

ROCHESTER PUBLIC UTILITIES
BOARD MEETING MINUTES
November 28, 2006

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

Board President Landwehr called the meeting to order at 4:00 p.m.

1. Mr. Hanson moved to approve the minutes of the October 31, 2006 meeting, seconded by Ms. Parker.

All voting "AYE"

2. Ms. Parker moved to approve the accounts payable report as revised, seconded by Mr. Hanson.

All voting "AYE"

3. Mr. Landwehr opened the meeting for comments from the public.
 - a. Mr. Ward Lutz, 900 11-1/4 Street SW, appeared before the Board to discuss the Big Stone II project. He stated that he spoke for the citizens of Rochester who are concerned about global warming. Investing in new coal power plants without consideration of future costs of CO2 emission regulations make rate increases more likely for consumers of electricity generated by these power plants.

* Mr. Utz entered the meeting at this time.

The Big Stone II proposed coal-fired power plant in South Dakota has seen an increase in projected costs from 1.2 billion to 1.6 billion dollars. Mr. Lutz stated that these projected costs do not appear to include costs for CO2 mitigation regulations. The Southern Minnesota Municipal Power Agency (SMMPA) wants to invest in the project. This places RPU ratepayers at risk of paying higher rates to recover the estimated 1 to 2 cents per kWh that may occur for CO2 emission mitigation. He also questioned why distributed generation or other alternatives located in Minnesota were not being considered. This would keep money in Minnesota and the taxes paid by these other alternatives would benefit the Minnesota communities in which they are located.

Mr. Lutz asked the Board about the legal action RPU has taken to exempt them from investing in Big Stone II. He wanted to know if RPU ratepayers would be

protected if the action was successful and the consequences if it was not. Mr. Adkins stated that RPU customers are not under any obligation to pay for Big Stone II, and that is the basis for the lawsuit. Mr. Landwehr stated that the Board is conscious of this issue, and that the Board is focusing on how to prevail in the lawsuit.

- b. Mr. Norm Erickson, 1303 NE 5th Avenue, appeared before the Board to discuss the topic of demand side management (DSM). He asked if RPU's DSM program was aggressive enough when considering the issues of global climate change and emissions concerns. The economic benefits of efficiency improvements would provide reduced energy expense for customers. He further discussed lighting efficiency improvements and promoting their use through billboards and educational materials at major retailers. Mr. Landwehr asked if Mr. Erickson had brought these concepts to the attention of lighting designers. Mr. Erickson asked if RPU had gone to the designers. Mr. Koshire informed him that RPU had done this many times over the years.
 - c. Mr. Lorber, Director of Core Services, invited the Board to recognize Mr. Greg Woodworth for 22 years of employment as the RPU Manager of Engineering. Mr. Woodworth has accepted a position with another organization. Mr. Randy Anderton replaces Mr. Woodworth.
4. The amendment to RPU's Ash Agreement was discussed. Mr. Hensel, Director of Field Services, said the price increase for wet ash disposal was very reasonable. Mr. Hanson moved to approve the amendment, seconded by Mr. Utz.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve an amendment to the ash agreement with Enviro-Logic, for an increase in the cost of wet ash hauling and disposal to \$23/ton and language changes to weekend services terms, and request the Mayor and the City Clerk to execute the agreement for:

Amendment to Ash Removal and Disposal Agreement

- 5. Mr. Utz moved to approve a purchase order agreement with SAP Public Services, Inc. for software maintenance and support for 2007, seconded by Mr. Hanson.

All voting "AYE"

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

Software maintenance and support for 2007

The amount of the purchase order agreement to be NINETY FIVE THOUSAND SEVEN HUNDRED SEVENTEEN AND 65/100 DOLLARS (\$95,717.65)

6. The topic of Time-Of-Use Rates was discussed. The Federal Energy Policy Act of 2005 requires states and unregulated utilities to consider launching time-based rates by August 2007. Time based rates are considered to be either Time-Of-Use pricing, Critical Peak Pricing (CPP), or Real Time Prices (RIP). The purpose of such pricing is to tie electric prices closer to actual market conditions and reduce demand on the electric system during peak periods. RPU currently meets the federal requirement with seasonal pricing (winter and summer rates) and with Time-Of-Use rates for the small and medium general services customers. At the present time, the federal legislation only requires utilities to consider, not adopt, Time-Of-Use rates.

In order to provide Time-Of-Use rates to all of its customer classes, RPU would need to change its electric meters from current costs of \$50 to \$240, and the new customer information system (SAP CSS) needs to be installed. SAP CSS has been approved and will be installed during 2007. RPU has hired a consultant to develop a Time-Of-Use model and has surveyed its large customers about this matter. The State of Minnesota is also reviewing this matter along with a renewable portfolio standard. Staff will continue to monitor activity in this area and report back to the Board in the future.

7. The preliminary 2007 budgets were discussed with the Board. Mr. Kraft, Director of Corporate Services, discussed the preliminary budgets and proposed revenue adjustments with the Board. No additions to staff are planned for 2007. Power supply costs represent approximately 70% of RPU's operating costs. An 8.5% rate increase in wholesale power costs from the Southern Minnesota Municipal Power Agency (SMMPA) will become effective March 1, 2007. The proposed RPU revenue adjustments include an 8% electric increase and a 5% water increase effective January 1, 2007. This means that the average electric customer's monthly bill would increase by \$5.52 and the average water customer's monthly bill would increase by \$0.56.

A \$49 million borrowing is planned in 2007. This is driven by the emissions reduction work on Unit 4 at the Silver Lake plant as well as transmission projects, all extending past 2007. A new rate tariff, the Clean Air Rider (CAR), was discussed to help recover the cost of the emission control project. Mr. Landwehr asked the audience if they knew what the CAR was. Mr. Ray Schmitz, Olmsted County Attorney, stated that he did not. Mr. Koshire explained that it was not a flat fee, but would be based on KWH usage and emissions. Mr. Schmitz said this was more acceptable than a flat charge. Ms. Parker asked if the 8% rate increase was due to the energy RPU is going to have to buy from SMMPA. Mr. Kraft said that RPU's wholesale dollar costs are going up 14%. Mr. Koshire also said that as RPU buys more power in the market, it will be subject to market fluctuations and needs to maintain and build its reserves to stay liquid.

Mr. Landwehr asked the Board to contact Mr. Kraft for any additional rate scenario information they would like to see prior to the next meeting. He also asked staff to document the assumptions for the 2007 personnel budget such as the SAP CSS project.

The Board will be asked to approve the 2007 budgets and revenue adjustments at its December 14 meeting. Council approval will be sought on December 18.

8. The Zumbro River substation 161kV circuit breaker is leaking oil from the high voltage bushings. Testing and maintenance is underway to determine the severity of the problem. Since this is an unbudgeted capital expenditure, staff requested Board approval to replace the breaker if necessary. It will take 16 to 20 weeks to receive a replacement breaker. Ms. Parker moved to approve the project, seconded by Mr. Hanson.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve the unbudgeted project for:

Zumbro River Substation 161kV Breaker Replacement

The project estimate to be EIGHTY FIVE THOUSAND AND 00/100 DOLLARS (\$85,000.00).

9. Bids for the purchase of residential electric meters for 2007 were discussed with the Board subject to approval of the RPU 2007 budgets. Mr. Utz moved to approve the purchase, seconded by Mr. Hanson.

All voting "AYE"

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 a purchase order agreement with Burmeister Electric Co. for

Purchase of 4,500 Single Phase Residential Electric Meters in 2007

The amount of the contract agreement to be TWO-HUNDRED-TWO-THOUSAND-FIVE-HUNDRED AND 00/100 DOLLARS (\$202,500.00) and Burmeister Electric Co. being lowest responsible bidder.

10. The General Manager provided the following report to the Board:
 - a. Mr. Koshire informed the Board that conference calls were being scheduled on bond financing for the emissions control project. This item will be on December 14 Board agenda. Once the bonds are sold, staff will come back to the Board for approval of the sale.
 - b. The Board meeting dates for 2007 were discussed. The Board will meet on the last Tuesday of the month during 2007 with the exception of December. December's meeting date will be December 13, 2007. The dates and board packets will continue to be posted on RPU's website (www.rpu.org).
11. The management/financial reports were discussed.

12. Other Business:

There will be a tour of the hydro facility for the Board on December 21. A majority of the Board is expected to be present.

13 Mr. Hanson moved to adjourn the meeting, seconded by Mr. Utz.

All voting "AYE"

The meeting was adjourned at 5:45 p.m.

Submitted by:

Kathleen Wilson

Secretary

Approved by the Board:

R. Sandweh

Board President

12-14-06

Date