

ROCHESTER PUBLIC UTILITIES
BOARD MEETING MINUTES
May 29, 2007

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

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

1. Mr. Utz moved to approve the minutes of the April 24, 2007 meeting, seconded by Mr. Hanson.

All voting "AYE"

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

All voting "AYE"

- 3a. Mr. Landwehr welcomed Mr. Dave Reichert, IBM, to the Utility Board. Mr. Reichert was appointed by the Mayor to serve the unexpired term of Ms. Parker.

- 3b. Mr. Landwehr opened the meeting for comments from the public. No one wished to be heard.

4. Mr. MacGillivray, Springsted Inc., RPU's financial advisor, presented the Board with a plaque commemorating the bond rating upgrade to AA- received from the Fitch Rating Agency. He informed the Board that this will save the utility hundreds of thousands of dollars. Fitch had previously stated that the rating upgrade, "*...is reflective of improved financial policies at the utility, in particular with regard to the establishment of cash reserve policies and targets and an overall financial profile that is consistent with that of other systems in the AA- rating category.*"

5. Mr. Walters, Ed.D, RPU Director of Customer Relations, presented an update on the University of Minnesota – Rochester/RPU Research Project Hybrid Energy System Study (HESS) to the Board. The Board had approved this project in 2002. The study examines the feasibility of combining a geothermal heat pump with a fuel cell. According to Mr. Walters, the idea was to determine if significant synergies, i.e. heated water from the fuel cell used in process with a geothermal heat pump, etc. are available. Phase I (completed in 2004) and Phase II (scheduled for completion in mid-2008) have and are documenting that the idea has merit. A HESS team was formed which includes the following: CDES, UMTC-Louise Goldberg PhD(Eng), UMR-Hal Ottesen, PhD, UMR-Jim Licari, PhD, and RPU employee Jim Walters

EdD. The HESS team will submit funding proposals to other entities such as the U.S. Department of Energy (DOE) in June for the next phase of the study known as Evolution I which is scheduled to be launched by mid-2008.

Dr. Goldberg stated that smaller utilities are the wave of the future because of their flexibility. She also explained the features of “green” microgrid and macrogrid technologies that would be used. Evolution I will consist of the research, development and demonstration of these enabling technologies. Evolution II would include deployment of the “green” microgrid in a full-scale residential housing development.

The long-term benefits anticipated as a result of continuation of the HESS project include the ability of RPU’s desired plan to meet and exceed the State of Minnesota’s 25% renewable energy in 2025 objective, and significant reduction in carbon emissions which would put the City of Rochester on the path to becoming a “green” city. The research could also lead to significant royalties for RPU.

Mr. Landwehr asked how Evolution II would be deployed. Dr. Goldberg replied that 300 homes in a virgin development would be required to understand what retrofit is needed. The system could be built underground and that it is market-driven. She also said that this could not be done without RPU. Mr. Utz said that the integrated approach and cooperative venture made sense. He asked of the University could communicate this to RPU’s ratepayers through the media, etc.

Dr. Licari said that the grant requires financial support as well as technology demonstration. He further stated that the partners have to match at least 20% of the total project cost and that the Department of Energy could provide 80%. If the grant is approved, a commitment will be required from RPU. Dr. Goldberg said that an official letter of commitment is required. Mr. Adkins, City Attorney, said that the Board is not taking final action today, but only agreeing to plug the dollars into their budget for 2008. He also noted that the For Board Action was not requesting Council action. Mr. Koshire, General Manager, said that if a firmer commitment is needed, then this item can be brought back to the Board and Council for approval. Mr. Utz moved to:

1. Recommend that staff include in the 2008 RPU budget support for Evolution-I (EV-I) HESS research with in-kind contributions ranging from \$1.16 million to \$1.22 million and funding ranging from \$200,000 to \$350,000 per year over four years subject to Common Council approval of the electric utility budgets for these years.
2. Authorize RPU personnel to work with the University of Minnesota – Rochester in securing a grant from the U.S. Department of Energy to fund EV-I HESS research.

The motion was seconded by Mr. Hanson.

All voting "AYE"

6. The discussion of the Wellhead Protection Plan part II was recorded. A transcript of this agenda item follows.

1 **Transcript from Public Hearing**
2 **Wellhead Protection Plan Part II**
3 **RPU Public Utility Board Meeting**
4 **May 29, 2007**

5
6 **Board President Landwehr:** This is Board Agenda item 6 – Wellhead
7 Protection Plan Part II. At this time, we will hold a public hearing on this
8 agenda item.

9
10 **Mr. Todd Osweiler,** RPU Environmental Analyst: I am here today to
11 hold this public hearing prior to the submittal of our final draft of the
12 Wellhead Protection (WHP) Plan part II to the Minnesota Department of
13 Health for their review and approval. I have done presentations to the
14 Board before so I am not going to go into a lot of detail. I will cover what
15 we have discussed so far.

16
17 These are some of our water protection goals: Provide for the protection
18 of municipal water supply; preventing new risks, reducing existing threats;
19 preserve and protect the quality and affordability of groundwater so we
20 don't have to treat our wells for contamination which could cause our rates
21 to increase; and maintain an adequate and efficient water supply.

22
23 Water Protection is broken into two parts. Part I was approved by the
24 Minnesota Department of Health on November 20, 2004. We defined
25 areas around our wells using a 50 year time and travel zone. We
26 delineated these areas and then we also did vulnerability assessments on
27 the aquifer and the wells. You can see a couple of examples. This is our
28 well 36 by the History Center. The red line is the drinking water supply
29 management area. The green line is the 50 year time and travel zone. This
30 is just an example of what one of our maps looks like for water
31 vulnerability assessment. This information can be found on RPU's
32 website: www.rpu.org.

33
34 Part II contains an inventory of all potential contaminant sources that are
35 inside these drinking water supply management areas. We inventoried all
36 the potential contaminant sources. We then assembled a Technical
37 Advisory Team. This consisted of people with the Department of Natural
38 Resources, Pollution Control Agency, Soil and Water, Planning and
39 Zoning, and staff from other City and County agencies as well. We had a

40 series of eight to nine meetings. We developed strategies for managing
41 any of these potential contaminant sources that are inside this area. We
42 also prepared a contingency plan for an alternative water supply which we
43 is our DNR Water Emergency and Conservation Plan which was just
44 recently submitted to the DNR for approval which is due October, 2007.

45
46 Some of our strategies for managing these potential contaminant sources
47 now that we have identified them all were to see what kinds of issues,
48 problems and opportunities we would have. We established two main
49 goals: water quality and water quantity. Of the objectives and plans of
50 action identified, we will focus on two: public education and community
51 awareness; and leveraging existing regulatory programs. Once a year we
52 will evaluate our Wellhead Protection Program. We just recently
53 submitted all of our alternative water supply contingency plans to the DNR
54 Emergency Water Conservation Plan.

55
56 Here is a schedule for Part II. We completed our inventory in March,
57 2006. The management portion of the plan which is about 50 pages long,
58 a draft can be found on our web site, was submitted to the local units of
59 government in January, 2007. They had 60 days to review this plan and
60 submit any comments back in writing.

61
62 Here we are today, May 29, 2007, holding a public hearing. We have
63 advertised this so the public has a chance to come here and provide any
64 additional comments that they have. Once this is over, I will submit the
65 plan to the Minnesota Department of Health for final approval. They have
66 60 days to review it. Once we get their approval, I will provide notice to
67 the local units of government about the plan approval. I then have 60 days
68 to implement our plan.

69
70 Although the For Board Action stated no Board action was required, we
71 would ask the Board for authorization to accept the final draft of this plan
72 to submit to the Minnesota Department of Health. Any questions or
73 comments?

74
75 **Mr. Landwehr:** I have a question. It's probably in the documents. I
76 remember reading something about that because of the makeup of our soil,
77 the state came back and said that we had to do some more modeling or
78 studying. Did you do it?

79
80 **Mr. Osweiler:** We are going to have more groundwater studies. We have
81 \$50,000 per year to do more groundwater studies. We are now wrapping
82 up our Decorah Edge studies and are venturing into new directions that
83 will help us come up with a more effective Wellhead Protection Plan.

84

- 85 **Mr. Utz:** Have you gotten any feedback from the Builders' Association
86 with respect to this plan?
87
- 88 **Mr. Osweiler:** No, not yet.
89
- 90 **Mr. Utz:** Have they seen it?
91
- 92 **Mr. Osweiler:** It is part of our plan to work with the Rochester Area
93 Builders to make them aware of this plan and see how we can work
94 together.
95
- 96 **Mr. Reichert:** What changes would occur because of the plan, you said
97 implement the plan? What happens next?
98
- 99 **Mr. Osweiler:** Like I said, we are going to focus on community education
100 as our biggest priority and leverage already existing programs out there,
101 work with Pollution Control Agency, maybe set up a priority list with
102 underground storage examples for example. We inventoried these tanks
103 that might be inside our wellhead protection area. Maybe we could
104 establish a priority list for the MPCA to inspect these tanks first or come
105 up with different strategies. As of now, nor changes or ordinances will be
106 created out of this.
107
- 108 **Mr. Koshire:** Mark, on the city transmittal list on the copy of the letter,
109 actually I was one of the local units of government that got notification of
110 it, but you can see where it all went. Like Todd said, anything that would
111 potentially impact development or the builders would have to go through a
112 County process or the City process for ordinances or changes like that.
113 That is not something that we would get involved with. That would be
114 collaboration with someone else, and like Todd said, on the winds to make
115 those changes. Giving the builders a heads up I guess is what would be
116 fair to say.
117
- 118 **Mr. Landwehr:** Todd, if we could go back to my question, in your
119 executive summary, there is a line that says "*Therefore, in accordance*
120 *with Minnesota Rules Chapter 4720.5550, the MDH required additional*
121 *water chemistry and groundwater age dating analysis in order to further*
122 *assess the vulnerability of each well in the municipal water supply*
123 *system.*" The question is was that done?
124
- 125 **Mr. Osweiler:** Yes, that was done. That was completed during Part I.
126 Most of our wells were done at that time. It was probably 8 wells that we
127 had to go back, collect samples and get additional analysis done for those.
128
- 129 **Mr. Landwehr:** All right. You are asking instead of no Board action,

130 you are accepting of the final draft to submit to the Department of Health.

131

132 **Mr. Koshire:** Once the report is approved by the Department of Health,
133 we will bring it back here to have the Board receive and place on file. As
134 Todd said, since it is draft form, we would like a motion to direct staff to
135 submit the draft report to the Department of Health so we have an action
136 item that says that you looked at it and directed staff to proceed to submit
137 it.

138

139 **Mr. Landwehr:** Well, we will obviously get some feedback from the
140 submittal.

141

142 **Mr. Koshire:** Yup from MDH.

143

144 **M. Osweiler:** I am sure I will be back to follow up on when we receive
145 their comments.

146

147 **Mr. Landwehr:** Anything else for Todd? If not, I'll entertain a motion.

148

149 **Mr. Adkins:** Mr. President, before you do that you need to ask if anybody
150 else from the public wishes to speak and then close the hearing.

151

152 **Mr. Landwehr:** All right. Does anyone else wish to be heard on the
153 subject?

154

155 **Mr. Lee:** I am Terry Lee from Olmsted County, the Water Resources
156 Coordinator. I would like to say that in working with Todd and your staff,
157 they did an excellent job of putting together the basic information. I have
158 a lot of confidence that the plan addresses the key issues that the City
159 needs to be concerned about.

160

161 **Mr. Landwehr:** Thank you. Does anyone else wish to be heard? If not, I
162 will close the hearing and entertain a motion.

163

164 **Mr. Hanson:** I will make a motion for the Board to direct staff to submit
165 the draft report to the Department of Health. **Mr. Reichert:** I will second.

166 All voting "AYE." Motion carried.

7. Mr. Utz moved to designate Walter Schlink as Designated Representative and Joseph Hensel as Alternate Designated Representative for the Acid Rain Program, Clean Air Interstate Rule, and Clean Air Mercury Rule Requirements federal programs, and request the Mayor and City Clerk to execute the agreement, seconded by Mr. Hanson.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to designate Mr. Walter Schlink as Designated Representative and Mr. Joseph Hensel as Alternate Designated Representative under the provisions of the Acid Rain Program, Clean Air Interstate Rule and Clean Air Mercury Rule federal compliance programs.

BE IT FURTHER RESOLVED by the Board to approve the Designated Representatives of Affected Source Agreement and to request that the Mayor and the City Clerk execute the agreement.

8. Mr. Anderton, Manager of Engineering, presented the Electric Engineering and Operations Report for 2006 to the Board. Highlights from the year included the installation of automatic meter reading devices in 83% of homes of electric residential customers by the end of the year, the generation of 1.3 million megawatt hours of energy, and system losses of slightly over 2% which is quite low. Mr. Koshire, General Manager, said that the report included reliability data because the State of Minnesota requires that this be presented to the local governing body of the utility which is the Utility Board.
9. Mr. Rovang, Senior Civil Engineer, presented the Water Engineering and Operations Report for 2006 to the Board. During 2006, 14 miles of new water main were installed. Average water rates were \$11.60 per month which is low. The average customer used 60 gallons of water per day. With the projected water demand, two more wells will be needed over the next five years.
- 10a. Mr. Hanson moved to approve a purchase order agreement for a mobile rail car mover, 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 Herc-U-Lift, Inc. for

Mobile Rail Car Mover
(less trade-in)

The amount of the purchase order agreement to be TWO HUNDRED THREE THOUSAND TWO HUNDRED SIXTY-EIGHT AND 56/100 DOLLARS (\$203,268.56) and Herc-U-Lift, Inc. being lowest responsible bidder.

- 10b. Mr. Reichert moved to approve a contract agreement with American Power Services, Inc. for the re-tubing of the Silver Lake Power Plant Unit 4-4 high pressure feedwater heater, 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 contract agreement with American Power Services, Inc. and that the Common Council authorize the Mayor and the City Clerk to execute the agreement for

Re-Tubing of the Silver Lake Plant Unit 4-4 High Pressure Feedwater Heater

The amount of the contract agreement to be TWO HUNDRED THIRTY-SEVEN THOUSAND SIX HUNDRED EIGHT AND 13/100 DOLLARS (\$237,608.13) and American Power Services, Inc. being lowest responsible bidder.

- 10c. The purchase of a power distribution center package for the emission reduction project was discussed. Mr. Schlink, Director of Power Resources, said that this would be a pre-fabricated building that includes all electrical equipment required to provide power feed to the equipment that makes up the project. The bids received for this item were discussed. Mr. Schlink said that Eaton Electrical, Inc. met all the criteria of the request for bid and is a reputable supplier for this type of equipment. Mr. Hanson moved to approve a purchase order with Eaton Electrical, Inc. seconded by Mr. Utz.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve a contract agreement with Eaton Electrical, Inc. and request the Mayor and the City Clerk to execute the agreement for

Power Distribution Center
Emissions Reduction Project

The amount of the contract agreement to be SEVEN HUNDRED FORTY-EIGHT THOUSAND TWO HUNDRED NINETY-FIVE AND 00/100 DOLLARS (\$748,295.00) plus additional authorization to increase that amount by \$31,185.00 if required to expedite delivery to maintain project schedule, and Eaton Electrical, Inc. being lowest responsible bidder.

- 10d. Mr. Hanson moved to approve a purchase order agreement with Astleford International for two truck cabs and chassis, 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 Astleford International for

Two Navistar Model 7400 58,000 lb GVW Tandem Axle Truck Cab & Chassis
State Contract Release T-647(5) (Contract #437241)

The amount of the purchase order agreement to be ONE HUNDRED THIRTY-FIVE

THOUSAND THREE HUNDRED NINETY AND 00/100 DOLLARS (\$135,390.00) plus sales tax and Astleford International being lowest responsible bidder.

11. Mr. Schlink discussed the scope of professional services required for revisions to the steam line. Due to ongoing leakage issues, the line is being operated at reduced pressures and temperatures until a final resolution to the problem is identified and executed. Per Mr. Schlink, this portion of the project is a direct pass through of all costs to Mayo and would be recovered immediately. Mr. Utz asked, "This would not limit RPU's ability to seek damages?" Mr. Adkins replied, "Correct." Mr. Hanson moved to approve a purchase order with Knutson Construction Services, seconded by Mr. Reichert.

All voting "AYE"

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

Revisions to the Steam Line

The amount of the agreement to be FIVE HUNDRED FIFTY-NINE THOUSAND SIX HUNDRED NINETY-SEVEN AND 00/100 DOLLARS (\$559,697.00).

12. Mr. Reichert moved to approve the renewal of the Novaspect Inc. System Support Plan for the Delta V control system at the Silver Lake Plant, seconded by Mr. Hanson.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve the renewal of the Novaspect Inc. System Support Plan for the Delta V control system for the third, and final, year for a fixed price of \$117,171.00 with services as defined in the Novaspect System Support Plan dated April 16, 2007, revision 2 dated May 4, 2007.

13. The annual update of the rate schedules for the Cogeneration and Small Power Production Rate (SPP) Tariff was discussed. Mr. Heppelmann, Senior Financial Analyst, informed the Board that we are required to pay photovoltaic generators what they pay for their electricity. Currently RPU has only one customer being paid under the Cogeneration Rules. Mr. Utz moved to approve the rate schedule revisions, 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 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.

- 14. Ms. Parker, Director of Corporate Services, discussed staff's proposal to eliminate the 10% surcharge on rural electric customers. Mr. Utz stated that he would refrain from the discussion and abstain from the voting for this item. Ms. Parker said this would involve 400 customers. The surcharge goes back to the 1980's and generates about \$65,000 annually for the electric customers before the utility began using cost of service rates. Staff believes that these customers are already paying cost of service. Mr. Hanson moved to authorize staff to give notice of the proposed revenue adjustment to start the 30 day public comment period, seconded by Mr. Reichert.

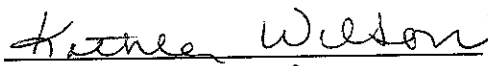
Three voting "AYE" (Mr. Hanson, Mr. Reichert and Mr. Landwehr)
 One "Abstain" (Mr. Utz)
 Motion Carried

- 15. The General Manager provided the following report to the Board:
 - a. Mr. Koshire said that the Next Generation Energy Act of 2007 was approved. The Conservation Improvement Program (CIP) remains, but a new requirement was added requiring a 1.5% kwh reduction in sales starting in 2010. We would be allowed to be involved in C-bed projects. The state is looking at wind projects. A moratorium on coal plants was delayed until 2009 in Minnesota, but Big Stone II is exempt. CapX transmission projects are also exempt. If the Public Utilities Commission determines that the electricity supply is threatened, these limitations can be lifted.
 - b. RPU had a very successful Arbor Day with 1,600 trees distributed.
 - c. The SolarChoice program has been eliminated. A new offering will be developed.
- 16. The management/financial reports were discussed.
- 17. Mr. Reichert moved to adjourn the meeting, seconded by Mr. Hanson.

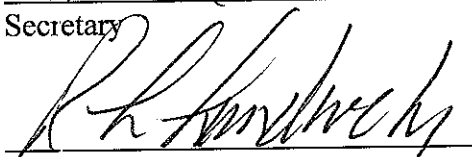
All voting "AYE"

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

Submitted by:


 Secretary

Approved by the Board:


 Board President

June 26, 2007