

ROCHESTER PUBLIC UTILITIES
BOARD MEETING MINUTES
December 11, 2012

Members Present: Mr. Williams, Mr. Reichert, Mr. Wojcik, and Mr. Browning
Absent: Mr. Stahl
Also Present: Mr. Adkins, City Attorney

Board President Williams called the meeting to order at 4:00 PM.

1. Mr. Reichert moved to approve the minutes of the November 27, 2012 meeting, seconded by Mr. Browning.

Three voting "AYE" (Mr. Williams, Mr. Reichert, Mr. Browning)
One "Abstaining" (Mr. Wojcik)
Motion Carried

2. Mr. Williams opened the meeting for comments from the public. No one wished to be heard.
3. Mr. David MacGillivray of Springsted, Inc. appeared before the Board to discuss the sale of electric bonds to refund the Series 2002A bonds. His firm has completed an analysis for the proposed refunding of the Series 2002A bonds through the sale of new bonds. He informed the Board that interest rates have been moving down and the market is in a good position for this sale. The sale would reduce RPU's interest costs. There would also be a cash flow reduction of \$200,000 per year for the next five years due to debt service contributions. Net present value savings would be \$335,000 and net future savings would be \$360,000. A special Board meeting would need to be held on January 23 to consent to the terms of the Bond Resolution and approve the bond sale. The Council would be asked to consider and award the bonds at its January 23 Council meeting. Mr. Browning asked if there were any downsides to this proposal. Mr. MacGillivray said that the rating agencies liked this. Mr. Wojcik also said there would be limited risk to RPU due to the low interest rate. He also said the low interest was warranted because RPU has maintained a high bond rating over the years. Mr. Wojcik moved to approve the bond refunding, seconded by Mr. Reichert.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, that the Common Council of the said City is requested to authorize the issuance of revenue bonds to refund the Series 2002A RPU Electric Revenue Bonds of approximately \$4,740,000 due to positive markets conditions. The Electric Revenue Bond sales will use a competitive sale method.

4. Mr. Koshire said that the American Public Power Association (APPA), the League of Minnesota Cities, and others are looking at the impact of proposed changes to tax exempt financing on rate payers. As a partner in the CAPX 2020 project, RPU is estimating it could spend about \$49 million over the next three years. Most of this investment is expected to be financed with tax exempt bonds. The Government Finance Officers Association (GFOA) estimates that the loss of tax exempt financing could increase our interest cost as much as 1.5%. On the CAPX project alone, it would cost our customers an additional estimated \$15 million over the life of the bonds. As a municipal utility, we cannot look to shareholders to raise capital, and we are not eligible for tax incentives like the investor-owned utilities. The burden of the loss of tax exemption would effectively impose a federal tax on our customers. In summary, Mr. Koshire said that the preservation of tax exemption is critical for the investments RPU will be making in the very near future. He asked the Board to direct staff to prepare letters to our national leadership in support of preserving tax exempt financing. Mr. Reichert moved to approve a resolution in support of preserving tax exempt financing, seconded by Mr. Wojcik.

All voting "AYE"

WHEREAS, a fundamental principle of tax-exempt financing is the ability of local governments to determine the services needed in the respective communities and to raise capital to provide the services free from federal tax on the bonds used. The exclusion of interest on state and local obligations from federal gross income is an important financing tool in a time where job creation and rebuilding critical infrastructure is critical to our nation's state and local economies.

AND WHEREAS, municipal utilities cannot look to shareholders to raise capital, and are not eligible for tax incentives available to private utilities, as a result, such a tax would severely reduce our utility's ability to finance infrastructure investments and would effectively impose a rate increase to all our ratepayers.

NOW THEREFORE BE IT RESOLVED, that the City of Rochester, acting by and through its Utility Board, opposes efforts by Congress and the Administration to eliminate or limit the use of tax-exempt bonds by State and Local governments or to change the ability of investors to claim the exemption.

BE IT FURTHER RESOLVED, that a copy of this Resolution shall be sent to our Congressional Representatives and the Administration.

5. Mr. Eric Swanson, Winthrop & Weinstine, appeared before the Board to introduce the various CapX 2020 transmission project agreements they were being asked to approve. Also distributed during the meeting was an Amendment to the Project Development Agreement which was not included in the materials supplied previously. It also requires Board and Council approval. Mr. Swanson said the original Project Development Agreement was approved in 2007 to ensure that the City and rate payers were protected and

that RPU would benefit from regional transmission. The Nixon Peabody firm has worked with all participants creating the project documents. Mr. Swanson further explained the document hierarchy to the Board. The Joint Cooperation Agreement is at the top of the structure. It includes a management committee with the voting process for decision making explained in detail. Major decisions require a unanimous vote.

Mr. Reichert commented that this subject is very complex and asked if there would be ongoing counsel for the management committee going forward. He also asked if there would be an auditing firm going through the books. Ms. Parker said the firm of Deloitte & Touche would be the auditor. Mr. Swanson said that group participants would be protected in the unanticipated event of default, bankruptcy or other negative actions by individual participants. Mr. Browning asked about limited damages if someone defaults. Mr. Adkins said that there is a liquidated damages payment that must be made, but that a participant is not ultimately bound if down the years they want out.

Mr. Browning asked about operations and maintenance (O&M) costs. Mr. Anderton said RPU pays a percentage of O&M cost for the Minnesota portion of the project. RPU will also pay a participation cost of 9%. Mr. Kotschevar said the engineering and operations committee will develop five year budgets and that anything over \$50,000 must be bid. Mr. Koshire said RPU would still maintain the line to Byron.

Mr. Wojcik asked how RPU makes sure its voice is heard. Mr. Anderton said each owner is represented on the management committee. Mr. Reichert asked about insurance and co-ownership of resources. Mr. Swanson said that CapX 2020 is not a new entity. Rather it represents a series of interrelated contracts by various participants to work together. Mr. Wojcik said that it appears that that due diligence has been given to these agreements. Mr. Adkins said that levels of voting have been built into the documents to ensure participant involvement.

Mr. Reichert asked how RPU plans to pay for the project. Mr. Koshire said RPU has already started paying for the project, and plans to look at 30 year fixed bonds in the spring of 2014. Staff will also review a one to two year commercial paper financing. He said the Board and Council will be informed of major expenditures and plans throughout the project. He also said that once the transmission lines go into service, the Power Sales Agreement with the Southern Minnesota Municipal Power Agency (SMMMPA) will need to be modified. Mr. Reichert asked what ends the contracts. Mr. Adkins said the contracts end when the project is completed, and the owners will unanimously vote on this. Mr. Kotschevar said participation in this project will open up a lot of doors with partners that RPU does not have today. He also said that the line will be done in June of 2013, but won't be energized at that time. Mr. Reichert moved to approve the CapX Project Agreements, seconded by Mr. Wojcik.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, that the Common Council of the said City is requested to approve various contract

agreements in connection with the purchase of an interest in the proposed Southeast Twin Cities-Rochester-La Crosse Transmission Project (Minnesota) and Southeast Twin Cities-Rochester-La Crosse Transmission Project (Wisconsin) 125-mile, 345 kV transmission line and two 161 kV transmission lines that will run from the proposed North Rochester substation on the aforementioned line to Rochester, Minnesota's existing Northern Hills substation and to Rochester, Minnesota's existing Chester substations and that the Common Council authorize the Mayor and the City Clerk to execute the agreements, subject to review by the City Attorney of any final non-substantive revisions, for the La Crosse Project including the

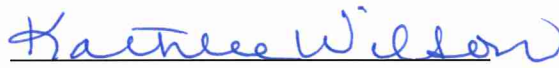
Joint Cooperation Agreement
Transmission Easements
Minnesota Project Participation Agreement
Administrative Agent Agreement (Easements)
Administrative Agent Agreement (General Contracting Powers)
Minnesota Construction Management Agreement
Self-Performance Agreements
Minnesota Trust Agreement
Minnesota Operation and Maintenance Agreement
Transmission Capacity Exchange Agreement
Transmission-To-Transmission Interconnection Agreements
Project Development Agreement (PDA) Amendment

6. Mr. Browning moved to adjourn the meeting, seconded by Mr. Reichert.

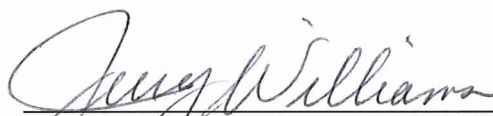
All voting "AYE"

The meeting adjourned at 5:00 p.m.

Submitted by:


Secretary

Approved by the Board:


Board President
12/18/12
Date