

**OFFICIAL PROCEEDINGS OF THE
BOARD OF WATER, ELECTRIC,
AND COMMUNICATIONS TRUSTEES
OF THE CITY OF MUSCATINE, IOWA
SEPTEMBER 28, 2010 – 5:30 P.M.**

The Board of Trustees met in regular session at Muscatine Power and Water's Administration/Operations Building, 3205 Cedar Street, Muscatine, Iowa, on Tuesday, September 28, 2010, at 5:30 p.m., CST.

Chairperson Gary Carlson called the meeting to order. Members of the Board were present as follows: Trustees Gary Carlson, Warren Heidbreder, Doyle Tubandt, Scott Ingstad and Joan Axel.

Also present were Sal LoBianco, General Manager of Muscatine Power and Water; Donald W. Kerker, Board Secretary; Duane J. Goedken, Board Attorney; Charles Potter, Muscatine Journal; Jeff Beer, Brandy Olson, Gary Wieskamp, Ray Danz and Brenda Christensen of Muscatine Power and Water.

Chairperson Carlson asked if there was anyone in attendance who wished to make any public comments. There were no public comments.

The minutes of the August 31, 2010, regular meeting were presented as previously submitted to all Board members in written form. Trustee Tubandt moved, seconded by Trustee Axel, that the August 31, 2010, regular meeting minutes be approved as submitted. Motion carried. All Trustees present voted aye.

The list of expenditures and transactions for August was presented as previously submitted to all Board members in written form. After review and discussion of the expenditures, Trustee Axel moved, seconded by Trustee Tubandt, to ratify payment of \$7,001,330.17 for the Electric Utility, \$412,555.50 for the Water Utility, and \$954,689.42 for the Communications Utility for a cumulative total of \$8,368,575.09. Motion carried. All Trustees present voted aye.

Mr. LoBianco reviewed a previously submitted memorandum to all Board members regarding a request for water service outside the city limits. A written request for water service outside the city limits was received from Anthony Kies whose residence is located at 1866 N. Highway 38. The Kies property is located just south of the Northwood Estates subdivision, adjacent to Muscatine Power and Water's 12 inch water main. The homeowner will pay all expenses for connection to the water main. The single residence will not impact the Utility's water system and it is staff's recommendation that the Board of Trustees approve the water service request for 1866 N. Highway 38. Trustee Tubandt moved, seconded by Trustee Ingstad, to authorize water service outside the city limits for Anthony Kies at 1866 N. Highway 38. Motion carried. All Trustees present voted aye.

Mr. LoBianco introduced the next item on the agenda, a project request for the Unit 9 Air Heater Hot and Intermediate Basket Replacement Project. This project will replace the hot and intermediate baskets in Unit 9's air heater. This is considered

maintenance work as opposed to a capital project because the baskets wear out over time, which adversely affects the boiler efficiency and operation. This work will be completed during the Unit 9 spring 2011 maintenance outage, but is being submitted for approval now due to significant material lead times. Trustee Axel moved, seconded by Trustee Heidbreder, that the project for the Unit 9 Air Heater Hot and Intermediate Basket Replacement Project be approved in the amount of \$280,000. Motion carried. All Trustees present voted aye.

Mr. LoBianco introduced the next agenda item requesting approval of the Communications Utility revised Service Rules. The Service Rules were presented to the Board of Trustees at the August Board meeting for information and review. No additional feedback was received from the Board for the Service Rules. After discussion Trustee Ingstad moved, seconded by Trustee Axel, to approve the Service Rules for the Communications Utility as presented at the August 31, 2010, Board of Trustees meeting. Motion carried. All Trustees present voted aye.

Included with the Board's meeting materials were the Ten-Year Financial Projections for 2011 through 2020. The Board was provided a complete and detailed version of the Ten-Year Financial Projections for the Water, Electric and Communications Utilities in a separate packet, along with a summary version in the Board package. Mr. LoBianco stated that the projections are used as a planning tool to help determine rate increases and financing requirements to enable the Utility to achieve financial targets. Mr. LoBianco gave a brief overview of each Utility's financial projections and then asked Mr. Kerker to provide more detail.

Mr. Kerker stated that it has been the past practice of the Board of Trustees to avoid situations where significant rate adjustments are needed in any one year; the approach adopted has been to have modest increases that could be implemented on a periodic basis that avoided rate shock to the customer/owners. That approach enables management to communicate the frequency and magnitude of projected future increases to customer/owners to accommodate their desire for rate predictability. The Projections show management's expectations of significant challenges for each Utility that will increase operating costs and ultimately force increases in rates. Mr. Kerker reminded the Board that over the last few years, operating and reserves cash balances in each of the utilities have dropped to undesirable levels, therefore the Projections now reflect minimum targeted operating and reserve cash balances. Mr. Kerker stated that other minimum financial targets have also been identified and incorporated into the Projections. Financial indicators utilized by Fitch Ratings were reviewed and, where applicable, used to establish baseline financial targets for the Electric Utility, with similar targets for the Water and Communications. Mr. Kerker next reviewed the revenue and cost drivers, along with minimum financial targets for each Utility through the year 2020. Mr. Kerker also provided the Board with a high level review of the Actual and Projected Income Statements and Projected Source and Application of Funds spreadsheets for each Utility for the next ten years.

After discussion Trustee Ingstad moved, seconded by Trustee Heidbreder, to receive and place on file the Ten-Year Financial Projections for 2011 through 2020. Motion carried. All Trustees present voted aye.

In the General Manager's report, Mr. LoBianco reviewed his previously submitted memorandum. The first item reviewed was a recommendation for MP&W to withdraw from the Mid-Continent Area Power Pool (MAPP). MP&W has been a member of MAPP since March 19, 1976. A significant evolution has occurred in the electric utility business related to regional power organizations since this time, and MAPP membership numbers have declined as a result of FERC's creation of Independent System Operators (ISO's) like MISO, which the Utility joined on September 1, 2009. The transmission planning and reliability compliance services provided to MP&W by MAPP are now being provided through our membership in MISO and the Midwest Reliability Organization. The cost to withdraw is approximately \$60,000 which represents three years of membership cost and is in accordance with the MAPP Restated Agreement. The Board agreed that withdrawal was the correct course of action. Mr. LoBianco also reviewed the purchase of a financial hedge locking in the price of a portion of required energy purchases, limiting exposure to energy market price volatility during the 2011 Unit 9 maintenance outage. He also provided an update on the rail unloader transfer conveyor tunnel water in leakage abatement project.

The August Financial Operating Statements and Balance Sheets were presented as previously submitted to all Board members in written form. Mr. LoBianco gave a brief update on each utility. Mr. Kerker then reviewed the year-to-date financial statements for all three utilities. After review, Trustee Tubandt moved, seconded by Trustee Axel, to receive and place on file the August Financial Operating Statements and Balance Sheets for the Water, Electric, and Communications Utilities. Motion carried. All Trustees present voted aye.

The Competitive Quotes for Public Improvements Report was presented as previously submitted to all Board members in written form. There were no items for approval.

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

Chairperson Ingstad asked if there were any other items of business. With no other items of business, Trustee Tubandt moved, seconded by Trustee Axel, that the meeting be adjourned at 6:30 p.m.

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Donald W. Kerker
Board Secretary