

ROCHESTER PUBLIC UTILITIES
BOARD MEETING MINUTES
December 14, 2006

Members Present: Mr. Landwehr, Mr. Utz, Mr. Jibben, Ms. Parker
Absent: Mr. Hanson
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 November 28, 2006 meeting, seconded by Ms. Parker.

All voting "AYE"

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

All voting "AYE"

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

- a. Mr. David Walter, 4412 Manorview Drive NW, appeared before the Board to discuss the increase in electric rates. He understood that the Board recommends and the Council approves rate increases, but he did not think the public has the opportunity to have input over rates. He also felt that the 23% increase over a period of 14 months mentioned in the paper was too much. He further stated that RPU needs to do a better job of promoting conservation for both its residential and commercial customers.

Mr. Landwehr told him that his point about rate input by the public is valid. He also said that the public may not know that our increases come from our wholesale supplier. Mr. Koshire stated that RPU had received a 30% increase in its wholesale costs over the last two years. In an attempt to control its costs, RPU is holding the line on staffing increases and other costs. He also said that the Board had reviewed this topic at their November meeting and ads were placed in the newspapers requesting public input. While RPU currently has several conservation programs, Mr. Koshire said it plans to ratchet up its level of conservation programs even more in the future. The Board thanked Mr. Walter for his input.

4. The quotations received for insurance coverages were discussed. Mr. Lyle Pappenfus from the C. O. Brown Agency said there was a reduction in premium for the property insurance. The coverage does not provide for acts of terrorism. Mr. Utz moved to

approve three resolutions for insurance agreements, seconded by Mr. Jibben.

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 an insurance agreement with Starr-Technical Risk Agency, Inc. (Hartford Steam) for furnishing the following insurance coverage:

ALL RISK PROPERTY INSURANCE

The insurance agreement to be for a twelve month policy period commencing December 31, 2006 and expiring December 31, 2007.

The amount of the twelve month premium effective December 31, 2006 to be THREE HUNDRED THIRTEEN THOUSAND EIGHT HUNDRED NINETY-SEVEN AND NO/100 DOLLARS (\$313,897.00).

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 an insurance agreement with the League of Minnesota Cities Insurance Trust for:

COMMERCIAL AUTOMOBILE AND GENERAL LIABILITY INSURANCE

The insurance agreement to be for a twelve month policy period commencing December 31, 2006 and expiring December 31, 2007.

The amount of the twelve month premium effective December 31, 2006 to be ONE HUNDRED TWENTY-NINE THOUSAND SIX HUNDRED THIRTY-THREE AND NO/100 DOLLARS (\$129,633.00).

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve an insurance agreement with the Associated Electric and Gas Insurance Services, Ltd. (AEGIS) for furnishing the following insurance coverage:

EXCESS GENERAL LIABILITY INSURANCE

The insurance agreement to be for a twelve month policy period commencing December 31, 2006 and expiring December 31, 2007.

The amount of the twelve month premium effective December 31, 2006 to be EIGHTY-FOUR THOUSAND ONE HUNDRED TWENTY-THREE AND NO/100 DOLLARS (\$84,123.00).

- 5.a. The emission reduction project (ERP) and financing for Silver Lake Plant unit 4 were discussed. Mr. Schlink, Director of Power Resources, said that all individual items would

be brought back to the Board. A revised For Board Action form and resolution were distributed during the meeting at the request of bond counsel. It is anticipated that the project will go on line in early 2009. Mr. Roger Anderson, Utility Engineering and consultant for the project, was also present during the meeting. A progress report for the project was distributed during the meeting. Mr. Koshire, RPU General Manager, asked the Board for approval of the total project plus financing. Mr. David MacGillivray, Springsted Incorporated, financial advisor to the City of Rochester and RPU, explained the preliminary financing plan for the project. Total principal amount of the Electric Revenue Bonds to finance the emission reduction project, electric system improvements and the refunding of the Series 2000 bonds, including costs of issuance and other related financing costs, will be approximately \$90 million. Approximately \$34 million of this amount will be used for the emission reduction project. Mr. MacGillivray also said that there would be a competitive selection of underwriters for the financing. He further said that the Utility has outstanding credit ratings of "Aa2" from Moody's Investors Service and "A+" from Fitch Investors. Ms. Parker moved to the emissions reduction project and financing, 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, through issuance of Electric Revenue Bonds, the emission reduction project at Silver Lake Plant for approximately \$34,000,000, and

BE II FURTHER RESOLVED that the Common Council approve, as part of the overall Electric Revenue Bond issue, financing of electric system improvements for approximately \$14,000,000, and

BE IT FURTHER RESOLVED that the Common Council authorizes the issuance of revenue bonds to refund the Series 2000 RPU Electric Revenue Bonds of approximately \$35,000,000 due to positive market conditions. The total principal amount of the Electric Revenue Bonds to finance the improvements and the refunding, including costs of issuance and other related financing costs, will be approximately \$90,000,000. The Electric Revenue Bond sale will use a negotiated sale method.

- 5.b. The purchase of scrubber/baghouse equipment for the emissions reductions project was discussed. This represents the first purchase of major equipment that will be installed to fulfill the commitments RPU has made to provide major reductions in SO2 and particulate emissions in our community. Mr. Jibben moved to approve the purchase, subject to review of the Clyde Bergemann Environmental Elements Corporation documents by the City Attorney, 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

Clyde Bergemann Environmental Elements Corporation and that the Common Council authorize the Mayor and the City Clerk to execute the agreement for

Purchase of Scrubber/Baghouse Equipment
Silver Lake Power Plant Unit 4

The amount of the contract agreement not to exceed ELEVEN MILLION FOUR HUNDRED TWENTY-SEVEN THOUSAND AND 00/100 DOLLARS (\$11,427,000.00) and Clyde Bergemann Environmental Elements Corporation being sole bidder.

- 5 c. Mr. Jibben moved to approve the second phase of the partial roofing of the Silver Lake plant, 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 purchase order agreement with Merit Contracting, Inc. for

Partial Roofing of Silver Lake Plant – Phase II

The amount of the agreement to be ONE HUNDRED THIRTY-SEVEN THOUSAND TWO HUNDRED FORTY-TWO AND 00/100 DOLLARS (\$137,242.00) and Merit Contracting, Inc. being lowest responsible bidder.

- 5 d. Staff recommended that an emergency portable generator be purchased for the water system. Mr. Utz moved to approve the purchase, 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 Ziegler Power Systems for

300kW Portable Diesel Generator

The amount of the purchase order agreement to be EIGHTY EIGHT THOUSAND SEVEN HUNDRED FIVE AND 00/100 DOLLARS (\$88,705.00) and Ziegler Power Systems being lowest responsible bidder.

- 6. Mr. Schlink, Director of Power Resources, provided an update on RPU's performance in the Midwest Independent System Operator (MISO) wholesale energy market. He also mentioned that RPU's SO2 allowances are kept in a restricted fund which is to be used for environmentally positive projects.

- 7. A revised For Board Action and resolution for CapX Participation Agreement and Amendments were distributed. Four agreements for CapX participation were discussed:

CapX Confidentiality Agreement; Amendment of the Southeast Twin Cities – Rochester-La Crosse Transmission Project Memorandum of Understanding; CapX 2020 Transmission Capacity Expansion Initiative Participation Agreement; and Joint Prosecution Agreement. Mr. Adkins informed the Board that he was still reviewing the third and fourth agreements and had some concerns about them. He said he would like conditional language added to make both agreements subject to review by his office. Mr. Utz moved to approve all four agreements subject to review of the Participation Agreement and Joint Prosecution Agreement by the City Attorney, seconded by Mr. Jibben.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, that the Board requests the Common Council to approve the following agreements, subject to review by the City Attorney of any final revisions, between the CapX 2020 organization and the City of Rochester, Minnesota, and that the Mayor and the City Clerk are authorized to execute the agreements for:

1. CapX Confidentiality Agreement Amendment
2. Amendment of the Southeast Twin Cities-Rochester-La Crosse Transmission Project Memorandum of Understanding
3. CapX 2020 Transmission Capacity Expansion Initiative Participation Agreement dated January 1, 2007
4. Joint Prosecution Agreement

*Mr. Adkins left the meeting at this time.

8. The Part II Status Report for Wellhead Protection was presented to the Board by Mr. Osweiler, RPU's Environmental Analyst. RPU initiated wellhead protection planning in September 2002 as required by Minnesota rules 4720. Part I was completed in 2004. The Minnesota Department of Health approved the Part I report in 2004. In January 2007, the plan will be submitted to local units of government for review and comment. A draft plan is available on RPU's website. The plan will be discussed at a public hearing in April 2007 and submitted to the Minnesota Department of Health in May.
9. Mr. Kraft, Director of Corporate Services, discussed the proposed 2007 electric and water budgets. The budgets were previously reviewed at the November Board meeting, and the Board was presented with recommendations for an 8% revenue adjustment in the electric utility and 5% in the water utility to support the 2007 budget requests while maintaining appropriate cash levels. Mr. Utz moved to approve the budgets, seconded by Mr. Jibben.

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 the 2007 electric and water capital and operating budgets.

- 10. Mr. Kraft discussed the proposed electric rate increase of 8% with the Board. This would increase the typical residential bill by approximately \$5.50 per month. A notice of the proposed revenue adjustment was provided to the public via the paper of record. Ms. Parker moved to approve the electric rate increase, seconded by Mr. Utz.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve the following rate schedules effective January 1, 2007.

- | | |
|--|--------------------------------|
| Residential Service (RES) | Large General Service (LGS) |
| Residential Service-Dual Fuel (RES-DF) | Large Industrial Service (LIS) |
| Residential-High Efficiency HVAC (RES-HEF) | Interruptible Service (INTR) |
| General Service (GS) | City Street Lighting (CSL) |
| General Service-High Efficiency | Traffic Signals (TS) |
| General Service Time-Of-Use (GS-TOU) | Highway Lighting (HL) |
| Medium General Service (MGS) | Security Lighting (SL) |
| Medium General Service-High Efficiency | Civil Defense Sirens (CDS) |
| Medium General Service Time-Of-Use (MGS-TOU) | |

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 an 8.0% increase electric rates effective January 1, 2007 to the following rate classes:

- | | |
|--|--------------------------------|
| Residential Service (RES) | Large General Service (LGS) |
| Residential Service-Dual Fuel (RES-DF) | Large Industrial Service (LIS) |
| Residential-High Efficiency HVAC (RES-HEF) | Interruptible Service (INTR) |
| General Service (GS) | City Street Lighting (CSL) |
| General Service-High Efficiency | Traffic Signals (TS) |
| General Service Time-Of-Use (GS-TOU) | Highway Lighting (HL) |
| Medium General Service (MGS) | Security Lighting (SL) |
| Medium General Service-High Efficiency | Civil Defense Sirens (CDS) |
| Medium General Service Time-Of-Use (MGS-TOU) | |

- 11. The proposed 5% water rate increase was briefly discussed. This will result in an increase of approximately \$0.56 per month for a typical residential customer. A notice of the proposed revenue adjustment was provided to the public via the paper of record. Mr. Koshire said that RPU still has very competitive water rates. Mr. Utz moved to approve the 5% increase in water rates, seconded by Ms. Parker.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve the following rate schedules effective January 1, 2007.

- Water Service (WIR)
- Fire Hydrant Facilities Charge (FHFC)

BE II 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 5.0% increase water rates effective January 1, 2007 to the following rate classes:

- Water Service (WTR)
- Fire Hydrant Facilities Charge (FHFC)

12 a. Ms. Parker moved to approve the authorized depositories for the Utility for 2007, seconded by Mr. Utz.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, that the following banks, authorized to do business in Minnesota, are the designated depositories for demand deposit accounts and temporary investment of funds of Rochester Public Utilities, City of Rochester, Minnesota, within the limits established by the City of Rochester, for the term commencing January 1, 2007 through the 31st day of December, 2007.

- US Bank
- Wells Fargo

The above depositories, and any added during the term by the City Finance Director, shall pay interest at such rate or rates, per annum, as may be mutually agreed upon by the Rochester Public Utilities and the respective depository at the time such deposits and investments are made.

The depository shall pay on demand all deposits subject to payment on demand, with accrued interest, and pay on demand all time deposits with accrued interest, at or after maturity.

12 b. Mr. Utz moved to approve the authorized signatures for Utility finances, seconded by Mr. Jibben.

All voting "AYE"

BE II 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
- Bryan Blom
- Judy Anderson

- 13. The General Manager provided the following report to the Board:
 - a. The Governor of Minnesota has issued a statement on renewable energy requesting an expanded renewable energy objective of 25% by 2025 and more energy conservation.
 - b. The Minnesota Municipal Utilities Association (MMUA) was working on a bill to address a renewable energy standard.
- 14. The management/financial reports were discussed.
- 15. Mr. Utz moved to adjourn the meeting, seconded by Ms. Parker.

All voting "AYE"

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

Submitted by:

Kathleen Wilson
Secretary

Approved by the Board:

R. R. Landwehr
Board President

1-30-07
Date