

ROCHESTER PUBLIC UTILITIES
BOARD MEETING MINUTES
April 30, 2013

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

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

1. Mr. Stahl moved to approve the minutes of the April 15, 2013 meeting, seconded by Mr. Browning.

All voting "AYE"

2. Mr. Stahl moved to approve the payables report, seconded by Mr. Reichert.

All voting "AYE"

* Mr. Wojcik entered the meeting at this time.

3. Mr. Williams opened the meeting for comments from the public. No one wished to be heard.
4. The 2012 RPU audited financial results were discussed. Mr. Tom Wente of Smith Schaffer and Associates appeared before the Board to discuss the results and audit process. The financial letter from his firm is contained in RPU's annual report. RPU's audit committee, consisting of Board Members Reichert and Stahl, received the results at a special meeting held on April 24. Mr. Reichert said there were no significant findings for the audit committee to review. Ms. Parker, Director of Corporate Services, said that cash reserves have been increasing. The electric utility has 137 days of cash on hand. RPU's rating agencies would like to see this number at 150 days. Working capital has been increasing. Bad debt is less than 1%. Ms. Parker also said that pricing for the 2013B Electric Revenue Bonds is scheduled for May 14.

Due to the decommissioning of the Silver Lake Plant and the treatment of an "impaired asset" under Summary Statement No. 42 of the Governmental Accounting Standards Board (GASB), it was determined by the audit firm and RPU staff that a one-time special write off of the plant would be done in the amount of \$35 million in the capital assets category. Mr. Wojcik commented that the decline in assets is actually a smart financial move by the utility. Mr. Reichert said that the most conservative stance is to swallow the whole thing right now. Mr. Wente said this would put RPU on a solid financial footing.

Mr. Wojcik moved to accept and file the 2012 audit results, seconded by Mr. Reichert.

All voting "AYE"

5. The bids received for the site work at the Northern Hills substation were discussed. The existing substation yard is being expanded to accommodate equipment required for the new CapX transmission line terminal. Work for the site includes grading of the substation yard, excavation and backfill, concrete foundations, fence construction and turf establishment. Work is scheduled to begin in mid-May. Mr. Stiller, Senior Electrical Engineer, informed the Board that this was a routine bid with no exceptions. Mr. Wojcik moved to approve a contract agreement with Knutson Construction Services, Inc., seconded by Mr. Stahl.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve a contract agreement with KNUTSON CONSTRUCTION SERVICES, INC. and to request the Mayor and the City Clerk to execute the agreement for

Northern Hills Substation Grading, Foundations and Fencing

The amount of the contract agreement to be TWO HUNDRED ELEVEN THOUSAND SEVEN HUNDRED FIFTY FOUR AND 00/100 DOLLARS (\$211,754.00) and KNUTSON CONSTRUCTION SERVICES, INC. being lowest responsible bidder.

BE IT FURTHER RESOLVED by the Public Utility Board to approve staff to manage project change orders using the existing approval structure and authorization levels.

6. A change order to extend the OPOWER, Inc. agreement for the Home Energy Reports was reviewed by the Board. The change order consists of a one year extension to the existing contract and involves 40,000 customers. The agreement would continue to leverage RPU's required Conservation Improvement Plan (CIP) spending (part of RPU's approved 2013 budget) and directly helps RPU's residential customers meet our conservation goals. Ms. Hanson, Manager of Marketing and External Affairs, informed the Board that this is a very cost effective program. The estimated savings are approximately 7,605,000 in kWh. Mr. Stahl moved to approve the change order, seconded by Mr. Browning.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve the Opower Change Order, along with Exhibit A and Exhibit B between OPOWER, Inc. and the City of Rochester acting through its Public Utility Board, and request the Mayor and the City Clerk to execute the addendum for

Extension of the OPOWER, Inc. Agreement for the Home Energy Reports

The amount of the purchase order agreement not to exceed \$388,333 in 2013.

7. The SLP Decommissioning project was discussed with the Board. At its August 7, 2012 Utility Board meeting, the Board directed staff to develop, implement and execute a plan to decommission the Silver Lake Power Plant by December 31, 2015 or sooner. The plan was based on the 2012 Infrastructure Plan Update that had been presented to the Board. Mr. Williams announced that the Board would be taking no action on this topic at this meeting.

Mr. Schlink, Director of Power Resources, and Mr. Harris, Burns & McDonnell Engineering Company, Inc., gave a presentation to the Board which included the following introductory statements:

- BE IT FURTHER RESOLVED the Public Utility Board of the City of Rochester, Minnesota directs 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. (August 7, 2012 Utility Board Resolution)
- *“Decommissioning as used in the Board’s resolution means to cease coal burning and electrical generation, while retaining the potential to generate steam for Mayo using natural gas until 2025.”* (Minutes of August 7, 2012 Utility Board Meeting)
- *“RPU has committed to being fair, compassionate and respectful throughout this process.”* (Part of RPU’s Core Values)

Mr. Schlink asked the meeting attendees to think in terms of 3 E’s when it came to this subject: EPA 114 information request, Environmental Regulations and Economic Analysis. He further stated that the decommissioning of SLP is not just about cost savings or a cheaper kWh, it is about positioning RPU for the near term and post SMMPA (2030).

The presentation included the following categories:

- a. Schedule/Timeline
- May 14, 2013 special Utility Board meeting, the Board will be asked to approve an incentive plan for Power Resources staff.
 - September 2013 – Employee incentive plan agreements are due.
 - September 2013 - The coal pile will be depleted.
 - January 2014 – The CapX line to RPU’s Northern Hills substation will be energized.
 - May 2015 – The MMPA contract will be ended.
 - June 2015 – RPU will purchase 50 megawatts of power from MISO.
 - September 2015 – Mayo contract transition date.
 - December 2015 – SLP ceases electric production.
 - December 2015 - North Rochester transmission line to Chester is in service.
 - January 2016 – Only units left on at the plant are on steam generation.

- b. Budget. Maintenance, Staffing, Fuel and Market Purchases Budgets were discussed.
 - The estimated savings due to the decommissioning of the plant is estimated to be \$44 million.
 - It will cost approximately \$17 million to clear the site completely, but this is still undergoing review.

- c. Personnel
 - Without coal at the plant, 20 positions will be needed in 2016. There are a total of 54 positions at the plant, but 10 of these are currently unfilled.
 - Exit packages have been developed and will be offered in July 2013 if approved by the Board and Council.

- d. Infrastructure
 - Capacity will be acquired from market until the cost of a new resource is more economical
 - Acquisition of renewable energy or credits for 25% of RPU's energy will be a goal for 2030.
 - The protection of RPU's interconnection capacity with MISO will be preserved.
 - The future of the capacity market versus the cost of adding new resources will continue to be reviewed as RPU goes forward.

Mr. Williams asked for comments and questions from the Board and the public. Mr. Wojcik said he wanted to recognize the many years of service provided by Silver Lake Plant employees, the time they spent in this planning process, and their many talents. Mr. Koshire said that in addition to the incentive plan, RPU management has also been working with unions on a Health Savings Account which could be approved at the June board meeting.

Mr. Williams asked the Board if there was any reason that RPU management should not proceed with the proposed personnel actions at the plant. The Board concurred that management should proceed accordingly.

Mr. Reichert asked to see more details on the financial action. Mr. Schlink said that there would be more details about expenses and debt service. Ms. Parker said staff would be preparing a longer-term budget. Mr. Wojcik said the plant site has a potential for investment. A member of the audience, Mr. Ray Schmitz, said that the Utility Board is to be commended for moving from coal. He also said that the plant building was an attractive building. Mr. Williams said this decision is a win-win for the community.

8. General Manager's Report.

- a. RPU management and City Administration management meet with the rating agencies regarding the 2013B Electric Revenue Bond issue. An AA rating is anticipated for RPU. May 14, 2013 is the date of the bond sale.

- b. The turnout for the Arbor Day Celebration was excellent again this year. Many RPU employees participated in the event.
 - c. RPU has extended the Cold Weather Rule for its customers at the request of the Minnesota Department of Commerce.
9. The management reports were discussed.
10. Other Business:
- There will be a special Utility Board meeting on May 14, 2013 at 4:00 p.m. at the RPU Service Center.
11. Mr. Wojcik moved to adjourn the meeting, seconded by Mr. Reichert.

All voting "AYE"

The meeting adjourned at 5:30 p.m.

Submitted by:

Kathleen Wilson
Secretary

Approved by the Board:

Greg Williams
Board President

5/14/13
Date