

ROCHESTER PUBLIC UTILITIES
BOARD MEETING MINUTES
May 26, 2009

Members Present: Mr. Jibben, Mr. Hanson, Mr. Reichert, Mr. Williams, *Mr. Stahl
Absent: None
Also Present: Mr. Adkins, City Attorney

Board President Jibben called the meeting to order at 4:03 PM.

1. Mr. Reichert moved to approve the minutes of the April 28, 2009 meeting as amended, seconded by Mr. Williams.

All voting "AYE"

2. Mr. Jibben opened the meeting for comments from the public. No one wished to be heard.
3. The change order to the purchase order agreement for the Unit 3 turbine casing repair was discussed with the Board. Mr. Dunnette, Manager of Power Resources, explained that the crack in the casing turned out to be a significant one. This work was not included in the specification or work scope previously approved by the Board. Contingency funds previously approved in the 2009 budget will be used for the repairs.

* Mr. Stahl entered the meeting at this time.

Mr. Hanson moved to approve the change order, seconded by Mr. Williams.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve Change Order #1 to the purchase order agreement with Power Generation Services, Inc., the overhaul contractor, for

Turbine Casing Repair Services for the SLP Unit #3 Turbine Generator

The amount of Change Order #1 to be a firm price of ONE HUNDRED FIFTY SEVEN THOUSAND EIGHT HUNDRED TWENTY AND 00/1000 DOLLARS (\$157,820.00) bringing the total contract price to \$514,432.00.

4. Mr. Sutton, Manager of Portfolio Optimization, explained the changes made to the MISO-Related Services Agreement (formerly known as the Meter Data Management Services Agreement) to the Board. Changes include the addition of Load node and OWEF node and a contract name change. Mr. Adkins, City Attorney, stated there was no cost to the Agreement for RPU, that the changes were initiated by the Southern

Minnesota Municipal Power Agency (SMMPA), and that Mr. Adkins was fine with the changes. Mr. Williams asked if RPU had any concerns about the possibility of inaccurate load forecasts addressed in items 5.2 and 5.5 of the Agreement. Mr. Koshire said RPU approves the forecast. Mr. Stahl moved to approve the Agreement, seconded by Mr. Hanson.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve a MISO-Related Services Agreement (formerly known as the Meter Data Management Services Agreement) with Southern Minnesota Municipal Power Agency, and request the Mayor and the City Clerk to execute the agreement.

- 5. The Board reviewed a resolution requesting reimbursement authorization for capital expenditures out of the proceeds of a bond issue as required by Internal Revenue Service regulations. Ms. Parker, Director of Corporate Services explained that the resolution gives RPU the flexibility to finance these projects in the future if we want to bond and pay ourselves back. Mr. Koshire said that we are looking at CapX2020 as the next bond issue. Mr. Reichert moved to approve the projects requested for reimbursement in a future bond issue and authorize staff to request the declaration from the City Finance Director, seconded by Mr. Hanson.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to request the City Finance Director to prepare and execute the declaration of reimbursement bonds for the emission reduction, substation, distribution, and transmission projects in an amount of \$9,100,000, plus issuance costs, in accordance with Internal Revenue Service Section 1.150-2 of the Income Tax Regulations.

- 6. Mr. Stahl moved to approve the annual update of cost and rate schedules for the Cogeneration and Small Power Production (SPP) rate tariff, seconded by Mr. Williams.

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 Schedule C 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.

- 7. Mr. Schlink, Director of Power Resources, discussed the 26 proposals RPU had received for the purchase of energy from a renewable energy resource sized between 25 and 100 megawatts. The purpose of the request for proposals by RPU was an attempt to expand

RPU's renewable energy portfolio to include a significantly larger percentage of renewable energy than is required by the Renewable Energy Standard (RES). Burns & McDonnell assisted with the development of the request and review of the proposals. As a result of market analysis and cost of these resources, it was determined that the market value of the energy is not remotely sufficient to cover the expenses RPU would incur to expand their renewable resource portfolio. Based on market prices, RPU could lose up to \$2,000,000 annually if it invested in a 50 megawatt power purchase agreement at this time. Mr. Schlink said staff will continue to monitor and evaluate market conditions and pursue appropriate actions when those conditions present a more reasonable risk to the ratepayer. Mr. Williams moved to reject all proposals received due to the negative results of the comparisons of the 26 proposals received, seconded by Mr. Stahl.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to reject all proposals received in response to the Request for Proposals for Renewable Energy Power Purchase Agreement issued in July 2008 due to the economic analysis of the proposals, market conditions, and potential risk to the RPU ratepayers at this time.

8. The Southern Minnesota Municipal Power Agency's (SMMPA) offer to extend the Power Sales Contract from 2030 to 2050 was discussed. SMMPA is RPU's wholesale supplier. The item was discussed initially with the Utility Board at their March meeting and at an informal planning session held after the April board meeting. At the planning meeting following the April meeting, RPU's consultant provided a technical evaluation of the economics of continuing with the Power Sales Contract after 2030. This evaluation showed significant economic benefit for not extending the contract. Mr. Koshire said that Austin Utilities had declined to accept the extension. He also said that the 2030 date is far enough in the future to discuss other opportunities for potential relationships beyond 2030 with SMMPA, other joint action agencies, and/or other municipals in plenty of time to assure RPU customers of a continuation of economic, reliable power. Mr. Hanson asked if SMMPA would come back with other alternatives besides the terms and conditions of the existing agreement. Mr. Koshire said he had discussed this with SMMPA, but they had said they would not consider other alternatives until after the September deadline on the contract extension offer had passed. Mr. Hanson moved that the Board request the Council to reject the contract extension offer, seconded by Mr. Stahl.

Mr. Williams said that he really agreed with staff's recommendation and that there were just too many unknowns after 2030. Mr. Jibben said that the Power Sales Contract favors smaller users. He also said only weighted voting helps RPU, and that weighted voting is only used for bonding. He further stated that Rochester is a higher energy user than the other SMMPA members and that SMMPA has been shifting the billing structure to the energy side. Mr. Stahl concurred with the other Board members and said that SMMPA had offered to extend or not to extend the agreement to its members with no change to any of the other terms and conditions or its relationship to its members.

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 decline the Southern Minnesota Municipal Power Agency (SMMPA) Board of Directors' offer to extend the Power Sales Contract beyond 2030.

BE IT FURTHER RESOLVED that the Common Council authorize the City Clerk to notify in writing the SMMPA Agency of the City of Rochester's intent to decline the offer.

9. The 2008 Water Engineering and Operations Report was presented to the Board by Mr. Rovang, Senior Civil Engineer. Highlights from the report include the construction of the new Morris Hills Reservoir, installation of automatic meter reading equipment for 2,314 customers, and revenue exceeding \$500,000 from antenna installations on water towers. The Water Utility is also in year 3 of a water system study, and has completed the first year of a USGS/MGS/Olmsted County groundwater study. A water rate comparison by population study done by H.R. Green Company in 2008 showed RPU's average water rate of \$12.73 per month as the lowest in the state.
10. Ms. Parker, Director of Corporate Services, discussed the upcoming water conservation study with the Board. Minnesota requires that public water suppliers serving more than 1,000 people adopt a water rate structure that encourages conservation by January 1, 2010 for metropolitan areas, and all other suppliers by January 1, 2013. The supplier must also employ water use demand reduction measures prior to requesting approval for a public water supply well or before requesting an increase in permitted volume for their water appropriation permit. Ms. Parker explained some of the examples of conservation rates which include: increasing block rates, seasonal rates, time of use rates, individualized goal rates, and excess use rates. She said we need to determine which rate to implement as well as a public education program to communicate the changes. Mr. Rovang said that about 50% of our water use is residential and the other half is commercial/industrial. Mr. Koshire said we will want a proposal for the Board to act on when they approve RPU's 2010 budget. The new rate could be implemented January 1. The Board directed staff to do a request for proposal to have a consultant look into this.
11. Mr. Koshire provided the following update to the Board:
 - a. A dedication for the Emission Reduction Project will be held at the Silver Lake Plant at 2:30 p.m. on Tuesday, June 30. Following the dedication, the Utility Board will hold its regular meeting at the plant at 4:00 p.m.
 - b. The City Council approved a list of projects for the energy efficiency and conservation block grant (EECBG) funding under the American Recovery and Reinvestment Act (ARRA). RPU will be submitting the application on behalf of the City. Mr. Hanson said receipt of these funds will take some of the pressure off property taxes.

- 12. The management and financial reports were discussed. Mr. Williams said he like the performance measurement graph and RPU scorecard concept. Ms. Parker explained the different organizational goals to the Board and the measurements associated with each of them. Mr. Williams also said he really liked RPU's support of Arbor Day and Drinking Water Week.

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

All voting "AYE"

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

All voting "AYE"

The meeting was adjourned at 5:40 p.m.

Submitted by:

Kathleen Wilson
Secretary

Approved by the Board:

D. C. Klein
Board President Pro Tem
6/30/09
Date