

**OFFICIAL PROCEEDINGS OF THE
BOARD OF WATER, ELECTRIC,
AND COMMUNICATIONS TRUSTEES
OF THE CITY OF MUSCATINE, IOWA
MARCH 31, 2008**

The Board of Trustees conducted a public hearing in Muscatine Power and Water's Administration Building, 3205 Cedar Street, Muscatine, Iowa on Monday, March 31, 2008.

The roll was called and the following were present: Trustees Warren Heidbreder, Doyle Tubandt, Joan Axel, and Scott Ingstad. Trustee Don Mead was absent.

Also present were Mr. Jay Logel, General Manager of Muscatine Power and Water; Mr. Duane Goedken, Board Attorney; Mr. Donald W. Kerker, Board Secretary; Mr. Russ Hissom, Virchow Krause & Company, LLP; Mr. Charles Potter, KWPC/KMCS Radio Station; Ms. Jennifer Meyer, Muscatine Journal; Messrs. Sal LoBianco, Ray Danz, and Gary Wieskamp, and Meses. Erika Cox, Brandy Dulceak, and Ann Jones of MP&W.

The purpose of the hearing was to receive any written or oral comments regarding the Water Main Improvements – 2008 Projects.

At 5:28 p.m., the Secretary opened the public hearing for Water Main Improvements – 2008 Projects.

Chairperson Heidbreder asked Secretary Kerker if any written or oral comments had been received regarding Water Main Improvements – 2008 Projects and the Secretary replied that no comments had been received. The Chairperson asked the Secretary if publication of the notice of hearing and taking of bids in connection therewith had been published as required by the Code of Iowa and the Secretary replied that they had been published.

The Secretary asked if anyone in attendance wished to make any comments regarding these projects. There were no comments. The following resolution was submitted.

RESOLUTION 08-11

WHEREAS, the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa, has given tentative approval to plans and specifications for the Water Main Improvements – 2008 Projects; and,

WHEREAS, bids have been received and there were no written or oral objections to proceeding with this project; 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 for the Water Main Improvements – 2008 Projects be adopted.

Trustee Ingstad moved, seconded by Trustee Axel, that the said resolution should be passed, approved, and adopted this 31st day of March 2008. On roll call Trustees Heidbreder, Tubandt, Axel, and Ingstad voted aye. Voting nay, none. Trustee Mead was absent.

The Secretary closed the public hearing.

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

A handwritten signature in cursive script, reading "Donald W. Kerker".

Donald W. Kerker
Board Secretary

**OFFICIAL PROCEEDINGS OF THE
BOARD OF WATER, ELECTRIC, AND
COMMUNICATIONS TRUSTEES
OF THE CITY OF MUSCATINE, IOWA
MARCH 31, 2008 — 5:30 P.M.**

The Board of Trustees met in regular session at Muscatine Power and Water's Administration Building, 3205 Cedar Street, Muscatine, Iowa, on Monday, March 31, 2008, at 5:30 p.m., CDT.

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

Also present were Mr. Jay Logel, General Manager of Muscatine Power and Water; Mr. Donald W. Kerker, Board Secretary; Mr. Duane J. Goedken, Board Attorney; Mr. Russ Hissom, Virchow, Krause and Company, LLP; Mr. Charles Potter, KWPC/KMCS Radio Station; Ms. Jennifer Meyer, Muscatine Journal; Messrs. Sal LoBianco, Ray Danz, and Gary Wieskamp, and Mses. Erika Cox, Brandy Dulceak, and Ann Jones of MP&W's staff.

Chairperson Heidbreder asked if there were any comments from the public. There were no comments.

The minutes of February 26, 2008 public hearing and regular meeting were presented as previously submitted to all Board members in written form. Trustee Axel moved, seconded by Trustee Tubandt, that the minutes be approved as submitted. Motion carried. All Trustees present voted aye.

The list of expenditures and transactions for February was presented as previously submitted to all Board members in written form. Trustee Ingstad asked about the payment to Babcock & Wilcox in the amount of \$130,000 for overfire equipment. Mr. Sal LoBianco, Director of Generation and Telecommunications, stated that this equipment reduced Unit 8's NOx emissions and was part of the Generation environmental compliance project. Trustee Ingstad also inquired about the expenditure on page 23 to Rogers Equipment Sales, Inc. in the amount of \$199,306.00 for BFP motor. Mr. LoBianco stated that one of Unit 9's boiler feed pump motors had failed, which restricts the Unit's operation. This smaller motor was a temporary replacement motor until a new boiler feed pump could be received from the manufacturer. A new motor had a lead-time of thirty-six weeks and this was a critical piece of equipment; therefore the decision was made to purchase the available temporary motor that could be quickly modified to fit the Unit. The temporary motor could be sold after receipt of the permanent motor. Trustee Axel asked about the expenditure to the Library of Congress in the amount of \$9,374.33 for royalty fees. Mr. LoBianco stated that this was a copyright fee paid for the broadcast channels such as NBC, CBS, ABC, etc.

After review of the expenditures, Trustee Axel moved, seconded by Trustee Ingstad, to ratify payment of \$6,626,998.09 for the Electric Utility, \$285,275.45 for the Water Utility, and \$641,688.04 for the Communications Utility for a cumulative total amount of \$7,553,961.58. Motion carried. All Trustees present voted aye.

Mr. Logel stated that all the Board members received a copy of the 2007 audit for the Water, Electric, and Communications Utilities, and he asked Mr. Kerker, Director of Finance and Administrative Services, to introduce the representative from the Utility's auditing firm. Mr. Kerker advised that a meeting was conducted earlier today with the Board's Audit/Finance Committee. This was the second year of a three-year agreement with Virchow, Krause and Company, LLP, (VK) and this was the second three-year agreement with VK. The Electric Utility bond covenants required that an audit be completed within ninety days from year end. Mr. Kerker introduced Mr. Russ Hissom, Partner with Virchow, Krause and Company.

Mr. Hissom stated that one of the key changes in completion of the 2007 audit were the new Statements of Auditing Standards (SAS) and especially SAS 114, "The Auditor's Communication with those Charged with Governance". Mr. Hissom reviewed the previously submitted material to all Board members regarding Muscatine Power and Water's 2007 audit and SAS 114 requirements.

"Auditor's view on qualitative aspects of significant accounting policies" – The significant accounting policies used in the preparation of the financial statements were included in the audit's financial statements Note Two. No transactions entered into by MP&W, during the year, were both significant and unusual and required discussion under Professional Auditing Standards. Accounting estimates are an integral part of the financial statements prepared by management based on knowledge and experience about past and current events and assumptions regarding future events. No significant accounting estimates were made by management in its financial statement process that were not in accord with current accounting standards.

"Significant difficulties encountered in performing the audit" – No difficulties were encountered in performing the audit.

"Uncorrected misstatements" – By Professional Auditing Standards, uncorrected misstatements refer to immaterial passed audit adjustments. Three immaterial passed adjustments were reviewed. Management believes those adjustments are not material to the financial statements. To make the adjustments would be administratively burdensome and add little value to the financial statements. The auditors concurred with the approach taken by the Utility.

"Disagreements with management" – Professional standards define a disagreement with management as a matter, whether or not resolved to satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. There were no disagreements encountered during the course of this audit.

"Other findings or issues" – there were no other issues to disclose as part of the audit in connection with these Professional Auditing Standards.

"Material corrected misstatements" – Professional standards define an audit adjustment as a proposed correction of the financial statements that may

not have been detected except through auditing procedures. There were no adjustments due to material misstatements, or otherwise, as part of this year's audit.

"Management Representations" - Certain representations were requested from management and were included in the management representation letter. The letter was distributed to all Board members in written format.

"Management's consultations with other accountants" – To the best of VK's knowledge, management has not consulted with or obtained opinions from other independent accountants on auditing and or the application of accounting principles during the past year. Professional standards require the consulting accountant to discuss any such contacts with the current auditor to determine that the consultant has all the relevant facts. There were no such consultants with other accountants.

"Auditor Independence" – Mr. Hissom was not aware of any relationships between VK and MP&W that, in his professional judgment, may reasonably be thought to bear on VK's independence. VK does not provide any non-audit services to MP&W.

"Significant issues" – Discussion of a variety of matters, including the application of accounting principles and auditing standards, were conducted with management each year prior to the audit. These discussions occurred in the normal course of the professional relationship and VK's responses were not a condition to retention as MP&W's auditors.

Also included with the Board meeting material was a copy of the management letter and the summary of passed adjusting journal entries. The Audit/Finance Committee members, Trustees Ingstad and Heidbreder, have had discussion with the auditors and a letter will be issued to the Committee regarding audit issues. Mr. Hissom stated he would like to recognize Don Kerker and his financial staff for the well prepared audit documentation and the cooperation received from everyone in completing the Board's audit. Chairperson Heidbreder expressed his and the Board's appreciation for the financial staff's excellent work with the complexity of Muscatine Power and Water's financials.

After further review and discussion, Trustee Ingstad moved, seconded by Trustee Tubandt, to receive and place on file the 2007 audit of the Electric, Water, and Communications Utilities records. Motion carried. All Trustees present voted aye.

Mr. Hissom left the meeting at 5:45 p.m.

Mr. Logel stated that the next agenda item pertained to staff's recommendation regarding the bids received for the Water Main Improvements – 2008 Projects. Mr. Logel reviewed the previously submitted memorandum to all Board members. Three bids were received, opened publicly and read aloud on March 11, 2008 at 3:00 p.m. The water main improvements included: Bryan, McArthur to Douglas; Fairview, East end of Main; Grand,

Jackson to Clay; Grandview, Musser to Brier; Isett, Webster to Scott; Summit, Lake Park to McArthur; Wier Street; Whicher, West Fifth to end of Main; and Illinois Street and Earl Street.

The bids ranged from \$469,280.00 to \$950,128.84. The lowest bid for each location was submitted by Volkens Excavating, Inc. in the total amount of \$469,280.00. The published estimate for these projects was \$370,208.70 and the total approved expenditure amount for all the projects was \$532,205.00. The total low bid was higher than staff's estimate for the work, but it was staff's opinion that these main improvements were necessary for continued efficient operations of the Water Utility and to avoid customer service interruptions. Costs for each location will be closely monitored and the Board will be advised if any project costs exceed the approved budget amounts.

Staff has reviewed the bids and established conformance to the specifications of the low bidder. Volkens Excavating did not take any exceptions or clarifications to the bid documents. Volkens' references were verified by staff and they received positive comments about the firm. Therefore it was staff's recommendation that the Board accepts the bid submitted by Volkens Excavating for each location and award a contract to Volken for the projects in the total amount of \$469,208.00.

General discussion was conducted on the projects and the bids received. A trustee asked if twenty-nine copies of the water main improvement specifications were distributed why only three bids were received. Mr. Logel stated that Muscatine Power and Water provided a list of all projects to a contractor service bureau, the "Dodge House", which maintains a listing of projects throughout the state. Contractors may request copies of the specifications and then determine whether to submit a bid for the project. A trustee asked how it was determined which main to replace and how much. Mr. Ray Danz, Director of Utility Operations, stated that a log of all water main breaks, problems, etc. was maintained per one hundred feet of main. During budget preparation the log was reviewed to identify potential problem locations, the priority of replacement was determined based on cost and available budget dollars. A trustee asked what percent of the water system has been replaced with the new main material. Mr. Danz indicated he didn't have that data at the meeting. The water main life was affected by soil conditions in addition to weather conditions and the type of main material.

The following resolution was submitted.

RESOLUTION 08-12

WHEREAS, it appears in a written report from the Board's staff that the bids as submitted by Volkens Excavating, Inc. in the total amount of \$469,208.00 for Water Main Improvements - 2008 Projects were the best and lowest bids received; now therefore,

BE IT RESOLVED by the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa, that the proposals of Volkens Excavating, Inc. in the total amount of \$469,280.00 for Water Main Improvements - 2008 Projects were hereby accepted as submitted; and,

BE IT FURTHER RESOLVED, that the Chairperson and Secretary of the Board be and they were hereby authorized, empowered, and directed to execute a contract in the sum

heretofore approved by the said Board of Water, Electric and Communications Trustees; and,

BE IT FURTHER RESOLVED, that the bid security be returned to the unsuccessful bidders.

Trustee Tubandt moved, seconded by Trustee Ingstad, that the said resolution should be passed, approved, and adopted on this 31st day of March 2008. Trustees Heidbreder, Tubandt, Axel, and Ingstad voted aye. Voting nay, none. Trustee Mead was absent.

Mr. Logel stated that it was recommended that the Board authorize the General Manager to enter into an agreement for energy management and settlement services and asked Mr. Danz to review the topic.

Mr. Danz stated Muscatine Power and Water (MP&W) has engaged the services of two energy marketing entities: OPPM (Omaha Public Power Marketing)/Tenaska beginning in 1999 and the Rainbow Energy Marketing Company was added in 2006. Both marketing entities have served MP&W well with marketing of wholesale energy and with procuring replacement energy for maintenance outages. The majority of the marketing activities have occurred with the Mid-Continental Area Power Pool (MAPP) and PJM regions with minimal transactions with Midwest Independent System Operator (MISO). MAPP was contiguous with MISO and they have relied on a seams agreement between the two entities to control the amount of transmission congestion each imparts on the other's operation. MISO informed MAPP that the seams agreement would not be renewed when it expired January 31, 2008 because MISO does not embrace MAPP's reliance on transmission loading relief (TLR) as an effective method of managing transmission congestion. As an alternative to the seams agreement MISO offered MAPP members three options to join the MISO energy market. MISO controls transmission congestion by redispatching generation and only relies on TLRs if the generation redispatch cannot resolve the congestion. MP&W would experience unmanageable transmission congestion if the seams agreement was no longer honored, it would essentially force MP&W to join MISO.

By allowing MAPP members to participate in MISO, under one of the options instead of full membership, required modification to the MISO transmission tariff and for the modified tariff to be approved by the Federal Energy Regulatory Commission (FERC). MISO filed the revised tariff March 4, 2008 and it was anticipated that September 2008 would be the earliest any MAPP member could participate in MISO. MP&W should have a higher level of reliability and available transmission within the MISO region versus the MAPP region.

MISO's tariff was a complicated billing system and required special software to analyze the invoices and billings received from MISO. Staff believes outsourcing of MISO energy market services was the most economical and practical means of ensuring efficient operation. Requests for proposals for energy management and settlement services were solicited from Rainbow Energy Marketing Company, The Energy Authority, and Tenaska Power Services. The quotes were evaluated by staff and each firm was interviewed. MP&W's participation in the MISO energy market will depend largely on the actions of Mid-American Energy Company (MEC). The redispatch of generation and the ability to sell more wholesale energy can only be effectively accomplished by MISO if MEC also participate in MISO. At this time all indications were MEC intends to participate in MISO, but it was not a certainty.

It was staff's recommendation that the Board of Trustees authorize the General Manager to enter an energy management and settlement service agreement with Tenaska Power Services. The annual cost for this service agreement was \$192,000.00. Tenaska's quote was the lowest and MP&W's familiarity with Tenaska through the current energy marketing agreement was an additional benefit. The agreement would extend for twelve months following MP&W's actual participation in the MISO energy market with a 180 day cancellation notice required by either party following the initial term. If MP&W does not join MISO, the agreement may be terminated at any time with written notice from MP&W to Tenaska. This agreement also included Tenaska's assistance in completing the MISO participation documentation without additional fees.

General discussion was conducted on MP&W's participation in MISO and the relationship with MEC. MP&W transmission lines were geographically connected with MEC and it would be challenging to sell energy in MISO without utilizing MEC's system. Mr. Danz stated that currently eighty percent of MP&W excess capacity was sold and it was thought that MP&W should be able to sell all of the excess capacity, or at the transmission system maximum level, in MISO as MP&W was a low-cost producer of energy. A trustee asked if MP&W will still be able to generate for the City of Muscatine. Mr. Danz advised that energy should be available. The Midwest Reliability Organization (MRO) was responsible for electric reliability and MP&W was a member. The MRO was a separate entity from MISO and MAPP. MEC's decision should be public information by September 2008.

Trustee Axel moved, seconded by Trustee Ingstad, to authorize the General Manager to enter into an energy management and settlement services agreement with Tenaska Power Services at the estimated annual cost of \$192,000.00. Motion carried. All Trustees present voted aye.

Mr. Logel advised that a presentation has been prepared regarding MPW Cable transition to digital service. Meetings have been conducted for the public with an additional meeting scheduled for next Tuesday, April 8, 2008 at Muscatine Power and Water. Mr. Logel asked Mr. LoBianco to present "Navigating the Digital Transition".

The presentation was an update on the digital transition of television services. The presentation covered two digital transitions, the broadcast digital transition and the MPW Cable digital transition. The broadcast digital transition was mandated by the federal government and required all traditional broadcast channels to cease broadcasting an analog signal and begin broadcasting a digital signal no later than February 17, 2009.

The MPW Cable digital transition was driven by the regulatory environment and the need to recover system capacity to meet current and future requirements of subscribers. The recovered system capacity will be used to supply additional High Definition (HD) programming services and will provide capacity for future interactive services and increased cable modem speeds.

Ms. Meyer left the meeting.

Mr. Logel stated the next item was a recommendation to set dates to receive bids and to conduct a public hearing for the Unit 9 Crusher House, Unit 9 Conveyor Room, and Unit 8

Coal Silo – 2008 Dust Control Projects. Mr. Logel reviewed the previously submitted memorandum to all Board members. Enclosed with the memorandum was a detailed project cost estimate and justification.

The dust control project was a six-year project and 2008 was the last year. The total approved amount for the projects was \$5,717,235.00. Completed work, engineering and construction expenses have totaled \$3,882,527.00. The 2008 portion of the project included dust control improvements in the Unit 9 crusher house, Unit 9 conveyor room, and Unit 8 coal silo. The improvements in Unit 9 conveyor room and Unit 8 coal silo were the last phase of the original scope. The 2006 construction work included Unit 9 crusher house coal transfer and conveying systems. The 2008 project included additional changes and improvements to Unit 9 crusher house systems as the 2006 work did not perform satisfactorily.

The estimate for the 2008 project was \$1,200,000.00. The project included engineering, fabrication and installation of dust control equipment for the subject areas. Due to the magnitude of the project and to allow staff adequate time to review and evaluate bids, it was requested that the bid evaluation period be extended to sixty days. It was staff's recommendation that bids be received May 13, 2008 at 3:00 p.m. and a public hearing be conducted at 7:28 a.m. on June 20, 2008.

After review and discussion of the project, the following resolution was submitted.

RESOLUTION 08-13

WHEREAS, plans and specifications have been prepared for Unit 9 Crusher House, Unit 9 Conveyor Room, and Unit 8 Coal Silo – 2008 Dust Control Projects; and,

WHEREAS, said proposed plans and specifications and proposed form of contract were now on file with the Secretary of the Board 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 Unit 9 Crusher House, Unit 9 Conveyor Room, and Unit 8 Coal Silo – 2008 Dust Control Projects were tentatively approved; and,

BE IT FURTHER RESOLVED, that the date of May 13, 2008, 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 receive and record all oral bids, and keep a written record of said proceedings; and,

BE IT FURTHER RESOLVED, that the bid evaluation period be extended from thirty days to sixty days; 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 June 20,

2008, at 7:28 a.m. CDT, and notice to bidders be published not less than four (4) days nor more than twenty (20) days prior to said hearing all as required by the Code of Iowa.

Trustee Axel moved, seconded by Trustee Tubandt, that the said resolution should be passed, approved, and adopted this 31st day of March 2008. On roll call Trustees Heidebreder, Tubandt, Axel, and Ingstad voted aye. Voting nay, none. Trustee Mead was absent.

In the General Manager's report, Mr. Logel reviewed his previously submitted written report to all Board members. Enclosed with the General Manager's report was a summary of legislative activities. Mr. Gary Wieskamp, Director of Utility Relations, monitors state and federal legislative activities for Muscatine Power and Water. This has been a very busy year and there were numerous bills that were being closely monitored that could have an impact on MP&W's operations. Mr. Logel recognized Mr. Wieskamp for all his efforts. The Board appreciated the good report.

A couple of updates pertaining to the Generation Plant, Unit 9's March maintenance outage has been completed and no major issues were discovered during the inspection of the Unit. It was necessary to take Unit 8 off-line to remove a build-up of slag in the boiler. Unit 8 will return to service as soon as the clean-up work was completed.

Last year Muscatine Power and Water participated in a wind energy project study with other Iowa Association of Municipal Utilities and entered into a Letter of Intent designating up to ten megawatts of wind capacity. The study has been completed and MP&W has determined to terminate participation in the project. Staff will continue to monitor the project for any future involvement. MP&W has excess capacity, does not require this capacity, and the cost for this capacity was estimated to be much higher than MP&W's capacity.

Mr. Logel stated this concluded the General Manager's report, unless there were questions for him or management.

The financial operating statements and balance sheets for February were presented as previously submitted in written form to all Board members. General discussion was conducted on the statements. The Water Utility financials reflect maintenance on the system and therefore were below budget levels. All three Utilities were performing well.

Trustee Tubandt moved, seconded by Trustee Ingstad, to receive and place on file the February financial operating statements and balance sheets for the Electric, Water, and Communications Utilities. Motion carried. All Trustees present voted aye.

The February Competitive Quote for Public Improvements Report was submitted in written format to all Board members. There were no awards for public improvements projects during the month of February. The report was received and placed on file.

The February departmental reports were presented as previously submitted to all Board members in written form. Mr. Logel advised that the March reports will reflect a MachLink email outage that occurred this month. Information was submitted to the customers about the outage and the equipment failure. Mr. LoBianco explained that due to equipment failure there was a twelve to sixteen hour email outage. Customers could send email but they could not

receive emails, and any emails the customers stored on MP&W's email server may have been lost. An explanation of the problem and an apology was submitted to all email customers.

Trustee Axel moved, seconded by Trustee Tubandt, to receive and place on file the February Departmental Reports. Motion carried. All Trustees present voted aye.

With no other items of business, the meeting was adjourned at 7:10 p.m.

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

A handwritten signature in cursive script, reading "Donald W. Kerker".

Donald W. Kerker
Board Secretary