

ROCHESTER PUBLIC UTILITIES
BOARD MEETING MINUTES
October 27, 2009

Members Present: Mr. Williams, *Mr. Landwehr, Mr. Reichert, Mr. Stahl
Absent: Mr. Hanson
Also Present: Mr. Goslee, Deputy City Attorney

Board President Williams called the meeting to order at 4:05 PM.

1. Mr. Landwehr moved to approve the minutes of the September 29, 2009 meeting, seconded by Mr. Stahl.

All Voting "AYE"

2. Mr. Williams opened the meeting for comments from the public. No one wished to be heard.
3. Mr. Williams said that the Board wants to take its time to review and receive input from the public with respect to water conservation rates. Ms. Parker, Director of Corporate Services, informed the Board that this topic was discussed with the Board initially on May 26, 2009. She also described the notification process used to encourage public input beginning with a press release that was issued on September 1, 2009. Following the press release, RPU received three comments on its Blog. A separate notice to the public was published in the Post-Bulletin on September 26 for the upcoming September 29 board meeting. Following the notice, one more Blog was received and two citizens spoke at the board meeting. A Post-Bulletin article on September 30, 2009 generated seven comments on the RPU Blog. Finally, an advertisement for the October 27 board meeting generated one e-mail. Each of the comments were reviewed by staff and provided to the Board.

Ms. Parker explained that conservation rates are needed to enhance the protection of the environment, to prolong the life of RPU's existing capital facilities and to comply with Minnesota Statutes and DNR regulations. RPU conducted a cost-of-service study which developed revenue requirements by customer class based on the cost of serving each class. Based on the study's recommendations, RPU is considering three types of water conservation rates: Inclining block rates for residential with two blocks and irrigation rate for commercial; seasonal rates by customer class; and seasonal rates applied the same to all classes. She further discussed the pros and cons for each rate category. She stated that RPU would still have some of the lowest water rates in the region even after RPU implements conservation rates. A water rate structure comparison with various residential, commercial, and industrial customers was provided.

Mr. Landwehr said we were introducing cost of service and conservation simultaneously which makes it more complex and confusing. He also said that there was volatility in

some of the rates due to the dependence on the weather. Mr. Rovang, Senior Civil Engineer, said the meter charge is another factor. Forty percent of RPU's current revenue is from the meter charge. Mr. Williams asked about using more steps in the rate structure rather two. Mr. Qureshi, Progressive Consulting Engineers, Inc. said that the City of Chaska was using five steps in its rate structure. Mr. Williams asked staff to provide more blocks (steps) in order to provide the public with more options so they can see their progress as they conserve their water usage. Mr. Landwehr also asked that staff create a way to phase into the conservation rates in order to remain revenue neutral. Ms. Parker said the Board could consider doing this over three years. Mr. Williams said that we do want to change the customer's behavior. Mr. Reichert noted that the inclining block rate doesn't work the same for all rate classes. He asked if this was compliant with state law. Mr. Qureshi said that most of the large customers have separate meters for irrigation. He also said the rate structures proposed in the study are compliant with state law.

Mr. Williams asked if accepting the study would still allow the Board the ability to see more options. Mr. Koshire said that the study would be used as a basis and that RPU needs to charge the same rate within a customer class. Mr. Williams asked if the Board could make changes to rates after they accepted the study. Ms. Parker said they could. Mr. Landwehr said he could see using the study as data and for that reason would support it. Mr. Stahl said the public needs to know that the study would not keep the Board from looking at all of the options both now and in the future.

Mr. Stahl asked if we could subsidize customers who use less water. Ms. Parker said this could be done with the blocks established in the rates adopted by the Board. Mr. Landwehr suggested working towards cost of service over time. Mr. Williams commented that RPU still has some of the lowest water rates in the area.

Mr. Williams asked for comments from the public. Mr. Ray Schmitz asked that the study be placed on RPU's web. He also said the discussion was complicated by cost of service. He would like customers incentivized to make choices. He asked the Board to think through increasing the meter charge. He said a fixed charge would not provide an incentive. The ideal conservation rate would be based 100% on usage. He also believes that subsidizing some things would be good to do. Ms. Parker said the meter charge for residential would be 3¢ more per month, and the rest of the meter charges are going down. Mr. Schmitz also said that he liked a greater number of steps in any proposed rate because when you have to build larger water towers, it adds to infrastructure costs.

The Board directed staff to look at more steps for the inclining block rate which encourages conservation all year so that the Board can review the proposed rates again at a future meeting. No further action was taken.

4. Mr. Stahl moved to accept the Water Cost of Service Study prepared by Progressive Consulting Engineers, Inc., seconded by Mr. Reichert. Mr. Landwehr asked that the minutes reflect the discussion the Board had in item #3 above where they agreed that the study would not lock them in to only certain rate options.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to accept the Water Cost of Service Study as baseline guide for implementing future rate structures, and place it on file.

5. The Memorandum of Understanding establishing a furlough plan for the members of I.B.E.W. 949 Outside Bargaining Group was discussed. Mr. Koshire said he appreciated the I.B.E.W.'s work on this. This means that 100% of all RPU employees have approved furlough plans to help the City of Rochester's economic situation. Mr. Williams said these are challenging times and the Board appreciates the hard work done by employees and Ms. Hillenbrand, City Human Resources, in bringing these issues to a successful conclusion. Mr. Reichert moved to approve the I.B.E.W. 949 Outside Group Memorandum of Understanding Furlough Plan, seconded by Mr. Stahl.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, that the Board requests the Common Council of the said City to approve the Memorandum of Understanding with the IBEW Local 949 Outside bargaining group per the terms, and to authorize the City Clerk and Mayor to execute the Memorandum of Understanding.

6. Mr. Dunnette, Manager of Power Resources, discussed the Avoca Bement Corporation Agreement for the Termination of Fuel Purchase Orders and Right of First Refusal with the Board. The Right of First Refusal continues through 2015 and RPU is not limited in future procurement. The City Attorney and coal company consultant negotiated the agreement which satisfies state requirements. Mr. Dunnette stated that the subsequent downturn of the wholesale electrical market resulted in a significant reduction in fuel use. Mr. Schlink, Director of Power Resources, said this agreement will save RPU millions of dollars. Mr. Goslee said Mr. Adkins, who was not present at the meeting, approves as to the form of the document, but this does not address the impact on other bidders. Mr. Stahl said it sounds as though RPU needs to use a certain types of coal. Mr. Schlink agreed. Mr. Landwehr moved to approve the agreement, seconded by Mr. Stahl.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve the Termination of Fuel Purchase Orders and Right of First Refusal Agreement with Avoca-Bement Corporation according to the terms and conditions stated.

Purchase Orders #4500032435 and 4500032436

7. Mr. DeBoer, Key Account Representative, presented information on OPOWER Home Energy Reports to the Board. RPU has an opportunity to implement a new kind of residential energy efficiency program, OPOWER's *Home Energy Reports* which is

designed to increase energy conservation behavior. This program uses behavioral science and direct marketing techniques to engage residential energy customers with individualized paper reports and access to a personalized website.

The *Home Energy Reports* provide electric usage comparisons to neighborhood averages, targeted energy efficiency recommendations, tracking for the current time period compared to the same time during the previous year, and RPU's *Conserve & Save* program information. The Energy Insider Website, the on-line component of the *Home Energy Reports*, provides customers with additional educational and learning opportunities about energy consumption, analysis tools, and a home for the community of efficient and highly motivated users who regularly contribute energy saving tips, comments, and other advice for the benefit of the entire community.

Staff is proposing a pilot program using 25,000 RPU residential customers beginning January 2010. Actual billing usage from the selected customers will provide the benchmark to capture actual savings. The rest of our residential customer base will be used as the control group. Initial results from another utility demonstrated a 2-2.5% decrease in energy usage per residential home. Using conservative numbers, we expect approximately 3,800,000 in kWh savings at a cost of approximately \$0.09 per kWh saved within the first year. There is no charge to the RPU customer.

The Conservation Improvement Program (CIP), enacted by the 2008 Minnesota State Legislature requires that by 2010 "each individual utility and association shall have an annual energy savings goal equivalent to 1.5 percent of gross annual retail energy sales." This means changing how consumers use electricity. In 2010, Rochester Public Utilities (RPU) is required to save 19,649,530 kWh. As technology continues to improve and become more efficient it will be more complicated for RPU to collect savings from energy efficient appliances, lighting, and equipment as it is becoming the standard. To obtain the 2010 savings goal, we will need to start capturing savings from behavioral changes in addition to our energy efficiency prescriptive programs. OPOWER Home Energy Reports represent one option for attaining these results.

Mr. Koshire said this is a 2010 project that will be discussed at the November 24, 2009 Board meeting after budget approval. The Board took no action on this item.

8. Mr. Blom discussed the proposed electric utility cost-of-service and rate study and the vendor selected to do it with the Board. The last cost-of-service/rate study was completed in 2003. The Board Policy regarding utility rates states, "Rates and charges will be based upon generally accepted industry principles to reflect an equitable distribution of costs to customers." In other words, rates will be based on the costs to serve specific classes of customers. A cost-of-service rate study will allow the Board to design rate structures such as a combination of customer charges, energy charges, and demand charges and the associated rates for each component of the rate structure so that revenues collected closely meet the cost of providing service to each customer class.

* Mr. Landwehr left the meeting at this time.

The Board discussed the different proposals received by staff with Mr. Blom. Mr. Reichert asked about the scope of the study and if Time of Day and/or Smart Grid would be included. Mr. Blom said Time of Use rates would be studied, but not real time. Mr. Koshire said it will take time to build a Smart Grid infrastructure and real time pricing. Mr. Reichert moved to approve the study, seconded by Mr. Stahl.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve a professional services agreement with Utility Financial Solutions of Holland, Michigan for an

Electric Utility Cost-of-Service and Rate Study

The amount of the agreement to be SEVENTY-TWO THOUSAND TWO HUNDRED AND THIRTY AND 00/100 DOLLARS (\$72,230.00).

9. Ms. Parker, Director of Corporate Services, presented the preliminary 2010 Electric and Water Budgets to the Board. The Board will be asked to approve the budgets on November 10. Council approval is scheduled for November 16. No rate increase is being proposed for 2010 for the electric utility or the water utility. In 2010, the Board will be asked to implement water conservation rates changing the methodology in how revenue is collected; however, the overall revenue to the utility is not expected to change.

The Board cash targets have been lowered in the proposed budgets due to the necessary budget adjustments made during these economic times. Mr. Koshire wants the public to know about staffs' efforts to control costs and rates. The significant current year business drivers include:

- Commitment to community to have no rate increase during tough economic times;
- Continuation of the cost reductions made during 2009 into 2010;
- Continue our strategic initiatives of safety, reliability and fiscal strength;
- Purchased power costs from our wholesale provider, SMMPA, continues to be a significant operating expense at approximately \$91 million or about 67% of our operating costs;
- Lack of demand in MISO market has made it cost prohibitive to sell energy from the Silver Lake Plant this past year, and RPU is projecting no wholesales from this facility in 2010;
- Increasing our energy conservation goals to achieve a 1.5% reduction in KWh sales;
- Continuing our participation in CAPX 2020 initiative to expand the electric transmission grid to ensure reliable and affordable service; and
- Implementing a water conservation program that includes rate structures that incent conservation and educational programs while being revenue neutral to the utility.

- 10. The General Manager provided the following report to the Board:
 - a. Creating a street light utility was discussed at a Committee of the Whole meeting. The City would like RPU to collect streetlight costs from customers. The utility would be created in 2010 and implemented in 2011.
 - b. Mr. Schlink reported that there was a fire in one of the bearings of Cascade Unit #2. He plans to visit the vendor to review the status of the repairs. Ms. Parker said this would be treated as an insurance claim.
 - c. The SAP business software upgrade went well.
 - d. Employees at RPU exceeded their United Way goal.

- 11. The management and financial reports were discussed. Mr. Hensel, Director of Core Services, provided an update on the American Recovery and Reinvestment Act (Stimulus Bill) City of Rochester's block grant projects. The cost sharing for the projects was also discussed.

The payables were reviewed. Mr. Reichert moved to approve the accounts payable report, seconded by Mr. Stahl.

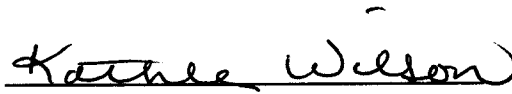
All voting "AYE"

- 12. Mr. Reichert moved to adjourn the meeting, seconded by Mr. Stahl.

All voting "AYE"

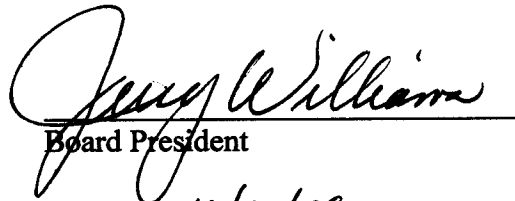
The meeting was adjourned at 6:30 p.m.

Submitted by:



 Secretary

Approved by the Board:



 Board President

11/10/09

 Date