

FOR BOARD ACTION

Agenda Item # 9.

Meeting Date:

12/13/07

SUBJECT: Approval of the 2008 Electric and Water Budgets

PREPARED BY: Sue Parker, Director of Corporate Services

ITEM DESCRIPTION:

In November, staff reviewed the preliminary 2008 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 recommendation for a 4% revenue adjustment in the electric utility for the year and no revenue adjustment for the water utility which will allow for providing reliable, quality service and maintaining a sound financial position.

Noteworthy items in the electric budget include:

- Operating expenses reflect purchased power costs increasing by \$7 million;
- A net change in employee base of four positions; 5 new positions offset by a reduction in one position that was not filled in 2007;
- Capital expenditures of approximately \$30 million, which includes the Emission Reduction Project at the Silver Lake Plant, transmission, distribution and substation work to improve reliability and routine capital maintenance;
- The retail revenue forecast for 2008 estimates an overall energy growth of 2.9%.

Water utility budget items include:

- The retail revenue forecast has an increase in customer base of approximately 2.8% with an overall decrease in sales of 9.1%;
- The operating expenses have been adjusted to reflect normal cost increases. Capital costs show standard expansion and replacement activity.

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 2008 RPU electric and water budgets.



General Manager



Date

ROCHESTER PUBLIC UTILITIES

**ROCHESTER PUBLIC UTILITIES
ELECTRIC UTILITY
2008 OPERATING BUDGET**

ELECTRIC UTILITY - BASE CASE

FORECAST BY YEAR, 2007 THROUGH 2012

(\$000's)

	2007*	2008	2009	2010	2011	2012
8 Sales of Electricity - Retail	116,536	125,781	137,020	146,773	153,551	160,599
9 Electric Resale Sales	29,928	27,311	28,120	28,287	28,296	28,608
10 Steam Sales	4,322	4,717	5,923	6,049	6,619	6,762
11 Other Revenues	5,423	5,188	5,265	5,339	5,415	5,492
12 Total Operating Revenues	156,209	162,997	176,328	186,447	193,881	201,461
13 Purchased Power	79,710	86,405	92,659	98,469	104,089	110,042
14 Fuel Costs	23,405	23,306	24,651	25,269	26,129	26,794
15 Depreciation Expense	6,612	6,543	6,573	7,371	8,083	8,793
16 Major Operating Expenses	109,726	116,254	123,883	131,110	138,302	145,629
17 Other Operating Expenditures	25,927	28,045	28,105	31,563	32,642	34,377
18 Net InterUtility Charges	(1,190)	(1,525)	(1,563)	(1,602)	(1,642)	(1,683)
19 Net Other Operating Expenses	24,737	26,520	26,542	29,981	31,000	32,694
20 Total Operating Expenses	134,464	142,774	150,425	161,071	169,302	178,323
21 Operating Income	21,746	20,222	25,903	25,376	24,578	23,137
22 Interest Expense, Incl AFUDC	(3,919)	(4,252)	(4,146)	(5,419)	(5,246)	(5,091)
23 Interest and Other Income	3,539	2,393	1,767	3,884	2,573	2,235
Income Before Transfers/Capital Contributions	21,366	18,363	23,524	23,841	21,905	20,282
24 Transfers (In Lieu of Tax Payments)	(8,467)	(8,857)	(9,302)	(9,769)	(10,261)	(10,778)
26 Capital Contributions	135	0	0	0	0	0
27 Change in Net Assets	13,034	9,506	14,222	14,072	11,644	9,503
28 01/01 Cash Balance	16,302	22,846	28,043	30,420	37,656	41,822
29 Cash from Operations	19,646	16,049	20,795	21,444	19,727	18,297
30 Capital Expenditures	(23,709)	(32,430)	(23,318)	(18,163)	(29,995)	(16,055)
31 Bond Principal Payments	(2,335)	(2,373)	(2,502)	(3,420)	(3,377)	(3,572)
32 Net Total Bond Sale Proceeds	47,400	0	0	27,000	0	0
33 Net Change in Other Assets/Liabilities	(34,457)	23,952	7,401	(19,624)	17,810	3,398
34 Net Changes in Cash	6,544	5,197	2,376	7,237	4,166	2,068
35 12/31 Cash Balance	22,846	28,043	30,420	37,656	41,822	43,890
36 Reserve Target	25,008	32,800	34,500	36,700	38,600	40,600
37 Excess (Deficit) from Target	(2,162)	(4,757)	(4,080)	956	3,222	3,290
38 Construction Fund	31,811	7,716	-	19,704	4,038	604
39 Debt Service Coverage Ratio	5.10	4.40	5.15	4.14	4.09	3.94
40 Rate Change	8.00%	4.00%	5.00%	4.00%	2.00%	2.00%

41 * 2007 forecast contains 7 months of actuals and 5 months of forecast

ROCHESTER PUBLIC UTILITIES
Statement of Revenues, Expenses & Changes in Net Assets
ELECTRIC UTILITY
2008 ANNUAL OPERATING BUDGET

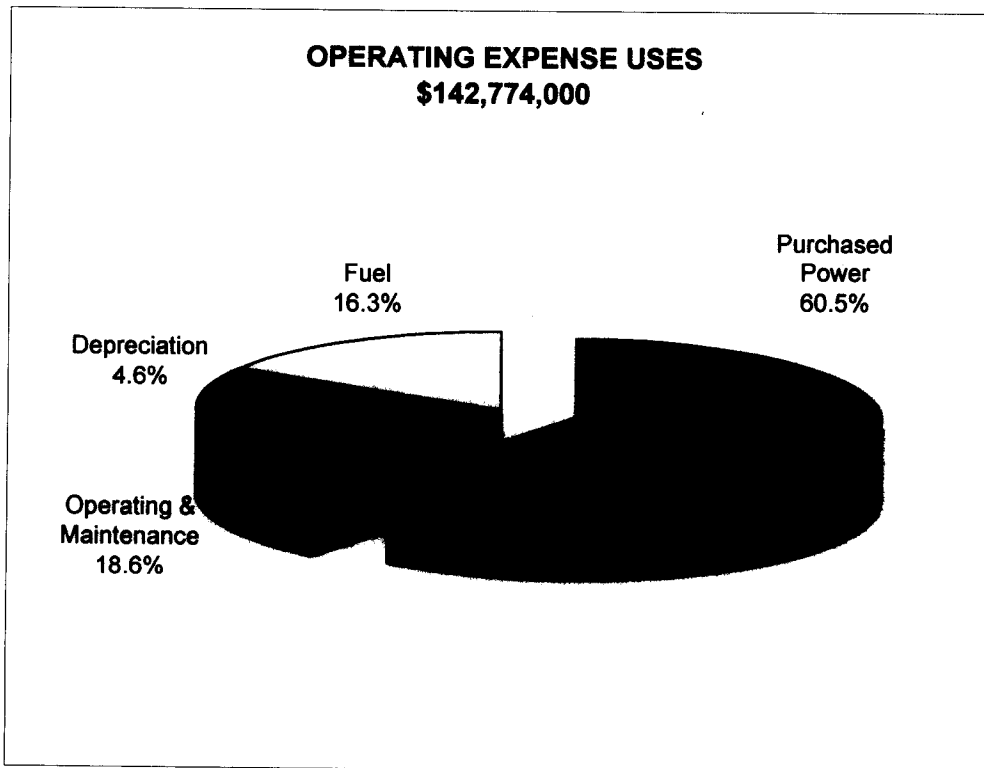
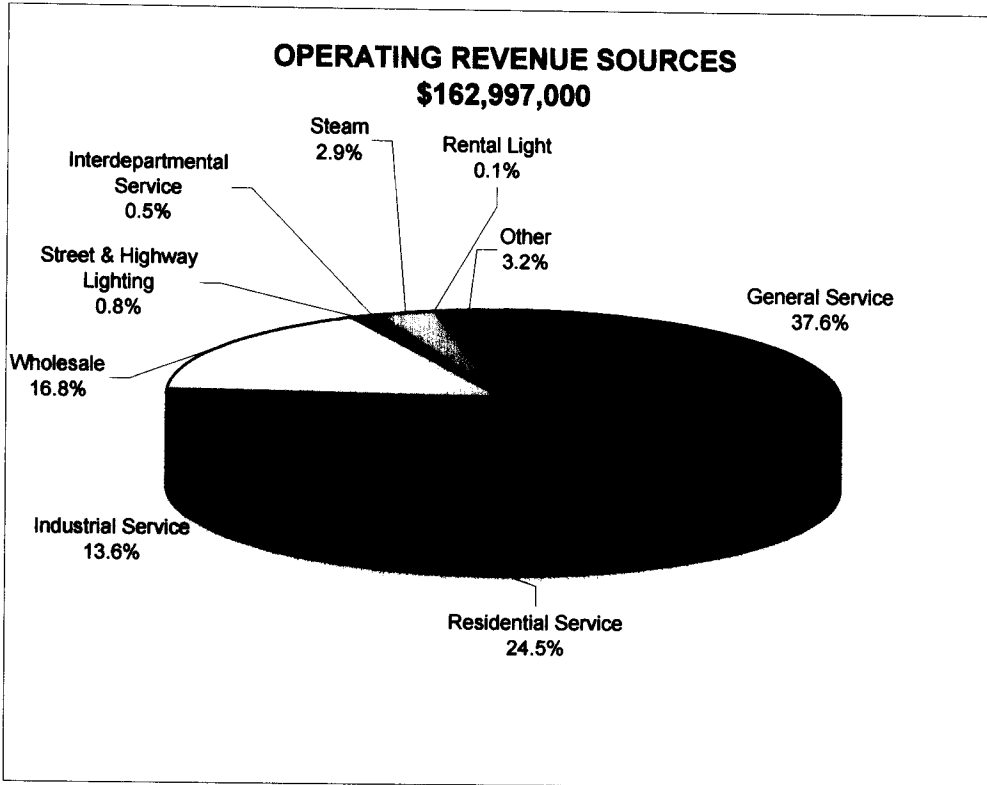
(\$000's)

	<u>2007 Forecast*</u>	<u>2008 Budget**</u>	<u>Change</u>	<u>% Change</u>
OPERATING REVENUE				
Retail Revenue				
Electric - Residential Service	37,352	39,967	2,615	7.0
Electric - General Service	56,762	61,326	4,564	8.0
Electric - Industrial Service	20,142	22,178	2,036	10.1
Electric - Public Street & Highway Lighting	1,208	1,238	30	2.5
Electric - Rental LightRevenue	181	191	10	5.5
Interdepartmental Service	891	881	(10)	(1.1)
Total Retail Revenue	116,536	125,781	9,245	7.9
Wholesale Revenue				
Energy & Fuel Reimbursement	26,254	24,420	(1,834)	(7.0)
Capacity & Demand	3,653	2,891	(762)	(20.9)
Wholesale Sales Misc	22	0	(22)	0.0
Total Wholesale Revenue	29,929	27,311	(2,618)	(8.7)
Steam Sales	4,322	4,717	395	9.1
Other Operating Revenue	5,423	5,188	(235)	(4.3)
TOTAL OPERATING REVENUE	156,209	162,997	6,787	4.3
OPERATING EXPENSE				
Purchased Power	79,710	86,405	6,695	8.4
Generation Fuel	23,405	23,306	(98)	(0.4)
Depreciation & Amortization	6,612	6,543	(69)	(1.0)
Salaries & Benefits	16,849	18,155	1,305	7.7
Materials, Supplies, & Services	32,787	42,321	9,534	29.1
Inter-Utility Allocations	(1,190)	(1,525)	(335)	28.2
Capitalized Expenses	(23,709)	(32,430)	(8,721)	36.8
TOTAL OPERATING EXPENSE	134,464	142,774	8,311	6.2
NET OPERATING INCOME (LOSS)	21,746	20,222	(1,524)	(7.0)
NON-OPERATING INCOME				
Bond Interest Expense	(3,728)	(3,932)	(204)	5.5
Bond Issuance & Discount Expense	(44)	(56)	(12)	26.4
Interest Expense	(147)	(264)	(118)	80.3
Interest Income	3,056	1,993	(1,063)	(34.8)
Allow for Funds Used During Const	0	0	0	0.0
Miscellaneous - Net	483	400	(83)	(17.2)
TOTAL NON-OPERATING INCOME	(380)	(1,860)	(1,480)	389.5
INCOME (LOSS) BEFORE TRANSFERS /				
CAPITAL CONTRIBUTIONS	21,366	18,363	(3,003)	(14.1)
NET ASSETS				
Transfer In (Out) [In Lieu of Tax Pmt]	(8,467)	(8,857)	(390)	4.6
Capital Contributions	135	0	(135)	0.0
CHANGE IN NET ASSETS	13,034	9,506	(3,528)	(27.1)
Net Assets, Beginning	121,093	134,127	13,034	11
NET ASSETS, ENDING	134,127	143,633	9,506	7.1

49 * 2007 forecast contains 7 months of actuals and 5 months of forecast

50 ** Assumes 4% rate increase effective January 1, 2008.

**ROCHESTER PUBLIC UTILITIES
ELECTRIC UTILITY
2008 OPERATING BUDGET**



**ROCHESTER PUBLIC UTILITIES
WATER UTILITY
2008 OPERATING BUDGET**

WATER UTILITY - BASE CASE

**FORECAST BY YEAR, 2007 THROUGH 2012
(\$'000's)**

	2007*	2008	2009	2010	2011	2012
7 Sales of Water - Retail	7,646	7,355	7,431	7,463	7,479	7,487
8 Other Revenue	627	705	727	749	772	796
9 Total Revenues	8,273	8,060	8,158	8,213	8,252	8,283
10 Electricity	912	890	978	1,052	1,106	1,159
11 Chemicals	112	113	116	118	119	120
12 Billing Fee	497	507	520	534	548	562
13 Depreciation Expense	2,040	2,177	2,349	2,514	2,668	2,724
14 Major Operating Expenses	3,560	3,686	3,963	4,218	4,441	4,565
15 Other Operating Expenditures	2,249	1,888	2,220	2,097	2,219	2,190
16 Interutility Charges	1,111	1,525	1,563	1,602	1,642	1,683
17 Net Other Operating Expenses	3,360	3,413	3,783	3,699	3,861	3,873
18 Total Operating Expenses	6,920	7,100	7,745	7,917	8,302	8,438
19 Operating Income	1,353	961	412	296	(50)	(155)
20 Interest and Other Income (Expense)	14	4	(11)	2	28	21
21 Income Before Transfers/Capital Contributions	1,366	964	401	297	(22)	(133)
22 Transfers (In Lieu of Tax Payments)	(389)	(342)	(341)	(336)	(330)	(323)
23 Capital Contributions	4,000	4,000	4,000	4,000	4,000	4,000
24 Change in Net Assets	4,978	4,622	4,060	3,961	3,849	3,544
25 01/01 Cash Balance	1,808	3,396	3,040	2,573	2,642	2,868
26 Cash from Operations	7,018	6,799	6,409	6,475	6,316	6,268
27 Capital Expenditures	(2,367)	(2,765)	(2,534)	(1,983)	(2,092)	(2,137)
28 Non-Cash Capital Contributions	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)
29 Debt Principal Payments	(355)	(370)	(390)	(410)	0	0
30 Net Total Debt Issue Proceeds	0	0	0	0	0	0
31 Net Change in Assets & Liabilities	1,293	(21)	48	(13)	2	0
32 Net Change in Cash	1,588	(356)	(467)	69	226	131
33 12/31 Cash Balance	3,396	3,040	2,573	2,642	2,868	2,998
34 Reserve Target	2,234	2,537	2,618	2,639	2,686	2,702
35 Excess (Deficit) from Target	1,162	503	(45)	3	182	296
36 Rate Change	5.0%	0.0%	0.0%	0.0%	0.0%	0.0%

37 * 2007 Forecast contains 9 months actuals and 3 months forecast

ROCHESTER PUBLIC UTILITIES
Statement of Revenues, Expenses & Changes in Net Assets
WATER UTILITY
2008 ANNUAL OPERATING BUDGET

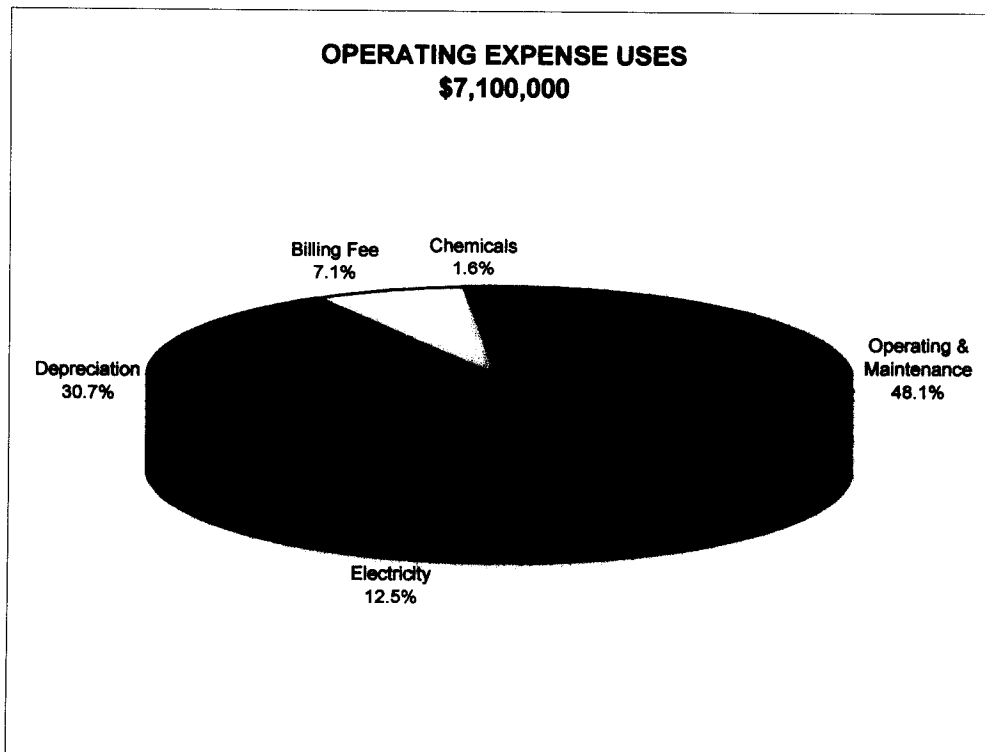
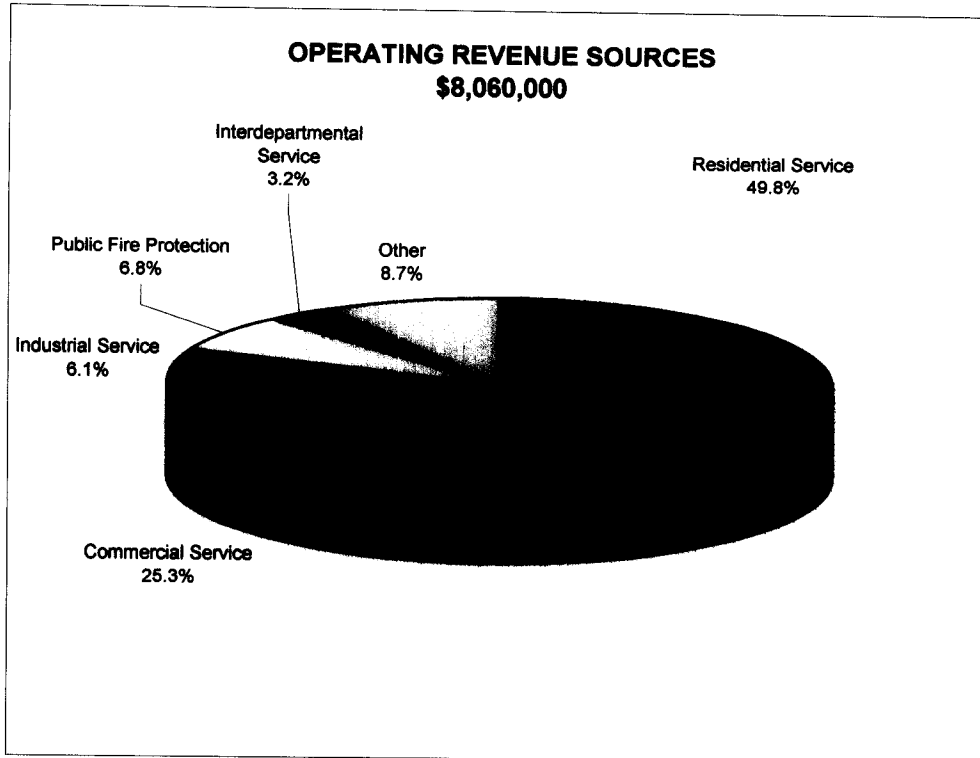
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	<u>2007 Forecast*</u>	<u>2008 Budget**</u>	<u>Change</u>	<u>% Change</u>
6				
7	OPERATING REVENUE			
8	Retail Revenue			
9	Water - Residential Service	4,286	4,018	(268)
10	Water - Commercial Service	2,112	2,040	(72)
11	Water - Industrial Service	547	491	(56)
12	Water - Public Fire Protection	527	548	21
13	Interdepartmental Service	175	259	84
14	Total Retail Revenue	7,646	7,355	(291)
15	Other Operating Revenue	627	705	79
16	TOTAL OPERATING REVENUE	8,273	8,060	(213)
17	OPERATING EXPENSE			
18	Depreciation & Amortization	2,040	2,177	137
19	Salaries & Benefits	1,873	1,767	(107)
20	Materials, Supplies, & Services	4,264	4,396	132
21	Inter-Utility Allocations	1,111	1,525	414
22	Capitalized & Other Deferred Expenses	(2,367)	(2,765)	(397)
23	TOTAL OPERATING EXPENSE	6,920	7,100	179
24	NET OPERATING INCOME (LOSS)	1,353	961	(392)
25	NON-OPERATING INCOME			
26	Interest Income	86	65	(21)
27	Miscellaneous - Net	(72)	(61)	11
28	TOTAL NON-OPERATING INCOME	14	4	(10)
29	INCOME (LOSS) BEFORE TRANSFERS / CAPITAL CONTRIBUTIONS	1,366	964	(402)
30	NET ASSETS			
31	Transfer In (Out) [In Lieu of Tax Pmt]	(389)	(342)	47
32	Capital Contributions	4,000	4,000	0
33	CHANGE IN NET ASSETS	4,978	4,622	(356)
34	Net Assets, Beginning	80,566	85,544	4,978
35	NET ASSETS, ENDING	85,544	90,166	4,622

36 * 2007 forecast contains 9 months of actuals and 3 months of forecast

37 ** Assumes 0% rate increase

**ROCHESTER PUBLIC UTILITIES
WATER UTILITY
2008 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 2008 electric and water capital and operating budgets.

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 13th day of December, 2007.

President

Secretary