

OFFICIAL PROCEEDINGS OF THE
BOARD OF WATER, ELECTRIC,
AND COMMUNICATIONS TRUSTEES
OF THE CITY OF MUSCATINE, IOWA
AUGUST 26, 2008—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 26, 2008, at 5:30 p.m., CDT.

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

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 Ms. Erika Cox, Brandy Dulceak and Brenda Christensen of Muscatine Power and Water.

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

The minutes of the July 29, 2008 regular meeting were presented as previously submitted to all Board members in written form. Trustee Ingstad moved, seconded by Trustee Heidbreder, that the minutes be approved and placed on file as submitted. Motion carried. All Trustees present 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 quarterly payment to the City of Muscatine for Cable TV City Fee, a purchase of 5 additional used rail cars, and payments for Unit 8's schedule maintenance parts and repairs, along with five cash transfer payments within the month of July and three payroll payments within the month of July.

After review, Trustee Heidbreder moved, seconded by Trustee Ingstad, to ratify payments of \$11,030,947.71 for the Electric Utility, \$408,176.48 for the Water Utility, and \$1,637,522.63 for the Communications Utility for a total amount of \$13,076,646.82. Motion passed. All Trustees present voted aye.

Mr. Logel stated that the twelfth 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 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. The residential survey

was conducted between June 19 and June 30, 2008 and four hundred (400) telephone interviews, with an average duration of 16 minutes, were scored.

The annual survey results are used to evaluate our continued relationship with customers, assess the impact of various programs and policies, and review data to compare MP&W's performance to other utilities in the industry.

The firm of Market Strategies, Inc. (MSI) was engaged to complete the survey and to ascertain comparisons in trends over the previous years. The survey provides 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 indicated that the overall results of the survey were positive for Muscatine Power and Water and that market changes and economic circumstances do not seem to have affected Muscatine Power and Water's results. MSI views the favorability measure as the most general measure of a utility's reputation and one that is like to be influenced by the activities of the utility beyond basic service activities and daily customer relationships. There has been an increase in overall favorability toward MP&W with 87% of customers offering scores of six to ten ratings in 2008, up four points from 83% in 2007 and significantly higher than levels reported in 2004 through 2006 (76%-79%). Dr. Morrison stated that according to the MSI benchmarking database, MP&W ranks in first place compared to 85 other energy utilities for favorability.

Another positive result pertained to customers' perceptions of MP&W as "your reliable neighbor" with nine in ten (91%) customers giving a positive response, up three points from last year. The response for both "satisfaction among electric customers" and "satisfaction among water customers" is currently at 92%, up three points from last year and fifteen points above the average in the MSI utility benchmarking database, placing MP&W first among 87 utilities ranked. Compared to last year, the total satisfied responses are up significantly among MachLink subscribers (from 81% to 88%) and MPW Cable subscribers (from 74% to 85%).

Dr. Morrison indicated that in 2008 MP&W shows improvement (up two to four points) in total positive responses for each of the measures relating to general performance: customer service, communication and management. A new question was also added in 2008 regarding MP&W's efforts to protect the environment, total positive response for this measure is 72%.

The findings from the 2008 study reveal the following insights and opportunities for MP&W:

- MP&W's performance overall remains very strong compared to the general energy utility industry as indicated by the benchmark analysis.
- Total positive response for "reasonableness of MP&W's electric prices" (75%) shows the largest decline from 2007. While total positive response for this measure is still 18 points above the benchmark average, MP&W customers are sensitive to keeping electric costs low. Perceptions of reasonable prices are also associated with other measures such as favorability and satisfaction, so it is important for MP&W to make customers aware of value-added energy programs and information that may provide some relief when it comes to high energy costs.

- Total satisfied response for "satisfaction with MachLink service" (88%) is currently at the highest level reported since 2002 (95%). Additionally, seven in ten (70%) MachLink subscribers find the prices to be very or somewhat reasonable. Reliability is key among internet users as indicated when customers were asked the most important quality for MachLink to offer (top mention at 30%). This may present an opportunity for improvement since 45% of MachLink customers indicate that they are not completely satisfied due to issues with quality and reliability (among customers with a satisfaction rating of zero - eight).
- Although total positive response for "reasonableness of MP&W's cable prices" shows improvement, the cost of cable is still a concern for some cable subscribers. Among customers who don't currently subscribe to MPW Cable, 42% indicate that the high price tag is the reason. Current MPW Cable customers also indicate cost (49%) as the main reason why they are not completely satisfied with MPW Cable. It is important for MP&W to communicate to customers the features and programming options available so they are aware of the value MPW Cable can provide.

General discussion was conducted on the survey results. Trustee Ingstad moved, seconded by Trustee Heidbreder, to receive and place on file the 2008 Residential Customer Survey results. Motion carried. All Trustees present voted aye.

Dr. Morrison left the meeting.

Included with the Board's meeting materials were the Ten-Year Financial Projections for the Water, Electric and Communications Utilities through 2018. Mr. Logel stated that all the 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 all 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 each utility.

Mr. Kerker stated that the utility projects significant increases in coal and coal transportation costs throughout the period, along with inflation driven operating cost increases for the Electric Utility. However, the Utility anticipates the ability to sell wholesale energy will offset those expenditures so there is no projected need for electric rate increases throughout the ten year period. The Electric Utility revenues were derived from native system sales that were anticipated to annually increase approximately one percent from 2009 through 2018, the wholesale electric sales were projected at an eighty percent capacity factor with an average price of \$55 per megawatt-hour increasing at four 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 \$70 per megawatt-hour in 2009 and then declining to \$55 in 2010 upon joining MISO, increasing four percent annually thereafter, and SO₂ emission costs were projected at \$66,172 in 2009. The 2009 and 2010 capital expenditures for the Electric Utility were projected at \$10,479,000 and \$9,839,000, respectively,

which included \$2,372,000 in 2009 and \$1,555,000 in 2010 for projected A/O Center building remodeling, with the average projected capital costs thereafter of approximately \$9,200,000 annually.

Mr. Kerker continued with the Water Utility primary drivers and highlights. Native system sales were projected to increase just less than one percent each year. Price increases were projected to be three percent annually. Capital expenditures were projected at \$1,266,000 per year.

Mr. Kerker continued with the Communications Utility major drivers. The shift to an all digital television platform, brought about by regulatory requirements, along with an increasing demand for internet bandwidth and inflationary operating costs, will require increased television service prices during the ten year period. A rate increase of six percent is set for January 1, 2009, and an increase of 5.5% is projected each year thereafter. It is projected that internet access prices will not change from current levels. Capital expenditures were projected at an average of \$1,400,000 per year. An additional \$5,091,936 is projected to be spent from 2008-2012 on the digital conversion project.

General discussion was conducted on the financial status of each Utility. Trustee Heidbreder asked what environmental capital projects were identified. Mr. Kerker stated that there were none identified at this time and the allowance costs associated with CAIR, recently vacated by a federal court, that had also been removed from the projection as it was not feasible to try to project what environmental mandates might be assigned in the next few years. Trustee Heidbreder wondered if there was any way to advertise that there has not been an electric utility increase since 2002 and one is not projected in the next ten years.

Trustee Ingstad moved, seconded by Trustee Heidbreder, to receive and place on file the financial projections for the Water, Electric and Communications Utilities. All Trustees present 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 were the updating of Iowa Code Sections that relate to public records, adding the word "communications" to several areas so all utilities are included and the section pertaining to PURPA was revised to include the Board's action pertaining to the standards. Also Exhibit A, Exhibit C and Exhibit H were updated with 2008 versions. There were no additional comments or changes during the review period. It was recommended that the Board approve the manual.

Trustee Heidbreder moved, seconded by Trustee Ingstad, that the Board Policy Manual be approved as presented. Motion carried. All Trustees present 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 5-11, 2008 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 08-27
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 5-11, 2008 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 Heidbreder moved, seconded by Trustee Ingstad, that the said resolution should be passed, approved, and adopted this 26th day of August 2008. On roll call Trustees Tubandt, Heidbreder and Ingstad voted aye. Voting nay, none.

In the General Manager's report, Mr. Logel reviewed his previously submitted memorandum. Mr. Logel advised that Don Mead recently accepted a new position at Gunlocke, a division of HNI Corporation, which will require that he relocates to Wayland, New York. We are happy for Don, but regret losing him from the MP&W Board of Trustees. Don has been a member of the Board since June of 2003. We will proceed with a request for a new appointment from the Mayor. Mr. Logel suggested a resolution recognizing Don for his contribution to Muscatine Power and Water and service to the citizens of Muscatine, Iowa. Mr. Logel will see that Don receives a copy.

RESOLUTION 08-28

WHEREAS, Mr. Don Mead served as a member of the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa for the period of June 5, 2003

through August 18, 2008, during which time Trustee Mead willingly contributed his knowledge and personal time toward the betterment and efficient operation of the municipal water, electric, and communications systems of the City of Muscatine, Iowa; now therefore,

BE IT RESOLVED, by the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa, that the appreciation of the Board of Trustees and of the citizens of Muscatine, Iowa to Trustee Mead be evidenced by forwarding a copy of this resolution to him duly signed on behalf of this Board; and,

BE IT FURTHER RESOLVED, that the resolution be included in the minutes of the Board.

Trustee Ingstad moved, seconded by Trustee Heidbreder, that the said resolution should be passed, approved, and adopted this 26th day of August 2008. On roll call Trustees Tubandt, Heidbreder and Ingstad voted aye. Voting nay, none.

Mr. Logel stated that with the help of David Little, of Little and Associates, the General Manager Search Committee has narrowed the candidate list to three applicants. Arrangements are now being made for the external candidate to visit Muscatine. The visits will include interviews by the Board, testing, and learning about the community. September 12 & 13 has been selected for these activities. We will also schedule an additional time to interview the internal candidate. It is anticipated the Board will discuss their findings in a closed meeting at the September Board meeting.

Mr. Logel would like to attend the American Public Power Association Legal Seminar to be held October 26-29. In order that he can attend this seminar, it is proposed that the October Board Meeting be moved from October 28 at 5:30pm to October 30 at 7:30am. Formal board action is needed to do so. The Board concurred with the recommendation to change the date of the October meeting to October 30th at 7:30am.

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

Mr. Charles 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 were doing well. The Electric Utility experienced wholesale sales through July with a 5.5% higher average sales price, which was somewhat offset on the expense side because a greater amount of coal was burned at a higher average cost, along with additional costs for Unit 8 maintenance, and increasing operating expenses.

The Water Utility Sales were lower due to lower consumption by metered customers, resulting in \$62,418 lower revenue. Due to some maintenance costs for well cleaning not being

incurred yet this year, the Utility was \$77,000 under budget for July. The Water Utility is expected to perform very close to budget when looking at the year as a whole.

The Communications Utility cable revenue was higher than anticipated due to more HDTV subscribers, along with greater buys in pay-per-view and VOD, and ad insertion revenues being higher than budgeted. Overall the Utility was performing \$250,000 better than budget through July.

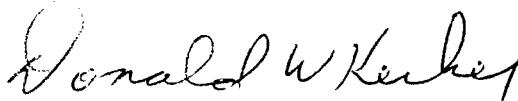
Trustee Heidbreder moved, seconded by Trustee Ingstad, to receive and place on file the July financial operating statements and balance sheets for all Utilities. Motion carried. All Trustees present voted aye.

The monthly Competitive Quotes for Public Improvement report was presented as previously submitted to all Board members. There were no awards in the month of July. The report was received and placed on file.

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

Trustee Heidbreder moved, seconded by Trustee Ingstad that the meeting be adjourned. The meeting stood adjourned at 7:00 p.m.

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A handwritten signature in black ink, appearing to read "Donald W. Kerker". The signature is fluid and cursive, with the first name "Donald" being the most prominent part.

Donald W. Kerker
Board Secretary