

**PUBLIC HEARINGS OF THE
BOARD OF WATER, ELECTRIC,
AND COMMUNICATIONS TRUSTEES
OF THE CITY OF MUSCATINE, IOWA
JULY 28, 2009**

The Board of Trustees conducted two public hearings at Muscatine Power and Water's Administration Building, 3205 Cedar Street, Muscatine, Iowa, Tuesday, July 28, 2009.

The roll was called and the following members of the Board were present: Trustees Doyle Tubandt, Joan Axel and Gary Carlson. Trustee Warren Heidbreder was present by conference call. Trustee Scott Ingstad was absent.

Also present were Sal LoBianco, General Manager of Muscatine Power and Water; Donald W. Kerker, Board Secretary; Duane J. Goedken, Board Attorney; Theodore Barker, President, Maxcofish, LLC; Mr. Charles Potter, KWPC/KMCS Radio Station; Amy Cahill, Muscatine Journal; Ray Danz, Gary Wieskamp, Erika Cox, Brandy Dulceak, Mark Nelson, Connie Thede and Brenda Christensen of Muscatine Power and Water.

Board Secretary Don Kerker asked that a motion be passed that in the absence of the Board Chairperson that Doyle Tubandt be elected as Acting Chairperson of the July Board meeting and preceding hearings. Trustee Axel moved, seconded by Trustee Heidbreder that Doyle Tubandt be elected as Acting Chairperson of the July Board meeting and hearings. Motion carried. All Trustees present voted aye.

The purposes of the public hearings were to receive any citizen's comments regarding (1) the anticipated Loan from the Iowa Department of Natural Resources (IDNR) State Revolving Loan Fund for the Well Motor Control Replacement Project and (2) the Well Motor Control – State Revolving Loan Fund Project.

At 5:26 p.m. the Board Chairperson opened the public hearing for comments on the anticipated authorization of a Loan and Reimbursement Agreement by and between the Utility and the Iowa Finance Authority not to exceed \$500,000 with Water Revenue Capital Loan Notes to evidence the obligations under a Loan and Disbursement Agreement. The borrowing is for the purpose of paying costs of acquisition, construction, reconstruction, extending, remodeling, improving, repairing and equipping all or part of the Water Utility, including those costs associated with improvements and extensions to the municipal water system, including installation of variable frequency drives to increase efficiency.

Chairperson Tubandt asked Secretary Kerker if any written or oral comments had been received regarding the anticipated Loan and Reimbursement Agreement, and Secretary Kerker replied that no comments had been received. Chairperson Tubandt asked Secretary Kerker if the notice of hearing had been published as required by the Code of Iowa and Secretary Kerker replied that they had been published.

Secretary Kerker asked if anyone in attendance wished to make any comments regarding this loan. There were no comments.

The hearing was closed.

At 5:28 p.m. the Board Chairman opened the public hearing for the Well Motor Control – State Revolving Loan Fund Project.

Chairperson Tubandt asked Secretary Kerker if any written or oral comments had been received regarding this project, and Secretary Kerker replied that no comments had been received. Chairperson Tubandt asked Secretary Kerker if the notice of hearing and taking of bids in connection therewith had been published as required by the Code of Iowa and Secretary Kerker replied that they had been published.

Secretary Kerker asked if anyone in attendance wished to make any comments regarding this project. There were no comments.

RESOLUTION 09-11

WHEREAS, the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa has given tentative approval to plans and specifications for Well Motor Control – State Revolving Loan Fund Project; and,

WHEREAS, bids have been received and there are 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 Well Motor Control – State Revolving Loan Fund Project be adopted.

Trustee Axel moved, seconded by Trustee Carlson, that the said resolution should be passed, approved, and adopted this 28th day of July 2009. On roll call Trustees Axel, Carlson, Heidbreder and Tubandt voted aye. Voting nay, none. Trustee Ingstad was absent.

Secretary Kerker closed the hearing.

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



Donald W. Kerker
Board Secretary

**OFFICIAL PROCEEDINGS OF THE
BOARD OF WATER, ELECTRIC,
AND COMMUNICATIONS TRUSTEES
OF THE CITY OF MUSCATINE, IOWA
JULY 28, 2009 – 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, July 28, 2009, at 5:30 p.m., CST.

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

Also present were Sal LoBianco, General Manager of Muscatine Power and Water; Donald W. Kerker, Board Secretary; Duane J. Goedken, Board Attorney; Amy Cahill, Muscatine Journal; Charles Potter, KWPC/KMCS Radio Station; Ray Danz, Gary Wieskamp, Erika Cox, Brandy Dulceak, Mark Nelson, Connie Thede and Brenda Christensen of Muscatine Power and Water. Ted Barker, CEO of Maxeefish, was also present.

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

The minutes of the June 30, 2009 regular meeting were presented as previously submitted to all Board members in written form.

Trustee Axel moved, seconded by Trustee Carlson, that the June 30, 2009 regular meeting minutes be approved as submitted. Motion carried. All Trustees present voted aye.

The June 30, 2009 Audit/Finance Committee meeting minutes were received and placed on file.

The list of expenditures and transactions for June was presented as previously submitted to all Board members in written form. After review and discussion of the expenditures, Trustee Carlson moved, seconded by Trustee Heidbreder, to ratify payment of \$6,873,476.40 for the Electric Utility, \$751,049.63 for the Water Utility, and \$781,640.50 for the Communications Utility for a cumulative total of \$8,406,166.53. Motion carried. All Trustees present voted aye.

The following appointments were recommended for the 2007/2008 Board Committees:

Audit and Finance – Scott Ingstad and Warren Heidbreder (Committee Chair)

Planning and Operations – Warren Heidbreder and Doyle Tubandt (Committee Chair)

Personnel and Public Relations – Gary Carlson and Joan Axel (Committee Chair)

The Muscatine Area Geographic Information Consortium (MAGIC) appointment occurs in December. Currently Trustees Joan Axel and Doyle Tubandt represent the Board

of Trustees on the MAGIC Board. Trustee Axel's two-year appointment will be completed in December 2009.

After discussion Trustee Axel moved, seconded by Trustee Carlson, to receive and place on file the Board Committee appointments. Motion carried. All Trustees present voted aye.

Mr. LoBianco advised that the next meeting agenda item pertained to the Board Policy Manual and asked Mr. Wieskamp to review the proposed changes/updates to the manual. Mr. Wieskamp stated that the manual had been thoroughly reviewed and updated, along with reformatting to make the manual more user-friendly. Mr. Wieskamp advised that the manual was submitted to all Board members in a "redline/track change mode" for their review. No action was being requested this evening. At the August 25, 2009, Board meeting, it will be recommended that the policy manual be approved. If there were any questions or comments regarding the manual, Board members should let management know prior to the next meeting.

Mr. LoBianco reminded the Board that in November of 2008 they had been told that four new standards had been added to the Public Utility Regulatory Policies Act of 1978 (PURPA) that Muscatine Power and Water is obligated to consider. These standards apply to utilities with total annual retail sales greater than 500,000,000 kilowatt-hours, which includes MP&W. The four standards contained a "requirement for consideration of adoption" to begin by December 19, 2008. These standards are: Integrated Resource Planning, Rate Design Modifications to Promote Energy Efficiency Investments, Consideration of Smart Grid Investments, and Smart Grid Information. The Board of Trustees may decline or adopt the standards, but must state in writing the reason for its decision prior to December 19, 2009. On January 6, 2009, and January 30, 2009, a publication was published in the Muscatine Journal of the Utility's intent to receive written and oral comments at a public hearing that was conducted by MP&W staff on February 3, 2009. No written or oral comments were received.

Recently, staff has completed its review of these four standards and is preparing a recommendation to present to the Board for approval at the August 25, 2009, Board meeting. Staff will recommend that all four standards be adopted.

It is requested that the Board set the date and time of 5:26 p.m. August 25, 2009, for a public hearing to receive comments from the public on staff's recommendations for PURPA standards: Integrated Resource Planning, Rate Design Modifications to Promote Energy Efficiency Investments, Consideration of Smart Grid Investments, and Smart Grid Information. It is also requested that the Board authorize staff to place a notice in the local newspaper advising the public of their opportunity to review staff's recommendations on each of the above standards prior to the Board taking action at the August 25, 2009, Board meeting.

RESOLUTION 09-12

WHEREAS, it appears in a written report from the Board's staff that a public hearing for the Public Utility Regulatory Policy Act (PURPA) standards regarding Integrated Resource Planning, Rate Design Modifications to Promote Energy Efficiency

Investments, Consideration of Smart Grid Investments, and Smart Grid Information should be conducted; now therefore,

BE IT RESOLVED, by the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa that a public hearing be conducted on the said PURPA standards in the office of the Board of Trustees on August 25, 2009, at 5:26 p.m. CST and notice to the citizens be published not less than four (4) days nor more than twenty (20) days prior to said hearing and that the said standards were available for review at the office of the Board of Trustees, 3205 Cedar St., Muscatine, Iowa; and,

BE IT ALSO RESOLVED, by the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa that written comments will need to be received prior to the Board of Trustee's meeting on August 25, 2009.

Trustee Axel moved, seconded by Trustee Carlson, that the said resolution should be passed, approved, and adopted this 28th day of July 2009. On roll call Trustees Axel, Carlson, Heidbreder and Tubandt voted aye. Voting nay, none. Trustee Ingstad was absent.

The next agenda item was a recommendation to set dates for the receipt of bids and to conduct a public hearing for the project to Construct Wells 41 and 42 at the Utility's Main Well Field. Mr. LoBianco reviewed the previously submitted memorandum to all Board members explaining that this was a project that had been deferred from earlier in the year. The project has been approved for a total expenditure of \$540,760. These wells will replace wells that were installed in 1968 and are no longer cost effective to operate. This competitive bid covers the construction of two (2), 42" diameter gravel-packed wells 79' and 83' deep with elevated steel platform well structures and associated 10" and 6" water main, valves and fittings. Work will include well drilling, 30" diameter casing and screen, gravel pack, grouting, pump, pump base, well development, testing, pump motor installation, motor control installation, water main construction, furnish and install air relief valves, casing vents, 10" water meters, and electrical wiring. The motors from wells 16 and 17 are newer high efficiency motors and will be reused on wells 41 and 42. This project also includes well structure demolition and capping of existing adjacent Wells 16 and 17 after new wells are in service. Bid documents require separate cost information on each well. Staff will evaluate cost for each well separately and make a recommendation to the Board to proceed with either one, both, or neither based on financial capacity.

It was staff's recommendation that bids be received August 13, 2009, at 3:00 p.m. and a public hearing be conducted at 5:28 p.m. on August 25, 2009. After discussion and review of the project, the following resolution was submitted.

RESOLUTION 09-13

WHEREAS, plans and specifications have been prepared to Construct Wells 41 and 42 at the Utility's Main Well Field Project; 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 to Construct Wells 41 and 42 at the Utility's Main Well Field Project were tentatively approved; and,

BE IT FURTHER RESOLVED, that the date of August 13, 2009, at 3:00 p.m., CST, 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 notice to bidders be published not less than four (4) days nor more than forty-five (45) days prior to said date for receipt of bids all as required by the Code of Iowa.

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 August 25, 2009, at 5:28 p.m., CST, 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 Heidbreder, that the said resolution should be passed, approved, and adopted this 28th day of July 2009. On roll call Trustees Axel, Carlson, Heidbreder and Tubandt voted aye. Voting nay, none. Trustee Ingstad was absent.

Mr. LoBianco reviewed the previously submitted memorandum to all Board members regarding the receipt and evaluation of bids for Well Motor Control Replacement - State Revolving Fund Project. Specifications pertaining to subject were mailed to 15 potential bidders. The specifications were split into two segments. Segment 1 covers all miscellaneous electrical support equipment and installation of the drives, and segment 2 is for eight, 200 horsepower, variable frequency drives. The total published estimate for this competitive bid was \$489,060. A total of 5 bids were received, opened publicly, and read aloud on July 15, 2009, at 3:00 p.m. Three bidders attended the opening. Bids were received on the basis of unit adjustment prices for total extended bid and the Board was given a bid tabulation sheet for reference.

The apparent low bidder for Segment 1 – Well Motor Control Replacement is J.W. Koehler Electric, Inc. of Davenport, Iowa, who had the lowest base bid that met the requirements to provide Buy American certification of the SquareD equipment as defined for the project. Therefore after review of the bids and establishing conformance to the specifications of the low bidder, it is recommended that award of the contract for Segment 1 – Well Motor Control Replacement be made to J.W. Koehler Electric, Inc. of Davenport, Iowa at a total price of \$84,195.20.

The apparent low bidder for Segment 2 – 200 HP Variable Frequency Drive is Hupp Electric Motors of Cedar Rapids, Iowa. Staff has reviewed the bid and established conformance to the specifications. There were no exceptions or clarifications to the bid documents taken. Therefore, it is recommended that award of the contract for Segment 2 – 200 HP Variable Frequency Drive be made to Hupp Electric Motors of Cedar Rapids, Iowa at a total price of \$246,964.00.

After review of the project the following resolutions were submitted.

RESOLUTION 09-14

WHEREAS, it appears in a written report from the Board's staff that the bid as submitted by J.W. Koehler Electric, Inc. of Davenport, Iowa in the amount of \$84,195.20 was the best and lowest bid received; now therefore,

BE IT RESOLVED by the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa, that the proposal of J.W. Koehler Electric, Inc. of Davenport, Iowa in the amount of \$84,195.20 was hereby accepted as submitted; and,

BE IT FURTHER RESOLVED that Issuing a Notice to Proceed will be contingent upon the Board's acceptance of loan terms from the State Revolving Fund (SRF), IDNR's approval, and viability of project moving forward.

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 Axel moved, seconded by Trustee Carlson, that the said resolution should be passed, approved, and adopted this 28th day of July 2009. On roll call Trustees Axel, Carlson, Heidbreder and Tubandt voted aye. Voting nay, none. Trustee Ingstad was absent.

RESOLUTION 09-15

WHEREAS, it appears in a written report from the Board's staff that the bid as submitted by Hupp Electric Motors of Cedar Rapids, Iowa in the amount of \$246,964.00 was the best and lowest bid received; now therefore,

BE IT RESOLVED by the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa, that the proposal of Hupp Electric Motors of Cedar Rapids, Iowa in the amount of \$246,964.00 was hereby accepted as submitted; and,

BE IT FURTHER RESOLVED that Issuing a Notice to Proceed will be contingent upon the Board's acceptance of loan terms from the State Revolving Fund (SRF), IDNR's approval, and viability of project moving forward.

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 Axel moved, seconded by Trustee Carlson, that the said resolution should be passed, approved, and adopted this 28th day of July 2009. On roll call Trustees Axel, Carlson, Heidbreder and Tubandt voted aye. Voting nay, none. Trustee Ingstad was absent.

Mr. LoBianco asked the Board for authorization for Staff to proceed with preparations for the loan from the SRF, with final approval of the loan by the Board anticipated at the August Board meeting and final closing on the loan in September. There was some discussion about the project coming in significantly below budget and appreciation from the Board for all the work that was put into this project.

Trustee Axel moved, seconded by Trustee Carlson that Staff proceed with loan preparations. Motion carried. All Trustees present voted aye.

Mr. LoBianco reviewed the memorandum given to all Board members regarding the recommendation to accept the contract as complete for the Unit 9 Crusher House, Unit 9 Conveyor Room, and Unit 8 Coal Silo Dust Control Project. At the June 20, 2008, Board meeting, a contract was awarded to Hoffmann, Inc for this project. This project was the sixth and final construction phase of a series of sub-projects over a multi-year period in regards to dust control at the generation plant. The contract was awarded in the amount of \$1,253,923.00.

During construction, there were two Contract Change Orders on this project. Contract Change Order (CCO) #1 in the amount of \$37,016.26 covered Work Change Directives (WCD) 1-9 and was signed June 11, 2009. It included structural changes to support the new MAC dust collector, replacing rather than repairing a controller, replacing corroded dust seal structures, modifying feeder support legs, circuit schedule revisions, additional access platform, conveyor work, additional protection controls and a bird screen installation. CCO #1 also included a reduction in cost of \$9,104.00 which covered removal of some conveyor curtains from the contract, deletion of an exhaust filter on DC-11, deletion of 75 HP motor from the contract, and a decrease in planned demolition work. CCO #2 in the amount of \$970.00 was issued shortly after CCO #1 and covers additional opacity testing requested by MP&W staff on PC-1. Work covered by this contract has been completed and checked out by staff and found to be in accordance with the specifications.

After discussion and review the following resolutions were submitted.

RESOLUTION 09-16

WHEREAS, the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa, on March 31, 2008, awarded a contract to Hoffmann, Inc in the amount of \$1,253,923.00 for the Unit 9 Crusher House, Unit 9 Conveyor Room, and Unit 8 Coal Silo Dust Control Project; and,

WHEREAS, Contract Change Orders #1 and #2 have been prepared to said contract in the amount of \$37,986.26 and said Contract Change Orders were reviewed by the Board and the Board's staff has recommended approval of said Contract Change Orders #1 and #2; now therefore,

BE IT RESOLVED, by the Board of Water, Electric, and Communications Trustees that said Contract Change Orders #1 and #2 in the total amount of \$37,986.26 were hereby approved for a new contract price of \$1,291,909.26.

Trustee Carlson moved, seconded by Trustee Heidbreder, that the said resolution should be passed, approved, and adopted this 28th day of July 2009. On roll call Trustees Axel, Carlson, Heidbreder and Tubandt voted aye. Voting nay, none. Trustee Ingstad was absent.

RESOLUTION 09-17

WHEREAS, it appears in a written report from Board's staff that the contract with Hoffmann, Inc. for the Unit 9 Crusher House, Unit 9 Conveyor Room, and Unit 8 Coal Silo Dust Control Project in the final amount of \$1,291,909.26 has been substantially completed in accordance with the project 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 Unit 9 Crusher House, Unit 9 Conveyor Room, and Unit 8 Coal Silo Dust Control Project 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 and subject to receipt of the Operations and Maintenance Manual for the project.

Trustee Carlson moved, seconded by Trustee Axel, that the said resolution should be passed, approved, and adopted this 28th day of July 2009. On roll call Trustees Axel, Carlson, Heidbreder and Tubandt voted aye. Voting nay, none. Trustee Ingstad was absent.

Mr. LoBianco reviewed the memorandum given to all Board members regarding the recommendation to accept the contract as complete for the Water Main Improvements – 2008 Project. At the March 31, 2008, Board meeting, a contract was awarded to Volkens Excavating, Inc. for the Water Main Improvements – 2008 Project. Staff recommended CCO #2 be approved by the Board of Trustees in the amount of \$2,468.18. The contract awarded amount was \$469,280.00, CCO #1 in the amount of \$53,425.62 was approved by the Board at the January 2009, Board meeting and with the approval of the CCO #2 in the amount of \$2,468.18, the final contract amount will be \$525,173.80. Work covered by this contract has been completed, checked by staff and found to be in accordance with the specifications.

After discussion and review the following resolutions were submitted.

RESOLUTION 09-18

WHEREAS, the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa, on March 31, 2008, awarded a contract to Volkens Excavating, Inc. in the amount of \$469,280.00 for Water Main Improvements – 2008; and,

WHEREAS, Contract Change Orders #1 and #2 have been prepared to said contract in the amount of \$55,893.80 and said Contract Change Orders were reviewed by the Board and the Board's staff has recommended approval of said Contract Change Orders #1 and #2; now therefore,

BE IT RESOLVED, by the Board of Water, Electric, and Communications Trustees that said Contract Change Orders 1 and 2 in the total amount of \$55,893.80 were hereby approved for a new contract price of \$525,173.80.

Trustee Heidbreder moved, seconded by Trustee Axel that said resolution be passed, approved, and adopted on this 28th day of July 2009. On roll call Trustees Axel, Carlson, Heidbreder and Tubandt voted aye. Voting nay, none. Trustee Ingstad was absent.

RESOLUTION 09-19

WHEREAS, it appears in a written report from Board's staff that the contract with Volkens Excavating, Inc. for Water Main Improvements – 2008 Project in the final amount of \$525,173.80 has been substantially completed in accordance with the project 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 Water Main Improvements – 2008 Project 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 and subject to receipt of the Operations and Maintenance Manual for the project.

Trustee Heidbreder moved, seconded by Trustee Axel that said resolution be passed, approved, and adopted on this 28th day of July 2009. On roll call Trustees Axel, Carlson, Heidbreder and Tubandt voted aye. Voting nay, none. Trustee Ingstad was absent.

Next Mr. LoBianco introduced Mr. Kerker to review the recommendation to approve the Coal Supply Agreement. Mr. Kerker reminded the Board that the coal and coal transportation is administered by the Fuel Procurement Committee (FPC), which has representation from Generation, Supply Chain Services and Finance & Administrative Services. This committee has utilized the services of Ted Barker of Maxeefish for strategy development, contract negotiations, rail car management and market assessment. Mr. Kerker introduced Ted Barker, CEO of Maxeefish, and Connie Thede, Manager of Strategic Sourcing, to help answer any questions the Board might have. Mr. Kerker continued that in 2008 the FPC began the process of replacing the existing coal supply agreement that expires on December 31, 2009. At that time, the team determined there was a need to contract for a minimum of 1,200,000 tons of coal based on past and projected tonnage burned, with contract terms of one, three or up to five years. The Request for Proposal (RFP) was also structured for the potential to receive bids providing the ability to stagger requirements and

enter into multiple agreements, in an effort to achieve as much flexibility as possible. Mr. Kerker provided a review of the three current contracts in place for coal and transportation and historical usage of coal burned. Mr. Kerker introduced Connie Thede to review the RFP/negotiations process. Ms. Thede explained that on February 2, 2009, an RFP was mailed to all six coal producers in the Powder River Basin, as well as two brokers and two trading organizations. Proposals were returned in March from all of the mines, one broker and one trader. As negotiations began, economic conditions deteriorated rapidly, resulting in fewer wholesale and retail energy sales. Due to these factors, the FPC quickly determined that we would not need 1,200,000 tons annually. That volume was reduced to 750,000 tons per year even though we were requesting price reductions. The coal producers were unwilling to enter into contracts that provided any flexibility from the buyer's perspective. Concerns continued to grow, and once again the volume was reduced to 500,000 tons per year and a decision was made to enter into a contract for only two years (2010 and 2011). Two years would allow a better understanding of the market and where it was going. Prices beyond two years were excessive or included indexed pricing, indicating producers were also uncertain and not willing to commit. Ms. Thede said that in addition, it was determined that MP&W would need to acquire 100,000 tons for test burns in 2009. In spite of all the volume reductions, negotiations produced significant price reductions from the original proposals. The rapidly changing market conditions likely played a role in this, but we were advised by our consultant that the pricing negotiated by the FPC was below contract prices obtained by other utilities.

Ms. Thede continued that the decision was made to accept a negotiated proposal from Arch Coal, based on the price and expected operational improvements due to higher BTU content coal. This acceptance was subject to a successful test burn and Board approval of the agreement for 500,000 tons of Black Thunder coal in 2010 and 2011 at prices of \$11.75 and \$13.25 per ton, respectively. In addition, the agreement included 100,000 tons to test burn in 2009, which was required in the RFP, at a cost of \$9.75 per ton. Seven trains of test burn coal were received in May and the test burns began on all the units. Black Thunder coal burned successfully in Unit 7 and Unit 9, but caused significant problems in Unit 8. During the test burn period, economic conditions continued to deteriorate and our inability to profitably sell power to the wholesale market forced decisions to shut down or reduce load on our units and buy cheaper power when possible. This condition reduced our coal burn significantly and our coal stockpile began to grow. With the test burn results and economic conditions, the FPC again determined that the future tonnage requirements for 2010 and 2011 were likely still too high, and therefore discussions were held with Arch to reduce that requirement to only 350,000 tons annually for 2010 and 2011. The further reduction was justified due to our inability to use any of this coal in Unit #8. Arch agreed to honor their lower pricing at the reduced volume. Trustee Axel asked about the test burn in Unit 8 and what coal would be used. Mr. LoBianco explained the Unit 8 will use the current stock pile of coal that we have and Units 7 and 9 will burn the coal from the new contract, with coal bought from the spot market as needed.

Mr. Kerker introduced Mr. Barker, MP&W's coal consultant and CEO of Maxeefish, to review his market analysis and the Arch Coal contract. Mr. Barker reviewed MP&W coal costs compared to costs of other utilities and power stations near Muscatine. MP&W has a very competitive cost per MMBTU compared to others shown on Mr. Barker's market analysis. Mr. Barker also said that the proposed Arch contract prices will be 8% less than

the forecasted contract price Maxeefish had developed for MP&W. He stated the key benefit MP&W would receive from entering this agreement would be the reduction of risk or exposure to coal price increases in the coal market when the market turns the corner towards recovery; Maxeefish anticipates this recover will happen mid-2010. Mr. Barker also told the Board that this agreement provides MP&W with market flexibility to enter the Spot-OTC market to fulfill burn requirements at coal prices levels that are currently under pressure due to a large downturn in electrical demand from industrial users. Mr. Barker ended with Maxeefish's concurrence with MP&W's recommendation to enter into the proposed agreement with Arch.

Mr. Kerker stated that the FPC will continue to monitor burn activities and power sales/purchases to determine favorable market price opportunities for any additional tonnage that might be needed beyond the contract. Mr. Kerker continued that it is the recommendation of the FPC that the Board authorize the General Manager to execute a two-year agreement with Arch Coal to buy 350,000 tons/year of Black Thunder coal in 2010 and 2011 at prices of \$11.75 and \$13.25 per ton, respectively. This agreement will include a condition required by Arch Coal providing them the Last Right of Refusal for any additional PRB coal requirements during the contract period.

Trustee Carlson moved, seconded by Trustee Axel, that the General Manager be authorized by the Board to enter two-year Coal Supply Agreement with Arch Coal. Motion carried. All Trustees present voted aye.

Ms. Thede and Mr. Baker left the meeting at 6:15 p.m. CST.

The next subject on the agenda was an approval for an agreement with Iowa Network Services (INS). Mr. LoBianco explained to the Board that MachLink Internet traffic between the MP&W Headend and the Internet backbone is currently carried by two providers, INS and Qwest. INS has been a provider of our Internet backbone bandwidth since the inception of MachLink. In 2007 Qwest replaced AT&T as our second carrier. Our contract for the Qwest bandwidth expires on September 30, 2011.

The two-year agreement with INS to provide 95 megabits/sec (Mb/s) of internet bandwidth capacity at a monthly cost of \$8,564.00 expired on May 31, 2009. Staff has been working with INS to replace that agreement with the understanding that any agreement reached would be retroactive to June 1, 2009. INS provided pricing for a two, three, and five year contract. The apparent best value is the 5-year agreement; however, staff expressed concern with locking in for a five-year period with the potential need for future bandwidth changes. The agreement staff negotiated with INS allows for bandwidth changes (increase or decrease) within the contract term. The pricing structure that would be used for changes is the one in place at agreement signing. If MP&W cancelled the INS bandwidth in the first two years of the five year agreement, we would incur a penalty equal to 75% of the remaining monthly payments. If we cancel in years three or four, the penalty is equal to 50% of the remaining payments. There is no penalty for cancellation in year five.

Mr. LoBianco continued that INS was asked for price points above and below our current levels for pricing comparison if it would become necessary to make a change to our bandwidth. That request revealed that if we increased our bandwidth at this time to 150 Mb/s from the 95 Mb/s we would save even more on the five-year agreement. Budget for second half 2009 INS bandwidth was for \$10,768.00 per month, which included a potential

increase in bandwidth. Therefore, with bandwidth market costs estimated to be at or near bottom with the flexibility to make changes, staff recommends that the new agreement be a five-year agreement to provide 150 Mb/s of bandwidth at a cost of \$4,690.00 per month.

Trustee Carlson moved, seconded by Trustee Axel, that the General Manager be authorized to enter into a five-year agreement with Iowa Network Services in the amount of \$281,400.00 to provide 150 Mb/s of internet bandwidth . Motion carried. All Trustees present voted aye.

In the General Manager's report Mr. LoBianco reviewed his previously submitted memorandum to all Board members. Mr. LoBianco reminded the Board that at last month's Board meeting, he had reviewed an outage that occurred on June 22, 2009, when breakers 69TT1 and 13TT1 tripped at the same time de-energizing the #1 transformer at the Isett Avenue Substation. At 11:39 on Wednesday, July 15, the same breakers tripped once again de-energizing the same #1 transformer at the Isett Avenue Substation. This again caused an outage for 2,557 customers. Emergency switching and load rebalancing of the system was completed by 11:59 a.m. restoring service to all customers. As happened on June 22, 2009, a differential protection relay operated indicating a problem with the transformer. Mr. LoBianco stated that a similar battery of tests was performed on the #1 transformer but results of the testing did not show any problems. Oil sample analysis by an outside lab indicated that no fault occurred within the main tank of the transformer. A decision was made to open and inspect the LTC (load tap changer) compartment in the transformer. A visual inspection revealed pitting damage to some of the LTC contacts, as well as damage to two cable leads in the LTC. The cause of the damage had not yet been determined. During the week of July 27, 2009, Jordan Transformer, a firm from Minnesota, will be onsite to make repairs to the transformer at an estimated cost of \$20,000. This will include repair or replacement of any damaged parts, as well as processing the transformer oil to remove any contaminants. The repair process is expected to last two to three days and after completion, the transformer will be re-energized and placed back into service.

MP&W assisted in mutual aid to the Cedar Falls Utility (CFU) through the IAMU Mutual Aide Program at the beginning of July. The IAMU Mutual Aid Program is a voluntary agreement among municipal utilities in Iowa to provide assistance to other utilities in the event of a disaster or emergency. MP&W was asked to provide assistance to CFU after an intense storm with over 100 mph winds moved through the Cedar Falls area on the morning of July 10, 2009. CFU suffered significant damage to its electrical system, especially in facilities located in rear lot lines. MP&W was asked for a crew, along with our mini crane, which is capable of doing rear lot line work. Daryl Behrens, MP&W's Line Superintendent, who serves as IAMU's Mutual Aide Programs Region 7 Secondary Coordinator, organized manpower and equipment to help CFU. Steve Jenkinson, Line Crew Supervisor, and Ben Patting, Electric Line Worker, left Muscatine at 5:00 a.m. Saturday with Truck 35 and the mini crane. They worked long days on Saturday, Sunday, and Monday replacing many poles in the rear of properties. All Cedar Falls customers were back in service on July 14, 2009, after which the MP&W crew was released to return home. Jim Krieg, CFU General Manager, and Dan Goetz, Manager, Distribution Services at CFU, both sent MP&W letters of appreciation. Jim also sent a letter to the editor of the Muscatine Journal expressing his gratitude for MP&W's assistance. Copies of these letters were included in the Board Packet. Mr. LoBianco stated that MP&W was pleased to be able to help CFU through the mutual aid program. MP&W received much appreciated assistance

through the program, including aid from Cedar Falls Utility, to help with system restoration efforts associated with the June 1, 2007, tornado.

Mr. LoBianco next gave a brief update on MP&W joining the Midwest Independent System Operators (MISO). Entry into this market is still targeted to be September 1, 2009. Staff has also been working with Tenaska, one of the largest independent power producers in the United States, who has been contracted to be MP&W's agent for offering our generation into the market, submitting daily native system load requirements, and monitoring market settlements.

This concluded the General Manager's report.

Trustee Heidbreder left the meeting at 6:30 p.m. CST.

Mr. Kerker stated that the June financial operating statements and balance sheets for the Electric, Water, and Communications Utilities would be reviewed during the 2nd Quarter Critical Issue and Key Performance Indicator presentation.

Trustee Carlson moved, seconded by Trustee Axel, that the June Financial Operating Statements and Balance Sheets for the Water, Electric, and Communications Utilities be received and placed on file. Motion carried. All Trustees present voted aye

The Quarterly Project Status Report and Variance Analysis were presented as previously submitted to all Board members in written form. Trustee Carlson moved, seconded by Trustee Axel, to approve the Quarterly Project Status Report and Variance Analyses. Motion carried. All Trustees present voted aye.

The Competitive Quotes for Public Improvements Report was previously submitted to all Board members in written format. Trustee Axel moved, seconded by Trustee Carlson, that the June Competitive Quotes for Public Improvements Report be received and placed on file. Motion carried. All Trustees present voted aye.

The Critical Issues and Key Performance Indicators for the Water, Electric, and Communications Utilities were previously submitted to all Board members in written format. Mr. LoBianco asked each critical issue leader to review the status of their critical issue, and Mr. Kerker to review the key performance indicators including financials.

During the key performance indicators Mr. Kerker reviewed the YTD and June Financial Operating Statements and Balance Sheets for all three Utilities. Mr. Kerker stated that the Electric Utility's Change in Net Assets was \$2,417,642.00 below budget. Native system sales revenues were 7.4% lower than Budget, along with continued softness of the wholesale sales and a lower than average sales price resulting in electricity sales being \$7.9 million less than projected. Steam sales exceeded Budget by about \$1.1 million due mostly to a pass through of NOx costs charged to GPC. Production Fuel and Purchased Power Expense showed positive results of over \$2.8 million compared to Budget, due mostly to lower than projected coal prices and fewer tons burned. Overall Operation and Maintenance expenses showed better than projected results of almost \$2 million compared to Budget

The Water Utility's Year-to-Date financials showed that water usage is down an average of about 15% among all customer classes, resulting in \$150,529.00 lower revenue compared to budget. Operating expenses were \$70,572.00 less than Budget, a good portion of that being lower fuel/power purchased and lower chemical cost due to lower water consumption. Maintenance costs were over Budget due mostly to costly main repairs on

Isett Avenue. The Change in Net Assets for the Water Utility came in at \$56,978.00 less than Budget.

Mr. Kerker stated the Communications Utility Year-to-Date Financials indicated that the data/internet revenue was \$35,587.00 higher than Budget due to more subscribers; this, along with greater than budgeted pay-per-view and video-on-demand buys of \$39,872.00 were able to offset most of the less than budgeted advertising revenue of \$79,382.00. Lower than budgeted digital conversion expenses, promotional expenses, travel expenses and deferred customer survey and customer service training helped the operating expenses come in \$72,990.00 less than Budget. Maintenance came in close to Budget. Overall there was an improvement of \$78,038.00 to the Change in Net Assets compared to Budget.

Trustee Carlson moved, seconded by Trustee Axel, to receive and place on file the 2009 Second Quarter Critical Issues and Key Performance Indicators for the Water, Electric, and Communications Utilities. Motion carried. All Trustees present voted aye.

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

The meeting was adjourned at 7:10 p.m. CST.

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



Donald W. Kerker
Board Secretary