

MINUTES

BOARD OF LIGHT AND POWER

SPECIAL MEETING OF FEBRUARY 26, 2009

Call To Order and Roll Call: The meeting was called to order by Board Chairman Canfield at 6:00 pm. Present were Beachum, Canfield, Hall, Johnston, and Valentine. Also present were General Manager Pierce, Safety Director/ Generation Superintendent Russo, and Mayor Hodges.

Approval of the Agenda: Pierce requested the agenda be approved. Beachum made a motion to approve the agenda and Hall supported this motion. Motion approved unanimous vote.

PUBLIC COMMENT

Canfield noted that there was no public present, therefore no public comments.

BUDGETING

Pierce stated that the preliminary draft budget was included in the packet the Board received. The first item Pierce discussed is the proposed Capital Plan. Pierce stated that LLP was currently completing upgrades to the Daffron software. The cost for this upgrade was about \$50,000 and had been budgeted for in the 2008-2009 Capital Plan. The next step for the accounting software upgrade had been estimated at \$30,000 which is the figure shown in this draft Capital Plan. Pierce also mentioned that the utility tries to keep the computers updated on a rotating cycle, therefore, there are two budgeted for next year. If the need to buy two does not materialize the money will not be spent. For the last two or three years the utility has budgeted for new meter reading instruments. Pierce feels that the utility needs to make this happen. Pierce has earmarked \$40,000 for these instruments, software and training. LLP is looking into the possibility of joining with the City to read both water and electric meters at the same time. LLP is researching meters that can complete both functions. The utility is also looking into the cost and types of electronic meters that offer increased metering and meter reading capabilities. Pierce would not purchase an electronic meter reading device that could not be used in the future for an automated system. Johnston asked if the meter reading devices could be plugged in to the computer to download the data and Pierce indicated that they would have that capability. Pierce has not collected all the background information yet, but would expect a two to five year pay back on the meter reading instruments. Beachum noted that our meter readers go out and read the meters and bring back the book and then someone enters this into the software system. Valentine says this leaves opportunities for error. Pierce did say that the money budgeted would be for the new meter reading devices, software and training not new electronic meters.

The Capital Plan also included the continuation of the South Circuit upgrade and removal of the south substation which was originally estimated \$350,000. The utility will have spent approximately \$100,000 this year and \$160,000 is budgeted for 2009-2010. There may be an overlap into the following year as this phase of the project gets completed and transitions into the next phase of substation conversion.

LLP has divided the engineering cost from GRP for this plan into two years. The first \$60,000 was included in the current Capital Plan and the second \$60,000 I included in this draft plan. Johnston asked how this budget falls into the Strategic Plan. Pierce explained that the items in the Capital Plan are part of the Strategic Plan by maintaining an updated, reliable system. Beachum asked where the money comes from for the capital expenses Pierce said the capital expenses should come from our operating income. The utility has money in the MPPA Trust Fund to cover any short fall.

Operating Budget: The first six items are sales. The sales are broken down into residential and four commercial services. The utility has a small percentage of sales from security lights. Pierce noted that the utility is down a little from what was budgeted for the current year. The draft budget reflects is 6% increase from where Pierce expects the current year to end. Included in this budget is the absorbed cost of LLP's Energy Optimization Plan (EOP). The utility will need to make a rate adjustment and Pierce feels that 6% is the maximum the utility should take. This is over and above what the utility will have to budget for the EOP. The first year of the EOP, utilities can charge .75% of their total KW usage revenue to expect a .3% reduction in usage. Beachum and Hall felt that usage would probably be down because of the doom and gloom they are hearing on the news and in addition to the EOP. Pierce reassured the Board that he projected usage six or seven years out and that felt that the utility would at least maintain the same level of usage. It appears that people are moving from single homes to apartments with electric heat and/or electric hot water and the customers are basically staying in the area. The utility is seeing a small increase in customers. Pierce's philosophy is to budget as realistically as possible. The Board felt comfortable with the budgeted revenues after the explanations had been presented.

Service Revenues: Pierce explained the service revenues are somewhat less predictable because they are initiated by customer's requests and requirements. Pierce said there is not a big change but it is substantial from a couple of years ago because of where the utility is recording this revenue. Service revenues were previously tracked as miscellaneous revenue. The Service revenues are up this year primarily due to an increase in late charges and services change outs. Miscellaneous Service revenues are up primarily due to new business customers. Beachum inquired about the pole attachment fee. Pierce explained these are charges to Comcast and reflects the amount annually invoiced for attachment to our poles.

Miscellaneous Revenues: Due to uncertainty in the current investment and bond market, interest revenues and gains are projected at below historic levels. Beachum asked about *Other Revenues* and where the additional revenue was coming from. Pierce explained that is was due to the sale of some old transformers. Pierce pointed out that the gain in the MPPA Trust Fund was due to the return of excess Belle River reserves.

Generation Expenses: Pierce asked that the Board be aware that the labor is included in these categories. Pierce divided out a Tool budget by department this year and noted that Safety and Training is also budgeted under individual categories in this budget. These items had been recorded under Miscellaneous expenses in previous years. This will be a better way to track these costs. The utility has and will continue to receive capacity credit from the pool for having the three generators.

We are starting to train more on the three generators and fire up the generators every month. We are hoping to be able to sell power from these three generators on the grid during peak times. Pierce wants the generators to be in good working order and ready to go.

Purchased Power: Pierce said that deficiency capacity charges have the potential to be huge. Our usage and peak are down however, and since we are not projecting much growth, the deficiency capacity projections have decreased as well. Pierce has provided for a minimum increase in power costs. The Power Pool has projected about a 5% increase next year for purchased power costs. The utility hopes this will be offset by sales of surplus. Belle River is up about 4%. Campbell had some down time this year and repairs and Pierce is not expecting this increase to be as much as the current year. MPPA Service Committees costs are up because LLP has joined two more committees to assist with the EOP and Renewable Energy Plan (REP). Belle River Sales is hit or miss depending on how they operate. If there is excess power, that the utility owns, and they sell into the market then we get paid for that. The same is true for Combustion Turbine Sales and Surplus Energy. The Transmission project is another MPPA project where we usually get a small credit. Ancillary charges are the administrative costs passed on to the members of MPPA and those stay fairly consistent from year to year. One of the big items this year was a reconciliation adjustment from past billings through MISO and the Pool. LLP is projected to receive \$110,000 this year and Pierce is not expecting this type of adjustment next year.

Distributions Expenses: This is where the linemen's labor is focused. Included in these numbers are labor, materials and supplies and equipment. Beachum asked where tree trimming falls. Pierce said he believed that tree trimming falls into *Distribution Expense General*. Pierce would like to see tree trimming as a separate line item. Pierce also mentioned that J. Francis is training to be a certified utility arborist and trainer for utility tree trimming. The trimming plan for the future would be to divide the community into 5 to 7 areas that would be addresses on a rotating schedule for trimming and spraying. The linemen could easily be doing the backyard stuff. Beachum asked that the utility look at the possibility of trimming less, more often. Pierce felt that we could get much more effective at our trimming plan than before.

Customer Accounting Expense: Pierce explained that 07/08 expenses were higher because we absorbed the cable cost. Pierce reported that through attrition (Debbie and Chris) and some other changes the utility has whittled these expenses down. Beachum asked Pierce to explain what *Misc. Customer Accts Exp. and Customer Assistance Expense* consists of. Pierce answered that this is labor of office help with customers. Pierce stated that there is potential for further reduction as we work with the City toward joint billing and meter reading activities.

Marketing & Advertising Exp: The utility will not require as much here. However, we need to educate our customers on becoming more energy efficient.

Administrative & General Exp: Salary expenses will be down and outside services will also be down. However, we will have the additional expense of Energy Optimization. The utility will have to invest \$40,000 to \$50,000 to put EOP in place.

Offices Supplies , Ins, Maint. Exp: There is a decrease in category due to the fact that safety expenses have been split out by department. The last line of this category will be changed to Injuries and Damages.

Employee Benefits Expense: Taxes have pretty much stayed the same. Beachum asked what Other Compensation was. Pierce explained this consists primarily of standby and callout pay. Pierce also put the OPEB liability under this section and budgeted \$48,000. Pierce budgeted a 3% increase for employee benefits, wages and other compensation.

Miscellaneous Expenses: Depreciation will stay fairly consistent. Interest Expense is the interest payments on our bonds. In *Lieu of taxes Line* created much discussion. Pierce suggested this item be brought up at our joint discussion with LLP and City. We are projecting an overall net decrease in Misc Expense for the next fiscal year.

The utility is showing a budget that will generate \$162,000 this will go to our net reserve. Our projected need would be about \$380,000. Our operating income should be \$400,000 to \$450,000. Pierce will continue to cut any expenses that can be cut. Our rainy day fund is our net reserve. Our balance in this account should be about \$2,000,000 or \$2,500,000. The utility is short by about \$1,000,000. To reach this goal the utility would need to be at the \$ 250,000 net income over the next four or more years.

Hall mentioned that DesJarden was exploring the LED lighting and the energy efficiency of this lighting. It is two to three hundred dollars per fixture as Hall understands. Hall wanted to know how this was coming along and what is needed. Mayor Hodges says DesJarden needs input by e-mail and support for his studies. The Board and others present were encouraged to follow up with e-mails to DesJarden. Pierce mentioned that one of the Energy Optimization plan components is that the utility can fund a pilot study of up to 5% of its projected EOP expenses. The utility would get an automatic 5% reduction credit for consumption in this category. If this part of our Plan gets approved we could have up to \$2100 go towards the LED lighting program/study.

Beachum inquired if Pierce has budgeted for the lighting and good neighbor policy. Pierce says he appropriated approximately \$3,000 to 5,000 for these items. Beachum wants the Utility to do more to help their customers who are struggling. Hall wants to know what kind of emergency preparedness plan we have in place. Russo mentioned that the utility is part of a group that helps each other out in times of disaster or emergency. Hall wants more progress on the website and wants to know if we can put notices on our own website.

BOARD COMMENTS

Hall had no comments. Valentine had no comments. Beachum feels things are going well at LLP and others he has spoken to feel satisfied with the way LLP is going. Johnston thanked the Board for allowing him to serve on the Board and thanked Pierce for the job he is doing as GM and with the budget. Beachum inquired on setting up the joint Board/Council meetings. Pierce will contact Dave Pasquale to set up a joint meeting between LLP and City.

ADJOURNMENT

There was a motion by Hall and a supported by Beachum to adjourn. This motion supported by all. The meeting was adjourned at 7:32 pm.

Chairman, Greg Canfield

Date