

FOR BOARD ACTION

Agenda Item # 4

Meeting Date:

12/11/08

SUBJECT:

Approval of the 2009 Electric and Water Budgets

PREPARED BY:

Sue Parker, Director of Corporate Services

ITEM DESCRIPTION:

In November, staff reviewed the preliminary 2009 electric and water budgets with the finance committee and the Board as a whole. The Board was presented with recommendation for a 5% 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 \$11 million or equating to a rate impact of 4% to our customers;
- A net change in employee base of three positions;
- Capital expenditures of approximately \$12 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 2.2%.


Water utility budget items include:

- The retail revenue forecast has an increase in customer base of approximately 0.7% with an overall increase in projected sales of 18%;
- The operating expenses have been adjusted to reflect normal cost increases. Capital costs show standard expansion and replacement activity.

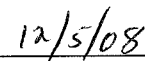
Summary financial sheets are attached reflecting the recommended revenue adjustments.

UTILITY BOARD ACTION REQUESTED:

The Board is requested to approve and recommend that the City Council approve the 2009 RPU electric and water budgets.



General Manager



Date

ROCHESTER PUBLIC UTILITIES

**ROCHESTER PUBLIC UTILITIES
ELECTRIC UTILITY
2009 OPERATING BUDGET**

ELECTRIC UTILITY - BASE CASE

**FORECAST BY YEAR, 2008 THROUGH 2013
(\$000's)**

| | 2008* | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|----------|----------|----------|----------|----------|----------|
| 8 Sales of Electricity - Retail | 119,753 | 131,173 | 140,485 | 149,807 | 157,700 | 166,022 |
| 9 Electric Resale Sales | 20,603 | 29,371 | 32,385 | 32,377 | 33,292 | 34,224 |
| 10 Steam Sales | 3,548 | 6,996 | 8,401 | 9,231 | 9,440 | 9,654 |
| 11 Other Revenues | 5,736 | 5,670 | 5,668 | 5,717 | 5,762 | 5,812 |
| 12 Total Operating Revenues | 149,641 | 173,209 | 186,939 | 197,132 | 206,194 | 215,713 |
| 13 Purchased Power | 79,658 | 90,992 | 97,381 | 103,339 | 108,731 | 114,462 |
| 14 Fuel Costs | 17,251 | 26,403 | 30,027 | 32,372 | 33,325 | 34,295 |
| 15 Depreciation Expense | 6,576 | 7,071 | 7,388 | 8,362 | 8,885 | 9,591 |
| 16 Major Operating Expenses | 103,485 | 124,466 | 134,795 | 144,072 | 150,941 | 158,348 |
| 17 Other Operating Expenditures | 28,135 | 30,801 | 33,124 | 33,643 | 35,371 | 37,324 |
| 18 Net InterUtility Charges | (1,305) | (1,536) | (1,574) | (1,613) | (1,653) | (1,694) |
| 19 Net Other Operating Expenses | 26,831 | 29,265 | 31,550 | 32,030 | 33,718 | 35,630 |
| 20 Total Operating Expenses | 130,316 | 153,731 | 166,345 | 176,103 | 184,658 | 193,978 |
| 21 Operating Income | 19,325 | 19,477 | 20,594 | 21,030 | 21,536 | 21,734 |
| 22 Interest Expense, Incl AFUDC | (4,229) | (4,377) | (4,583) | (5,705) | (5,251) | (8,151) |
| 23 Interest and Other Income | 1,976 | 1,334 | 1,447 | 1,775 | 1,654 | 2,573 |
| Income Before Transfers/Capital Contributions | 17,072 | 16,434 | 17,458 | 17,100 | 17,939 | 16,156 |
| 25 Transfers (In Lieu of Tax Payments) | (8,488) | (8,895) | (9,218) | (9,582) | (9,930) | (10,297) |
| 26 Capital Contributions | 3 | 0 | 0 | 0 | 0 | 0 |
| 27 Change in Net Assets | 8,587 | 7,539 | 8,240 | 7,518 | 8,009 | 5,859 |
| 28 01/01 Cash Balance | 22,991 | 28,246 | 29,500 | 35,320 | 36,341 | 37,053 |
| 29 Cash from Operations | 15,163 | 14,610 | 15,628 | 15,879 | 16,893 | 15,450 |
| 30 Capital Expenditures | (31,245) | (20,254) | (14,452) | (22,383) | (18,064) | (25,840) |
| 31 Bond Principal Payments | (2,165) | (2,502) | (2,627) | (8,011) | (3,397) | (5,416) |
| 32 Net Total Bond Sale Proceeds | 0 | 0 | 4,800 | 22,700 | 0 | 53,700 |
| 33 Net Change in Other Assets/Liabilities | 23,501 | 9,400 | 2,472 | (7,164) | 5,279 | (38,735) |
| 34 Net Changes in Cash | 5,255 | 1,254 | 5,821 | 1,021 | 712 | (841) |
| 35 12/31 Cash Balance | 28,246 | 29,500 | 35,320 | 36,341 | 37,053 | 36,212 |
| 36 Reserve Target | 32,800 | 32,600 | 35,000 | 37,100 | 39,000 | 41,000 |
| 37 Excess (Deficit) from Target | (4,554) | (3,100) | 320 | (759) | (1,947) | (4,788) |
| 38 Construction Fund | 9,400 | - | - | 5,279 | - | 34,022 |
| 39 Debt Service Coverage Ratio | 4.36 | 4.05 | 4.08 | 2.27 | 3.71 | 2.50 |
| 40 Rate Change | 4.00% | 5.00% | 4.70% | 4.70% | 4.00% | 4.00% |

41 * 2008 forecast contains 8 months of actuals and 4 months of forecast

ROCHESTER PUBLIC UTILITIES
Statement of Revenues, Expenses & Changes in Net Assets
ELECTRIC UTILITY
2009 ANNUAL OPERATING BUDGET

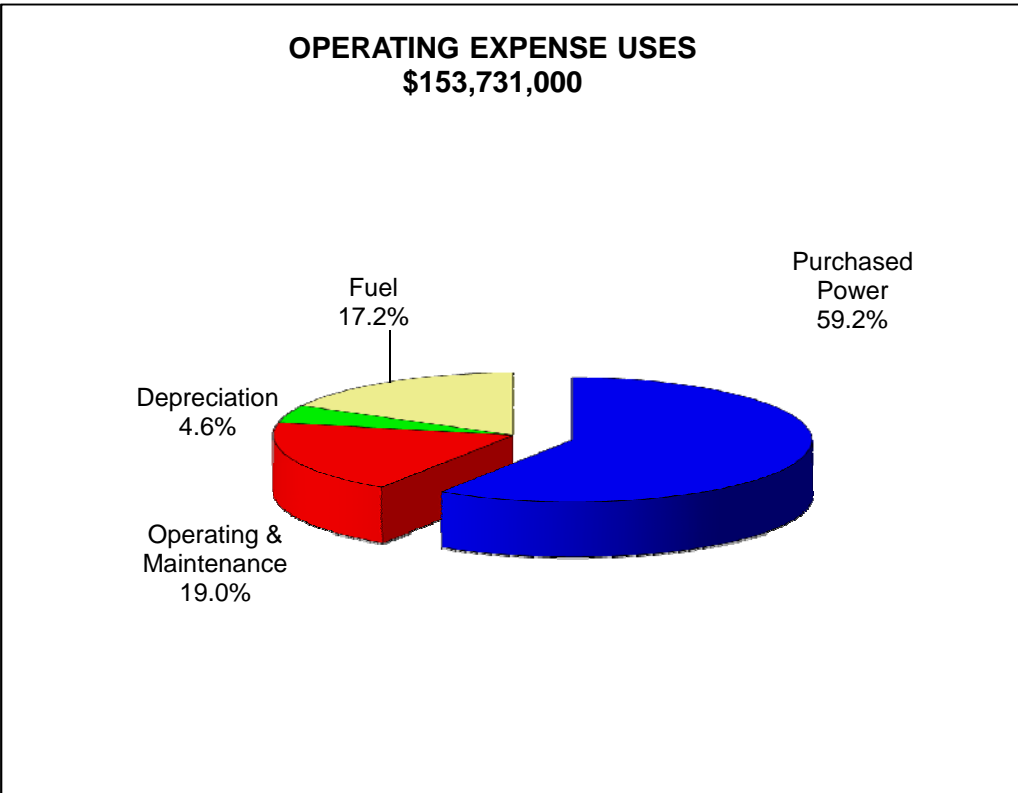
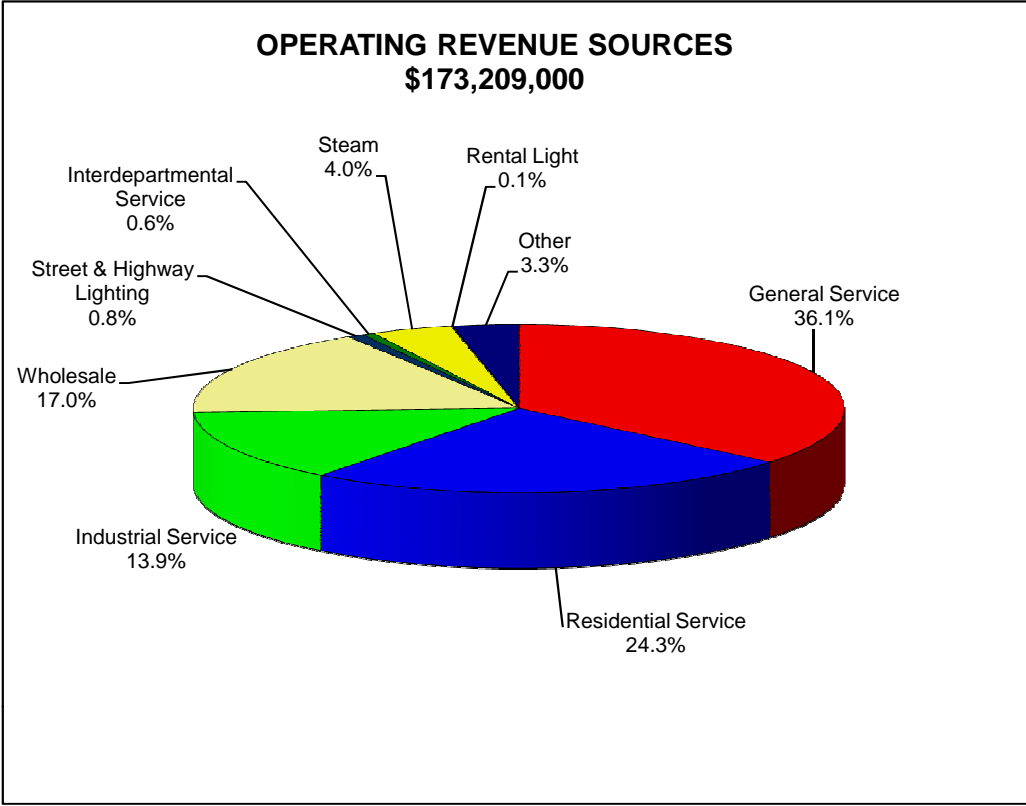
(\$000's)

| | <u>2008 Forecast*</u> | <u>2009 Budget**</u> | <u>Change</u> | <u>% Change</u> |
|----|-----------------------------|----------------------|---------------|-----------------|
| 6 | | | | |
| 7 | OPERATING REVENUE | | | |
| 8 | Retail Revenue | | | |
| 9 | 38,158 | 42,099 | 3,941 | 10.3 |
| 10 | 57,487 | 62,449 | 4,963 | 8.6 |
| 11 | 21,793 | 24,089 | 2,295 | 10.5 |
| 12 | 1,242 | 1,404 | 162 | 13.1 |
| 13 | 185 | 96 | (89) | (48.0) |
| 14 | 888 | 1,035 | 147 | 16.6 |
| 15 | 119,753 | 131,173 | 11,419 | 9.5 |
| 16 | Wholesale Revenue | | | |
| 17 | 17,400 | 26,481 | 9,081 | 52.2 |
| 18 | 3,203 | 2,890 | (313) | (9.8) |
| 19 | 0 | 0 | 0 | 0.0 |
| 20 | 20,603 | 29,371 | 8,767 | 42.6 |
| 21 | 3,548 | 6,996 | 3,447 | 97.2 |
| 22 | 5,736 | 5,670 | (66) | (1.1) |
| 23 | 149,641 | 173,209 | 23,568 | 15.7 |
| 24 | OPERATING EXPENSE | | | |
| 25 | 79,658 | 90,992 | 11,334 | 14.2 |
| 26 | 17,251 | 26,403 | 9,152 | 53.1 |
| 27 | 6,576 | 7,071 | 495 | 7.5 |
| 28 | 17,943 | 19,028 | 1,086 | 6.1 |
| 29 | 41,437 | 32,027 | (9,411) | (22.7) |
| 30 | (1,305) | (1,536) | (231) | 17.7 |
| 31 | (31,245) | (20,254) | 10,991 | (35.2) |
| 32 | 130,316 | 153,731 | 23,416 | 18.0 |
| 33 | 19,325 | 19,477 | 152 | 0.8 |
| 34 | NON-OPERATING INCOME | | | |
| 35 | (3,932) | (3,861) | 71 | (1.8) |
| 36 | (52) | (284) | (233) | 451.4 |
| 37 | (245) | (231) | 14 | (5.7) |
| 38 | 2,033 | 1,334 | (699) | (34.4) |
| 39 | 0 | 0 | 0 | 0.0 |
| 40 | (57) | 0 | 57 | 0.0 |
| 41 | (2,253) | (3,043) | (790) | 35.0 |
| 42 | 17,072 | 16,434 | (637) | (3.7) |
| 43 | NET ASSETS | | | |
| 44 | (8,488) | (8,895) | (408) | 4.8 |
| 45 | 3 | 0 | (3) | 0.0 |
| 46 | 8,587 | 7,539 | (1,048) | (12.2) |
| 47 | 133,502 | 142,089 | 8,587 | 6 |
| 48 | 142,089 | 149,628 | 7,539 | 5.3 |

49 * 2008 forecast contains 8 months of actuals and 4 months of forecast

50 ** Assumes 5% rate increase effective January 1, 2009.

**ROCHESTER PUBLIC UTILITIES
ELECTRIC UTILITY
2009 OPERATING BUDGET**



**ROCHESTER PUBLIC UTILITIES
WATER UTILITY
2009 OPERATING BUDGET**

WATER UTILITY - BASE CASE

**FORECAST BY YEAR, 2008 THROUGH 2013
(\$000's)**

| | 2008* | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|---------|---------|---------|---------|---------|---------|
| 7 Sales of Water - Retail | 7,411 | 7,848 | 7,910 | 7,959 | 8,010 | 8,050 |
| 8 Other Revenue | 663 | 800 | 821 | 842 | 864 | 886 |
| 9 Total Revenues | 8,074 | 8,648 | 8,731 | 8,801 | 8,874 | 8,937 |
| 10 Electricity | 952 | 994 | 1,050 | 1,106 | 1,157 | 1,209 |
| 11 Chemicals | 132 | 132 | 137 | 142 | 148 | 153 |
| 12 Billing Fee | 506 | 496 | 499 | 502 | 505 | 506 |
| 13 Depreciation Expense | 2,124 | 2,296 | 2,457 | 2,640 | 2,823 | 3,014 |
| 14 Major Operating Expenses | 3,714 | 3,919 | 4,144 | 4,390 | 4,632 | 4,883 |
| 15 Other Operating Expenditures | 1,981 | 2,181 | 2,275 | 2,562 | 2,430 | 2,541 |
| 16 Interutility Charges | 1,305 | 1,536 | 1,574 | 1,613 | 1,653 | 1,694 |
| 17 Net Other Operating Expenses | 3,285 | 3,717 | 3,849 | 4,175 | 4,083 | 4,235 |
| 18 Total Operating Expenses | 6,999 | 7,636 | 7,994 | 8,565 | 8,715 | 9,118 |
| 19 Operating Income | 1,075 | 1,011 | 737 | 236 | 159 | (181) |
| 20 Interest and Other Income (Expense) | 85 | 151 | 171 | 213 | 231 | 215 |
| 21 Income Before Transfers/Capital Contributions | 1,160 | 1,162 | 909 | 449 | 390 | 34 |
| 22 Transfers (In Lieu of Tax Payments) | (360) | (384) | (387) | (390) | (392) | (394) |
| 23 Capital Contributions | 900 | 1,100 | 1,100 | 1,100 | 1,100 | 1,100 |
| 24 Change in Net Assets | 1,700 | 1,878 | 1,622 | 1,159 | 1,098 | 740 |
| 25 01/01 Cash Balance | 3,844 | 4,608 | 4,260 | 4,693 | 4,981 | 5,504 |
| 26 Cash from Operations | 3,824 | 4,174 | 4,079 | 3,799 | 3,920 | 3,755 |
| 27 Capital Expenditures | (1,804) | (3,033) | (2,135) | (2,412) | (2,297) | (3,898) |
| 28 Non-Cash Capital Contributions | (900) | (1,100) | (1,100) | (1,100) | (1,100) | (1,100) |
| 29 Debt Principal Payments | (355) | (390) | (410) | 0 | 0 | 0 |
| 30 Net Total Debt Issue Proceeds | 0 | 0 | 0 | 0 | 0 | 0 |
| 31 Net Change in Assets & Liabilities | 0 | 0 | 0 | 0 | 0 | 0 |
| 32 Net Change in Cash | 765 | (349) | 434 | 287 | 524 | (1,243) |
| 33 12/31 Cash Balance | 4,608 | 4,260 | 4,693 | 4,981 | 5,504 | 4,261 |
| 34 Reserve Target | 2,537 | 2,538 | 2,583 | 2,655 | 2,674 | 2,725 |
| 35 Excess (Deficit) from Target | 2,071 | 1,721 | 2,110 | 2,326 | 2,830 | 1,536 |
| 36 Rate Change | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |

37 * 2008 Forecast contains 8 months actuals and 4 months forecast

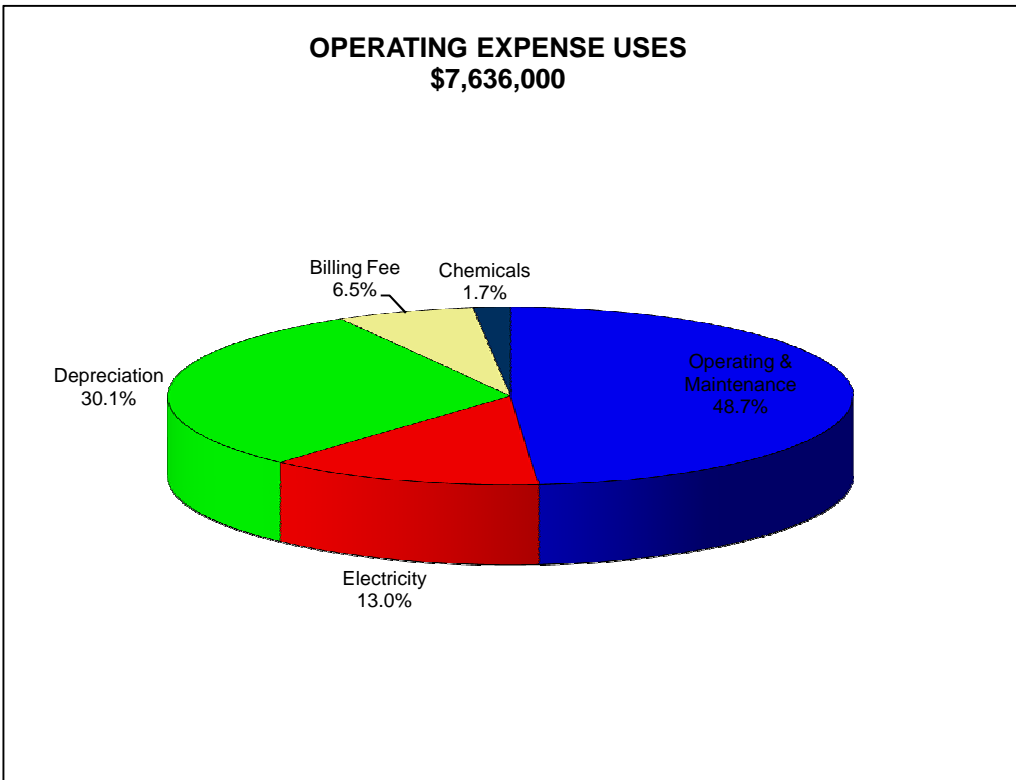
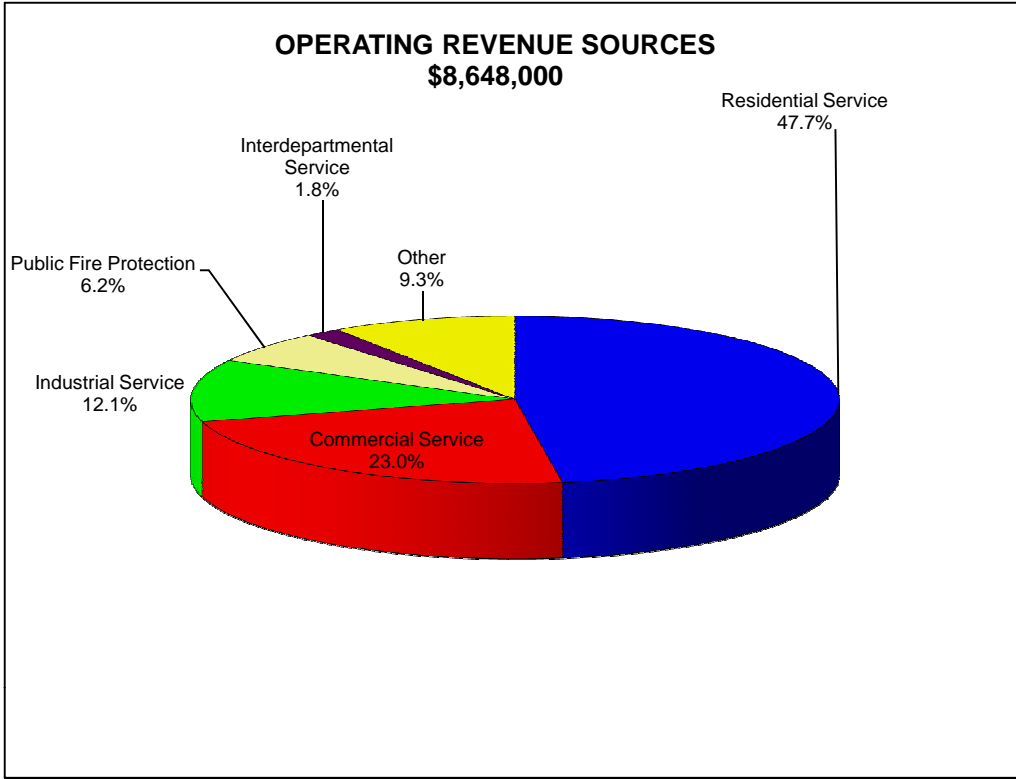
ROCHESTER PUBLIC UTILITIES
Statement of Revenues, Expenses & Changes in Net Assets
WATER UTILITY
2009 ANNUAL OPERATING BUDGET
(\$000's)

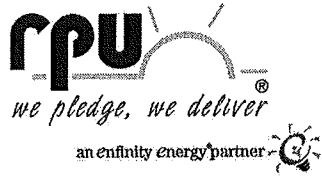
| | <u>2008 Forecast*</u> | <u>2009 Budget**</u> | <u>Change</u> | <u>% Change</u> |
|----|---|----------------------|---------------|-----------------|
| 6 | | | | |
| 7 | OPERATING REVENUE | | | |
| 8 | Retail Revenue | | | |
| 9 | 4,140 | 4,123 | (17) | (0.4) |
| 10 | 2,051 | 1,989 | (63) | (3.1) |
| 11 | 471 | 1,045 | 574 | 122.1 |
| 12 | 541 | 537 | (4) | (0.7) |
| 13 | 208 | 154 | (54) | (26.1) |
| 14 | 7,411 | 7,848 | 437 | 5.9 |
| 15 | 663 | 800 | 137 | 20.6 |
| 16 | TOTAL OPERATING REVENUE | 8,074 | 573 | 7.1 |
| 17 | OPERATING EXPENSE | | | |
| 18 | 2,124 | 2,296 | 172 | 8.1 |
| 19 | 1,789 | 1,863 | 74 | 4.2 |
| 20 | 3,586 | 4,975 | 1,388 | 38.7 |
| 21 | 1,305 | 1,536 | 231 | 17.7 |
| 22 | (1,804) | (3,033) | (1,229) | 68.1 |
| 23 | TOTAL OPERATING EXPENSE | 6,999 | 637 | 9.1 |
| 24 | NET OPERATING INCOME (LOSS) | 1,075 | (64) | (5.9) |
| 25 | NON-OPERATING INCOME | | | |
| 26 | 147 | 195 | 49 | 33.1 |
| 27 | (62) | (44) | 17 | (28.3) |
| 28 | TOTAL NON-OPERATING INCOME | 85 | 66 | 77.7 |
| | INCOME (LOSS) BEFORE TRANSFERS / | | | |
| 29 | CAPITAL CONTRIBUTIONS | 1,160 | 1,162 | 2 |
| 30 | NET ASSETS | | | |
| 31 | (360) | (384) | (24) | 6.7 |
| 32 | 900 | 1,100 | 200 | 22.2 |
| 33 | CHANGE IN NET ASSETS | 1,700 | 1,878 | 10.5 |
| 34 | 82,821 | 84,521 | 1,700 | 2.1 |
| 35 | NET ASSETS, ENDING | 84,521 | 86,399 | 2.2 |

36 * 2008 forecast contains 8 months of actuals and 4 months of forecast

37 ** Assumes 0% rate increase

**ROCHESTER PUBLIC UTILITIES
WATER UTILITY
2009 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 2009 electric and water capital and operating budgets.

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 11th day of December, 2008.

President

Secretary