

**ROCHESTER PUBLIC UTILITIES
BOARD MEETING MINUTES
January 31, 2006**

Members Present: Mr. Landwehr, Ms. Parker, Mr. Jibben, Mr. Hanson, Mr. Utz
Absent: None
Also Present: Mr. Adkins, City Attorney

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

1. Mr. Utz moved to approve the minutes of the December 15, 2005 meeting, seconded by Ms. Parker.

All voting "AYE"

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

All voting "AYE"

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

Appearing before the Board was Mr. Ray Hayward, Executive Director and Chief Executive Officer of the Southern Minnesota Municipal Power Agency (SMMPA). SMMPA is RPU's wholesale power supplier. Mr. Hayward mentioned that several cost drivers were responsible for the recent SMMPA increases to its wholesale power rate. These include a 30% increase in fuel for 2006, a \$1.5 million increase in SMMPA costs due to market prices, and increases in rail costs. The SMMPA Board passed a 5% wholesale increase effective January 1, 2006. The SMMPA Board passed a second wholesale increase of 16.9% scheduled to be effective May 1, 2006. SMMPA is also anticipating 10% increases for each year in 2007 and 2008.

Mr. Utz noted that the RPU had voted against the SMMPA increase in December. He also informed Mr. Hayward that these wholesale power rate increases were not acceptable. He also told Mr. Hayward that the RPU Board wanted SMMPA to absorb as much of these costs as possible through its cash reserves and rate stabilization fund. Mr. Jibben asked how the rate increase of 16.9% could occur in such a short amount of time when SMMPA knew about its coal increases. Mr. Hayward explained that the price for the 2006 coal contract was not known until after the 5% increase was passed by SMMPA. He also stated that the largest cost increase occurred in the Midwest Independent System Operator (MISO) market which had a \$14 to \$15 million impact. Mr. Hayward admitted that SMMPA staff should have done a better job of estimating these costs, but the MISO Day2 market didn't begin until April 1, 2005. Mr. Utz also asked if any debt refinancing was planned. Mr. Hayward replied that this was not likely.

Mr. Jibben asked if the restoration of SMMPA's cash reserves was built into the 16.9% increase. Mr. Hayward said that reserves wouldn't be rebuilt due to the coal costs and MISO. He also said that SMMPA still needs to review how to rebuild reserves. Mr. Landwehr asked about any additional wholesale power rate increases. Mr. Hayward said an additional increase of 10% would occur at the beginning of 2007 to rebuild reserves. Ms. Parker noted that SMMPA chose an increase to the energy component rather than the demand component which impacts RPU negatively because RPU is under the contract rate of delivery with SMMPA. Mr. Hayward informed her that the SMMPA Board determined which scenario to use for the 16.9% increase. He said that MISO is part of the energy component of SMMPA's expenses. He also said that the previous 5% increase went to on-peak rather than off-peak which should have benefited RPU.

Mr. Landwehr asked how much of the 16.9% increase was due to Big Stone II. Mr. Hayward stated that none of the increase was due to Big Stone II, because it has not been financed yet. SMMPA will be looking at debt service for Big Stone II in the 2008-2009 timeframe.

Mr. Hayward also stated that SMMPA needs to spend dollars in the environmental compliance area as well as operations and maintenance. SMMPA staff is currently studying this matter.

Mr. Bob Maroo, IBM, asked Mr. Hayward what metrics were used on the Western Fuels coal results. Mr. Hayward stated the Western Fuels Board monitors this, and that SMMPA is a member of the Board. Mr. Maroo then asked Mr. Hayward if Western Fuels was giving SMMPA a better price. Mr. Hayward replied that SMMPA is one of its top 10 customers for the particular type of coal it purchases, but that he did not have specific cost details. Mr. Maroo asked why SMMPA couldn't purchase peak power in advance since the SHERCO 3 shutdown from October to December has been planned in advance. Mr. Hayward replied that due to the MISO Day 2 market, utilities did not want to do firm contracts.

Mr. John Eckerman, Rochester Chamber of Commerce, asked Mr. Hayward to rank the cost factors. Mr. Hayward replied that Big Stone II doesn't hit the books at this time, but it will help SMMPA save money. He also stated that the two current cost drivers are fuel costs at \$5 million and MISO costs at \$15 million. He then stated that future costs will include environmental, but he doesn't have those costs yet. SMMPA estimates that rail costs will increase by \$10 million, but the impact will come in 2008.

4. Ms. Parker moved to nominate Mr. Landwehr for Board President for 2006, seconded by Mr. Hanson.

All voting "AYE"

Mr. Utz stated that the Board has faced complex and challenging issues this past year, and that Dick's leadership has been excellent.

Mr. Landwehr recommended the following appointments to serve as board-management liaison for the functions listed below:

- Finance, Accounting and Audit – Ms. Parker
- Council Liaison – Mr. Hanson
- Communications and Strategic Planning – Mr. Landwehr
- Operations and Administration – Mr. Jibben
- Legal and Policy – Mr. Utz

5. Mr. Utz moved to nominate Kathy Wilson as Board Secretary, seconded by Ms. Parker.

All voting "AYE"

6a. Mr. Hanson moved to approve two resolutions en bloc for tree trimming, seconded by Mr. Utz.

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 two-year contract agreement with Asplundh Tree Expert Co. and that the Common Council authorize the Mayor and the City Clerk to execute the agreement for

**HOURLY LINE CLEARANCE TREE TRIMMING
(2006 AND 2007)**

The amount of the contract agreement not to exceed ONE HUNDRED NINETY THOUSAND EIGHT HUNDRED NINETY-TWO AND 00/100 DOLLARS (\$190,892.00) in 2006 and TWO HUNDRED THOUSAND NINE HUNDRED SIXTY AND 00/100 DOLLARS (\$200,960.00) in 2007, with the 2007 expenditure subject to Common Council approval of the 2007 electric utility budget, and Asplundh Tree Expert Co. being lowest responsible bidder.

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve a contract agreement with Asplundh Tree Expert Co. and request the Mayor and the City Clerk to execute the agreement for

**LUMP-SUM LINE CLEARANCE TREE TRIMMING
for 2006**

The amount of the contract agreement to be NINETY-THREE THOUSAND EIGHT HUNDRED SEVENTY-FOUR AND 00/100 DOLLARS (\$93,874.00), and Asplundh Tree Expert Co. being lowest responsible bidder.

6.b. Mr. Schlink, Director of Power Resources, informed the Board that the lowest bid for the Unit 4 turbine generator overhaul was 20% below the amount budgeted for this repair.

Mr. Hanson moved to a resolution rejecting the bid package from Keystone Specialty Turbine Services as non-complaint and approving a purchase order agreement with Power Generation Services Inc. for the generator overhaul, seconded by Mr. Utz.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to reject the bid package from Keystone Specialty Turbine Services for non-compliance with all of the terms of the bid specifications.

BE IT FURTHER RESOLVED by the Public Utility Board to approve a purchase order agreement with Power Generation Services, Inc., for

**Silver Lake Plant Unit 4 Turbine Generator Overhaul
As Defined in the Specification**

The amount of the agreement not to exceed THREE HUNDRED EIGHTY-THREE THOUSAND FOUR HUNDRED FORTY-ONE AND NO/100 (\$383,441.00) which includes a 20% contingency, and Power Generation Services, Inc. being lowest responsible bidder.

- 6.c. Mr. Utz moved to approve en bloc two resolutions for the purchase of wire and cable for 2006 and to reject the low bidder on items RPU will not be purchasing at this time, seconded by Ms. Parker.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve a purchase order agreement with Graybar for Wire and Cable.

<u>Item #</u>	<u>Description</u>
4	1/0 AWG, 15kV, 1/C Stranded Aluminum, 220 mil TR-XLPE Insulation

The amount of the purchase order agreement to be EIGHTY-FOUR THOUSAND THREE HUNDRED TWENTY-ONE AND 86/100 DOLLARS (\$84,321.86) and Graybar being lowest responsible bidder.

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve a purchase order agreement with WESCO for Wire and Cable.

<u>Item #</u>	<u>Description</u>
1	Cable in Conduit, AL, 600V, Triplex 4/0-2/0 URD
6	500 MCM, 15kV, 1/C, Stranded Copper, 0.220 mil ERP Insulation

The amount of the purchase order agreement to be ONE HUNDRED THIRTY-NINE THOUSAND ONE HUNDRED THIRTY-SIX AND 80/100 DOLLARS (\$139,136.80) and WESCO being lowest responsible bidder.

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to reject the low bidder on Items 5, 7, 8, 9,10, 11, 12, 13, 14, 15, and 16 based on RPU will not be purchasing these items at this time.

- 7.a.&b.Mr. Schlink, Director of Power Resources, described the change orders requested for the steam project. Due to the delay in the start of construction, increases in the cost of procurement of materials and changes in the scope of work became necessary to complete the project. Mr. Jibben announced that he would abstain from the discussion and the voting on this matter. Mr. Hanson moved to approve en bloc, two resolutions for change orders with Himec Inc. and Knutson Construction Services, seconded by Ms. Parker.

4 Voting "Aye"
1 Abstain (Mr. Jibben)
Motion Carried

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve Change Order No. 004 to the General Construction Silver Lake Plant Modifications Project Contract 03-23-E between Rochester Public Utilities and Himec Inc. in the amount of \$123,148.00. This brings the total amount of the contract to \$3,389,718.00.

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve Change Order No. 005 to the General Construction RPU Steam Supply Project Contract 02-28-C between Rochester Public Utilities and Knutson Construction Services in the amount of \$273,511.00. This brings the total amount of the contract to \$6,670,853.00.

8. A resolution to promote hybrid electric vehicles was reviewed and discussed previously at the December 15, 2005 meeting. Mr. Mike Smith, Key Account and Energy Services Manager, said support of this program commits RPU to purchase this technology as appropriate when it is available at life cycle cost and performance that are competitive with existing equipment. It also commits RPU to continue to promote and support renewable energy generating resources in the community that will offset the energy used by plug-in hybrid vehicles. Mr. Hanson moved to approve the resolution, seconded by Mr. Jibben.

All voting "AYE"

WHEREAS, the over-reliance of America on foreign oil has become a growing and serious threat to the economic vitality and national security interest of the United States; and

WHEREAS, automobile emissions are a major contributing factor to global warming and to smog in our cities, which threaten the health of our citizens and the sustainability of our planet; and

WHEREAS, the imbalance between gasoline resources and worldwide demand is escalating gasoline prices at an alarming rate and to levels that overburden commerce, hurt economic growth and cause serious hardship on our citizens; and

WHEREAS, the technology exists today to build a flexible-fuel plug-in hybrid-electric automobile that could reduce oil imports, fuel costs to our citizens and our economy and air emissions by dramatic margins; and

WHEREAS, the Rochester Public Utility Board is partnering with Austin and others of the nation's largest cities, to urge automakers to mass produce plug-in hybrid vehicles for the substantial economical, environmental and strategic reasons outlined; and

WHEREAS, the Rochester Public Utility Board is officially adopting promotion of plug-in electric hybrid vehicles to encourage the mass production of plug-in hybrid vehicles;

NOW THEREFORE BE IT RESOLVED, by the Public Utility Board that the Rochester Public Utilities' General Manager is directed to develop a program to encourage the future purchase of flexible-fuel plug-in hybrid vehicles, including fleet orders when the life cycle cost and performance of plug in hybrid vehicles is comparable to conventional vehicles; and

BE IT FURTHER RESOLVED, that the Rochester Public Utility Board makes a commitment to support local, state and federal policies that will promote flexible-fuel plug-in hybrid vehicles; and

BE IT FURTHER RESOLVED, that the Rochester Public Utilities Board makes a commitment to continuing to promote and support renewable energy generating resources in the community that will offset the energy used by plug-in hybrid vehicles; and

BE IT FURTHER RESOLVED, that the Rochester Public Utilities Board will work with local government, education, business and environmental community to advocate for the purchase of flexible-fuel plug-in hybrid vehicles.

9. The use of the various cash reserves established under the RPU Board Financial Liquidity Policy was discussed. RPU staff proposed that, under Special Capital and Major Maintenance Reserve, a special reserve be set up that would be funded by the SO2 excess allowance sales and energy market credit activity. These funds would be used for the cost incurred on the emissions project at the Silver Lake Plant. Mr. Landwehr stated that this would be a win-win situation because it would help lower total emissions while earmarking the funds for that purpose. Mr. Jibben moved to direct staff to set up the special reserve fund under the current Board Financial Liquidity Policy, seconded by Ms.

Parker.

All voting "AYE"

10. A potential electric revenue increase was discussed. Mr. Koshire, RPU General Manager, informed the Board that the Southern Minnesota Municipal Power Agency (SMMPA) Board of Directors at their January 11, 2006 board meeting had approved an additional 16.9% wholesale rate increase to its members. This is in addition to the 5% increase by SMMPA that was effective January 1, 2006. RPU's budget that was approved by the Board and Council reflected only the 5% increase because the 16.9% increase was unknown at that time. The 16.9% increase is scheduled to go into effect for wholesale power delivered to SMMPA members after May 1, 2006. Based on this information, the RPU executive team met to review budget adjustments that would help mitigate the wholesale power increases to RPU customers. This was conducted with the premise of not compromising RPU's strategic direction and financial goals of maintaining RPU's long-term financial stability and excellent bond ratings. Therefore, RPU's goal was to adjust the 2006 approved budget to mitigate the full impact of this second increase to RPU's customers. RPU also wished to establish a plan to look at potential long-term cost reduction strategies that would continue into the near future as the Utility continues to see forecasts of additional significant wholesale power increases by SMMPA of 10% in 2007 and again in 2008. Various financial strategies for cost containment were discussed with the Board. Mr. Koshire recommended the most stringent strategy which would involve cutting \$5 million from the approved RPU budget. Utility management will also look at staffing, inventory control, financing on a long-term basis, and ways to enhance the revenue stream. Mr. Koshire further stated that this will not affect service reliability. Mr. Jibben agreed with staff's decision to maintain its strategic direction. Mr. Landwehr asked about deferral of projects and whether the Utility could afford to defer them. Mr. Koshire replied that RPU was not deferring projects that provide service to the customer. The Board concurred with Mr. Koshire's recommendation of a \$5 million budget reduction. The Board will review an electric revenue increase proposal at the February 28, 2006 meeting.
11. Mr. Greg Woodworth, Manager of Engineering, provided a regional transmission line update to the Board. Staff began studying the area transmission system a few years ago to determine its ability to serve the growing load in the Rochester area. Several construction alternatives have been reviewed. In 2004, major Minnesota transmission utilities undertook a joint effort to look at future transmission needs in a global, coordinated way. This effort was named CAPX 2020. The primary objective was to determine the transmission expansions that will need to be completed in order to serve 2020 load. Although RPU is not a CAPX member, we have coordinated closely with the CAPX participants. RPU staff has been reviewing the possibility of a joint project to construct a 345kV line from a New Hampton Corners substation to La Crosse, which would be routed on the north side of Rochester. This project would be regional in nature, and would probably continue into Wisconsin in the future. Mr. Woodworth informed the Board that RPU staff has been negotiating a letter of understanding with other parties to share the costs for such a project. This matter will come to the Board at a future meeting.

The Board took no action on this item.

12. Ms. Parker moved to approve the updated Schedules A through J of the Rules Covering Cogeneration and Small Power Production Facilities tariff, seconded by Mr. Utz.

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 revised Schedules A through J of the RPU Cogeneration and Small Power Production (SPP) Rate Tariff which are updated annually after each calendar year by RPU. This is required by Section III, paragraph A of the Rules Covering Cogeneration and Small Power Production Facilities (Minnesota Statutes Section 216B.164, Subdivision 9) which were previously approved by the Board/Council in June 2005.

13. Mr. Utz moved to approve a revised list of authorized signatures, seconded by Mr. Hanson.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, that the following person or persons are hereby authorized for and in behalf of the City of Rochester, D/B/A Rochester Public Utilities, to endorse or cause to be endorsed such documents regarding deposits, checks, drafts, investments or any other matter necessary for or pertaining to the financial operation of the Rochester Public Utilities.

Larry J. Koshire
Tina Livingston
Curtis Kraft
Judy Anderson

14. The General Manager provided the following report to the Board:
- a. The City of Rochester had an OSHA inspection. RPU received one citation for an outlet panel.
 - b. One of the coal mines RPU uses in Illinois has been shut down.
 - c. There was a fire in unit 1 at the Cascade Creek substation. The unit is being evaluated for repairs.
15. The management/financial reports were discussed.
16. 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. F. Landwehr

Board President

2-28-06

Date