

**OFFICIAL PROCEEDINGS OF THE
BOARD OF WATER, ELECTRIC,
AND COMMUNICATIONS TRUSTEES
OF THE CITY OF MUSCATINE, IOWA
MAY 28, 2008 — 5:30 P.M.**

The Board of Trustees met in regular session at Muscatine Power and Water's Administration Building, 3205 Cedar Street, Muscatine, Iowa, on Wednesday, May 28, 2008, at 5:30 p.m., CDT.

Chairperson Heidbreder called the meeting to order. Members of the Board were present as follows: Trustees Warren Heidbreder, Doyle Tubandt, Joan Axel, 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; Mr. Charles Potter, KWPC/KMCS Radio Station; Messrs. Sal LoBianco, Ray Danz, Gary Wieskamp, Mark Nelson and Mses. Erika Cox, Brandy Dulceak, Ann Jones, and Brenda Christensen of MP&W.

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

The minutes of the April 29, 2008 regular meeting were presented as previously submitted to all Board members in written form. Trustee Axel moved, seconded by Trustee Mead, that the April meeting minutes be approved as submitted. Motion carried. All Trustees voted aye.

The list of expenditures and transactions for April was presented as previously submitted to all Board members in written form. Mr. Logel mentioned that listed on page six of the expenditures was an expenditure of \$2,250,554.95 for replacement power during the Unit 9 outage. Mr. Logel also mentioned a check written to Musco Sports Lighting in the amount of \$13,500.00 for a geothermal rebate in accordance with Board policy.

Trustee Tubandt asked about a payment to Altech Environment Corp. for a mercury monitor in the amount of \$465,439.01. Mr. Sal LoBianco, Director of Generation and Telecommunications, advised this purchase was for two monitors, one each for Unit 8 and Unit 9, as part of the Environmental Compliance Project.

After review and discussion of the expenditures, Trustee Mead moved, seconded by Trustee Tubandt, to ratify payment of \$10,297,017.99 for the Electric Utility, \$309,590.52 for the Water Utility, and \$783,515.12 for the Communications Utility for a cumulative total of \$11,390,123.63. Motion carried. All Trustees voted aye.

Mr. Logel stated that the next meeting topic pertained to the Public Utility Regulatory Policies Act of 1978 (PURPA), and asked Mr. Ray Danz, Director of Operations, to review this issue.

Mr. Danz reviewed the previously submitted memorandum to all Board members and the proposed PURPA Standards for the Board's consideration and introduced Mr. Mark Nelson, Chief Operations Engineer, to provide a brief review of each standard. Mr. Nelson stated that the Energy Policy Act was signed into law August 8, 2005. Among the many provisions of this federal legislation were five new standards added to the Public Utility Regulatory Policies Act of 1978 (PURPA). Muscatine Power and Water is required to complete consideration of these

standards because they were explicitly named by the Department of Energy (DOE) as a party "eligible to participate" and the Utility has total annual retail sales greater than 500,000,000 kilowatt-hours. The Board of Trustees may decline to adopt or may implement the standards, but must state in writing the reason for its decision.

Consideration of the first two standards, Interconnection and Time-Based Metering & Communications, were completed prior to the August 8, 2007 deadline. Consideration of the final three new standards, Net-Metering, Fuel Sources, and Fossil Fuel Generation Efficiency must be completed prior to the August 8, 2008 deadline.

A public hearing was conducted on May 28, 2008 to gather citizens' input regarding the three standards. Two notices were published in the local newspaper on August 8, 2007 and September 5, 2007 notifying the public of the Utility's intent to receive written and oral comments on three of the five new PURPA Standards; Net-Metering, Fuel Sources, and Fossil Fuel Generation Efficiency. The hearing was conducted on October 3, 2007 to place into the record written comments and to receive oral comments on these standards. No written or oral comments were received. A copy of the court reporter's transcript of the October hearing was enclosed with the memorandum to the Board.

Mr. Nelson explained that the Net-Metering Standard states that "Each electric utility shall make available upon request net metering service to any electric consumer that the electric utility serves. For purposes of this paragraph, the term 'net metering service' means service to an electric customer from an eligible on-site generating facility and delivered to the local distribution facilities may be used to offset electric energy provided by the electric utility to the electric customer during the applicable billing period".

MP&W staff interprets the term net-metering to imply a policy that provides for utility-delivered energy to be offset on a one-for-one basis with respect to customer-generated energy. Such a policy requires the utility to pay its generating-customers the retail price for what amounts to wholesale power. After review of the new PURPA Net-Metering Standard, staff believes that its non-generating-customers would be unfairly burdened if a uniform net-metering standard is allowed, and recommends to the Board that this standard not be implemented.

The second PURPA Standard reviewed by Mr. Nelson pertained to Fuel Sources, this standard states that "Each electric utility shall develop a plan to minimize dependence on one fuel source and to ensure that the electric energy it sells to consumers is generated using a diverse range of fuels and technologies, including renewable technologies".

MP&W's generating units were all designed as base-load, coal-fired units with comparatively efficient heat rates and have been operated at relatively high capacity factors. Energy produced beyond native system needs have been sold to other municipal utilities and into the wholesale market. Two of the generating units are capable of burning natural gas. Seldom has natural gas been used as the primary source of fuel in those units because of the high cost. The Utility has explored using tire-derived fuels, corn, and wood byproducts as fuel alternatives. Those sources proved to not be viable. In conclusion, staff believes Muscatine Power & Water's customers will be better served to postpone fuel switching or the addition of any new capacity until such time when more capacity than what is owned by the Utility is necessary. Staff recommends this standard not be implemented.

The final PURPA Standard reviewed was the Fossil Fuel Generation Efficiency Standard, this states that "Each electric utility shall develop and implement a 10-year plan to increase the efficiency of its fossil fuel generation".

Mr. Nelson stated that MP&W has always sought to generate electricity at the lowest possible net heat rate. Unit net heat rate is one of the performance indices that are reviewed by the Board of Trustees on a quarterly basis. Staff remains interested and open to advanced technology that would benefit the Utility's customers through improved net heat rates. Such advancements are evaluated and those that show economic benefits to the Utility and its customers are budgeted, installed, and placed into operation. In conclusion, Staff believes there are no other clearly obvious opportunities on any of the generating units to increase efficiencies. Staff recommends to the Board that this standard not be implemented. Mr. Nelson asked if there were any additional questions.

Trustee Heidbreder asked how the process was handled for approvals on the first two standards, Interconnection and Time-Based Metering & Communications. Mr. Danz stated that the processes were the same with newspaper notices and a public hearing to gather citizens' input regarding the two standards. The Board's decision on the first two standards was to approve the continued application of Muscatine Power and Water's Facilities Connection Requirement and the Cogeneration Interconnections documentation to meet the intent of PURPA Title 1, Section 111 (d) for Interconnections, to rescind the 1982 Cogeneration and Small Power Production Policy and the 1987 revision of this documentation, and to decline to adopt PURPA Title 1, Section 111 (d) for Time-Based Metering and Communications Standard. Mr. Danz also stated that when new projects are considered for the Utility, all new technologies and ideas are strongly considered and implemented where appropriate, whether or not there is a standard to mandate it.

Trustee Mead asked if additional PURPA Standards were expected and if other Utilities had implemented any of the standards. Mr. Danz stated that it had been 13 years since standards had been previously added, and it was not expected that more would be added in the near future. Mr. Nelson stated that no other utilities that MP&W had been in contact with were implementing any of the three standards.

In regards to PURPA Title 1, Section 111 (d), Standard 11, Net-Metering, Trustee Axel moved, seconded by Trustee Ingstad, to decline to adopt this standard as it requires the Utility to pay its generating-customers the retail price for what amounts to wholesale power. Motion passed. All Trustees voted aye.

In regards to PURPA Title 1, Section 111 (d), Standard 12, Fuel Sources, Trustee Ingstad moved, seconded by Trustee Mead, to decline to adopt this standard at this time as other fuel sources have not been proven economically-viable. Motion passed. All Trustees voted aye.

In regards to PURPA Title 1, Section 111 (d), Standard 13, Fossil Fuel Generation Efficiency, Trustee Tubandt moved, seconded by Trustee Axel, to decline to adopt this standard at this time as there are no obvious opportunities on any of the generating units to increase efficiencies in an economically-viable manner. Motion passed. All Trustees voted aye.

Mr. Logel stated that all salaried employees are annually evaluated and are eligible for salary adjustments July 1 based on the Salary Administration Program. The Salary Administration Program included all employees not subject to the bargaining unit agreement. The Board's Personnel and Public Relations Committee met May 14, 2008 to review data prepared by management. Mr. Logel asked Ms. Erika Cox, Director of Employee Services, to review the data.

Ms. Cox stated that the purpose of the program was to fairly compensate, maintain and attract qualified employees. In 2006 the program was redesigned to place additional emphasis on employee performance and to combine the executive and salary employees into one program instead of two separate programs.

Ms. Cox went on to explain that MP&W has been fortunate to experience low turnover and has had few problems securing candidates for most bargaining unit, clerical, and non-utility specific exempt positions. However, the last two years have presented challenges finding qualified candidates for supervisory/management, IT, engineering, and utility-specific craft positions (such as line worker) while maintaining internal equity. Ms. Cox then provided a spreadsheet noting certain employees' ages and years of service to illustrate the number of employees eligible for retirement in the next 10 years. As those employees retire, it is important for the salary administration program to be able to attract and retain employees filling key Utility roles. Workforce development training and job cross-training are both being used internally to help better prepare for succession that will happen in the near future with the MP&W workforce.

Ms. Cox indicated that in order to implement the 2008 salary adjustments it was necessary for the Board of Trustees to authorize the expenditure. It was management's recommendation that an expenditure of an average of 3.75% of payroll be allocated for salary adjustments based on employee's performance evaluation. In addition it was recommended that a "special budget" allocation of up to 1.0% of salaried employee's payroll be used throughout the year for recognition of exceptional employee performance and/or for market conditions subject to the General Manager's approval. In summary Ms. Cox recommended for approval that:

- Executive and salaried employees will be eligible for salary adjustments effective 7/1/08.
- Directors' salary adjustments will be based on recommendation by General Manager and Board approval.
- 2008 merit adjustments of an average not to exceed 3.75% of payroll for salaried employees.
- 2008 "special budget" allocation of up to 1.0% of salaried employees' payroll, to be used throughout the year and with the General Manager's approval.

General discussion was conducted on the program and recommendations. Mr. Logel stated that salary adjustments were based on merit, the employee's placement within their salary grade, and their performance evaluation, and that this was not an "across-the-board" wage adjustment; there will be employees that do not receive an increase. Mr. Logel also stated that the Utility needs the flexibility of the one percent discretionary increase. Discussion was conducted on how to remain competitive in the market along with employee retention. It was also noted that MP&W is not the only local business that is finding it challenging to locate and retain people. A lot of businesses are using a discretionary fund due to how much the market has changed.

Trustee Mead moved, seconded by Trustee Tubandt to approve the 2008 Salary Administration Program expenditure not to exceed the average amount of three and three-quarters percent of payroll for executive and salaried employees with salary performance adjustments effective July 1, 2008 and for up to one percent of payroll to be allocated for use

throughout the year for performance and equity adjustments Motion carried. All Trustees voted aye.

In the General Manager's report, Mr. Logel reviewed his previously submitted memorandum to all Board members.

Mr. Logel stated that MP&W is still involved in the Iowa Municipal Base Load Generation Project/Resource Planning Study. As previously presented to the Board, this study pertains to a proposed base load generating unit at Muscatine Power and Water's site. The study was sponsored by several municipal entities, including MP&W. The cost of the study was prorated to each entity based on their nominated megawatts (MW) share of the proposed generating unit. MP&W is currently the only site under consideration for construction of a new facility. The study has progressed in phases; Phase I and Phase II have been completed at a cost of \$65,000 to the Utility. The estimated cost of the next phase, Phase III, is \$2,000,000 to \$5,000,000. Due to the cost of the next phase, management has recommended that MP&W conduct a generation resource planning study, with the help of Black & Veatch Corporation, to determine its continued interest in an 80 MW share of the 400 MW facility. The study would include the cost impacts and help quantify other potential benefits and risks of such an investment. This study will be used as a tool to help determine if MP&W should continue with an 80 MW interest, a lesser interest, or no interest in the unit. If MP&W determines it is not in its best interest to participate in the project, we will ask that the group discontinue further pursuit of the Muscatine site for the project. The estimated cost of the generation resource planning study is approximately \$80,000. Mr. Logel stated that he approved the study that was not previously budgeted and that reduced costs associated with Generation outages will offset the study cost. Mr. Logel stated that the Utility was not comfortable going on to the next phase without seeing results of the Black & Veatch study and input on whether or not it is favorable for MP&W to be involved in this project. The Iowa Municipal Base Load Generation Project/Resource Planning Study Group will reconvene in August 2008 to determine next steps.

Discussion was conducted by Board on when was the proper time to reach out to the public for input on the project. Mr. LoBianco stated that the Black & Veatch study would include timing on soliciting public input, along with other things such as future environmental concerns, fuel transportation costs, etc.

Mr. Logel stated that the next item on the General Managers Report was the traffic signals located at Grandview Avenue and Houser Street. These traffic signals were torn down on April 29 by an L&M Waste Systems, Inc. vehicle. These signals were installed on a temporary basis to facilitate the construction of the U.S. 61 bypass many years ago. At the completion of the bypass, the City requested leaving the signals in place. Muscatine Power and Water serves on the City's Traffic Committee Advisory Board, which meets biweekly. Following one such meeting, an article appeared in the Muscatine Journal on May 9, 2008 entitled, "Committee Gets its Signals Crossed" which made it sound as if MP&W was at odds with the City on what to do with this intersection. That is not the case. The Traffic Committee meetings offer the opportunity for participants to explore various options for any traffic related issue, in order for this to occur, the pros, cons and views of the parties are discussed in an open forum, with all opinions expressed as such. The City has requested the Utility reinstall the signals again on a temporary basis to allow the City time to determine if they should be installed on a permanent basis or removed. That is exactly what we intend to do. The City has also requested a cost estimate for a permanent installation, which staff is in the process of preparing.

Currently this intersection is operating as a four way stop. MP&W will take action to implement the Traffic Committee's decision on the replacement of lights.

Mr. Logel reminded the Board that the June monthly meeting will be conducted on June 20, 2008 at 7:30 a.m. The meeting was changed due to a conflict with the American Public Power Association National Conference the last week of June. The Audit/Finance Committee second quarter meeting will be conducted at 9:00 a.m. on June 20, 2008.

This concluded Mr. Logel's report unless there were questions for him or management.

The April financial operating statements and balance sheets were presented as previously submitted to all Board members in written form. Mr. Kerker, Director of Finance and Administrative Services, reviewed monthly financial statements for all three utilities. All Utilities were operating near or better than budget levels.

Mr. Kerker stated that the Electric Utility had higher wholesale sales and higher sale prices, resulting in higher revenue while steam sales were down due to less steam being sold because of an unplanned outage to unit 8. The Electric Utility operating expenses were affected by an increase in the amount of coal burned, along with the higher transportation costs of the coal.

Mr. Kerker stated that the Water Utility operating results were affected by increased water usage at Units 7 and 8. The operating revenue of the Communication Utility was increased due to Cable TV revenue, mostly Pay-per-View and Video on Demand revenues along with ad revenues, and an increase in internet subscribers.

Trustee Ingstad moved, seconded by Trustee Axel, that the April financial operating statements and balance sheets for the Water, Electric, and Communications Utilities be received and placed on file. Motion carried. All Trustees voted aye.

The April Competitive Quotes for Public Improvements Report was previously submitted to all Board members in written format. There were no items for approval, the report was received and placed on file.

The April departmental reports were presented as previously submitted to all Board members in written form. Discussion was conducted on the unit outages and the effect of planned versus unplanned outages.

Trustee Axel moved, seconded by Trustee Mead, to receive and place on file the April departmental reports. Motion carried. All Trustees voted aye.

Mr. Logel took a moment to recognize the retirement and many years of outstanding service by Ms. Ann Jones. The Board also expressed their appreciation of Ann's constant help and guidance during her years of service.

At this time, Mr. Logel recommended that the meeting be closed to the public in accordance with Iowa Code Chapter 21.5 (1.i) to review the performance evaluations completed by the General Manager for the Directors and for the General Manager completed by the Board of Trustees.

Trustee Tubandt moved, seconded by Trustee Ingstad, that the meeting be closed to the public in accordance with Iowa Code Chapter 21.5 (1.i) for the purpose of reviewing management performance. On roll call vote Trustees Heidbreder, Tubandt, Axel, Ingstad and Mead voted aye. Voting nay, none.

The meeting was closed to the public at 6:30 p.m. Messrs. Wieskamp, Danz, LoBianco, Kerker, Goedken, Potter, Nelson, and Ms. Cox, Jones and Christensen left the meeting. At 7:10 p.m. Mr. Logel left the closed session.

At 7:25 p.m. the meeting was reconvened to open session.

Trustee Axel moved, seconded by Trustee Tubandt, to ratify salary adjustments effective July 1, 2008 as recommended by the General Manager for the five Directors and to adjust the salary of the General Manager in accordance with his performance and the Salary Administration Program. Motion carried. All Trustees voted aye.

The meeting stood adjourned at 7:25 p.m., CDT.


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

A handwritten signature in black ink, reading "Donald W. Kerker". The signature is written in a cursive style with a large, stylized 'D' and 'K'.

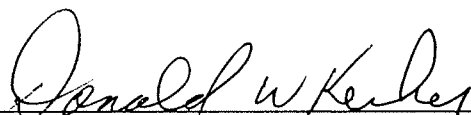
Donald W. Kerker
Board Secretary

CERTIFICATION FOR RECORDS

It is my understanding that my performance, as an employee of Muscatine Power and Water, is to be discussed by the Board of Water, Electric, and Communications Trustees at their meeting on May 28, 2008. I hereby request that such discussion be conducted in closed session in accordance with Chapter 21.5(1.i) of the Code of Iowa.



Jay D. Logel, General Manager



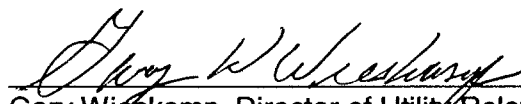
Donald W. Kerker, Director of Finance &
Administrative Services



Sal LoBianco, Director of Generation & Telecommunications



Ray Danz, Director of Utility Operations



Gary Wierskamp, Director of Utility Relations



Erika Cox, Director of Employee Services

**PUBLIC HEARING OF THE
BOARD OF WATER, ELECTRIC,
AND COMMUNICATIONS TRUSTEES
OF THE CITY OF MUSCATINE, IOWA
May 28, 2008**

The Board of Trustees conducted a public hearing in Muscatine Power and Water's Administration/Operations Building, 3205 Cedar Street, Muscatine, Iowa, on Tuesday, May 28, 2008.

The roll was called and the following members of the Board were present: 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. Donald W. Kerker, Board Secretary; Mr. Duane J. Goedken, Board Attorney; Mr. Charles Potter, KWPC/KMCS Radio Station; Messrs. Sal LoBianco, Ray Danz, Gary Wieskamp, Mark Nelson and Ms. Erika Cox, Brandy Dulceak, Brenda Christensen and Ann Jones of MP&W.

The purpose of the hearing was to receive any written or oral comments regarding the Public Utility Regulatory Policies Act (PURPA) Net-Metering, Fuel Sources, and Fossil Fuel Generation Efficiency Standards.

At 5:28 p.m., the Secretary opened a public hearing pursuant to the 2005 Energy Policy Act requiring Muscatine Power and Water to commence a proceeding on or before August 8, 2008 to consider adopting three new Public Utility Regulatory Policies Act standards; Net-Metering, Fuel Sources, and Fossil Fuel Generation Efficiency. Muscatine Power and Water published notices on August 8, 2007 and September 5, 2007 in the Muscatine Journal soliciting written and/or oral comments from the public at the October 3, 2007 public hearing. A public hearing was conducted at Muscatine Power and Water on October 3, 2007 to receive and record citizens' comments. No written or oral comments were received at the hearing.

Staff has completed the review of these three standards and will make recommendations on the proposed standards for the Board of Trustees' consideration. Muscatine Power and Water published a legal notice on May 13, 2008 in the Muscatine Journal notifying the public of the opportunity to review staff's proposed recommendations and the public hearing on the recommendations to the Board at the May 28, 2008 meeting.

Chairperson Heidbreder asked Secretary Kerker if any written or oral comments had been received regarding the Public Utility Regulatory Policies Act (PURPA) Net-Metering, Fuel Sources, and Fossil Fuel Generation Efficiency Standards, and the Secretary replied that no oral or written comments had been received regarding the standards. The Chairperson asked if anyone in attendance wished to make any comments regarding the standards. There were no comments.

The Secretary closed the hearing.

BOARD OF WATER, ELECTRIC,
AND COMMUNICATIONS TRUSTEES
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A handwritten signature in black ink, reading "Donald W Kerker". The signature is written in a cursive style with a large, looped 'D' and a trailing flourish.

Donald W. Kerker
Board Secretary