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

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

Also present were Sal LoBianco, General Manager of Muscatine Power and Water; Donald W. Kerker, Board Secretary; Duane J. Goedken, Board Attorney; Charles Potter, KWPC/KWCC Radio Station; David Fee and Lacey Loewe of Principal Financial Group; Ray Danz, Gary Wieskamp, Erika Cox and Brenda Christensen of Muscatine Power and Water.

Chairperson Tubandt asked if there was anyone in attendance who wished to make any public comments.

There were no public comments.

The minutes of the March 31, 2009 regular meeting were presented, as previously submitted to all Board members in written form. Trustee Axel moved, seconded by Trustee Ingstad, that minutes be approved and placed on file as submitted. Motion carried. All Trustees present voted aye.

The March 31, 2009 Audit/Finance Committee meeting minutes were received and placed on file.

The list of expenditures and transactions for March was presented as previously submitted to all Board members in written form. After review and discussion, Trustee Carlson moved, seconded by Trustee Ingstad, to ratify payment of \$6,460,942.86 for the Electric Utility, \$340,846.31 in the Water Utility, and \$829,024.92 for the Communications Utility for a cumulative total of \$7,630,814.09. Motion carried. All Trustees present voted aye.

Mr. LoBianco reminded the Board that at the January 2009 Board meeting, the Board requested that pension plan investment results be reviewed on a quarterly basis for a period of time due to the loss that was experienced in 2008. Ms. Cox introduced David Fee and Lacey Loewe from the Principal Financial Group to provide an update on the status of the plan's first quarter 2009 asset allocation, investment earnings results and funding status.

Mr. Fee reminded the Board that the goal of Principal Financial Advisors, Inc. is to provide an investment strategy that is broadly diversified across a wide range of asset classes and investment styles, while keeping risk at appropriate levels for retirement assets. Due to the unprecedented economic turmoil and market volatility over the past 18 months, Principal has continuously monitored and evaluated the asset classes and accounts and made adjustments that they believe would further improve the risk/return profile of the MP&W portfolio. Several adjustments were made which were explained in

detail by Mr. Fee, along with a review of all current asset allocations. Principal believes that these adjustments will better position the MP&W investment portfolio to meet Utility goals. Expectations of Principal are that it is still early for a market rally, and they don't expect anything but stabilization until at least mid 2010. The Board expressed their thanks for the update and stated that they would like to continue quarterly updates for 2009.

Mr. LoBianco introduced Mr. Wieskamp to present the 2008 Muscatine Power and Water Annual Report. Mr. Wieskamp pointed out that the annual reports were distributed to each of the Board members just prior to the meeting and asked if they had any questions about the report. He reminded the Board that last year, the Board requested a less costly report; because of this, the Utility chose to eliminate most of the photos and other non-essential parts of the report, resulting in a cost of less than half of last year's report. The Board congratulated the management team on reducing the cost of the report and agrees that it was a good call due to current economic times. Trustee Axel moved, seconded by Trustee Carlson, that the 2008 Annual Report be received and placed on file as submitted. Motion carried. All Trustees present voted aye.

Mr. LoBianco introduced Mr. Danz to review the recommendation for MP&W to join the Midwest Independent Transmission System Operator (MISO) as a transmission owner. At the November 2008 Board meeting the General Manager was authorized by the Board to enter into the agreements necessary to participate in MISO under a modified tariff referred to as Module F. The Federal Energy Regulatory Commission (FERC) did not approve the MISO, Module F tariff, so MP&W did not join. Recently MidAmerican Energy Company (MEC) contacted MP&W and informed us that they were going to join MISO as a traditional transmission owning member, with a target effective date of September 1, 2009. With MEC's entry into MISO, all wholesale energy sales or purchases for MP&W will require payment of transmission fees to MISO if we were to remain in MAPP. These added costs along with difficulty in reserving transmission paths would greatly affect our ability to sell or purchase energy. Transmission congestion has resulted in over three quarters of a million dollars of lost sales to MP&W in the first quarter of 2009. Joining MISO is expected to reduce transmission congestion through their use of generation re-dispatch.

Mr. Danz reminded the Board that membership in MISO was evaluated with the assistance of an outside consultant in January 2008. It was determined the cost between MAPP membership and MISO membership were nearly identical without including the impact of MISO's Regional Expansion Criteria and Benefits charges commonly referred to as RECB. RECB costs are assessed to fund expansions of the transmission system. Costs for transmission expansion within the MISO footprint are partially socialized across all MISO members and partially assessed to members within zones that receive benefits from the expansion. MISO's transmission expansion plan covers a ten year period and is updated annually. Estimating the costs associated with RECB are difficult and we have asked MISO for an estimate of the RECB charges that MP&W may be assessed. Mr. Danz continued that Management is working with the legal Firm of Van Ness Feldman in Washington D.C. to determine the best form of MISO membership for the Utility. Our goal is to time our entry into MISO to coincide with MEC's operational date. Management recommends Board authorization for the General Manager to enter into the appropriate agreements with MISO to accomplish this process in accordance with the appropriate timing.

There was some discussion by Board on other options that MP&W may have other than MISO and the conclusion is that MP&W will need to follow what MEC does

due to transmission ties. Trustee Ingstad moved, seconded by Trustee Axel, that the Board authorize the General Manager to sign the necessary agreements for MP&W to join MISO as a full transmission owning member. Motion carried. All Trustees present voted aye.

The next item on the agenda was a recommendation for MP&W to participate in Phase II of the IAMWind Project. Mr. LoBianco explained that in 2006/2007, a group of municipalities studied a wind site in Boone County, Iowa ("Ridgeport"). MP&W participated in this study at a cost of \$25,870. Phase I of this study consisted of performing initial studies, getting into the queue for transmission studies, and acquiring easements, etc. for 65 turbine sites. The results from the Phase I wind studies concluded an excellent wind regime, but MP&W initially declined to participate in Phase II since it did not need capacity, and at the time Renewable Energy Portfolio Standards (RPS) legislation was not nearly as active as it is today. Mr. Wieskamp explained that although there are no approved regulations at this time there are two federal bills that are being proposed: Senator Jeff Bingaman's and Representative Edward Markey's Renewable Electricity Standard. The Bingaman bill proposes an RPS of 4% by 2011 and 20% by 2021. The Markey bill proposes an RPS of 6% by 2012 and 25% by 2025. In both bills, as currently written, MP&W is exempt from the regulations, but this could change. Most standards that are currently being developed seem to aim for a 20-25% renewable standard.

Mr. LoBianco told the Board that MP&W is faced with two choices: to be reactive or proactive. Reactively pursuing renewable energy brings large amounts of risk to MP&W that can't be definitively calculated, and Management is concerned that viable projects may be difficult to find and participate in at a later date should state or federal legislation be enacted which requires participation. By taking a proactive approach now, MP&W stands to take advantage of economies of scale, along with minimal MP&W labor and overhead costs by participating in the IAMWind project. This is an ideal large scale project that is Iowa based, and owned and controlled by other Iowa Municipal Utilities, for MP&W to start its renewable energy portfolio. There was discussion among the group that it is obvious that something is going to happen during this Administration and its emphasis on the environment and energy, it's just hard to know what the right thing is to do. If we don't do anything, we could still possibly need a rate increase to cover increasing cost of emission allowances that the Utility will incur. The Board was also reminded that participation in Phase II was like buying an option to participate in Phase III - the actual construction of the project. If MP&W elected not to participate in Phase III it would lose its investment in Phase II, but would not be obligated to participate in Phase III, participation in Phase III would be a Board decision. This information was reviewed in detail with the Planning and Operations Committee (Trustees Ingstad and Carlson) on Friday, April 24, 2009 and the Committee concurred with the recommendation of Management to participate in Phase II of the IAMWind. After additional discussion, the Board agreed that MP&W should participate in the project and that they would like to receive updates as the project progresses.

Trustee Axel moved, seconded by Trustee Carlson, that the Board authorize the General Manager to sign necessary contracts for MP&W to participate in Phase II of the IAMWind Project. 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 stated that the Board's Personnel and Public Relations Committee (Trustees Carlson and Axel) was scheduled to meet May 14 to review the 2009 Salary Administration Program expenditure recommendation prior to a presentation to the Board at the May Board meeting. For the General Manager's performance review Mr. LoBianco will submit to all Board members a summary of 2008 activities and the performance evaluation forms for the Board's information and use. The evaluation forms should be returned to the Chairperson by May 22 for discussion in a closed session at the May 26, 2008 Board meeting. The Board stated that they would welcome any new ideas on how the review process could be updated.

Mr. LoBianco reminded the Board that on Wednesday, April 29<sup>th</sup> from 5:00-7:00 p.m. history, photos, and artifacts of MP&W will be introduced in a featured exhibit on the second floor of the Muscatine History and Industry Center and that they were all invited to attend.

The last item on the General Managers Report was notification of the launch of eight new HD Channels on MPW Digital TV. This will boost the HD channel package to a total of 24 HD channels by the end of this month, along with an anticipated launching of four additional HD networks in June. Four new standard definition channels have been added to the Digital Select package, along with three new channels to the Digital Basic Package and one new channel to the Digital Preferred Package. The ability to launch the new programming is one of the immediate benefits realized from the implementation of the first phase of the digital transition project.

This concluded Mr. LoBianco's report.

The Year-to-Date and March financial operating statements and balance sheets were presented as previously submitted to all Board members in written form. Mr. LoBianco told the Board that this was the first time since 2002 that all utilities have had negative operating results, but that all were better or close to budget. Mr. Kerker reviewed the first quarter reports and the monthly financial statements for all three utilities. Also included for the Board members' information was the Quarterly Investment Report, which was previously submitted to all Board members in written form.

Mr. Kerker drew the Boards attention to the Year-to-Date March Electric Utility's statements. One of the drivers for variance from the budget for the Electric Utility included a continued softening of the wholesale sales energy market, along with lower native system sales, resulting in reduced revenue of \$1,949,668 compared to budget. Steam Sales exceeded budget by \$864,118, due mostly to a pass through of NOx costs charged to GPC. The key driver of the increase in operating expense compared to budget was additional costs of \$1,164,179 for NOx emissions allowances that were not budgeted, but which were offset largely by GPC's share from above. Operating Expense showed positive results of over a million dollars compared to budget, due to lower average coal costs and fewer kWh's of power purchased. Operations and Maintenance both showed positive results compared to budget. Interest income showed \$181,059 less than budget due mostly to a negative mark-to-market adjustment of \$160,311. The Change in Net Assets was \$300,971 less than budget for the Electric Utility. There was some discussion on a question from Trustee Carlson about how much monitoring is being done on overages of things such as studies, subscriptions/memberships, etc.

The Water Utility's Year-to-date financials showed that the efforts to reduce maintenance and operating costs were able to off-set the lower gallons of water sold to customers, showing a Change in Net Assets that was \$32,663 more than budget for the

Water Utility. There was discussion by Board on whether the land option had been acted upon. Mr. Danz informed the Board that due to the inability to agree upon fair market value of the property and the fact that there was no immediate need to acquire the land, the land option had been allowed to expire.

Mr. Kerker stated the Communications Utility Year-to-Date financials indicated that the Data/Internet revenue was higher than budget; this along with reduced operations expenses and maintenance costs, resulted in a \$32,663 improvement over budget, even though advertising revenue was lower than expected.

Trustee Ingstad moved, seconded by Trustee Carlson, that the Year-to-Date and March financial operating statements and balance sheets for the Water, Electric, and Communications Utilities, and the Quarterly Investment Report be received and placed on file. Motion carried. All Trustees voted aye.

The Quarterly Project Status Report and Variance Analysis were presented as previously submitted to all Board members in written form. General discussion was conducted on current project status. Mr. LoBianco expressed that the entire employee body has been participating in and supporting the deferral and cancellation of projects. Trustee Carlson moved, seconded by Trustee Axel, to approve the Quarterly Project Status Report and Variance Analyses. Motion carried. All Trustees voted aye.

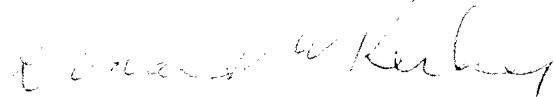
The Critical Issues and Key Performance Indicators for the Water, Electric, and Communications Utilities were previously submitted to all Board members in written format. Mr. LoBianco asked each critical issue leader to review the status of their critical issue, and Mr. Kerker to review the key performance indicators. Trustee Axel moved, seconded by Trustee Carlson, to receive and place on file the 2009 First Quarter Critical Issues and Key Performance Indicators for the Water, Electric, and Communications 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. Trustee Axel moved, seconded by Trustee Carlson, to receive and place on file the Competitive Quotes for Public Improvements (\$40,000 to \$100,000) report. Motion carried. All Trustees present voted aye.

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

Chairperson Tubandt asked if there were any other items of business. With no other items of business, Trustee Carlson moved, seconded by Trustee Axel, that the meeting be adjourned at 7:50 p.m.

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Donald W. Kerker  
Board Secretary