

Governance Process and Governance Structure Review

What is the best Board structure for the community to continue benefitting from owning Colorado Springs Utilities, now and into the future?

Public Education, Outreach and Dialogue
City Council Town Hall
City Hall

Community Ownership Advantage

- Colorado Springs Utilities is not for sale
- Owning our own utility is a strategic advantage for Colorado Springs today and in the future
- As a citizen-owner every resident enjoys the benefits of the Utilities Board providing direction and making decisions based on local interests and input and holding the organization accountable with transparent and accessible operational oversight
- Citizen-owners determine the future by voting on any changes to the City Charter

The Community-owned Advantage: Customers Have Local Control, Reliable Service, Low Rates

	Colorado Springs Utilities	
Business model - Reinvestment in the local community	non-profit owned by citizens of Colorado Springs	✓
Governing body - Accountable to the people	Citizen-elected City Council/ Utilities Board	✓
Headquarters - Decisions are made locally	Colorado Springs	✓
Where customer rates are determined - Customer rates are set locally	Colorado Springs, Citizen-elected City Council	✓
Call center location - Customer service employees are local	Colorado Springs	✓
Reliable service - Average electric outage time per customer per year	38 minutes	✓
Renewable energy goal/requirement	20% renewables by 2020	
Clean Air – Projected reduction of plant emissions of nitrogen oxides (NOx), sulfur dioxide (SO2) and carbon dioxide (CO2)	NOx -85% SO2 -91% CO2 -40%	✓
Helping customers reduce their energy use	Goal of 12% reduction 2011-2020	✓

Purpose of studying a change – Why now?

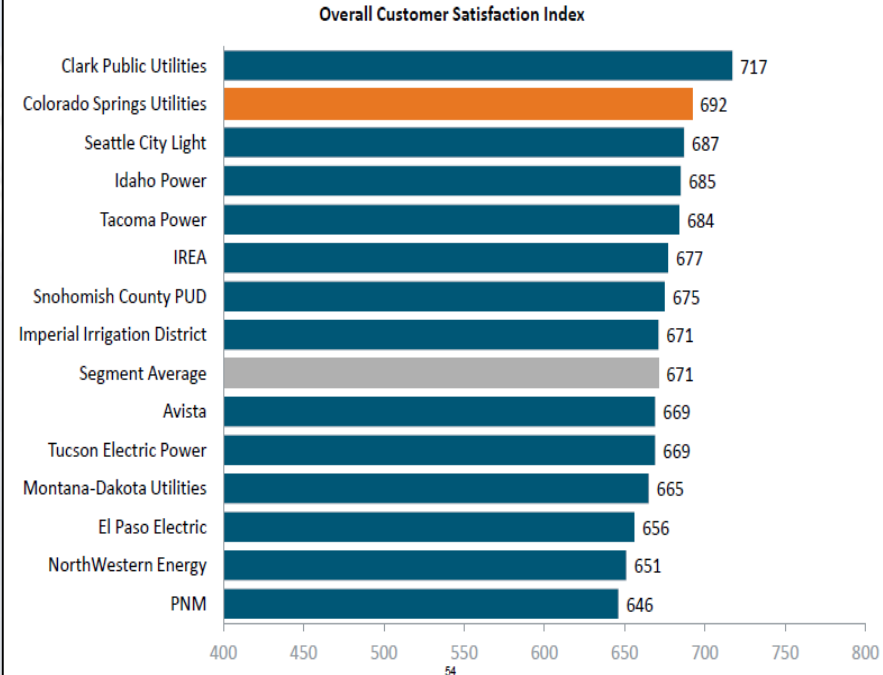
- Today, City Council is responsible for the majority of utility-related decisions including budget, rates and tariffs and issuing debt
- Through the Governance Review, the Board's goal is to ensure Colorado Springs Utilities has the best Board structure in place to be successful now and in the future
- Determine if a change in how the Board for Colorado Springs Utilities is established and operates could potentially benefit the citizen-owners, customers and the utility.

Competitive Position

#2 in residential customer satisfaction

- The best time to discuss governance is when an organization is high performing, like Colorado Springs Utilities.
- Colorado Springs Utilities ranks 8th nationally as one of the most reliable utility service providers.
- Colorado Springs Utilities has competitive rates for residential service, and a tremendous advantage in commercial and industrial rates compared to neighboring utilities.

Overall CSI: West Midsize – Electric Residential



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Municipally-Owned Utilities Peer Governance

- Most large, multi-service peer municipal utilities have appointed or elected boards, independent from City Council
- Other large municipal utilities have City Council serve as the Utilities Board

Electric Utilities	Services Provided	Electric Meters	Board	Elected/Appointed	Board Term
Austin Energy (TX)	Electric	432,000	City Council	Elected	4 years
Clark Public Utilities (WA)	Electric, Water, Wastewater	190,000	Independent	Elected	6 years
City Public Service (San Antonio, TX)	Electric, Natural Gas	750,000	Independent	Appointed	5 years
Colorado Springs Utilities	Electric, Gas, Water, Wastewater	220,568	City Council	Elected	4 years
Fort Collins Utilities (CO)	Electric, Water, Wastewater, Stormwater	70,500	City Council	Elected	4 years
Jacksonville Electric Authority (FL)	Electric, Water, Wastewater	430,000	Independent	Appointed	4 years
Knoxville Utilities Board (TN)	Electric, Gas, Water, Wastewater	198,000	Independent	Appointed	7 years
Los Angeles Dept of Water and Power (CA)	Electric, Water	1,500,000	Independent*	Appointed	5 years
Omaha Public Power District (NE)	Electric, Natural Gas	356,000	Independent	Elected	6 years
Orlando Utilities Commission (FL)	Electric, Water	231,000	Independent	Appointed	4 years
Sacramento Municipal Utility District (CA)	Electric	607,000	Independent	Elected	4 years
Seattle City Light (WA)	Electric	408,000	City Council	Elected	4 years
Snohomish County PUD (WA)	Electric, Water	330,000	Independent	Elected	6 years
Tacoma Public Utilities (WA)	Electric, Water	171,000	Independent	Appointed	5 years
Other Colorado Water Utilities	Services Provided	Water Meters	Board	Elected/Appointed	Board Term
Denver Water (CO)	Water	360,000	Independent	Appointed	6 years
Pueblo Board of Water Works (CO)	Water	40,000	Independent	Elected	6 years

* Most LADWP Board actions are subject to City Council Veto

Municipally-Owned Utilities Peer Governance

APPA 2015 Governance Survey Results Type of Primary Governing Body

Customer Size Class	Number of Responses	Independent Utility Board		City Council
		Elected	Appointed	
Less than 5,000 Customers	323	9%	23%	68%
5,000 to 20,000 Customers	134	19%	42%	39%
20,000 to 50,000 Customers	47	23%	34%	43%
Greater than 50,000 Customers	30	23%	54%	23%
Total	534	14%	30%	56%

Source: American Public Power Association

Previous Study Summaries

- Five studies and two white papers on utilities governance since 1993

Previous Study Recommendations on Colorado Springs Utilities Governance

Governance Studies	Independent or Separate Board	Appointed	Full Decision-Making Authority	Compensation
UPAC Governance Structure Assignment 2012 (prior to change in City governance)	✓	✓	✓	✓
Governance Alternatives White Paper 2011	✓	✓	✓	✓
Sustainable Funding Committee 2009	✓			
UPAC Governance Assignment 2007	✓	✓		
Charter Review Committee 2005	✓	✓		
Governance White Paper 2005 on Charter Changes	✓	✓	✓	✓
Associated Utility Consultants Report 1993	✓	✓		

Previous Study Summaries

- Recommended qualifications and expertise recommended from previous Utilities Governance studies
- Most municipal utilities do not have specific qualifications for appointed or elected Utilities Board members

Governance Studies	Qualifications Expertise
UPAC Governance Structure Assignment 2012 <i>(prior to change in City governance)</i>	Reflect the diversity of the community Leadership abilities; Strategic thinking; Business minded; Include business disciplines such as finance, law and other areas but not limited to these areas.
Governance Alternatives White Paper 2011	Diversity of experience and professional backgrounds - qualified individuals with backgrounds in large businesses, engineering, utilities, customer service, public relations and finance in order to assure seasoned judgment. Typical members are current or former senior executives with significant leadership, management and financial experience; independence from the organization; and individuals who will represent the best interests of the stakeholders. Board member qualifications often address or consider previous board experience; relevant industry experience and commitment to length of board terms.
Sustainable Funding Committee 2009	
UPAC Governance Assignment 2007	Knowledge and expertise
Charter Review Committee 2005	Representatives from the following professional sectors: financial, local business, accounting, engineering and a local attorney with utility experience. In order to promote diversity, the Board should also have citizen ratepayer members.
Governance White Paper 2005 on Charter Changes	Qualified individuals with backgrounds in large businesses, engineering, utilities, customer service, public relations and finance in order to assure seasoned judgment
Associated Utility Consultants Report 1993	Evenly split between members with business experience and those who represent the diverse interests of the community Resident

Remaining Tasks and Timeframe

TO DO LIST

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- Ongoing public education, outreach, and dialogue with input on narrowing options and final recommendation for final governance structure
- Complete discussion on authorities of a potential separate Board
- Finalize criteria to compare alternative governance structures
- Complete Excellence in Governance process model
- Board recommendations on preliminary and final governance structure based on criteria, data-driven research and public input workshop
- Research to test preliminary and final governance structure recommendations
- Board develops implementation plan for Governance Structure Charter changes (if needed) and Governance Process changes
- Potential vote on Charter change for a Utilities Board governance structure that is separate from City Council

Criteria to Evaluate Alternative Structures

- Act in the long-term best interest of Colorado Springs Utilities and its citizen-owners.
- Be fully accountable to its citizen-owners and customers.
- Have the authority and responsibility to carry out the board's statutory and governance duties.
- Be comprised of individuals who have the knowledge and experience to effectively govern Colorado Springs Utilities.

Excellence in Governance Process

COLORADO SPRINGS UTILITIES MISSION

To provide safe, reliable, competitively priced electric, natural gas, water, and wastewater services to the citizen-owners and customers of Colorado Springs Utilities.

EXCELLENCE IN GOVERNANCE

The Board must excel at the primary obligations of governance for the organization to meet its Board-directed mission and customer-focused performance expectations.

D 1-2 Board Duties Fiduciary, Statutory/Regulatory

R 1-4 Board Responsibilities Direction, Outcomes, Oversight, Accountability

Board Commitments to Excellence

C-1 Board Ethics and Norms

C-2 Board Evaluation

C-3 Limits of Individual Authority

C-4 Board Development

C-5 Board Decisions

C-6 Policy Directives

Board Procedures for Excellence

P-1 Board Meetings

P-2 CEO Excellence

P-3 Unified Board Direction to the CEO

P-4 Role of the Chair

P-5 Committees

P-6 Operational Resources

Board Evaluation

Board/CEO Partnership Expectations

E-1 Board/CEO Strategic Cooperation

E-2 Delegations to the CEO

E-3 CEO Responsibilities

E-4 Board Approvals

E-5 Organization Oversight

E-6 Evaluating CEO Performance

Policies

Authorities Delegated by the Board to the CEO

Board Instructions to the CEO

Board Monitored Results

Alternative Structure Options

Municipal Utility Governance Models

Elected Boards

One method of municipal utility governance is for the people of the community to directly elect their utility board. This board is either the elected City Council or is a separately elected board that deals only with municipal utility matters.

Both models of this method have the most direct accountability between the people and the utility. However, it is less likely that industry and business experts serve on the board.

Currently in Colorado Springs, the voters elect the City Council who oversees Colorado Springs Utilities by serving as the Utilities Board.



Appointed Boards

Another method of municipal utility governance is for elected leaders to appoint utility boards that function separately from the elected officials but are accountable to them through the appointment process.

Either the Mayor solely appoints members with City Council approval, or the City Council appoints, or both the Mayor and City Council make appointments.

These models create indirect accountability between the utility and the voters, but is more likely that industry and business experts serve on the board.



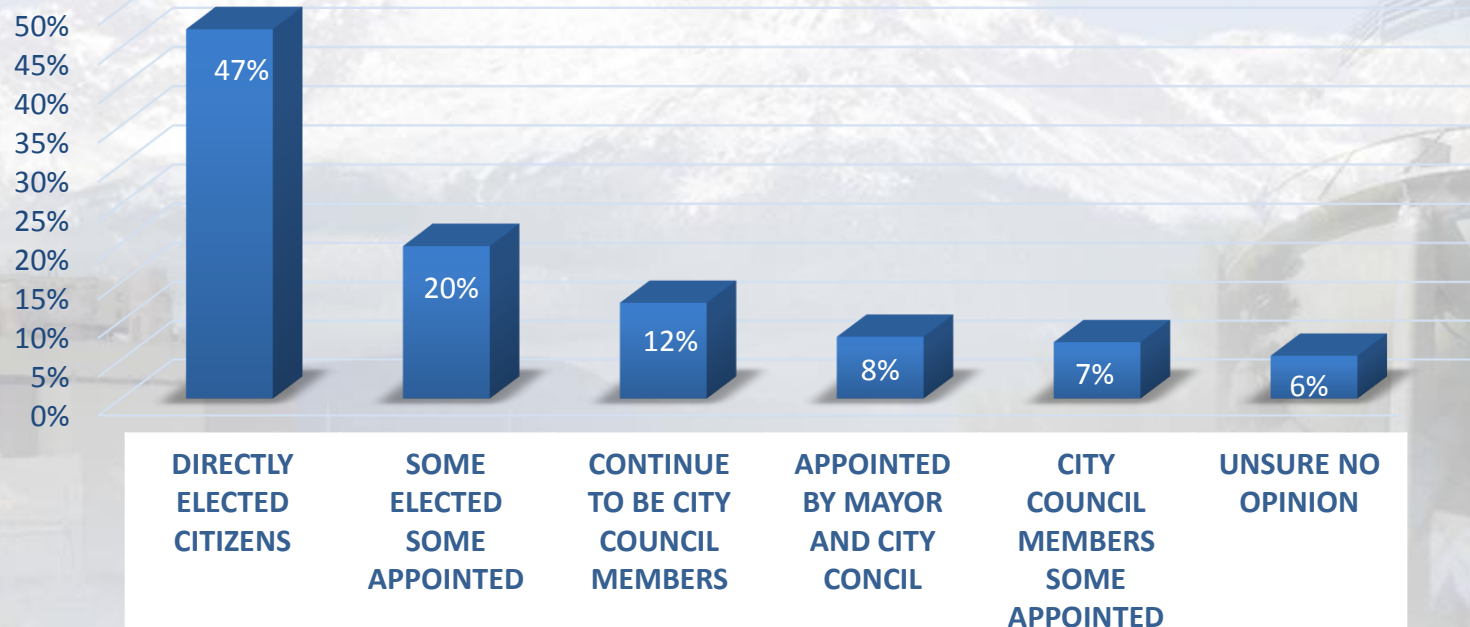
Hybrid Boards

The final method of municipal utility governance can be any combination of elected and appointed board members. The Mayor and/or City Council could make appointments to the Board. Elected members could come from City Council or be directly elected. Either appointed or elected members could hold the majority.



- Quantitative Surveys: January and March
- Order of Governance Structure Preference From Both:
 - Directly Elected Board
 - Hybrid Elected/Appointed Board
 - Appointed Board
- Citizen-owners and voters are generally unfamiliar with how Colorado Springs Utilities is governed.
- In both surveys, citizen-owners and voters expressed preference for a Utilities Board of Directors separate from City Council, or were unwilling to support the current governance structure.
- Citizen-owners and voters also strongly supported a Board with business and/or utility industry expertise.

Research Results - March



Public Input and Dialogue

- What are your Questions, Concerns and Comments?
- What are your ideas for other Utilities Board Structures?
- What are potential advantages and disadvantages of changing the Utilities Board structure?
- How could the future be different with a separate Utilities Board?
- What should City Council think about as we study a separate Utilities Board?
- If a separate Utilities Board is recommended, how should potential Board members with business or utility industry expertise be encouraged to serve?
- Other questions?