

Water and Light Advisory Board
February 8, 2011

A meeting of the Water and Light Advisory Board was held Tuesday, February 8, 2011 at 8:00 a.m. at the Utility Services Conference Room, 105 E. Ash St. The meeting was attended by:

John Conway, Chair
Tom Baumgardner, Vice Chair
Tom O'Connor, Member
Dick Parker, Member
Bob Roper, Member
Tad Johnsen, Water and Light Director
Dave Storvick, Engineering Manager
Jim Windsor, Manager, Rates and Fiscal Planning
Tina Worley, Utility Services Manager
Christian Johanningmeier, Power Production Superintendent
Floyd Turner, Manager, Water Operations
Connie Kacprowicz, Utility Services Specialist
Marilyn Thorpe, Management Support Specialist
Tracy Frevert, Administrative Support Assistant
Win Colwill, League of Women Voters

APPROVAL OF THE JANUARY 4, 2011 MEETING MINUTES

The January 4, 2011 meeting minutes were approved as amended by voice vote on a motion by Dick Parker and a second by Bob Roper.

FINANCIAL REPORT

Tad Johnsen reviewed the Water and Electric Utility Fund Balance Sheet, preliminary unaudited draft, for the three months ended December 31, 2010 and 2009, which is one quarter of the fiscal year.

He noted a 4.6% increase in Total Operating Revenues compared to the same time period last year, and a 5.9% increase in Total Operating Expenses. Operating Expenses will continue to increase somewhat, partly attributable to the timetables of the Ameren and Nearman power supply contracts.

Water and Electric Utility combined operations reflect an operating loss of \$88,448 for the three months ended December 31, 2010; compared to an operating income of \$341,658 for the same period last year.

The Water Utility has an operating income of \$664,010 for the three months ended December 31, 2010; compared to an operating income of \$341,515 for the same period last year.

The Electric Utility has an operating loss of \$752,458 for the three months ended December 31, 2010; compared to an operating income of \$143 for the same period last year.

Operating revenues of the Electric Utility are up \$819,870 compared to the same period last year.

Operating expenses before Payment-In-Lieu-Of-Tax and Depreciation are up \$1,250,754. Discussion followed concerning Loan Receivable to and from Railroad.

Tad Johnsen reviewed Water and Light's policy regarding the minimum and maximum levels for cash reserves. Current policy outlines a cash reserve range with a minimum level based on 16% of total annual expense, and the maximum level based on an allocation of operations and maintenance expenses, debt service and capital requirements. The cash reserve policy insures that the water and electric utilities have the ability to pay for normal expenses, including funding a portion of capital improvements from operating reserves, and have a fund for catastrophic events.

The calculation for the minimum level of cash reserve for FY11 is \$23,800,968 and the maximum level is \$39,758,664. Discussion followed.

NEW BUSINESS

a) Renewable Energy Report – Mr. Johnsen reviewed the 2011 Renewable Energy Report which outlines Water and Light's compliance with the renewable energy ordinance for the city's power supply portfolio. The ordinance requires the city to generate or purchase electricity generated from eligible renewable energy sources at the following levels:

1. 2% of electric retail sales by December 31, 2007
2. 5% of electric retail sales by December 31, 2012
3. 10% of electric retail sales by December 31, 2017
4. 15% of electric retail sales by December 31, 2022

The cost of the renewable energy mandated in the ordinance must not increase electric rates more than 3% higher than the electric rates that would be attributable to the cost of electricity generated from one hundred percent non-renewable sources.

The 2010 Renewable Energy Overview reflects Columbia's system load at 1,185,352 megawatt hours with the renewable energy total at 59,541 megawatt hours, or 5%. This exceeds the current requirement of 2%. Bluegrass Ridge wind energy provides 1.5%, Columbia landfill gas 1.1%, Waste wood 0.6%, and Jefferson City landfill gas 1.8%.

Discussion followed concerning wind, solar and biomass energy. Dick Parker requested that staff determine if the Thomas Hill landfill is generating energy and explore the possibility of adding it to Columbia's portfolio.

Mr. Parker noted grammatical errors in the report.

Bob Roper made a motion, seconded by Dick Parker, to recommend the council approve the amended 2011 Renewable Energy Report. Motion passed by unanimous vote.

The 2011 Renewable Energy Report is posted on the City of Columbia's website.

Mr. Johnsen stated that the Demand Side Management Report will be presented at the March Board meeting rather than at the February meeting.

b) Fluoride Report – Mr. Johnsen reported that in accordance with the U.S. Environmental Protection Agency, the U.S. Department of Health and Human Services and the American Dental Association's endorsement of 0.7 milligrams per liter (mg/l) of fluoride in drinking water, staff has lowered levels for the City of Columbia from 1.0 mg/l to 0.7 mg/l.

Bob Roper made a motion, seconded by Dick Parker, to adopt the 0.7 mg/l as policy for fluoride levels for the City of Columbia. Motion passed by unanimous vote.

OLD BUSINESS

Nothing to report.

DIRECTORS REPORT

Mr. Johnsen distributed handouts reviewing the status of 2008 Water Bond Projects and 2008 Water Bond Funding. He noted that the Fire Flow Projects and School Flow Projects are all either underway or complete. Other critical projects include the North section of the East transmission main, which is currently under design and easement acquisition, and the Route PP main upgrade, which is scheduled for this fiscal year. The Heller Road project is scheduled for next year. The ground storage tank at Hillsdale is complete and in service.

a) Project Update – Staff provided project status updates on the Mill Creek Substation and 161 kV Line Routing Study, Water Treatment Plant Study, Sludge Site Remediation Plan, Source Water Protection, and Hinkson Streambank Stabilization.

Tom O'Connor noted that an additional route has been suggested for the Mill Creek Substation and 161kV Line Route Study. Mr. Johnsen said that after receiving public comments and concerns, an alternative is being considered to route a 161kV feed from Perche Creek Substation to McBaine Substation using the western periphery of the city and powering the Mill Creek Substation by inserting it into the 69 kV loop between Hinkson Creek Substation and Grindstone Substation. Staff will present this alternative at a pre-council work session February 21, 2011. Additional interested party meetings will be held in the future. Dick Parker requested staff provide the Board with the information presented at the pre-council work session.

b) Water Treatment Plant Study – Carollo Engineers will present the final draft of the Water Treatment Plant Study on either March 10 or 17, 2011. Staff will notify the Board when the presentation date is finalized.

c) Power Plant Study – Mr. Johnsen reviewed the Boilers 6 and 7 Biomass Combustion and Multi-P Emission Study provided by SEGA Engineering & Technical Services. The report does not include a fuel forecast for pricing, a future cost for emission analysis, or a condition assessment. He stated that SEGA will draft a summary of this report, which staff will forward to the Board, and the final staff presentation will probably take place in April.

Discussion followed on equipment that does not meet air quality standards and the cost of biomass sources.

d) Cost of Services Study – Jim Windsor noted that the three lowest bids were provided by Utility Financial Solutions, Black & Veatch, and SAIC Energy, Environment & Infrastructure, LLC. The Request for Proposals closed on January 28, and staff is currently reviewing the proposals.

e) Columbia Energy Center Schedule – Mr. Johnsen reported that staff is meeting February 8, 2011 with Ameren representatives to reach an agreement on the sale contract. Once the sale contract is finalized, it will be presented to the City Council for first read on February 21, 2011, and to the

Board for approval at the March 1 meeting. The City Council second read would be March 7. Ameren will then be able to meet all FERC deadlines.

Dick Parker inquired about the cost of an operating contract for the Columbia Energy Center. Ameren Energy has one contract to cover the operations of four gas turbine facilities. Each facility is a different size and has different operational needs. Breaking the cost out for just one installation would be difficult, but Mr. Johnsen estimated it to be approximately \$350,000 per year.

Mr. Parker also had questions concerning the cost of combine cycle conversion. Mr. Johnsen indicated that the cost estimates are high because Ameren included transmission upgrades and infrastructure improvements into it.

f) Source Water Protection Task Force – The February meeting was canceled due to the weather and will be rescheduled for the end of February.

Mr. Johnsen reviewed the fiscal year-to-date activity for major Demand Side Management Programs. He noted a significant decrease in the number of loan applications, possibly because several tax programs were phased out. At the December 7, 2010 meeting, the Board recommended that council add \$1.5 million to the loan fund, and if further funds are needed, re-evaluate the program and request additional funds. Mr. Johnsen stated that no additional funds have been added to the loan program as yet, until a need is determined.

For the March meeting, staff will provide a Water Finance Plan update, South Transmission Line Update, and Demand Side Management Report.

CHAIRMAN'S REPORT

a) Future Meeting Schedule – John Conway reviewed the tentative 2011 Board meeting schedule, and noted that the March 1, 2011 meeting will be held in room 1-A of City Hall.

b) Electric Heat and Heat Pump Rates – Dick Parker reviewed a report he compiled on Electric Rates for Electric Heat and Heat Pump Rate Classes. He believes these rate classes should be combined, and that the difference between the rate classes is primarily driven by house size. He believes residential rates should not be set to favor those with larger houses. Discussion followed.

Jim Windsor said that the heat pump rate was originally intended not to compete with electric heat, but to encourage gas heat customers to install heat pumps, to improve the load factor.

Mr. Parker is concerned that the Cost of Service Analysis will only consider numbers and not the philosophy used in calculating the rates. Bob Roper requested that staff provide more comprehensive data to ensure the philosophy is included in the Cost of Service Analysis.

Dick Parker made a motion to combine the electric heat and heat pump rate classes. Following discussion, Mr. Parker amended his motion to read that staff evaluate the electric heat and heat pump rate classes and provide a report to the Board. Motion died for lack of a second.

Bob Roper made a motion, seconded by Tom Baumgardner, to move forward with the idea of combining the electric heat and heat pump rates in the Cost of Service Analysis study with full staff input. Motion passed by unanimous vote.

Next meeting date: Tuesday, March 1, 2011 at 8 a.m. in room 1-A of City Hall, Columbia, MO.

The meeting adjourned at 9:45 a.m.

Respectfully submitted,