

ROCHESTER PUBLIC UTILITIES  
BOARD MEETING MINUTES  
August 29, 2006

Members Present: Mr. Landwehr, Mr. Utz, Mr. Hanson  
Absent: Mr. Jibben, Ms. Parker  
Also Present: Mr. Adkins, City Attorney

Board President Landwehr called the meeting to order at 4:03 p.m.

1. Mr. Hanson moved to approve the minutes of the July 25, 2006 meeting, seconded by Mr. Utz.

All voting "AYE"

2. Mr. Utz moved to approve the accounts payable report, seconded by Mr. Hanson.

All voting "AYE"

3. Ms. Rhonda Owens, Customer Service Representative, was recognized by the Board and RPU staff for 25 years of service to the citizens of Rochester.

4. Mr. Landwehr opened the meeting for comments from the public.

- a. Mr. Lewis Giesking, SMMPA Board President, Saint Peter Municipal Utilities, and Mr. Steve Shurts, SMMPA Board Secretary, Owatonna Public Utilities, appeared before the Board to discuss the Big Stone II project. Mr. Giesking distributed two documents from the August 9, 2006 SMMPA Board meeting entitled "Big Stone II Planning Chronology" and "SMMPA Power Supply Analysis." Mr. Giesking stated that the SMMPA Board had asked them to speak to RPU and Austin Utilities regarding the lack of support for the Big Stone II project. He said that the 18 SMMPA members and SMMPA staff have made good decisions over the years and that they operate jointly to make decisions. Major issues involve long range planning, funding over long periods, etc. He mentioned that SMMPA members are a very diverse group. The SMMPA Board strives to meet the needs of all 18 members. He further stated that credibility and communications are essential. He told the RPU Board that the SMMPA Board did not understand RPU's position regarding the Big Stone II project. Sixteen SMMPA members have said yes to this project to keep rates competitive. The SMMPA Board seeks the least cost resource mix. He asked what the RPU Board's most pressing concerns were. Mr. Landwehr replied that there are two issues with respect to the Big Stone II project. First of all, the RPU Board does not wish to harm SMMPA or not be a part of SMMPA. Secondly, with respect to the issue of fair share of the costs, RPU is the only contract rate of delivery

(CROD) member of SMMPA, and this issue has been spelled out in RPU's lawsuit against the SMMPA Agency. Mr. Hanson agreed with Mr. Landwehr's comments.

Mr. Giesking said that Mr. Koshire had already stated this to the SMMPA Board, but the SMMPA Board had wanted to visit Austin and Rochester to see if any other issues besides funding for the Big Stone II project were of concern to the RPU Board.

Mr. Landwehr said that Mr. Giesking's definitions of certain facts are different than the RPU Board's. Mr. Landwehr said that he thought there were ways to make this work. He further stated that RPU has brought several things to the forefront, but he didn't think that the SMMPA Board has heard what RPU was saying.

Mr. Shurts said that the alternatives presented to the SMMPA members are the lowest cost alternative for the long-term. He said the market is volatile. He also said that SMMPA has shown that Big Stone II is the best option to go forward with the other five to six owners of the project.

Mr. Utz asked why a 90% increase in project costs occurred if this was the lower cost option. Mr. Giesking said that quotes were used to establish prices and adjusted estimates came up to 90% more. This is being refined. Mr. Giesking said that SMMPA is in the range of \$150 million to \$160 million for the Big Stone II plant. The SMMPA Board meeting scheduled for September 13 will show the increase to be closer to 50% to 60% rather than 90%, and the megawatts will increase. Mr. Giesking stated that the cost for generation will be \$2,168/KW and that the all-in-cost figure will be \$2,768 to \$2,610/KW.

Mr. Landwehr said that even if we (RPU and SMMPA) agree that Big Stone II is the most efficient from a cost perspective, RPU's CROD structure caps RPU from a capacity perspective thus limiting RPU's ability to enjoy the full benefit of RPU's capital investment. In addition, none of the members are required to be members of SMMPA after 2030 thus eliminating any residual value from the investment for members who choose to leave SMMPA in 2030.

Mr. Shurts said that every SMMPA member's analysis is based on debt service that is done in 2030. No new debt is scheduled beyond that year. Mr. Shurts said that RPU's best interest is to be a participant in this project. Mr. Landwehr replied that SMMPA needs to make it palatable for RPU to be interested in investing in Big Stone II. Mr. Giesking said he would work with Mr. Koshire on other alternatives. Mr. Landwehr said there are ways to resolve both of these issues.

- b. Mr. Ward Lutz, Rochester, appeared before the Board to thank RPU for Mike Smith's participation in the Olmsted County Clean Energy Resource Team

(CERTs). Mr. Smith was RPU's Key Account Manager and regularly attended the Team's meetings.

5. The SCADA server upgrade was discussed. The original RPU SCADA servers were purchased in 1998 and are inadequate for present day requirements. This item is included in RPU's 2006 budget. Mr. Hanson moved to approve a resolution to purchase a SCADA server upgrade, seconded by Mr. Utz.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve a purchase order agreement with Telvent for

SCADA Server Upgrade associated with the RPU SCADA Computer System

The amount of the purchase order agreement not to exceed EIGHTY THOUSAND TWO HUNDRED AND 00/100 DOLLARS (\$80,200.00) and Telvent being sole source.

6. Mr. Lorber, RPU Director of Core Services, provided a brief update on transmission to the Board. At this time, transmission is being looked at on a regional basis in the Rochester area. A new interconnection would be the best solution. More than one route is being studied by several transmission providers including RPU. This was discussed at the July, 2006 RPU Board meeting. A new interconnection would give RPU a very solid system for the next 50 years. The projected line would be implemented in 2012. RPU's share for this project (also known as "Capacity Expansion by the Year 2020" or CAPX 2020) would be under \$30 million.

Mr. Schlink, RPU Director of Power Resources, explained the impact of the Midwest Independent System Operator (MISO) energy sales and purchases market, which RPU began in April, 2006. RPU's SO2 allowances are also included in MISO sales. Energy sales are now being driven by the world market which can fluctuate greatly at times. This requires careful planning and scheduling of RPU's generation assets.

7. Agreement to Hold the City of Rochester Harmless (Grandeville at Cascade Lake Limited Partnership) was removed from the agenda by Mr. Landwehr.
8. Mr. Rovang, Senior Civil Engineer, presented the proposed revisions to the Water Service Rules and Regulations. He also discussed the various materials that could be used for water pipes and the benefits/drawbacks of each kind. RPU staff recommends the use of copper tubing rather than polyethylene. The purpose of the Water Service Rules and Regulations is to assist RPU customers, prospective customers and their architects, engineers, or plumbing contractors in planning for, making arrangements for, obtaining and maintaining municipal water service. The final version of the Water Service Rules will be scheduled for approval at the September Board meeting.
9. The General Manager provided the following report to the Board:

- a. Mr. Koshire said that RPU had its first major outage of the year involving 6,000 customers.
- b. Mr. Koshire distributed a handout from the National Incident Management Systems (NIMS) regarding Incident Command System Elements implementation in Minnesota. He said that the City of Rochester has a command center and that RPU staff is being trained and certified in this area.
- c. Staff is working on the 2007 budget. The finance committee will take a preliminary look at it in October or November. No new full-time positions will be added in 2007. Staff is also looking at a borrowing in the electric utility due to the transmission project and other capital costs. RPU is waiting for confirmation of the SMMPA wholesale rate projections for 2007 and beyond.
- d. SMMPA had a \$40 million bond sale this month. This will retire the some of the Agency's commercial paper.
- e. Mr. Adkins discussed the need to retain outside legal services for potential work on the steam project. Mr. Utz moved that the Board grant the City Attorney the authority, at his discretion, to retain the services of Mr. Greg Bistram, Briggs & Morgan, to assist in the assessment and review of any reports and/or legal documents pertaining to the steam project to protect the interests of RPU, seconded by Mr. Hanson.

All voting "AYE"

- 10. The management/financial reports were discussed.
- 11. Mr. Utz moved to adjourn the meeting, seconded by Mr. Hanson.

All voting "AYE"

The meeting was adjourned at 6:00 p.m.

Submitted by:

Kathleen Wilson  
Secretary

Approved by the Board:

R. H. Sandwick  
Board President

9-26-06  
Date