

The Owatonna Public Utilities Commission met in special budget session in the Commission Room. Present were Commissioners Emanuelson, Stansberry, Schreiner, and Ihrke. Absent was Commissioner Mayhew. Also present were General Manager Shurts; Director, Financial & Administrative Services Bruno; Director, Gas, Water & Power Production Green; Manager, Energy Management & External Relations; Manager, HR, Safety, Risk & Loss Control Madson; Supervisor, Electric Services Busho; Supervisor, Engineering & Substation Services Johnson; Supervisor, Gas, Water, Buildings & Grounds Bendorf; Supervisor, Information & Financial Services Turnbull; Supervisor Meter Services Pelot; and Executive/HR Assistant Schmoll.

Commissioner Emanuelson led the Pledge of Allegiance.

Commissioner Emanuelson inquired, in the summary, when anticipating commodity sales for 2009, by using weather and temperature as one factor, what constitutes “normal”? Director, Financial & Administrative Services Bruno replied, when looking at the weather and temperatures from last year, the winter and summer were both mild. When considering “normal” temperatures one would expect winter would be colder and summer would be hotter than in 2008.

Commissioner Emanuelson asked for clarification on the bond defeasance process. Mr. Bruno replied the next step is for bond counsel to get an opinion from our auditors whether we can use treasury bonds in defeasance of the bonds, or not. However, we are moving forward with the budget assuming we will not be doing the defeasance. Commissioner Schreiner inquired, if we pay off the bond, and our reserves fall below policy levels, how long will it take to get the reserve levels back up? General Manager Shurts replied, the plan is to get them back in three years.

ASSUMPTIONS

Mr. Bruno explained, to the Commission, the assumptions used to in the 2009 budget. He noted, a rate increase in all three utilities is anticipated; 4.79% in electric; 5.49% in water and 2.87% in natural gas. Commissioner Emanuelson inquired, SMMPA, OPU’s wholesale electric supplier, is anticipating a 6% electric rate increase, what is OPU’s logic in not raising our rates 6% to cover that. Mr. Bruno replied, over the last two years wholesale electric rates have increased 30%, we are trying to ease the impact to our customers as much as possible. General Manager Shurts distributed and discussed a graph showing what the wholesale electric rates have done since 2005 and how they have impacted the residential customer. Commissioner Emanuelson asked for an industrial customer list of those customers who are on the long term tariff program with SMMPA and when that program ends for each customer. Manager, Energy Management & External Relations Warehime added, the Austin Utilities will be increasing their electric rates by 12.1% this year.

SUMMARY

Mr. Bruno directed the Commission’s attention to pages S-4 and S-5 of the electric summary and discussed revenues, interest rates, commodity purchases, projected increases from SMMPA, net income, increases in individual expense classifications, and projected funds available out to the year 2013. On page S-6 Mr. Bruno noted this is a summary of page S-5 and discussed beginning funds available, expenses, capital expenditures, restricted funds, and projected ending funds available

Page S-7 begins the water summary. Mr. Bruno noted, revenues drop even with a rate increase due to interest income, fees and charges, and water access fees dropping. Commissioner Emanuelson inquired, how much do we receive from the City for billing the storm water fees? Mr. Bruno replied, 6%. Mr.

Bruno continued by discussing expenses, net income, ending funds, funds after capital, and capital expenditures. It was noted in 2014-2015 we may have a need for a new well or tower and therefore, some of the reserve funds will be needed for that expenditure.

Page S-10 begins the gas summary. Again, Mr. Bruno discussed projected revenues, interest income, miscellaneous sales, energy conservation. If State mandates change in the energy conservation area, we will be required to meet those requirements which is not impossible, but will be tough. Mr. Bruno continued by discussing commodity sales and purchases, OPU's contract with Northern Natural Gas, the power plant not running, and the five year projected sales and expenses.

LABOR

Commissioner Emanuelson inquired about the projected wage increase for the year 2009. Mr. Bruno replied, we use 3% as a base. General Manager Shurts directed the Commission's attention to the explanation packet distributed at the previous meeting, including an organization chart. He discussed anticipated employee complement, stating we are budgeting a half year for the Supervisor, Power Production and a half year for the Director, Engineering & Electric Services positions which are currently vacant but don't know at this time if either position will actually be filled. Mr. Shurts continued, an employee in the Information Services area retired in 2008 and staff is recommending filling that position. Mr. Warehime added, when this person retired, we did not immediately fill the position. With the new Customer Management System we are not sure where this position will be best utilized. Mr. Warehime explained a process used by another utility using the Cogsdale system and noted this may be an appropriate way for OPU to redesign and improve the customer service area which would include adding this position to the customer service area. Mr. Warehime further noted, the extra person in the customer service area would ensure better customer service coverage when employees are sick or on vacation and will ease the transition into the new customer management system by having better coverage during training times. Once the new system is in place, the role of the customer service representatives may change, including expansion into the energy conservation area.

INCOME

Page 1 – Mr. Bruno discussed revenues in all three utilities.

Page 3 – Mr. Bruno noted the largest decrease in fees and charges is the water access system fees. He noted these fees are down due to poor economic conditions and the lack of new homes being built.

Page 4 – Mr. Bruno noted the biggest change in non-operating revenue is the energy conservation investment (ECI) reimbursements. He noted, with the new financial system, they have been added to the budget as a line item. With the old system these figures were always in the budget, just didn't appear as a line item. The ECI dollars cover rebates, including the cost of processing and advertising them. Expenses and revenue from Community Utility were discussed.

Page 5 – Mr. Bruno noted the SMMPA payment decrease due to the power plant not running.

EXPENSES

Page 7 – Mr. Johnson discussed line items for consulting services. He noted, consultants are needed for such projects as the wellhead protection program, analysis of water tower #8, etc. Previously, consultant

fees were pulled from the general operations fund and then moved against the appropriate project. This will allow us to charge it to the correct project right away and will help us track consulting fees more accurately.

Page 10 – Items pertaining to substations and transmission were moved to different cost centers. Commissioner Emanuelson inquired about a 17% increase in the line item Supv. & Eng – Dist. Operations. Staff will look into that increase and report back to the Commission.

Page 12 – Maintaining Pumping Equipment line item, changed cost centers. Commissioner Emanuelson inquired about the increase in Maintaining Structures & Grounds. Mr. Bendorf noted there will be some remodeling in the office, such as replacing ceiling panels, and the bathroom in Garage #1 will be redone.

Page 13 – Commissioner Emanuelson inquired about the reduction in the water meters. Mr. Pelot replied, we inventoried the amount of meters we need to replace and the type of meter and determined the meters we have will be sufficient.

Page 17 – Program Development Labor – Mrs. Turnbull noted, this item will cover the possible need for outside help in developing reports needed with the new Customer Management System. We will ensure we have all the reports we need before the actual “go live” date. Mr. Warehime added, this is a placeholder as we are unsure what will actually be needed. Commissioner Emanuelson inquired about the type of reports needed. Mr. Warehime and Mrs. Turnbull replied, reports needed to perform day-to-day operations and to make decisions.

Commissioner Emanuelson inquired about Software Maintenance. Mrs. Turnbull replied this is a more accurate cost of what we have been spending for software maintenance. Commissioner Ihrke inquired about the drop in forms and envelopes. Mrs. Turnbull explained we order envelopes every other year and get a discount for purchasing this way.

Page 18 – Commissioner Emanuelson inquired about Strategic Planning. General Manager Shurts explained these costs include a facilitator for the Strategic Planning meetings, as well as, leadership team development. Commissioner Emanuelson further inquired about the increase in Dues and Subscriptions. Mrs. Madson replied this is a more accurate amount of what has been spent. She noted, this includes such items as the APPA annual dues, MMUA annual dues and the alternative energy costs. Commissioner Ihrke inquired about the general liability insurance. Mrs. Madson replied this includes liability, auto and property insurance with the League of MN Cities. These numbers will be changing slightly due to getting the actual increase amounts. We projected a much higher increase for 2009 when in reality the increase will only be 1.3%.

Page 19 – Mailing Costs – Mrs. Madson explained mailing costs noting they include bills being mailed to customers. Mrs. Madson also explained the increase in the Safety Related Programs line item stating all safety related items, for both employees and the public, are included in this budget item. Commissioner Emanuelson inquired about the increase in Janitorial Services. Mrs. Madson noted this item also includes cleaning supplies, as well as, the contract price their services.

Mr. Emanuelson further inquired about the rate review. Mr. Bruno noted this is for R.W. Beck, an independent consultant, to come in and do a rate analysis. This is performed every couple years.

Page 20 – Commissioner Emanuelson inquired about the increase in Conservation Program Coordination for both electric and natural gas. Mr. Warehime replied, this will cover the increase in our energy conservation programs, primarily the Positive Energy program and a ½ year for a contract person who will be shared between Austin and Owatonna to generate more commercial rebates and conservation programs to increase energy savings. Mr. Warehime further noted some of these funds will be offset with a grant OPU received for the Positive Energy project.

CAPITAL

Page 27 – Commissioner Emanuelson inquired about underground electric lines, and if construction is down, does that affect what we estimate for capital projects. Mr. Johnson replied this line item includes both new and replacement lines and OPU is anticipating stepping up the replacement plan. Mr. Busho added, the line crew is working on moving lines underground in areas that have experienced a lot of outages

Commissioner Emanuelson inquired about the decrease in water mains. Mr. Johnson replied, this is due to the lack of new developments.

Page 29 – Mr. Johnson noted the overhead lines and poles is for rework in the back alleys and old pole areas.

Page 31 – Mr. Shurts covered the digger derrick item in his notes distributed prior to the budget meeting.

Mr. Green noted the replacement of Truck #45 stating we are looking to replace a SMMPA vehicle. He continued, we are looking at replacing the Electric Supervisor's vehicle and then lease the existing vehicle to SMMPA. This item would move from the 2013 budget to the 2009 budget.

Commissioner Emanuelson inquired about the mini digger derrick and noted in previous years this item was pushed out to a different year. Mr. Busho replied, this year it needs to be replaced due to parts not being available and the unit becoming obsolete. The unit is for entering backyards through gates and makes less of an impact in customer's yards.

Page 32 – Commissioner Emanuelson inquired about the increase in tools and equipment in the Meter Shop. Mr. Pelot replied, this item is for a new electric test bench that will accommodate the new digital equipment. Mr. Pelot also discussed the planned remodel in his area.

Page 34 – Commissioner Emanuelson inquired about the increase in the Office Equipment for Accounting. Mrs. Turnbull noted the Accounting Remodel budgeted for 2008 was not performed and therefore, has been combined with the Office Equipment line item.

Page 36 – Commissioner Emanuelson inquired about the decrease in load management units. Mr. Pelot remarked, due to no construction.

As a recap, Mr. Bruno noted items that will be completed before the next Commission meeting to approve the budget. Items include redoing interest income, storm water fees, and purchased gas; removing the replacement for a Supervisor, Power Production; check on Supr. & Eng. Dist. Operation; new insurance numbers; Truck #45 replacement will be moved to 2009; and a listing of the long term tariff customers will be sent to the Commission.

Commissioner Emanuelson thanked staff for their hard work in the budget process.

Adjournment

There being no further business to come before the Commission, Commissioner Stansberry moved to adjourn the meeting. Commissioner Ihrke seconded the motion. All Commissioners voting Aye, the meeting adjourned at 6:22 p.m.

Respectfully submitted,

Tammy Schmoll
Executive/HR Assistant