

**OFFICIAL PROCEEDINGS OF THE
BOARD OF WATER, ELECTRIC,
AND COMMUNICATIONS TRUSTEES
OF THE CITY OF MUSCATINE, IOWA
JANUARY 30, 2007—5:30 P.M.**

The Board met in regular session at the Administration Building, 3205 Cedar Street, Muscatine, Iowa, on Tuesday, January 30, 2007, at 5:30 p.m., CST.

The meeting was called to order. Members of the Board were present as follows: Trustees Joan Axel, Warren Heidbreder, Scott Ingstad, and Don Mead. Trustee Doyle Tubandt was absent.

Also present were Mr. Jay D. Logel, General Manager of Muscatine Power and Water; Mr. Donald W. Kerker, Board Secretary; Mr. Duane J. Goedken, Board Attorney; Ms. Lacey Loewe and Mr. David Fee, Principal Financial Group; Mr. Bryon Houlgrave, Muscatine Journal; Messrs. Sal LoBianco, Ray Danz, Gary Wieskamp, Tracy Hatfield, and Meses. Erika Cox and Ann Jones of MP&W.

Chairperson Axel asked if there was anyone in attendance that would like to address the Board of Trustees. There were no public comments.

The minutes of the December 21, 2006, public hearing and regular meeting were presented as previously submitted to all Board members in written form. Trustee Mead moved, seconded by Trustee Heidbreder, that the December Board meeting minutes be approved as submitted to all Board members. Motion carried. All Trustees present voted aye.

The March Board of Trustees meeting conflicts with the Greater Muscatine Chamber of Commerce and Industry's Annual Meeting, and it was recommended that the March Board of Trustees meeting be moved to March 29, 2007. Trustee Ingstad moved, seconded by Trustee Mead, that the regular monthly meeting of the Board of Trustees should be conducted on March 29, 2007 at 5:30 p.m. Motion carried. All Trustees present voted aye.

The list of expenditures and transactions for December was presented as previously submitted to all Board members in written form. Mr. Logel directed the Board's attention to page twenty-seven and a check issued to the Greater Muscatine Chamber of Commerce and Industry in the amount of \$40,000 for economic development. This was the Board's allotment to support continued growth in the City of Muscatine. After review and discussion, Trustee Mead moved, seconded by Trustee Ingstad, to ratify payment of \$6,466,164.79 for the Electric Utility, \$349,992.55 in the Water Utility, and \$862,745.96 for the Communications Utility. Motion carried. All Trustees present voted aye.

Mr. Logel asked Ms. Erika Cox, Director of Employee Services, to introduce the next agenda item and this evening's guests. Ms. Cox advised that Muscatine Power and Water has a defined employee benefit pension plan. All eligible full- and part-time employees, except twelve Water Utility employees that participate in the Iowa Public Employers Retirement System (IPERS), participate in the defined pension plan. The Water Utility employees received the option, because of an Iowa law change, to participate in IPERS or to continue participation in

the defined benefit pension plan; twelve employees have elected to participate in IPERS instead of MP&W's pension program.

Previously Muscatine Power and Water was restricted by law to invest pension funds in fixed-income securities only. In 2001 legislation was passed that provided MP&W with other investment options, similar to the IPERS investment program with some restrictions. The Board of Trustees approved a Pension Investment Policy and asset allocation strategy in 2001, which provided for the gradual diversification of the pension funds by December 2003. The Board's Pension Investment Policy requested an annual investment report and this evening Ms. Lacey Loewe and Mr. David Fee of Principal Financial Advisers, Inc. will present the 2006 investment report. Ms. Cox advised that the annual portfolio report was previously submitted to all Board members in written format.

Mr. Fee briefly reviewed the investment strategy, the fund managers, and the various investment accounts. Muscatine Power and Water's pension plan was fully funded.

General discussion was conducted on the pension plan. The pension program was in addition to the 457 deferred compensation program offered to the employees. The management team that works with Principal regarding the pension investments was Mr. Jay Logel, Mr. Don Kerker, and Ms. Erika Cox.

Trustee Mead moved, seconded by Trustee Ingstad to receive and place on file the 2006 annual pension investment report. Motion carried. All Trustees present voted aye.

Ms. Loewe and Messrs. Fee and Hatfield left the meeting at 5:50 p.m.

Mr. Logel advised that at the December meeting the Board authorized the System Reliability Study to review and investigate the electric system reliability. Management met with the Board's Planning/Operating Committee on January 12 to review and discuss the electric transmission grid and MP&W's use of the transmission grid to purchase and sell energy. Mr. Ray Danz, Director of Utility Operations, has prepared a power point presentation on this subject and the Planning/Operating Committee suggested that the information be presented to the full Board.

Mr. Danz reviewed the various independent operator systems, MP&W's interconnections with other systems, and the challenges MP&W faces in selling and purchasing energy due to transmission congestion. When Unit 9 was off-line Units 7 and 8 cannot meet the native system demand; therefore, MP&W must purchase energy to serve the City of Muscatine. Most of the time the energy was available but obtaining a transmission path to Muscatine was the challenge. It was the same challenge when trying to sell energy to other locations. The transmission line capacity was purchased for the flow direction of the energy; entering or leaving MP&W. The System Reliability Study will review transmission availability, energy reliability, and other issues. The initial meeting with the consultant has been completed and the study work has been started.

Mr. Logel stated that as reported to the Board at a previous meeting several municipal utilities were investigating the feasibility of constructing a base load generating facility at MP&W.

The municipal utility study will not address transmission in the first phase of the study, but it will be necessary to find transmission if a base load unit was constructed in Muscatine.

Additional information will be provided to the Board regarding the System Reliability Study at a future meeting.

Mr. Logel advised that management was recommending that the Board policy regarding Power Supply Agreements for selling and purchasing energy be revised to address the current market issues. A previously submitted memorandum to all Board members outlined the changes and included enclosures detailing the recommended changes. Mr. Logel asked Mr. Danz to review the proposed policy.

In the Board's meeting material was a memorandum on this subject with several enclosures outlining the changes to the current policy and defining the proposed policy. The first enclosure outlined the type of agreement by length and the various authorization levels required to execute the transactions. Same day energy transactions were completed by the System Control Operator, next day through one-week energy transactions were authorized by the System Control Manager. Energy agreements greater than one week through six months and less than \$5 million gross were approved by the General Manager or two members of the Wholesale Energy Subcommittee in the General Manager's absence (the subcommittee was comprised of the Director of Utility Operations, the Director of Finance and Administrative Services, and the Director of Generation and Telecommunications). Energy transactions that were more than six months in length, or had a gross value of \$5,000,000, or more required approval by the Board of Trustees. Any energy sales transaction containing liquidated damage clauses were approved by the Board of Trustees. The procedures for selling and purchasing energy were similar. If the purchase of energy for a planned generating unit outage was in the approved annual Operating Budget it was not necessary to have the Board approve the energy purchase again.

The major change in the policy was the six-month term, the \$5,000,000 gross value, or if the agreement included liquidated damage products and the policy addressed purchases and sales of energy.

General discussion was conducted on the policy and practices. Firms purchasing energy from MP&W were reviewed by MP&W's Accounting Department for credit worthiness prior to consummating the energy transaction. The Board's two marketing firms (Rainbow Energy and Omaha Public Power Marketers) identified the majority of the excess energy purchase and sales transactions for MP&W; therefore, only small amounts were transacted directly by the Utility. The Pella agreement was the only long-term agreement at this time. Discussion was conducted on energy purchases for speculative sales; MP&W does not purchase energy for that type of transaction. The Board asked if there was a written policy for review in addition to the enclosed flowcharts and Mr. Danz indicated there wasn't at this time but one would be presented at the February Board meeting for the Board's review and approval. Mr. Logel stated that this evening's presentation was for the Board's information and consideration, and at the February meeting the proposed policy, with the Board's comments, will be presented for approval by the Board of Trustees.

Mr. Logel stated that the next meeting item was a recommendation by staff to set dates for the receipt of bids and to conduct a public hearing for Asphalt Surfacing and Repairs, Concrete Curbs and Storm Drainage – 2007 Projects. There were two projects approved in the 2007 Operating Budget in the total amount of \$120,300 for asphalt surfacing repairs and to provide additional storm drainage at an existing parking area located at the Power Plant. The letting also included repair of damaged asphalt and the construction of new concrete rollover curbs and gutters at the A/O Center. It was recommended that bids be received March 13, 2007 at 3:30 p.m. and a public hearing be conducted at 5:24 p.m. on March 29, 2007. The published estimate for the letting will be \$108,270.

The following resolution was submitted after discussion and review of the projects.

RESOLUTION 07-01

WHEREAS, plans and specifications have been prepared for Asphalt Surfacing and Repairs, Concrete Curbs and Storm Drainage – 2007 Projects; and,

WHEREAS, said proposed plans and specifications and proposed form of contract were now on file with the Secretary of the Board of Trustees and the Board finds the same were in substantial conformity with the requirements necessary to carry out said plans; now therefore,

BE IT RESOLVED, by the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa, that the plans and specifications in the proposed form for Asphalt Surfacing and Repairs, Concrete Curbs and Storm Drainage – 2007 Projects were tentatively approved; and,

BE IT FURTHER RESOLVED, that the date of March 13, 2007, at 3:30 p.m., CDT was hereby set for receipt of bids on said project at which time the Board's duly appointed representative was hereby authorized, empowered, and directed to receive, open, and read aloud all sealed bids, and to receive and record all oral bids, and to keep a written record of said proceedings; and,

BE IT FURTHER RESOLVED, that the hearing on said plans and specifications and proposed form of contract as provided by statute, be held in the office of the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa, on March 29, 2007, at 5:24 p.m., CDT, and notice to bidders be published not less than twenty (20) days nor more than forty-five (45) days prior to said hearing all as required by the Code of Iowa.

Trustee Ingstad moved, seconded by Trustee Mead, that the said resolution should be passed, approved, and adopted this 30th day of January 2007. On roll call, Trustees Axel, Heidbreder, Ingstad, and Mead voted aye. Voting nay, none. Trustee Tubandt was absent.

Mr. Logel advised that the next agenda item was a recommendation to set dates for receipt of bids and to conduct a public hearing for Water Main Improvements – 2007 Projects. Four projects were included in the Water Utility's 2007 approved Operating Budget and were combined for an estimated expenditure of \$437,308. The projects were replacement of water mains on Burnside Drive, Barry Avenue, and Breese Avenue and construction of a twelve inch

main on Tipton Road. It was recommended that bids be received on March 13, 2007 at 3:00 p.m. and a public hearing be conducted at 5:26 p.m. on March 29, 2007. The published estimate for this letting will be \$393,577.20.

After review and discussion the following resolution was submitted.

RESOLUTION 07-02

WHEREAS, plans and specifications have been prepared for Water Main Improvements – 2007 Projects; and,

WHEREAS, said proposed plans and specifications and proposed form of contract were now on file with the Secretary of the Board of Trustees and the Board finds the same were in substantial conformity with the requirements necessary to carry out said plans; now therefore,

BE IT RESOLVED, by the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa, that the plans and specifications in the proposed form for Water Main Improvements – 2007 Projects were tentatively approved; and,

BE IT FURTHER RESOLVED, that the date of March 13, 2007, at 3:00 p.m., CDT, was hereby set for receipt of bids on said project at which time the Board's duly appointed representative was hereby authorized, empowered, and directed to receive, open, and read aloud all sealed bids, and to receive and record all oral bids, and to keep a written record of said proceedings; and,

BE IT FURTHER RESOLVED, that the hearing on said plans and specifications and proposed form of contract as provided by statute, be held in the office of the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa, on March 29, 2007, at 5:26 p.m., CDT, and notice to bidders be published not less than twenty (20) days nor more than forty-five (45) days prior to said hearing all as required by the Code of Iowa.

Trustee Mead moved, seconded by Trustee Heidbreder, that the said resolution should be passed, approved, and adopted this 30th day of January 2007. On roll call, Trustees Axel, Heidbreder, Ingstad, and Mead voted aye. Voting nay, none. Trustee Tubandt was absent.

Chairperson Axel advised that with the March Board meeting date change, it will be necessary to change the public hearing date previously set for the Unit 9 Building, Crusher House, and Unit 8 Coal Silo Dust Control – 2007 Projects. Currently the hearing was set for 5:28 p.m. on March 27, 2007 and it should be changed to March 29, 2007 at 5:28 p.m. An addendum will be issued to the plans and specifications and submitted to all bidders regarding the hearing date change. The following resolution was submitted.

RESOLUTION 07-03

WHEREAS, at its meeting on December 21, 2006, this Board of Trustees took action to set the date of March 27, 2007 at 5:28 p.m. CDT, to conduct a public hearing for Unit 9 Building, Crusher House, and Unit 8 Coal Silo Dust Control – 2007 Projects; and,

WHEREAS, the Board has changed the date of the March 2007 Board of Trustees meeting to March 29, 2007; now therefore,

BE IT RESOLVED, by the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa, that the date to conduct a public hearing for Unit 9 Building, Crusher House, and Unit 8 Coal Silo Dust Control – 2007 Projects be changed from March 27, 2007 at 5:28 p.m. to March 29, 2007 at 5:28 p.m. CDT; and,

BE IT FURTHER RESOLVED, that the notice to bidders be published not less than four (4) days nor more than twenty (20) days prior to said date to conduct a public hearing all as required by the Code of Iowa.

Trustee Heidbreder moved, seconded by Trustee Ingstad, that the said resolution should be passed, approved, and adopted this 30th day of January 2007. On roll call, Trustees Axel, Heidbreder, Ingstad, and Mead voted aye. Voting nay, none. Trustee Tubandt was absent.

Mr. Logel advised that the next agenda item was a recommendation by staff to approve a contract change order and to accept the Greiner Buildings, Inc. contract as complete for the Construction of a Vehicle Storage Building. The Board awarded the contract to Greiner Buildings, Inc. in the amount of \$71,550.38 at the August 29, 2006 Board of Trustees meeting. One Contract Change Order has been submitted in the amount of \$463.82 for a walk through door to the building. The work completed by this contractor has been checked out by staff and found to be in accordance with the specifications. It was recommended that the Board approve the Contract Change Order in the amount of \$463.82 and accept the contract as complete in the final amount of \$72,014.20. After discussion and review of the project the following resolutions were submitted.

RESOLUTION 07-04

WHEREAS, the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa, on August 29, 2006, awarded a contract to Greiner Building, Inc. in the amount of \$71,550.38 for the Construction of a Vehicle Storage Building; and,

WHEREAS, a Contract Change Order has been prepared to said contract in the amount of \$463.82 and said contract change order was reviewed by the Board and the Board's staff has recommended approval of said contract change order; now therefore,

BE IT RESOLVED, by the Board of Water, Electric, and Communications Trustees that said contract change order in the amount of \$463.82 be and the same was hereby approved for a final contract price of \$72,014.20.

Trustee Heidbreder moved, seconded by Trustee Mead, that the said resolution should be passed, approved, and adopted on this 30th day of January 2007. On roll call Trustees Axel, Heidbreder, Ingstad, and Mead voted aye. Voting nay, none. Trustee Tubandt was absent.

RESOLUTION 07-05

WHEREAS, it appears in a written report from the Board's staff that the contract with Greiner Buildings, Inc. for the Construction of a Vehicle Storage Building in the final amount of \$72,014.20 has been substantially completed in accordance with specifications and the recommendation has been made that said contract be accepted by the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa; now therefore,

BE IT RESOLVED, by the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa, that the Construction of a Vehicle Storage Building furnished under the above named contract be and the same was hereby accepted and approved by the Board; and,

BE IT FURTHER RESOLVED, that five percent (5%) of the contract price be retained for a period of thirty-one (31) days from and after the date of this acceptance all in accordance with the provisions of the Code of Iowa.

Trustee Heidbreder moved, seconded by Trustee Ingstad, that the said resolution should be passed, approved, and adopted on this 30th day of January 2007. On roll call Trustees Axel, Heidbreder, Ingstad, and Mead voted aye. Voting nay, none. Trustee Tubandt was absent.

In the General Manager's report, Mr. Logel reviewed his previously submitted memorandum to all Board members. Mr. Logel read a thank you letter received from Webster City Municipal Utilities. Muscatine Power and Water had loaned Webster City a 2500 kVA transformer until their transformer could be repaired and returned to service. Webster City was most appreciative of the assistance.

At the November 2006 Board meeting the Board approved the establishment of a Retirement Health Savings (RHS) plan with the deferred compensation provider ICMA-RC. The plan provided for savings to offset health care related expenses during retirement. The appropriateness of the tax avoidance has been questioned and ICMA-RC was waiting for an Internal Revenue Service letter ruling. In the meantime Mr. Logel stated that management has decided not to begin the program until the ruling has been received.

The annual employee service recognition event has taken on different formats as MP&W has grown over the years. At this year's event sixty-one employees will receive awards for five year service increments, from five years to forty years. A luncheon was being planned for April 5, 2007. Invitations will be limited to the employees receiving awards, their spouses, and appropriate management. The Board of Trustees was welcome to participate in the luncheon.

The search for the General Counsel position has been initiated with ads placed in the local newspapers, on the web sites, and at the Iowa Bar Association. Approximately two dozen resumes have been received expressing interest in the position. A short-list of candidates will be developed by the General Manager, Director of Employee Services, Board members, and Board Counsel. The final candidates will be interviewed by management, Board Counsel, and selected Board members.

In regards to succession planning for the General Manager, a meeting will be established with Trustees Mead and Tubandt to discuss this issue.

Mr. Logel stated that this completed his report, unless there were questions or comments from the Board of Trustees.

The Year-To-Date and December financial Operating Statements and Balance sheets for the Electric, Water, and Communications Utilities were previously submitted to all Board members in written format. Mr. Logel asked Mr. Kerker to review the highlights of the financials.

Mr. Kerker directed the Board's attention to page four of the Electric Utility's statements. The key revenue factors for the Electric Utility included wholesale and steam sales, the leasing of one set of rail cars, and coal sales earlier in the year. The major expenses included production fuel and purchased power costs. Overall the Electric Utility performed better than projected in the 2006 Operating Budget.

Page three of the Water Utility's financials, showed the results of reduced maintenance and operating costs, along with a higher than anticipated investment return and capital contributions. The capital contributions included monies for the replacement of the Fifth Street Bridge water main that was paid for by the City of Muscatine. The Water Utility income exceeded the 2006 budget.

Mr. Kerker stated that page two of the Communications Utility financials indicated that the Internet revenue was higher than budget, along with reduced expenses and labor costs, resulting in an approximate \$400,000 improvement over budget.

The Quarterly Investment Report was previously distributed to all Board members in written format with the financials. Mr. Kerker briefly reviewed the report.

Trustee Ingstad moved, seconded by Trustee Mead, to receive and place on file the Year-To-Date and December Operating Statements and Balance Sheets for Electric, Water, and Communications Utilities and the 2006 Fourth Quarter Investment Report. Motion carried. All Trustees present voted aye.

Trustee Heidbreder recognized management for the good 2006 financial results for all three Utilities.

The Quarterly Project Status Report and Variance Analyses were presented as previously submitted in written form to all Board members. The automated meter reading project increased cost was due to an unanticipated installation problem. The budget approved amount was \$114,500 and the revised amount will be \$146,100 for Automated Meter Reading – Replace TMR Metering System. There were three projects included in the Variance Analysis that were completed under budget by more than ten percent. The ultrasonic testing of Unit 9 boiler tubing was completed at a cost \$101,994 or 41.7 percent under the project amount of \$175,000; Unit 9 furnace water cleaning system was completed under the approved amount by 11.8 percent or at a cost of \$1,221,258; and the Unit 8A turbine overhaul and inspection was completed under the approved amount by 34.1 percent or at a cost of \$197,815 versus the approved amount of \$300,000. Mr. Logel briefly reviewed the project variances.

After discussion and review Trustee Ingstad moved, seconded by Trustee Mead, to approve the Quarterly Project Status Report and Variance Analyses. Motion carried. All Trustees present voted aye.

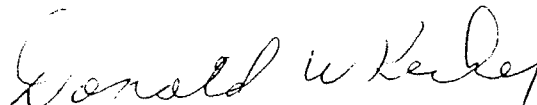
The Quarterly Critical Issues and Key Performance Indicators for the Water, Electric, and Communications Utilities were previously submitted to all Board members in written format. The critical issue indicators were presented by the leader of each critical issue. Mr. Kerker reviewed the key performance indicators.

Trustee Ingstad moved, seconded by Trustee Mead, to receive and place on file the 2006 Fourth Quarter Critical Issues and Key Performance Indicators for the Water, Electric, and Communications Utilities. Motion carried. All Trustees present voted aye.

The departmental reports were presented as previously submitted to all Board members in written form. General discussion was conducted on the departmental reports. Trustee Mead moved, seconded by Trustee Heidbreder, to receive and place on file the December departmental reports. Motion carried. All Trustees present voted aye.

Chairperson Axel asked if there were any other items of business. With no other items of business, Trustee Mead moved, seconded by Trustee Ingstad, that the meeting be adjourned at 7:50 p.m.

BOARD OF WATER, ELECTRIC,
AND COMMUNICATIONS TRUSTEES
OF THE CITY OF MUSCATINE, IOWA



Donald W. Kerker
Board Secretary