

ROCHESTER PUBLIC UTILITIES
BOARD MEETING MINUTES
November 25, 2008

Members Present: Mr. Jibben, Mr. Reichert, Mr. Williams, Mr. Stahl
Absent: Mr. Hanson
Also Present: Mr. Adkins, City Attorney

Board President Jibben called the meeting to order at 4:00 PM.

1. Mr. Stahl moved to approve the minutes of the October 28, 2008 meeting, seconded by Mr. Williams.

All voting "AYE"

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

All voting "AYE"

3. Mr. Jibben opened the meeting for comments from the public. Mr. Ray Schmitz, 1508 28th Street SW, requested to be heard. He recommended that RPU consider ways to save money without increasing its electric rates to its customers. He also recommended that the Board implement a water conservation pricing structure. This rate structure would penalize users using large quantities of water and reward those who use less water.
4. Mr. Koshire discussed a proposed 5% electric revenue increase included in the 2009 RPU electric budget. RPU's wholesale power supplier, the Southern Minnesota Municipal Power Agency (SMMPA) has announced its plans for a 6% increase in wholesale power costs for 2009. The impact of this increase on RPU's customers is about 4%. RPU staff is also recommending a 1% increase for the general operations of the electric utility. This brings the proposed increase to 5% for RPU's electric customers in 2009. No revenue adjustment is planned for the water utility. The financing that occurred in the water utility along with prior rate increases have stabilized the cash-flow for the water utility. The Board will consider approval of the proposed increase at its December 11 board meeting.

Mr. Williams asked if the 6% SMMPA increase was authentic. Mr. Koshire replied that SMMPA has seen tremendous increases in fuel. The SMMPA board also increased its reserves by over \$30 million. Mr. Williams said that RPU needs to send out a strong message that two-thirds of RPU's costs are being driven by SMMPA. Mr. Jibben said that a few years ago, the RPU Board invited SMMPA to attend a RPU Board meeting to explain a double digit increase that SMMPA has passed on to its member cities.

Mr. Stahl asked Mr. Koshire if RPU could go lower than 5%. Mr. Koshire explained that

when it comes to the public interest, it comes down to two issues: using rates to recover its costs and avoiding potential reliability to its customers. As an example, Mr. Koshire said that reductions in such things as cable replacement and tree trimming affect the electrical system's reliability. The ability to balance between these two issues is critical for utilities.

Mr. Williams moved to authorize staff to give preliminary notice to the public of the intent to raise electric rates by 5% on or about January 1, 2009, seconded by Mr. Stahl.

All voting "AYE"

5. Mr. Stahl moved to approve an addendum to the gas transportation agreement with Minnesota Energy Resources Corporation, seconded by Mr. Reichert.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve an Addendum to the Gas Transportation Agreement with Minnesota Energy Resources Corporation, and request the Mayor and the City Clerk to execute the agreement for

Election of Firm Transportation
Addendum to Gas Transportation Agreement

The term of the addendum to be November 1, 2008 through March 31, 2009.

6. Mr. Schlink, Director of Power Resources, discussed a change order required to update RPU's Electric Infrastructure Report by Burns & McDonnell. The previous version of the Report which covered the period from 2005 to 2030 was approved by the Board in 2005. This document is used to plan the future infrastructure additions to the RPU system, identify the addition of transmission capabilities, identify the level of aggressive conservation activities, as well as establishing the most cost effective means of meeting RPU's future obligations to its ratepayers. The new study would extend the timeframe to 2040 and address the significant changes in the energy market, legislative and regulatory requirements, as well as the pending decision on the joint action agency contract extension proposed by SMMPA. Mr. Jibben said the plan would also show RPU's capital needs. Mr. Stahl 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 a change order to Purchase Order 10425 with Burns & McDonnell in the amount of \$100,000 for professionals services as defined in the:

Proposal for Infrastructure Plan Update
Dated November 6, 2008

- 7.a.b. Mr. Schlink explained the two mechanical construction change orders for the Emission Reduction Project. No additional funds will be needed, but a shifting of the funds will occur which involve a change in scope and require Board approval. Mr. Reichert moved to approve 7.a. and 7.b. en bloc, seconded by Mr. Stahl.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve Change Order 001 to the Mechanical Construction I contract with Moorhead Machinery & Boiler Company for the Silver Lake Plant Unit 4 Emissions Reduction Project which is a change of scope shifting funds totaling \$172,926 from Item 013 in the contract to Item 016. The value of the contract will remain at the previously approved amount of \$7,408,702.

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve Change Order 001 to the Mechanical Construction II contract with Moorhead Machinery & Boiler Company for the Silver Lake Plant Unit 4 Emissions Reduction Project which is a change of scope shifting funds totaling \$134,702 from Item 011 in the contract to Item 016. The value of the contract will remain at the previously approved amount of \$3,402,011.

- 7.c. Mr. Schlink explained the contract change in scope and increased contract amount of \$175,000 required for the electrical construction contract for the Emission Reduction Project. Several different items are part of the scope. Due to the dollar amount, Council approval is also requested. Mr. Stahl moved to approve the change order, seconded by Mr. Reichert.

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 Change Order 001 to the Electrical Construction contract with Kish & Sons Electric for the Silver Lake Plant Unit 4 Emissions Reduction Project which is a change of scope shifting funds totaling \$21,470 from Item 013 in the contract to Item 017 and an increase in the approved amount of the contract of \$175,000. The new value of the contract will increase to \$2,566,150.

8. Mr. Williams moved to approve change order 004 for the engineering services contract with Zachry Engineering Services for the Emission Reduction Project, seconded by Mr. Reichert.

All voting "AYE"

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve Change Order 004 to the Engineering Services contract with Zachry Engineering Corporation (formerly Utility Engineering) for the Silver Lake Plant Unit 4 Emissions Reduction Project which is a change of scope. The value of the contract will remain at the

previously approved amount of \$4,860,774.00.

- 9. Mr. Steve Cook, RPU Senior Electrical Engineer, provided an update on the 161 KV Regional Incremental Generation Outlet (RIGO) Transmission Project. He pointed out that Xcel Energy is in charge of the project and that RPU is a partner. Three new 161 KV transmission lines are being proposed. The benefits to RPU would include improved reliability and two additional lines into two of RPU's substations for no incremental cost. The additional transmission lines are also needed to deliver electricity from wind generation facilities under construction in Mower County. Xcel and RPU will designate a preferred route for the transmission lines, but the Public Utilities Commission will ultimately decide the routes. Additional public meetings will be announced as the plans go forward.
- 10. Mr. Koshire, General Manager, provided a brief update on the timeframe for the SMMPA/RPU litigation.
- 11. The management and financial reports were discussed.
- 12. Mr. Stahl moved to adjourn the meeting, seconded by Mr. Williams.

All voting "AYE"

The meeting was adjourned at 6:10 p.m.

Submitted by:

Kathleen Wilson
Secretary

Approved by the Board:

Jack Gibb
Board President
12/11/08
Date