

**OFFICIAL PROCEEDINGS OF THE
BOARD OF WATER, ELECTRIC,
AND COMMUNICATIONS TRUSTEES
OF THE CITY OF MUSCATINE, IOWA
March 31 2011 – 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, March 31, 2011, at 5:30 p.m.

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

Also present were Sal LoBianco, General Manager of Muscatine Power and Water; Donald W. Kerker, Board Secretary, Duane Goedken, Board Attorney; Charles Potter, Muscatine Journal; Ray Danz, Gary Wieskamp, Erika Cox, Brandy Olson and Brenda Christensen of Muscatine Power and Water (MP&W); Jamin Friedl and Mike Johnson of Baker Tilly Virchow Krause LLP joined the meeting by telephone.

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

The minutes of the February 22, 2011, regular meeting minutes were presented as previously submitted to all Board members in written form. Trustee Tubandt moved, seconded by Trustee Heidbreder, that the February 22, 2011, regular meeting minutes be approved as submitted. Motion carried. All Trustees present voted aye.

The list of expenditures and transactions for February was presented as previously submitted to all Board members in written form. After review and discussion of the expenditures, Trustee Heidbreder moved, seconded by Trustee Ingstad, to ratify payment of \$4,063,264.70 for the Electric Utility, \$292,542.65 for the Water Utility, and \$826,614.26 for the Communications Utility for a cumulative total of \$5,182,421.61. Motion carried. All Trustees present voted aye.

The next item on the agenda was a recommendation to receive and place on file the 2010 Audit for the Electric, Water and Communications Utilities. Mr. LoBianco introduced Jamin Friedl of Baker Tilly Virchow Krause LLP (BT), who was joining the meeting by conference call. Mr. Kerker stated that BT had recently completed the independent audit for MP&W covering the calendar year 2010. He also told the Board that the Board's Audit/Finance Committee, which includes Trustees Ingstad and Heidbreder, had met with the General Manager, himself and Mr. Friedl earlier in the day to discuss the audit in detail. Discussion in the Audit/Finance Committee meeting was focused on items required by Statement on Auditing Standards 114, Auditor's Communication with those Charged with Governance. The Board was given a copy of the audit and management's representation letter to the auditors. Mr. Kerker introduced Jamin Friedl of BT to give a brief review of what was presented to the

Audit/Finance Committee and to answer any questions the Board may have regarding the Audit. Mr. Friedl stated to the Board that the Audit had gone well and that the Utility had received an unqualified opinion, which is the goal. He gave a brief overview of highlights of the auditor's response that had been presented earlier to the Audit/Finance Committee. Trustee Heidbreder said that he and Trustee Ingstad had a private meeting with the auditor and that they were in agreement that the Board should receive and place on file the 2010 Muscatine Power and Water annual audit. Mr. LoBianco thanked the auditor's staff, accounting staff and management for all their work during the audit process. Trustee Ingstad moved, seconded by Trustee Heidbreder, to receive and place on file the 2010 audit of the Electric, Water, and Communications Utilities records. Motion carried. All Trustees present voted aye.

Information was distributed to all Board members in the Board packet that pertained to the Cost-of-Service/Rate Design Study for the Electric Utility, completed by Baker Tilly Virchow Krause LLP (BT). This study provides a basis for allocating a five percent electric rate increase to the various customer classes, effective August 1, 2011, and a similar increase August 1, 2012. Mr. LoBianco continued that the primary drivers necessitating the increase were depressed wholesale revenue and higher coal and coal transportation costs, along with increasing operating and maintenance expenses. The Utility has taken significant cost containment measures and utilized available cash reserves to provide short-term rate relief. The increases proposed are consistent with the Utility's financial projections and budget. Mr. LoBianco stated that a separate meeting was held with the Audit/Finance Committee to review the study in detail; and based on the input from the Audit/Finance Committee, management modified the recommendation to not include reinstituting the Energy Adjustment Clause, deferring that to a later date. Mr. Kerker introduced Mike Johnson from BT to review the study and answer any questions the Board might have. Mr. Johnson reviewed the BT presentation titled Revenue Requirement, Cost of Service and Rate Design Project. After Mr. Johnson's review, Mr. LoBianco stated that all findings in the study were consistent with what Management had expected. Mr. LoBianco continued that this evening's presentation is for information only and action will be requested at the April Board of Trustees meeting.

In the General Manager's report, Mr. LoBianco reviewed his previously submitted memorandum with updates on the 2011 Customer Survey, new features offered by the Communications Utility, Mr. Wieskamp's memo regarding the APPA Legislative Rally and a Unit 9 Outage progress to date. Mr. LoBianco also stated that the AFT Project Contract, awarded by the Board, will likely exceed the 10% threshold due to finding more corrosion of structural steel than expected, but this will not cause the overall project to go over budget.

The February Financial Operating Statements and Balance Sheets were presented as previously submitted to all Board members in written form. Mr. LoBianco gave a brief update on each utility starting with the Electric Utility which had a net loss of \$448K vs. a budgeted loss of \$916K; the difference was due mainly to wholesale energy being below budgeted volumes and price. Mr. LoBianco continued that the Water Utility had

a net income of \$14.8K vs. a budgeted loss of \$22.5K primarily because expenses were below budget. The Communications Utility showed a net loss of 82.9K vs. the budgeted loss of \$134.3k. Mr. Kerker reviewed YTD results of each Utility. After discussion, Trustee Tubandt moved, seconded by Trustee Heidbreder, to receive and place on file the February Financial Operating Statements and Balance Sheets for the Water, Electric, and Communications Utilities. Motion carried. All Trustees present voted aye.

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

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

Acting Chairperson Axel asked if there were any other items of business. With no other items of business, the meeting was adjourned at 6:20 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.

Donald W. Kerker
Board Secretary