

FOR BOARD ACTION

Agenda Item # 10.

Meeting Date:

1/31/06

SUBJECT:

Discussion of Electric Revenue Increase

PREPARED BY:

Larry Koshire, General Manager

ITEM DESCRIPTION:

The Southern Minnesota Municipal Power Agency (SMMPA) Board of Directors at their January 11, 2006 board meeting approved an additional 16.9% wholesale rate increase to its members. This is in addition to the 5% revenue increase that was effective January 1, 2006. RPU's budget that was approved by the Utility Board and the City Council reflected the 5% increase. However, because the amount of the additional increase needed was unknown at that time, no budget adjustments were made to accommodate the increase eventually approved by the SMMPA Board.

The 16.9% increase is scheduled to go into effect for wholesale power delivered to the SMMPA members after May 1, 2006. Based on this information, the RPU executive team met to review proposed budget adjustments that would help mitigate the wholesale power increases. We proceeded with the review with the philosophy of not compromising our strategic direction and financial goals of maintaining RPU's long-term financial stability and excellent bond ratings. Many areas in the strategic direction will have long-term financial benefits to the Utility, and making adjustments at this point is not appropriate. In approaching these wholesale power cost increases, our goal was to adjust the 2006 budget to mitigate the full impact of the 16.9% wholesale power increase to our customers. We also wished to establish a plan to look at potential long-term cost reductions strategies that would continue into the near future as we continue to see forecasts of additional significant wholesale power increases.

The executive team has come up with a strategy for 2006 that will reflect a \$3 million adjustment in the 2006 budget and a \$5 million adjustment in the 2006 budget and the resulting recommended retail rate change necessary to maintain a goal of minimum Utility cash reserves. We have attached proformas under separate cover for the Board to review prior to the meeting that reflect these near-term budget adjustments. We have also met with the Board finance committee and provided significant detail on the proposed budget cuts and adjustments. We believe we have a plan that will respond to the rising wholesale cost increase, reflect prudence on the part of the Utility in reducing internal expenditures while keeping our high service levels and progress towards long-term goals, and mitigate the impact on the customer.

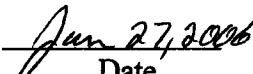
We will review our proformas and recommendations at Tuesday's meeting. A specific rate recommendation will be made at the February Board meeting, and appropriate public notification will begin in accordance with Board Policy. Board approval of the rate recommendation will be requested at the March meeting. The rate adjustment would be effective in April after consideration and approval by the City Council.

UTILITY BOARD ACTION REQUESTED:

Discussion item only. No action required.



General Manager



Date

ROCHESTER PUBLIC UTILITIES