

ROCHESTER PUBLIC UTILITIES
BOARD MEETING MINUTES
December 18, 2012

Members Present: Mr. Williams, Mr. Reichert, Mr. Wojcik, Mr. Stahl, and Mr. Browning
Absent: None
Also Present: Mr. Adkins, City Attorney

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

1. Mr. Wojcik moved to approve the minutes of the December 11, 2012 meeting, seconded by Mr. Stahl.

All voting "AYE"

2. Mr. Stahl moved to approve the accounts payable, seconded by Mr. Wojcik.

All voting "AYE"

3. Mr. Williams opened the meeting for comments from the public. No one wished to be heard. Mr. Williams mentioned that five students from Century High School were attending the meeting. One of the students stated that they were attending as part of a "Citizen Development Project."

4. The insurance quotations received for 2013 were presented during the meeting and discussed. Mr. Lyle Papenfuss and Mr. Darwin Olson from the C.O. Brown Agency appeared before the Board. Mr. Olson said the main component of the insurance programs is the League of Minnesota Cities. RPU received a \$35,000 dividend from the League which represents approximately 30% of the premium. The League also paid a dividend to the City of Rochester. Mr. Adkins asked if RPU's premium was based on loss history since the premium for 2013 is showing an increase. Mr. Olson explained that RPU's premium is based on its expenditures such as new vehicles and the number of new employees. Mr. Papenfuss said that a number of responding insurance agencies were also concerned about the maintenance of the Silver Lake Plant as a result of decommissioning plans. RPU management responded in writing that maintenance at the plant would continue as it has in the past. This resulted in a \$30,000 decrease in the premium which resulted in a 5% increase. Mr. Papenfuss said that other properties have received ten to twenty percent increases. Mr. Koshire stated that RPU had received a risk assessment analysis from AEGIS during the week prior to the Board meeting which was very complimentary. Mr. Reichert moved to approve en bloc three resolutions for all risk property insurance, general liability insurance and automotive insurance for 2013, seconded by Mr. Browning.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve an insurance agreement with the AIG / AEGIS / Lloyds of London Syndicates for

ALL RISK PROPERTY INSURANCE

The insurance agreement to be for a twelve month policy period commencing December 31, 2012, and expiring December 31, 2013.

The amount of the contract agreement to be FOUR HUNDRED SIXTY-FOUR THOUSAND ONE HUNDRED EIGHTY-FIVE 45/100 DOLLARS (\$464,185.45).

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve an insurance agreement with the League of Minnesota Cities Insurance Trust for

COMMERCIAL AUTOMOBILE AND GENERAL LIABILITY INSURANCE

The insurance agreement to be for a twelve month policy period commencing December 31, 2012, and expiring December 31, 2013.

The amount of the contract agreement to be ONE HUNDRED THIRTY-SEVEN THOUSAND ONE HUNDRED EIGHTY-SEVEN AND 00/100 DOLLARS (\$137,187.00).

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve an insurance agreement with the Associated Electric and Gas Insurance Services, Ltd. (AEGIS) for

EXCESS GENERAL LIABILITY INSURANCE

The insurance agreement to be for a twelve month policy period commencing December 31, 2012, and expiring December 31, 2013.

The amount of the contract agreement to be TWO HUNDRED TWENTY-EIGHT THOUSAND TWO HUNDRED SEVENTY-FIVE AND 43/100 DOLLARS (\$228,275.43).

5. Mr. Schlink, Director of Power Resources, provided the Board with a decommissioning plan update for the Silver Lake Plant. Mr. Schlink said that at the August 7, 2012 Board meeting the Rochester Public Utilities Board approved a resolution directing "staff to develop, implement and execute a plan, using the 2012 Update as a guideline, to decommission the Silver Lake Power Plant by December 31, 2015 or sooner." Further the term "decommission the Silver Lake Plant" was meant *to mean to cease coal burning and electric generation, while retaining the potential to generate steam for Mayo using natural*

gas until 2025. To that end, a team was formed consisting of seven RPU directors/managers, City Human Resources, and two external subject matter expert consultants. He said that his update at today's meeting would consist of a process description rather than project description. The team has developed various categories, sub-categories and activities association with the decommission process. Some examples include financial, personnel, regulatory, facilities, communications, etc. In addition, certain key dates have been established. One of the dates is April 30, 2013 for a final report to the Board as well as termination dates for contracts associated with the plant.

Mr. Schlink said that Mayo Clinic has asked to extend its contract for steam. Mr. Adkins said that any changes to the contract would come before the Board. Mr. Wojcik asked if there were any additional capital costs for running steam off the units in future years. Mr. Schlink said there would not be. Mr. Schlink explained the generation interconnection with the Midwest Independent System Operator (MISO) involving the Silver Lake Plant. This regional requirement with a regulatory authority may cause RPU to consider getting planned generation online by 2018. In November, unit 1 at Silver Lake Plant began running on natural gas only.

As part of the planning process, areas of emphasis include a revised budget with savings due to decommissioning, reviewing staffing levels as reassignment opportunities present themselves, a fuel plan, and short-term and long-term plans. Inventory control, scenario planning, liabilities/risks, markets/infrastructure, boiler and machinery insurance and regular communication updates are also included in this process. The last coal delivery will occur in the spring of 2013. Mr. Williams asked if burning only natural gas make a difference in insurance rates. Mr. Papenfuss said there could be some savings as gas is less combustible.

Mr. Browning said that this is why the CapX 2020 transmission lines need to be completed. Mr. Koshire said that the first line will be built in 2013 and energized in 2014. He also said that a low gas prices market is projected for the next couple of years. Mr. Schlink said that MISO has 40% more capacity than demand at the present time which also bodes well for the future. Mr. Schlink said that RPU still needs to do infrastructure modeling and planning for the future based on the scenario forecasts developed by the team.

6. Mr. Wojcik moved to approve a purchase order for annual maintenance of RPU's enterprise business software, seconded by Mr. Reichert.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve a purchase order agreement with SAP Public Services Inc. for

2013 Annual Maintenance and Support of
Enterprise Business Software

The amount of the purchase order agreement to be ONE HUNDRED THIRTEEN THOUSAND ONE HUNDRED SEVENTY TWO AND 04/100 DOLLARS (\$113,172.04).

7. Mr. Reichert moved to approved RPU's authorized depositories for 2013, seconded by Mr. Stahl.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, that the following banks, authorized to do business in Minnesota, are the designated depositories for the demand deposit accounts and temporary investment of funds of Rochester Public Utilities, City of Rochester, Minnesota, within the limits established by the City of Rochester, for the term commencing January 1, 2013 through the 31st day of December, 2013.

US Bank
Wells Fargo

The above depositories, and any added during the term by the City Finance Director, shall pay interest at such rates or rates, per annum, as may be mutually agreed upon the Rochester Public Utilities and the respective depository at the time such deposits and investments are made.

The depository shall pay on demand all deposits subject to payment on demand, with accrued interest, and pay on demand all time deposits with accrued interest, at or after maturity.

8. The General Manager provided the following report to the Board:
- a. The City Council approved all CapX2020 documents for the regional transmission line project.
 - b. The Council also approved extending Mr. Reichert's term of office on the Utility Board to 2017.
 - c. The Southern Minnesota Municipal Power Agency Board approved a bank liquidity facility statement in order to issue short-term commercial paper financing. A review by a rating agency is also required.
 - d. Moody's Investors Service rating agency requested to review RPU. The result was a slight downgrade from Aa2 to Aa3. This was due to lower credit metrics and RPU's debt service coverage amount. Other factors included RPU's lack of rate increases and declining power sales. It was pointed out during the meeting that on 10% to 15% of municipals receive a double A rating. Ms. Parker, Director of Corporate Services, said RPU was also reviewed under Moody's new methodology. Mr. Wojcik said that going forward if there is anything we can do to review their recommendations; it would be a good thing.

- e. There will be a special Utility Board meeting at noon on January 23 at the RPU Service Center to approve the electric revenue bond sale. Mr. Reichert will act as president pro tem for Mr. Williams.
- 9. The management reports were discussed. Mr. Koshire asked for suggestions from the Board on what they would like to see in the reports and/or graphs.
- 10. Mr. Stahl moved to adjourn the meeting, seconded by Mr. Reichert.

All voting "AYE"

The meeting adjourned at 5:00 p.m.

Submitted by:

Kathleen Wilson
Secretary

Approved by the Board:

[Signature]
Board President

Jan. 23, 2013
Date