

The Owatonna Public Utilities Commission met in special budget session in the Commission Room. Present were Commissioners Emanuelson, Schreiner, Truelson, Mayhew and Stansberry. Also present were General Manager Shurts; Director, Finance & Administration Bruno; Director, Marketing & Energy Management Green; Manager, HR & Customer Service Madson; Supervisor, Gas, Water & Facilities Maintenance Bendorf; Supervisor, Electric Services Busho; Supervisor, Engineering & Waterworks Johnson; Supervisor, Meter Services Pelot; Supervisor, Power Production Reese; Supervisor, Information Services Turnbull; Supervisor, Energy Management & SCADA Warehime and Executive/HR Assistant Schmoll.

Commissioner Emanuelson opened the budget meeting by welcoming everyone. After staff introductions, the date of the December Commission meeting was discussed. It was decided to hold the December Commission meeting on Thursday, December 20, 2007 with the Finance Committee meeting at 3:00 p.m. and the full Commission meeting at 4:00 p.m. General Manager Shurts reported Cogsdale is in-house helping the Accounting staff in preparing the Financial Statements.

General Manager Shurts discussed the overview and summary of the budget with the Commission. Commissioner Emanuelson inquired if water sales from the potential water customer were figured into the budget numbers. General Manager Shurts replied, those number would be included in 2009 budget. Commissioner Emanuelson further inquired if the natural gas expenses and discounts are included in the budget dollar amounts. Mr. Shurts replied, they are.

### **Labor**

General Manager Shurts discussed the labor section of the budget with the Commission noting OPU continuously does more work with less employees. Mr. Shurts noted staff is asking for one additional afterhours serviceworker in 2008 bringing the employee complement to 66. Mr. Shurts further noted an overall wage increase of 3% is being proposed in the budget for union and management employees.

### **Income**

Income was the next section of the budget to be discussed. Commissioner Truelson asked what the potential is for other large customers, such as Lakeside, to purchase their own natural gas. General Manager Shurts replied, most companies do not have the expertise on staff to perform such tasks. Mr. Shurts further discussed revenues and contributed services, noting the City of Owatonna is doing a good job at conserving energy.

Mr. Shurts moved on to electric rates, noting in recent years, OPU did not pass on all of the electric rate increase from SMMPA and therefore, will be increasing rates approximately 4.4% to help cover SMMPA's 2008 rate increase, as well as help build reserves to where they should be according to OPU's financial reserve policy. Water rates will also increase according to the water rate plan set up a few years ago. Natural Gas rates will increase 4.3%, however the average residential customer will not see much change on their utility bill due to OPU's hedging practice and the pre-pay discount we expect to receive.

Page 3 – Director, Finance & Administration Bruno discussed fees & charges including antenna rentals, company communications on water towers, water system access charges, reallocation of overheads, inter-utility rent, and forfeited discounts.

Page 4 - Director, Finance & Administration Bruno discussed miscellaneous sales noting this includes metal recycling, rebates, sales of office supplies to employees, reimbursement for expenses, sales tax refund, etc. Mr. Bruno further discussed the expenses and revenues regarding Community Utility, and investment income.

Page 5 - Director, Finance & Administration Bruno discussed reimbursements from SMMPA noting the excess equity refund has been eliminated.

### **Expenses**

Page 6 – Director, Finance & Administration Bruno discussed expected expenses for purchased power, propane use, and natural gas.

Page 7 – Manager, Human Resources & Customer Service Madson discussed the increases associated with different insurances for the 2008 year. Mrs. Madson noted, SMMPA pays a portion of the insurance premium for liability, property, inland marine, fire and auto. We have incorporated about an average 5% increase for insurances. An analysis was done to better reflect the cost of OPU's property and the actual replacement cost of that property and its contents. For instance, if the power plant was completely destroyed it would not be replaced in kind, it would be replaced with a combustion turbine which would be less expensive and therefore insurance premiums for 2008 have decreased. Mrs. Madson further noted part of the 5% increase includes an over-budget of premiums in 2007. Discussion ensued regarding the League of Minnesota Cities Insurance Trust that OPU is part of, as well as OPU's excellent loss record.

Continuing on Page 7, Commissioner Emanuelson inquired about the Arc Flash System Study. Supervisor, Engineering & Waterworks Johnson replied, the dollars budgeted in 2007 were not spent, but the study is required to be completed by the end of 2008 so will therefore, be spent in 2008. Mr. Shurts discussed, the wellhead protection program as presented at a previous Commission meeting. Mr. Johnson added, we have to conduct a survey to determine who in the area could potentially contaminate our wells.

Page 8 – Commissioner Emanuelson inquired about the budget item Lease of 960 Trencher. Supervisor, Gas, Water & Facilities Maintenance Bendorf replied, this is the second year of the lease.

Page 9 – Nothing.

Page 10 – General Manager Shurts noted the backflow prevention program began with a presentation to the plumbers in town. Mr. Johnson noted the plumbers liked the program because it creates business for them.

Commissioner Emanuelson inquired on the pole inspection & testing. Mr. Johnson replied, this was not budgeted in 2007, however, several poles have been identified as hazardous and therefore the inspection is being budgeted for and conducted in 2008. Discussed ensued regarding construction versus maintenance projects for 2008.

Commissioner Emanuelson inquired on the budget item to maintain pumping equipment. Mr. Johnson replied, this is the reconditioning of the generator at the Central Waterworks.

Page 11 – Commissioner Emanuelson inquired on tree trimming. Supervisor, Electric Services Busho replied, the program is still very effective, we have had 0 outages related to trees. Mr. Busho added, with all the rain this year, the trees have grown considerably and are in need to trimming again, which has put the tree trimming contractor behind.

Page 12 – General Manager Shurts discussed maintenance of fire hydrants. Commissioner Mayhew inquired, what is actually done to the fire hydrants. Supervisor, Gas, Water & Facilities Maintenance Bendorf replied, it includes painting of hydrants, new gaskets, and flushing.

Page 13 – Commissioner Truelson inquired about budget line item Gas Lecturn. Supervisor, Meter Services Pelot replied, this is in regards to confined space entry equipment, the failure rate schedule of this type of equipment, and rebuilding the current equipment. General Manager Shurts inquired about Substation & Electrical Equipment. Supervisor, Power Production Reese replied, this is a five year average to help bring budget dollars closer to what is actually being spent.

Page 14 – Commissioner Truelson inquired about the gas turbine inspection, specifically if SMMPA reimburses us those costs. Mr. Reese replied, yes, they do. Commissioner Mayhew inquired if a certain percent is added to the budget each year. It was explained in some instances a 3% increase is applied. Commissioner Emanuelson requested a year to date column be included in the budget next year. General Manager Shurts agreed staff would try to incorporate a column to include year to date, as well as a column to include projected amounts for the year.

Page 15 – Director, Finance & Administration Bruno discussed bank cards & credit card fees, noting the increase is due to an under-budgeting of dollars the previous year, as well as more customers are paying their utility bill with a credit card. Commissioner Emanuelson inquired about the increase in uncollectible accounts. Mr. Bruno noted, this item was really under-budgeted in previous years, more people are not being able to pay their utility bills and are being turned over for collections, and the State of MN has eased up on their Cold Weather rules. The amount in the budget more closely reflects what OPU is expecting to write off in 2007. Manager, HR & Customer Service Madson discussed OPU's collection procedure, changes in the Cold Weather rule and the collection agency used by OPU. Commissioner Emanuelson inquired about maintenance fees. Mr. Bruno reported, the maintenance fee is for the software for the new Cogsdale financial system. Commissioner Truelson inquired about a maintenance contract. Supervisor, Meter Services Pelot replied this is for the new drive by system.

Page 16 – Nothing.

Page 17 – General Manager Shurts noted, OPU purchases their needed envelopes every other year.

Page 18 – Commissioner Emanuelson inquired about the increase in Safety Related programs. Mrs. Madson replied, effective January 2007 all safety related items were included in this budget item.

Page 19 – Commissioner Emanuelson inquired about worker's compensation insurance. Mrs. Madson replied, our work comp. insurance is combined with the City's and it was a not a good year for them. There was one employee with restrictions that could not be accommodated which drives the mod. rate up. Inter-utility rent was discussed.

Page 20 – It was noted, the monthly customer newsletter and the Public Awareness program were moved from the Human Resources/Customer Service area to the Marketing area. Commissioner Emanuelson inquired about the impact of the energy conservation legislation. Supervisor, Energy Management & SCADA Warehime replied, that legislation will not impact OPU until 2010.

Page 21 – Nothing.

Page 22 – Disposal of compact fluorescent bulbs was discussed.

Page 23 – Nothing.

Page 24 – Nothing.

Page 25 – Contributed Services were discussed. The Economic Development budget item was reduced due to the agreement with the Owatonna Business Incubator being over.

Page 26 – Nothing.

### **Capital**

Page 27 – General Manager Shurts noted, several accounts regarding underground and overhead utility lines were combined. Supervisor, Engineering & Waterworks Johnson distributed and discussed a document showing those changes. Commissioner Emanuelson inquired about the odorization at the West Reg. Station. Supervisor, Gas, Water & Facilities Maintenance Bendorf replied, an identical station will be installed at the South TBS and both systems will be completely monitored by SCADA.

Page 28 – Nothing.

Page 29 – The combination of budget items involving underground and overhead installation were again discussed, as well as street light maintenance. Commissioner Truelson inquired about gas main replacement. Mr. Johnson replied, it includes a project in conjunction with the City on 26<sup>th</sup> St. NW where our gas main may need to be lowered.

Page 30 – Commissioner Truelson inquired about the budget item roof replacement. Mr. Bendorf replied, that is from the center wall of the main plant over to the power plant.

Page 31 – Commissioner Truelson inquired about a list of all OPU vehicles. General Manager Shurts distributed and discussed a chart showing OPU's vehicles. Mr. Shurts further discussed the vehicle replacement procedure with the Commission.

Page 32 – Supervisor, Gas, Water & Facilities Maintenance Bendorf discussed the budget item flood equipment. He noted it includes diesel pumps and work with the City to help mitigate flooding issues on Walnut Avenue. We are also purchasing door dams that are more easily installed by one person.

Page 33 – Phone calling queue and call recording system was discussed by Supervisor, Information Services Turnbull. Mr. Bendorf added, the call recording is an item recommended during our Aegis Insurance inspection, as well as is currently a law being proposed by MnOPS. Commissioner Truelson inquired about the need for a standby generator. Supervisor, Power Production Reese replied, it is a

backup generator that would be used to supply power to our UPS system, which in turn will supply the phone system and two way radio system in an extended outage.

Page 34 – Commissioner Truelson inquired about the display booth budget item. Supervisor, Energy Management & SCADA Warehime replied, in previous years we have borrowed one from Rochester Public Utilities.

Page 35 – Mr. Reese discussed a remote terminal unit at the East Owatonna Substation noting it is unit located at a substation or well that can monitor, open or close breakers or start or stop wells. The current one is 25 years old, we can no longer get parts for it and our new software does not communicate with the older RTUs.

Page 36 – Mr. Johnson discussed the purchasing of transformers stating we are trying to hedge our transformer purchases much like we hedge natural gas by trying to purchase what we need at a lower cost. Commissioner Mayhew inquired about the likelihood of transformer technology changing if we don't use the transformers quickly. Mr. Johnson replied, the technology has not changed much in the past 15-20 years.

Supervisor, Meter Services Pelot distributed and discussed a graph indicating the saturation of the electronic remote transmitters. He noted we are 70% complete and anticipate a full completion date in 2011.

Page 37 – Nothing.

### **Adjournment**

There being no further business to come before the Commission, Commissioner Truelson moved to adjourn the meeting. Commissioner Mayhew seconded the motion. All Commissioners voting Aye, the meeting adjourned at 6:54 p.m.

Respectfully submitted,

Tammy Schmoll  
Executive/HR Assistance