

The Owatonna Public Utilities Commission met in special budget session in the upstairs conference room at the Owatonna Fire Department. Present were Commissioner Cosens, Ihrke, Schreiner, Stansberry and Simon. Also present were General Manager Fritsch; Director, Financial & Administrative Services Fondell; Director, Engineering & Electric Services Johnson; Director, Gas, Water & Generation Green; Manager, Energy Management & External Relations Warehime; Manager, HR, Safety, Risk & Loss Control Madson; Supervisor, Substations & Generation Deering; Supervisor, Financial & Administrative Services Turnbull; Supervisor, Gas, Water & Building Maintenance Hortop; Supervisor, Meter Services Pelot; and HR/Executive Assistant Schmoll.

Director, Financial & Administrative Services Fondell explained the items she was going to discuss with the Commission, including new items, big changes, big variances and any other questions the Commission had.

Summary

Director Financial & Administrative Services Fondell discussed the 2011 to 2012 budget comparisons, budgeted sources of revenue, noting commodity sales show a decrease due to a projected decrease in consumption. The decrease in consumption stems from energy conservation measures and overall economy. Fees and charges are staying about the same. There is a major increase in miscellaneous sales due to the projected funds being reimbursed from FEMA. The funds were budgeted to be received partially in 2012 the other part in 2013 and will be used on the power plant repurposing project. SMMPA payments also increased due to the promised payment from SMMPA for the decommissioning of Unit #6.

In budgeted uses of revenue, a projected decrease in commodity purchases is due to the projected decrease in consumption. Debt service follows the bond amortization schedule and Contributed Services are based on current trends. Mrs. Fondell discussed increases & decreases from last year in other areas of the budget touching on operations, maintenance, accounting & collecting, information services, administrative & general and purchasing and stores.

In total expenses, Mrs. Fondell noted an increase of 3.9% overall. However, the funds available are also increasing. The reasoning for this is based on ebbs and flows in the capital projects area, including the FEMA reimbursement.

Revenues & expenses in each utility were discussed, as well as a five year analysis of overall spending. It was noted debt service principal goes away in 2016 due to the bonds being paid off. Capital expenditures in 2012, 2013 and 2014 are higher than normal and higher than 2015 and 2016 due to the power plant repurposing project and the generation project with SMMPA. Phasing of the power plant repurposing project was discussing emphasizing there are portions of the project that could be pushed off for several years giving OPU more flexibility financially. Discussed restricted funds, general operating reserve & the capital fund.

Mrs. Fondell noted the charts included in the packet are simply visual summaries. She next turned the Commission's attention to the electric utility revenue/expense comparison page and used it to recapped the electric utility budget. She noted staff is recommending a zero percent rate increase to stay in line with SMMPA's proposed zero percent rate change. It was noted, SMMPA is estimating a 2% increase each year in years 2013 through 2016. In conclusion, 100 days worth of operating expenses are needed to stay within the company's Financial Reserves policies. Staff will be reviewing OPU's financial reserves policy and will research other utilities' policies to see if the number of days of operating expenses needs to be adjusted.

Next, the water and natural gas utilities revenue/expenses comparisons were discussed with a noted 2.88% increase in water rates and a net zero percent in natural gas rates being proposed. It was noted the Energy Conservation Investment (ECI) charge will be increased 1.3% to more closely reflect the amounts being spent on conservation efforts. However, it is also proposed the base natural gas rate be decreased 1.3% to offset the ECI increase. Expenses and revenues will be better matched in the financial statements with this change. Natural Gas rate changes of approximately 6% in 2013 and approximately 2% each year in 2014, 2015 and 2016 are being proposed.

Labor

The next item discussed was the labor part of the budget. It was noted there are 59 employees budgeted for 2012.

Capital

Capital budget items were the next discussed. The first item noted was the \$4 million dollars spread out of 2013, 2014, and 2015 committed to SMMPA for bringing generation to Owatonna sooner than originally planned.

Other notable items included the property purchases for the remaining six properties on Walnut St.; vehicle purchases and the development of a long term replacement plan for vehicles; SCADA Telegyr system which has been deferred for the last 3 years including hardware and software; and the strategy for purchasing transformers. It was noted the technology for transformers doesn't change much.

Income

The income section of the budget is self explanatory and was discussed in detail.

Expenses

The expense section of the budget was the final item discussed. There were not many notable items or questions. It was noted the inspection of the #7 gas turbine is scheduled to be done in 2012. The expenses involved in that inspection will be reimbursed by SMMPA. There is an offset of this expense in the revenue section.

A budget item for a four year apprenticeship program was noted to incorporate MMUA training, Northwest Lineman's College and safety requirements including overhead and underground schools. New employees just coming out of college will be required to take this program.

Commissioner Cosens inquired about increasing rates gradually over the next few years to accommodate the financial requirements needed for the repurposing project. Director, Financial & Administrative Services Fondell explained the phasing process being looked at for the repurposing project noting over the course of the next 5 years we have budgeted net incomes designed to rebuild the reserves as we continue to deplete them. She noted there are areas we are considering postponing until the money is there to fund them. This ensures a "self-funding" of the project.

Commissioner Cosens expressed his appreciation of the management staff for all their work on keeping the budget fair and factual and all the work put into it.

Director, Financial & Administrative Services Fondell concluded by noting she will incorporate any discussed changes into a final document that will be sent out with the agenda packets for the next Commission meeting along with a summary of those changes.

Adjournment

There being no further business to come before the Commission, Commissioner Simon moved to adjourn the meeting. Commissioner Ihrke seconded the motion. All Commissioners voting Aye, the meeting adjourned at 6:52 p.m.

Respectfully submitted,

Tammy Schmoll
Executive/HR Assistant