

FOR BOARD ACTION

Agenda Item # 5

Meeting Date:

12/15/05

SUBJECT: Approval of 2006 Electric and Water Budgets

PREPARED BY: Curt Kraft, Director of Corporate Services

ITEM DESCRIPTION:

In October staff reviewed the 2006 electric and water budgets with the finance committee and in November with the Board as a whole. At that time there was no changes made to the expense portion of the operating and capital budgets. The Board was presented with recommendations of 5% revenue adjustments in both the electric and water utilities to support the 2006 budget requests and maintain appropriate cash reserve levels.

Noteworthy items in the electric budget, the revenue forecast for 2006 estimates a 2.6% growth in our customer base and a 0.1% growth in commodity sales over 2005. A full year's sale of steam is projected, along with sale of energy into the MISO market. Additional staffing to support the customer impact on our operating and capital requirements due to continued growth. Operating expenses reflect a 5% increased cost of purchased power for 2006.

Items of note in the water utility are a projected increase of 4.3% in the customer base and a projected 4.0% decrease in commodity sales over 2005. The addition of one staff person to meet service requirements due to city growth. The last year of water main relocation costs due to the work being done on Highway 52 and 63. Proposed first time financing to balance revenue adjustments with the cash reserve requirements for the utility over the next five years.

Summary financial sheets are attached reflecting the recommended revenue adjustments.

UTILITY BOARD ACTION REQUESTED:

The Board is requested to approve the 2006 electric and water budgets.


General Manager

12/8/05
Date

ROCHESTER PUBLIC UTILITIES

Rochester Public Utilities

2006 Budgets

Supplemental Data

**ROCHESTER PUBLIC UTILITIES
ELECTRIC UTILITY
2006 OPERATING BUDGET**

ELECTRIC UTILITY - BASE CASE

FORECAST BY YEAR, 2005 THROUGH 2010

(\$000's)

Revision Date: 11/14/2005

	2005*	2006	2007	2008	2009	2010
9 Sales of Electricity - Retail	91,042	96,153	104,603	113,319	121,839	131,445
10 Electric Resale Sales	15,788	19,146	20,484	21,274	21,463	22,405
11 Steam Sales	541	3,802	3,891	5,557	6,646	7,515
12 Other Revenues	2,682	2,826	3,072	3,232	3,425	3,650
13 Total Operating Revenues	110,054	121,926	132,049	143,383	153,373	165,015
14 Purchased Power	56,490	60,265	65,153	70,395	76,363	82,528
15 Fuel Costs	11,279	15,849	17,394	19,637	20,896	22,952
16 Depreciation Expense	6,061	6,468	6,814	7,419	8,155	9,583
17 Major Operating Expenses	73,830	82,582	89,361	97,451	105,415	115,062
18 Other Operating Expenditures	20,935	26,099	24,768	25,249	25,213	26,771
19 Net InterUtility Charges	(1,175)	(1,304)	(1,343)	(1,383)	(1,424)	(1,467)
20 Net Other Operating Expenses	19,760	24,795	23,425	23,866	23,789	25,304
21 Total Operating Expenses	93,590	107,377	112,786	121,317	129,203	140,366
22 Operating Income	16,463	14,549	19,263	22,066	24,169	24,649
23 Interest Expense, Incl AFUDC	(2,198)	(2,324)	(2,998)	(2,889)	(4,513)	(4,446)
24 Interest and Other Income	932	1,219	1,094	880	1,805	1,189
25 Income Before Transfers/Capital Contributions	15,197	13,444	17,359	20,057	21,462	21,391
26 Transfers (In Lieu of Tax Payments)	(7,561)	(7,773)	(8,258)	(8,704)	(9,185)	(9,806)
27 Capital Contributions	6	0	0	0	0	0
28 Change in Net Assets	7,643	5,670	9,101	11,353	12,278	11,585
29 01/01 Cash Balance	15,493	16,293	12,938	22,185	17,781	33,949
30 Cash from Operations	13,704	12,138	15,915	18,772	20,433	21,168
31 Capital Expenditures	(14,313)	(12,594)	(19,621)	(20,946)	(36,732)	(29,302)
32 Bond Principal Payments	(1,655)	(1,750)	(2,082)	(2,204)	(2,897)	(3,058)
33 Net Total Bond Sale Proceeds	5,765	0	16,100	0	37,500	0
34 Net Change in Other Assets/Liabilities	(2,702)	(1,148)	(1,065)	(25)	(2,136)	88
35 Net Changes in Cash	799	(3,354)	9,247	(4,404)	16,168	(11,104)
36 12/31 Cash Balance	16,293	12,938	22,185	17,781	33,949	22,845
37 Debt Service Coverage Ratio	6.09	5.46	5.35	5.96	4.61	4.72
38 Rate Change	3.00%	5.00%	5.00%	5.00%	4.00%	4.00%

39 * 2005 forecast contains 10 months of actuals and 2 months of forecast

ROCHESTER PUBLIC UTILITIES
Statement of Revenues, Expenses & Changes in Net Assets
ELECTRIC UTILITY
2006 ANNUAL OPERATING BUDGET
(\$000's)

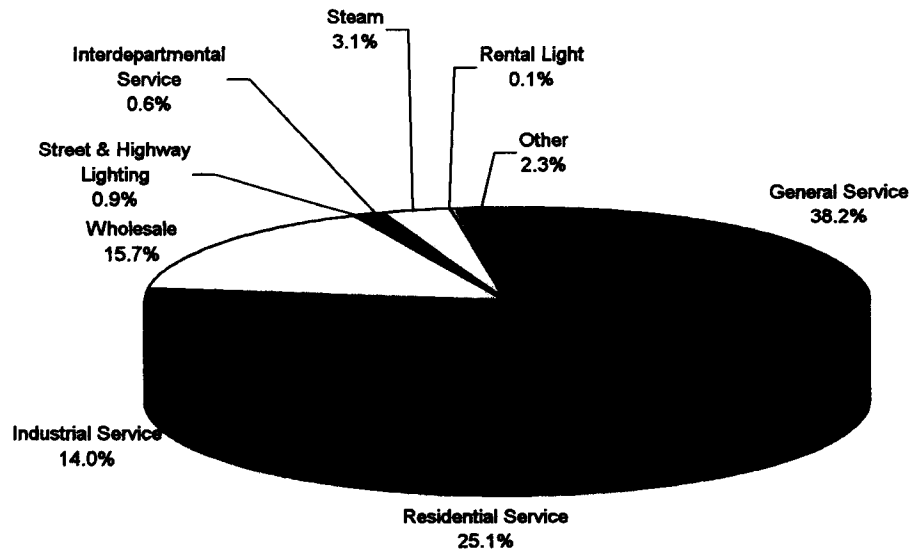
	<u>2005 Forecast*</u>	<u>2006 Budget**</u>	<u>Change</u>	<u>% Change</u>
7 OPERATING REVENUE				
8 Retail Revenue				
9 Electric - Residential Service	29,769	30,639	870	2.8
10 Electric - General Service	43,791	46,523	2,731	5.9
11 Electric - Industrial Service	15,640	17,077	1,437	8.4
12 Electric - Public Street & Highway Lighting	996	1,057	61	5.8
13 Electric - Rental LightRevenue	148	161	12	7.7
14 Interdepartmental Service	698	697	(1)	(0.1)
15 Total Retail Revenue	91,042	96,153	5,111	5.3
16 Wholesale Revenue				
17 Energy & Fuel Reimbursement	11,021	15,605	4,584	29.4
18 Capacity & Demand	4,575	3,541	(1,034)	(29.2)
19 Wholesale Sales Misc	192	0	(192)	0.0
20 Total Wholesale Revenue	15,788	19,146	3,358	17.5
21 Steam Sales	541	3,802	3,260	85.8
22 Other Operating Revenue	2,682	2,826	144	5.1
23 TOTAL OPERATING REVENUE	110,054	121,926	11,872	9.7
24 OPERATING EXPENSE				
25 Purchased Power	56,490	60,265	3,775	6.3
26 Generation Fuel	11,279	15,849	4,570	28.8
27 Depreciation & Amortization	6,061	6,468	407	6.3
28 Salaries & Benefits	15,520	16,581	1,062	6.4
29 Materials, Supplies, & Services	19,728	22,112	2,384	10.8
30 Inter-Utility Allocations	(1,175)	(1,304)	(129)	9.9
31 Capitalized Expenses	(14,313)	(12,594)	1,719	(13.6)
32 TOTAL OPERATING EXPENSE	93,590	107,377	13,787	12.8
33 NET OPERATING INCOME (LOSS)	16,463	14,549	(1,915)	(13.2)
34 NON-OPERATING INCOME				
35 Bond Interest Expense	(2,199)	(2,334)	(135)	5.8
36 Bond Issuance & Discount Expense	(43)	(27)	16	(58.8)
37 Interest Expense	(124)	(15)	109	(741.8)
38 Interest Income	687	719	32	4.4
39 Allow for Funds Used During Const	167	51	(116)	(225.0)
40 Miscellaneous - Net	246	500	254	50.9
41 TOTAL NON-OPERATING INCOME	(1,266)	(1,105)	161	(14.6)
INCOME (LOSS) BEFORE TRANSFERS /				
42 CAPITAL CONTRIBUTIONS	15,197	13,444	(1,754)	(13.0)
43 NET ASSETS				
44 Transfer In (Out) [In Lieu of Tax Pmt]	(7,561)	(7,773)	(212)	2.7
45 Capital Contributions	6	0	(6)	0.0
46 CHANGE IN NET ASSETS	7,643	5,670	(1,972)	(34.8)
47 Net Assets, Beginning	102,313	109,956	7,643	7
48 NET ASSETS, ENDING	109,956	115,626	5,670	4.9

49 * 2005 forecast contains 10 months of actuals and 2 months of forecast

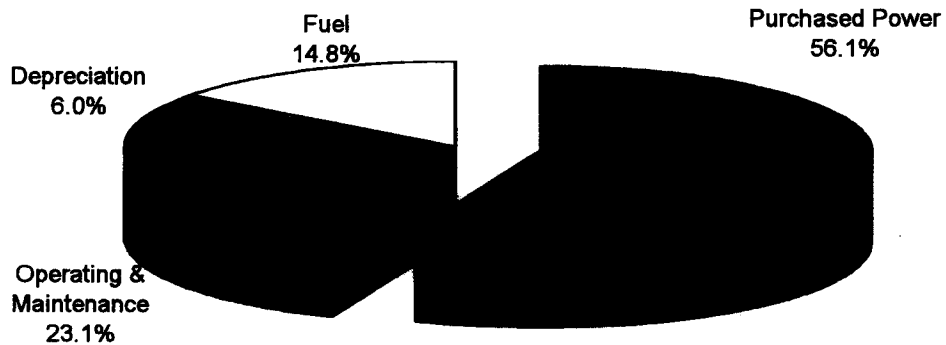
50 ** Assumes 5% rate increase effective January 1, 2006

**ROCHESTER PUBLIC UTILITIES
ELECTRIC UTILITY
2006 OPERATING BUDGET**

**OPERATING REVENUE SOURCES
\$121,926,000**



**OPERATING EXPENSE USES
\$107,377,000**



**ROCHESTER PUBLIC UTILITIES
WATER UTILITY - NORMAL YEAR
2006 OPERATING BUDGET**

**FORECAST BY YEAR, 2005 THROUGH 2010
(\$000's)**

Revision Date: 11/14/2005

	2005*	2006	2007	2008	2009	2010
8 Sales of Water - Retail	6,515	6,801	7,219	7,654	8,024	8,144
9 Other Revenue	535	578	604	629	654	679
10 Total Revenues	7,050	7,379	7,823	8,283	8,678	8,823
11 Electricity	697	704	735	780	810	838
12 Chemicals	91	112	115	120	125	129
13 Billing Fee	470	483	498	513	528	543
14 Depreciation Expense	1,914	2,030	2,131	2,247	2,351	2,424
15 Major Operating Expenses	3,172	3,329	3,479	3,660	3,814	3,934
16 Other Operating Expenditures	1,566	2,128	2,132	2,194	2,289	2,426
17 Interutility Charges	1,175	1,262	1,305	1,342	1,379	1,442
18 Net Other Operating Expenses	2,741	3,390	3,437	3,535	3,668	3,868
19 Total Operating Expenses	5,913	6,718	6,917	7,195	7,482	7,801
20 Operating Income	1,137	661	906	1,088	1,196	1,022
21 Interest and Other Income	40	14	3	7	25	58
22 Income Before Transfers/Capital Contributions	1,177	675	910	1,094	1,221	1,080
23 Transfers (In Lieu of Tax Payments)	(337)	(334)	(343)	(357)	(371)	(372)
24 Capital Contributions	4,000	4,000	4,000	4,000	4,000	4,000
25 Change in Net Assets	4,840	4,341	4,567	4,738	4,850	4,708
26 01/01 Cash Balance	1,708	1,107	2,429	1,567	1,593	1,831
27 Cash from Operations	6,754	6,371	6,698	6,985	7,201	7,132
28 Capital Expenditures	(3,189)	(2,595)	(2,691)	(2,588)	(2,586)	(1,979)
29 Non-Cash Capital Contributions	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)
30 Debt Principal Payments	0	(271)	(285)	(299)	(314)	(330)
31 Net Total Debt Issue Proceeds	0	1,500	0	0	0	0
32 Net Change in Assets & Liabilities	(166)	318	(585)	(70)	(64)	(31)
33 Net Change in Cash	(601)	1,322	(863)	27	237	792
34 12/31 Cash Balance	1,107	2,429	1,567	1,593	1,831	2,623
35 Rate Change	4.00%	5.00%	5.00%	4.00%	3.00%	0.00%

36 * 2005 forecast contains 10 months actuals and 2 months forecast

ROCHESTER PUBLIC UTILITIES
Statement of Revenues, Expenses & Changes in Net Assets
WATER UTILITY
2006 ANNUAL OPERATING BUDGET
(\$000's)

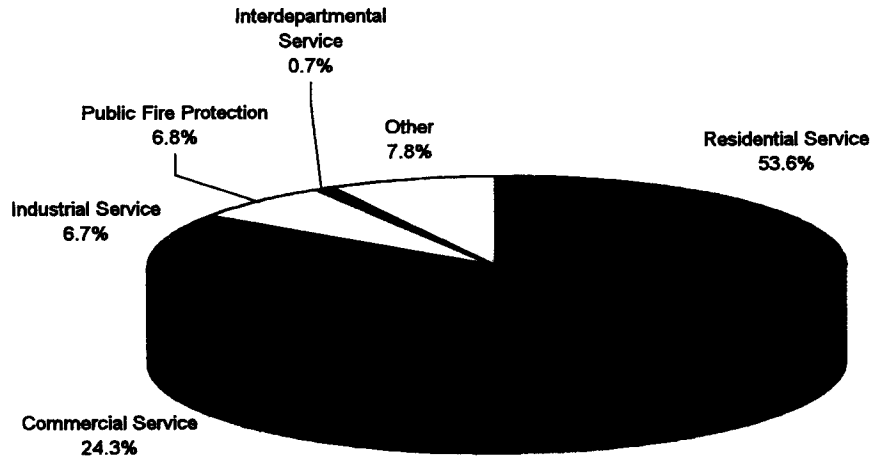
	<u>2005 Forecast*</u>	<u>2006 Budget**</u>	<u>Change</u>	<u>% Change</u>
7 OPERATING REVENUE				
8 Retail Revenue				
9 Water - Residential Service	3,680	3,955	274	6.9
10 Water - Commercial Service	1,798	1,793	(5)	(0.3)
11 Water - Industrial Service	500	498	(2)	(0.3)
12 Water - Public Fire Protection	454	502	49	9.7
13 Interdepartmental Service	83	54	(30)	(55.7)
14 Total Retail Revenue	6,515	6,801	286	4.2
15 Other Operating Revenue	535	578	43	7.4
16 TOTAL OPERATING REVENUE	7,050	7,379	329	4.5
17 OPERATING EXPENSE				
18 Depreciation & Amortization	1,914	2,030	116	5.7
19 Salaries & Benefits	1,662	1,753	91	5.2
20 Materials, Supplies, & Services	4,351	4,268	(83)	(2.0)
21 Inter-Utility Allocations	1,175	1,262	87	6.9
22 Capitalized & Other Deferred Expenses	(3,189)	(2,595)	594	(22.9)
23 TOTAL OPERATING EXPENSE	5,913	6,718	805	12.0
24 NET OPERATING INCOME (LOSS)	1,137	661	(476)	(72.0)
25 NON-OPERATING INCOME				
26 Interest Income	30	89	59	66.2
27 Miscellaneous - Net	10	(75)	(85)	113.3
28 TOTAL NON-OPERATING INCOME	40	14	(26)	(187.8)
INCOME (LOSS) BEFORE TRANSFERS /				
29 CAPITAL CONTRIBUTIONS	1,177	675	(502)	(74.4)
30 NET ASSETS				
31 Transfer In (Out) [In Lieu of Tax Pmt]	(337)	(334)	3	(0.8)
32 Capital Contributions	4,000	4,000	0	0.0
33 CHANGE IN NET ASSETS	4,840	4,341	(499)	(11.5)
34 Net Assets, Beginning	64,771	69,611	4,840	7.0
35 NET ASSETS, ENDING	69,611	73,952	4,341	5.9

36 * 2005 forecast contains 10 months actuals and 2 months forecast

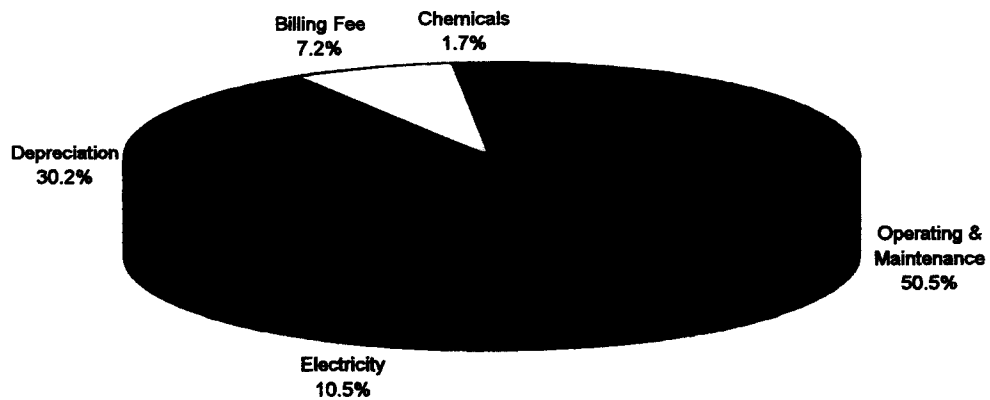
37 ** Assumes 5% rate increase effective January 1, 2006

**ROCHESTER PUBLIC UTILITIES
WATER UTILITY
2006 OPERATING BUDGET**

**OPERATING REVENUE SOURCES
\$7,379,000**



**OPERATING EXPENSE USES
\$6,718,000**





RESOLUTION

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 the 2006 electric and water capital and operating budgets.

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 15th day of December, 2005.

President

Secretary