorado, including the gas compression loads in LPEA's territory. Tri-State G&T is also an electric cooperative like Colorado Ute was, except it was formed by the electric cooperatives on the Front Range of Colorado and some in Wyoming and Nebraska, to, as with the Western Slope cooperatives, avoid dependence on the IOUs. LPEA thus became a member and owner of Tri-State, who now also has members/owners in New Mexico. In total, 44 electric distribution coops like LPEA are member/owners of Tri-State.

**Q. Why a 20-year agreement?**

A. The LPEA and Tri-State facilities that provide electricity to the members must last 30+ years. To be able to finance those facilities, or even make an investment in such, requires certainty that those facilities will be of value for a long period of time. This is why Purchase Power agreements of all sorts, even with solar and wind developers, require long term contracts.

**Q. Is Tri-State running out of generation?**

A. Tri-State reported at the LPEA Board meeting in July, 2011, that Tri-State's most economical generation will be used up by 2016/2017.

Policymakers must realize that electric cooperatives need to build capacity, generation, transmission, and distribution in the electric systems for not only growth, but also to replace older generating investments facing the end of their useful life. LPEA's wholesale power supplier, Tri-State maintains a long term resource outlook that we believe will provide resources to meet our members' needs now and into the future – though it will be more expensive. The uncertainty likes in the costs and at what level of reliability, given the current uncertainty of energy policy in this country. This requires both a long term commitment and economies of scale so that rural areas can meet this challenge.

Regarding the concerns raised at the Durango City Council about LPEA's power supplier, Tri-State, the City has the best chance of mitigating the aforementioned risks by going forward with LPEA, versus trying to go it alone. Going it alone would put the City at even greater risk of not having a reliable supply of electricity, gambling whether another entity would come along and serve them for the long term. After 70 years, LPEA and Tri-State know that working collectively, with long term commitments, has proven to be an effective method to assure adequate levels of service to both the rural electric customers and rural urban municipalities served. Tri-State, as a generation and transmission supplier to its membership, has this very mission, so we can all meet the critical needs of the rural areas in our region.

**Q. What are the Franchise Agreement and its various provisions?**

A. As follows, the Franchise Agreement:

- allows LPEA to use public rights of way for placement of its electric facilities to serve its members their electrical needs, but in accordance with the City's standards, etc.
- requires LPEA to collect a franchise fee of 4.67% of all gross revenues from the sale and distribution of electricity to customers within the City. LPEA also collects city sales and use taxes. These fees are collected monthly and delivered to the city. These amounts are approximately \$1.4MM per year:

- Franchise fees in 2010 - \$886,221
- Sales tax in 2010 - \$457,451
- Use tax in 2010 - \$23,646
- requires LPEA to assure an adequate supply of electricity at the lowest cost consistent with long-term reliable supply.
- requires LPEA to maintain reliability, which includes investments in capital infrastructure as well as operations.
- allows the City to purchase LPEA's facilities that would be needed to serve the city with electric power if the city desired to become a municipal electrical utility. These facilities would include substations, or a portion of them, transmission lines, or a portion of them, and distribution lines, or a portion of them, etc.
- allows city residents and businesses to participate in LPEA Green Power program, which was recognized by the DOE as one of the best in the U.S.
- allows both parties to work together for various reasons, such a relocation of facilities, installation of new facilities, new technologies, net metering, renewable generations, energy efficiency programs, etc.

**Q. What are Tri-State's generation mix and other statistics?**

A. Coal – 57%; Hydro – 16%; Gas and oil – 14%; Renewable solar and Wind – 2%; Purchased from others – 10%

Tri-State has brought on line 30 MW of solar generation (one of the largest solar farms in the U.S.) and 51 MW of wind generation.

Tri-State's 2010 coincident peak was 2,568 MW.

Tri-State has 15 generation stations throughout its service territory.

Tri-State has Purchase Power Agreements for renewable small hydro stations, one of which is with the Vallecito Lake hydro generation plant, which is a part of the 16% stated above.

**Q. What are some LPEA statistics that might be of interest to the City?**

A. As follows:

- LPEA has a peak electric demand of approximately 170 MW and sells in excess of 1 billion kilowatt hours (kWh) per year.
- The City of Durango is about 20% of LPEA's peak of 170MW and approximately 16% of kWh sales.
- LPEA and the City of Durango have worked together on energy efficiencies for the City, saving the City more than \$100,000 the past few years, and reduced kWh consumption of in excess of 400,000kWh at City facilities such Chapman Ice Rink, the recycle center, the Service Center, the Recreation Center, City Hall, and others.
- LPEA and the City of Durango coordinated efforts to complete a system-wide change out to "Dark Sky" compliant fixtures within the city limits.
- LPEA and the City of Durango are in discussion for possible joint efforts in solar PV farms and arrays on City buildings.
- LPEA serves Fort Lewis College at a wholesale level, the College then distributes the energy to its many facilities.
- LPEA provides Green Power for the two LEED-certified City buildings – the library and the Transit Center.
- LPEA has Purchase Power agreements with two local renewable generation resources for about 6 MW.
- LPEA has 1,235 kW of solar PV on its system – 400 of that is grid-tied within the City of Durango.
- LPEA has 277 net-metered accounts – 69 of those are within the City of Durango.
- LPEA is working with the developer of the Pagosa Springs Biomass project that may generate 5 MW of energy 24/7.

- In the past couple of years, LPEA has worked with the Business Improvement District, the Governor's Energy Office, businesses located within the City limits, and electrical contractors on commercial lighting retrofits – providing energy and electric bill savings.

**Q. If LPEA is not sure what the rate structure from Tri-State will be, why should the City of Durango take that risk?**

A. What was stated by LPEA, is that until we get the final rate structure design from Tri-State, we could not attempt to develop a “feed-in-tariff” that would be beneficial to LPEA membership. The basic rate structure changes being made is understood for all rate classes and those will be developed before year end.

**Q. Are there rate increases in the future?**

A. Yes, probably a 4-5% increase in 2012 and small increases for a number of years after that. This is true nationwide as electric utilities are forced to retire older power plants and build new ones to meet the energy needs of our country.

**Q. What happens if the Franchise Agreement between the City of Durango and LPEA is not renewed?**

A. LPEA still has the obligation to serve its members, including those in the City of Durango. One thing for certain is that LPEA would not have the authority to collect any franchise fees for the City. LPEA would still collect the sales taxes and the use taxes. Should the Franchise Agreement not be renewed raises many additional questions, such as can LPEA still secure funding for new infrastructure and system improvements? Does LPEA even make those investments? Do LPEA and Tri-State continue to show the electric needs for the City of Durango in their respective load forecasts, both short term and long term? Many additional questions arise from these questions as well, and would need to be answered.