

# FOR BOARD ACTION

Agenda Item # 9

Meeting Date:

10/27/09

**SUBJECT:** Preliminary 2010 Electric and Water Budgets

**PREPARED BY:** Sue Parker, Director of Corporate Services

ITEM DESCRIPTION:

Provided under separate cover is a copy of the preliminary report of the 2010 electric and water capital and operating budgets. A separate presentation of these budgets was given to the Board's finance committee earlier this month. Staff will be reviewing the budgets with the full Board at Tuesday's meeting. Approval of the budget by the Board will be requested on November 10th and forwarded to the City Council on November 16<sup>th</sup> for Council approval.

The largest expenditure in the electric budget is the wholesale power purchased from the Southern Minnesota Municipal Power Agency (SMMPA) at approximately \$91 million. The budget reflects a 4.0% increase in the wholesale power costs for 2010. Due to the proactive \$9.9 million budget reductions and financing actions taken during 2009, no electric rate increase is being proposed for 2010.

In the water utility, no revenue adjustment is being proposed for 2010. Later in the year, or in the early part of 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 significant current year business drivers are:

- 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.

UTILITY BOARD ACTION REQUESTED:

No action is required on the budget or rates at this time. Board approval will be requested at the November 10, 2009, meeting.

*Larry Koshine*  
General Manager *Kaw*

10-22-09  
Date

**ROCHESTER PUBLIC UTILITIES**