

**OFFICIAL PROCEEDINGS OF THE
BOARD OF WATER, ELECTRIC,
AND COMMUNICATIONS TRUSTEES
OF THE CITY OF MUSCATINE, IOWA
AUGUST 28, 2007—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, August 28, 2007, at 5:30 p.m., CDT.

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

Also present were Mr. Jay D. Logel, General Manager of Muscatine Power and Water; Mr. Duane J. Goedken, Board Attorney; Mr. Donald W. Kerker, Board Secretary; Dr. Andrew Morrison, Market Strategies; Mr. Charles Potter, KWPC/KWCC Radio Station; Messrs. Sal LoBianco, Ray Danz, Gary Wieskamp, and Meses. Erika Cox and Ann Jones of Muscatine Power and Water.

Chairperson Heidbreder opened the meeting, and asked if there were any public comments. There were no comments.

The minutes of the July 31, 2007 public hearings and regular meeting were presented as previously submitted to all Board members in written form. Mr. Logel advised that there were two typographic errors in the legal descriptions presented at the July Board of Trustees meeting. The last line of the Northwood Substation legal description stated fifty feet and it should be sixty feet. In the Woodlawn Substation description, a decimal point was omitted in that the 625 feet should have been 62.5 feet. The meeting minutes have been corrected for these two items. Trustee Axel moved, seconded by Trustee Mead, that the minutes be approved as corrected. Motion carried. All Trustees voted aye.

The list of July expenditures and transactions was presented as previously submitted in written form to all Board members. Mr. Logel stated the cumulative monthly total for all three utilities was higher than normal due to the annual pension payment, coal and rail transportation costs, interest payments including the Communications Utility's payment to the Electric Utility, and three payroll payments within the month of July.

Trustee Ingstad asked about the payment to General Electric International in the amount of \$105,765 for Unit 8 turbine inspection and whether this was an annual expenditure. Mr. Sal LoBianco, Director of Generation and Telecommunications, indicated that this was a five to six year event when the generating unit was off-line for the maintenance inspection outage. Trustee Ingstad asked about the payment to Wilton Municipal Light and Power for mutual aid in the amount of \$8,566.81. Mr. Logel stated there were additional payments made during July for mutual aid to utilities from Cedar Falls, Durant, and Tipton for their assistance after the June 1 tornado and restoration of the electric system.

After review, Trustee Axel moved, seconded by Trustee Tubandt, to ratify payments of \$8,025,884.56 for the Electric Utility, \$635,954.65 for the Water Utility, and \$1,503,583.48 for

the Communications Utility for a total amount of \$10,165,422.69. Motion passed. All Trustees voted aye.

Mr. Logel stated that the eleventh annual residential customer survey was completed in June, and he asked Mr. Gary Wieskamp, Director of Utility Relations, to review the subject and to introduce the consultant.

Mr. Wieskamp advised that the residential survey was conducted June 7 through June 19, 2007. The firm of Market Strategies, Inc. was engaged to complete the survey and to ascertain comparisons in trends over the previous years. The survey provided strategic information relative to customer satisfaction, favorability, and loyalty. Mr. Wieskamp introduced Dr. Andrew Morrison, President and CEO of Market Strategies, Inc. The survey executive summary was previously provided in written form to all Board members.

Dr. Morrison stated national survey results indicated a downturn in customer satisfaction from 2007 first quarter to the second quarter primarily due to negative reactions to a very few utilities regarding price increases. The other issues that continued to pressure utilities pertained to the environment and energy efficiency. Muscatine Power and Water's (MP&W) survey results were not impacted by these factors. The objectives of the survey were to determine overall satisfaction with the Electric, Water, and Communications Utilities; MP&W's general performance and specific customer services and management measures; customer reaction to the interactive voice response telephone system; to benchmark MP&W with other municipal and investor-owned utilities; and to provide guidance for planning activities.

Dr. Morrison indicated that the overall results of the survey were positive for Muscatine Power and Water. The overall favorability improved by seven points with the very favorable category higher by six points. Another very positive result pertained to "being customer focused" with a nine point improvement overall and a 20 point improvement in the very favorable area. The "easy to do business with" also increased by six points to 89 percent with a twelve point gain in the very favorable area along with the "showing concern and caring towards customers" which had a seven point improvement and a 20 point increase in the very favorable category.

The conclusion of the 2007 survey was:

- Overall, MP&W has strengthened an already-strong position vis-à-vis other benchmarked utility companies in the Market Strategies database. MP&W ranks first on "being customer-focused", "being easy to do business with", and "power restoration after outages", and MP&W was in the top decile on ten of eleven possible benchmarking comparisons.
- Very positive ratings on utility services rebounded quite strongly in 2007 with significant increases occurring on fifteen of sixteen measures; and on the sixteenth measure, "overall favorability", MP&W exhibited a six-point gain in the very positive response area.
- Total positive ratings for energy utility and communication services increased on thirteen of sixteen measures this year. Five categories were significantly higher than in 2006: being customer-focused, showing concern and caring,

communication with customers, restoration of electric service, and satisfaction with water service.

- The new automated phone system is seen as “easy to use” by 19 percent of customers who have had experience with it, and “very easy to use” by 52 percent, while another 20 percent of such users offer a neutral evaluation, and only nine percent were critical of the system.
- MachLink internet service captures 86 percent of the market in 2007, which was identical to 2006 results.
- Total satisfaction with MachLink services rebounded five points to 81 percent in 2006 while the sense of MachLink having reasonable rates is up a point to 64 percent this year. Customers remained primarily concerned about reliability, speed, and customer service. System capacity was judged positively by 77 percent of MachLink subscribers.
- Cable or satellite television service reaches 90 percent of the homes in the area, and MPW Cable provides service to 80 percent of all households, down significantly from 86 percent in 2006
- Cable rates remain a concern with 57 percent of MPW Cable customers seeing existing rates as reasonable, up from 53 percent in 2006, while 74 percent are satisfied with their service, which was identical to 2006 results.

General discussion was conducted on the survey results. Trustee Mead moved, seconded by Trustee Tubandt, to receive and place on file the 2007 Residential Customer Survey results. Motion carried. All Trustees voted aye.

Dr. Morrison left the meeting.

Included with the Board's meeting materials were the Ten-Year Financial Projections for the Electric and Water Utilities. Mr. Logel stated that both the Electric and Water Utilities projections were positive. The Electric Utility forecasted no price increases during the ten-year period and the projected Water Utility price increases were at inflationary levels. Mr. Logel asked Mr. Kerker, Director of Finance and Administrative Services, to review the primary drivers and highlights for both Utilities.

Mr. Kerker stated that the major financial drivers for each Utility have been identified, along with select operating and financial data, for the Board of Trustees information. Mr. Kerker reviewed the revenues, expenses, and capital expenditures for the Electric and Water Utilities. The Electric Utility revenues were derived from native system sales that were anticipated to annually increase approximately 0.9 percent from 2008 through 2017, the wholesale electric sales were projected at an 80 percent load factor with an average price of \$44 per megawatt-hour increasing at three percent over the projected years, and steam sales will continue throughout the ten-year period. The Electric Utility expenses included fuel costs that were projected to increase with the expiration of the coal and rail agreements in 2009, purchased power for Unit 9 maintenance outages was at \$55 per megawatt-hour increasing three percent annually, and emission costs were projected to increase to address regulatory requirements. The capital expenditures for the Electric Utility included approximately \$6,940,000 in 2008 for environmental compliance issues with the average projected capital costs of \$8,910,000

annually. The projections do not include any price increases resulting in a projected price of \$0.0493 per kilowatt-hour over the ten years.

Mr. Kerker continued with the Water Utility primary drivers and highlights. Native system sales were projected to increase approximately 0.9 percent each year. Price increases were projected to be three percent annually. Capital expenditures were projected at \$1,172,000 per year. The Water Utility was projected to have requirements for outside funding in 2010 in the estimated amount of \$1,100,000, in 2011 of \$900,000, and in 2012 an estimated amount of \$600,000 with a ten-year repayment schedule.

General discussion was conducted on the financial status of each Utility. The significant factor for the Electric Utility was the excess energy that could be sold in the wholesale market. The Water Utility must continue with the infrastructure replacement program and the capital expenditures to expand the well fields. Mr. Logel stated that both Utilities were capital intense businesses. The Water Utility borrowing would most likely be local financing. Chairperson Heidbreder asked, what was the major difference from last year's projections, and Mr. Kerker stated that it would be the increase in fuel costs. Approximately 30 percent of the Electric Utility's expenses were for fuel and transportation fees and the proposed transportation increases will have a major impact on the Electric Utility.

Trustee Mead moved, seconded by Trustee Axel, to receive and place on file the financial projections for the Electric and Water Utilities. All Trustees voted aye.

Mr. Logel stated that at the July Board of Trustees meeting the Board Policy Manual was presented in draft form for the Board's input and comments. The manual has been finalized and he asked Mr. Wieskamp to present the policy manual.

Mr. Wieskamp stated that the major changes to the manual pertained to the Iowa public bidding law changes, the expenditure authorization policy was updated, the theft of Utility services procedure was revised, and the procedure for power sales/purchases was incorporated into the manual. There were no additional comments or changes during the review period. It was recommended that the Board approve the manual.

Trustee Axel moved, seconded by Trustee Ingstad, that the Board Policy Manual be approved as presented. Motion carried. All Trustees voted aye.

Mr. Logel reviewed the previously submitted memorandum to all Board members regarding the recommendation to request the Mayor and City Council to recognize public power by designating the week of October 7-13, 2007 as public power week. Mr. Logel stated that this was an opportunity to explain to customers and employees the benefits of public power and to recognize our customers and employees. There were no special events planned for this week. The following resolution was submitted.

**RESOLUTION 07-37
NATIONAL PUBLIC POWER WEEK**

WHEREAS, the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa wish to recognize its customers and employees during National Public Power Week; and,

WHEREAS, the citizens of Muscatine are both owners and consumers of Muscatine Power and Water which provides our homes, businesses, farms, and local government agencies with reliable, efficient, and cost-effective electricity, water, and communications services by employing sound business practices designed to ensure the best possible service at the lowest possible rate; now therefore,

BE IT RESOLVED, by the Board of Trustees that the Mayor and City Council designate the week of October 7-13, 2007 as Public Power Week in Muscatine, in order to honor Muscatine Power and Water, its consumer-owners, and its employees, who work together to provide the best possible electric, water, and communications services; and,

BE IT FURTHER RESOLVED, that Muscatine has joined hands with other public power communities across the nation to celebrate the benefits of a consumer-owned utility for our local and national progress.

Trustee Mead moved, seconded by Trustee Ingstad, that the said resolution should be passed, approved, and adopted this 28th day of August 2007. On roll call Trustees Heidbreder, Tubandt, Axel, Ingstad, and Mead voted aye. Voting nay, none.

The next meeting item pertained to Unit 9 Generator Overhaul Project scheduled for March 2008, and Mr. Logel asked Mr. LoBianco to review the item.

Mr. LoBianco stated that Unit 9's generator overhaul was included as a major expense for the 2008 Operating Budget. Due to lead times projected by the suppliers, project approval was being requested in advance of the budget presentation and request for approval so that the necessary parts and materials were available for installation during the spring 2008 outages.

Inspection and overhaul of the Utility's generators were part of the routine maintenance program that was designed to ensure reliability. In the past the turbine-generators have been overhauled every five years; however, the industry has been extending outage intervals to increase utilization and reduce costs. Unit 9's inspection and overhaul schedule has been extended to six years as the last inspection and overhaul was completed in 2002. The 2008 inspection and repair will include standard electrical tests on both the stator and the rotor. The work scope included technical direction of MP&W maintenance personnel, contractor supplied inspection and testing, installation of core compression bands, rewedged/tighten of stator wedges as necessary, installation of rotor flux probe, and the replacement of failed RTDs. The overall goal was extending the inspection and overhaul frequency to seven years without adversely affecting the Unit's reliability.

Discussion was conducted on the project. The major cost item was the installation of the core compression bands. Unit 9's generator has always produced a slight "hum" during operation which the manufacturer, General Electric, has identified as a slight looseness in the stator. General Electric recommended in the 1990s that MP&W install core compression (belly bands) as a solution to the looseness issue because if left uncorrected, overtime, the condition could result in a failure of the stator. FM Global, MP&W's insurance carrier, has also recommended that the core compression bands be installed and has declined to quote extra expense insurance for Unit 9 until this issue was corrected.

The cost estimate for the stator rewedge was based on a worst case scenario. Stator wedges hold the stator windings in place and prevent movement of the windings; loose wedges allow movement which resulted in degradation of the windings' installation. Degradation of the winding insulation can result in a failure of the stator. During every Unit 9 generator overhaul the wedges have had to be tightened and/or replaced in numerous locations. Staff will not know if a full rewedge of the unit was required until the generator was disassembled. The installation of the probe will provide additional operational data for the unit to accommodate the extension of years between major outages.

Trustee Ingstad moved, seconded by Trustee Tubandt, to approve the Unit 9 Generator Overhaul project in the estimated amount of \$2,040,000. Motion carried. All Trustees voted aye.

Another generation project was the next meeting topic, and Mr. Logel asked Mr. LoBianco to review the previously submitted memorandum to all Board members regarding Units 7/8 and 9 Control System, Hardware and Software Upgrade Project.

Mr. LoBianco stated that the control systems manage the operation of the boiler and turbine systems and provide critical safeguards, alarms, and data acquisition. The expenditure for this work will be included in the capital portion of the 2008 Operating Budget. Due to lead time projected by the manufacturer, project approval was being requested in advance of budget presentation and requested approval so that the upgrade was available for installation during the spring generating units' maintenance outages. The upgrade for the distributive control system (DCS) for Units 7/8 and 9 included both hardware and software. The software upgrade will move the DCS system to version 3.1 and the hardware upgrade included new controllers, a security domain server, and an additional operator's console in the FGD area. Training for the Technical group was included in the project. It was recommended that the project in the estimated amount of \$481,000 be approved.

After general discussion, Trustee Axel moved, seconded by Trustee Mead, to approve the Units 7/8 and 9 Control System, Hardware and Software Upgrade Project in the amount of \$481,000. Motion carried. All Trustees voted aye.

In the General Manager's report, Mr. Logel reviewed his previously submitted memorandum. As previously discussed it was necessary to relocate a ten-inch water main located in the Highway 61 Bypass right-of-way to accommodate the Iowa Department of Transportation project to construct an overpass at Hershey Avenue. Mr. Logel advised that an agreement will be entered for the relocation of the water main within the city corporate limits that will require the

Board of Trustees to reimburse the Iowa Department of Transportation's contractor for the cost of the work, approximately \$120,000, related to the relocation of the water main.

The agreement with the Lutheran Homes Board was being negotiated and will be presented to the Board of Trustees for approval at a future Board meeting. The agreement pertained to the Lutheran Homes privately-owned water main that connected to the Board's water main at the Hershey Avenue/Highway 61 Bypass intersection.

Mr. Logel advised that the quarterly Audit/Finance Committee meeting was scheduled for September 25, 2007. It was management's recommendation that the meeting be conducted on October 8 or 9, 2007 as the auditor would be at Muscatine Power and Water and available to meet with the Audit Committee members. It was determined to conduct the Audit/Finance Committee quarterly meeting on October 9 at 1 p.m.

Mr. Logel stated that concluded his report, unless there were questions.

Mr. Potter left the meeting.

The July financial operating statements and balance sheets for the Electric, Water, and Communications Utilities were presented to the Board of Trustees as previously submitted in written form to all Board members. Mr. Logel asked Mr. Kerker to present the financial highlights.

Mr. Kerker advised that all three utilities had experienced a good seven months. The Electric Utility had experienced year-to-date wholesale sales exceeding the budget and steam sales were also above the budget amount. On the expense side additional fuel was consumed due to the higher wholesale sales which have increased operating expenses. The Electric Utility's year-to-date net income was \$4,611,980 versus the budget estimate of \$1,590,568.

The Water Utility year-to-date net income was \$265,453 versus a budget projected amount of \$106,706. Lower well cleaning costs, and fewer pumping equipment repairs have resulted in the higher income.

The Communications Utility budget had projected a year-to-date net loss of \$719,391 whereas the Utility had a net loss of \$560,079. The operating revenue was higher than anticipated due increased data/internet sales.

Trustee Mead moved, seconded by Trustee Axel, to receive and place on file the July financial operating statements and balance sheets for all Utilities. Motion carried. All Trustees voted aye.


The Competitive Quotes for Public Improvements monthly report was presented as previously submitted to all Board members. There was one project during July which competitive quotes were received and that was for 2007 well cleaning. The project approved amount was \$72,000, two bids were received, and the low bid, in the amount of \$73,880, from Northway Well and Pump Company was accepted. It was recommended that the Board approve the competitive quote report.

After discussion, Trustee Mead moved, seconded by Trustee Ingstad, to approve the July Competitive Quotes for Public Improvements Report. Motion carried. All Trustees voted aye.

The departmental reports were presented as previously submitted to all Board members in written form. The Board of Trustees recognized the various crews that responded to the wind storm last Thursday evening restoring the systems. Trustee Mead moved, seconded by Trustee Axel, to receive and place on file the July departmental reports. Motion carried. All Trustees voted aye.

Trustee Ingstad moved, seconded by Trustee Tubandt, that the meeting be adjourned. The meeting stood adjourned at 6:50 p.m.

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



Donald W. Kerker
Board Secretary