

FOR BOARD ACTION

Agenda Item # 9.

Meeting Date:

12/14/06

SUBJECT: Approval of 2007 Electric and Water Budgets

PREPARED BY: Curt Kraft, Director of Corporate Services

ITEM DESCRIPTION:

In November, staff reviewed the preliminary 2007 electric and water budgets with the finance committee and the Board as a whole. At that time, there were no changes made to the expense portion of the operating and capital budgets. The Board was presented with recommendations for an 8% revenue adjustment in the electric utility and 5% in the water utility to support the 2007 budget requests while maintaining appropriate cash reserve levels.

Noteworthy items in the electric budget include:

- The retail revenue forecast for 2007 estimates a 2.3% growth in our customer base and a 3.9% growth in sales over 2006. Wholesale revenues are projected at \$ 23.5 million for 2007 which makes up 16% of our overall operating revenues.
- Operating expenses reflect purchased power costs increasing by \$10 million dollars in 2007, an increase of more than 14%. No change to our full time employee base is planned.
- Capital expenses show construction beginning on the emission control project at SLP, along with costs for local and regional transmission projects we are participating in.
- The budget includes the cost of debt to finance projects from 2007-2009 that aren't part of our regular capital activity.

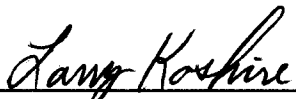
Water utility budget items include:

- The retail revenue forecast has an increase of 1.4% growth in the customer base, but a 4% decrease in sales for 2007 compared to 2006 due to the unusual dry summer periods.
- The operating expenses have been adjusted to reflect normal cost increases. Capital costs show standard expansion and replacement activity.
- The first principal payment occurs in 2007 on the short term borrowing done in 2006.

Summary financial sheets are attached reflecting the recommended revenue adjustments.

UTILITY BOARD ACTION REQUESTED:

The Board is requested to approve and recommend that the City Council approve the 2007 RPU electric and water budgets.



General Manager



Date

**ROCHESTER PUBLIC UTILITIES
ELECTRIC UTILITY
2007 OPERATING BUDGET**

ELECTRIC UTILITY - BASE CASE

**FORECAST BY YEAR, 2006 THROUGH 2011
(\$000's)**

	2006*	2007	2008	2009	2010	2011
Sales of Electricity - Retail	102,037	116,922	125,882	133,643	142,680	151,299
Electric Resale Sales	16,731	19,469	20,385	21,665	22,011	23,226
Steam Sales	2,465	4,121	4,233	6,083	8,056	8,305
Other Revenues	3,106	4,758	5,517	5,575	5,635	5,697
Total Operating Revenues	124,339	145,270	156,018	166,966	178,381	188,526
Purchased Power	68,928	79,081	89,767	96,147	103,942	111,639
Fuel Costs	12,270	14,705	15,744	17,471	19,102	19,764
Depreciation Expense	6,296	6,694	6,929	7,171	7,422	7,682
Major Operating Expenses	87,493	100,481	112,440	120,789	130,466	139,085
Other Operating Expenditures	27,267	23,582	25,154	25,935	26,570	28,490
Net InterUtility Charges	(1,251)	(1,345)	(1,392)	(1,441)	(1,491)	(1,543)
Net Other Operating Expenses	26,016	22,237	23,762	24,494	25,079	26,947
Total Operating Expenses	113,510	122,719	136,202	145,283	155,545	166,032
Operating Income	10,829	22,551	19,815	21,683	22,837	22,494
Interest Expense, Incl AFUDC	(2,306)	(5,344)	(5,205)	(5,056)	(6,268)	(6,059)
Interest and Other Income	2,607	3,619	3,262	2,721	3,315	2,801
Income Before Transfers/Capital Contributions	11,130	20,826	17,873	19,348	19,884	19,236
Transfers (In Lieu of Tax Payments)	(7,938)	(8,367)	(8,794)	(9,244)	(9,718)	(10,218)
Capital Contributions	0	0	0	0	0	0
Change in Net Assets	3,192	12,459	9,079	10,104	10,166	9,017
01/01 Cash Balance	17,534	14,100	21,935	25,686	29,738	33,280
Cash from Operations	9,488	19,153	16,007	17,275	17,588	16,699
Capital Expenditures	(11,001)	(26,648)	(31,811)	(20,192)	(20,210)	(24,696)
Bond Principal Payments	(1,750)	(3,078)	(3,256)	(3,443)	(4,358)	(4,613)
Net Total Bond Sale Proceeds	0	54,600	0	0	25,100	0
Net Change in Other Assets/Liabilities	(171)	(36,192)	22,811	10,412	(14,578)	11,799
Net Changes in Cash	(3,434)	7,835	3,751	4,052	3,542	(810)
12/31 Cash Balance	14,100	21,935	25,686	29,738	33,280	32,470
Reserve Target	20,435	24,808	26,547	27,738	29,080	30,454
Excess (Deficit) from Target	(6,335)	(2,873)	(861)	2,000	4,200	2,016
Construction Fund	-	33,684	10,926	-	12,330	-
Debt Service Coverage Ratio	4.86	3.90	3.55	3.72	3.16	3.09
Rate Change	3.00%	8.00%	5.00%	3.50%	3.50%	3.50%

41 * 2006 forecast contains 7 months of actuals and 5 months of forecast

ROCHESTER PUBLIC UTILITIES
Statement of Revenues, Expenses & Changes in Net Assets
ELECTRIC UTILITY
2007 ANNUAL OPERATING BUDGET

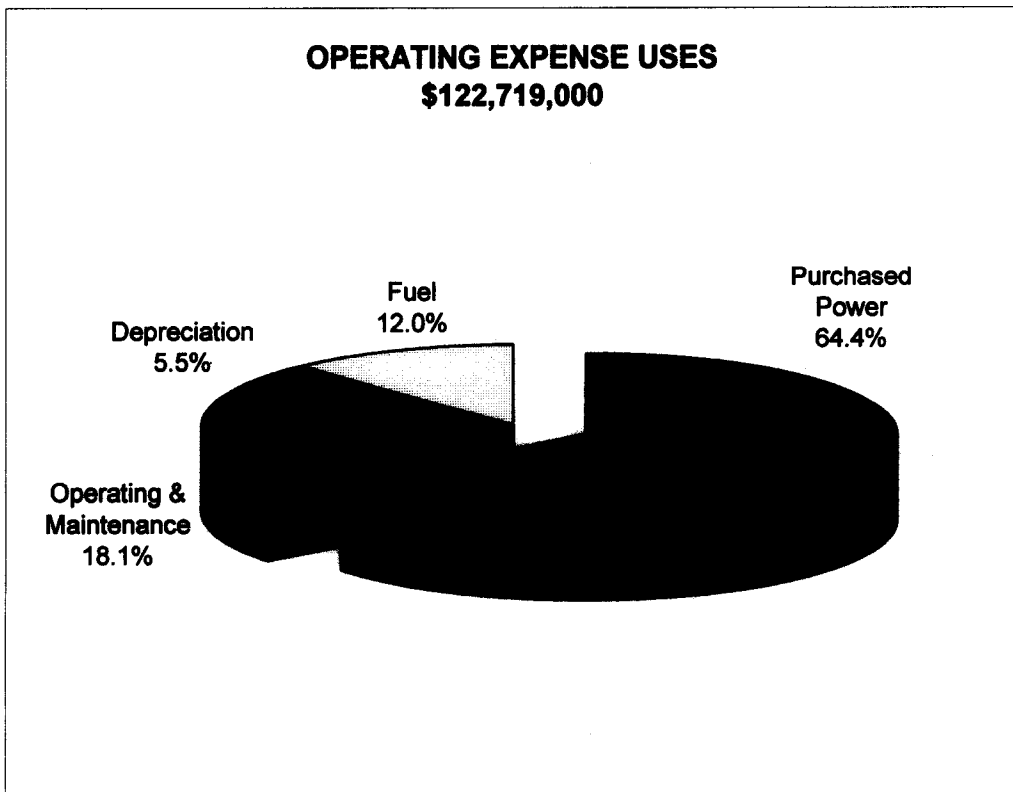
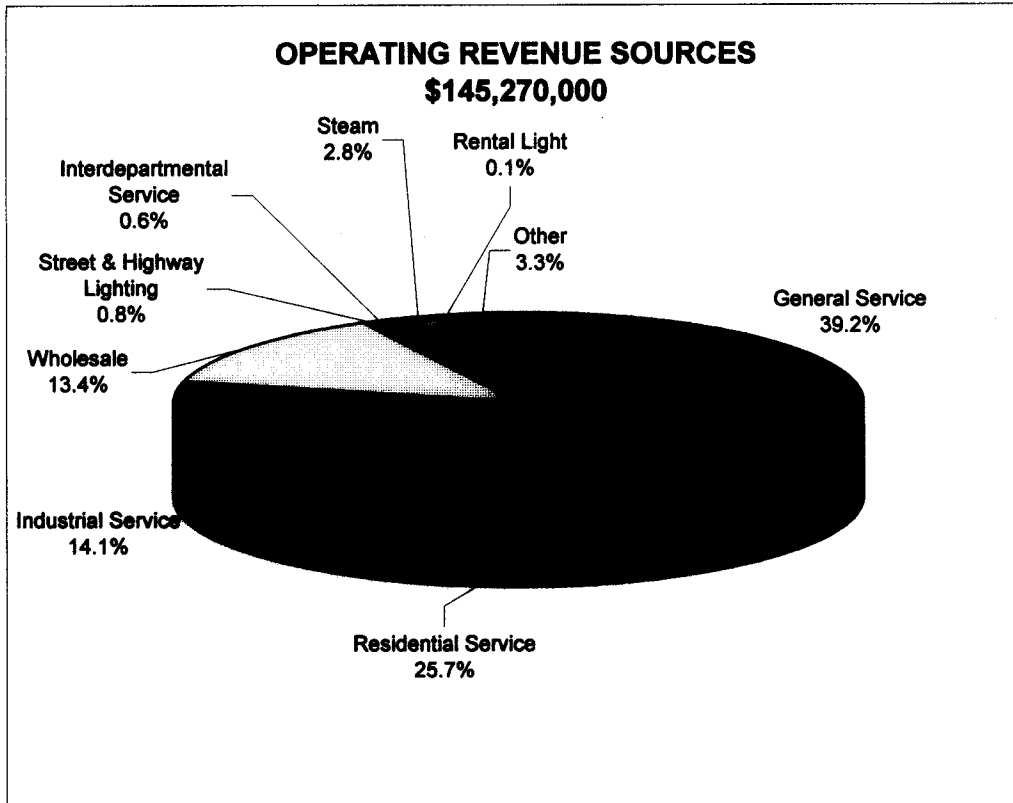
(\$000's)

	<u>2006 Forecast*</u>	<u>2007 Budget**</u>	<u>Change</u>	<u>% Change</u>
OPERATING REVENUE				
Retail Revenue				
Electric - Residential Service	32,667	37,329	4,662	14.3
Electric - General Service	49,197	56,981	7,784	15.8
Electric - Industrial Service	18,095	20,418	2,322	12.8
Electric - Public Street & Highway Lighting	1,108	1,179	71	6.4
Electric - Rental LightRevenue	163	186	23	14.2
Interdepartmental Service	808	829	21	2.7
Total Retail Revenue	102,037	116,922	14,885	14.6
Wholesale Revenue				
Energy & Fuel Reimbursement	13,225	15,814	2,589	19.6
Capacity & Demand	3,506	3,655	149	4.3
Wholesale Sales Misc	0	0	0	0.0
Total Wholesale Revenue	16,731	19,469	2,738	16.4
Steam Sales	2,465	4,121	1,656	67.2
Other Operating Revenue	3,106	4,758	1,652	53.2
TOTAL OPERATING REVENUE	124,339	145,270	20,931	16.8
OPERATING EXPENSE				
Purchased Power	68,928	79,081	10,154	14.7
Generation Fuel	12,270	14,705	2,436	19.8
Depreciation & Amortization	6,296	6,694	399	6.3
Salaries & Benefits	16,083	16,956	873	5.4
Materials, Supplies, & Services	22,185	33,275	11,089	50.0
Inter-Utility Allocations	(1,251)	(1,345)	(94)	7.5
Capitalized Expenses	(11,001)	(26,648)	(15,647)	142.2
TOTAL OPERATING EXPENSE	113,510	122,719	9,209	8.1
NET OPERATING INCOME (LOSS)	10,829	22,551	11,722	108.2
NON-OPERATING INCOME				
Bond Interest Expense	(2,213)	(5,272)	(3,060)	138.3
Bond Issuance & Discount Expense	(32)	(57)	(25)	79.4
Interest Expense	(150)	(15)	135	(89.9)
Interest Income	1,074	2,969	1,895	176.4
Allow for Funds Used During Const	89	0	(89)	(100.0)
Miscellaneous - Net	1,533	650	(883)	(57.6)
TOTAL NON-OPERATING INCOME	301	(1,725)	(2,026)	(673.0)
INCOME (LOSS) BEFORE TRANSFERS / CAPITAL CONTRIBUTIONS	11,130	20,826	9,696	87.1
NET ASSETS				
Transfer In (Out) [In Lieu of Tax Pmt]	(7,938)	(8,367)	(430)	5.4
Capital Contributions	0	0	0	0.0
CHANGE IN NET ASSETS	3,192	12,459	9,266	290.3
Net Assets, Beginning	102,313	105,505	3,192	3
NET ASSETS, ENDING	105,505	117,964	12,459	11.8

49 * 2006 forecast contains 7 months of actuals and 5 months of forecast

50 ** Assumes 8% rate increase effective January 1, 2007.

**ROCHESTER PUBLIC UTILITIES
ELECTRIC UTILITY
2007 OPERATING BUDGET**



**ROCHESTER PUBLIC UTILITIES
WATER UTILITY
2007 OPERATING BUDGET**

WATER UTILITY - BASE CASE

**FORECAST BY YEAR, 2006 THROUGH 2011
(\$000's)**

	2006*	2007	2008	2009	2010	2011
7 Sales of Water - Retail	6,986	7,244	7,533	7,753	7,746	7,738
8 Other Revenue	594	634	653	673	694	715
9 Total Revenues	7,580	7,879	8,186	8,426	8,440	8,453
10 Electricity	778	846	937	1,004	1,074	1,148
11 Chemicals	125	103	101	100	98	97
12 Billing Fee	485	493	499	506	513	521
13 Depreciation Expense	2,012	2,101	2,175	2,251	2,330	2,411
14 Major Operating Expenses	3,400	3,542	3,713	3,860	4,015	4,176
15 Other Operating Expenditures	2,136	2,057	2,277	2,441	2,388	2,483
16 Interutility Charges	1,251	1,345	1,392	1,441	1,491	1,543
17 Net Other Operating Expenses	3,387	3,402	3,669	3,882	3,879	4,026
18 Total Operating Expenses	6,787	6,943	7,381	7,742	7,894	8,202
19 Operating Income	793	935	805	684	546	251
20 Interest and Other Income	26	33	27	33	63	101
21 Income Before Transfers/Capital Contributions	819	968	831	717	608	351
22 Transfers (In Lieu of Tax Payments)	(312)	(350)	(356)	(361)	(356)	(350)
23 Capital Contributions	4,000	4,000	4,000	4,000	4,000	4,000
24 Change in Net Assets	4,507	4,618	4,475	4,356	4,252	4,001
25 01/01 Cash Balance	1,524	2,382	2,443	2,174	2,056	2,532
26 Cash from Operations	6,519	6,719	6,650	6,607	6,582	6,412
27 Capital Expenditures	(2,659)	(2,305)	(2,573)	(2,311)	(1,682)	(1,936)
28 Non-Cash Capital Contributions	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)
29 Debt Principal Payments	0	(355)	(370)	(390)	(410)	0
30 Net Total Debt Issue Proceeds	1,525	0	0	0	0	0
31 Net Change in Assets & Liabilities	(527)	2	25	(25)	(14)	11
32 Net Change in Cash	858	61	(268)	(119)	476	487
33 12/31 Cash Balance	2,382	2,443	2,174	2,056	2,532	3,019
34 Reserve Target	2,234	2,363	2,419	2,464	2,483	2,520
35 Excess (Deficit) from Target	148	80	(244)	(408)	49	499
36 Rate Change	5.00%	5.00%	4.00%	3.00%	0.00%	0.00%

37 * 2006 forecast contains 7 months of actuals and 5 months of forecast

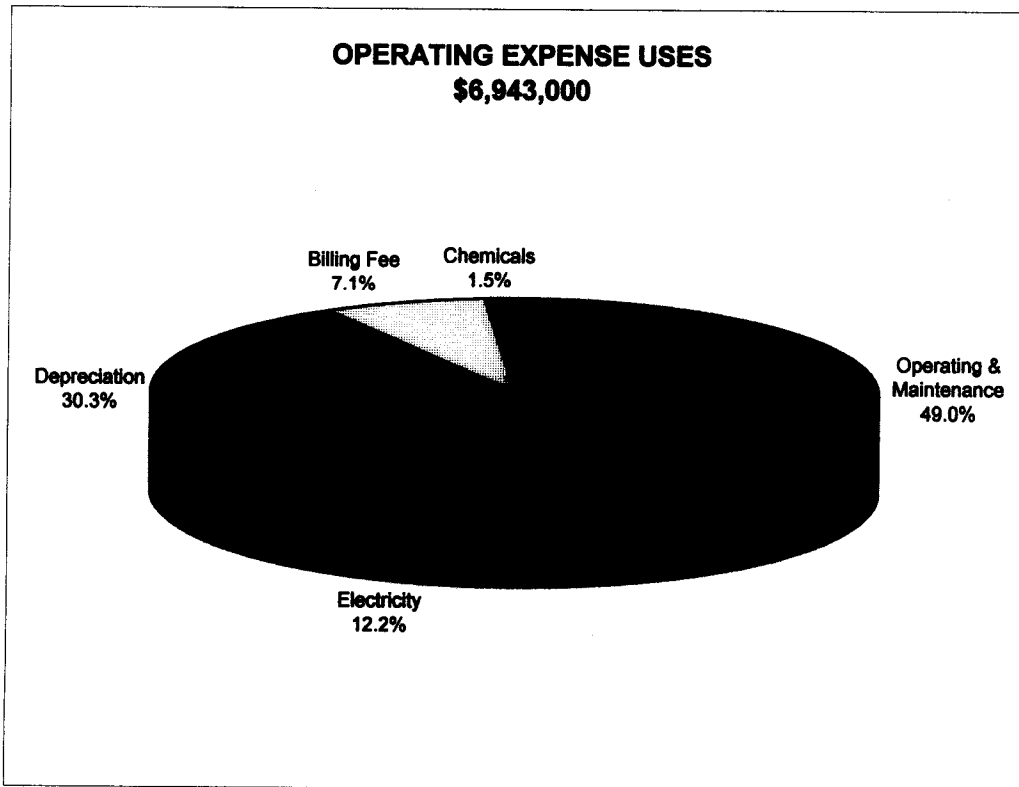
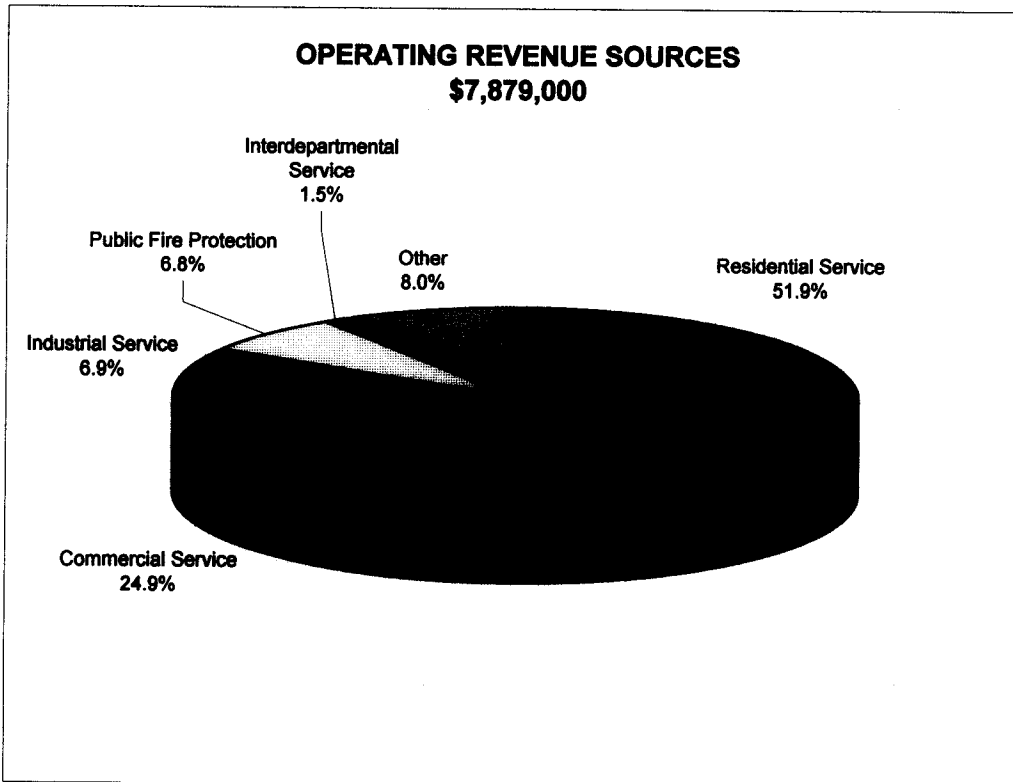
ROCHESTER PUBLIC UTILITIES
Statement of Revenues, Expenses & Changes in Net Assets
WATER UTILITY
2007 ANNUAL OPERATING BUDGET
 (\$000's)

	<u>2006 Forecast*</u>	<u>2007 Budget**</u>	<u>Change</u>	<u>% Change</u>
OPERATING REVENUE				
Retail Revenue				
Water - Residential Service	3,946	4,089	143	3.6
Water - Commercial Service	1,939	1,959	20	1.0
Water - Industrial Service	501	546	45	9.0
Water - Public Fire Protection	497	534	37	7.4
Interdepartmental Service	103	117	14	14.0
Total Retail Revenue	6,986	7,244	258	3.7
Other Operating Revenue	594	634	40	6.7
TOTAL OPERATING REVENUE	7,580	7,879	298	3.9
OPERATING EXPENSE				
Depreciation & Amortization	2,012	2,101	89	4.4
Salaries & Benefits	1,766	1,837	71	4.0
Materials, Supplies, & Services	4,417	3,966	(451)	(10.2)
Inter-Utility Allocations	1,251	1,345	94	7.5
Capitalized & Other Deferred Expenses	(2,659)	(2,305)	354	(13.3)
TOTAL OPERATING EXPENSE	6,787	6,943	157	2.3
NET OPERATING INCOME (LOSS)	794	935	142	17.8
NON-OPERATING INCOME				
Interest Income	58	111	53	90.6
Miscellaneous - Net	(33)	(78)	(45)	139.5
TOTAL NON-OPERATING INCOME	26	33	7	28.8
INCOME (LOSS) BEFORE TRANSFERS /				
CAPITAL CONTRIBUTIONS	819	968	149	18.2
NET ASSETS				
Transfer In (Out) [In Lieu of Tax Pmt]	(312)	(350)	(38)	12.3
Capital Contributions	4,000	4,000	0	0.0
CHANGE IN NET ASSETS	4,507	4,618	111	2.5
Net Assets, Beginning	64,771	69,279	4,507	7.0
NET ASSETS, ENDING	69,279	73,897	4,618	6.7

36 * 2006 forecast contains 7 months of actuals and 5 months of forecast

37 ** Assumes 5% rate increase effective January 1, 2007

**ROCHESTER PUBLIC UTILITIES
WATER UTILITY
2007 OPERATING BUDGET**





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 2007 electric and water capital and operating budgets.

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 14th day of December, 2006.

President

Secretary