



Black Hills Energy Response to the City's Phase II Feasibility Study

Vance Crocker, Vice President, Black Hills Energy Colorado Electric

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As an electric utility professional with nearly 30 years of experience, I'm concerned about the city's Phase II feasibility study, performed by EES Consulting. The study does more to downplay the risks of a government utility takeover than to explain them. It shouldn't be used as the basis for making what could be the most important financial decision in Pueblo's history – spending hundreds of millions of dollars to create a government utility while endangering the safe, reliable service that Black Hills Energy customers expect. Here are 10 reasons to be skeptical.

1. The study clearly states that it's not feasible to create a city-run utility operating within city limits, unless it excludes certain neighborhoods. The study says some areas, including Pueblo Airport, Pueblo Motorsports Park and some residential neighborhoods, will not be served by a city utility because serving them will be too difficult and expensive. The city shouldn't pursue a Pueblo utility that gets to pick and choose which customers it serves and that excludes some city residents and even city-owned facilities.
2. The study says the preferred scenario is a Pueblo electric utility that also serves customers outside Pueblo, including in Cañon City, Rocky Ford, Cripple Creek and in unincorporated communities across seven counties. The City of Pueblo has no control over what other municipalities do, so this proposal is unrealistic and probably impossible. While the study claims "municipalization is well-precedented," most government utility takeover attempts fail, and nothing like a coordinated seven-county takeover driven by one city has been attempted in recent history.
3. Despite the complex legal issues surrounding an attempt to take over any or all of Black Hills Energy's Southern Colorado distribution assets, the study estimates legal costs of only \$10 million. For comparison, the City of Boulder originally estimated \$3 million in legal costs for its city-only municipalization effort; however, after 10 years of courtroom battles, legal and engineering costs have ballooned to \$20 million so far, with the most contentious issues yet to be addressed.
4. The study assumes a government-run utility could begin serving customers in 2020, just a few months away, with no explanation for how this will happen and no allowance for the lengthy legal and regulatory battles that will occur. If a city utility doesn't begin operating in 2020, then the study's estimates of power supply costs, financing costs and operating and maintenance costs will not be correct, as these costs are tied to market conditions at the time a city utility begins operations.
5. The EES study fails to share critical details of projected power supply costs, one of the most important pieces of the economic puzzle. Projected power costs reflected in a recent independent study by Concentric Energy Advisors were based on actual costs reported by Colorado municipal utilities and forecasts for future power costs from a respected independent third party. Concentric's study also factors in Black Hills Energy's actual transmission costs, which should be added to the

EES study. The EES study's power supply costs are based on undisclosed responses to an undisclosed request for information, so there's no way to know whether the estimates are credible and complete or whether power supplied by an unknown source can be transported to Pueblo cost-effectively and without interruption over the transmission system.

6. The study estimates operation and maintenance (O&M) costs for a city utility that are much lower than recent actual costs reported by Colorado municipal utilities. The study estimates 2020 O&M costs of \$290 per customer per year for a Pueblo electric utility. The Concentric study found a range of O&M costs for Colorado municipal utilities, the lowest of which was \$400 per customer per year as of 2017. If the study is adjusted to reflect realistic O&M costs, then the purported customer savings will disappear.
7. Black Hills Energy has made it clear that the assets we use to serve customers in Pueblo and throughout Southern Colorado are not for sale. The most difficult obstacle to overcome if Pueblo pursues a government takeover is the legal and regulatory challenge the city will face in attempting to condemn these assets. The risks are huge and taxpayers paid for a legal analysis as part of this study, but its analysis of these risks has not been made public.
8. The study estimates the city will be liable for \$446 million in stranded generation costs if it takes over the entire Black Hills Energy Southern Colorado system, as recommended, but it fails to provide enough information to determine if this calculation is correct. The lack of transparency on the basis for estimating a half-billion dollar component of the takeover cost should cause concern.
9. The study acknowledges physically separating a new Pueblo electric utility from the existing Black Hills Energy system "will be complicated," and estimates \$4.3 million in separation costs for a city utility serving customers within city limits. The study estimates separation costs of \$0 for its recommended alternative, seizing all Black Hills Energy distribution assets in Southern Colorado. The estimated \$4.3 million in separation costs that the city avoids by pursuing the seven-county takeover scheme likely would be spent many times over in pursuit of this unrealistic scenario. For comparison, Boulder is estimating \$107 million to physically separate from Xcel.
10. The study dismisses the possibility that Pueblo will be required to compensate Black Hills Energy for the value of the going concern -- the value the assets have as part of a complete business, beyond the cost of physical assets. Going concern value will be determined in a courtroom as part of condemnation proceedings. In Boulder, Xcel says the going concern value would add at least \$300 million to the acquisition cost if the city forms a municipal utility.

The EES study paints a picture of a city utility that won't serve everyone in the city under one scenario but that would serve customers in other towns miles away in another; that somehow will start operations in just a few months, avoiding inevitable legal battles; and that will be able to purchase power and operate and maintain the system far more cost-effectively than other Colorado municipal utilities. These assumptions simply aren't supported by the facts. Faced with such an important decision, the people of Pueblo deserve an accurate, transparent assessment of the costs and risks of forming a government-run utility.

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